

# Putting the Public First

Partnering with the Community and  
Business to Deliver Outcomes

Final Report

October 2009

Economic Audit Committee



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Business to Deliver Outcomes



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**Putting the Public First**

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## ECONOMIC AUDIT COMMITTEE

Hon T R Buswell MLA  
Treasurer  
21st Floor  
Governor Stirling Tower  
197 St Georges Terrace  
PERTH WA 6000

Dear Treasurer

The Economic Audit Committee is pleased to present *Putting the Public First: Partnering with the Community and Business to Deliver Outcomes*.

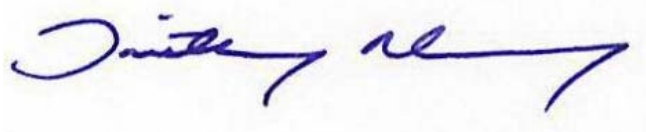
This report addresses the terms of reference set by the Government and provides recommendations for immediate and ongoing improvement in the outcomes achieved by the Western Australian public sector. It expands upon themes identified in the Committee's first report to Government provided in March 2009. However, consistent with the long term reform focus of stage 2 of the Audit, the report does not revisit issues of the structure of public sector agencies or seek to identify short term savings in government expenditures. It is focused on embedding ongoing improvement in the public sector and empowering the people it serves.

The Committee would like to acknowledge the many individuals and organisations that assisted it through submissions and presentations. We would also like to thank the Economic Audit Committee Secretariat for their outstanding and tireless support to the Committee. The Secretariat was headed by Simone Spencer and included:

Jennifer Court  
Evan Davies  
Angela Kyme  
Tom Leeming  
Lauren Miller  
Hew Mortlock  
Alex Rimkus  
Ollie Samakovidis  
Taryn Shaylor  
Lesley van Schoubroeck  
Richard Watson  
Andrew Wilkinson

The content of the report is the collective responsibility of the Committee members and its recommendations, while subject to rigorous debate through the Committee's deliberations, are supported by each member of the Committee.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Timothy Marney', with a long horizontal flourish extending to the right.

Timothy Marney (Administrative Chair)  
On behalf of the Economic Audit Committee

Peter Conran  
John Langoulant  
Catherine Nance  
Peter Shergold  
Mal Wauchope

30 October 2009

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# Our Vision

## In five to ten years the Committee envisages that:

Government will be supported by frank, fearless and well-informed strategic advice based on sound evidence and analysis of community needs and impacts. The public sector will actively engage individuals, community organisations, the private sector and local government in policy development and undertake the long-term planning needed to inform Government<sup>1</sup> decision-making. A commitment to performance monitoring and evaluation will ensure transparency and accountability, facilitating ongoing learning and improvement.

Collaboration will be a standard approach to problem solving. Public sector employees will be able to see how they contribute to improving the lives of Western Australians through achieving the goals of their organisations and of the public sector as a whole. There will be movement of public sector leaders across agencies to best utilise their capabilities and broaden experiences. Agencies operating in silos will be a thing of the past.

The public sector will increasingly act as a facilitator of services, rather than a direct provider, with all areas of service delivery opened to competition. Citizens in need of services will exercise control over the range of services they access and the means by which they are delivered.

An increasing number of Western Australia's community sector organisations will have the opportunity to develop as social enterprises, run along business lines and become financially sustainable. Community and public sector organisations will be genuine partners in the delivery of human services, untethered from the need for unnecessarily prescriptive processes and controls to govern relationships. Social innovation will flourish. The public sector will embrace the use of technology to deliver services focused on individual Western Australians.

Public services and infrastructure will be delivered in a way that maximises value for the community. Greater priority will be given to robust and coherent planning prior to making commitments, resulting in delivery of projects with appropriate scope, and that are on time and on budget.

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<sup>1</sup> Throughout this report the term 'Government' is capitalised to denote the Government of the day, as opposed to the broader administration.

Government regulation, market policy and commercial activity will better facilitate the realisation of Western Australia's economic potential. Government's reform agenda will be refreshed on an ongoing basis, informed by high quality advice from the public sector. The costs and benefits of policy settings (existing and new) will be identified to inform public debate.

There will be a strong alignment between Government objectives and the outcomes delivered by Government Trading Enterprises, brought about by improved governance arrangements that are aligned with the accountabilities of the Government.

The public sector will be recognised as diverse, dynamic, talented, and accountable. Agencies will take a long-term view of workforce needs and workforce costs will be sustainable. The public sector management regime will place trust in responsible management, conduct and integrity while giving managers the skills and freedom to manage in flexible and responsive ways to meet the needs of citizens.

Managers will operate in a climate of trust that they and their people are doing the right thing, not of suspicion that they are doing the wrong thing. Public sector structures, rules, systems and processes will support innovation and collaboration.

Leadership capabilities will be deployed flexibly across the sector to achieve the best outcomes. Managers and leaders will have access to the systems and processes required to do their jobs. Accountability for improving performance will be clear and it will be supported with the appropriate authority in a manner that is fair, efficient and effective.

Above all, in five to ten years the Western Australian public sector will achieve outcomes for Western Australians, including for the most disadvantaged, that are among the best in the nation and are continually improving. This report provides the road map for the public sector and the Government to drive to this destination.

# Schedule of Recommendations

Recommendation	Responsibility
1. Strengthen the communication of Government's priorities to ensure clear accountability for the achievement of outcomes by agencies, through streamlining existing processes to provide more explicit directions to Chief Executive Officers (CEOs).	Department of the Premier and Cabinet
2. The Executive Coordinating Committee of CEOs be tasked with: a) leading the implementation of change in matters of whole of government significance; b) providing advice to Government on emerging issues and directions for agencies in relation to the implementation of Government policy and planning priorities; and c) enhancing and promoting collaborative approaches to problem solving.	Department of the Premier and Cabinet
3. To support the strategic management of the public sector, adopt an 'Outcome Area' approach by: a) grouping related areas of service delivery (for example, health, child protection) that are focused on ongoing citizen expectations of Government for core services; b) identifying matters that cross traditional agency boundaries; c) designating lead roles and accountabilities in policy development across each Outcome Area; d) reporting (at least annually) to Cabinet within each Outcome Area to facilitate planning, decision making and accountability; and e) establishing groups of senior executives from across agencies to provide leadership across each Outcome Area.	Department of the Premier and Cabinet

Recommendation	Responsibility
<p>4. Improve policy formulation in the public sector by:</p> <ul style="list-style-type: none"> <li>a) flexibly deploying policy capacity across the sector to areas of greatest need;</li> <li>b) reviewing the policy capacity of central agencies and major departments;</li> <li>c) widening the experience of staff in central agencies and service delivery agencies through greater mobility;</li> <li>d) using taskforces, including expertise from the community and private sectors;</li> <li>e) encouraging policy advisors from other public sector jurisdictions, the private sector, academia and community organisations to work in the Western Australian public sector; and</li> <li>f) increasing the depth of policy advice available to Ministers by rotation of more experienced policy staff through their offices.</li> </ul>	<p>Department of the Premier and Cabinet Public Sector Commission</p>
<p>5. Strengthen the budget process to promote efficient, effective and innovative achievement of outcomes by:</p> <ul style="list-style-type: none"> <li>a) phasing in new funding models to derive agency budget year and forward estimates, based on robust cost and demand modelling;</li> <li>b) enhancing accountability through: <ul style="list-style-type: none"> <li>i) replacement of the existing centrally managed Treasurer's Advance with the allocation of specific Ministerial portfolio contingency provisions;</li> <li>ii) a requirement that agencies seeking funding over and above that which is available from their portfolio's contingency undertake a value for money audit and/or price review, subject to materiality; and</li> <li>iii) end-of-year reports by Ministerial portfolio, detailing material variances between budget estimates and actuals and the extent of utilisation of portfolio contingencies, for consideration at 'closing-out' hearings of the Estimates Committee; and</li> </ul> </li> <li>c) contributing to a public service culture that promotes value for money and innovation in service delivery by empowering agencies through multiple year budget allocations, based on more robust estimates, over a longer time horizon.</li> </ul>	<p>Department of Treasury and Finance</p>
<p>6. Strengthen the capacity of the public sector to work collaboratively by:</p> <ul style="list-style-type: none"> <li>a) adopting a common set of principles for agencies and CEOs to break down silos; and</li> <li>b) including in the terms of reference of relevant projects, particularly those which relate to Outcome Areas, a requirement that they operate in accordance with the principles of collaborative government.</li> </ul>	<p>Department of the Premier and Cabinet</p>

Recommendation	Responsibility
<p>7. Modify the existing performance reporting regime by:</p> <ul style="list-style-type: none"> <li>a) ensuring Key Performance Indicators (KPIs) for service delivery to citizens and the community are aligned with Outcome Areas;</li> <li>b) ensuring all reporting requirements of agencies are commensurate with their scale and risk;</li> <li>c) developing consistent KPIs for facilitative roles that are common across similar functions (for example, compliance with legislation, grant administration costs); and</li> <li>d) avoiding KPIs for policy, planning and research functions, recognising that the value of these functions cannot be effectively assessed in this manner.</li> </ul>	Department of Treasury and Finance
<p>8. Strengthen the evidence base for decision-making through:</p> <ul style="list-style-type: none"> <li>a) the creation of an evaluation network across government, supported by a centrally coordinated unit and/or steering committee, similar to Gateway evaluation processes;</li> <li>b) ensuring access to common data sets;</li> <li>c) requiring that major agencies undertake a value for money audit at least once every five years;</li> <li>d) requiring an appropriate scale of evaluation of all new programs created by Government within three years of approval; and</li> <li>e) creating incentives for agencies to routinely undertake evaluations.</li> </ul>	Department of Treasury and Finance
<p>9. Streamline payments and concessions to individuals to:</p> <ul style="list-style-type: none"> <li>a) better target individuals most in need;</li> <li>b) reduce administrative costs through: <ul style="list-style-type: none"> <li>i) consolidating processing and administration to a single point in government;</li> <li>ii) exploring the aggregation of subsidies and concessions to individuals into a single transfer payment from government; and</li> </ul> </li> <li>c) improve eligible users' access, including through citizen-centred information and communication technology solutions.</li> </ul>	Department of Treasury and Finance
<p>10. Conduct six demonstration projects of community hubs in metropolitan, regional and remote areas. These community hubs will bring together State and local government service brokers (public servants and community providers) and provide them with devolved responsibility and authority to make decisions across a range of agency services at the local level.</p>	Department of the Premier and Cabinet

Recommendation	Responsibility
<p>11. Progressively implement pilots of self-directed service design and delivery for:</p> <ul style="list-style-type: none"> <li>a) individuals, families and carers, for example: adapting individualised funding approaches used in the disability service sector to areas such as mental health, aged care, long term health conditions, palliative care, job training and homelessness; and</li> <li>b) communities, for example: enabling greater community control over public schools, childcare centres, regional and remote communities, and social housing.</li> </ul>	<p>Department of the Premier and Cabinet</p>
<p>12. Negotiate with the community sector a set of principles to facilitate the government/community sector partnership in delivering human services in order to:</p> <ul style="list-style-type: none"> <li>a) build trust;</li> <li>b) foster collaboration;</li> <li>c) drive social innovation; and</li> <li>d) ensure sustainable service delivery.</li> </ul>	<p>Department of the Premier and Cabinet</p>
<p>13. Replace the existing Funding and Purchasing Community Services Policy, with a new 'Collaboration for Community' policy that:</p> <ul style="list-style-type: none"> <li>a) clearly articulates the distinction between grants and service agreements;</li> <li>b) outlines a range of different contractual and funding relationships including individualised funding delivery and low interest community loans; and</li> <li>c) provides guidance to agencies and community sector organisations on the application and management of these different contractual and funding relationships.</li> </ul>	<p>Department of the Premier and Cabinet</p>
<p>14. Reduce the administrative burden on government agencies and community sector organisations associated with service agreements by:</p> <ul style="list-style-type: none"> <li>a) permitting subcontract or consortia arrangements;</li> <li>b) implementing a single three-year pre-qualification process for community sector organisations, to be utilised by all government agencies;</li> <li>c) developing standard core contractual conditions, documentation and reporting to be utilised by government agencies; and</li> <li>d) moving to longer term contractual arrangements where appropriate.</li> </ul>	<p>Department of Treasury and Finance</p>

Recommendation	Responsibility
<p>15. Streamline the administration of grants (not necessarily reducing the number of agencies administering them) by:</p> <ul style="list-style-type: none"> <li>a) replacing the existing range of grants and grant programs with a smaller number of 'broad-banded' grant programs; and</li> <li>b) developing centralised systems and support for grants administration to facilitate online applications, monitoring and reporting.</li> </ul>	<p>Department of the Premier and Cabinet</p>
<p>16. Establish a Community Development Investment Fund, to support, through low-interest loans, community sector organisations that wish to develop as community employers or social enterprises, run along business lines with the intention of becoming financially sustainable. In establishing this Fund, partnerships with private sector financial institutions should be explored.</p>	<p>Department of the Premier and Cabinet</p>
<p>17. Establish a grants program to promote social innovation in the delivery of human services by community organisations.</p>	<p>Department of Treasury and Finance</p>
<p>18. Reinvigorate the Infrastructure Coordinating Committee and task it with, and hold it accountable for, facilitation of coordinated strategic infrastructure planning within the Western Australian Government. This body should:</p> <ul style="list-style-type: none"> <li>a) be reconstituted to include major infrastructure agencies including the Department of the Premier and Cabinet (DPC), the Department of Treasury and Finance (DTF), major Government Trading Enterprises (GTEs) and departments with significant infrastructure programs, chaired by DTF;</li> <li>b) oversee the development of a long-term (up to 20 years) whole of State land use and infrastructure investment plan;</li> <li>c) play a key role in ensuring coordinated infrastructure planning between agencies over this timeframe; and</li> <li>d) advise the Government on infrastructure prioritisation over a long-term timeframe.</li> </ul>	<p>Department of the Premier and Cabinet</p>
<p>19. Require all investment decisions by State Government agencies, including GTEs, to be reviewed by the DTF to assess compliance with Strategic Asset Management Framework principles prior to submission to Cabinet. DTF is to ensure that appropriate support and training is provided to agencies to enable them to implement sound asset planning and management.</p>	<p>Department of Treasury and Finance</p>

Recommendation	Responsibility
<p>20. Where a project is fast-tracked by the Government:</p> <ul style="list-style-type: none"> <li>a) sufficient resources to undertake the necessary planning/scoping study in the shorter timeframe should be provided; and</li> <li>b) the specified timeframe, project’s risks and potential mitigation measures, should be fully disclosed to Government together with the most appropriate approach to the project’s delivery.</li> </ul>	<p>Department of Treasury and Finance</p>
<p>21. Independently review the effectiveness of the Government’s Works Reform Business Solution Plan at appropriate milestones (i.e. 18 and 36 months).</p>	<p>Department of Treasury and Finance</p>
<p>22. Ensure Cabinet receives regular updates and advice from the Minister for Works, enabling it to oversee progress on all major capital works projects, in the process subjecting any cost overruns and delays to rigorous scrutiny, and robust, fully informed and transparent decision-making.</p>	<p>Department of Treasury and Finance</p>
<p>23. Agencies be required to routinely review their activities with a view to evaluating their suitability for exposure to competition from the private and community sectors. This will be achieved by:</p> <ul style="list-style-type: none"> <li>a) establishing the evaluation framework for agencies, and providing training and support, including value for money audits; and</li> <li>b) requiring agencies to report on evaluations conducted to the Economic and Expenditure Reform Committee prior to the commencement of the annual budget process.</li> </ul>	<p>Department of Treasury and Finance</p>
<p>24. Attract, develop and retain people with the skills and expertise involved in procurement and contract management for public service delivery by private sector partners, to enable them to:</p> <ul style="list-style-type: none"> <li>a) clearly articulate, for contracting purposes, the nature of their requirements;</li> <li>b) negotiate contractual outcomes successfully;</li> <li>c) manage contractual outcomes effectively; and</li> <li>d) deal with risk during the procurement process.</li> </ul>	<p>Department of Treasury and Finance</p>



Recommendation	Responsibility
<p>25. In addition to its policy (land-use planning) and regulatory (development approval) functions, the Government's role in land development be driven by the following principles:</p> <ul style="list-style-type: none"> <li>a) it should be limited to circumstances of demonstrable market failure through market testing that proves that the private sector cannot deliver at an appropriate price;</li> <li>b) in addressing market failure, contestability should be pursued, along with transparency of resourcing by Government; and</li> <li>c) where appropriate, Government should maximise the benefit from the development and disposal of surplus public land assets.</li> </ul>	<p>Department of the Premier and Cabinet</p>
<p>26. Optimise Government's impact on land development through:</p> <ul style="list-style-type: none"> <li>a) the Department of Planning/Western Australian Planning Commission (WAPC) modelling future land demand throughout the State, taking account of economic and population forecasts;</li> <li>b) the Department of Planning/WAPC closely monitoring, analysing and responding to the number of lots that are available for immediate release throughout the State;</li> <li>c) the Infrastructure Coordinating Committee facilitating delivery of land through the identification of associated necessary infrastructure by relevant agencies;</li> <li>d) the Government considering the necessary amount of government land for release and the investment in infrastructure to enable its release, along with the component required for social housing/lower priced land; and</li> <li>e) the Department of Regional Development and Lands overseeing the release of government land, based on the above planning and Government decisions, through competitive tendering processes.</li> </ul>	<p>Western Australian Planning Commission            Department of Planning            Department of Regional Development and Lands</p>

Recommendation	Responsibility
<p>27. Clarify the responsibilities of government agencies involved in land development by:</p> <ul style="list-style-type: none"> <li>a) transferring stocks of land held by LandCorp and the Department of Housing/Housing Authority to the Department of Regional Development and Lands (DRDL);</li> <li>b) retaining LandCorp’s existing responsibilities for developing industrial land, regional residential land and special developments allocated by Government (including the disposal of government property). LandCorp is to undertake land development activities only in those circumstances where DRDL’s open market tender processes clearly demonstrate that either: <ul style="list-style-type: none"> <li>i) the private sector cannot or will not undertake such activities at an appropriate price; or</li> <li>ii) LandCorp is the lowest bidder (on competitively neutral grounds with private developers);</li> </ul> </li> <li>c) retaining the Department of Housing’s responsibilities for social housing throughout the State, with identified low-priced land release to be approved by the Government as part of its land release planning. The low-priced land release is to be funded by a subsidy from the Housing Authority to DRDL’s approved land release program; and</li> <li>d) rationalising the requirement for and number of redevelopment authorities.</li> </ul>	<p>Department of the Premier and Cabinet Department of Regional Development and Lands</p>
<p>28. Introduce umbrella legislation to:</p> <ul style="list-style-type: none"> <li>a) standardise, strengthen and clarify governance arrangements for all GTEs; and</li> <li>b) establish a remuneration policy for GTE board members and their executives, administered by the Salaries and Allowances Tribunal.</li> </ul>	<p>Department of Treasury and Finance</p>
<p>29. Establish a GTE advisory and monitoring unit.</p>	<p>Department of Treasury and Finance</p>

Recommendation	Responsibility
<p>30. Review GTEs to ensure that the governance and ownership of each business is appropriate for delivering Government's policy objectives. The review should address the following issues:</p> <p>a) Does government need to be an active participant in the markets (due to market failure) or is it simply replicating something the private sector can do (with appropriate regulation)?</p> <p>b) Can the GTE operate independently of Government? What policy outcomes is Government seeking from the GTE (for example, fully commercial provider of specific outputs, a source of revenue, industry and/or social policy)?</p> <p>c) What is Government's broader policy for the market in which the GTE operates and does the policy have implications for the appropriate ownership and governance of a GTE participating in the market?</p> <p>d) The relative merits of outsourcing, rationalising or decorporatising the GTE and the impact of these options on its governance.</p>	<p>Department of the Premier and Cabinet</p> <p>Department of Treasury and Finance</p>
<p>31. Expand the role of the Economic Regulation Authority (ERA) to include a proactive role in gathering appropriate evidence, including through public consultation, in order to advise Government on potential economic reforms and ensure that the ERA is appropriately resourced to perform these additional functions.</p>	<p>Department of Treasury and Finance</p>
<p>32. Establish a Utilities Policy Office with responsibility for providing advice and overseeing the implementation of Government policy, particularly with respect to the State's water and energy markets.</p>	<p>Department of the Premier and Cabinet</p> <p>Department of Treasury and Finance</p>
<p>33. Better equip the public sector to meet workforce challenges by actively supporting the implementation of <i>Strategic Directions for the Public Sector Workforce 2009-2014</i> at both a sector and agency level. Implementation priority should be given to:</p> <p>a) improving the quality and effectiveness of agency workforce planning in addressing projected skill and labour requirements, including the application of labour supply and demand side management strategies, service redesign and productivity improvement initiatives; and</p> <p>b) implementing new and innovative approaches to attracting, developing and retaining a skilled regional workforce.</p>	<p>Public Sector Commission</p>

Recommendation	Responsibility
<p>34. Enhance public sector skills and capacity by:</p> <ul style="list-style-type: none"> <li>a) supporting agencies to develop capability gap analyses that enable the targeting of training and development investment;</li> <li>b) developing programs designed to give senior officers skills and experience in different strategic and operational environments; and</li> <li>c) implementing sector wide programs designed to address identified gaps.</li> </ul>	Public Sector Commission
<p>35. Mitigate the negative impacts of competition for utility policy capacity between the general government sector and GTEs by benchmarking and linking the remuneration of Utilities Policy Office employees to those in the GTEs.</p>	Department of the Premier and Cabinet
<p>36. Lift the freeze on Attraction and Retention Benefits (ARBs) while maintaining and enhancing the current controls and the high level of scrutiny being applied to decisions concerning ARBs.</p>	Public Sector Commission
<p>37. Pursue the following reform proposals separately in the context of the outcomes of the Amendola review of the industrial relations system:</p> <ul style="list-style-type: none"> <li>a) accelerate the standardisation, simplification and rationalisation of industrial awards currently being pursued by the Department of Treasury and Finance and the Department of Commerce, without disadvantage to existing employees; and</li> <li>b) a decentralised service model for industrial relations services, with ongoing advice on the identification and realisation of efficiency and productivity opportunities provided by out-posting Department of Commerce officers within agencies with large occupational groups.</li> </ul>	Department of Commerce
<p>38. Strengthen and simplify the public sector management framework by streamlining public sector oversight structures and removing unnecessary prescription, including through:</p> <ul style="list-style-type: none"> <li>a) merging the role of the Public Sector Standards Commissioner and the Public Sector Commissioner;</li> <li>b) streamlining discipline provisions and arrangements for the regulation of conduct; and</li> <li>c) removing unnecessary prescription from those instruments that regulate the recruitment, management, performance management and discipline of public sector employees.</li> </ul>	Public Sector Commission
<p>39. Provide for involuntary separation in the public sector as an option of last resort by further amendments to the <i>Public Sector Management Act 1994</i> and relevant subsidiary instruments.</p>	Public Sector Commission

Recommendation	Responsibility
40. Expand the range of powers devolved to accountable authorities by giving agencies greater control over administrative processes that are currently managed centrally, based on a mechanism that recognises administrative capability and performance.	Public Sector Commission
41. Increase the mobility of Senior Executive Service (SES) officers to foster a whole of government rather than an individual agency perspective by: <ul style="list-style-type: none"> <li>a) adopting employment arrangements that encourage mobility of SES officers between agencies;</li> <li>b) introducing alternative arrangements for senior executive remuneration setting by amending relevant legislation to allow the responsible employer to set individual remuneration for senior executive employees within established bands; and</li> <li>c) reviewing the recruitment criteria of SES positions to ensure broad exposure to a range of strategic and operational environments.</li> </ul>	Public Sector Commission
42. Establish a Chief Information Officer role to: <ul style="list-style-type: none"> <li>a) identify opportunities for harnessing information and communication technology (ICT), including social media, to promote collaboration and more citizen focused service design and delivery; and</li> <li>b) sponsor innovative and collaborative ICT initiatives through the provision of seed capital.</li> </ul>	Executive Coordinating Committee
43. Establish a Chief Technology Officer role to: <ul style="list-style-type: none"> <li>a) promote strategic and coordinated investment in ICT across the public sector; and</li> <li>b) implement procurement processes that enforce common standards, interoperability and system consolidation.</li> </ul>	Department of Treasury and Finance

# The Committee

The Economic Audit Committee (the Committee) is a six-member panel of senior economic and public sector management specialists that brings together a broad range of experience in financial management and government administration. The Committee is comprised of:

## **MR PETER CONRAN**

Mr Conran is a lawyer with over 30 years' experience in senior positions within state, territory and federal governments. Before his current role as Director General of the Department of the Premier and Cabinet, he was Director of Concept Economics. Mr Conran was the Secretary to Cabinet and Head of the Cabinet Policy Unit, in the office of former Prime Minister John Howard.

## **MR JOHN LANGOULANT B Econ (Hons)**

Mr Langoulant is the Chief Executive of Australian Capital Equity. Prior to this appointment he was (2004-2008) Chief Executive of the Chamber of Commerce and Industry of Western Australia and (1995-2004), the Western Australian Under Treasurer. He has also worked in the Commonwealth Treasury.

## **MR TIMOTHY MARNEY B Econ (Hons)**

Mr Marney was appointed as Under Treasurer of Western Australia in June 2005. Prior to this appointment, Mr Marney held a number of senior positions across the Department, where he provided economic policy advice and forecasting, delivered organisational administration and development solutions, and made considerable contributions to financial strategy, budgeting and capital works planning. He has also worked for the Reserve Bank of Australia.

## **MS CATHERINE NANCE BSc, BA, FIAA**

Ms Nance is a Partner and Actuary at PricewaterhouseCoopers, Director of the Western Australian Treasury Corporation and a Director of United Credit Union Limited (now Community CPS Australia Limited). Ms Nance has over 20 years' experience advising governments, companies, financial service organisations and superannuation funds.

### **PROF PETER SHERGOLD AC BA (Hons), MA, PhD Econ**

Prof Shergold is the Macquarie Group Foundation Chair at the Centre for Social Impact, a cross-university collaboration between the business schools of the University of New South Wales, University of Melbourne, Swinburne Institute of Technology, and the University of Western Australia. Prof Shergold has extensive experience in the public sector, most recently as Secretary of the Department of the Prime Minister and Cabinet from 2003 to 2008.

### **MR MAL WAUCHOPE B Com (Hons), M Com**

Mr Wauchope is the Public Sector Commissioner in Western Australia. Prior to this appointment he was Director General of the Department of the Premier and Cabinet for 11 years. Mr Wauchope has over 35 years' public sector experience and held senior positions in the Treasury Department.

The Committee is supported by the Economic Audit Secretariat (see Appendix 9), which was established within the Department of Treasury and Finance.

# Terms of Reference

1. A review of recent government expenditure to determine the effectiveness of budget outlays during the boom years of the Labor Government.
2. A transparent and comprehensive assessment of the financial performance of state departments, authorities and commercial entities, with a focus on identifying potential savings from bureaucratic waste and mismanagement.
3. An examination of the current structure of government agencies to determine whether changes are warranted to better support the efficient and effective delivery of government services.
4. An evaluation of the effectiveness of existing performance metrics and options for greater transparency and accountability through improved public reporting.
5. An examination of public sector management and service delivery issues, including procurement, corporate services and asset management.
6. Options for regulatory reforms to increase efficiency.
7. A review of existing state taxes and recommendations for reform.

The above terms of reference have been extended by Cabinet for the purpose of Stage 2 to include the following:

- a) further advice on a mechanism to ensure that Government's desired outcomes and priorities are communicated to agencies and embedded in government and agency level planning, reporting and performance measurement, noting the Government favours a broad flexible approach that better accommodates the continually changing landscape within which government operates;
- b) further advice in relation to issues identified in the Committee's First Report including, but not limited to:
  - i) the structure of government, in particular how best to align departments and agencies to ensure greater consistency for collaborative policy and operation;
  - ii) workforce management;
  - iii) the principles of collaborative government;
  - iv) asset ownership and management;



- v) the introduction of increased competition and use of the third sector to deliver government outcomes;
  - vi) the role of the State in the land development process; and
  - vii) reform of government transfer payments; and
- c) development of a microeconomic reform agenda for government.

The Committee's First Report dealt comprehensively with Terms of Reference 1, 2, 6 and 7. The Committee's further consideration of Terms 3, 4 and 5 during Stage 2 forms the basis of this report.

While not included in this report, the Committee has also overseen the development of initial implementation plans for its recommendations. Cabinet has also directed the leadership group, created as a consequence of recommendations made in the First Report, to oversee the implementation of recommendations arising from the Economic Audit process. This leadership group will provide regular reports to Cabinet on its progress.

## Stage 2 – Consultation Process

Stage 2 commenced after Cabinet endorsement of the Committee's First Report on 15 June 2009 and culminated in the transmittal of its final report to the Treasurer on 30 October 2009. During this second stage, the Committee conducted a wide-ranging consultation process based on a Discussion Paper publicly released in July 2009 by the Treasurer. The Discussion Paper sought submissions based on targeted questions relating to the key themes for reform identified by the Committee, and provided a list of the recommendations of the First Report that were endorsed by Cabinet.

The extensive consultation process included engagement with members of the public, community sector groups, not-for-profit organisations, private sector organisations, government agencies, universities and other institutes.

Feedback was sought in a number of ways:

- workshops, reference group meetings and briefings to obtain feedback on key themes, with each audience consisting of stakeholders representing community, private or public sector groups;
- one-on-one meetings with a range of community, private and public sector organisations and Ministers;
- a written submissions process (postal and email) to capture stakeholders' responses to the questions in the Discussion Paper;
- a number of visits to frontline service delivery providers;
- a web page providing details of the consultation process;
- a waste identification hotline to allow for verbal feedback concerning potential savings from bureaucratic waste and mismanagement; and
- workshops with the Institute of Public Administration Australia (WA), Young Professionals Network to seek ideas and views on policy issues across the public sector.

The consultation process proved successful with a total of 146 submissions received through both the hotline and written submissions process (see Appendix 2 for full list of submissions). These submissions, in addition to meetings with 85 organisations (see Appendix 3), shaped the Committee's understanding of the strengths and weaknesses of the Western Australian public sector, and the recommendations made in this report.

The themes identified in the Discussion Paper resonated throughout the feedback received. Each chapter contains relevant excerpts from the submissions received.

# List of Abbreviations

AACC	Aboriginal Affairs Coordinating Committee
ABCD	Asset Based Community Development
ABS	Australian Bureau of Statistics
APS	Australian Public Service
ARB	Attraction and Retention Benefits
CCMAU	Crown Company Monitoring Advisory Unit
CEO	Chief Executive Officer
CIO	Chief Information Officer
CIP	Capital Investment Plan
COAG	Council of Australian Governments
CPI	Consumer Price Index
CPSU/CSA	Community and Public Service Union/Civil Service Association
CSO	Community Service Obligation
CTO	Chief Technology Officer
DCP	Department for Child Protection
DEC	Department of Environment and Conservation
DES	Department of Education Services
DfC	Department for Communities
DKA	Desert Knowledge Australia
DoC	Department of Commerce
DOH	Department of Health
DOCS	Department of Corrective Services
DOT	Department of Transport
DOW	Department of Water
DPC	Department of the Premier and Cabinet
DSC	Disability Service Commission
DTF	Department of Treasury and Finance
EAC	Economic Audit Committee
ECC	Executive Coordinating Committee
EERC	Economic and Expenditure Reform Committee
ERA	Economic Regulation Authority
FFF	Fitzroy Futures Forum
FMA	Financial Management Act 2006
FPCSP	Funding and Purchasing Community Services Policy 2002

FTE	Full-Time Equivalent
GTE	Government Trading Enterprise
IA	Independent Administration
ICT	Information and Communication Technology
IPE	Independent Procurement Entity
KPI	Key Performance Indicator
OBM	Outcome Based Management
OECD	Organisation for Economic Co-operation and Development
OGP	Office of Government Procurement
PECN	People with Exceptionally Complex Needs
PSC	Public Sector Commission
PSMA	Public Sector Management Act 1994
PSP	Preferred Service Provider
RfR	Royalties for Regions
SAMF	Strategic Asset Management Framework
SAP	Strategic Asset Plan
SCI	Statement of Corporate Intent
SCOA	Standard Chart of Accounts
SDP	Strategic Development Plan
SDPSW	Strategic Directions for the Public Sector Workforce 2009-2014
SE	Shareholder Executive
SES	Senior Executive Service
SLIP	Shared Land Information Platform
VfM	Value for Money
WACOSS	Western Australian Council of Social Services
WAIFS	Western Australia Indicator Framework System
WAPC	Western Australian Planning Commission

# 1. Introduction

## The Role of the Public Sector

In October 2008, the new Western Australian Government announced the “establishment of an economic audit group to conduct a wide-ranging review of the operational and financial performance of the Western Australian public sector”.<sup>1</sup> This was in accordance with its election commitment.

Too often the wrong questions are asked by review processes. Debates over departmental and agency structures dominate more fundamental discussion of purpose, function and culture. Inputs such as dollars spent and numbers of staff employed become the focus, detracting from a real analysis of capability and results. Recommendations to merge or split departments, move managers and cut budgets become the ends rather than the means. What tends to get overlooked is the most important question of all:

*What is the role of the public sector in achieving outcomes for the community?*

Without clarity as to what is expected of the sector it is not possible to assess its performance. In undertaking its work, the Committee started by asking this fundamental question.

Through analysis and consultation, it resolved that the role of the public sector should be to serve the public by:

- supporting the Government in formulating and implementing policy;<sup>2</sup>
- fostering service delivery capability, both directly within the public sector and indirectly in partnership with the community and private sectors; and
- regulating private sector activity where doing so improves economic, social and environmental outcomes.

The Western Australian public sector is in need of rebalancing to perform this role. The public sector employs in excess of 100,000 people in a wide variety of occupations. The dedication, professionalism, and expertise demonstrated by the vast majority provide an excellent foundation for improving the performance of the public sector in delivering outcomes for the community.

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<sup>1</sup> Buswell, T. (Treasurer) (2008).

<sup>2</sup> A ‘policy’ is essentially a stance which, once articulated by Government, contributes to the context within which a succession of future decisions will be made. Friend, J., Power, J. & Yewlett, C. (1974).

The complex framework of legislation, regulation, administrative processes and reporting provides an array of incentives and punishments for the way in which public servants fulfil their duties. The Committee strongly believes that this framework is long overdue for fundamental change.

Public servants need to be re-empowered. Layers of process stifle engagement, the cross-fertilisation of ideas, the confidence to innovate, the leadership to deliver on priorities and the trust needed to foster relationships that serve the interests of the community. These layers need to be dissolved. Responsibility must be placed in the hands of those with the capability to respond, whether they be frontline staff or individuals within the community.

In delivering its First Report the Committee concluded that the Western Australian public sector suffered from the following weaknesses:

- a lack of policy development capacity;
- large areas in which service delivery is neither efficient nor cost effective;
- inflexible, highly prescriptive and outdated processes;
- complex accountability arrangements and poor performance management;
- bureaucratic and cultural barriers to whole of government collaboration and public innovation; and
- unnecessarily burdensome regulatory control of community sector organisations.

These failures of the system are symptoms of a public sector that has lost sight of its reason for being – achieving outcomes for the community. Many of the submissions received by the Committee argued that the desire to serve in the public interest was alive and well among our public servants. However, this will is being subverted by overzealous interpretations of responsibility and accountability requirements. Process rules over informed judgement.

Over the last few decades, the public sector has gradually expanded its role in the provision of services. This increased realm of responsibility has been accommodated within a bureaucratic structure that defines accountability in terms of hierarchy and reporting procedures. For many, success as a public servant has become dependent on an ability to navigate the labyrinth of process and regulation rather than the achievement of outcomes. Those working closest to the community have gradually been stripped of much of their capacity to make decisions, forcing those at the top into the role of managers rather than leaders. Decision-making has moved further and further away from individuals and communities, and those on the front line now talk of working against and around the system as the only way to achieve outcomes.

Within this regime risk tends to be avoided, rather than managed, creating little room for new thinking and ideas to flourish. Despite this, the Committee was impressed by examples of good practice, innovation, collaboration and outstanding service to citizens across the public sector. Many of these are highlighted throughout this report. This encouraged the Committee to believe that there are opportunities for replicating these examples, so that they become the rule rather than the exception.

The Government needs to be able to draw on the knowledge and experience of the public sector to translate its priorities into practice. Good policy, designed to meet the needs of the public, requires frank and fearless advice from public servants working in collaboration with each other, local government, community service providers, the private sector and citizens. As silos across government have evolved, the value placed on working together across bureaucratic structures has diminished. Planning and decisions regarding how services will be designed and delivered are often being made in relative isolation from those who will use or be affected by them. Local governments, community service providers, business and citizens should take a proactive role in contributing to policy and planning processes. The public sector must create incentives to facilitate and support this engagement.

When these important partnerships are not fostered, trust is hard to build and rules end up dictating the basis of relationships. The unnecessarily burdensome regulatory controls placed on public servants in the name of accountability are simply transferred onto community sector organisations and the private sector.

This results in an inability to harness the skills, commitment and perspective of the community sector and the private sector for public benefit and social innovation. It defeats the purpose.

Governments around the world have backed themselves into a corner where they can no longer sustain this mode of operation, and are beginning to realise that they need to foster the conditions for communities and individuals to help themselves and each other. A culture of 'learned helplessness' has undermined self-reliance and individual initiative. This is strikingly evident in the circumstances of Indigenous disadvantage. To achieve outcomes that reflect the needs and aspirations of citizens, a critical shift in thinking across the public sector is required and existing relationships with the community and the private sector need to be radically refocused.

Achieving change in large organisations, public or private, is not easy and Western Australia is not alone in grappling with this challenge. The Commonwealth Government's Advisory Group on Reform of Australian Government Administration has recently released a discussion paper regarding similar issues across the Australian Public Service (APS). In the introduction from the Advisory Group, the Group's Chair Terry Moran notes:

*In most international comparisons, our public service fares very well. However, there is room for improvement. For example, there are concerns about the ability of the APS to provide innovative and creative policy advice to government. In terms of service delivery, there needs to be a much stronger citizen centred focus. Links with the outside world, including with universities, state and territory governments and other sectors, should also be improved. Trends in the strategic environment add further imperative to the need for change. Such trends include the increasing complexity of public policy issues, demographic pressures, globalisation and the ever increasing expectations of the public, and of business.<sup>3</sup>*

The Western Australian public sector has a real opportunity to harness the value of its employees to be a leader in meeting this challenge. It is the Committee's view that a public sector that embraces the need to change in the face of these demands is to be applauded.

## Fulfilling this Role

To perform this role, the public sector needs to:

- understand what citizens need, enabling them to choose the mix of services appropriate to them;
- have the flexibility to respond to the complex and changing needs of citizens;
- focus on strategic policy as a means of ensuring that priorities are identified on the basis of citizens' needs, and the best means of addressing those priorities are pursued;
- recognise and promote the importance of good planning as a necessary pre-condition for the efficient and effective achievement of outcomes;
- move to a default mode of operation of facilitating services, rather than directly providing them, unless a strong case is proven as to why direct provision is the more effective and efficient option;
- ensure accountability and transparency without unnecessarily prescriptive processes;

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<sup>3</sup> Advisory Group on Reform of Australian Government Administration (2009).



- function collaboratively to deliver across organisational and sectoral boundaries (i.e. both within the public sector and across the community and private sectors);
- foster innovation and appropriately manage rather than avoid risk; and
- promote a culture of ongoing self-evaluation, learning and improvement.

The cultural change needed to achieve this shift in focus is profound. This role is not a polished version of the old, but a fundamentally different way of approaching the business of government. Understanding, accepting and committing to this transformation is critical. The hurdles and blockers to past attempts to refocus the sector must be acknowledged and addressed as part of the challenge of improving outcomes.

This second and final report of the Committee aims to frame this path forward. It does not exhaustively list all the steps along this path. Rather, it seeks to paint a vision for where the sector could be in five to ten years and identify the key issues that need to be addressed to realise that vision.

The report is built around five key themes:

- Delivering on priorities.
- Designing services to meet citizens' needs.
- Maximising value through planning, competition and innovation.
- Realising Western Australia's economic potential.
- Modernising public sector management.

**Delivering on priorities** examines the roles of the elected Government of the day and the public sector in defining, communicating and implementing priorities. Good public policy requires strong leadership. The Government should expect and be supported by frank, fearless and well-informed strategic advice.

Strengthening the strategic management capacity of government requires that the public sector actively engage individuals, community organisations, the private sector and local government in policy formulation. It also requires that public sector agencies assist the Government by undertaking the long-term planning and evaluation needed to give context to election commitments and decision-making by Government. This chapter also highlights the importance of performance management in strengthening the accountability and strategic management capacity of government.

**Designing services to meet citizens' needs** identifies the need for the public sector to increasingly act as a facilitator of services, rather than a direct provider, so as to ensure that priorities are identified on the basis of citizens' needs and the best means of addressing those priorities are pursued. To achieve this, the public sector will need to function collaboratively to deliver across organisational (i.e. break down the silos within government) and sectoral boundaries (i.e. partner with local government, community

sector service providers and the private sector). Citizens will need to be empowered and their voice heard in the process of designing services. Genuine partnerships with community organisations need to be forged on the basis of trust rather than unnecessarily burdensome regulatory controls. In the case of the most disadvantaged, genuine partnerships are needed directly with the communities themselves.

**Maximising value through planning, competition and innovation** focuses on the need to recognise and promote the importance of good planning as a necessary condition for the efficient and effective delivery of public services. Providing the right services and infrastructure at the right time and in the right location requires good strategic planning.

Of equal importance to sound planning is the need to continually explore a variety of options for introducing greater competition into the delivery of public services to ensure flexibility in responding to the complex and changing needs of citizens.

**Realising Western Australia's economic potential** examines how the Government can maximise the community's ability to take advantage of unprecedented opportunities for economic and social development. Government plays a role as regulator, policy maker and supplier in the markets for key utilities such as water and energy – both of which are crucial to supporting growth in population and the economy. Lessons from the recent past suggest that if this role is not performed effectively, government can inadvertently limit the benefits of, and increase the costs associated with, long periods of strong economic growth. Key elements of this chapter will be strengthening the public sector institutions that inform policy formulation and debate. It also focuses on the implementation mechanisms required to support Government's economic reform agenda and achieve better outcomes from government businesses in key markets.

**Modernising public sector management** highlights that the potential of the public sector is profoundly constrained by a public sector management culture that is excessively compliance-driven, risk averse and centralised. This culture needs to be transformed through a paradigm shift in central policy, regulation and compliance auditing to a default position that public servants are trying to do the right thing rather than layering them with rules based on a position that they are not. This chapter also emphasises the importance of workforce redesign and planning in the face of increasingly complex and changing community service delivery expectations. Mechanisms to work across structures will also need to be embedded in public sector management practice, including fostering the sector's information and communication technology (ICT) capacity.

Implementation of the recommendations laid out in this report will require substantial drive from central agencies to make change happen. A lasting and serious commitment to implementing these reforms will be imperative to making the sector more efficient and effective in achieving outcomes for the citizens of Western Australia. Clear accountability through reporting of achievement against implementation plans will be crucial.

## Building and Sustaining Momentum for Change

Genuine change requires bold leadership. Successful leaders must be able to provide direction and cohesion to strategy. For the recommendations in this report to be implemented, they must be reinforced by messages and actions of individual leaders across government. As noted by Bouvard, Dohrmann and Lovegrove:

*The slow pace of reform often results directly from an ineffective approach to change management. The leadership may not be sufficiently urgent and intense.*

*Frequently, the objectives of reform and accountability for making it happen is unclear, and management of reform programs is weak. What's more, governments tend to ignore the possibility of building momentum through early wins and lack a developed performance culture.<sup>4</sup>*

A leadership group reporting to Cabinet, chaired by the Director General of the Department of the Premier and Cabinet (DPC), will oversee implementation of the reforms in this report. Ongoing communication between Government, this group and staff across all agencies will be essential if the intent of the recommendations is to be realised.

While structures are important, it is people and processes – formal and informal – that get things done. It is in the public sector workforce that the real investment needs to be made to drive change. This report identifies a broad range of areas where the sector will need to develop the capability of its people to undertake the role described by the Committee.

Whether it be policy development, planning or project management skills, a commitment to building and then continuously developing and enhancing these skills within the sector will be critical. Investment in these skills will need to be targeted to the areas most needed. Public sector leaders need to give serious consideration as to who is going to implement their vision and whether these people have the expertise required.

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<sup>4</sup> Bouvard, F., Dohrmann, T. & Lovegrove, N. (2009)

Informal processes are embedded in the cultures of organisations. To build and maintain the momentum for change the impact of these underlying cultures on the sector's ability to transform the way it operates will need to be addressed. Too often, the risk-averse culture of the public sector constrains the capacity of individuals and organisations to make substantive and innovative changes. Doing nothing is a safe option compared with having a go and possibly making a mistake. But it is not an acceptable option. Inevitably mistakes will be made. So long as the risks are identified and managed, and mistakes are learned from, outcomes are more likely to improve.

Agencies focusing on the protection of vulnerable people will have a different approach to risk than those with responsibility for economic development. However, all agencies need to understand and develop cultures appropriate to their business and to their role within the public sector. Equally, all leaders need to understand the importance of their role in cultural change.

The Committee is cognisant of the need to avoid replicating the experience of previous review processes. To this end it has been deliberate in identifying milestones and responsibility for each of the recommendations contained in this report. The Committee believes that this is critical to ensuring that the implementation of these recommendations can be monitored and measured. Likewise, ongoing value for money (VfM) audits will provide a real opportunity to assess the implementation of the Committee's recommendations at agency level.

Progressing the change agenda identified in this report may involve re-formulation of the best way forward based on learnings along the way. Ongoing evaluation and self-assessment is an essential feature of a culture of innovation and appropriate risk management. The key will be to remain consistent as to the vision of where the sector needs to go. The former head of the United States Government Accountability Office captured this sentiment when he noted:

*Transformation is about creating the future, rather than perfecting the past.*<sup>5</sup>

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<sup>5</sup> David M. Walker, cited in submission of IBM Corporation to the Committee.

## 2. Delivering on Priorities

### Overview

Delivering on priorities requires clear leadership, strategic policy and long-term planning, a focus on implementation and robust performance management and evaluation. In delivering on priorities, the public sector serves the Government of the day. To enable this, Governments need to assign responsibilities. They should expect frank and fearless, well informed advice from the public sector – a public sector that routinely collaborates across agencies and with stakeholders, particularly the community, to ensure that the desired outcomes are achieved.

**Diagram 1: Strategic Management and Accountability Cycle**

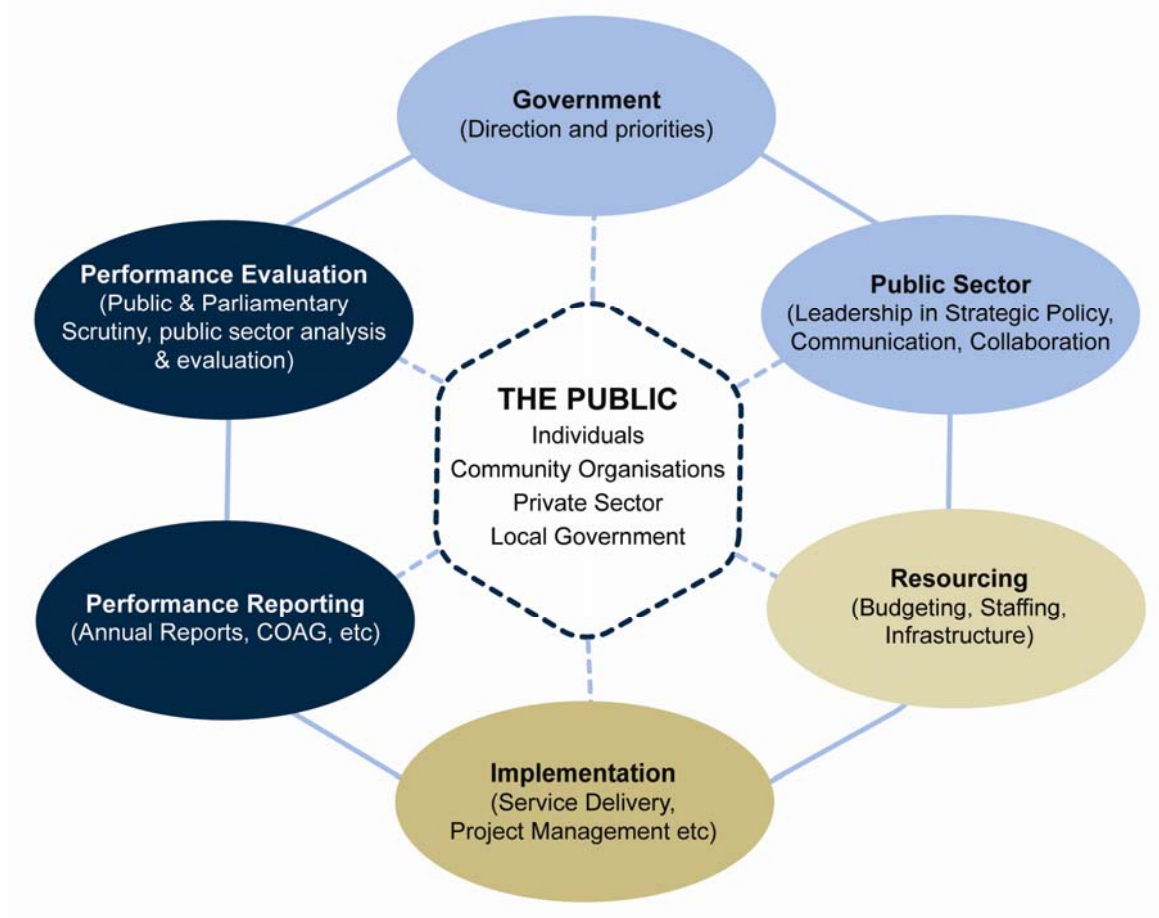


Diagram 1 illustrates the more formal strategic management and accountability processes that occur within this broader context. To be effective, such a cycle requires:

- ongoing engagement with the public;
- leadership focused on communicating direction and priorities and fostering collaboration;
- strategic policy skills in the public sector to translate community expectations and Government priorities into practical strategies that inform resource allocation;
- a strong focus on implementation; and
- performance monitoring and evaluation capacity to ensure transparency and accountability and facilitate ongoing learning.

Effective service delivery should be focused on the needs of individuals and their communities. Increasingly this delivery will be undertaken by the community and business sectors, and the public sector will need to develop the skills to manage these partnerships to achieve the best outcomes. These issues are discussed in more detail in Chapters 3 and 4.

This cycle also requires that agencies addressing common concerns for citizens are able to collaborate at all stages of the cycle from strategy development, resource allocation, service delivery and performance monitoring and evaluation.

## A Vision for Delivering on Priorities

The Committee has laid out a vision of where the public sector should be in the coming years, in which the following activities and processes are considered routine features of governance in Western Australia:

1. Citizens will have access to processes and information that enable them to influence strategic policy directions of Government and assess the performance of Government and the public sector in meeting their expectations.
2. Government's high-level expectations of Chief Executive Officers (CEOs) will be communicated in a coordinated way through central agencies, supported by opportunities for discussion about those areas where flexibility is required to respond to emerging issues.
3. Governments can draw on strategic policy advice that is grounded in sound information and analysis. They will be confident that they know where value for money is and is not being achieved.
4. Information will be organised around a series of Outcome Areas that resonate with the interests of citizens, remain relatively stable over time and are comparable with those adopted nationally and internationally.

5. Policy advice will be developed collaboratively by the public sector, community sector organisations and the private sector under the leadership of identified line agencies, but with support and input from central agencies.
6. All agencies will be able to understand their roles within the broader context of government and have in place programs of continuous improvement. In addition, their performance will be judged according to their contributions to the collective outcomes citizens generally expect from government. This will be in addition to those services that they are explicitly tasked by Government to deliver.
7. Public sector staff will be able to see how they contribute to the goals of their organisations and of the public sector as a whole. Further, there will be a critical mass of people with the capacity and the opportunity to contribute to developing and implementing a strategic agenda.

## Key Issues

The Committee has identified four issues that impede upon the ability of the public sector to deliver on the priorities of Government:

1. The public sector does not have sufficiently clear direction and strategy, in part due to public sector leaders not taking enough initiative in advising Government on issues and trends and proposing policy options.
2. The budget process does not encourage management of resources in a financially responsible way.
3. The public sector does not consistently drive change, work collaboratively or innovate in the implementation of the Government's agenda.
4. Performance information is not always relevant and useful for decision making and judging performance. Performance evaluation is used inconsistently.

New approaches to implementing the Government's agenda are discussed in detail in Chapters 3, 4 and 5. Chapter 6 considers specific strategies to modernise public sector management to support these arrangements. This chapter focuses on making sure that the Government's agenda is informed by strategic policy advice and performance information from the public sector, grounded in an understanding of community expectations and needs.

## Direction and Strategy

Clarity about direction and strategy results from the public sector working closely with Government. The Committee frequently heard that earlier reform proposals have not progressed due to an apparent lack of commitment by successive Governments to developing some form of state plan or the absence of a collective voice from central agencies (see box below). However, the Committee is of the view that the public sector



needs to take a more active role in formulating options as to the way the sector might achieve improved outcomes for the community. This is a two-way process of engagement between the Government and the public sector. The public sector must have the capacity to systematically provide frank and fearless advice in the form of high-quality information and analysis to decision-makers on issues as they emerge. Government is then in the position to make more informed decisions about both direction and strategy.

The Committee acknowledges the challenges for Governments in communicating a coherent message and in countering conflicting and informal messages over which they have no control. In an institution as diverse and extensive as the Western Australian public sector, staff and stakeholders can get messages from a variety of sources, such as Ministers, CEOs, the media and colleagues. Communication of the Government's overall intent will require a multi-faceted approach.

Public sector leaders must reinforce and complement Government communication channels within the sector so that staff and stakeholders understand and implement this intent. At the same time, a balance needs to be struck between providing a high level of certainty and the need for agencies to remain sufficiently agile to respond to changing circumstances and priorities.

*It is essential for Government to articulate strong positioning statements ... to provide the framework for portfolios (but) there should be a stronger onus on agencies to proactively take current government policy priorities and translate them into policy, program and resourcing responses. (Department of Sport and Recreation)*

*A wider range of input, including from customers and importantly from well informed review, is needed in developing the long term strategic direction. This work, with associated costings, will assist the Government in making more informed decisions about priorities in the longer term. (Public Transport Authority)*

*A fundamental prerequisite to the effective communication of government priorities, objectives and performance is the development of an integrated across-government policy framework that sits above the departmental machinery that will ultimately be required to implement the priorities of government. (Disability Services Commission)*

*We ask that the EAC considers an effective communication strategy to both agency employees as well as agency heads so that the messages are clearly – and correctly – understood. (WA Police Union)*



*Unless leaders see that they are the custodians of processes to build new narratives and that those processes take time and patience, then they resort to positional power to get their own way. When they meet objections, either active or passive, they blame the employees rather than their own failure to inspire people to create and own a new story. (Individual submission)*

*Our political leaders are not the only ones who have been handed a mandate for change. Leaders of businesses and institutions everywhere have a unique opportunity to transform the way the world works. (IBM Corporation)*

Government direction and priorities are currently articulated through a variety of mechanisms, commencing with the electoral platform. Resource Agreements and CEO Performance Agreements are currently used to formalise expectation of individual agencies. However, the Committee supports the views put to it that these instruments alone are insufficient to either provide direction or ensure accountability. The Committee heard during the workshops it held that CEO Performance Agreements should be kept simple with more meaningful performance measures related to individual as well as agency performance. The Committee also noted that the approach taken by the previous Government to developing statements of goals and outcomes through *Better Planning: Better Futures* did not possess sufficient specificity to provide the level of guidance that many agencies sought.

The absence of commonly understood strategic direction and priorities leads to a focus on short-term resource constraints rather than meeting the long-term needs of citizens, communities and industry. Without a strategic view across agencies and portfolios, future budget rounds are more likely to incorporate ‘across the board’ cuts (such as the three per cent reduction imposed in 2008-09) because the information that would assist the Government to revise its allocation across Outcome Areas or to cease programs is not available. Even though very high quality services are provided in many areas, the Government needs to be able to determine if there are other areas where need is greater or where different services may be more appropriate.

The extent to which individual agencies look to the future or engage in strategic planning varies across the sector. The Committee acknowledges that this is often easier for statutory authorities and business enterprises that have specific client bases and products and whose responsibilities are defined in legislation. Departments of state with complex policy responsibilities can find it very difficult to prioritise if they do not understand the direction and priorities of the Government of the day. There is little evidence of systemic strategic planning across portfolios incorporating multi-agency responsibilities.

Policy capacity is an essential enabler for the achievement of improved outcomes yet the Committee's view is that the capacity of the public sector to formulate policy has diminished over time. This is not unique to Western Australia, but it is an area where Western Australia is particularly vulnerable and needs to be considered not only within the traditional public sector but also in Ministerial offices. A number of factors may account for this apparent weakness in policy capacity:

Since the 1980s, many government agencies have progressively moved away from allocating resources to forward-thinking, system-level policy across government. This has led to confusion between strategic and operational policy roles, with a general imbalance towards the latter. In one Director General's view, the public sector "does rules, not policy".

Chronic risk aversion has frequently been identified as a key inhibitor of strategic policy capacity. One stakeholder attributed this risk aversion to agencies being fearful of relinquishing power and control. It is also symptomatic of the compliance paradigm that underpins the public sector management and oversight regime, which is reinforced by the publicity attached to high-profile investigations and reports from oversight bodies.

Strategic policy capacity requires:

- the ability to recruit and retain people with requisite knowledge, skills and experience;
- productive relationships between agencies and Ministers;
- systems and processes for engaging with external policy thinkers and people impacted by policy; and
- the capacity to provide advice that takes account of the dynamic and contestable environment in which agencies operate.<sup>6</sup>

In the absence of investment in policy at a State level, the national agenda (through the Council of Australian Governments [COAG]) has become the default State agenda in some key areas of policy development and service delivery. This can lead to sub-optimal outcomes and divert attention from the need for the Western Australian Government and, in particular, the public sector to develop their own agenda for reform and improvement.

## Budget Process

The key resources that agencies can access to deliver on priorities are finance, information, assets and people. This chapter focuses on the budget process as the key mechanism through which resources are allocated and the concerns expressed to the Committee that the existing processes do not encourage and reward responsible budget management.

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<sup>6</sup> Tiernan, A. (2007).

Western Australia has a rolling budget process, whereby appropriations and expenses are fixed for the following budget year, with estimates of appropriations and expenses published for three forward estimate years. Most agencies have a single line appropriation and an expense limit, with details of the purpose of the appropriation included in the budget papers. However, expense limits are not always observed, undermining aggregate fiscal discipline.

This rolling budget process results in budgeting that is primarily focused on incremental changes to spending. Each year, agencies submit bids for resources to fund new policy proposals and increased costs of established services. Where an agency requires additional appropriations to fund unforeseen expense increases or revenue shortfalls within the budget year, supplementary funding is available through the centrally managed Treasurer's Advance. This Advance is capped at three per cent of total appropriations for the previous year and is approved by Parliament after the end of the financial year. This process provides no effective deterrent to agencies seeking supplementary funding. Indeed, it is more likely to reward overspending than appropriate guardianship of public resources.

This incremental approach puts constant pressure on the State's financial position.<sup>7</sup> It makes agency funding less strategic by undermining long term focus and reduces flexibility to re-balance spending allocations to ensure the best use of resources in line with long term objectives. It also focuses attention and resources on the evaluation of spending at the margin, rather than the evaluation of the efficiency and effectiveness of the existing expenditure of agencies.

Without greater certainty in funding, it will be difficult for agencies to provide assurances of funding to community organisations that are delivering services on their behalf. In the United Kingdom, where more long term budget processes are in place, the evidence suggests that there is greater realism in estimates, greater certainty of resourcing for agencies over a longer period, and a greater level of trust that agencies can establish realistic future costs and demands and will deliver to budget over the longer term.

Holistic budget processes that focus on the efficiency and effectiveness of existing expenditure are predicated on the use of robust cost and demand models. The available evidence suggests that there is considerable scope to improve the use of such models in the Western Australian public sector, although there are some examples of good practice both here and elsewhere (see box below).

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<sup>7</sup> Actual expenses in the general government sector in Western Australia have exceeded budget estimates by 2.6 percentage points on average over the seven years to 2007-08. Expense growth averaged 7.5 per cent per annum over the same period.

### Examples of multi-year budgeting

The Disability Services Commission has developed a robust demand model as part of its Common Application Process that projects demand for accommodation support services. This has been factored into its forward year budget forecasts.

The United Kingdom has adopted a multi-year budget approach, in which appropriations are fixed for a number of years. Agencies are expected to fund activities within agreed spending limits within these timeframes, and are encouraged to budget five per cent of these limits as an unallocated internal contingency provision. Additional funding may be provided from a centrally held contingency reserve in exceptional circumstances. Such circumstances require Parliamentary approval and generally trigger a spending review, representing significant motivation for agencies to meet agreed spending limits.

## Implementation through Collaboration and Innovation

Enhancing opportunities for collaboration and innovation are major themes in this report and Chapters 3 and 5 consider this in some detail. The Committee found that, too often, change agendas across government do not get implemented. As required by the Committee's Terms of Reference, progress in the implementation of the Office of Shared Services (see box below) was considered. The Committee came to the firm view that the lessons learnt from this experience need to be applied to all large scale projects.

### Lessons learned from Shared Services

- Identify a single senior public sector leader as a strong and empowered sponsor for the program and create very limited points of decision-making accountability.
- Ensure that any Governance Council appointment to oversee the reform contains very senior stakeholders who can make important decisions to ensure the program does not stall unnecessarily.
- Invest in specialist project and program management expertise.
- Ensure best practice is captured up-front for process design, rather than relying on existing staff to re-design processes within the confines of their own breadth of knowledge and experience.
- Set realistic timeframes. Agencies should not be required to manage operations as normal while being required to implement major new approaches.
- Change management needs to be embraced by agencies as new arrangements are fully implemented.
- Ensure performance monitoring across the program is consistent.

- Maintain a strict focus on project alignment – do not operate the reform from within a ‘business’ structure.
- Do not underestimate the costs of including small agencies in major reform programs. There are a number of fixed implementation costs that apply equally to small agencies as to large ones.
- Contract arrangements with major vendors need to be flexible enough to be tailored to changing circumstances over the entire life of major programs.
- Use external and independent advice at critical decision points.

Assigning leadership and accountability through formal structures or contracts is the most common approach to driving change. All public sectors are organised in ways that subdivide the business of government into manageable parts and this works well for many of its services. However, people and industries that need to access more than one service expect all parts of government to work together, to have consistent policies and to deliver jointly or at least cooperatively. Simplifying and streamlining machinery of government arrangements can assist this, but is not the only solution.

Regardless of structures, cooperation and collaboration are required within and across agencies and sectors. The Auditor General has previously noted that “the evidence around agencies working cooperatively or collaboratively is that it consistently needs improvement. We do not see really good examples of agencies working cooperatively together.”<sup>8</sup> Collaboration has to become a ‘mode of operation’ and this requires both formal and informal opportunities for interaction.

Most of the work of government is (and should continue to be) undertaken by individual agencies, since structures of governments are designed to allow this to happen. The more challenging instances are where the necessary authorities to effect change are dispersed across agencies and/or Ministers.

A collaborative approach is appropriate to solving these often complex, intractable problems and achieving consensus on an agreed set of objectives among the relevant public sector, community and/or industry groups. A key challenge for public management is to develop and maintain, in the people and the systems, a capacity for ongoing problem solving of these complex interagency issues.<sup>9</sup>

<sup>8</sup> Evidence to the Community Development and Justice Standing Committee, Inquiry into Collaborative Approaches in Government, 26 September 2007. [www.parliament.wa.gov.au](http://www.parliament.wa.gov.au), Page 2.

<sup>9</sup> Kettl, D. F. (2002).

Collaboration requires the appropriate leadership environment, people with the right skills and motivation and the necessary systems and policies to support it. Embedding a collaborative approach will require a sustained effort so that agencies work together and with community employers, social enterprises, community organisations and the private sector over an extended period to find ways in which they can use their collective resources to enhance service delivery.<sup>10</sup>

*You could say the Government is operating in the 21st century with 20th century data and information systems and a 19th century model of the public service and its processes. (Individual submission)*

*We spend too much time categorising things. No wonder people who deal with government feel they have become a cipher rather than a whole person. Boundaries are mental constructs, invented by those in power to manage their world. These constructs become so solid we forget their boundaries are mere fiction. (Individual submission)*

*There is a need for decision makers and policy developers within Government, the public sector and the community to have access to good quality data that tracks the wellbeing of Western Australians across a collective group of social indicators. The current lack of a shared understanding of how we measure social well being, of where the cracks are and who is slipping through them, is astounding. We need to know all the pieces of the jigsaw, which ones are already in place and what is missing, in order to pull together a complete picture of the Western Australian community. Only then can we work strategically, efficiently and in a well-targeted way to improve social well being. (Western Australian Council of Social Services, WACOSS)*

*Collaboration doesn't occur merely by chance or even always by choice. Just as often it's mandated by necessity. (IBM Corporation)*

The Committee is concerned that middle management appears to be overly constrained by a need to respond to the accountability and compliance systems within the public sector. This can detract from their capacity to nurture and support front line and policy staff to work collaboratively and try new ideas that do not fit within the traditional organisational boundaries and ways of doing business. Understanding of due process is appropriate, but overzealous insistence on following prescriptive guidelines is often counterproductive to collaboration and innovation. This issue is taken up in more detail in Chapter 6.

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<sup>10</sup> Shergold, P. (2008).



## Performance Reporting and Evaluation

In total, agencies in the Western Australian public sector are required to comply with at least 15 pieces of administrative legislation and their subsidiary instruments, such as the *Public Sector Management Act 1994 (PSMA)*, *State Records Act 2002* and the *Freedom of Information Act 1992*. In many cases, compliance with these Acts is required to be articulated in specific plans and reported in annual reports. Current performance measurement and reporting arrangements in Western Australia have their genesis in the State's financial legislation.<sup>11</sup> These have been continually refined and, in line with many countries in the Organisation for Economic Co-operation and Development (OECD), Western Australia moved from an output based budgeting framework to its current Outcome Based Management (OBM) framework in 2004.

### ***Meeting accountability requirements***

The *Financial Management Act 2006 (FMA)* requires the accountable authority of an agency to prepare an annual report that contains (amongst other matters) key performance indicators (KPIs). The minimum reporting requirement is one key effectiveness indicator for each desired outcome and one key efficiency indicator for each service that an agency is responsible for delivering. Despite attempts to streamline annual reporting requirements, the Committee has heard that annual reports are rarely read. Developing and reporting performance and compliance information costs money. It is important, therefore, to decide who the major stakeholders for information are, what information they need and the risks associated with not providing that information.

As the accountability framework centres on agencies, there has been no impetus from State based legislative requirements to develop a more holistic view of outcomes expected across agencies. In contrast, COAG requires measures at more aggregated levels that reflect community well being. However, these indicators do not cover all areas of government effort and are often not sufficient or relevant to demonstrate agency accountability. Unless these systems can be linked, there is potential for an overload of information to meet reporting requirements – none of which necessarily stem from an understanding of what the community or the Parliament might want to know.

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<sup>11</sup> Originally this was in the *Financial Administration and Audit Act 1985* and is now in the *Financial Management Act 2006 (FMA)* and the *Auditor General Act 2006*.

## Relevance of KPIs

The Committee supports the view expressed by many stakeholders that the existing accountability framework is both onerous and piecemeal, placing a uniform burden of compliance on all agencies. KPIs, in particular, often fail to convey succinct and timely information to Government to ensure its decisions are based on considered evidence of what does and does not work. Nor are many KPIs useful to the Parliament and the community to assess whether or not Government has done what it said it would with the resources provided, and that outcomes for Western Australians have improved as a result of that investment.

*The full implications of our system as it has evolved have not been well debated. ... Any unintended consequences that might detract from the credibility and usefulness of KPIs need to be considered so that Western Australia can benefit more fully from the reporting of key performance information. (Auditor General)<sup>12</sup>*

*The KPIs [for innovation] are all wrong. (Individual submission)*

*The agency's performance indicators do not assess whether or not outcomes have been achieved. Instead, the KPIs focus on community satisfaction. ... Indicators only consider the Department's performance in specific industries and communities and do not assess economic sustainability or prosperity in the state more broadly. ... It would be useful to benchmark the agency's efficiency against similar non-government sector service providers. ... The accuracy of (community perception) indicators is of particular concern ... given that they are likely to be heavily influenced by external events, such as media reporting. ... While these indicators are meaningful, the performance across the sector could also be assessed against similar international (functions). (Chamber of Commerce and Industry)*

*The acid test of whether an indicator is of value is if the agency and key stakeholders use the measure to drive continuous improvement towards the achievement of strategic outcomes. (Department of Education and Training)*

*Benchmarking is an area where there is scope for considerable improvement. However, providing good data is only half the benchmarking story – using the data to deliver more efficient operations is the other half. (Mental Health Division, Department of Health)*

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<sup>12</sup> Auditor General (2008).



Submissions to the Committee stressed the importance of individual agencies continuously reviewing their KPIs to ensure that they are useful for decision making (see box above). However, the Committee is also of the view that there are many areas of government activity, such as policy, research and planning, where efficiency and effectiveness are difficult to measure and others where, with some adjustments, measures could be made more meaningful by requiring agencies to use comparable indicators. For instance, the Committee concurs with the views expressed by stakeholders that measures such as pages of legislation or cost per hour of policy advice are ‘demonstrably useless’ to the Parliament, Ministers, CEOs and the community at large. Similarly, the Committee noted that even organisations like the Regional Development Commissions which have the same legislative framework do not use the same measures of efficiency and effectiveness. Within the current reporting framework, these matters are outside the scope of individual agencies to address.

#### **Making performance management more useful**

Main Roads has changed its performance management system with a particular focus on increasing the use of the information by staff to improve what they do. While an Outcome Based Management (OBM) approach had been in use for many years it was found that over time the usefulness of the measures both internally and externally had been eroded.

The new system has resulted in:

- All the official OBM measures incorporated into monthly reporting to Main Roads’ Corporate Executive and Program Management team.
- Direct alignment between Government goals and Main Roads’ outcomes.
- Direct alignment between Main Roads funding through DTF and its OBM framework.
- Continued promotion and greater understanding of the organisation’s transition from a builder and maintainer of roads to a road network manager providing an important and valuable service to the community.
- A greater understanding of Main Roads’ achievements by the community and Parliament.

Despite criticisms, there is a strong perception that the discipline of being required to develop KPIs that are subject to audit has resulted in Western Australian agencies being well ahead of their counterparts in articulating their mission and developing and using performance information to understand their progress (see box above). This is reinforced

by the extent to which elements of the Western Australian approach are considered by other jurisdictions.<sup>13</sup>

Nevertheless, the Committee is of the view that the existing performance measurement system has focused too much on accuracy and reliability of KPIs at the expense of measures that are useful for decision making by Cabinet and that assist the Parliament and the community to assess performance about things that matter to them.

### **Evaluation**

The Committee has heard from many stakeholders that one of the unintended consequences of the strong commitment of Western Australia to developing KPIs based on agency desired outcomes is that there has been inadequate attention given to regular evaluations of program effectiveness and to the general 'health and capability' of agencies. A report by the Auditor General concluded that 'while individual project or program evaluations were generally done well ... agencies lacked a strategic approach to their evaluations. This has resulted in an ad hoc approach which provides no assurance to Government or the community that key programs, projects or services will be evaluated.'<sup>14</sup>

Key messages from a World Bank Report<sup>15</sup> that reflect on the approach taken by the Commonwealth Government in relation to measurement and evaluation include:

- A key success factor is having a powerful champion.
- Sound evaluations can influence savings options for government if built into the budget process.
- When used in conjunction with performance indicators, evaluations are able to provide comprehensive performance information to stakeholders.
- There is a need for reliable data systems, appropriate training and getting the structural arrangements right.

In recognising the benefits derived from evaluation findings, the Committee notes that Cabinet recently approved a program of VfM audits. The objective of these audits is to identify:

- the scope for strengthening budget management practices within agencies to ensure the delivery of services within approved budgets;
- options for cessation or rationalisation of functions and expenditure savings; and
- other measures to improve the economy, efficiency and effectiveness of service delivery by agencies over the medium and long term.

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<sup>13</sup> See for example the report of the Auditor General of Queensland (2007).

<sup>14</sup> Auditor General (2009).

<sup>15</sup> MacKay, K. (Ed) (1998).

*Whilst competitive practices with the private sector can provide ‘value for money’ in government service delivery, the priorities of citizens need to be captured in pursuing these opportunities ... reports had failed to reveal ... deficiencies to such an extent that we were concerned that they did not give either the Minister or Parliament sufficient information to make an ‘informed assessment’ of performance. (Office of the Inspector of Custodial Services)*

## Way Forward

To resolve these issues and improve the capacity of the sector to deliver on priorities, the Committee has made a number of recommendations.

### **Direction and strategy**

Direction setting by Government starts with its election commitments, but also evolves through formal and informal interaction with citizens, community stakeholders, the legislature, and public sector agencies. Specific directions, agreed targets and service priorities represent a distillation of this ongoing discussion and are established to provide operational clarity for a period or point in time. The role of the public sector is to serve the Government of the day. To achieve this, Government needs to assign responsibility.

The means of communicating specific expectations of Government and assigning responsibility to agencies should not be mandated, but remain the prerogative of the Government of the day. Nonetheless, the Committee believes there is capacity to streamline existing instruments such as CEO Performance Agreements and Resource Agreements and to supplement them with more explicit statements of Government expectations of agencies.

Models used in other jurisdictions include charter letters, statements of strategic intent and state strategic plans.

- **Charter Letters** are generally developed in consultation with Ministers and CEOs to formally articulate the expectations and priorities of the Head of Government. The Howard Government routinely used charter letters to assist in retaining a focus on Government priorities and performance against them.<sup>16</sup>
- **Statements of Strategic Intent** are used to highlight a Government’s strategic priorities for the coming year and a Government’s achievements against priorities from the previous year. The Victorian Government produces such statements on an annual basis and publishes them online (with capacity for public feedback).<sup>17</sup>

<sup>16</sup> Podger, A. (2009)

<sup>17</sup> Government of Victoria (2009).

- **Strategic Results** Areas are used in New Zealand to guide Ministers and departments in their performance. The Cabinet issues an annual document called Strategic Results Areas, areas of which are reflected in performance agreements of chief executives. Internal accountability of chief executives to their respective Ministers is achieved through the use of plans, budgets, financial reports and a series of Key Results Areas.<sup>18</sup>
- **State Strategic Plans** have emerged over the last decade as a means of establishing long term priorities and directions. However, these can become rapidly outdated and research emerging from Scandinavia has suggested that they have not lived up to expectations.<sup>19</sup>

Should the Government wish to adopt one, or a combination, of these approaches to communicate their priorities, the key points to note about the mechanisms are that:

- they should be used in close consultation with Ministers and agency CEOs;
- they should align with communication mechanisms used in the Budget process; and
- performance against Government priorities articulated through these mechanisms should be measured in some way, either through public accountability mechanisms or through formal or informal discussion between the Premier, the relevant Ministers and CEOs.

These instruments have the potential to provide for flexibility while significantly increasing public accountability and transparency and provide clarity to citizens, and the private and community sectors as to the Government's priorities for a given period of time.

That said, any new instruments should not add an extra bureaucratic layer to the complicated system of accountability that currently exists. If anything, these mechanisms should serve to streamline existing requirements and result in clear and transparent processes of accountability.

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<sup>18</sup> See Pollitt, C. & Bouckaert, G. (2004) for a comparative analysis across several countries.

<sup>19</sup> Tilli, M. (2007).

**Recommendation 1:** Strengthen the communication of Government's priorities to ensure clear accountability for the achievement of outcomes by agencies, through streamlining existing processes to provide more explicit directions to Chief Executive Officers (CEOs).

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

For implementation from the 2010-11 Budget

**Milestones**

- Cabinet submission recommending administrative changes, including but not limited to better alignment between CEO performance agreements and agency resource agreements [end of 2009].
- Drafting any necessary legislative amendments [November 2010].

Consistent with Cabinet's decision following its First Report, the Committee notes the establishment of a high level coordinating group of CEOs. The proposed membership and Terms of Reference of this Executive Coordinating Committee (ECC) are in Appendix 4. The Committee is of the view that the ECC can inform Government decision making in areas of strategic importance to the State and ensure that all agencies are clear about the priorities of Government. The ECC can play a valuable role in identifying broad issues and trends for government (for example, demographic change) and in providing input to the formulation and delivery of solutions that require a better whole of government response. This role must not detract from the responsibilities of all CEOs to respond to issues affecting their agencies and working with colleagues in the public, private and community sectors on matters of mutual concern. It is intended that the ECC will add value to this interaction by supporting Cabinet and encouraging agencies to overcome silos and facilitate a coherent whole of government agenda. The Committee supports the intention that the ECC is to be supplemented by quarterly meetings of CEOs to enhance communication across the public sector.

**Recommendation 2:** The Executive Coordinating Committee of Chief Executive Officers be tasked with:

- a) leading the implementation of change in matters of whole of government significance;
- b) providing advice to Government on emerging issues and directions for agencies in relation to the implementation of Government policy and planning priorities; and
- c) enhancing and promoting collaborative approaches to problem solving.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

With immediate effect

**Milestones**

- Cabinet submission recommending key areas requiring across-government effort [annually, commencing March 2010].
- Implementation plans for Cabinet endorsed across-government priorities [annually, commencing June 2010].
- Progress annual progress reports to Cabinet [commencing 2010].

Government priorities should always drive change in the delivery of public services. However, the ongoing business of government will continue to be delivered or facilitated by the public sector irrespective of the political priorities of the Government of the day. That is not to deny the inextricable relationship between political priorities and public service. Nevertheless, the Committee believes that public sector leadership should be demonstrated across a robust policy framework that distinguishes between the ongoing delivery of public services and the priorities and policies of the elected Government.

Therefore, the Committee is drawn to an ‘Outcome Areas’ approach organised around functions of government that resonate with the community such as health, education, law and order, child protection, infrastructure development and environmental protection. Where possible, these should be compatible with those concepts used nationally and internationally taking particular account of those reported in the Productivity Commission’s Report on Government Services.

From time to time, there will also be more specific Outcome Areas that embrace issues and opportunities that cross traditional boundaries, such as addressing Indigenous disadvantage, tackling climate change or leveraging increased value through ICT.

Organisation around Outcome Areas does not require machinery of government change. All agencies should understand their roles within one or more Outcome Area and be held to account for what it is that they actually do and are funded to produce. While accountability must rest within the public sector, this does not preclude external policy thinkers from the community and private sectors taking leadership roles in appropriate Outcome Areas. Leadership for across-government policy issues will require the support of Cabinet and the ECC to provide the necessary traction to influence other agencies. The Committee notes that a subgroup of Directors General with responsibility for community services has already been established to address matters of mutual concern. Such committees will need to be accountable to the ECC.

The Outcome Areas model differentiates between two tiers of strategic management of the public sector – the expectations of the collective effort of government and expectations of specific agencies:

- The first tier focuses on the outcomes that citizens expect of government in social, economic and environmental arenas. Services to achieve these outcomes will be increasingly delivered jointly by the public sector and community sector organisations.
- The second tier focuses on what specific agencies are expected to do (outputs, services etc.), taking into account the policies of the Government of the day.

The model does not assume that Ministerial portfolios and departments will cascade in a hierarchical fashion. Within each defined Outcome Area, Government should expect lead agencies in the public sector to provide:

- advice on high-level outcome indicators. In several areas, some of these have already been defined through national agreements. In some instances, Government might choose to identify targets based on this information;
- evaluation of relative performance within each Outcome Area on a regular basis (annual or two/three yearly);
- advice on the contribution to each Outcome Area for which individual agencies should be held to account;
- collaborative agreements and mechanisms to monitor and/or evaluate performance collectively and individually, where one agency cannot be held to account;
- liaison with federal entities which play a key role in contributing resources or leading policy formulation in the Outcome Areas; and
- consideration of any long term infrastructure requirements.

Reporting requirements should be commensurate with the relative risks and resources applied and considered implementation should ensure that the burden of reporting on agencies results in much of the current detailed low level reporting being replaced by more focused and useful information.



**Recommendation 3:** To support the strategic management of the public sector, adopt an 'Outcome Area' approach by:

- a) grouping related areas of service delivery (for example, health, child protection) that are focused on ongoing citizen expectations of Government for core services;
- b) identifying matters that cross traditional agency boundaries;
- c) designating lead roles and accountabilities in policy development across each Outcome Area;
- d) reporting (at least annually) to Cabinet within each Outcome Area to facilitate planning, decision making and accountability; and
- e) establishing groups of senior executives from across agencies to provide leadership across each Outcome Area.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

July 2010

**Milestones**

- Define a set of Outcome Areas consistent with national and international descriptors, and strategic linkages across government, where appropriate [March 2010].
- Prepare an implementation plan with the ECC for developing reports to Cabinet in each Outcome Area [June 2010].
- Activate lead roles and sub-groups in Outcome Areas [July 2010].
- Commence regular reporting to Cabinet [from 2010].

The public sector has a responsibility to formulate policy proposals rather than to expect all policy to emanate from Governments. If the public sector does not engage in substantive policy formulation, there will be a policy void. Governments can, of course, accept, reject or modify policy proposals.

Through its consultation the Committee encountered many ideas as to how the capacity of agencies to formulate policy might be restored. These included empowering CEOs, greater communication between government and non-government partners, increasing the use of taskforces, moving people around the sector and modelling behaviour by central agencies.



*Each government department's executives need skills to lead community engagement within a framework that appreciates multiple perspectives and an ability to look for innovation, richness and creativity ... one way of encouraging discussion about the future is to engage with former senior public servants as well as other members of the community ... include the private sector and overseas innovators...* (Individual submission)

*...the formation of project investment teams with trans-discipline and trans-organisation membership aimed at the identification of highest priority research and at lifting the quality of public policy development, implementation and evaluation.* (University of Western Australia)

Nurturing capacity to formulate policy involves more than just sending additional staff to training courses on policy development, although this is one among many options that CEOs may wish to consider. It requires the reallocation of existing staff across different parts of organisations, and between central and line agencies, to tackle discrete policy problems as there is no substitute for 'learning by doing'. Employees could be temporarily seconded out of the Western Australian public sector altogether to the private and/or the community sectors to expose them to new ways of working and thinking. An exchange program between the State Government and other levels of government, other jurisdictions and non-government partners could facilitate this approach.

### **Enhancing policy capacity**

Public servants from Canberra will be moved between the States and between departments to help Western Australia cope with the demands of new wave of massive resource projects. An exchange of public servants will boost the number of highly qualified people in a handful of state departments during periods of intense activity associated with setting environmental conditions and processing approvals for resource projects.<sup>20</sup>

Realising that often people with good policy skills tend not to want to work in the confines of a bureaucracy, the Director General of the Department of Education and Training has appointed a small number of high level people reporting directly to her to drive a strategic policy agenda. This has been a major symbolic statement designed to move the emphasis from rule making to policy making.

Landgate's Innovation Program allows all staff to contribute ideas for new products and services through its Online Collaboration Portal. The online forums attract approximately 1,000 hits per week from Landgate staff. Governance arrangements are streamlined in order to promote the creation of ideas and to allow new ideas to be promptly acted upon. A Peer Review Team (comprising staff members from all levels of the

<sup>20</sup> Taylor, P. (2009).

organisation), assesses all the ideas and determine if promising ideas are to be funded for further development or passed directly to business areas for immediate action. In its first financial year of operation, 33 ideas from staff members received funding from a \$2 million centralised pool, returning an estimated \$500,000 per annum of revenue to date and significant efficiency gains.

The development of policy capacity also requires organisational and cultural settings that are conducive to debate, innovation and continuous improvement through performance rewards and evaluation. To this end, a number of agencies have taken proactive measures to develop their own policy capacity (see box above). These examples send a strong message that dialogue and innovation are welcome within public sector agencies in Western Australia and that risk, if appropriately managed, is not something to be avoided at all costs.

To further embed a culture of policy debate, discussion and creative thinking in the Western Australian public sector, thought could be given to establishing a cross-institutional forum for public policy debate, research and thinking. Drawing on the experience of other jurisdictions, such a forum could involve government departments, visitors from other jurisdictions, universities, non-government organisations, consultancy firms and think tanks as well as brokering teams of academics and consultants to perform tasks for government.

It will be important that community groups and individuals can participate in activities and that they do not become a venue only for those who can afford to pay.

The views and experiences of private sector operators, community sector organisations and their constituents are extremely valuable and provide a rich source of information on which the Government can draw.

Indeed, community sector respondents to the Committee's call for submissions indicated their willingness to take a genuine shared role in policy development and engage in an ongoing dialogue. The challenge is to develop systems and processes for systematically incorporating those perspectives. As recently noted by Blond:

*...real improvement depends on harnessing two powerful forces: the insight and dedication of frontline workers, and the engagement and involvement of citizens and communities.<sup>21</sup>*

Policy advisors in Ministerial offices play a key role in assisting Ministers to choose between policy options in the light of political imperatives. The Committee is of the view that Government should adopt a more proactive approach to circulating highly skilled and experienced policy staff through Ministerial offices. Such an arrangement would be of benefit to both the individuals involved and government as a whole and complement

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<sup>21</sup> Blond, P. (2009).

proposals outlined above for circulating policy staff between central and line agencies. The Committee envisages that such an arrangement would strengthen the links between the policy and political arenas ensuring that policy decisions are well considered and yet in keeping with the philosophy of the elected Government. This arrangement should not be seen as undermining the links between Ministers and their CEOs – rather it provides the opportunity to ensure that there has been adequate frank and informed debate among officers before options are put to Cabinet.

Central agencies have a particularly important role to play in developing the policy capacity of the public sector. They are responsible for coordinating activities to achieve coherent policy outcomes. This function requires bringing different perspectives together and staff skilled in negotiation and conflict resolution working collaboratively across networks.<sup>22</sup> It requires the right people to ask the right questions.

**Recommendation 4:** Improve policy formulation in the public sector by:

- a) flexibly deploying policy capacity across the sector to areas of greatest need;
- b) reviewing the policy capacity of central agencies and major departments;
- c) widening the experience of staff in central agencies and service delivery agencies through greater mobility;
- d) using taskforces, including expertise from the community and private sectors;
- e) encouraging policy advisors from other public sector jurisdictions, the private sector, academia and community organisations to work in the Western Australian public sector; and
- f) increasing the depth of policy advice available to Ministers by rotation of more experienced policy staff through their offices.

**Responsibility**

Department of the Premier and Cabinet  
Public Sector Commission

**Deadline**

December 2010

**Milestones**

- Criteria for the review of policy capacity agreed by Executive Coordinating Committee (ECC) [January 2010].
- Draft strategy to engage with external policy thinkers in community organisations, business and academia [to ECC by July 2010].
- Commence program to increase the policy capacity in Ministerial offices [July 2010].

<sup>22</sup> Edwards, M. (2002).

## *Budget process*

Governments allocate limited resources to achieve outcomes for the community. The budget process should promote the responsible use of public resources to achieve Government's desired outcomes. This requires:

- robust, well informed, realistic budget estimates. Well-founded estimates of cost and demand for each service, based on existing policy, are essential in establishing future service delivery demands;
- discipline in delivering resources within agreed appropriations and expense limits. A lack of discipline reduces the incentives to establish robust estimates or use existing resources effectively; and
- evaluation of existing spending and policy settings to establish the effectiveness of the current use of resources in achieving outcomes.

The Committee considers that the budget process should also drive innovation and support collaboration between agencies, as well as rewarding agency processes and behaviours that place a greater focus on citizens in the design and delivery of services.

The Committee believes that there is considerable groundwork to be done so that more strategic longer term budgets can be developed to support agency delivery and, importantly, to support the directions for greater devolution to the community sector that will be outlined in Chapter 3. This includes developing improved models of cost and demand variables which will in turn require enhanced modelling capacity within agencies. While there will be a role for DTF in assisting agencies and reviewing the integrity of their estimation of future demand and costs, the onus remains on agencies to develop such models.

Of course, the existence of comprehensive cost and demand models does not guarantee improved budget management. Such models must be complemented by appropriate cultures and accountability structures to ensure that agencies deliver services within the budget allocations made on the basis of these models.

Enhanced accountability could be achieved by encouraging agencies to budget for a contingency. Individual agency contingencies would then be pooled with those of other agencies in the same portfolio. Agencies requiring funding in excess of agreed limits would then seek Ministerial or Cabinet approval to access funds from the portfolio's contingency pool. When funding within the portfolio pool is exhausted, the Minister has the opportunity to seek supplementary funds from Parliament to meet unanticipated demands or costs. A further deterrent to seeking supplementary funding might be the requirement that any agency seeking additional funding in these circumstances be subject to a VfM audit or program evaluation, although the extent of the audit or evaluation would depend on the materiality of the matter.

Performance monitoring and scrutiny could be strengthened by requiring agencies through Ministers to provide Parliament with ‘closing out’ reports on major variances between financial estimates and actuals as well as actual versus target outcomes for the agencies within their portfolio, with the reports subject to Estimates and Financial Operations Committee scrutiny. The Committee anticipates that this would require additional meetings of the Estimates and Financial Operations Committee following the tabling of annual reports.

**Recommendation 5:** Strengthen the budget process to promote efficient, effective and innovative achievement of outcomes by:

- a) phasing in new funding models to derive agency budget year and forward estimates, based on robust cost and demand modelling;
- b) enhancing accountability through:
  - i) replacement of the existing centrally managed Treasurer's Advance with the allocation of specific Ministerial portfolio contingency provisions;
  - ii) a requirement that agencies seeking funding over and above that which is available from their portfolio's contingency undertake a value for money (VfM) audit and/or price review, subject to materiality; and
  - iii) end-of-year reports by Ministerial portfolio, detailing material variances between budget estimates and actuals and the extent of utilisation of portfolio contingencies, for consideration at ‘closing-out’ hearings of the Estimates Committee; and
- c) contributing to a public service culture that promotes value for money and innovation in service delivery by empowering agencies through multiple year budget allocations, based on more robust estimates, over a longer time horizon.

**Responsibility**

Department of Treasury and Finance

**Deadline**

With immediate effect

**Milestones**

- Prepare drafting instructions to revise the *Financial Management Act 2006* to replace the existing global Treasurer’s Advance with portfolio specific contingency provisions [June 2010].
- Require agencies seeking funding over and above their agency or portfolio contingency to undertake a VfM audit subject to materiality considerations [from 2010-11].
- Incorporate key service delivery targets in agency Chief Executive Officer performance and resource agreements [see Recommendation 1].

- Enforce the provisions in the existing resource agreement framework that allows targets to be revised when funding is varied.
- Phase in new funding models to derive agency forward estimates, based on enhanced cost and demand models [as soon as possible based on agency preparedness].

### *Implementation through collaboration and innovation*

Where a change lies within the mandate of a single agency in government, the approach to, and accountability for, implementation should rest with the responsible Minister and Chief Executive Officer. While there are opportunities to learn from colleagues inside and outside the public sector, agencies must be permitted (where accountabilities are clear) to take the approach that they believe best suits their circumstances. Implementation of policy direction often requires collaboration between multiple agencies, other levels of government and community organisations.

Drift in implementation is a major concern to most Governments. Too often, drift in the implementation of agendas for change where accountability cannot be clearly attributed results in blaming 'someone else.' This concern must be addressed by a greater focus on project management skills not just for major infrastructure projects, but also in the more complex areas of social policy.

Collaboration is more durable and pervasive than simply communicating, coordinating or cooperating. It involves new structures, a common mission, shared planning, formal communication across multiple levels, pooling and jointly acquiring resources, shared rewards and more risk. A submission to the Committee stressed the importance of long-term commitments associated with 'genuine partnerships' and a clear accountability framework incorporating results based evaluation. Desert Knowledge Australia provides an excellent example of a collaborative initiative that has moved through the stages from concept to development of new institutions to underpin enduring relationships (see box below).

### **Desert Knowledge Australia (DKA)<sup>23</sup>**

In 1997 and 1998, two groups in Central Australia recognised that the accumulated knowledge of living and working in desert Australia had the potential to build on the traditional pastoral, mining and tourism economies for a more sustainable future. After considerable discussion and negotiation with stakeholders, the Northern Territory Government supported the incorporation of the group to become DKA in 2001. Support for the concept grew rapidly with over 250 people attending its first symposium in Alice Springs in 2002. In 2003, DKA commenced as a Statutory Corporation and the Desert Knowledge Cooperative Research Centre also formally commenced as a separate and independent entity.

Strong leadership is maintained by the Board of DKA, which includes people from the public and private sectors, both Aboriginal and non-Aboriginal.

DKA has attracted funding from governments and the private sector to establish the Desert Knowledge Precinct and has been able to promote a variety of activities such as a desert Innovation Festival, participation in the largest mining expo in the Southern hemisphere and expansion of areas such as bush food and the regional food industry in Alice Springs.

Networks built on inter-organisational relationships support collaboration. The value of those networks lies in their collaborative capacity, that is their potential to engage in collaborative activities rather than the activities themselves.<sup>24</sup> Capacity implies more than a one-off successful attempt at working collaboratively. It suggests some ongoing capacity to solve further problems using learnings from earlier endeavours. It suggests a public service that asks not 'what can I do?' but 'who best can solve this problem and can I help?'

There are many examples in Western Australia where collaborative approaches are being taken or need to be taken in areas as diverse as Indigenous communities and climate change.

<sup>23</sup> See <http://www.desertknowledge.com.au/dka/index.cfm> for further background.

<sup>24</sup> Bardach, E. (1998).



### Collaboration for enhanced outcomes

Agencies across the sector are working collaboratively to address the **challenges of climate change**. Issues include national policy imperatives such as preparing for the proposed Carbon Pollution Reduction Scheme, design of the National Renewable Energy Target Scheme and development of a National Strategy for Energy Efficiency. The Government has committed to developing a comprehensive strategy to enable the Western Australian community to adapt to the impacts of climate change and capture opportunities as it moves towards a low carbon economy. Climate change policy challenges are pervasive (energy, water supply, agriculture, emergency services, health, transport, biodiversity etc), can be expensive (for example, building desalination plants) and involve hard choices (for example, restricting coastal development in vulnerable areas). Decisions need to be based on the best information to avoid unacceptable risks and identify the most cost effective prevention and response measures. A very wide range of stakeholders needs to be involved. Agencies will need to continue to work together to provide the best outcomes for the Western Australian community in the context of national and international pressures and competing priorities. This approach must continue to capitalise on the strengths of central agency policy capacity and the expertise in line agencies.

Individuals with exceptionally complex and multi-layered needs are at the very peak of a pyramid of clients who access human services provided by six different agencies in Western Australia. It is estimated that there are between 50 and 80 **People with Exceptionally Complex Needs (PECN)** in the Western Australian community. A PECN pilot project relies on the existing resources of partner agencies to implement support plans for clients rather than relying on a separate budget allocation. A coordinator works with key field officer contacts in each of the partner agencies to assess the needs of individual clients, develop common sense intervention/support plans, and ensure the plans are fully implemented. Six people with complex needs have been selected and their needs have been assessed.

In its First Report, the Committee noted that State Government investment in Western Australia's regions will dramatically increase under the Royalties for Regions (RfR) program. There is no doubt that the introduction of this program was in response to perceived and actual deficiencies in service delivery to regional communities. The RfR program will see the equivalent of 25 per cent of the State's annual mining and resources royalties revenue reinvested in regional communities every year, in addition to regular budget programs. The amount to be contributed to RfR is projected at \$675 million per annum, with the total balance to be capped at \$1.0 billion. At the same time, all major government agencies also provide services to the regions and some have a substantial regional presence. Local governments and the Commonwealth Government are also important partners in improving outcomes in regional areas. A strong focus on collaboration within and between Governments, agencies and the community sector will



be needed to make best use of these resources to ensure this investment is focused on the needs of people in regional communities.

Whereas each issue will have its own particular requirements and desired outcomes, the Committee is of the view that a principles-based approach will provide a useful template to help understand appropriate methods and critical success factors when designing collaborative projects. A set of principles and enablers that the Committee believes would be useful in guiding collaborative effort across the public sector is listed below:

- ***A common vision that focuses on outcomes*** – The upfront time and effort required to get a common understanding of the problem and developing a vision and agreed outcomes should not be underestimated.
- ***Leadership*** – Only leaders can provide the vision and support staff to take the necessary risks that are associated with developing solutions to problems that do not lie within the scope of a single agency.
- ***Positive relationships*** – Although formal agreements may evolve from partnerships, problem solving must rely on relationships based on trust because collaborative solutions generally require compromise.
- ***Respect for diversity*** – The more diverse the views, the more likely that the strengths of individual partners and their experiences will be brought to bear and policy solutions will be informed by the experiences of users of services.
- ***Discussion, information sharing and ongoing learning*** – Understanding different perspectives requires discussion. Sharing information allows partners in a collaborative endeavour to better understand and learn from one another's experiences.
- ***Accountability and incentive mechanisms*** – Collaboration implies that there will be multiple accountabilities. Consequently, existing accountability mechanisms (focused on individual agencies) will need to be used flexibly to account for this. This may require setting aside some of the existing risk management routines that support good governance – managing risk is therefore essential to successful collaboration.

The Committee is of the view that these principles must be applied both within agencies and across the public sector in the establishment, operation and evaluation of collaborative projects. The need for collaboration is not restricted to interagency collaboration. CEOs should ensure that collaborative approaches are used to break down silos within agencies as well as between agencies and their partners in the community and private sectors.

**Recommendation 6:** Strengthen the capacity of the public sector to work collaboratively by:

- a) adopting a common set of principles for agencies and Chief Executive Officers to break down silos; and
- b) including in the terms of reference of relevant projects, particularly those which relate to Outcome Areas, a requirement that they operate in accordance with the principles of collaborative government.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

With immediate effect

**Milestones**

- Incorporate the requirements to adopt principles in all projects [ongoing].

Collaboration requires agencies to share information. The Committee is aware of the work under way to develop the Western Australia Indicator Framework System (WAIFS) for acquiring, storing, retrieving and reporting statistical information that is used in government reporting in, for example, its response to Overcoming Indigenous Disadvantage in Western Australia.<sup>25</sup> The Committee believes a common approach to information gathering and sharing needs to be supported by central agencies to ensure that it can be used to support collaboration. This is considered in subsequent sections of this Report.

*By 2020 government should be able to exploit the full potential of the information resources held by over 300 government agencies for collaborative, innovative and efficient whole of government outcomes... To support government information systems, we recommend that compatible platforms with standards underpinning these be established for government digital assets. This is not a compliance issue, but rather a key to ensuring the long term usability and compatibility which is a desired outcome, particularly for large agencies which are concerned about investing heavily in infrastructure which may not be sustainable. (State Records Office)*

<sup>25</sup> Department of Indigenous Affairs (2005).

### ***Performance reporting and evaluation***

In its First Report , the Committee noted that an effective performance measurement and management system must:

- have clearly defined purposes and use;
- be meaningful and appropriate to users and key stakeholders;
- be robust, with the ability to adapt to political priorities and machinery of government changes;
- be cost effective, with due regard for materiality;
- show balance across organisational and government wide activities;
- be integrated hierarchically through policy areas and across client groups and with other performance reporting arrangements;
- link performance objectives and results to budgets and plans;
- incorporate ongoing evaluations as well as performance monitoring data; and
- use measures that are relevant, appropriate and fairly represent performance, including comparability across agencies as well as nationally and internationally.

The Committee is of the view that the Outcome Area approach outlined earlier in this chapter provides a framework that will support more useful and meaningful performance metrics that meet the needs of Cabinet, citizens and the Parliament. This approach will also support agency strategic management and continuous improvement through opportunities to learn from experience.

Much of the performance of Government is assessed through the performance of the public sector. Citizens expect the public sector to deliver high quality services to the community or to facilitate access to services through information, funding and providing quality assurance mechanisms. Citizens also expect that parts of the public sector will be planning for the future. Irrespective of their functions, citizens expect public sector agencies to use their resources efficiently, treat their staff fairly and focus on the needs of clients.

*Many community indicator projects report on broad sectors such as health, housing, education, economy, environment, public safety, cultural life and civic vitality rather than program specific outcomes. Through interaction with a broad group of stakeholders, community indicator projects can develop and track progress on a shared civic agenda. (IBM Corporation)*

### **Community engagement in establishing performance measures**

Spotlight on the Pilbara is the first in a series of community indicator frameworks being developed in partnership between the Australian Bureau of Statistics (ABS), the nine Western Australian Regional Development Commissions, and the Department of Regional Development and Lands. The aim of the Spotlight Project is to bring together selected statistical information about each region, from a wide variety of sources, to provide a practical framework for use in regional strategic management and policy development.

Following consultation with community, business and service providers in the region, an initial list of over 150 indicators was developed. Indicators were partitioned into three broad themes: Social, Economic and Environment. In total, 45 different issues were identified across the Pilbara, where measures of change were established. The framework can be accessed at <http://www.regionalspotlights.com.au/>.

The Committee's recommendations anticipate that the existing 'one size fits all' approach to performance monitoring and reporting will be replaced by a system that takes account of the varied roles of agencies. It also acknowledges that changes to performance measurement systems are complex and should not be attempted unilaterally.

In areas of core service delivery, like education and health, considerable effort has gone into developing KPIs that are consistent across time and with national and international jurisdictions. Notwithstanding the complexities of achieving consistency in measurement across jurisdictions, the Committee is of the view that this approach should continue to evolve and, where possible, be sufficient to meet state-level reporting requirements.

However, the issue remains that this information needs to be better used to inform decision-making. There are three areas where the Committee believes change is required to ensure that the information generated is more meaningful, appropriate and cost-effective.

First, the Committee is concerned about the cost-effectiveness of requirements for all agencies, irrespective of their scale and risk profile, to report not just KPIs but to also conform with an extensive range of reporting requirements. These requirements are embedded in many Acts and policy statements. Given the long-term nature of some of these policies (some have been in existence for over 25 years), priority should be given to assessing their continued relevance. The Committee understands that changes to reporting KPIs may require amendments to the FMA and Treasurer's Instructions and appreciates the need to seek the views of the Public Accounts Committee in this regard.

Second, the Committee notes that agencies are increasingly responsible for facilitating service delivery. If the recommendations of this Report are accepted by Government, this trend will accelerate. Public sector agencies fund other bodies, manage contracts and monitor compliance with legislation. They bring stakeholders together to work collaboratively to solve common problems.

Regulatory reform is one of the most useful ways in which governments can promote economic development and is a priority for many governments across the OECD.<sup>26</sup> While these activities contribute to the outcomes for the community in the longer term, individual agencies are accountable for processes and services. The Committee is of the view that there is considerable scope for performance in these areas to be measured in the same way across agencies and that indicators are more likely to reflect outputs rather than outcomes. This approach would result in more meaningful information using measures that are comparable across agencies.

Third, the Committee concurs with views put to it that attempts to develop KPIs of the efficiency and effectiveness of policy, planning and research functions have done much to detract from the credibility of the existing system. The Committee is reluctant to recommend that agencies be exempt from reporting on their effort in these areas but emphasises that any measures and evaluations must be useful to decision making. If useful and cost-effective measures of efficiency and effectiveness cannot be developed, then the Committee is of the view that descriptive information about how resources were spent should suffice. Where these functions form a material part of an agency's core business, alternative risk management strategies should be established to ensure that the Parliament and the community can have confidence that public funds have not been squandered.

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<sup>26</sup> OECD (2008).

**Recommendation 7:** Modify the existing performance reporting regime by:

- a) ensuring Key Performance Indicators (KPIs) for service delivery to citizens and the community are aligned with Outcome Areas;
- b) ensuring all reporting requirements of agencies are commensurate with their scale and risk;
- c) developing consistent KPIs for facilitative roles that are common across similar functions (for example, compliance with legislation, grant administration costs); and
- d) avoiding KPIs for policy, planning and research functions, recognising that the value of these functions cannot be effectively assessed in this manner.

**Responsibility**

Department of Treasury and Finance

**Deadline**

For inclusion from the 2011-12 Budget

**Milestones**

- Provide an implementation plan (including roles and priority areas) to Executive Coordinating Committee for establishing common KPIs across agencies where appropriate [March 2010].
- Identify any changes to reporting requirements arising from the *Financial Management Act 2006* (FMA) that could be modified to take account of scale and risk [October 2010].
- Develop an alternative framework for reporting performance by agencies with largely strategic policy, planning and research functions [by October 2010].
- Revise Treasurer's Instruction TI904 and possibly FMA [December 2010].

Consistent with its views about operational effectiveness and performance, the Committee strongly supports a move towards improved information about the effectiveness of organisational management.

Some agencies have already developed approaches to assessing administrative and management performance and different approaches might be better suited to some agencies than others. These approaches include private sector models like business excellence frameworks and customised local balanced scorecard frameworks. However, a lack of comparability and benchmarking limits the opportunities for senior executives to learn from one another.

### **Excellence in public administration and management**

***The Prime Minister's Awards for Excellence in Public Sector Management:*** In 2005, the Water Corporation and the Department of Agriculture won Gold and Silver awards respectively.

***Australian Business Excellence Awards:*** In 2008, Main Roads won awards in three categories. In 2007, Fremantle Ports won a Gold award and Main Roads a Bronze award.

***The Commonwealth Association for Public Administration and Management awards excellence in public administration:*** In 2002, the Department of Agriculture's emergency response to the Australian plague locust outbreak in 2000-01 won Silver for Innovative Governance.

***Prime Minister's Employer of the Year Awards:*** In 2006, Sir Charles Gairdner Hospital was a finalist for its program that recognises excellence in the employment of people with disability.

Other jurisdictions have a range of approaches to understanding organisational performance. The APS has been assessing employee engagement for several years and the UK Government will commence its first system-wide survey of employee engagement in 2009 as a means of driving performance, noting the relationship between employee engagement and innovation.<sup>27</sup> In New Zealand, departments are required to report on their 'organisational health and capability'.<sup>28</sup>

Notwithstanding the strengths of a devolved model and the benefits of devolved decision making, the Committee is of the view that there are significant advantages and efficiencies of scale to be gained through the adoption of a common approach that would facilitate performance benchmarking, management and development initiatives and which could underpin a devolved management model. A potential way forward is discussed in more detail in Chapter 6 (Recommendation 40).

Program evaluations provide additional and alternative means for assessing the usefulness and effectiveness of programs and services.

<sup>27</sup> Department of Innovation, Industry, Science and Research (2009).

<sup>28</sup> *Public Finance Act 1989*, Section 40 (d) (iii).



The Committee is of the view that within Western Australia, central ownership of the evaluation function is required to provide leadership and guidance on what should be evaluated, advise on appropriate methodologies and ensure that evaluation findings are reported to stakeholders and considered as part of the budget process. The scope of evaluation programs could encompass a review of the functions of entire agencies, interagency projects, or specific services/programs which have material financial implications. A comprehensive and rigorous evaluation function will ensure that programs continue on the basis of need and effectiveness rather than precedent. The Committee notes that identifying options for ceasing or rationalising functions is an objective of the Government's VfM audits.

Evaluation of major funding requests should assist policy making and planning by enhancing transparency and providing rigorous analysis of government expenditure and related performance in service delivery, leading to recommendations on

- budget management practices;
- potential cost savings;
- reprioritisation of government expenditure to maximise outcomes; and
- more efficient and innovative ways of delivering services.

The Committee envisages that an area responsible for evaluation should also take a lead role in ensuring access to common data sets such as WAIFS to facilitate consistency and collaboration. This area would also take a lead role in facilitating the development of good statistical resources for agencies and community organisations.

**Recommendation 8:** Strengthen the evidence base for decision-making through:

- a) the creation of an evaluation network across government, supported by a centrally coordinated unit and/or steering committee, similar to Gateway evaluation processes;
- b) ensuring access to common data sets;
- c) requiring that major agencies undertake a value for money (VfM) audit at least once every five years;
- d) requiring an appropriate scale of evaluation of all new programs created by Government within three years of approval; and
- e) creating incentives for agencies to routinely undertake evaluations.

**Responsibility**

Department of Treasury and Finance

**Deadline**

December 2010



### Milestones

- First round of VfM audits completed [February 2010].
- Advice to Executive Coordinating Committee on approaches to incentives for evaluation [June 2010].
- Creation of evaluation unit and/or steering committee within a central agency [December 2010].
- All major agencies to have undertaken a VfM audit within five years [December 2014].

# 3. Designing Services to Meet Citizens' Needs

## Overview

The organisational silos and bureaucratic demarcations of Western Australian public administration make it difficult to provide strategic solutions to the needs of individuals and communities and serve to undermine citizen centric delivery. Delivering services to meet citizens' needs will require government to revisit how services are designed and delivered, redefining the relationships between the public sector, citizens and community sector organisations.<sup>29</sup>

In some instances, this transformation can be achieved by giving individuals or communities direct influence or control over the design and delivery of services, or mix of services, they receive. There can be no doubt that giving individuals the opportunity to tailor services to their needs and to control the personalised budgets to manage them, can empower and engage those who face disadvantage. So, too, the opportunity for communities to ensure that publicly funded programs are more responsive to local priorities.

For two decades, in the delivery of personalised disability services, and more recently in allowing greater community control over independent public schools, Western Australia has shown its willingness to create a more inclusive and engaged society. This capacity for innovation should be built upon and significantly extended.

Citizen directed care and individual purchasing of services should underpin social reform. It offers extraordinary new opportunities. The Committee recognises however, that these approaches do not constitute a panacea. There are clearly challenges:

- how to ensure that the most needy and least educated can access decision-making opportunities on an equitable basis;
- how to enable those who do not want to take on self-managed care to have alternatives; and
- how to ensure service providers do not confine themselves to providing services to the least demanding clients.

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<sup>29</sup> Community sector organisations are defined as voluntary and community-based non-government groups that are driven by a set of values and have social, environmental or cultural objectives. Organisations not covered by this definition include universities, schools, hospitals, trade unions, think tanks, political parties, industry associations and clubs. In the main, this definition relates to organisations with non-profit motivations. However, a small proportion of community sector organisations operate on a for-profit basis.

Directly through public servants and indirectly via community organisations, many individuals will still require dedicated support. However, while concerns need to be recognised and addressed they must not become impediments to a bold change agenda for citizen empowerment.<sup>30</sup> The manner in which governments have traditionally delivered human services has, by treating people as dependants, created dependence. Too often it has served to reinforce the sense of social exclusion that it seeks to overcome. Self-reliance is undermined. So, too, is responsibility for the obligations which accompany entitlements. Individuals and communities need to be given the opportunity to exert greater control.

*...there is a consensus of opinion that the combination of individualised services and individualised funding has increased citizen control over service design and funds and has had a net positive impact upon individual outcomes. (National Disability Services)*

The community organisations which support those in need, and often play a valuable role advocating their interests, will continue to perform an important intermediary function as sources of informed advice, as mentors and as support workers. In some ways they become more significant. The key is to recognise that individuals who receive government aid bring knowledge, experience and skills to the negotiation of solutions. They have skin in the game. Professional expertise must not be used as a subtle vehicle of control. Public servants and community workers are there to work not for but with the individual in need.

Not all of Western Australia's community programs can be converted immediately to self-managed budgets and not all of its publicly-funded institutions can at once be made subject to greater community control. Through a process of transition the risks need to be prudently managed and public accountability ensured.

In the meantime, for many programs, it may be more appropriate for community sector organisations to deliver publicly funded programs with greater responsiveness to individual and local needs. Already Western Australia's community employers are delivering a wide range of human services on behalf of the government, although too often the contractual service agreements constrain opportunities for flexibility in meeting the needs of those they serve. The outsourcing of government delivery to community based, not-for-profit organisations should be significantly expanded, while the administrative dead-weight costs that often reduce its potential benefits should be removed.

<sup>30</sup> In the words of Sue Ash, CEO WACOSS, at a recent conference on individualised service delivery, the challenges are "doable".

*The time is right for fundamental change in the relationship between the Western Australian human service systems and the citizens who are the users of these systems... allowing individuals to shape a service response based on their personal circumstances and goals brings a range of benefits, both for the individual and for the wider community. (Disability Services Commission)*

*We believe that for the state government to meet the needs of its citizens there must be a shift to self-directed funding in human services, particularly disability, and support provided to empower citizens and enable us to be in control of our lives and the decisions which affect us. (In Control Australia)*

Community sector organisations generally bring a strength of social mission and public purpose to their activities and empathise with the interests of those they serve. With ambitions always outstripping resources, community sector organisations have experience in harnessing the commitment of staff, volunteers, donors and, increasingly, collaboration with corporate supporters. Community sector organisations do not just offer greater cost-efficiency and improved service quality. Freed from excessive controls and reporting, they have the will, proximity, connection to their clients and flexibility to drive social innovation in meeting citizens' needs. However, community sector organisations face the challenge of building the scale and organisational capacity to deliver government services effectively.

*The private and not-for-profit sector are often well placed to provide a cost effective service... (Department of Education and Training)*

*NFP participation creates diversity...NFP organisations are cause based, adding a level of passion and commitment...a mono-culture supplier is never the right answer to the diverse needs of human beings. (Alliance for Children at Risk)*

*The NFP sector can perform some tasks and operations more efficiently than its government counterparts...The sector also frequently has far greater personal interaction with clients... (Tenants' Advice Service)*

*The danger is another level of pseudo-government is put in place where the NFP is accountable to the State department but the State department is held accountable by the Minister. (Individual Submission)*

*The not-for-profit sector currently has very limited capacity to deliver the quality public services that the WA community expects and requires...Contracting out inevitably involves reduced accountability... (Community and Public Service Union/Civil Service Association, CPSU/CSA)*

The focus of the analysis and recommendations in this chapter relates to human services, broadly defined to cover those services of a nature intended to address physical or social disadvantage and/or that promote the health and well being of individuals, families and carers, and communities.<sup>31</sup> However, the recommendations may be relevant to other services including those in the environmental, economic and law and order Outcome Areas.

## A Vision for Services to Meet Citizens' Needs

In the Committee's vision for services to meet citizens' needs, the following features would characterise the provision of human services:

1. The Western Australian Government will set out clearly the policy intent behind the delivery of its human service programs, the budget allocated to them and the balance of rights and responsibilities which they encompass. Having done so, deliverers will encourage flexibility with the manner in which these policy goals are achieved.
2. To the greatest extent possible, those individuals in need of services will exercise control over the range of services they access and the means by which they are delivered. Communities will be given greater opportunity to wield control over the management of public facilities, including childcare centres, schools, training facilities and community centres.
3. The balance between delivery by the public sector and by community sector organisations will be improved. In general, the public sector will not have a monopoly on the provision of a particular service. Competition will be driven by users. The community sector will be given the opportunity to tender for the delivery of all Western Australian human services. In many instances, private providers will also have the same opportunity to tender, either directly (for example, in the delivery of education and training) or in partnership with community sector organisations.
4. An increasing number of Western Australia's non-profit organisations will have the opportunity to develop as community employers or social enterprises, run along business lines and become financially sustainable. These organisations will be supported by government in their efforts to improve organisational capacity, scale up their activities and build varieties of collaboration.
5. There will be collaborative approaches to the design and delivery of human services between agencies, with increased responsibility for implementation devolved to community-level public servants.

<sup>31</sup> Definition drawn from State Supply Commission (2002). This definition includes the services currently funded through the Departments of Health, Education, Communities, Child Protection, Corrective Services, Housing, Indigenous Affairs, Sport and Recreation, Culture and the Arts, and the Disability Services Commission. These agencies account for around 60 per cent of total general government expenses.

6. The Western Australian public service will increasingly define its role in terms of formulating public policy and facilitating partnerships between government and the community and private sectors for the delivery of services. Contract management of outsourced delivery will be designed only to provide the transparency required for public accountability not to second-guess the management decisions of the provider. Payments will reflect the outcomes that are sought and delivered.
7. The outsourced delivery of human services by community organisations will be significantly simplified and freed from unnecessarily prescriptive processes and controls, and the burden of multi-layered reporting obligations. Contracts will be negotiated for the delivery of a range of services, built around citizen need, with a focus on outcomes that can be monitored and evaluated. Contracts will be longer-term, with application and reporting processes undertaken in a less burdensome (and less costly) manner. With less emphasis on contractual compliance and prudent risk management, social innovation will flourish.
8. The Western Australian Government, and its public service, will recognise the capacity for community organisations to become genuine partners in the delivery of human services. Collaborative engagement will be based on mutual respect. Community providers will be extended an opportunity to contribute to policy formulation and to the administrative guidelines which govern program implementation. Achievement of these goals will require the ongoing scrutiny by the most senior levels of government.

## Key Issues

In its analysis and consultation, the Committee has identified the following issues relating to the current state of citizen-focused services:

1. Individuals and communities are not sufficiently empowered to make their own decisions, with service delivery systems built around public sector structures rather than the aspirations of citizens.
2. Community sector delivery of human services is under-utilised and overburdened with red tape.
3. Current arrangements stifle social innovation and undermine the flexibility and sustainability of services.

## *Empowering individuals and communities*

The structure of the Western Australian public service is both too fragmented (between agencies) and too centralised (within agencies) to enable the effective delivery of human services in ways which are responsive to the needs of individual citizens or communities. Programs are often designed to suit the administrative convenience of the public sector rather than integrated to provide a holistic response to the requirements of the citizen. Across government, program structures are poorly integrated, program delivery is inflexible and the interconnectedness of services is poorly communicated.

*What we have now is chaos and dysfunction at every level ... The left hand has no idea what the right hand is doing and government attempts to coordinate this madness in various guises over the past few years have failed miserably.* (Marra Marra Worra Aboriginal Corporation)

This is manifested through the inadequate quality and availability of information to citizens on the range of human services available in Western Australia. More critically, services for vulnerable people and those at risk are not well integrated, with citizens facing multiple entry points, not possessing adequate information and being repeatedly referred to other agencies and waiting lists.

Progress has been made in recent years by agencies collaborating to address symptoms of social disadvantage, such as homelessness, suicide,<sup>32</sup> alcohol abuse in Indigenous communities and child abuse. While these initiatives may have improved communication and integration between agencies and broken down silos around a particular issue, this way of working has resulted in new bureaucratic demarcations developing at the issue level, in what has been termed 'holistic silos' by one stakeholder.

### **The importance of focusing on the individual**

Dr Sue Gordon AM spoke to the Committee about the importance of focusing on people, arguing that in developing and observing processes, systems and organisational boundaries, "governments have lost sight of people". She cited two examples from her experience:

In the case of **Susan Taylor**, the 15 year old whose death was the focus of the Gordon Inquiry,<sup>33</sup> the Coroner found that the girl had encountered "sexual violation, violence, and the ravages of alcohol and substance abuse. In desperation, and despite contact with several Government agencies, she died in tragic circumstances at the age of 15." Dr Gordon found that 13 government agencies were involved in the girl's case, but a lack of collaboration meant that no one put the pieces together in time.

<sup>32</sup> For example, the recently launched Suicide Prevention Strategy. Jacobs, G. (2009).

<sup>33</sup> Gordon, S., Hallahan, K. & Henry, D. (2002).



Another example relates to a **12 year old boy** who appeared before Dr Gordon during her time as a Magistrate in Perth's Children's Court. Badly burned in a house fire the boy started truanting, to avoid bullying based on his injuries, and missing his burns treatment as a result of family difficulties. The situation was allowed to escalate, with the boy going on to commit increasingly serious offences. The various government agencies involved in his case only sat down to jointly manage his case after repeated demands from Dr Gordon.

Frequently, and often unwittingly, the provision of government services to 'recipients' or 'beneficiaries' has created a culture in which individual citizens who require ongoing support or temporary assistance are made to feel that they are dependent on government. Financial support comes at a heavy cost. Payments are delivered, and assistance programs provided, in ways over which those who receive them have little control. Learned helplessness often results, sapping the spirit, undermining self-reliance and stifling individual initiative. Programs for the needy often convey a sense of failure, reinforcing perceptions of social exclusion and limiting opportunities for civic engagement.

Individuals and communities, and the organisations which advocate their interests, are not sufficiently empowered to contribute to the decisions made on their behalf by the public sector.

Often human service programs are designed and delivered without effective community participation, especially by those vulnerable Western Australians who are at most risk or in greatest need of support.

The plethora of government programs provided to help vulnerable Western Australians, and their delivery by a wide range of public service agencies, frequently hides – and sometimes distorts – the purpose of government policy and increases the cost of its achievement. The nature of the entitlements, and the reciprocal obligations which attach to them, are too often opaque.

Those Western Australian citizens who receive support to help them live a full life – the poor, those with disabilities, the jobless and the homeless, children at risk, the sick and the aged, refugees and Indigenous Australians – have little say or control over the State services that are provided to them. Only in rare instances (see box below) are programs able to be tailored to the needs of individual communities or personalised to the individual.



### Examples of self-directed service design and delivery in Western Australia

The **Disability Service Commission (DSC)** is recognised as being at the forefront of personalised service delivery and self-directed care in the area of disability services. DSC has fundamentally redesigned the way it delivers services to people with disabilities by introducing **individualised funding**, a system through which individuals and their families/carers are allocated specific amounts of funding (based on an assessment of their needs) to purchase services. Individualised funding is based on a set of core principles related to placing control, choice, decision-making and portability in the hands of the people who need the services.

The WA Minister for Education announced an **“Independent Public Schools” reform initiative** that will see (from 2010) school communities given the choice of staying within the current arrangements or becoming an Independent Public School. These schools will still be part of the Western Australian public school system and operate within relevant legislation and industrial arrangements but will not be subject to Department policies, procedures and compliance processes.<sup>34</sup>

The **Ord Enhancement Scheme**, a partnership between the State Government and the Miriwung Gajerrong Corporation, under which the Miriwung Gajerrong peoples define, in partnership with the Government, how their social and economic needs are to be met. The partnership is supported by a \$11.2 million leverage fund. Projects supported to date include health education, language centre expansion, housing and youth workers.

The management of payments and concessions to individuals is highly dispersed and imposes high costs on government, outsourced providers and recipients. The 114 social concession programs in place in 2007-08 were managed by 30 agencies. The confusion surrounding eligibility for payments and concessions available to individuals leads to eligible citizens missing out on receiving payments to which they are entitled. The Committee's First Report noted that existing ways of managing payments undermines financial transparency and sustainability. Many concession and rebate schemes rely on a degree of 'self-selection' with eligible individuals needing to seek information relating to the schemes and submit an application. Any major change in information availability or economic circumstances may lead to a significant increase in the number of claimants, with resultant increases in expenditure.

Spending on social concessions from 2001-02 to 2007-08 has increased by 30.7 per cent (from \$381.2 million to \$498.2 million), an annual average growth of 4.6 per cent over the period.

<sup>34</sup> Department of Education and Training (2009).

Over this same time average annual Consumer Price Index and population growth have been 3.5 per cent and 2.0 per cent respectively. In this context, growth in concessions has so far been sustainable. However, demographic change associated with an ageing population is likely to increase the community's call on existing concessions, as approximately 55 per cent of payments and concessions<sup>35</sup> to individuals are targeted to pensioners, seniors, and veterans.

### *Partnerships with the community sector*

Community sector delivery of human services, although increasingly common, remains under-utilised. Ample opportunities exist for further outsourcing of specific human services and programs. Decisions on whether or not contracts are given to community organisations are too often based on ad hoc decisions by individual departments, sometimes driven by territorial protection. Payments to non-government organisations for service delivery (see Appendix 5) are expected to total \$8.2 billion over 2009-10 and the forward estimates, accounting for around 16 per cent of total human service expenses and 10 per cent of total general government expenses. The Committee's analysis suggests that Western Australia outsources proportionately more health and disability services to the community sector (in terms of funding) than other States, but outsources fewer child protection, community development, Indigenous affairs and housing services.

The basis for outsourcing program implementation through service agreements<sup>36</sup> and contracts often confuses grants, subsidies and payments for services. Service agreements are seen by some in the public sector as subsidies rather than payment for services, resulting in financial difficulties for community organisations. For example, in cases where community organisations are able to meet their service delivery obligations whilst generating a surplus, the Committee has heard that government agencies frequently request that this is returned to government.

As evidenced by submissions received, the relationship between the Western Australian public service and outsourced service providers is too often managed by contracts rather than through ongoing partnerships. High levels of mutual suspicion and distrust are evident. Seeking to avoid political risk, public service agencies micro-manage community organisations that deliver government services, tying them in red tape and imposing significant deadweight costs both on the outsourced provider and on themselves. Statements of good intent are not adequately enforced. The rhetorical principles of partnership set out in the Funding and Purchasing Community Services Policy 2002 (FPCSP) and the Industry Plan for the Non-Government Human Services Sector (2004) were implemented in a half-hearted manner and all-too-quickly were largely ignored by

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<sup>35</sup> This excludes Community Service Obligations.

<sup>36</sup> Defined as funding arrangements by which a Public Authority provides money to an organisation in return for the provision of services to the community, intended to deliver a sustained outcome over a period of time, subject to conditions on the use of funds and outputs and/or outcomes of the service provided.

many public sector agencies. As a result, community providers have to negotiate too many short-term contracts with too many agencies and report on too many occasions in too many ways.

The Committee's research and consultation suggests that at present, many agencies do not have a strategic approach to grant-making, with grant programs<sup>37</sup> reflecting an accumulation of past decisions rather than a clear purpose aligned to policy priorities. Grants and grant programs impose high administration costs on funding agencies and recipient community sector organisations.

For example, the Department for Communities (DfC), in reviewing its grants with a view to addressing these issues, estimated that it spends 22 cents on administration for each dollar it disburses as a grant,<sup>38</sup> compared with five cents per dollar for LotteryWest.

*A common refrain from NFPs is the high costs of grant application processes, coupled with the uncertainty of success... There is evidence that some organisations are spending almost as much in resources in applying for grants as they ultimately receive. (Productivity Commission).*

### ***Innovation, flexibility and sustainability in public service delivery***

Whilst accountability and transparency in the use of public funds are fundamental, input, output and outcome controls on community sector service delivery reduce the incentive and capacity for these organisations to innovate in the delivery of human services. Some agencies, notably the Department for Child Protection (DCP) and DfC, have worked to reform the way that they deliver grants and service agreements, consistent with the FPCSP, in order to overcome these issues. However, DCP and DfC are in the minority and have acknowledged the need for further progress.

The Committee recognises that the global financial crisis has impacted the community sector, with value and returns from investments declining, corporate funding falling and philanthropic support diminishing. Income from sales and other commercial activities is also under threat.<sup>39</sup> This cyclical downturn highlights an underlying structural challenge. Access to risk capital to establish new social ventures, promote organisational rationalisation and to scale up innovative practice is scarce. Revenue streams are uncertain: community enterprises are often forced to manage volatility in recurrent funds, with few assets or reserves to fall back on. Little collateral exists to leverage capital growth. There is no effective social investment marketplace in Western Australia.

<sup>37</sup> Defined as a collection of grants with a common purpose and process, usually involving application processes, defined criteria and common branding.

<sup>38</sup> Simpson, T., Cant, R. & Penter, C. (2008).

<sup>39</sup> PricewaterhouseCoopers, the Fundraising Institute Australia & the Centre for Social Impact (2009).

## Way Forward

In order to achieve the outcomes identified above, the Committee makes the following recommendations:

### ***Empowerment of individuals and communities***

The Committee envisages a number of steps to empower individuals and communities to make decisions about their own service needs and to place them in control of their own budgets.

In its response to the Committee's First Report, the Government requested the Committee to develop a proposed policy framework and implementation plan for the reform of transfers to individuals.<sup>40</sup>

*The administration of WA Government concessions is dispersed, ad hoc, inefficient and difficult to navigate for citizens. This submission advocates the centralisation of concessions as far as possible in one unit that would have cross-portfolio responsibility for the administration of WA Government concessions. WACOSS also advocates a streamlined approach to applications for concessions, and the ability for citizens to apply for concessions through an outlet such as Australia Post. (WACOSS)*

The Committee examined a range of potential reforms to these payments and concessions. The Committee has concluded that a full transition to means tested direct payments is not feasible, due to potential taxation implications, the risk of individuals spending payments on activities viewed as socially undesirable, the non-discretionary nature of the concessions that make up the majority of existing funding (for example, local government rates and water charges), and the risk of erosion of benefits due to insufficient indexation.

Nevertheless, there are significant opportunities to improve access for eligible citizens to relevant payments and concessions and to improve the targeting of such payments, while reducing administrative costs. Progress has already been made in developing proposals for a single concessions unit<sup>41</sup> and an e-concessions system.<sup>42</sup> Online concessions finders and central concessions units have been established in other States. There is potential to further leverage Commonwealth systems through the real-time sharing of

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<sup>40</sup> Transfers to individuals are defined as payments made by a Public Authority that increase the effective income of targeted individuals, either through a direct transfer of money or by reducing the price of a good or service. This includes concessions (for example, pensioner's concession on local government rates) and payments (for example, Waterwise Rebate Program, It Pays to Learn Allowance).

<sup>41</sup> Department of the Premier and Cabinet (2008).

<sup>42</sup> Department of Treasury and Finance (2008).

eligibility data, rather than the current one-off physical checking of Commonwealth concession cards. While other reform proposals in this report incorporate a greater emphasis on devolved administration, centralisation is desirable in this instance because the provision of a concession is a purely administrative function. In other words, it does not entail the development of an ongoing relationship between Government and an individual receiving a concession. Further, the decentralised approach to the administration of concessions that is currently in place is unwieldy, resource-intensive and difficult for the citizen to navigate.

**Recommendation 9:** Streamline payments and concessions to individuals to:

- a) better target individuals most in need;
- b) reduce administrative costs through:
  - i) consolidating processing and administration to a single point in government;
  - ii) exploring the aggregation of subsidies and concessions to individuals into a single transfer payment from government; and
- c) improve eligible users' access, including through citizen-centred information and communication technology solutions.

**Responsibility**

Department of Treasury and Finance

**Deadline**

December 2011

**Milestones**

- Adopt criteria for government payments and concessions to individuals and review current transfer arrangements against them [March 2010].
- Establish a central e-concessions unit to administer government payments and concessions to individuals [July 2010].
- Provide a citizen-centric online (and related telephone) capability to allow citizens to more easily find information on government support services and to access concessions and rebates [December 2010].
- Implement an 'e-concessions' system to combine application processes and enable real-time validation of eligibility, in collaboration with Commonwealth agencies [July 2011].
- Implement on a voluntary basis a pilot project of direct payments based on a 'smartcard' system [December 2011].

Recommendation 9 highlights the potential for ICT to facilitate the empowerment of citizens. At a minimum, the government's online presence should be easy to navigate, and provide citizens with up-to-date information about services and regulations organised around their needs rather than the administrative structures of government. Agencies are increasingly providing for transactions to be processed online. This trend should be encouraged, while taking measures to standardise information requirements and develop information sharing protocols that enable citizens to access and submit personal information to multiple agencies without breaching privacy safeguards. New forms of social media that more actively engage citizens need to be pursued with vigour. As highlighted by the Government 2.0 Taskforce recently convened by the Commonwealth Government, social media and related online technologies create:

*...the potential to 'democratise' public administration and policy development by offering a much richer mix of spaces in which people can talk, listen, debate, argue and contribute their ideas and aspirations to the public conversation.*<sup>43</sup>

The Committee encourages agencies to collaborate in the development of systems that harness the potential of ICT to empower citizens. A specific recommendation on how this collaboration can be taken forward is made under Chapter 6 – Modernising Public Sector Management.

*...to truly succeed, governments must go beyond improving basic cost saving and service effectiveness to shape constituent perceptions about programs designed to serve them...Citizens of Edmonton, Canada, looking for information on city services or wanting to report a problem used to have to search through 250 official telephone numbers and extensions for the right department. Thanks to the standard number 311, that is now a thing of the past.*

(SAP Australia Pty Ltd)

*There is a requirement to standardise the way State Government Agencies collect core data when they are interacting with their customers...If all State Government application forms are standardised as much as practical it will make it easier for customers to navigate.* (Australia Post)

The Committee's deliberations highlighted the issue of service delivery in regional and remote areas. The low population density and vast size of Western Australia pose unique challenges that require innovative approaches. The particular needs of remote communities are too rarely addressed.<sup>44</sup> Decision-making in administrative silos, and the tendency for bureaucratic power to be centralised in Perth, undermines localised responses to community needs. Reforms that empower citizens and communities across Western Australia, including through local area coordinators and community hubs, have the potential to deliver greater benefits in regional and remote areas.

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<sup>43</sup> Government 2.0 Taskforce (2009).

<sup>44</sup> Desert Knowledge Australia (2008).



*...the present structures of government including financial flows, the capital city centralisation of policy making and of administration of services have consistently failed to deliver the results government and regional populations need. (Desert Knowledge Australia)*

*I envisage that government regional offices will no longer be branches of head offices operating from Perth; and in fact be autonomous structures accountable to their local communities. (Individual submission)*

*...need to differentiate between the types of services required to meet citizen needs between Country WA and metropolitan Perth. (National Disability Services)*

Local governments also have an important role to play in empowering citizens. They are the level of government closest to the community. State Government agencies should work with local governments much more closely in the design and delivery of services, as the latter possess the detailed knowledge, infrastructure and community relationships that are indispensable to addressing local needs. The reform of local governments launched by the current Government has the potential to improve service delivery through better strategic planning at community level, generating the critical mass necessary for efficient and effective service provision, and enhanced community engagement beyond the ballot box.

### **Community Focused Local Government Planning**

*People identify with their own neighbourhoods and localities – the places where they live, receive services, and make social connections ... however, many public services are delivered not by local government, but locally by state and federal agencies. It is therefore the ability to join services locally across the whole of the public sector that can produce a step change in redesigning services for and with the user. (City of Melville)*

**The City of Melville Neighbourhood planning and development** is an interactive, community based activity that engages local residents in making decisions about what they want to see happen in their neighbourhoods, using the Asset Based Community Development (ABCD) approach. The ABCD model focuses on the resources, capacities and aspirations of a community and its residents, instead of dwelling on their needs, problems and deficiencies. Neighbourhood Development focuses on viable, grassroots, inclusive planning processes that are actively oriented. Citizens are asked to outline their aspirations and describe how different stakeholders, including themselves, can contribute to the realisation of those aspirations. The City's Community Engagement Framework aims to encourage a commitment and consistency across Council to undertake effective and appropriate consultation both externally with the community and internally within the organisation.

In pursuing the concept of one-stop-shop service delivery, the Committee established that there is widespread support for community hubs as a means of improving citizens' access to a range of services particularly, but not exclusively, in regional areas. However, it became apparent that the definition of a community hub varies widely (see below for examples of existing community hubs). The function and form that a community hub takes is driven by both top-down and bottom-up input. The specific agencies involved in developing a community hub approach implicitly or explicitly set top-down parameters based on their own policy agenda and experiences. Bottom-up input comes through ensuring an opportunity for citizens and communities of interest to have a significant say as to what the functions and form of a community hub should be, within those parameters.

### **Examples of existing models of Community Hubs**

The **City of Melville's community hubs** – provide a space for community based activities and service provision based around existing facilities.

**Challis Parenting and Early Learning Centre** – an integrated centre (with representation from various departments) formed in response to the need for local families to have a central community hub where the health and development needs of their children could be addressed.

**Balga Primary School** – in order to address the large number of children entering school with developmental delays, a number of childhood health, development, and care services were brought onto the school site. This has provided the children and families in the community with easier access to such facilities. The intention of this model is to provide assistance during the critical 0-3 age group when neurological, social and cognitive skills are being developed. This hub currently receives assistance from 11 different agencies (both government and non-government), however this dependence may lead to an unsustainable model.

The **Commonwealth's Child Care Links Initiative** – uses childcare centres as community hubs to link families with young children to local support services.

**The Colac community hub in Victoria** – provides Colac residents with ready access to a variety of service providers and health professionals including education, health promotion and community development workers.



The Committee's concept of a community hub is intended to offer Western Australians seamless support to achieve their own aspirations, based on the simple but fundamental principle that there should be 'no wrong door' for a vulnerable person in their search for support, or accessing services provided by government.<sup>45</sup> The hub provides an opportunity for services to be built around the needs of the individual. This will involve place-based collaboration between human service providers at all levels of government and across the community sector, so that a citizen can access the information, support or service that they need without being successively referred from one agency to another, and from one agency's budget to another. The concept holds the greatest potential for those with multiple service needs.

To achieve this, community hubs would have a number of core features, including:

- co-located service brokers or mentors with the devolved responsibility and authority to make decisions across a range of government services at the local level;
- an information-sharing network on available services and service recipients (with appropriate privacy safeguards);
- a common method of establishing a citizen's priority service needs through discussion that recognises the skill and experience of those in need; and
- shared bureau corporate service to support the brokers.

Given the range of services and infrastructure offered by local governments, their active involvement in the hubs will be critical. Depending on the nature of a community and the preferences expressed by people within it, a range of additional features could apply, including co-location of service provision within existing infrastructure and the allocation of discretionary budgets to brokers to provide ad hoc assistance to vulnerable individuals and families. Funding could be drawn from a common pool or discrete allocations from home agencies. Governance arrangements for the hubs could involve management by community organisations or a hybrid management structure.

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<sup>45</sup> The 'no wrong door' idea has been applied in a number of jurisdictions in a variety of contexts. For an example in an Australian setting, refer to [nowrongdoor.org](http://nowrongdoor.org), a collaborative partnership in the Hume region of Victoria that provides a platform for practitioners in the areas of mental health and alcohol and other drugs to use in assessing clients with multiple needs and providing direct supports or referrals.

**Recommendation 10:** Conduct six demonstration projects of community hubs in metropolitan, regional and remote areas. These community hubs will bring together State and local government service brokers (public servants and community providers) and provide them with devolved responsibility and authority to make decisions across a range of agency services at the local level.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

January 2011

**Milestones**

- Call for expressions of interests from local governments backed by project concept [March 2010].
- Identification of trial locations (two metro, two regional, two remote) [June 2010].
- Finalisation of individual business cases (based on project concepts) [September 2010].
- Project implementation [2011 and 2012].
- Ongoing action research into effectiveness, leading to a formal evaluation of each pilot [March 2013].
- Potential roll out of community hub model across Western Australia [2013-14 onwards].

Citizens' participation in the design of services must go beyond voting in elections, speaking at public forums, or completing surveys. Service users should be able to work with providers to optimise the outcomes achieved. They should not be limited to choosing between services that have already been designed and after decisions have been made.<sup>46</sup> If an individual does not have the capacity to make these decisions alone, then governments and service providers should assist that individual to make those decisions through advice, brokerage and support rather than unilaterally intervening in their affairs.

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<sup>46</sup> Leadbeater, C. (2004).

Self-directed service design and delivery (or personalisation) involves a combination of two changes in the power relationship between service providers and service users (individuals or communities):

- Co-production involves the active participation of the service user in the development of services or supports with service providers, with the aim of achieving improved social outcomes through joint effort.<sup>47</sup>
- Direct or individualised funding is allocated directly to the individual or community, based on unique strengths and needs, and placed under the control of the individual or community.<sup>48</sup>

This type of reform is generally suited to services where the service user has an enduring and stable relationship with a service provider that is characterised by frequent contact. The Disability Services Commission's (DSC) individualised funding and Local Area Coordination model exemplifies the approach.

The Committee's research has identified a range of benefits for government in heading down this path, including:

- *Empowering individuals to make decisions about their own lives:* avoiding the 'learned helplessness' that government intervention can inadvertently create.
- *Improved outcomes for those in need:* the quality of outcomes for individuals can be raised if services are more closely attuned with their needs.<sup>49</sup>
- *Tapping into a broader pool of knowledge and resources:* the development of new knowledge and solutions to problems in people's lives that government or other service providers would not have previously considered.
- *Greater understanding of mutuality:* that the right to government support comes with responsibilities and that entitlements are matched by obligations.
- *Greater self-reliance:* the investment of decision-making and control responsibility in citizens inculcates a greater sense of self-reliance and respect.<sup>50</sup>
- *Greater trust in government:* a move towards personalisation is part of a broader shift in mindset and culture that needs to occur in the Western Australian public sector.

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<sup>47</sup> Cummins, J. & Miller, C. (2007).

<sup>48</sup> Definition adapted from Dowson, S. & Salisbury, B. (1999).

<sup>49</sup> For example, see Bartnik, E. & Psaila-Savona, S. (2003).

<sup>50</sup> Morgante, T. (2005).

*The road to outcome failures is paved with good intentions of non-Indigenous people exercising control to deliver what they think is best. What I think is best is for individuals, white or black, to decide for themselves in a supported framework. This is a shift in power to enable Indigenous communities to control their future. To exercise power and control in a positive way (instead of being constrained in the exercise of control in negative alternatives). I don't underestimate the complexity of exercising effective control and accountability at the community level, but if we just do what we've always done – we'll get what we've always got!*

(Timothy Marney, Garma Festival 2007)

The Committee's consultation revealed broad support for self-directed service design and delivery, but highlighted a number of challenges. These included: the need to retain a variety of funding approaches to avoid undermining the sustainability of community sector organisations; concerns about replicating the DSC model in other areas; the importance of combining empowerment with support and guidance; and the potential risk from clinicians and other professionals discounting the potential for service users to select the 'best' service design. These issues, and experience from the disabilities sector, underline the need to approach such reform in a targeted and gradual manner. The Committee is of the view that the personalisation approach has much to recommend it. Its adoption in a range of Human Services areas should be pursued through the use of demonstration projects with individuals and communities selected on a voluntary basis.

**Recommendation 11:** Progressively implement pilots of self-directed service design and delivery for:

- a) individuals, families and carers, for example: adapting individualised funding approaches used in the disabilities services sector to areas such as mental health, aged care, long term health conditions, palliative care, job training and homelessness; and
- b) communities, for example: enabling greater community control over public schools, childcare centres, regional and remote communities, and social housing.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

January 2011 (Pilots commenced)

**Milestones**

- Project Definition (Business Case) [February 2010].
- First round pilot implementation (including mental health, job training, public schools and remote communities) [2010-11 and 2011-12].
- Ongoing action research into effectiveness, leading to a formal evaluation of each area [from January 2011].
- Further roll out of self directed services across Western Australia [2011-12 and 2012-13].

### ***Partnerships with the community sector***

A formal partnership mechanism is essential for rebuilding trust and mutual respect between government agencies and community sector organisations. Previous partnership mechanisms, including the Human Services Industry Roundtable and accompanying Industry Plan and FPCSP, have suffered from a lack of rigorous monitoring and evaluation. As a result, implementation has slipped, expectations have not been realised, trust has diminished and scepticism has increased. Despite this, submissions made to the Committee suggest that both government and community sector organisations see merit in the establishment of a new mechanism, learning from the lessons of past experience (see box below). This mechanism must:

- put the interests of the public at the centre of the relationship;
- involve mutual responsibility for developing a collaborative partnership; and
- develop a shared vision for how the government-community sector relationship should function, in the form of negotiated principles that govern the relationship. Adherence to these principles must be objectively monitored and evaluated, with a more open process to deal with any alleged breach of the principles.

*We agree that departments need to work together across whole of government better, with policies to translate across departments in the joint provision of services. We are concerned that this explicitly assist local not-for-profit. NGOs are collaboratively able to deliver integrated and flexibly personalised holistic services for whole-of-life. In particular we are concerned to reduce service barriers, for example between mental health and intellectual disability, affecting many particularly in prisons, and between mental health and disability generally. (Ethnic Disability Advocacy Centre and Aboriginal Disability Network WA)*

The Committee does not see that this mechanism should take the form of an official 'compact' or a commission. Rather, it is proposed that a new Partnership Forum be established to agree on a 'Collaboration for Community' policy building on the principles of collaboration outlined in *Chapter 2 Delivering on Priorities*. The Forum, which would oversight the policy, might include equal numbers of senior representatives of community organisations that deliver human services and relevant Directors General, with an independent chair. It would build on the work of the former Human Services Industry Roundtable, but would have clearer purpose and greater influence. The Terms of Reference, the details of which should be negotiated, would include:

- improving and strengthening the relationship between the Government, public sector agencies and the community sector;
- ensuring community sector organisations have an opportunity to contribute to policy development and to the administrative guidelines which establish how services are delivered;

- identifying strategies to improve the capacity of community sector organisations and social enterprises; and
- clarifying the policy framework for the funding and purchasing of services through grants and service agreements.

Supported by a small secretariat (or Office of Community Partnership), the Forum would meet every four months and present an annual report to the Premier. Consideration should be given to making the report public.

Financial and contractual issues are often at the heart of any tension between government and the community sector. Indeed, the Productivity Commission has identified ‘...an irreconcilable tension...’ between the purchaser-provider approach taken by governments to funding the delivery of human services and the motivations and behaviour of community sector organisations.<sup>51</sup> The development of a ‘Collaboration for Community’ policy to resolve these issues would therefore be an early priority for the new partnership mechanism.

**Recommendation 12:** Negotiate with the community sector a set of principles to facilitate the government-community sector partnership in delivering human services in order to:

- a) build trust;
- b) foster collaboration;
- c) drive social innovation; and
- d) ensure sustainable service delivery.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

June 2010

**Milestones**

- Replace existing committees and forums, including the Human Services Industry Roundtable, with a Partnership Forum with an independent chair, and equal numbers of community leaders and Directors General, supported by a small central secretariat (an Office of Community Partnership), reporting to the Premier [January 2010].
- Agree principles to govern the partnership between government and the community sector [June 2010].
- Develop a ‘Collaboration for Community’ Policy to govern the contractual relationships between government and the community sector (see Recommendation 13) [September 2010].

<sup>51</sup> Productivity Commission (2009).

- Provide annual reports on implementation of the principles to the Premier [from January 2011].
- Establish a process of biennial review of outcomes achieved and lessons learned [from June 2011].

Based on the Committee's First Report, the Government endorsed the Committee developing a proposed policy framework and implementation plan for the reform of transfers, including payments made by general government agencies to community sector organisations. The management of these payments is in theory subject to the 2002 FPCSP, but implementation of the policy has been patchy.<sup>52</sup> The Committee, supported by its consultation, believes that a replacement policy should be developed with a more robust implementation mechanism.

**Recommendation 13:** Replace the existing Funding and Purchasing Community Services Policy, with a new 'Collaboration for Community' policy that:

- a) clearly articulates the distinction between grants and service agreements;
- b) outlines a range of different contractual and funding relationships including individualised funding delivery and low interest community loans; and
- c) provides guidance to agencies and community sector organisations on the application and management of these different contractual and funding relationships.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

July 2010

**Milestones**

- Establish a taskforce reporting to the Partnership Forum under Recommendation 12 to develop the 'Collaboration for Community' Policy [January 2010].
- Establish implementation support for agencies [July 2010].
- Review and evaluate the implementation of the policy [December 2011].

<sup>52</sup> The Departments for Communities and Child Protection have been the most successful agencies in implementing the existing policy and pro-actively reforming the way they manage grants and service agreements.



At the heart of the revised 'Collaboration for Community' policy is the clear articulation of a range of different contractual and funding relationships, including grants, service agreements, low interest loans and individualised funding. The policy should not only provide clear definitions<sup>53</sup> of these relationships (including for accounting purposes) but also establish the circumstances in which each should be used. The policy should also provide guidance on the requirements to be placed on funded organisations to ensure accountability and transparency in the use of public funds without imposing an unnecessary administrative burden. This will be particularly important in clearly articulating the difference between grants and service agreements. At present, these are confused by many agencies and community sector organisations, as reflected in the failure by most agencies to accurately account for these payments in their Annual Reports. For example, the Committee believes that grants should be designed to deliver one-off benefits for a specific purpose while service agreements should be used for the ongoing delivery of services.

The Committee considered but does not support the centralisation of relationship management with community sector organisations, on the grounds that such a centralisation would:

- undermine the relationship building and policy influence between the government, community sector and the community;
- reduce the incentive for agencies to increase funding of community sector organisations as they may perceive it as 'losing' money to another agency; and
- cause financial and contractual relationships to become purely a compliance exercise.

Indeed, such a move would undermine the Committee's intent to promote effective partnerships with the community sector, by reinforcing the bureaucratic emphasis on process rather than outcomes. Instead, the Committee recommends that the implementation of the policy be modelled on procurement reform, with the Office of Government Procurement (OGP) providing centralised systems, support (including out-placed officers) and monitoring for the policy (with associated efficiency gains), but with human service agencies remaining responsible for managing relationships with community sector organisations. Reports on the implementation of the policy would be jointly prepared by OGP and DPC for the consideration of the Partnership Forum and the Premier.

Based on the 'Collaboration for Community' Policy, the Committee recommends reforms to the way that service agreements and grants are managed to reduce the compliance burden on community sector organisations whilst ensuring accountability and transparency in the use of public funds.

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<sup>53</sup> A recent Commonwealth review of grants programs identified a similar need for clearer definitions and policy guidance: Department of Finance and Deregulation (2009).



### **Department for Child Protection (DCP) – Funding for Non-Government Community Services**

DCP primarily use the **Preferred Service Provider (PSP)** approach to provide recurrent funding to the non-government community services sector consistent with the Funding and Purchasing Community Services Policy 2002. This approach is designed to build organisational capacity, enhance workforce development, strengthen responses and improve outcomes.

The PSP application process has recently been streamlined, similar to a pre-qualification process. PSP reviews occur every three years commencing with a high level review that considers context, stakeholder responses, and performance data. Organisations are not required to re-submit information unless there have been changes to the organisation details and financial status.

Once recommended for renewal, service providers are only required to submit an application providing details on the service model (i.e. target group, staffing, budget etc.). Recent contract streamlining also provides opportunity to amalgamate service contracts into Master Service Agreements, providing more flexibility, reducing reporting requirements, and improving access for clients.

Specifically, the Committee recommends that agencies revisit the way they manage service agreements, facilitated by the development of centralised systems and support mechanisms, including:

- a pre-qualification system (akin to pre-qualification for construction tenders and Common Use Arrangements for goods and services procurement). This would reduce the financial and administrative burden on community sector organisations each time they submit a bid to provide a service. Pre-qualification would last for a three year period;
- contract templates to ensure core contractual conditions are the same across all agencies, and that reporting focuses on outcomes and outputs rather than prescribing process. Where a single community sector organisation delivers multiple services for multiple agencies, OGP should prepare and coordinate a 'head' contract that provides for a single stream of reporting for that organisation;
- a standard chart of accounts (SCOA) for community sector financial reporting. Work on a SCOA has already advanced under the Human Services Industry Taskforce and the COAG Business Regulation and Competition Working Group; and
- permitting lead community sector organisations to sub-contract specified elements of the service to smaller organisations or to create consortia of smaller organisations to deliver services across a number of sites. This will foster alliances between

community sector organisations and reduce the administrative burden on government agencies of managing small contracts.

**Recommendation 14:** Reduce the administrative burden on government agencies and community sector organisations associated with service agreements by:

- a) permitting subcontract or consortia arrangements;
- b) implementing a single three-year pre-qualification process for community sector organisations, to be utilised by all government agencies;
- c) developing standard core contractual conditions, documentation and reporting to be utilised by government agencies; and
- d) moving to longer term contractual arrangements where appropriate.

**Responsibility**

Department of Treasury and Finance

**Deadline**

January 2011

**Milestones**

- Agree with the Auditor General the appropriate level of accountability required of community sector organisations, with the intention of reducing unnecessary paperwork [March 2010].
- Implement a Standard Chart of Accounts for community sector financial reporting [June 2010].
- Develop guidelines for a pre-qualification process for community sector organisations consistent with the 'Collaboration for Community' Policy [June 2010].
- Establish a central registration system within OGP to operationalise the pre-qualification process [January 2011].
- Develop revised standard contracts across agencies including:
  - head agreements between government agencies and community sector organisations where the latter have multiple service agreements with government; and
  - reporting that focuses on outcomes or outputs rather than prescribing process [January 2011].

The Committee encourages larger community organisations to provide administrative and back office support to smaller organisations (see example in box below).

### Example of outsourced administration

Nulsen Haven Independent Administration (IA) - a division of Nulsen Haven Association - was established in 1993 to provide smaller non-government organisations with support in administration (finance, accounting and payroll) management. The rationale behind the establishment of the service was to use existing Association infrastructure funded by Government for the benefit of smaller non-government organisations, allowing them to focus on key service deliverables. IA currently has 27 clients. Experience has shown that entities receiving funding of \$200,000 or less cannot generally afford the IA service, and once an organisation reaches a certain size (approximately \$1.5 million and above funding amount) they prefer their own in house services.

The Committee sees grants<sup>54</sup> as an essential complement to service agreements. They can provide one-off subsidies, top-ups, seed funding, or funding for discrete projects, innovative trials, pilot programs or research of a non-commercial nature. In order to address the issues of a lack of strategic approach to grant-making and high administration costs for government and recipients, the Committee recommends that agencies simplify their approach, drawing on the successful experience of LotteryWest in transforming its grant-making (see box below). The Committee notes that some agencies, notably DfC, have already embarked on such a reform. In addition, the Commonwealth Government has recently released a review of grants administration (see box below).

### Examples of grants reform

**LotteryWest's** 'broad-banded' approach to grant-making allows community groups to think more broadly and strategically, and has at the same time reduced the administrative burden on both LotteryWest and recipients. Submissions previously had to fit within one of 36 specific guidelines, with 45 application documents (over 300 pages). These have been replaced with five broad priority funding areas and a single 10 page application form. Administrative costs have been reduced to approximately 5 per cent. Accountability is approached on a case-by-case basis. This reform has improved stakeholder relationships, with client satisfaction at 97 per cent across all applicants – including those who did not receive any money.<sup>55</sup>

The Commonwealth Government's recent review of grants administration recommended that agencies "review the structure of their grant programs with a view to reducing the overall number of programs, achieving greater coherence and clarity of objectives, improving transparency, reducing but sharpening the range of performance

<sup>54</sup> Defined as a sum of money given by a Public Authority to an organisation for a discrete purpose and period for which the recipient does not directly give approximately equal value in return (i.e. there is a non-exchange transaction or a subsidisation), and which may, or may not, be subject to unilaterally imposed conditions.

<sup>55</sup> Thomson, J. (2005).

<sup>56</sup> Department of Finance and Deregulation (2009).

indicators, and achieving administrative savings.” These changes have already been made by FaHCSIA, halving the number of grants programs, clarifying objectives, reducing performance indicators, and freeing up resources from administration to be spent on service delivery.<sup>56</sup>

The key features of a revised approach to grant-making<sup>57</sup> should include:

- simplified grants administration, oversighted by OGP, and facilitated by centralised systems and support (such as common grants administration systems with a capacity for online applications and reporting);
- consolidation of grants into broad-banded grant programs, with wide priority areas rather than narrow criteria;
- the purpose of giving grants should be explicitly defined by each agency; and
- agencies administering small volumes of grants making use of larger volume agencies’ grants administration resources, while maintaining responsibility for the relationship building components of their grant-making function.

The Committee recommends against any further reduction in aggregate grants expenditure.<sup>58</sup> Nor does the Committee support the creation of a single agency responsible for administering all grants (for the same reasons outlined above for service agreements).

**Recommendation 15:** Streamline the administration of grants (not necessarily reducing the number of agencies administering them) by:

- a) replacing the existing range of grants and grant programs with a smaller number of ‘broad-banded’ grant programs; and
- b) developing centralised systems and support for grants administration to facilitate online applications, monitoring and reporting.

<b>Responsibility</b>	<b>Deadline</b>
Department of the Premier and Cabinet	December 2012

<sup>57</sup> Excluding grants to local governments and to non-government schools.

<sup>58</sup> As part of the 2009-10 Budget, general government grants expenditure across the forward estimates was reduced by \$200 million, in part addressing the Committee’s First Report recommendation to “reduce the number of grant programs by ceasing grant programs that do not fit with policy priorities of the Government and merging similar programs.”

### Milestones

- Adopt guiding principles for grants reform [March 2010].
- Identify initial target agencies for reform and a timeframe for the roll out of reform across all agencies [March 2010].
- Ensure at least 80 per cent of all grants are managed through the revised arrangements [January 2012].
- Ensure agencies which administer small grant programs utilise the existing infrastructure of larger grant giving agencies for administrative support [January 2012].
- Develop and implement a common grants administration system across government [December 2012].

### *Innovation, flexibility and sustainability in public service delivery*

The valuable role played by small and medium enterprises in the market economy can be applied with equal success to the social economy. Social ventures increasingly seek to operate as commercially-oriented businesses that not only deliver social and environmental benefits but also become financially sustaining.

Government funding would be available in the form of low interest loans (see box below for an existing example of a low interest loan model) to support social enterprise i.e. the income-generating businesses of not-for-profit organisations or emerging social businesses that seek to operate without dependence on charitable donations or government subsidy.

The goal is to enable community employers to build organisational capacity so that over time they can become increasingly self-supporting, while directing their surpluses to public good and social benefit.

#### **Department of Education Services (DES) – Low Interest Loan Scheme**

DES's Low Interest Loan Scheme (established in 1988) provides capital works (building construction, refurbishment, acquisition of land) assistance to enable the non-government school sector to provide facilities at a similar level and standard to those at government schools. Schools borrow funds from the Government's global borrowings at favourable interest rates that are further subsidised according to the priority of qualifying capital works projects.

The scheme has assisted non-government schools to provide new facilities and new student places. Without the incentive of cheap loans to non-government schools, capital costs to the Department of Education and Training to provide for more students in areas of new residential growth would be far greater. It has also allowed schools to

respond to the demand from the community for more, expanded and upgraded non-government schools.

On a competitive basis, and following due diligence, loans would be available to a wide range of social enterprises providing welfare relief, shelter, health care, education, employment support and training, community arts and sport, community regeneration, and environmental and heritage protection. Recipient organisations would be expected to provide a public annual report including a transparent financial statement and an assessment of the social returns on the capital invested. Discussion should be held with private sector financial institutions on the most effective way of administering a low-interest Community Development Investment Fund.

**Recommendation 16:** Establish a Community Development Investment Fund to support, through low interest loans, community sector organisations that wish to develop as community employers or social enterprises, run along business lines with the intention of becoming financially sustainable. In establishing this Fund, partnerships with private sector financial institutions should be explored.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

March 2010

**Milestones**

- Following discussions with private sector financial institutions create a governance structure to administer the fund [March 2010].
- Define timeframes for funding rounds and expressions of interest [March 2010].

One of the key messages from the First Report was the need to embed a culture of innovative service delivery in the Western Australian public service. The report noted that it is important for governments to look outwards for ideas to improve the design and delivery of services, and the community and private sectors are rich sources of ideas.

The Committee's research and consultation has revealed that government funding is too often accompanied by high regulatory and compliance costs. There is a lack of incentive for community sector organisations to innovate in the delivery of human services. Social innovation<sup>59</sup> becomes frustrated by a focus on short-time horizons, excessive risk aversion and bureaucracy, a silo culture that prevents information sharing, and monopolistic structures that prevent competition.<sup>60</sup>

<sup>59</sup> Social Innovation is defined as: the development and implementation of new ideas (products, services and models) to meet social needs. From: Hetherington, D. (2008).

<sup>60</sup> Mulgan, G. (2007).

*Terms and management of government contracts for services can stifle the innovation they seek to encourage and lead to a de facto employer/employee relationship with all risks borne by the NFP agency. NFP agencies by their very nature must be responsive to changing circumstances ... necessity for some flexibility in government contracts yet this is often in conflict with the certainty and controls that government contracting processes and managers require. (Cancer Council and Heart Foundation submission)*

*The primary means by which Government can facilitate innovation in service delivery is by taking a hands off approach to managing the processes of service delivery and instead confining itself to specifying desired outcomes. This too seldom occurs. A risk-averse public service can be overly concerned with avoiding potential negative outcomes, rather than fostering innovation ... (WACOSS)*

*Opportunities for service innovation must be nurtured by Government through flexible and accessible innovation funding. (National Disability Services)*

Community sector organisations are often the best placed to provide services that meet citizens' needs, and innovation will occur naturally in response to changing client needs and the desire to improve outcomes, assuming the process is not frustrated by administrative and regulatory burdens.<sup>61</sup> For governments to receive the 'biggest bang for their buck' they must be willing to experiment and tailor programs to local circumstances.<sup>62</sup>

The importance of innovation in the delivery of human services is being recognised around the world, with a number of social innovation funds emerging in other jurisdictions (see box below for examples). In its draft report on the contribution of the not-for-profit sector to the Australian economy, the Productivity Commission has identified social innovation funds as potential catalysts for creative collaborative effort between governments and community sector organisations<sup>63</sup>

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<sup>61</sup> University of Western Australia (2009).

<sup>62</sup> Hetherington, D. (2008).

<sup>63</sup> Productivity Commission (2009).



### Examples of Social Innovation Funds

The **Commonwealth's New Employment Services** Innovation Fund supports projects that offer innovative place-based solutions to address barriers to employment for groups of the most disadvantaged job seekers.

The **UK's Invest to Save Budget** provides grant-funding support that aims to improve public service delivery through the development of partnership working and the fostering of new and innovative approaches to the delivery of services.

**South Australia's Homelessness Innovation Fund** provides one-off funding to incorporated, non-government, non-profit community service organisations to develop and promote innovation that assists people who are homeless or are at risk of homelessness.

The **US White House's Social Innovation Fund** is seeking to identify the most promising, results oriented non-profit programs and then provide the capital needed to replicate their success in communities facing similar challenges.

The **Telstra Foundation's Social Innovation Grants** aimed at investing in big ideas that use information and communication technologies to engage and connect Australia's children and young people (0-24) to their communities.

The establishment of a specific grant program to promote social innovation in the delivery of human services in Western Australia would send a clear signal to the community sector that creative ideas and new ways of working are welcome. Coupled with the proposed Community Development Investment Fund, a grant program of this nature would create an incentive for community sector organisations to innovate that is lacking in the current funding arrangements. While due diligence should be carried out in relation to grant applications, the program should not be constrained by unnecessarily prescriptive controls.

**Recommendation 17:** Establish a grants program to promote social innovation in the delivery of human services by community organisations.

#### Responsibility

Department of Treasury and Finance

#### Deadline

March 2010

#### Milestones

- Develop broad priority areas and criteria [March 2010].
- Define timeframes for funding rounds and expressions of interest [March 2010].



# 4. Maximising Value Through Planning, Competition and Innovation

## Overview

The Committee noted in *Chapter 2 Delivering on Priorities* that planning has been afforded insufficient priority across many areas of the public sector over a long period. This cannot continue. The efficient and effective delivery of public services requires careful planning, the lack of which is a particular problem for public sector infrastructure development where it has resulted in unacceptable cost blowouts and delays in delivery of many major projects.

Moreover, senior officers in key planning roles have expressed concern to the Committee that planning frameworks and systems in Western Australia, which were once highly regarded for their effectiveness, have broken down.

This chapter examines what will be necessary to restore good planning practices to support the State's infrastructure development. It also seeks to identify mechanisms to ensure competition in the provision of public services (particularly infrastructure-based services) is encouraged and innovative practices are rewarded. Both competition and innovation in service delivery will benefit citizens consuming the services and the general community that funds these services.

The Committee is encouraged by a number of initiatives that have been implemented in the past twelve months and by others currently in development that aim to strengthen planning processes across government. The Committee's recommendations are designed to build on these developments.

Effective planning relies on the development of a hierarchical framework which is coordinated and integrated. It needs to be flexible, capable of taking account of changing dynamics, such as shifts in community expectations and adjustments to economic imperatives. Three key features of the framework should include:

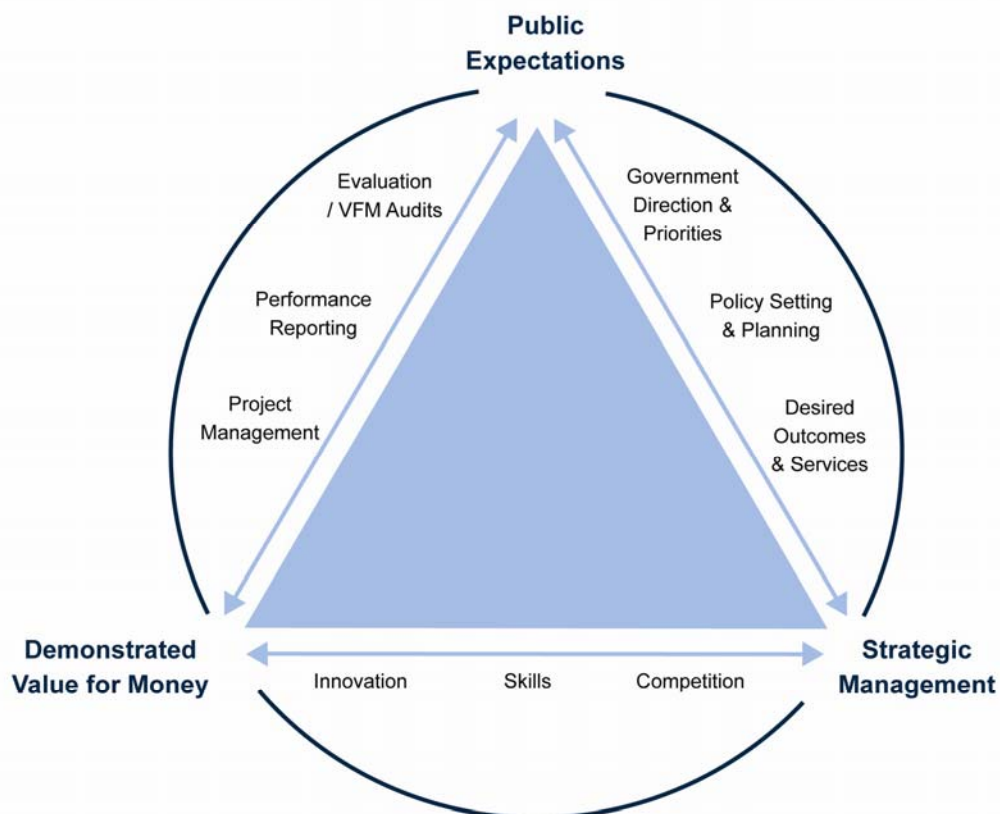
- the comprehensive planning requirements of the State for at least the next 20 years, including spatial, demographic and land-use elements;

- complementary planning at the local/regional level, which builds the service and infrastructure mosaic required across the same timeframe; and
- focused infrastructure requirements consistent with the above plans, which have regard to the State’s resource capacity over a rolling four-year budget timeframe.

This planning framework should be set in the context of key economic and population growth forecasts that would influence the pace and priority of infrastructure delivery, together with the provision of land to the market to accommodate housing and community requirements in as sustainable a means as possible.

The following diagram illustrates the factors that are essential for delivering government services and associated infrastructure in a manner that best meets community expectations.

**Diagram 2: Delivering Value**



*"By failing to prepare, you are preparing to fail"* **Benjamin Franklin**

## A Vision for Maximising Value

The Committee believes that if Government is to ensure that community service delivery expectations are to be satisfied in a way that maximises value for all Western Australians, then:

1. Long-term infrastructure planning will be undertaken robustly, coherently and consistently across the public sector as a whole, reflecting the collective strategic priorities of the Government and impacting optimally on the community, economy and environment.
2. Government will deliver infrastructure projects efficiently and effectively, with the specific circumstances of each project determining the most relevant delivery option.
3. All services provided by the public sector will be reviewed continually to assess the suitability of their exposure to increased competitive pressure. The business and community sectors will increasingly compete with the public sector for the right to provide public services.
4. The State will have a role in land development and sale only where it can be demonstrated that there is market failure. In these cases the principles of contestability and transparency of public resource allocation will apply to the fullest extent possible.

## Key Issues

In its analysis and consultation, the Committee has identified the following issues:

1. Spatial and land-use planning undertaken by the Department of Planning and the Western Australian Planning Commission (WAPC) has broken down over the past decade. While there has been renewed momentum to deliver better planning outcomes, this will only succeed if recently rejuvenated planning initiatives are given appropriate support.
2. There is insufficient strategic planning to guide individual agency service delivery, infrastructure provision and land-use decisions.
3. Infrastructure planning and delivery by government is often based on insufficient business case rigour and fails to meet time and budget constraints.
4. Agencies have not maximised opportunities to open up service delivery to competition, limiting Government's capacity to maximise value for money. The public sector has insufficient skills to investigate and then manage more complex and innovative service delivery mechanisms.
5. There are conflicting views as to government's optimal role in the land development process.

## Delivery of Infrastructure Projects

### *Governance of long-term strategic infrastructure planning*

Good planning across the public sector relies on a clear, consistent and manageable set of priorities. As described in Chapter 2, the Committee heard from a number of stakeholders about the lack of some form of state plan or collective voice from central agencies to guide decision-making across the public sector, and formed the view that the public sector must take a more active role in advising Government on long-term issues, trends and opportunities. Without clear priorities and strategic direction, individual agency infrastructure planning tends to be managed on an ad hoc basis, with limited or no priority being given to ensuring this planning occurs in an integrated manner.

Planning across the public sector also has the potential to be heavily influenced by strategic land-use planning, which is a critical factor in guiding the State's development. In this regard, several stakeholders remarked to the Committee that successive Governments appeared to lose their focus on planning over the last decade, leading to a decline in the quality of strategic planning. Indeed, the State Planning Strategy<sup>64</sup> has not been reviewed since it was completed in 1997 and has become outdated as a result.

In the absence of sufficient attention to land-use planning, State Government leadership in this area has diminished and its ability to provide clear and strong guidance to local government has suffered significant degradation. The result has been increasing dysfunction in local government planning and approval processes, as planning guidelines have metamorphosed into mandatory requirements and conditions, losing their flexibility of application.

Over the past year, initiatives have been implemented by the WAPC and the Department of Planning in a bid to breathe new life into strategic land-use planning across the State. These include:

- the decision in December 2008 to establish regional planning committees for high-growth regions in the State (most notably the Kimberley, Pilbara and Mid West) in an attempt to reduce the disproportionate planning focus on metropolitan Perth,<sup>65</sup>
- the March 2009 release of the Building a Better Planning System<sup>66</sup> consultation paper, aimed at reforming the broader planning and governance system;

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<sup>64</sup> Western Australian Planning Commission (1997).

<sup>65</sup> Western Australian Planning Commission (2009a).

<sup>66</sup> Department of Planning and Infrastructure (2009).

- the June 2009 release of the Directions 2031 Draft Spatial Framework for Perth and Peel<sup>67</sup> for public comment. This is a high-level strategic plan that establishes a vision for future growth of the Perth and Peel region and provides a framework to guide the detailed planning and delivery of housing and infrastructure necessary to accommodate that growth; and
- the complete reform agenda for the Western Australian Planning Framework is summarised in Planning Makes it Happen – A Blueprint for Planning Reform,<sup>68</sup> released in September 2009.

The Committee is aware of the Government's elevated focus on improving outcomes in the State's regions, through initiatives such as Royalties for Regions, the establishment of regional planning committees and its encouragement of mergers between local governments. This has led to an increased number of entities involved in service, infrastructure and land-use planning in regional areas, with significantly increased resources at their disposal. It will be important for all of these entities to work with each other in a spirit of collaboration and coordination, to minimise the risk of conflicting objectives compromising the achievement of increased value for regional communities and citizens.

The efficiency and effectiveness of infrastructure delivery in Western Australia has been diminished by a lack of strategic asset planning by many agencies, albeit with some notable exceptions.

To the extent that planning has been undertaken, agencies have tended to conduct their planning in isolation, leading to a collective inability to fully recognise the flow-on consequences of major infrastructure projects on infrastructure requirements in other service areas. For example, the proposed development of a major regional port at Oakajee has identified the need to construct navigation channels, breakwaters, turning basins and berths, as well as railway lines from mines in the region. However, the consequential impact of the port on road, electricity and water infrastructure is yet to be assessed.

There has also been very limited long-term prioritisation of public infrastructure planning in Western Australia in recent years. The Government's Asset Investment Program, published for the first time in 2009-10, covers the budget year and the three forward years.

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<sup>67</sup> Western Australian Planning Commission (2009b).

<sup>68</sup> Western Australian Planning Commission & Department of Planning (2009).

This four-year Asset Investment Program, while a good initiative, could be extended to realise a range of benefits which include:

- the early identification of potential infrastructure delivery bottlenecks and capacity constraints that require proactive measures to be taken, especially when planning across the different levels of government;
- enhancing the opportunities for agency cooperation in the delivery of complementary and integrated infrastructure provision;
- increased opportunity for tailoring the level of activity in the Government's infrastructure delivery program to the long-term outlook for the State's finances;
- raising the Government's capacity to link strategic land-use planning, for example the WAPC's document Directions 2031, with long-term infrastructure planning; and
- enhancing the Government's ability to inform both existing and potential new entrants to the infrastructure construction market in Western Australia of the scope of major works in the pipeline, providing greater knowledge of opportunities to compete, on an ongoing basis, for regular business.

In this regard, long-term strategic infrastructure plans with timeframes ranging from 10 to 20 years have been developed and released by New South Wales, Queensland (for South East Queensland) and South Australia.

### ***Governance of strategic asset management***

The long-lived nature of infrastructure, as well as its relatively large scale, means that the costs of sub-optimal infrastructure provision can be significant and long lasting. For instance:

- infrastructure that is provided in advance of when it is required can give rise to substantial opportunity costs, as financial resources are tied up in idle capacity that could have been applied to more productive investment;
- infrastructure that is delivered too late can constrain economic development and growth, or result in reduced or foregone social welfare;
- infrastructure that is situated in less than ideal locations can lead to higher costs of supply, as well as an economy that does not operate as efficiently as it could; and
- the provision of infrastructure that is not 'fit for purpose' to the maximum extent possible can render government service delivery sub-optimal and result in significant economic and social opportunity costs. The cost of re-engineering established infrastructure to improve its ability to support service delivery can be substantial and, in an environment of constrained funding, prohibitive.

Sub-optimal infrastructure provision is often traced back to insufficient or poor planning. In this regard, long-term economic and social trends (and their implications for infrastructure) may not have been identified or anticipated to the extent necessary, or the full range of options for infrastructure may not have been considered and evaluated.

Consistent with best practice, the Government's Strategic Asset Management Framework (SAMF) requires each agency<sup>69</sup> to prepare a Strategic Asset Plan (SAP) every year, as part of its annual corporate planning processes. An agency's SAP is required to set out its 10-year capital investment intentions, as well as the maintenance and asset disposal implications for that agency as it strives to achieve outcomes desired by the Government. The SAP is an important management tool for agencies and a vital instrument for the Government, to facilitate asset planning at a strategic level.

The SAPs that agencies must develop are required to include a Capital Investment Plan (CIP), which is a schedule over the next 10 years of approved and proposed capital projects that outlines the current status, proposed commencement and associated project cash-flows of these projects. The quality of CIPs currently developed by agencies, in terms of their content and scope, varies widely across agencies.

The information contained in agency CIPs, supplemented by comparable information that the Government could request from agencies that are not required to comply with the SAMF, such as Government Trading Enterprises (GTEs), has the potential to constitute a comprehensive database from which a long-term, whole of government infrastructure investment plan could be distilled.

The requirement for agencies to prepare SAPs is based on the Government's expectation that each agency should have a thorough knowledge and understanding of its service delivery obligations (as specified by the Government), its existing asset portfolio, and the capability of those assets (in terms of supporting, producing and sustaining service delivery at an optimal level), with a view to adjusting that portfolio to achieve an optimal mix of assets.

The asset planning process that should be followed by agencies is relatively simple and unambiguous, and is designed to achieve organised, high-quality outcomes. While it is a robust policy framework, its implementation has been patchy at best.

The examples that have been drawn to the Committee's attention show that few agencies have prepared good quality SAPs over the past decade. Agencies have tended to struggle with the identification of the mix of assets that best supports service delivery, to the point that some asset options may not be identified, let alone considered. The result is poor quality SAPs that when implemented have resulted in assets not best-suited to the service delivery outcomes sought by Government.

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<sup>69</sup> Department of Treasury and Finance (2005).



This is very likely to be due to agencies not having a clear understanding of the Government's strategic priorities. It is also likely that many agencies lack the expertise to understand or evaluate how the capability of their asset portfolios may need to change over time in order to support shifts in the Government's desired service delivery outcomes.

Under the SAMF, planning for individual projects that involve the delivery of assets requires the preparation of high-quality cost-benefit based business cases and project delivery plans that help Cabinet make informed decisions about funding for such projects. However, it would appear that in recent years many project proposals presented to or requested by Government have had business cases that were uninformed by broader planning of service needs, did not explore alternatives to meeting those needs, and/or focused more on what the project looked like than why it was needed. Of even greater concern have been the not infrequent situations where project proposals have been submitted for approval without a well developed business case, and in some instances no business case at all.

The SAMF requirements are very comparable with those being applied by Infrastructure Australia. In particular the requirements for integrated planning that takes account of the impact of infrastructure delivery across the community with robust cost-benefit analysis supporting the business cases developed for projects are increasingly being required by Infrastructure Australia in recommending projects for Commonwealth support.

The potential for poorly prepared or non-existent business cases to result in inefficient and ineffective service delivery outcomes is considerable. Scope, cost and time blowouts in the delivery of infrastructure are practically inevitable.<sup>70</sup>

### **Works reform**

The Works Reform Business Solution Plan was released by the Treasurer in June 2009. It notes that from a sample of 17 projects examined, seven (41 per cent) had a cost blowout over 100 per cent and four (23 per cent) had a cost blowout of over 200 per cent. For the 17 projects in total, the difference between the original approved budgets and the expected final cost amounted to a staggering \$2.353 billion (a 153 per cent increase).

These blowouts severely undermine Government's flexibility in managing its capital works program. They can also have disruptive flow-on effects on the planned delivery of other major capital works projects, which have to be deferred or cancelled to accommodate the cost blowouts.

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<sup>70</sup> A study of some major projects in the public sector in Australia has pointed to the importance of appreciating that political imperatives should not replace the need for a strong business case. Wanna, J. (ed.) (2007).



In responding to these issues, the Works Reform Business Solution Plan outlines a range of reforms to the planning and project management of the design, construction, maintenance and leasing of government buildings.

These reforms are aimed at addressing the following key problems with the procurement of building-related projects and programs, including:

- capital works project cost and time overruns;
- poor strategic asset planning across government;
- poor business case development for capital investment;
- loss of project management skills and experience within government;
- the piecemeal approach to government office accommodation planning;
- the piecemeal approach to building maintenance planning; and
- the overly centralised approach to regional capital works project management.

The business case for the initiative includes a preliminary cost estimate of \$60 million over the next four years and against this, \$280 million of cumulative savings are anticipated over the same timeframe, comprising:

- a \$34 million reduction in the recurrent cost of the works program, primarily due to in-sourcing of project management (currently undertaken by private sector consultancies);
- a 10 per cent improvement in the actual cost of capital works projects, equating to \$173 million of savings over the next four years;
- a 10 to 15 per cent reduction in the cost of breakdown repairs under the building maintenance program over the next four years, translating into savings of \$28 million over this period; and
- a 10 per cent reduction in office accommodation costs, totalling \$45 million over four years.

The business case breaks down each of these four-year savings into annual components which will facilitate the review of the effectiveness of the works reform.

### ***Oversight of major infrastructure projects***

Even with the best planning, there will be occasions when the delivery of a major infrastructure project experiences cost overruns or completion delays. These situations can arise through the presence of capacity constraints in the construction industry (as was experienced in the boom conditions from 2006 to 2008), poor project management or changes to a project's scope (either authorised or unauthorised) during delivery.

Over the last 10 years, there has been little effective oversight at a Cabinet or Ministerial level of major project cost overruns or delays, with requests for additional funding granted almost as a matter of course. Rigorous interrogation of agencies, with a view to requiring them to justify requests for additional funding or extensions to completion dates, has been limited.

While the Government's Works Reform Business Solution Plan is expected to result in a significant improvement in project planning and management, it does not apply to all infrastructure projects and there are limits to the gains that can be expected from increased scrutiny of project planning and management by DTF.

### **Competition in Public Service Delivery**

During its consultations, a point made often to the Committee was that the last major effort to inject greater competition into the delivery of services for or by the Western Australian Government was during the 1990s. The period since then was seen as a lost opportunity to extract benefits from opening up public service delivery to competition, particularly in view of the evolution of increasingly sophisticated contracting options for service delivery and alternative infrastructure delivery mechanisms. The potential, for example, to utilise public private partnerships in the delivery of infrastructure was not investigated with any real enthusiasm by agencies, and little attempt was made to explore the possibility of expanding the scope of public service delivery under contract.

The Committee considers that the failure to explore sourcing of service and infrastructure delivery more competitively has caused the State to forego considerable improvements in efficiency and effectiveness, and that this detriment to the public interest must end. The public interest should not be relegated to second place by philosophy or ideology.

Experience internationally and in other Australian jurisdictions suggests that many opportunities remain to apply competitive procurement successfully in the Western Australian public sector. In November 2007, The Serco Institute (a UK based research facility studying competition and contracting in public services) published a survey of 196 studies by government and academic sources from 12 different countries, across five sectors.<sup>71</sup> The findings are summarised in the box below.

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<sup>71</sup> The Serco Institute (2007).

### **Benefits of Competition**

In health support services, financial benefits in excess of 20 per cent had been reported in England, in Australia and in Denmark. However, in other jurisdictions, where competition had been pursued less vigorously, the savings did not appear to have been as great.

Of ten studies of US prison contracting, all but one found positive benefits associated with contract management, and these were mostly in the range of 5-15 per cent. The financial gains in the UK appear to have been more than 20 per cent and perhaps as high as 30 per cent.

In defence support, studies from Australia, New Zealand and the United States reported savings in the range of 20–30 percent, although in some cases they had been much higher.

Elsewhere in Australia and in other countries, markets for service provision and infrastructure delivery that were once thin have deepened (as a result of natural economic growth, government initiatives or a combination of these). Furthermore, the concept of government as a facilitator of public service provision, rather than just a direct provider of such services, has taken root.

Moreover, the attitudes of governments and service providers in markets for service delivery have matured, developing from a predominantly adversarial mindset when competitive sourcing was in its infancy, to one that recognises the benefits to be gained from contractual relationships that are based to a greater degree on partnering between government agencies and service providers in the community and private sectors. Alliances between organisations are becoming more commonplace.

The private and community sectors' environments are often more conducive to innovation than the public sector. This is particularly the case where contracts specify outcomes to be achieved and eschew prescription of inputs. During consultations with the Committee, representatives from private sector service providers spoke of their frustration in dealing with agencies that struggled with contract specification and management, and the resulting increased potential for disputation and prolonged tender processes.

However, these opportunities and more enlightened attitudes will come to nought if agencies within the Western Australian Government do not seek out the benefits from the introduction of competition. In this regard, it should be emphasised that, in addition to the benefits gained directly from the pursuit of competitive sourcing, there are indirect benefits that can be achieved within agencies through the threat of competitive pressure. In other words, agencies can be expected to lift their performance and be more innovative in response to the prospect of their activities being subjected to greater competition.

Left to themselves, agencies are unlikely to embrace the use of competitive tension as a means of improving their performance, for a number of reasons:

- agencies lack the necessary skills to pursue competitive procurement effectively (this is discussed in greater detail later in this chapter) – although the Committee notes the positive work that has been undertaken so far to develop procurement/contracting skills within agencies through the procurement reforms driven by DTF and more recently through the works reforms that are currently being pursued;
- competitive procurement necessarily involves exposure to risks that may not be present in traditional forms of procurement, and the highly risk-averse culture that is a feature of the public sector may discourage agencies from exploring alternative means of service or infrastructure delivery; and
- after years of inertia in their comfort zones, agencies have no incentive to challenge established practices. As a general rule, attempts by Governments to drive changes to organisational culture within agencies, in a bid to encourage them to embrace competitive procurement enthusiastically, have not succeeded where they have challenged the way things have always been done within agencies.

It must be recognised that while the introduction of contestability undoubtedly drives better value for money choices, these efficiencies will only be sustained where the threat of competition remains credible.

## The Role of the State in the Land Development Process

The Committee's Terms of Reference were extended by Cabinet for the purpose of Stage 2 to include further advice in relation to the role of the State in the land development process.

Significant social and economic costs can occur if the private land development market fails to increase the supply of developed land in response to sustained upswings in demand. The Committee believes that this was the case to some extent during the period from around 2005 to 2008. Strong demand for new lots was fuelled by rapid growth in the State's economy, jobs, personal incomes and population. Unfortunately, supply was constrained by inadequate planning processes and unresponsive, cumbersome and duplicative development approval processes (at both State and local government levels), lengthy environmental and native title approval processes, and capacity constraints in the land development and supporting infrastructure industries. There were also perceptions that developers were constraining their release of lots to create scarcity and generate additional profits.

In Western Australia, the State is involved in land development through the following broad roles:

- strategic land-use planning – a policy formulation function;
- approving development applications – a regulatory function; and
- the physical development of serviced lots, along with supporting civil works in some cases – a service provision function.

The Committee considers that the current problems with the strategic land-use planning framework and development approvals processes are recognised, well understood and being dealt with appropriately in other forums. The Government's direct role in the development of land is of particular relevance to the Committee, as it raises potential issues relating to the machinery of government, agency governance, transparency of government finances and competition policy.

In reviewing the direct role of the State in land development in Western Australia, the Committee has focused on some key principles of effective governance:

- the State should only engage in activities where there is market failure;
- to eliminate the potential for conflicts of interest, regulatory functions and service functions should, as a general rule, not be performed by the same agency; and
- accountability is improved by greater transparency.

The Committee notes that the Government's land development functions are fragmented across several agencies, as shown in the table below:

**Table 3: Key agency functions in land development**

<b>Agency</b>	<b>Service Provision</b>	<b>Policy Formulation/ Land-Use Planning</b>	<b>Regulation</b>
Department of Regional Development and Lands (DRDL) – State Land Services	Management of Crown land  Selling, leasing and conveyancing of State lands		Administrative responsibility for the <i>Land Administration Act 1997</i>
LandCorp	Development and sale of industrial land throughout the State  Development and sale of residential land in the State’s regions  Civil works to support urban development and renewal  Disposal of surplus Government land	Master planning of residential and industrial estates (through preparation of local structure plans)  Planning of urban development and renewal projects	
Department of Housing	Provision of mainly affordable residential land in the outer metropolitan area and larger provincial centres	Providing affordable housing advice to Government	
Redevelopment authorities	Civil works to support redevelopment of land in the relevant redevelopment area	Planning for the redevelopment of land in relevant redevelopment areas (through redevelopment schemes, master plans and structure plans)	Development control in relevant redevelopment areas (through the power to grant development approvals)
Department of Planning		Provides professional planning support to the WAPC	Determination of subdivision applications (through delegation by WAPC)

Agency	Service Provision	Policy Formulation/ Land-Use Planning	Regulation
WAPC	Development of small-scale pilot projects to demonstrate best practice planning	Development of State Planning Strategy, region planning schemes, region structure plans  Advises the Minister on local planning schemes  Approval of district and local structure plans	Determination of subdivision applications

The policy formulation and regulatory functions identified in the table above are clearly the responsibilities of Government. In the case of land development:

- the risks inherent in the development of strategic industrial estates make such projects unattractive to the private sector, with the result that the Government has a role to play in the provision of such estates to support the State's economic development;
- urban revitalisation projects in the metropolitan area and the regions may or may not be commercially viable. Where such projects are expected to be viable, the private sector should be allowed to compete to undertake them;
- development of residential land in most regional towns is generally not commercially viable (although there are some regional centres where the market for residential land may be sufficiently deep to enable the private sector to meet demand fully). In the smaller towns, government involvement in residential land development would seem to be necessary;
- as a general rule, there is no market failure with respect to development of residential land in the metropolitan areas and larger regional centres. The private sector should be capable of supplying sufficient land to meet demand. However, the Department of Housing (predominately through joint ventures with private developers) has positioned itself as a major provider of affordable housing lots in the metropolitan area. There is arguably a legitimate public interest for Government to continue to act in this role; and
- where surplus government land assets are developed into residential land, many of these projects are in established suburbs with sought-after locations. In some cases they are situated on contaminated sites that require remediation. High demand for developed residential lots in these locations means there is the potential to make substantial returns from these projects. While the private sector would be keen to acquire these sites from the Government and undertake these projects, this could deny the Government the opportunity to capture the full value added from

development and sale of this land and may delay development. From the Government's perspective, it would seem advantageous for it to assess the financial implications of deciding to undertake all or part of these projects or sell the land to the private sector.

### *Issues related to LandCorp*

The Committee is aware that LandCorp has been criticised in the past in its role as a developer of vacant Crown land in regional towns. Regional 'hot spots' (such as Port Hedland, Karratha, Broome, Exmouth and Kununurra), where demand for land has been high, have been identified as prime examples of concern.

While sympathetic to the concerns, the Committee could find no evidence to support the criticisms directed at LandCorp but believes better planning processes could ameliorate the recurrence of issues in the future.

In regional 'hot spots' (which have tended to experience peaks in their economic cycle), LandCorp must walk a fine line between having sufficient stocks of developed lots on hand to meet upswings in demand and holding too much stock that cannot be sold when demand slumps. While native title, environmental and statutory land-use planning delays (all of which are beyond LandCorp's control) have contributed to supply shortages, it would seem that LandCorp was, to some extent, taken by surprise by the magnitude and duration of the most recent boom and became a victim of unforeseen capacity constraints in the land development industry. It was not alone, in this regard which underlines the need for the State's planning for such developments to be enhanced. For its part, LandCorp is now in the process of escalating its supply of land in these centres in response to demand.

It has been suggested that in regional 'hot spots', once it has obtained the necessary statutory land-use planning, environmental and native title approvals, LandCorp should sell its broad hectare land (or super lots) to private firms for them to develop, and then move on to its next project. However, such an approach could limit LandCorp's legitimate ability to recoup its significant initial project outlays from the approvals phase of projects and make development projects much more profitable for private firms. In such circumstances, LandCorp's dividends to the Government would decline, or the Community Service Obligation (CSOs) paid by the Government to LandCorp would increase, if this suggested approach were to be pursued.



With respect to land development in the majority of small regional centres (many of which are experiencing little or no growth), it is not possible for LandCorp to develop, at the same time, every project sought by local governments. These projects are not commercially viable and so require CSO funding from the Government. It is for the elected Government to determine the priority of these projects. In the presence of funding constraints, lower priority projects may not be developed as quickly as desired by local governments. This may be partially attributable to the requirements of competitive neutrality placed upon LandCorp, namely the payment of land holding costs (for example, land tax and rates) on unsold lots that makes holding excessive levels of stock unviable.

Another of LandCorp's functions is to undertake major urban revitalisation projects, which are often not commercially viable and require subsidisation by Government. Examples include the Albany Foreshore development and the Mandurah Ocean Marina. In the past, the Government has assigned these projects to LandCorp without going through a competitive procurement process.

### ***Issues related to the Department of Housing***

In general terms, the Department of Housing is responsible for the development of affordable residential land with a focus on the lower end of the housing market. Its operations typically involve the development of land in the outer metropolitan area and in large provincial centres around the State.

Implicit in this activity are three objectives:

- the supply of affordable land to home buyers (particularly first home buyers), targeted specifically to the lower end of the housing market;
- the supply of land to the Department for the construction of public rental housing (this includes the supply of lots directly for this purpose, the supply of a specified proportion of lots developed through joint venture partnerships with private developers for public housing, and assisting the Department to renew and reconfigure its public housing portfolio through its New Living program); and
- meeting the State's obligations under agreements to match Commonwealth funding for public rental housing, so enabling the State to avoid having to provide its matching funds from the Consolidated Fund. This represents a hidden cross-subsidy within the Department and prevents the Government from assessing the priority of its social housing outcomes against competing priorities through the budget process.

The Committee is concerned that rapid increases in the cost of housing construction are putting the sustainability of this funding model at increasing risk. The number of public rental dwellings that can be constructed each year using funds generated internally by the Department is declining, giving rise to an increasing need for supplementation from the Consolidated Fund if construction targets are to be met. The Committee believes greater transparency in their funding arrangements and subjecting them to annual review through the budget process would be desirable.

### *Issues related to the redevelopment authorities*

Redevelopment authorities have planning, regulatory and development responsibilities in prescribed areas within Perth. They appear to have been established partly to 'cut through' the increasingly moribund planning system in the last 15 years and get results quickly.

The Committee notes the Premier's recent announcement proposing to merge the four current redevelopment authorities into a single entity. It supports this proposal as a means of consolidating expertise, extracting efficiency gains and strengthening the ongoing financial viability of the Authorities' activities. Over time, however, the Government's initiatives to revitalise the planning system should lead to a diminishing need for a standalone Redevelopment Authority, with its functions being assumed by the WAPC/Department of Planning and LandCorp.

## Way Forward

Improved strategic planning across and within agencies will depend on a clearer understanding and communication of priorities. These priorities should provide the context in which Government and public sector leaders set strategic policy directions, including service delivery outcomes. Decisions taken on how services are delivered should drive decisions about infrastructure that best supports this service delivery. The Committee is of the view that Outcome Area planning (which is discussed in Chapter 2) will be crucial to well-informed infrastructure planning. Recommendations 1, 2 and 3 are fundamental in this regard.

### *Delivery of infrastructure projects*

#### **Governance of long-term strategic infrastructure planning**

Good planning needs to be re-established to drive coordinated and coherent public service and infrastructure delivery across the State. It will require the synthesis of long-term service and infrastructure delivery planning by agencies with long-term strategic land-use planning by the WAPC.

The Committee believes that there is an urgent need for a high-level body to be tasked with, and held accountable for, facilitation of coordinated strategic infrastructure planning within the Western Australian Government. This body should play a key role in:

- ensuring coordinated infrastructure planning between agencies, having regard for the infrastructure planning of other stakeholders such as industry and the Commonwealth and local governments;
- overseeing the development and annual review of a state-wide and whole of government infrastructure investment plan that spans at least the next 20 years; and
- advising the Government on infrastructure prioritisation over the next 10 to 20 years.

The key features of this body should include:

- membership comprising all State Government agencies that have a major stake in infrastructure planning and delivery in Western Australia. This would include DPC, DTF, the Department of Planning, the WAPC, the Department of State Development, the Department of Transport (including Main Roads), Housing and major GTEs;
- representation at the CEO level, to enable them to commit to decisions taken collectively by this body;
- administrative support provided by DPC, DTF or the Department of Planning; and
- the annual preparation of a whole of government infrastructure investment plan for referral to Cabinet. This plan would be a synthesis of agencies' long-term service and infrastructure delivery plans with long-term strategic land-use plans developed by the WAPC and should reflect consultation with stakeholders in industry, the community and other levels of government. It is vital that where, for example, community consultation takes place, like in the case of the Fitzroy Futures Forum (see box below), that this consultation is appropriately considered as a valuable input by the community.

### **Fitzroy Futures Forum**

The first Fitzroy Futures Forum (FFF) was held in 2000 in recognition of the fact that town planning and development issues affected all residents of Fitzroy Crossing as well as the communities around it. FFF was intended to provide a means for government departments and other service providers to get community approval for large scale infrastructure projects – a new school, new health facilities, public housing and other infrastructure. FFF comprises small business owners, local government representatives, staff from various Indigenous organisations and mainstream government departments such as health and education. It also includes concerned community members.

According to a recent review: *The relationship between the FFF and the WA Government is unique in a number of ways. Certainly, it is unusual for a government to*

*engage at such a high level with a community-generated FFF. Also, the fact that there are two individuals whose job it is to engage with the Forum and with Fitzroy Valley residents, gives the relationship a more personal face. In theory, these two people act as the links between the WA bureaucracy and the people of the Fitzroy Valley. Their role is to represent the community interests to government, providing a coordinated response to issues while building trust in the community, and reducing duplication across WA Government departments. The central theme of their message and approach to the community has been: work together as a community and government cannot ignore you; and to government: if you are not listening to community-identified and supported priorities you are not providing good governance*<sup>72</sup>

The Infrastructure Coordinating Committee (ICC), which is a statutory body created by the WAPC under the *Planning and Development Act 2005*, could assume the roles outlined above. However, its effectiveness in the past has been limited due to its relatively low-level role as an advisor to the WAPC on ‘planning for the provision of physical and community infrastructure throughout the State’.<sup>73</sup> The Committee sees the ICC’s rejuvenation as being essential to delivering robust strategic infrastructure planning.

**Recommendation 18:** Reinvigorate the Infrastructure Coordinating Committee and task it with, and hold it accountable for, facilitation of coordinated strategic infrastructure planning within the Western Australian Government. This body should:

- a) be reconstituted to include major infrastructure agencies including the Department of the Premier and Cabinet (DPC), the Department of Treasury and Finance (DTF), major Government Trading Enterprises and departments with significant infrastructure programs, chaired by DTF;
- b) oversee the development of a long-term (up to 20 years) whole of State land use and infrastructure investment plan;
- c) play a key role in ensuring coordinated infrastructure planning between agencies over this timeframe; and
- d) advise the Government on infrastructure prioritisation over a long-term timeframe.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

June 2011

**Milestones**

- Whole of State land-use and Infrastructure Investment Plan prepared [July 2011].

<sup>72</sup> Thorborn, K. (2007).

<sup>73</sup> *Planning and Development Act 2005*, Schedule 2, Section 6(3)

### Governance of strategic asset management

The Committee believes that agencies must be required to adhere to the SAMF if successful project outcomes are to be achieved. To instil the right agency behaviour, Cabinet should be informed where funding requests are not supported by a well-developed business case or project definition plan that accords with the SAMF.

It was also noted that around two-thirds of Government spending on capital works is undertaken by GTEs, which currently have no binding obligation to comply with the SAMF. Given the significance of this investment, and the risk this poses to the Government as the owner, the principles of the SAMF must also apply to GTEs (after all, they are still funded by taxpayers one way or the other).

To that end:

- the Government should adopt a policy whereby requests for investment decisions should not be considered unless they are fully compliant with SAMF principles;
- where a submission is judged by DTF not to comply with SAMF principles, DTF should inform the decision process of the shortcomings in compliance and the potential consequences for the State's finances that may arise from these associated risks; and
- this policy should cover all requests for investment approval, including those from agencies (for example, GTEs) that are currently not required to comply explicitly with SAMF principles.

**Recommendation 19:** Require all investment decisions by State Government agencies, including Government Trading Enterprises to be reviewed by the Department of Treasury and Finance (DTF) to assess compliance with Strategic Asset Management Framework (SAMF) principles prior to submission to Cabinet. DTF is to ensure that appropriate support and training is provided to agencies to enable them to implement sound asset planning and management.

#### Responsibility

Department of Treasury and Finance

#### Deadline

With immediate effect

#### Milestones

- Processes in place to assess agency compliance with SAMF [February 2010].

When done appropriately, the normal planning timeframe for infrastructure projects ranges from four to seven years, depending on the complexity of the project. However, the Committee recognises that Government will introduce new infrastructure projects into its overall planning at short notice, or bring forward or defer already planned projects, in order to meet or pursue political objectives, or to take advantage of a short-lived window of strategic opportunity.

In circumstances where projects are 'fast-tracked', the planning process can be compressed significantly, raising the risk that SAMF principles may be bypassed or dealt with superficially in order to meet deadlines imposed by the Government. Once again, the risk is that this will result in Cabinet making decisions about such projects on the basis of less than full information, to the potential detriment of the State.

In this regard, Cabinet may decide to proceed with a poorly evaluated project that has an excessively low estimated cost or an overly optimistic completion date when more extensive analysis would have given a clearer picture of the risks associated with the project.

Where infrastructure projects are fast-tracked, the application of the SAMF becomes even more critical to ensuring successful project outcomes, notwithstanding the shorter planning timeframes. The Committee is of the view that delivering sound outcomes from fast-tracked infrastructure projects requires the SAMF to be applied in a different form, but applied nonetheless. The SAMF must be implemented through a process that applies enough resources in a truncated timeframe to ensure informed decision-making by Government and sufficient clarity for planning, procurement and delivery of the project.

The Committee envisages the following process being followed for fast-tracked infrastructure projects that nevertheless protects the integrity of the SAMF:

- a Cabinet decision to fast track a project should require the approval of sufficient resources to undertake the necessary planning/scoping study.
- this should be accompanied by an announcement by the Government that it is commencing a planning/scoping study for the project in question, with a specified timeframe that is not expected to exceed 12 months, aimed at:
  - identifying risks that could impact on the project's outcome and strategies to mitigate against these; and
  - determining the most appropriate approach to the project's delivery.

The study should be driven by a multi-agency project team with collective responsibility for sign-off to the relevant Minister, who would take the study's results to Cabinet. In view of the likely sensitivity of projects of this nature, the project team should be comprised of senior representatives from relevant agencies, and DTF should be represented on the team. The use of a multi-agency project team should enable a more comprehensive evaluation of the project than if a single agency were to be responsible for this task, with the result that optimisation bias should be minimised.

The use of multi-agency project teams for this type of exercise is not a new concept. A project team is currently scoping the Northbridge Link project.

Sufficient resources should be applied to the project team to ensure compliance with SAMF principles during the specified timeframe.

**Recommendation 20:** Where a project is fast-tracked by the Government:

- a) sufficient resources to undertake the necessary planning/scoping study in the shorter timeframe should be provided; and
- b) the specified timeframe, project's risks and potential mitigation measures, should be fully disclosed to Government together with the most appropriate approach to the project's delivery.

**Responsibility**

Department of Treasury and Finance

**Deadline**

With immediate effect

**Milestones**

- With immediate effect.

**Works reform**

The Committee recognises that the Works Reform Business Solution Plan is critical to sound planning, delivery and management of public buildings for government and endorses the initiative. A critical element to the success of the works reform initiative will be the ability of government to attract, develop and retain suitably qualified, skilled and experienced project managers necessary to oversee the successful delivery of major government projects. To gauge the effectiveness of the works reform initiative in meeting its stated objectives, independent reviews are required at appropriate milestones. The first review should be completed by the end of 2010.



Lessons learned from independent reviews, in particular with respect to the success of developing and retaining project management skills, could potentially be applied to a broader range of agencies than those covered by the works reform initiative. In the event it is demonstrated that project management skills cannot be developed and retained within the public sector, then the extent to which this is influenced by the level of remuneration offered by the public sector for these skills will need to be reviewed.

**Recommendation 21:** Independently review the effectiveness of the Government's Works Reform Business Solution Plan at appropriate milestones (i.e. 18 and 36 months).

**Responsibility**

Department of Treasury and Finance

**Deadline**

With immediate effect

**Milestones**

- First review completed [by December 2010].

**Oversight of major infrastructure projects**

Works reform needs to be supplemented by strong Cabinet oversight of progress on all major capital works projects undertaken by agencies in the State public sector, with any scope or cost blowouts and delays subjected to stringent examination, and decisive action taken to address these.

Of course, there may be circumstances where project delivery runs over budget or behind schedule for legitimate reasons. These may include industry capacity constraints or where it can be demonstrated that expansion of a project's scope leads to greater value for money (even after taking account of the potential for other projects to be crowded out as a result). The importance of a strong oversight role for Cabinet is that it will enable differentiation between projects where cost overruns or delays may be warranted, and those where the grounds for increased funding or extensions to completion deadlines are weak or non-existent.

To minimise the extent of cost blowouts and delays the Committee believes that an appropriate governance structure would involve the Minister for Works being responsible for overseeing 'on time, on budget' capital works project delivery, and being tasked to provide Cabinet with a comprehensive update on those major capital works projects that are experiencing problems with delivery. The update should include commentary on reasons behind any cost overruns or delays and proposed remedial action.



**Recommendation 22:** Ensure Cabinet receives regular updates and advice from the Minister for Works, enabling it to oversee progress on all major capital works projects, in the process subjecting any cost overruns and delays to rigorous scrutiny and robust, fully informed and transparent decision-making.

#### Responsibility

Department of Treasury and Finance

#### Deadline

With immediate effect

#### Milestones

- With immediate effect.

### *Reinvigorating competition in public service delivery*

Agencies must be compelled to pursue competitive sourcing of service and infrastructure delivery, unless it can be established that traditional methods would yield superior outcomes. Opportunities for community sector provision of human services are explored in Chapter 3.

To achieve this, the Committee believes that it is necessary to modify the external policy environment within which an agency operates in order to align the interests of the agency's employees with those of the Government. This means:

- providing leadership by supporting agencies to manage risk rather than avoiding it. This includes establishing an evaluation framework to aid agencies in reviewing opportunities for competitive sourcing, and providing training and support to adopt this framework; and
- putting in place mechanisms for agencies to explore and, where appropriate, pursue competitive procurement. These mechanisms are noted in Recommendation 23.

In the case of infrastructure delivery, there is already a requirement in the SAMF that agencies must take alternative delivery mechanisms (such as public private partnerships) into account when evaluating capital projects. The Committee expects that Recommendations 20 and 21, which are aimed at ensuring agency compliance with the SAMF or its principles should, if implemented, lead to agencies investigating competitive procurement options for asset delivery more thoroughly as a matter of course.

The Committee would caution that it is essential that competitive procurement and alternative infrastructure delivery mechanisms should be pursued only if it can be demonstrated to the Government's satisfaction that they will provide value for money. Pursuit of such options on ideological grounds is highly likely to lead to sub-optimal outcomes in a significant number of cases.

**Recommendation 23:** Agencies be required to routinely review their activities with a view to evaluating their suitability for exposure to competition from the private and community sectors. This will be achieved by:

- a) establishing the evaluation framework for agencies, and providing training and support, including value for money audits; and
- b) requiring agencies to report on evaluations conducted to the Economic and Expenditure Reform Committee prior to the commencement of the annual budget process.

**Responsibility**

Department of Treasury and Finance

**Deadline**

With immediate effect

**Milestones**

- Draft Premier’s Circular submitted to the Department of the Premier and Cabinet [December 2009].

If Government is to be able to inject an even larger element of competition into the delivery of services and asset delivery, particularly for the more complex contractual sourcing of services and infrastructure, then it will require highly developed skills within the public sector covering:

- the specification of agency requirements;
- the successful negotiation of contractual outcomes;
- sound management of contracts throughout their lives; and
- how risk is dealt with throughout the entire procurement process.

Accessing these skills will impact in minimising the Government’s exposure to contracting risk, as well as its ability to successfully inject a larger element of competition into service and asset delivery. When contracts are being specified, negotiated and managed, it is crucial that the public sector is able to bring skills to bear that match those of private providers. The lessons learnt by the Office of Shared Services (see Chapter 2) should be noted in all major reform projects.

The Government has two broad options in acquiring these skills. It can continue to build agency capacity through procurement and works reform initiatives, such as training, recruitment and on-the-job experience. In this regard the Committee notes the positive work that has been undertaken or is currently being progressed to develop procurement/contracting skills within agencies through the procurement reforms being undertaken by DTF and the works reforms currently being pursued by the Building, Management and Works business. The innovative approach taken as part of the procurement reform, which involved the placement of experienced and skilled DTF

procurement officers in line agencies, is considered an effective means of quickly upskilling line agencies where a skills/experience deficiency is identified.

Alternatively, where the necessary skills are not available from within government the option always exists for these to be purchased as required from specialist firms.

The approach chosen will depend on contractual materiality, complexity and risk. While the Committee believes the procurement and works reform programs should be progressed as a matter of priority, it also believes relatively simple, small and low-risk contracts should be specified, negotiated and managed by agencies themselves using skills situated in-house, with the scope of these functions increasing as the agency skill sets become more sophisticated.

For contracts with relatively high complexity, materiality and risk, it would seem appropriate for the specialist teams within DTF (working in consultation with agencies) to have principal responsibility for the procurement process, unless the frequency with which an agency deals with such contracts would merit the development of the relevant expertise within the agency itself.

The largest, most complex and risky contracts are expected to require input from specialist firms or individuals to supplement the skills of DTF teams. While it is possible that expertise can be brought in from the private sector, in the case of specific contracts, care should be taken to ensure that this expertise supplements the in-house skill sets within agencies and does not just substitute for them.

On the matter of contract specification, a number of private sector organisations suggested to the Committee that more communication between agencies and prospective suppliers prior to requests for tenders being issued would be helpful in terms of focusing all parties on the outputs that need to be delivered. The Committee supports this suggestion, and believes that engaging industry during the procurement planning stage to discuss agency requirements would facilitate better value for money outcomes for Government. This would be particularly helpful in the case of contracts with high levels of complexity, materiality and risk. However, it is noted that this process needs to be carefully managed as there are risks that attach to the early engagement of potential suppliers.

**Recommendation 24:** Attract, develop and retain people with the skills and expertise involved in procurement and contract management for public service delivery by private sector partners, to enable them to:

- a) clearly articulate, for contracting purposes, the nature of their requirements;
- b) negotiate contractual outcomes successfully;
- c) manage contractual outcomes effectively; and
- d) deal with risk during the procurement process.

**Responsibility**

Department of Treasury and Finance

**Deadline**

With immediate effect

**Milestones**

- Report back to Cabinet [July 2010].

In the first instance, these programs should focus on developing a strong, centralised skill set within DTF, which can then share knowledge and experience with agencies, allowing them to build expertise over time. If it is not possible to develop this expertise within government, then it will need to be purchased on an ‘as required’ basis from the private sector. Ultimately, involvement of DTF in procurement activities should be governed by contractual materiality, complexity and risk, as well as individual agency capability.

***The role of the State in the land development process***

In considering the State’s role in the development of land, the Committee took the view that there needs to be greater State Government agency accountability for the provision of land to the market. Currently no agency has overall responsibility for this task. It also decided that the State’s role in the provision of land should be guided by the principles identified in Recommendation 25.

A key feature of these principles is the incidence of market failure which is likely to occur in:

- the development and sale of heavy and/or strategic industrial land;
- the development and sale of residential, commercial and industrial land in the State’s regional centres, including the banking of such land in anticipation of periods of heavy demand;
- major urban renewal projects involving the delivery of common-use infrastructure;
- the development of land for the first home owner segment of the housing market; and
- the development of land for social housing.

Application of the principles of contestability and transparency of resourcing by Government has the potential to require changes in Government policy and functions within agencies. These include:

- all disposal of vacant Crown land in the State’s regions to be by way of a public bidding process, with LandCorp acquiring such land by direct treaty at a reasonable price only if there are no other participants in the bidding process; and
- pursuing competitive procurement of the planning and development of all major urban revitalisation projects (with LandCorp having the opportunity to compete for these projects).

The Committee’s Terms of Reference were extended by Cabinet for the purpose of Stage 2 to include advice in relation to the role of the State in the land development process. The Committee recognises that the role of the State in the land development process spans the essential functions of policy (in terms of land-use planning) and regulation (dealing with development approvals). In some cases, the State may also have a role in the physical development and sale of land. The Committee is of the view that the State’s role in land development should be guided by the principles set out in Recommendation 25. Application of these principles may require changes in Government policy and functions within agencies.

**Recommendation 25:** In addition to its policy (land-use planning) and regulatory (development approval) functions, the Government’s role in land development be driven by the following principles:

- a) it should be limited to circumstances of demonstrable market failure through market testing that proves that the private sector cannot deliver at an appropriate price;
- b) in addressing market failure, contestability should be pursued, along with transparency of resourcing by Government; and
- c) where appropriate, Government should maximise the benefit from the development and disposal of surplus public land assets.

**Responsibility**

Department of the Premier and Cabinet

**Deadline**

June 2010

**Milestones**

- Policies relating to contestability in the release of vacant Crown land and the planning and development of major urban renewal projects to be developed and take effect [June 2010].

The chemistry needed to improve the land supply/demand relationship will have several components. Much will be based on better planning processes to anticipate supply deficiencies and prospective bottlenecks. It will also require Government to collaborate more effectively with the private sector and local government. The Committee notes that while considerable focus has been placed on the number of conditionally approved lots by the WAPC/Department of Planning, what counts in the market is the number of lots actually able to be released. There is also a need for Government to optimise its own land release activities.

If substantial imbalances between demand and supply persist over long periods of time, it may be necessary for the Government to consider strategic market intervention, such as through accumulating a bank of land. The land bank could then release lots at times of severe imbalance in the private market. This approach may be more suited to dealing with regional areas where private development is less prevalent and can be riskier than in the metropolitan market. It would be a last resort, recognising the significant up-front investment required.

**Recommendation 26:** Optimise Government's impact on land development through:

- a) the Department of Planning/Western Australian Planning Commission (WAPC) modelling future land demand throughout the State, taking account of economic and population forecasts;
- b) the Department of Planning/WAPC closely monitoring, analysing and responding to the number of lots that are available for immediate release throughout the State;
- c) the Infrastructure Coordinating Committee (ICC) facilitating delivery of land through the identification of associated necessary infrastructure by relevant agencies;
- d) the Government considering the necessary amount of government land for release and the investment in infrastructure to enable its release, along with the component required for social housing/lower priced land; and
- e) the Department of Regional Development and Lands overseeing the release of government land based on the above planning and Government decisions.

**Responsibility**

Western Australian Planning Commission

Department of Planning

Department of Regional Development and Lands

**Deadline**

June 2011

### Milestones

- Modelling of future land demand and monitoring of lot availability [already underway]
- ICC to establish a process for identifying necessary infrastructure associated with future land demand [September 2010]
- Submission to Cabinet by Minister for Lands on government land required and for release, and associated infrastructure [March 2011]
- Commence release of government land for development under new arrangements [June 2011]

The Committee notes that Government's land development functions are fragmented across several agencies, which increases the potential for duplication and overlap. The fragmentation has generated concerns in several areas. One is LandCorp activities including its CSO arrangements and another is the lack of transparency in the resourcing of social housing objectives. There are a number of ways in which these concerns could be addressed, including clarifying functions of each agency or consolidating land holding and development functions within a single agency. The Committee believes such consolidation needs to be progressed to effectively manage government's land development.

The Committee is also aware that redevelopment authorities (created to address specific land development requirements in particular locations) may no longer be needed once these requirements have been met. The reinvigoration of the planning process may also reduce the need for these agencies, which have planning, regulatory and direct land development functions.

**Recommendation 27:** Clarify the responsibilities of government agencies involved in land development by:

- a) transferring stocks of land held by LandCorp and the Department of Housing/Housing Authority to the Department of Regional Development and Lands (DRDL);
- b) retaining LandCorp's existing responsibilities for developing industrial land, regional residential land and special developments allocated by Government (including the disposal of government property). LandCorp is to undertake land development activities through open market tender processes (developed by DRDL) clearly demonstrate that:
  - i) the private sector cannot or will not undertake such activities at an appropriate price; or
  - ii) LandCorp is the lowest bidder (on competitively neutral grounds with private developers);

- c) retaining the Department of Housing's responsibilities for social housing throughout the State, with identified low-priced land release to be approved by the Government as part of its land release planning. The low-priced land release is to be funded by a subsidy from the Housing Authority to DRDL's approved land release program; and
- d) rationalising the requirement for and number of redevelopment authorities.

**Responsibility**

Department of the Premier and Cabinet  
Department of Regional Development and Lands

**Deadline**

June 2011

**Milestones**

- Review of operations of four redevelopment authorities [ongoing].
- Transfer of land holdings (that are not subject to development) to DRDL [June 2010].
- DRDL establish open market tender process [December 2010].
- Commence release of government land for development under new arrangements [June 2011].



# 5. Realising Western Australia's Economic Potential

## Overview

In previous chapters the Committee has focused its attention on reforms to the way in which the public service formulates policy options and fosters service delivery capability in partnership with the community and business. However, an important part of the public sector's role is in delivering the conditions that support effective private sector decision-making and investment. Government's roles as a regulator, policy maker and supplier of services such as water and energy are critical to community prosperity and wellbeing. These roles also need to be effectively supported by the public sector.

Western Australia's geographic position, its generous endowments of natural and human resources and its stable democratic institutions have meant that the State has been uniquely positioned to benefit from the economic development of Asia. The benefits of this unique set of circumstances became particularly evident in recent years as Chinese economic growth resulted in very strong demand (and price growth) for the State's mineral and energy exports.

*The unprecedented growth experienced in Western Australia in the recent past has resulted in significant demand for the key enablers of growth – people, energy and water.* (Chamber of Minerals and Energy)

Not only did the benefits resulting from these circumstances become clear during the recent resources boom, but so too did the more negative aspects of exposure to a powerful external stimulus. Strong economic growth, particularly when coupled with a population influx, can bring with it very real pressures such as rising house prices and rents, labour shortages reflected in both the availability and cost of skilled workers and rapid growth in the demand for public infrastructure and government services. The reality is that rapid economic transformation can be painful when it stretches the community's economic and social resources.

*What I am hoping for is that there will be no boom. Boom, I'm not going to use that word. But what Western Australia has in front of it is perhaps 20 years of very strong long-term growth that will not only bring jobs and all sorts of opportunities, but also*

*bring about, I would hope, a transformation of the West Australian economy and therefore significant transformation of the Australian economy.*<sup>74</sup>

The Committee believes that one lesson from the resources boom is that the public sector's roles as a regulator and a provider of key inputs can act as a brake on private sector investment, limiting the capacity to take advantage of available opportunities and exacerbating pressures associated with strong economic and population growth. Fortunately, the Government has the capacity to avoid repeating recent history through reform of these functions.

These comments should not be taken as the Committee urging the adoption of a 'let it rip' mentality. Regulation has its place and, when sensible and cost-effective, can result in improved economic and social outcomes.

Equally, as the quotes in the box below suggest, in some of the key markets that facilitate economic and social development there is an important role for public sector institutions, including the State's GTEs.<sup>75</sup>

*Such limitations in regional marketplaces effectively result in 'market failure', with too few suppliers to create a truly competitive market. Where there are multiple contracts with a range of suppliers, service delivery costs can be high due to a loss of economies of scale and scope.* (Horizon Power)

*Western Australia has a comparatively small and isolated market for utilities. This constrains its ability to foster genuine competition and economies of scale, and to deliver large utility infrastructure projects.* (Economic Audit Committee Workshop Participant)

The public sector's involvement in regulatory and commercial activities will best support community development and private sector investment when it is underpinned by advice and actions that are consistent with:

- delivering consumer choice and placing downward pressure on prices – individuals are best placed to determine how, where and when they spend their money;
- allowing the private sector to take a greater role in the economy – markets are generally able to achieve the most efficient outcomes for society, and the State's economic framework needs to ensure that private sector investment is not stifled by unnecessary regulations and processes; and

<sup>74</sup> Barnett, C. (Premier) (2009).

<sup>75</sup> GTEs are distinguished from other parts of the public sector by the fact that they charge for the goods and service they provide and are primarily self-financing. They include entities referred to as public corporations in the budget papers.

- governing for the future – where Government intervenes in a market, this must be warranted and necessary to achieve its policy objectives (it should only occur where the benefits of intervention exceed the costs).

Submissions to the Committee identified a number of specific, discrete reforms that, in the Committee's view, should be considered by Government. These reforms are listed in Appendix 6. However, an assessment of their importance and feasibility relative to other elements of Government's reform agenda is necessary to determine if they should be a priority at this time. In this chapter the Committee has chosen to make recommendations that will:

- optimise outcomes from Western Australia's GTEs; and
- bolster the support provided by the public sector to Government's identification, consideration and implementation of economic reforms over time.

The State's GTEs are major participants (and in some cases the only participant) in the markets for key growth enablers such as energy, water and transport. Accordingly, their planning and performance is an important factor in ensuring that the State can take full advantage of the growth opportunities available to it.

The GTEs are also a significant government asset. Public corporations:

- have a collective estimated net worth of around \$34.6 billion as of 30 June 2010;
- contribute significantly to both government revenue (around \$0.9 billion in 2009-10) and expenses (around \$1.6 billion in 2009-10); and
- are a significant component of total capital works spending (around \$4.4 billion in 2009-10).<sup>76</sup>

This major investment on the part of government carries with it commercial risk that extends to the associated revenue and expense streams.

Government can and should regularly revisit the issues of its continued ownership of a commercial activity and the appropriate governance arrangements for this activity. However, it does not need to approach the question of ownership from a preconceived ideological position that favours or does not favour privatisation. The question that needs to be asked is whether the government's continued ownership of a business is the most effective way to achieve its desired outcomes. The answer can change over time as the Western Australian economy grows, making for a more attractive market for private sector participants. The answer can also change as technological and social changes alter market conditions, potentially undermining previously successful business and policy models.

<sup>76</sup> Based on estimated outturns for 2009-10 at the time of the 2009-10 Budget.

Where Government elects to continue to own a business then it needs to consider the question of which governance model will best align Ministerial accountability with control and achieve its desired outcomes. The public corporation model, while appropriate in some circumstances, is just one option. Under certain circumstances operating the business from within a department or as a statutory authority may allow for clearer accountability and an improved alignment between desired outcomes and decision-making.

With the appropriate ownership and governance model in place, an effective and robust governance relationship is then necessary to ensure that Government's desired outcomes and the GTE's objectives are closely aligned. A transparent and consistent governance policy will help achieve this, as will enhanced general government sector support for the key stakeholders in each governance relationship.

For the public sector to better support Government's economic reform agenda the focus has to be on supplementing existing sources of policy advice such as general government agencies and one-off reports authored by committees or consultants with a more active Economic Regulation Authority (ERA). The Commonwealth's experience with the Productivity Commission shows that open and consultative processes that identify vested interests, the broader public interest, community concerns and expectations can be used to identify reform priorities and recommend associated policy changes to the Government. The results of such a process can then be used by Government to address the public interest against the resistance of minority interest groups or, at least, take decisions not to pursue reform on the basis of full information.

Expanding the role of the ERA does not mean that Government will not continue to set the economic reform agenda or lose control over the reform issues being considered by the public sector. The ERA's role would be as an advisor to Government and the existing referral mechanism, which provides for the Treasurer to set the Terms of Reference for an ERA inquiry, would remain. Furthermore, as with the Productivity Commission, the self-initiated work of the ERA would need to be developed in consultation with Government, which would retain the right to rule out specific areas of interest.<sup>77</sup>

The Committee also recognises that there has been a gradual erosion of utilities market policy capacity within the general government sector over time. In part, this erosion of capacity has been due to the movement of skilled public servants to the GTEs. This needs to be reversed as the lack of market policy expertise within the general government sector can raise the prospect of Ministers being compromised by their reliance on advice from a GTE that is also a participant in the market and which may not have the same breadth of understanding of Government policy that departmental officers have.

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<sup>77</sup> Banks, G. (2007).

## A Vision for Realising Western Australia's Economic Potential

In the Committee's vision for realising Western Australia's economic potential, government's regulatory, market policy and commercial operations would be enhanced in the following ways:

1. Ensuring that each GTE operates under the governance arrangement that is the most effective for delivering Government's objectives. An assessment of a GTE's governance arrangements should also examine whether the government needs to be involved in particular commercial activities.
2. Establishing a simplified and standardised governance framework for the State's GTEs will facilitate the closer alignment of Government objectives and the outcomes delivered by the GTEs. This standardised framework will not reduce the ability of Government to mandate specific objectives for individual GTEs where this is needed.
3. Creating a specialised GTE advisory and monitoring unit that will provide higher quality advice to shareholder Ministers on governance matters and help drive improvements in the relationship between these Ministers and the boards of the GTEs.
4. Public sector bodies that support Government's economic reform agenda will be more effective in providing well-developed reform options that can be used to refresh this agenda on an ongoing basis.
5. The observed decline in the public sector's capacity to provide high quality advice to Government on policy issues relevant to the State's energy and water utilities will be reversed.

### Key Issues

In its analysis and consultation the Committee has identified the following key issues relevant to the extent to which government's regulatory policy, market policy and commercial activities facilitate realising Western Australia's economic potential:

1. There is often confusion as to the appropriate relationships between the key players in the governance of GTEs and each player's role and responsibilities. There is poor alignment between Government objectives and the outcomes delivered by GTEs, with Government often retaining accountability but little direct control. The dual accountability of GTE boards and management to both Government and statutory obligations, the fragmentation of the legislative base for GTE governance arrangements, the limited capacity of line agencies to support shareholder Ministers on governance matters and, in some cases, individual GTEs operating under inappropriate governance models, contribute to this problem.

2. During its first year in office the Government has either implemented, or signalled its commitment to, a number of important reform initiatives. Effective and timely implementation of these reforms will involve a significant effort on the part of the public sector.
3. Over time, the economic reform agenda outlined in the State's annual budget papers has become thinner.<sup>78</sup> While 'reform fatigue' may partly explain this, relevant public sector organisations and processes could be used more effectively to maintain the momentum of reform.
4. There has been an erosion of public sector policy capacity in relation to some of these key markets such as water and energy as analysts have been attracted away by businesses within these markets.

### Governance of GTEs

*Government businesses should operate:*

- *according to clearly determined objectives and parameters. Where community service obligations are imposed, these should be fully and transparently funded from general government and, if in a competitive or potentially competitive market, made contestable.*
- *with a commercial focus, aiming to make an appropriate return to government as an owner and as a tax collector while abiding by government policies on competitive neutrality and other competition policy requirement, and policies such as competitive tendering and contracting. (Chamber of Commerce and Industry of Western Australia)*

*Managing the legal liability of directors, management and the Corporation can sometimes be at odds with Government spending priorities. This requires a dialogue with the Government to agree the level of financial resources that are required to enable the Board to meet its obligations, and the resources required to meet the Government's own priorities. (Water Corporation)*

When assessed on the basis of their rate of return on assets relative to comparable GTEs in other jurisdictions Western Australia's GTEs generally perform well. The Productivity Commission publishes a scorecard on GTE financial performance annually, albeit with a significant time lag.<sup>79</sup> On the basis of these comparisons, Western Australia's GTEs are delivering a rate of return on assets that is at least comparable to

<sup>78</sup> See Government of Western Australia (2009).

<sup>79</sup> The most recent release of the scorecard in July 2008 reports financial performance metrics for the period 2004-05 to 2006-07. Due to the disaggregation of Western Power the most recent scorecard is restricted to reporting on the financial performance of Western Australia's electricity entities in 2006-07 only.

similar government businesses in other jurisdictions.<sup>80</sup> On this basis, the State's GTEs appear to be, on the whole, well managed commercial operations.

However, Government also has a clear expectation that the commercial operation of GTEs is ultimately for the purpose of achieving Government's desired outcomes. A complete assessment of the performance of Western Australia's GTE sector should also take into account the extent to which Government is able to effectively communicate its desired outcomes to a GTE, provide direction when appropriate and ensure that a GTE's operation is delivering value for money in achieving those outcomes. In this regard, the governance relationship between the shareholder Minister and a GTE plays a crucial role.

A review of the operation of the current governance framework submitted to the Committee by DTF highlighted a number of issues that suggest that governance arrangements for the State's GTEs do not always function effectively.

These issues (some of which are illustrated in the (North Country 330kV Reinforcement Project case study below) include:

- the role of boards in protecting the interests of the owner (Government), including a failure to recognise the Government's wider interest across a number of closely related GTEs and signing off on investment proposals that arguably would not meet private sector standards in relation to due diligence and the assessment of commercial viability;
- the relationship between the Board, CEO and shareholder Minister;
- variable levels of involvement in the governance process on the part of shareholder Ministers and their advising policy agencies;
- variable quality of reporting on the part of GTEs and the use of the Strategic Development Plan (SDP) in aligning GTE performance to Government objectives; and
- inconsistent use of potentially powerful behavioural management mechanisms such as performance incentives and capital allocation to address areas of poor performance.

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<sup>80</sup> The Productivity Commission scorecard is limited to a subset of Western Australia's GTEs in the electricity, water, transport and forestry industries. Reaching firm conclusions about performance on the basis of interstate comparisons can be difficult given differences in market structure and policy settings between jurisdictions.



### **The North Country 330kV Reinforcement Project**

The North Country Region 330kV Reinforcement Project proposes the upgrade of the existing 132kV powerlines servicing the Mid West region with 330kV pylons stretching from Pinjar north of Perth to Moonyoonooka near Geraldton. Following an assessment of increasing demand growth due to block load additions as a result of major mining projects, supplemented by natural growth in demand from the existing customer base and the need to accommodate additional generators, Western Power identified a need for network augmentation.

The preferred augmentation option, a 330kV reinforcement project was initially costed at around \$300 million. However, following an increase in the estimated cost to around \$689 million Government deferred consideration of the project pending a review. The review subsequently identified around \$200 million in potential savings and a broader range of potential delivery solutions which could significantly mitigate the risk to the State of building significant infrastructure that subsequently was not required should the major mining projects reliant on the project not proceed.

During the course of this review a number of issues were highlighted that illustrate more general problems with the governance framework applying to the State's GTEs. These issues included:

- Potential failures of Board oversight in relation to:
  - making a major investment proposal that was not supported with a robust business case that effectively canvassed alternatives to Western Power's preferred option;
  - failure to respond with due care to requests for additional information and potential changes to the preferred delivery strategy;
  - an approach to the project that in many cases did not place 'value for money' for the government at the centre; and
  - the creation of a potential financial risk for government as a result of inaccurate project cost estimates being used in both the regulatory processes and funding approval submissions.
- Policy issues bearing on project cost and need that were not referred to the then Minister for Energy and/or policy agencies for consideration (for example, where adding a wind farm to the network potentially displaced considerable capacity on the existing line).
- Difficulties in obtaining information from Western Power that would allow Government to make a fully informed decision.



Collectively, the issues identified with the operation of GTE governance arrangements mean that the current model is not always delivering the effective and efficient allocation of government's scarce capital. Put simply, the arms-length governance model is not ensuring that the objectives and performance of GTEs are aligned with the objectives and expectations of Government, which has almost all accountability but very little control.

The failure to achieve this alignment is not altogether surprising. As is made clear below, some fundamental private sector disciplines that force an alignment between the interests of the board and management of a private sector corporation with the interests of shareholders are missing in the case of public corporations. Consequently, there needs to be greater explicit control exercised by Government as the sole shareholder of a public corporation than is the case in the private sector.

In the Committee's view, achieving the appropriate level of control on the part of Government does not require a radical reshaping of the current governance framework. In principle this framework is relatively sound and reasonably close to the best practice framework identified by the OECD<sup>81</sup>. Reflecting this, the Committee makes recommendations below that address shortcomings in Western Australia's arrangements relative to these best practice guidelines. For those governance relationships that are currently functioning effectively, the Committee's recommendations will have little practical impact for the shareholder Minister and the GTE Board. In circumstances where the governance relationship is not functioning effectively then there will be real gains for Government through an improved relationship.

Implementing the Committee's recommendations will provide a foundation that supports good governance, identifies the weak points in specific governance relationships and provides ready access to appropriate corrective actions to address those weak points. However, it needs to be stressed that the effective operation of the governance framework requires a strong commitment on the part of shareholder Ministers, advising agencies and the Boards of the GTEs to achieving best practice. Specifying a good system is necessary but by no means sufficient.

The governance framework for the State's GTEs is set out in the enabling Acts for the individual GTEs. As such, they often reflect thinking on corporate governance at the time they were drafted, with the result that there are significant inconsistencies in the arrangements applying to individual agencies.

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<sup>81</sup> OECD (2005).

### **Inconsistencies in Government Trading Enterprises (GTEs) Legislation**

*The Water Agencies (Powers) Act 1984* provides that the Minister may direct the Water Corporation to have regard to the general policy of Government. This provision is not common in other GTE legislation.

Statement of Corporate Intent (SCI) and SDP provisions generally require the approval of the Minister with the concurrence of the Treasurer. The State Solicitor's Office has recently advised the term concur prevents the Treasurer from being able to impose any conditions or restrictions on the operation of the SCI and SDP. This is inconsistent with the intent of the wording, which seeks to recognise the role of the Treasurer and the impact of the operation of GTEs on the government's finances more generally.

The deadlines for SCIs and SDPs are non-uniform and do not align with the Budget process with only two of twenty two SCIs for 2009-10 receiving the Treasurer's concurrence prior to 30 June 2009. Furthermore, earlier legislation specified the detail of SCIs and SDPs within the Acts, limiting the capacity to alter arrangements to reflect changes in operating environments and subsequent developments in corporate governance. Later Acts have allowed the detail of SCIs and SDPs to be specified in regulations.

Most GTE Acts grant the Minister, with the concurrence of the Treasurer, the power to impose borrowing limits on a GTE. In some cases, the Treasurer is unable to impose monetary limits directly and some statutes are silent on borrowing limits, shifting reliance to the SCI and SDP process. More recent Acts specify that a GTE may only borrow with the Treasurer's approval and that the Treasurer may impose monetary limits.

The fragmentation of GTE governance arrangements highlighted in the above box creates significant challenges for Government. These challenges include:

- the complex and time consuming nature of responding to changes in best practice corporate governance, involving amendments to multiple Acts;
- the level of influence of shareholder Ministers and the Treasurer over specific GTEs is determined by their individual Acts despite them being ultimately responsible for the activities of GTEs; and
- administrative complexity in the discharge of governance responsibilities.

### ***Advising shareholder Ministers on governance matters***

As noted above, the performance of the key participants in the governance relationship is the critical factor in making a good system on paper work in practice. Achieving the necessary level of performance across all GTE governance relationships requires the public sector to effectively support these functions.

Under the current allocation of Ministerial portfolios, some twelve Ministers have a shareholder role in relation to one or more GTEs within their portfolio. Ministers are generally supported in this role by advice from their departments (for example, the Office of Energy advises the Minister for Energy on matters related to the electricity entities) although, as noted in the box below, some individual governance arrangements may have evolved over time to a point where there is minimal involvement by a responsible department.

### **The Relationship between the Minister, a Government Trading Enterprise and a Department**

During the course of its consultations with stakeholders, examples of where the appropriate relationships within the governance framework were not being maintained were brought to the Committee's attention.

In one such instance, the corporation had over time become a major, if not the main, source of policy advice to the Minister to the point where it had an officer seconded to the Minister's Office. The responsible department had been bypassed by this relationship and key strategic documents such as the SCI and the SDP have not been provided to it for its analysis and the preparation of advice for the Minister's consideration.

In part, such arrangements may have evolved in response to the industry policy and shareholder advice roles being inadequately resourced within the responsible department. However, the issue is not one of the involvement of GTEs in policy development per se. These businesses possess commercial and technical knowledge that should be an important input into the development of policy and the development of the SDP and SCI. Rather, it is the existence a direct line between the corporation and the Minister operating to the exclusion of a department that is problematic. There is a clear risk of a conflict of interest for the responsible Minister if their Department is unable to provide effective advice on governance matters.

### ***Appropriate ownership and governance for the State's GTEs***

The public corporation model was widely adopted by governments because it was a logical step on the way toward full privatisation. However, public policy has subsequently moved away from privatisation as a universal policy goal for GTEs.

Even when privatisation is no longer a universal policy goal, Government can and should regularly revisit the issue of whether its continued ownership of a commercial activity and the associated governance model remains appropriate. Privatisation should be considered as an option when it is identified as the most effective way to deliver the commercial outcomes sought by Government and there are viable alternatives for

delivering significant social, industry and economic development policy outcomes currently pursued through ownership of the GTE.

The public corporation model has also not, at least in the case of Western Australia's public corporations, been accompanied by the alignment of the political accountability of responsible Ministers with their reduced level of influence and control inherent in the governance model. In light of public expectations, Ministers are clearly accountable to Parliament for what could reasonably be considered to be operational matters such as the presentation of information in customers' bills.

Corporatisation also promised gains in efficiency through the provision of clear commercial objectives for government businesses, allowing management to operate on a day-to-day basis in a way that was large free from political influence. These benefits have been realised to varying degrees by Western Australia's public corporations.

However, it should be recognised that corporatisation is only capable of generating incremental improvements in the efficiency of government businesses and is unlikely to ever result in levels of efficiency comparable to what might be expected from a private sector business. The limits on the efficiency gains that can be achieved from corporatisation reflect:

- that in some cases, a GTE will have multiple and competing objectives (see the box below on the Forest Products Commission);
- a lack of competitive pressure in markets where the public corporation is a monopoly or is subject to a soft budget constraint;
- a greater control problem for Government as the owner of a business because it is more difficult to align the manager's incentives with those of the owner than it is in the private sector (for example, the threat of bankruptcy or takeover facing private sector managers cannot be readily replicated for a public corporation); and
- investment by public corporations is constrained by government's broader debt constraint, limiting the extent to which allocative efficiency can be achieved, especially in those public corporations that are particularly capital intensive.<sup>82</sup>

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<sup>82</sup> Allocative efficiency refers to a situation in which productive resources (for example, labour and capital) are allocated to different uses in a way that maximizes consumer welfare.

### The Forest Products Commission

Part 3 of the *Forest Products Act 2000* requires that the Forest Products Commission in performing its functions must try to ensure that a profit that is consistent with planned targets is made from the exploitation of forest products while ensuring:

- the long-term viability of the forest products industry; and
- that the principles of ecologically sustainable forest management are applied in the management of indigenous forest products located on public land.

The Commission has 23 functions, including:

- advising the Minister on commercial matters in relation to forest products, industry development and employment, and functions under the *Conservation and Land Management Act 1984* pertaining to State forests and timber reserves;
- the sale of forest products by way of contract and promoting and encouraging the development of the forest production requirements of the State;
- establishing and maintaining plantations, plant nurseries and seed or propagation orchards of forest products;
- contracts for harvesting and management of forest products;
- management of the stockpile of forest products through agreements with the Chief Executive Officer of the Department of Environment and Conservation;
- promoting the sustainable use of Indigenous forest products located on public land; and
- carrying out studies and/or research on matters relating to the functions of the Commission and commercialising the results of this work.

The limits on the public corporation governance model suggest that when privatisation is not feasible then alternative governance models for a GTE need to be assessed on the basis of how effectively they can deliver Government's desired outcomes. The conflict that often arises between responsiveness to Government objectives and accountability under statutory obligations suggests that in the absence of the future potential for privatisation, alternative governance may better serve this purpose.

Apart from the limits on the benefits of corporatisation in terms of the efficiency of GTEs, there are other reasons why the Government should be prepared to revisit the questions of governance and ownership in relation to its GTEs. Changes in both the extent and nature of competition in markets over time, and to Government policy objectives, can alter the capacity or need for a business to operate independently. In some case, as is illustrated in the following box, these changes may have undermined the sustainability of a GTE as a business.

### **Racing and Wagering Western Australia**

The Government of Western Australia has a monopoly on the State's off-course wagering through Racing and Wagering Western Australia trading as the TAB. The current arrangements reflect a long history of State ownership of race wagering stretching back to the opening of the Totaliser Agency Board of Western Australia in 1961. This ownership reflected the policy need to fund the development of Western Australia's racing industries and the previous failure of private bookmakers to perform that function.

For many years, the government's monopoly on race wagering was relatively easy to maintain within Western Australia and, as a result, both the TAB business model and the industry development policy it funded were sustainable. The main threats were largely confined to competition from new gambling products such as instant lotteries and the Burswood casino.

However, technological progress in telecommunications and information technology has increasingly opened up race wagering in Western Australia to commercial bookmakers in other jurisdictions and, more recently, to online betting exchanges. Lower operating costs, in part due to there being no requirement for these operators to fund industry development, allow them to offer more attractive odds to gamblers. Constitutional constraints prevent the State from protecting its wagering monopoly and industry funding model from these new sources of competition.

While there are policy arguments against the State being involved in race wagering, including the potential conflicts of interest where the State has a responsibility for addressing problem gambling in the community but is also a betting operator, the reality may be that the TAB is not commercially viable in the long term, at least insofar as maintaining (if not growing) the value of the business is concerned. Erosion of market share may also ultimately undermine the current industry funding model.

It is important that the governance framework for each GTE aligns the degree of independence that a GTE has with that which is required for Government to be able to achieve its desired policy outcomes. Excessive independence only leads to blurred accountabilities and the loss of appropriate government control.

Revisiting the question of the governance and continued ownership of its GTEs is a way for Government to ensure this and, in light of the key roles played by energy, water and transport GTEs, these entities should be scheduled early in any program of reviews.



### **Supporting Government's economic reform agenda**

Despite significant progress in reforming the State economy, including through the National Competition Policy reforms from the mid-1990s, Western Australia continues to lag behind other jurisdictions in many respects. Over time, the reform agenda outlined in the State's annual budget papers has become thinner. While 'reform fatigue' may partly explain this, the Committee's view is that the relevant public sector organisations and processes could be used more effectively to maintain the momentum of reform. Notwithstanding this, the Committee also acknowledges the unique economic and geographic features of Western Australia that frame market decisions.

The current Government has over the course of its first year in office either implemented, or signalled its commitment to, a number of important reform initiatives, including:

- reviews of the State's industrial relations system, project approval processes for mining projects, and land use planning and development approvals;
- establishment of the Regulatory Gatekeeping Unit to screen new legislation and regulation;
- the Red Tape Reduction Group process to identify unnecessary regulatory burdens on the State's businesses; and
- commitments under the COAG National Reform Agenda.

Implementing the findings and recommendations from these initiatives will require significant effort on the part of the public sector. Rather than add further to this immediate workload, the Committee is proposing reforms that will ensure that the Government's economic reform agenda is well supported and that future reform activity is more self-sustaining.

A key concern for the Committee is to ensure that existing policy capacity within the public sector is enhanced by a mechanism for developing policy options that has a greater degree of independence and involves significant public consultation.

At the Commonwealth level, this function is performed by the Productivity Commission, while the ERA has a somewhat similar function in Western Australia. However, under its enabling legislation and current resourcing the ERA is able to initiate an inquiry at the request of the Treasurer but has little capacity to undertake proactive, self-initiated work.<sup>83</sup> In comparison, the Productivity Commission has a broader mandate through its ability to undertake research on relevant matters at its own initiative and its function of promoting public understanding of these matters.<sup>84</sup> The benefits of this broader mandate are neatly summarised in the following quote.

<sup>83</sup> The functions of the ERA are set out in Part 4 of the *Economic Regulation Authority Act, 2003*.

<sup>84</sup> The Productivity Commission exercises its independence responsibly, developing its self-initiated research program only after consultation with Government (Banks, 2007).

*Good transparent policy reviews by an independent agency work through several subtle interrelated ways. They identify what is in the national interest, whether that is more income or clear air. Such reviews expose vested interests and weaken their influence. Transparent reviews, conducted under basic principles of good governance, where discussion papers are circulated, draft reports issued and open submissions taken from the public, themselves subject to scrutiny, all serve to involve stakeholders and lower the cost of educating the electorate about good policy choices.<sup>85</sup>*

As a result of its wider mandate and recognised independence, the Productivity Commission ensures that public debate around potential economic reforms is well informed and provides the Commonwealth Government with the opportunity to refresh its reform agenda on an ongoing basis. The Commission's self-initiated work can also act as an impetus for cultural change within regulatory agencies. The need for such a change in Western Australia was widely recognised in submissions received by the Committee.

*A recurring theme identified in the Red Tape Reduction Group process is that the culture of regulatory agencies has to change. The current approach in many agencies is to adopt excessive regulatory safeguards and processes to achieve a policy objective without any consideration of the costs it imposes on business and the community as a whole. (Department of Treasury and Finance)*

*Minimising the 'regulatory burden' on business, then, is not about minimising regulation itself but about improving regulatory outcomes. (Chamber of Minerals and Energy)*

In particular, the Committee's view is that cultural change within the State's regulators should be directed at ensuring that they deliver what one submission termed 'minimum effective regulation'. Minimum effective regulation captures the insight that regulation that is good in principle can be detrimental when implemented in a way that imposes unnecessary direct and indirect costs on both the private and public sectors.<sup>86</sup> An additional benefit of this cultural shift would be less need in future for the multiple reviews of regulatory activity that the Government has needed to conduct during its first year in office.

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<sup>85</sup> Stoekel, A. (2008).

<sup>86</sup> Direct costs of regulation include the costs for business of compliance activity, including legal costs and the cost to government of administering regulatory codes. The indirect costs of regulation reflect the consequences of uncertainty and delay on investment decisions.



It needs to be stressed that providing for a greater role for the ERA does not mean that Government will not continue to set the economic reform agenda or lose control over the reform issues being considered by the public sector. A critical factor in the success of the Productivity Commission at the Commonwealth level has been a clear understanding that the Commission's independence relates to the manner in which it conducts inquiries and the resulting conclusions and recommendations to Government. The Commission does not independently determine the policy issues it examines.

A similar understanding should also be explicit in the ERA's role. The existing referral mechanism, which provides for the Government through the Treasurer to set the Terms of Reference for an ERA inquiry, would remain. Furthermore, should the ERA undertake self-initiated work it will need to develop that work in consultation with Government, which would retain the right to rule out specific issues when it takes the view that there are more appropriate alternatives for addressing them.

### ***Energy and water policy formulation***

It was frequently observed by participants in the Committee's consultation that, over time, water and energy policy capacity has drifted away from the responsible departments and agencies and toward the GTEs. This appears to have been partly a result of past resourcing decisions at both agency and Cabinet level and partly due to the proactive development of policy capacity by the GTEs themselves.

As the Committee's discussion around the reform of GTE governance arrangements above suggests, this loss of policy capacity from within the public service may in some cases have led to the evolution of inappropriate governance practices.

At the very least, there is the risk that the quality of decision-making will be compromised when policy proposals are not scrutinised effectively by policy analysts within the general government sector (and there are recent examples of this).

Excessive reliance on GTEs for policy advice also risks creating a perceived conflict of interest that may undermine the effectiveness of reforms that seek greater private sector investment in the water and energy industries. Potential investors, market competitors and efficient consumer prices may be constrained by a situation in which a potential competitor is also actively advising Government on policy matters.

*Ministers who are responsible for both a public corporation and industry and regulatory policy in the same industry are inevitably compromised by conflict of interest. They may not realise it until a problem emerges. (Economic Audit Committee Workshop Participant)*

*The program was conceived and run by the Water Corporation. It has succeeded because of a clarity of accountability as to who has final responsibility for making sure customers do not run out of water. The Corporation has been well supported in this role by the Government and the public. (Water Corporation)*

*... the Water Corporation has often been required to provide advice to Ministers on matters such as water industry policy, cabinet submissions, tariffs, CSO expenditure priorities and regulation of industry and water resources. (Department of Water)*

A rebuilding of appropriate policy capacity within the public service is urgently required to address this issue and ensure that Government is able to draw on independent, high quality advice to inform its provision of utility services, such as power and water, to the community.

This rebuilding of capacity is likely to be particularly crucial if Government policy in key markets continues the recent direction toward securing greater private sector involvement, where this is appropriate. In particular, in the case of water, the creation of property rights and market mechanisms has the potential to encourage the efficient use of water resources. The general direction of this policy has been strongly supported by peak industry bodies in both submissions to the Committee and other public statements. Continuing in that direction would also be broadly consistent with the philosophy underlying the Committee's recommendations in Chapters 2 and 3 that Government should rely on the sectors (for profit or community sector organisations) that can most effectively deliver Government's desired outcomes.

*Broadly, CME supports a preference for open and competitive market solutions to energy policy, but acknowledges the important role Government plays in setting transparent policy and regulations and removing barriers to new investment. (Chamber of Minerals and Energy)*

*CCI believes that the current disaggregated market provides better opportunities for private sector investment, ensures sufficient energy supply and improves marketplace competition. For customers, this means improved service delivery and lower prices. (Chamber of Commerce and Industry of Western Australia)*

If Government's intention is to continue with this broad direction then well-resourced, high quality policy advice becomes particularly important because private sector investment will be more readily forthcoming when there is a high degree of certainty about Government's policy direction. In the absence of such certainty, the perceived risk attached to a potential investment increases, particularly in energy and water where the investments involve significant capital outlays and are long-lived. A clearly articulated policy framework will avoid uncertainty and potential paralysis in private sector decision-making.

Certainty for the private sector would be enhanced through Government outlining a policy direction for energy and water that addresses both future price determination within these markets and regulatory frameworks that provide a level playing field for both public and private sector participants.

Clarity around if, how and when the Government intends to move to cost-reflective prices for water and energy, and then maintain these arrangements in the future (for example, through the ERA issuing price determinations in a similar manner to the Independent Pricing and Regulatory Tribunal of New South Wales) would also encourage investment in alternative technologies. In addition, it would foster behavioural change among consumers that will be important for limiting the costs for Western Australia of adjusting to climate change and any future carbon emissions mitigation strategy.

## Way Forward

In order to address the issues outlined above the Committee makes the following recommendations.

### ***Governance of GTEs***

Moving to umbrella legislation for GTE governance would be one way to address the challenges inherent in the currently fragmented state of the legislative base for GTE governance. It would also help to clarify the responsibilities and rights of participants within the governance framework. Under this approach the governance framework applying to all GTEs would be codified within a single Act while considerations specific to individual GTEs, for example where a GTE is expected to behave in a less than fully commercial fashion, would continue to be incorporated into the entity's enabling statute.

Adopting umbrella legislation would be consistent with Recommendation 12 of the Government Structures for Better Results<sup>87</sup> report and align arrangements in Western Australia with practice in all other Australian jurisdictions.

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<sup>87</sup> Hicks, S. *et al* (2001).

**Recommendation 28:** Introduce umbrella legislation to:

- a) standardise, strengthen and clarify governance arrangements for all Government Trading Enterprises (GTEs); and
- b) establish a remuneration policy for GTE board members and their executives, administered by the Salaries and Allowances Tribunal.

**Responsibility**

Department of Treasury and Finance

**Deadline**

July 2011

**Milestones**

- Drafting instructions to Cabinet for the umbrella legislation and any required changes to the *Salaries and Allowances Tribunal Act 1975* [December 2010].

Umbrella legislation for GTE governance should address:

- best practice GTE governance;
- the creation of legal rights for Government to:
  - include a representative on the board to represent the owner; and
  - remove any board member (including the managing director) where it is warranted under the circumstances;
- resolving the legal ambiguities and inconsistencies in the role of the SDP in aligning GTE behaviour with Government objectives; and
- formally setting out, in the legislation and associated regulations, the role of the shareholder Minister and wider government in approving financing for a GTE's planned investment (for example, through meeting the requirements of the SAMF).

Remuneration of GTE board members and executives is funded from the public purse, even if this is only indirectly through the impact on the dividend available for distribution to government or, in some cases, the level of community service subsidies paid. Consumers are also impacted through pricing they pay for services, infrastructure and utilities. It is therefore not unreasonable to expect a level of transparency in remuneration matters that is commensurate with that applying to other public officers who are independent from Government (for example, the judiciary). As recent examples have highlighted, Ministers are held accountable for the remuneration of GTE executives but have little if any influence over these decisions. A transparent and independent process will make it easier for Ministers to satisfy their public accountability for these decisions while ensuring that salaries remain competitive with those in the private sector.

### **Advising shareholder Ministers on governance matters**

While umbrella legislation will help to simplify and clarify governance arrangements, it will not be sufficient to ensure that the performance of the key players in each governance relationship is maintained at the required level. The specific skill sets of financial statements analysis, corporate finance, project evaluation and governance that are needed to enable Ministers to be advised on the performance of their sole shareholder function, may be in short supply across one or more of the advising departments.

To better support shareholder Ministers without having to build the needed capacity in each of their agencies, a centralised GTE advisory and monitoring unit is desirable. This unit would facilitate a clearer understanding of the accountability framework and the different areas of responsibility and remove compliance and monitoring burdens from policy agencies, freeing them to focus on their core business of policy development and advice.

**Recommendation 29:** Establish a Government Trading Enterprises advisory and monitoring unit.

#### **Responsibility**

Department of Treasury and Finance (DTF)

#### **Deadline**

July 2011

#### **Milestones**

- Role, responsibility and accountability of unit identified by the DTF and agreed by Cabinet [June 2010].
- Resourcing requirements identified and considered by Cabinet [June 2010]
- Roll-in of shareholder Minister servicing [January 2011 to June 2011].

The role of this unit would include:

- maintaining the GTE governance framework at best practice through ongoing monitoring, evaluation and learning;
- developing, in consultation with shareholder Ministers, selection criteria for board members, maintaining a pool of suitably qualified potential candidates for board membership and undertaking board performance reviews;
- providing advice to shareholder Ministers on GTE performance and reporting;
- training policy departments and Ministerial officers in the GTE governance framework, including the roles and responsibilities within that framework;
- reviewing SCIs and SDPs to ensure their consistency with Government policy and direction; and
- providing recommendations to Ministers on appropriate governance actions and when to exercise their shareholder authority.

Outside of these governance matters and with the exception of any pooling of energy and water market policy advice (see Recommendation 32 below) the existing allocation of responsibilities in relation to GTEs across agencies should remain unchanged. DTF would continue to assess and advise Government on the impact of GTE operations on the government's fiscal position and balance sheet.

Given this allocation of responsibilities, and the benefits inherent in receiving clear and impartial advice across policy, governance and fiscal position considerations, accountability arrangements for the unit that provide for at least an operational separation from DTF would be desirable. However, the Committee recognises that DTF is the agency that is most likely to have officers with the skill sets required by the unit and therefore it should initially be established within DTF.

Establishing a central advisory unit would be consistent with OECD Best Practice Guidelines for the Governance of State-owned Enterprises<sup>88</sup>, which state that:

*The exercise of ownership rights should be clearly identified within the state administration. This may be facilitated by setting up a co-ordinating entity or, more appropriately, by the centralisation of the ownership function.*

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<sup>88</sup> OECD (2005).

The Best Practice Guidelines go on to note the following benefits from a centralised model, relative to the diffused model currently employed in Western Australia:

- clarification of ownership policy and its consistent implementation;
- pooling of the specific skill sets such as financial reporting or board nomination; and
- removing potential conflicts of interest where line agencies have responsibility for providing advice on both policy and GTE performance and governance.

### Centralised Support for GTE Governance in other Jurisdictions

In New Zealand, shareholding Ministers are assisted by the Crown Company Monitoring Advisory Unit (CCMAU). This unit was established in 1993 to provide high-quality advice to shareholding Ministers on company performance and assist shareholding Ministers in the Board appointment process through a specialised team that manages the director selection process and recommends candidates to shareholder Ministers.

The unit is attached to the New Zealand Treasury but is operationally independent from the Treasury's other functions. The CCMAU and Treasury have complementary roles with the Treasury focusing on government's fiscal position and balance sheet while the CCMAU focuses on GTE performance, risk and the overall commercial environment.

In the United Kingdom recognition that the diffusion of governance responsibilities had contributed to poor GTE performance led to the creation of the Shareholder Executive (SE) in 2003. The role of the SE is to advise government departments on all aspects of the shareholder and staff were recruited from both the public and private sector for this purpose. In 2004 the role of the SE was broadened through the addition of the day-to-day shareholding role on behalf of the Government and its policy agencies.

The Committee notes in passing that there are potential benefits to having a single shareholder Minister with responsibility for all GTEs (or at least those with predominantly commercial objectives) in terms of developing consistently strong governance relationships and limiting the potential conflicts faced by Ministers who act as an owner, policy maker and, in the case of CSOs, customer of a GTE.<sup>89</sup>

*Responsibilities for policy development, regulation and service deliver should be separated wherever possible in order to limit conflicts of interest and objectives of agencies and Ministers.* (Chamber of Commerce and Industry of Western Australia)

<sup>89</sup> A single shareholder minister is considered by the OECD to be part of a best practice model.



### ***Appropriate ownership and governance for the State's GTEs***

The limits on the efficiency benefits of corporatising government's commercial activities and other considerations relevant to the governance of GTEs means that there is no single ideal ownership and governance structure that is applicable to all GTEs.

Depending on the objectives Government is pursuing through a particular commercial activity, governance through a line agency or statutory authority, at least for some parts of a GTE's activity, may be preferable. In some cases, there may be a relatively weak case for government, as opposed to private sector, provision.

Furthermore, as Government's objectives change over time and markets evolve, both the established governance model and the benefits of continued ownership of specific GTEs can be called into question. Government should therefore regularly revisit these questions, a practice that has occurred more successfully in other jurisdictions.

When reviewing the issues of ownership and governance, there are specific questions that should be asked before coming to a final position. The most fundamental of these questions is whether government is simply doing something the private sector could do more efficiently. If this is the case, then continued government ownership needs to be justified on the basis that other benefits of government ownership, such as the ability to pursue social policy or economic development objectives, outweigh the additional costs inherent in public ownership. This assessment has to be undertaken in light of any viable alternatives for delivering the required non-commercial outcomes that do not rely on ownership of the commercial activity.

If it is concluded that there are no acceptable alternatives for delivering the required non-commercial outcomes, this raises the question of whether the independence inherent in the public corporation model is appropriate. The benefits of corporatisation are largely the result of providing clear commercial objectives to the management of a GTE. If Government requires a GTE to deliver multiple objectives, and particularly if it is not prepared to fully fund the pursuit of these other objectives through CSO payments, then it may require the greater control inherent in a general government agency or statutory authority.



**Recommendation 30:** Review Government Trading Enterprises (GTEs) to ensure that the governance and ownership of each business is appropriate for delivering Government's policy objectives. The review should address the following issues:

- a) Does government need to be an active participant in the markets (due to market failure) or is it simply replicating something the private sector can do (with appropriate regulation)?
- b) Can the GTE operate independently of Government? What policy outcomes is Government seeking from the GTE (for example, fully commercial provider of specific outputs, a source of revenue, industry and/or social policy)?
- c) What is Government's broader policy for the market in which the GTE operates and does the policy have implications for the appropriate ownership and governance of a GTE participating in the market?
- d) The relative merits of outsourcing, rationalising or decorporatising the GTE, and the impact of these options on its governance.

#### **Responsibility**

Department of the Premier and Cabinet

Department of Treasury and Finance

#### **Deadline**

December 2012

#### **Milestones**

- Draft umbrella governance legislation [May 2011].
- Commencement of Government Trading Enterprises Advisory and Monitoring Unit [July 2011].
- Template for review Terms of Reference agreed by Cabinet [November 2011].
- First review commences [December 2012].

### ***Supporting Government's economic reform agenda***

Providing the ERA with a broader remit would offer the opportunity to inform the community about the potential benefits of reforms that have in the past proven to be particularly contentious. A key challenge facing many economic reform proposals is that the reforms that potentially offer the biggest gains for the State's households and businesses as a whole often involve costs for small, highly organised interest groups who are capable of dominating public debate.

A key role of the Productivity Commission has been to provide an avenue for highlighting the community level benefits as a counterweight to self-interest.

The *Economic Regulation Authority Act 2003* sets out a requirement for a review of the functions of the ERA on a five-yearly basis by a Joint Standing Committee of both Houses of Parliament appointed for that purpose. A review is required in the near future and the Joint Standing Committee's consideration of an appropriate expanded mandate for the ERA would be one option for Government to implement this recommendation.

**Recommendation 31:** Expand the role of the Economic Regulation Authority (ERA) to include a proactive role in gathering appropriate evidence, including through public consultation, in order to advise Government on potential economic reforms and ensure that the ERA is appropriately resourced to perform these additional functions.

**Responsibility**

Department of Treasury and Finance

**Deadline**

July 2011

**Milestones**

- Joint Standing Committee of Parliament review of functions [October 2010].
- Drafting instructions to Cabinet [December 2010].
- Additional appropriation (if required) provided in 2011-12 Budget.

***Energy and water policy formulation***

The Committee is of the view that a Utilities Policy Office should be created to address the current difficulty in resourcing the market policy functions of government, particularly in relation to water and energy markets. Maintaining these skill sets across multiple agencies would seem to be a relatively inefficient approach.

The Utilities Policy Office should include the relevant market policy functions currently performed by the Department of Water, the Office of Energy and elements from within DTF.

**Recommendation 32:** Establish a Utilities Policy Office with responsibility for providing advice and overseeing the implementation of Government policy, particularly with respect to the State's water and energy markets.

#### Responsibility

Department of the Premier and Cabinet  
Department of Treasury and Finance

#### Deadline

July 2011

#### Milestones

- Roles and resourcing of Utilities Policy Office agreed by Cabinet [June 2010].
- Drafting instructions for funding levy to Cabinet [October 2010].
- Appropriation provided in 2011-12 Budget [March 2011].
- Start-up of Office and transitional arrangements [May 2011].

During its deliberations the Committee reflected on two related issues that should be taken into account by the Government if it chooses to implement this recommendation.

- It is both inevitable and desirable that the GTEs will maintain a policy capacity. As GTEs and the private sector have greater flexibility in relation to remuneration than agencies established under Section 35 of Part 3 of the PSMA, the Utilities Policy Office will need to have the capacity to competitively remunerate its employees if it is to effectively build up the needed policy capacity. The additional cost to government of competitive remuneration should be funded by a levy on the relevant GTEs and private sector participants in those markets. Recommendation 35 in Chapter 6 provides the basis for this competitive remuneration.
- Responsibility for water and energy policy is currently allocated to different Ministers. In the Committee's view, a Utilities Policy Office could effectively service this arrangement providing that the dual accountability is recognised in the Office's resourcing and accountability arrangements.

## 6. Modernising Public Sector Management

### Overview

Western Australian public sector employees make a vital contribution to the wellbeing of the community. The public sector employs in excess of 100,000 people in a wide variety of occupations. The dedication, professionalism and expertise demonstrated by the vast majority across the full spectrum of roles provide an excellent foundation for reform.

A key challenge for Western Australia will be to maintain a workforce that can adapt to demographic changes and economic conditions. The existing workforce needs to be better utilised and feel more valued. Improving outcomes requires ongoing investment in the skills and capabilities of this workforce. However, this will not be sufficient. As services are increasingly delivered by the community and business sectors, agencies will need to look beyond their own workforces in planning for sustainable service delivery.

An ageing population and competition from the private sector will increase demand for services, while reducing the supply of labour from those sections of the community that the public sector has traditionally drawn on. At the same time, the unsustainable rate of employee-related expense growth in recent years will need to be curbed to ensure the State's financial sustainability. In this context, improved workforce planning and design are critical and employers will need to consider non-financial approaches to rewarding and retaining staff.

At present, the potential of the public sector is constrained by a multiplicity of regulatory scrutiny. The resulting public sector management<sup>90</sup> culture is excessively process-driven and risk averse. This culture of compliance has been exacerbated by a series of high profile reports into the conduct of a small number of public sector officers. Intended to guarantee transparency and accountability, this regime can have the opposite effect by disempowering agencies, thwarting responsiveness and valuing procedural compliance over the exercise of sound judgement.

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<sup>90</sup> Public sector management can be defined as the structures, rules (including legislation), systems and processes that shape the way in which the public sector is run.

The Committee heard from a number of stakeholders about the barriers to effective agency management created by the existing culture, and about perceived limitations of the PSMA. On closer examination, the Committee formed the view that many of these barriers are not created by the legislation itself but by the subsidiary instruments<sup>91</sup> that sit under the legislation and by overzealous agency self-regulation. Amendments to the PSMA must therefore be complemented by a range of other measures to modernise public sector management.

The number, nature, function and role of organisations that make up the public sector is a decision for Government, and will reflect the changing areas of activity that are seen as priorities for Western Australia's economic, social and environmental wellbeing.

The public sector's role is to make the structure work, ensuring that there is collaboration across organisational boundaries and that innovation is encouraged within and between agencies.

Technology, particularly ICT, can be a powerful tool to foster collaboration and innovation across structures and to put the public at the centre of service design and delivery.

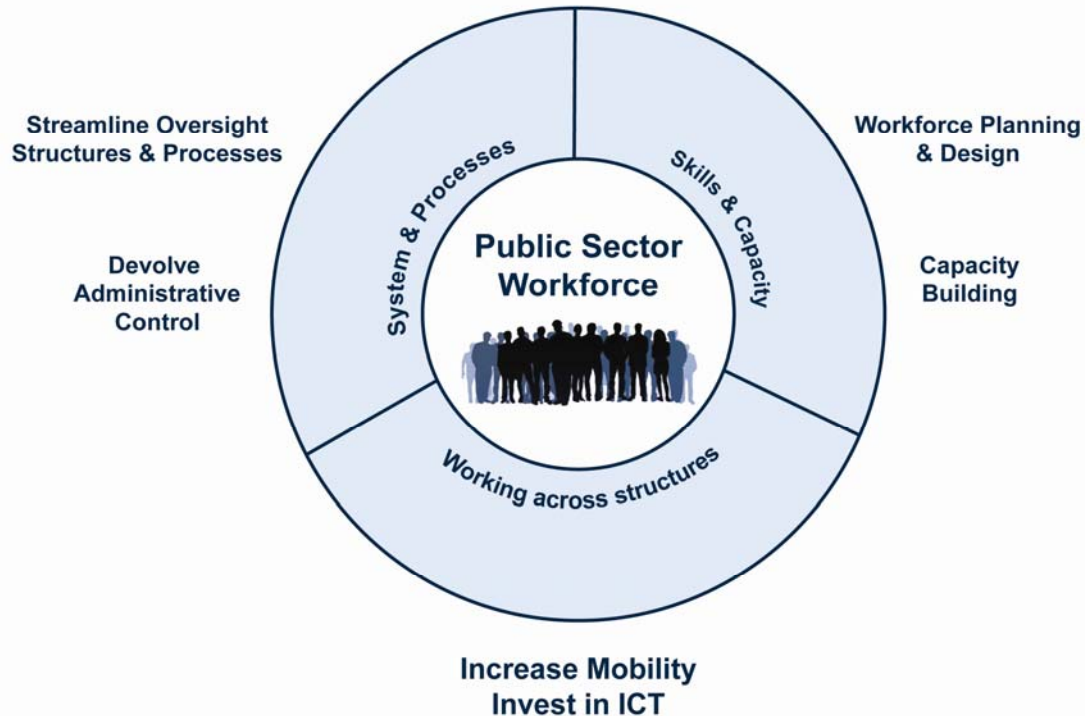
Modernised public sector management will be indispensable to the implementation of the reforms proposed by the Committee and to strengthened public accountability and transparency. Realising the potential of the individuals and organisations within the sector will require a revised set of rules, systems and processes to support the role of the public sector outlined in the introduction to this report.

The Committee believes that public accountability and transparency are paramount. The recommendations in this chapter focus on removing barriers and red tape within the public service that duplicate and confuse accountability, prevent flexibility, stifle innovation and provide excuses for poor outcomes. Once these settings are changed, it will be up to public sector leaders to seize the opportunities that this creates to refocus the business of their agencies to achieve better outcomes for the community. This chapter also provides an update on relevant recommendations from the Committee's First Report. Further details are provided in Appendix 7.

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<sup>91</sup> Including Commissioner's Circulars Public Sector Standards for Human Resource Management, Approved Procedures, Policies and Guidelines.

**Diagram 3: Dimensions of Public Sector Management Reform.**



## A Vision for Public Sector Management

In the Committee's view, public sector management in Western Australia will need to be modernised if the public sector is to efficiently and effectively perform the role envisaged by the Committee, as outlined in the Introduction to this report.

The Committee's vision of modernised public sector management includes the following features:

1. The public sector workforce will be recognised as dynamic, comprised of talented people from a wide variety of personal and professional backgrounds who act responsibly, are accountable for their actions and are proud to be part of the public sector serving the community of Western Australia. The public sector will be led by people who are respected for their capacity, achievements and support for staff.
2. The public sector management regime will ensure responsible management, conduct and integrity whilst giving managers the skills and freedom to manage in flexible and responsive ways to meet the needs of the public. Managers at the front-line of service delivery will be empowered to make decisions centred on individual citizens.
3. Public sector structures, rules, systems and processes will support flexibility, innovation and collaboration. Public sector employees will see themselves as part of a larger public sector committed to implementing the policies of the Government of

the day, willing and able to move between agencies, jurisdictions and the public, private and community sectors.

4. Monitoring of public sector agencies will provide a high level of public assurance that proper systems are in place to ensure that integrity, merit, equity and probity are optimised in management processes. Agencies will operate in a climate of trust, not of suspicion. Effective and exemplary practice will be reported and celebrated. Poor practice will be addressed and improved. Individuals and agencies that abuse the public's trust will be held accountable for their conduct.
5. Agencies will take a 10 to 20 year view about service needs and labour supply, actively planning and positioning their agencies around the composition, profile and potential sources of labour for their future workforce. Increased use will be made of currently underutilised sectors of the labour market, such as people with disabilities, Indigenous people and older workers.
6. The public sector will be financially sustainable, delivering continuously improved services to Western Australians with wages growth in line with population growth, inflation and productivity growth.
7. Public sector managers will rapidly and transparently recruit, contract or transfer people with the skills those managers require to deliver on their priorities.
8. The public sector will embrace the use of technology to deliver services that are tailored to the user, provided collaboratively and managed efficiently.

## Key Issues

Through its analysis and consultation, the Committee has identified the following issues with respect to existing public sector management practices:

1. The public sector faces challenges in building and sustaining a skilled and capable workforce for the future.
2. The public sector is not sufficiently agile and flexible to respond to current and emerging demands placed on it by citizens and Government, partly as a result of compliance-driven systems and processes.
3. Public sector structures, rules, systems and processes often inhibit collaboration and innovation, and the potential of ICT is not adequately realised.



### **Workforce skills and capacity**

In exploring the first key issue, the Committee heard from various stakeholders that many people in the public sector workforce feel that their work is undervalued. People do not always know how their role fits into the bigger picture of the Government's priorities. People's skills and efforts are not always utilised, recognised or rewarded, particularly when Parliamentary scrutiny and media coverage tend to portray a negative image of public service. The Committee heard that many people feel stifled by structures, rules and processes, limiting their ability and eventually their willingness to 'go the extra mile' to assist the public.

*The bulk of public servants want to do a good job, have a commitment to 'public service' but are frustrated by imposed inflexible multi-layered organisation structures which violently oppose the devolution of responsibility to section heads.* (Individual submission)

*The public sector offers Government a vast resource of knowledge and experience...Members felt the State Government wasn't listening to public sector employees...* (CPSU/CSA)

*...the Commissioner must act to lead the sector, protect it from unfair attack and build the battered esteem of the Service.* (Individual submission)

*There is an inadequate use of current staff. How is that? Because public service is based on job role and level classification. However an employee is more than that.* (Individual submission)

Western Australia's demographic profile and trends pose particular challenges for managing the public sector workforce, and are likely to exacerbate existing workforce pressures, particularly in regional and remote parts of the State.

Like other developed economies worldwide, an ageing population will increase demand for publicly funded services (particularly health, aged care and concessions), whilst reducing the labour force participation rate and thereby creating stronger competition for labour between the private and public sectors, and between public sector employers. However, in contrast to many developed economies, Western Australia is also expected to experience rapid population growth.<sup>92</sup> The characteristics of this growth will have a marked impact on labour markets and service demand, particularly in Indigenous communities and in regional parts of the State.

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<sup>92</sup> Public Sector Commission (2009a). This document comprehensively covers the issues described in this section.



The challenges of sustaining a workforce in regional and remote parts of the State are particularly acute. The resources boom has fuelled significant localised population growth that outstrips current service delivery capacity. In addition, there is a mismatch between the significant proportion of the Indigenous population experiencing disadvantage in remote areas and the difficulty in attracting staff to work in remote areas.

The demographic profile of the public sector workforce is less diverse than the community it serves. This has implications in terms of the capacity of the public sector to identify and address service needs in all sections of the community and in terms of the opportunity to engage underutilised sections of the labour market, such as Indigenous people, people with disabilities and older workers.

As the population becomes more affluent and educated, and technology evolves, community expectations of public sector services continue to increase. The ongoing adoption of new technologies, such as advances in new medical treatment and diagnostic tools, increase the demand for services and infrastructure. Growth in economic activity requires the provision of adequate supporting infrastructure such as power supply, water supply and transport. This is putting further pressure on the workforce, particularly in regional areas where many new resource projects are located, as highlighted in the following excerpts from submissions.

*The rural and remote areas of WA Health experience great difficulties in recruiting staff and are forced to look at addressing shortages through, among others, the employment of overseas trained staff via sponsored visas. (WA Health)*

*Real opportunities to grow professionally should be made available to public servants in remote regions. The capacity to make decisions – to make a mark – is necessary if good people are to be attracted to remote locations. Particular and generous professional development opportunities should be coupled with remote placement. (Desert Knowledge)*

In meeting these challenges, action must also be taken to ensure the financial sustainability of the public sector workforce. Employee-related expenses<sup>93</sup> increased by 8.5 per cent per annum from 2000-01 to 2007-08, well in excess of inflation and population growth. The Committee is of the view that public sector employee-related expenses grew unsustainably over this period, and that the Government's new productivity-based wages policy and related measures are essential responses aimed at bringing future growth under control.

<sup>93</sup> In the general government sector (i.e. excluding government trading enterprises).

The Committee noted that interviews conducted with a range of Western Australian public sector employees in 2004 revealed that they were more concerned about being appreciated, having their skills ‘harnessed rather than shackled’ and working on complex and important issues than with additional financial incentives – ‘learning requires more emphasis, not salary.’<sup>94</sup>

**Horizon Power** has established an Essential Services Officer training and employment project to improve the reliability, safety and affordability of power supplies to regional and remote communities. The program recognises the difficulty and costs associated with supporting these services from metropolitan or regional centres and the opportunity to establish local training and employment programs. Through the program, Horizon is developing the skills of the local workforce, providing for better services, greater safety and improved consumer product knowledge. Horizon is benefiting from having local maintenance capacity in remote communities. Local people are benefiting through improved services, through improved employment opportunities and through other flow-on social benefits associated with such initiatives.

The **Department of the Premier and Cabinet and the Public Sector Commission** employ an administrative services team comprising people with a disability who work part-time on a supported wage arrangement. The team undertakes tasks that would otherwise be done by staff classified at a higher level than required for the type of work being performed. The team is efficient and effective in its work, and employees benefit from gainful employment. All staff benefit from the interaction and involvement that team members have with other staff.

In order to address the pressures on the public sector workforce whilst controlling expense growth, robust workforce redesign<sup>95</sup> and planning will be necessary. However, with some exceptions (see box above), the Committee noted significant room for improvement in planning for and investing in the public sector workforce. Workforce planning, including work design, capacity building, learning and development, has not been sufficient to adequately address longer term labour market trends and changing community needs. This results in skill shortages in critical professional areas such as finance, management, ICT, education and health. It also generates high levels of staff turnover attributable to not making the best use of the skills and abilities of the people who are currently employed,<sup>96</sup> including through significant variability of agency investment in staff through training.

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<sup>94</sup> The ORS Group (2004).

<sup>95</sup> Workforce redesign refers to the redefinition of roles, reporting relationships so as to maximise the value of the workforce. For example, the increased use of para-professionals (teaching assistants, auxiliary police officers, nurse practitioners) to free up professionals to focus on tasks requiring higher levels of skill and experience.

<sup>96</sup> Yovich, J. (2005).

The Committee notes that some effort has been made to set a direction for the public sector to deal with these issues through the publication of *Strategic Directions for the Public Sector Workforce 2009-2014* (SDPSW) by the Public Sector Commission.<sup>97</sup> This paper points to legislative and system level changes required to modernise the public sector, particularly in the areas of streamlining recruitment, improving workforce planning, engaging the diversity of the community in public sector employment, optimising flexibility in employment arrangements, addressing regional workforce challenges and building the capacity and the productivity of the sector. While the SDPSW provides a high level guide and offers a range of worthwhile initiatives, more work is required to make change happen and to support the translation of priority initiatives into meaningful outcomes in agencies and across the sector as a whole.

### **Systems and processes**

The second key issue identified by the Committee relates to the systems and processes in place to manage the public sector. Systems and processes are grounded in rules and institutions that are a combination of formal legislation, subsidiary instruments and policies, and informal culture that dictates ‘the way things are done around here.’<sup>98</sup>

The Committee’s consultation revealed that public sector CEOs feel constrained by complex and prescriptive legislation, policies and other compliance instruments (see box below). A risk-averse culture has evolved in response to the emphasis on compliance with process that underpins public sector regulation and oversight, and is reinforced through the publicity that attaches to Corruption and Crime Commission investigations, Public Sector Standards Commissioner reports and findings of the many other accountability and oversight bodies. As a result, CEOs and senior managers feel that they do not have the flexibility to respond to current and emerging demands placed on them by citizens and the Government.

*Freeing up the public sector requires ... Appropriate amendment of the framework (which includes the PSMA) within which the public sector operates ... Introduction of involuntary redundancies and severances ... more flexible remuneration models that reflect (and move in sync) with labour markets in the economy... A “one size fits all” approach is not appropriate with regard to pay rates... (Public Transport Authority)*

*Given the enormous expectations placed on the public sector by the community, I think that it is very important that we collectively combat an over-reliance on process in place of transparent judgment based on sound principles. (Auditor General, August 2004)<sup>99</sup>*

<sup>97</sup> Public Sector Commission (2009b).

<sup>98</sup> Davis, G. (1995).

<sup>99</sup> Cited in Yovich, J. (2005)

*Government should question some of the basic tenets of the public sector working environment. This could include an examination of 'permanency' as a feature of public service employment.... The risk averse culture will only change by recognising the overwhelmingly good performance in public sector, dwelling less on occasional glitches. (Department of Sport and Recreation)*

*...I'm convinced that significant changes need to be made to the public service so as to create an environment of flexibility, innovation, personal responsibility... (Individual submission)*

*Give the Director General the authority to manage within budgets and against competencies and standards. We need to be honest about how we want the sector positioned and align the systems to match. (Department of Planning)*

*There are several benefits from having more flexible work practices in the private sector. At the management and supervisor level we work on an Australia wide basis and can easily transfer staff between centres either permanently or temporarily when certain tasks require some specific skill. (EDI Rail – Bombardier Transportation Pty Ltd)*

*If the Agency is to adopt a 'business-like' approach to service design and delivery, then it should not be shackled in that endeavour by any inflexible human resource policy applying in the public sector. (WA Fishing Industry Council)*

*...encourage movement around the agencies, even forced movement; this encourages knowledge sharing and skill development between sectors ... staff who remain in one role tend to become owners or custodians of the information and stifle knowledge sharing. (Northern Agricultural Catchments Council)*

*A modernised public sector is clearly not possible within current policies of agency control and restriction ... it is more a question of trust and better relevant performance information exchange needing to be developed between the central and line agencies, accompanied by new accountability and autonomy policies. (WA Police Union)*

These issues are particularly acute in relation to human resource management.<sup>100</sup> CEOs have limited capacity to offer financial or non-financial incentives to attract and retain exceptional staff or those with specialised skill sets. Agencies must comply with set advertising formats and layouts. Recruitment and appointment processes tend to follow highly regimented steps and are often very lengthy.<sup>101</sup>

<sup>100</sup> This section draws extensively from Public Sector Commission (2009c).

<sup>101</sup> The most recent sector-wide figures – from Auditor General (2006) – are that the median elapsed recruitment time fell from 93 days in 1998 to 78 days in 2004, compared to around as little as 14 days for private sector recruiters.

The requirement to appoint to a specific position, rather than to level, is seen by many of the managers consulted by the Committee as an impediment to flexibility in addressing changing or emerging priorities through redeployment. These problems are especially significant in regional and remote areas.

Some agencies have taken steps to address these issues (see box below). In addition, the 'Rethinking Recruitment' initiative has tried to dispel a few myths about procedural requirements and has somewhat improved the situation.<sup>102</sup>

### **Recruitment reform in the Department for Child Protection (DCP)<sup>103</sup>**

Faced with the challenge of recruiting 300 additional people following a decision to strengthen its capacity, DCP took some radical steps to develop user friendly business-focused recruitment tools. The agency developed a large scale branding campaign to raise the profile of DCP and to sell the benefits of working there. The campaign involved radio and press advertisements. They were also granted a 12-month exemption from the Redeployment Process and External Advertising Requirements and a partial exemption of the Recruitment Standard for a specified group of positions.

The agency strengthened their internal procedures to include rating matrices to assess staff performance and interview templates that were easy to use and ensured consistency across the agency.

Based on staffing numbers, the innovations have been a success. Between August 2006 and May 2007, employment in targeted groups rose from 529 to 751 people. Prior to the campaign, a pool position advertisement elicited 70 applications and provided 30 appointments. After the campaign, a similarly advertised position brought in 233 applicants and provided 96 appointments. More applicants have qualifications, and their experience is well aligned to the work of DCP. There has been no increase in breach claims despite the significantly increased numbers of applicants assessed.

Individual performance management is often treated as a compliance exercise rather than as a tool for career development. Compared to the private sector, there are limited ways to reward exceptional performance. Arrangements for dealing with substandard performance tend to create an adversarial relationship and are often considered to be more trouble than they are worth. Arrangements for dealing with breaches of discipline are excessively prescriptive, are time consuming and have little effect in anything but the most extreme cases. Involuntary separation is not an option open to managers.

<sup>102</sup> For example, Department of the Premier and Cabinet (2007).

<sup>103</sup> Based on a case study in Department of the Premier and Cabinet (2007).

As a result, substandard performance can be difficult to address in a timely fashion, and almost never results in dismissal. Many stakeholders raised this as a fundamental issue, highlighting the adverse affect on morale and the need to provide more avenues for involuntary separation to underpin an employer's ability to effectively manage staff.

During the Committee's consultation, many stakeholders identified the PSMA as the cause of these symptoms of public sector inflexibility. However, the Committee's view is that, with some notable exceptions (such as the detailed disciplinary procedures prescribed by the PSMA), inflexibility is due to subsidiary instruments (such as Approved Procedures, Commissioner's Circulars and Public Sector Standards for Human Resource Management) and risk averse, overzealous interpretations by agencies.

Too often, what starts out as a menu of options to guide decision-making according to a particular circumstance ends up as a litany of rules that must be followed in every circumstance. Recruitment and selection processes are regularly highlighted as being overly prescriptive and time consuming yet often when challenged it is not the processes that are prescriptive, but the way in which they are operationalised in agencies to make sure that 'nothing goes wrong' (see box below).

### **Restrictions on recruitment – separating myth from reality**

An assumption exists that the only permissible way to conduct recruitment in the public sector is with a three or four member mixed gender panel that assesses written statements about a narrow and specific set of knowledge or skill requirements and only asks a set number of identical questions when interviewing candidates.

Under the legislation itself, the only requirement is that there be a proper assessment of merit that is free of any bias and nepotism. Therefore a CEO could act alone, identify a suitable individual whose skills were a good fit for the job and appoint that person.

However, redeployment and redundancy regulations require that the vacancy be first cleared through redeployment, approved procedures specify how the vacancy should be advertised and guidelines developed to support Standards in Human Resource Management (while not prescriptive) establish expectations about what is required to conduct and demonstrate a proper assessment and ensure appropriate level of transparency. Agency policy might require various forms to be submitted and approved (under established delegations) at any number of steps along the way. That policy may also stipulate panel composition and require that panel members have been through an approved recruitment training program. Quality assurance processes may require an independent assessment of the whole process and breach of standards process will create an opportunity for unsuccessful applicants to have the process reviewed again (but not the outcome).

The use of complex criteria, reliance on formal written processes and the common practice of asking every candidate the same question are agency level constructs put in place to minimise the risk that an agency will be perceived to have acted in breach of the Standards. This comes with the risk of not being able to adequately assess a candidate's suitability for the role.



It must also be recognised that the PSMA and subsidiary instruments are themselves based on a number of necessary tenets of public sector accountability and management. Decisions must be accountable and transparent, capable of withstanding public scrutiny as to their freedom from bias, nepotism and patronage. Aggregate public sector financial sustainability must be maintained. Public sector agencies remain subject to the prevailing industrial relations environment, including unfair dismissal protections and collective bargaining.

### ***Working across structures***

The third key issue identified by the Committee relates to the challenges of working across the organisational boundaries of the public sector. Western Australia's public sector consists of a large number of specialised entities.<sup>104</sup>

This results in a number of risks:

- potential difficulties for the public in identifying and accessing specific government services;
- some limitations on the ability to move resources, skills and infrastructure quickly and easily across the public sector; and
- a heightened risk that policy advice to Government will be disconnected or diffuse.

However, there are also advantages of the current structure that are lost in 'mega-department' models, such as in Victoria. As one stakeholder noted:

*Some silos are good – they allow for specialisation – when agencies get combined expertise is often lost.*

The Committee acknowledges that there is no single set of principles for best configuring the machinery of government for a public sector. Rather it is a prerogative of the Government, which must inevitably weigh up the relative merits of the political, policy and administrative dimensions of any proposal for reorganisation of government departments. The key challenge is not to identify the ideal structure of the public sector, but to facilitate a smooth transition when structures do change and ensure that the risks of the current structure are minimised, and the advantages maximised. The effectiveness of the structures of government (i.e. Ministerial portfolios and departments) relies on the people and culture within it. In particular, the challenge is to remove barriers to seamless access to services by the public, the mobility of public servants, and collaboration on policy advice. A range of stakeholder views on these issues were received during the Committee's consultation, as summarised in the box below.

<sup>104</sup> The number of agencies varies according to the definitions used. Under PSMA definitions, the public sector consists of around 166 bodies. Western Australia has more (115) directly budget funded general government agencies than in other States (Queensland – 76, South Australia – 68, New South Wales – 64, Victoria – 11).



*We do need to work on making the public sector culture more open to innovation and change. (Department of Sport and Recreation)*

*All employees of the public sector must be encouraged to think beyond their job description and the boundaries of how the public sector currently operates. A culture that rewards innovative thinking and action through promotion rather than promotion through tenure should be encouraged if the sector wants to attract people who seek freedom in their employment to make a difference and to stand out. (Tenants Advice Service WA Inc)*

*A lack of high-level policy co-ordination has meant that some policy issues slip through the cracks of Departmental responsibility. This is particularly the case when cross-agency cooperation is required for effective policy action ... a notable weakness of the WA public service. (WACOSS)*

*Providing the opportunity to work across organisational boundaries towards common goals starts with the sharing of information and direction and open communication. Often organisations are delivering similar activities, that with only just good communication can lead to shared benefits ... (Northern Agricultural Catchments Council)*

*More deliberate and intentional strategies are now needed to build a higher level of across agency collaboration within the Western Australian public sector. (Disability Services Commission)*

*(There is) a need for inter-governmental integration and coordination, and the ability to share customer feedback and comments. Service provision across government should be seamless. It would be ideal for one client/customer to be serviced by various interconnected sections not separate entities. Departments currently operate as silos not as team players or cells for the one government. (Youth Focus)*

The Committee is confident that the Outcome Area approach to strategic management and accountability and the proposed Principles of Collaboration outlined in Chapter 2 will facilitate work across organisational boundaries, and that the measures outlined in Chapters 3 and 4 will encourage innovation in service delivery. However, there needs to be a quantum shift to public sector systems, processes and policies that encourage and reward collaborative and innovative behaviours. Collaboration implies that there will be multiple accountabilities, yet existing systems for accountabilities and rewards are generally tied to a single agency, providing few structured opportunities for incentives to work collaboratively. In removing these barriers, lessons can be learned from existing initiatives that have made progress in this regard, such as the PECN project (see Chapter 2) and the Aboriginal Affairs Coordination Committee (see box below).

**The Aboriginal Affairs Coordinating Committee (AACC)** is a statutory body comprising eight Directors General and the Chair of the Western Australia Aboriginal Advisory Council. Although established in 1972, the group has recently convened with renewed energy so that agencies work more collaboratively to close the gap on Indigenous disadvantage.

The success of the AACC to date is attributed to:

- developing a common vision and agreeing to key areas of collective action;
- addressing systemic blockages;
- leadership and strong relationships to override traditional 'red tape' barriers;
- creating new public service instruments to augment collaborative effort;
- driving systemic change; and
- collaborating to achieve better coordinated and locally appropriate outcomes.

The AACC has focused its effort on three key Aboriginal communities including Armadale, Roebourne and Oombulgurri, and jointly funded a Chief Operating Officer to be the champion and on-the-ground decision-maker discharging work on behalf of the AACC as a new way of doing business. This appointment provides a single point of contact for a major interagency effort.

Senior executive services (SES) operate in all Australian jurisdictions on the premise that management functions across the public sector have some common elements and require a common skill set. The objective of the SES was to develop a capability that could be accessed by the public sector as a whole rather than by a specific department. However, the Western Australian experience shows little evidence of movement across agencies within the SES. A study of career paths by DPC in 2001 showed that progression was more common among people who remained in the one agency, providing little motivation for individuals to seek opportunities to work across agencies.<sup>105</sup> A recent report on the experience of the APS suggests that this is a common problem, even where there is more flexibility in remuneration arrangements.<sup>106</sup> A reluctance to support collective interest over agency interest may be a factor. CEOs often appear unwilling to see trusted senior executives move to other agencies. Role-specific classification of SES positions can also impede movement between agencies where classifications are not equivalent.

<sup>105</sup> Department of the Premier and Cabinet (2001).

<sup>106</sup> Advisory Group on Reform of Australian Government Administration (2009).

ICT provides a powerful opportunity to organise and collaborate across structures. Used well, ICT can facilitate seamless services tailored to individual needs regardless of the structure of government. It is also a powerful enabler for sharing information, which is essential to collaboration. As highlighted in Chapter 3, providing user-friendly information and transactions online should be a first step. Further steps can be taken through harnessing the potential of social media and networking tools to engage the public.

The work of the Commonwealth's Government 2.0 Taskforce has done much to highlight the opportunities provided by new technologies to change the way government relates to the community (see box below).

### **Government 2.0 Taskforce**

The aim of Government 2.0 is to make government information more accessible and useable, to make government more consultative, participatory and transparent, to build a culture of online innovation, and promote collaboration across agencies in online and information initiatives.

There are obvious benefits in moving in this direction. Ideally citizens should be able to collaborate with government and each other in developing and considering new policy ideas. Online engagement can also give citizens greater insight into the policy making process and greater appreciation of the complexities of policy decisions. It makes possible an ongoing conversation amongst all who wish to participate in considering the effectiveness of existing government programs, laws and regulations and the scope for improvement. Government can use collaborative technologies to draw on the skills, knowledge and resources of the general community when developing policies or delivering services. Agencies can receive feedback more rapidly, from more people at less cost.

The Taskforce is charged with finding ways to help government consult, and where possible actively collaborate with the community, to open up government and maximise access to publicly funded information through the use of Web 2.0 techniques.

Compared with this innovative and conceptually mature ICT agenda, progress in building the Western Australian public sector's strategic ICT capacity has stalled. This is in part due to a lack of clear leadership to champion and shape this important realm of modernised public sector management. While recommendations have been made in past reviews to develop the strategic ICT capacity of the sector, the Committee notes that a commitment to building this capability has never been adequately resourced.

While common standards that facilitate information sharing and seamless user experiences have been developed, the implementation of these standards suffers from a lack of clear responsibility. Without clear responsibility and leadership, the interoperability that is at the heart of collaboration through ICT remains a distant goal.

The Committee recognises that governments and businesses around the world have often struggled with the implementation of ICT infrastructure. Western Australia is no different. There have been notable successes in redesigning service delivery to provide better outcomes for the public enabled by ICT (see box below). However, there are also areas where Western Australia is falling behind other jurisdictions. Too often, agencies have demanded that ICT solutions be retro-fitted to create updated versions of existing systems and processes, rather than fundamentally reforming their systems and processes. This approach reduces the effectiveness and increases the cost and timeframes of ICT projects.

### **Examples of ICT Enhanced Service Delivery**

Landgate's **Shared Land Information Platform (SLIP)** allows people to access government information online from more than 200 spatial datasets within 19 agencies. People and systems can access the information 24 hours a day, seven days a week, regardless of their location. SLIP is the result of extensive consultation, collaboration, and communication processes involving many parties over four years. It works in a way that sets a precedent by enhancing the capacity of the public sector in collaboration and joined-up government. A major benefit is the improved capacity for developing public-business partnerships. Collaboration with private information technology vendors through the SLIP Developers Program encourages significant cross-fertilisation of ideas and the ability to incorporate leading edge solutions.

**SmartRider**, Transperth's electronic ticketing system, uses smartcard technology with an embedded microchip. This embedded microchip allows value to be stored onto the SmartRider card, journey details to be recorded, and the fare value of each journey to be deducted from the stored value on the card. SmartRider requires passengers to 'tag on' and 'tag off' at the start and end of their journey, automatically debiting the card the minimum fare payable. Passengers are able to add value to their SmartRider in various ways (manually at 'value add' machines; via direct debit or BPay; on board; or at information centres). Passengers are able to register their card online offering a safeguard for stolen cards, whilst also allowing users to view their transaction history/balance at any time. The SmartRider system is simple to use, cash-free, fast, and efficient.

## Way Forward

The recommendations in this chapter focus on removing barriers and red tape within the public service that duplicate and confuse accountability, prevent flexibility, stifle innovation and provide excuses for poor outcomes. Once these settings are changed, it will be up to public sector leaders to seize the opportunities that this creates to refocus the business of their agencies to achieve better outcomes for the community. These recommendations are not just important for their collective contribution to harnessing the potential of the public service. They are also fundamental underpinnings of the success of the other recommendations in this report.

### *Workforce skills and capacity*

Realisation of the Committee's vision, as articulated throughout this report, requires a skilled, diverse, flexible and motivated public sector workforce. Whether services are delivered through the public, private or community sectors or by paid employees, contractors or volunteers, the public sector will have an important role to play. The Committee has therefore identified a number of strategies to build and sustain a skilled workforce with the capacity to meet changing community expectations and to adapt to the new role of the public sector.

In this regard, the Committee supports the intent of the SDPSW and the reform objectives it proposes. Three aspects were highlighted by the Committee as being particularly important: workforce planning, addressing regional workforce challenges, and building capacity.

The Committee sees robust workforce planning and development as a priority, particularly for agencies with a large front line service delivery workforce (for example, health, education, police). In the context of increasing delivery of public services through the community and private sectors, this planning needs to incorporate the broader non-government workforce delivering those services.

Improved workforce planning will also require enhanced evaluation and forecasting of service demand and labour markets in order to identify resource gaps, and corresponding strategies to increase attraction, development and retention of people to fill these gaps. However, planning for an ever expanding workforce to meet ever increasing demand for services is neither realistic nor sustainable. Workforce planning will therefore also require agencies to rethink how services are delivered and to redesign their workforces to maximise the use of people's skills and experience.

The Public Sector Commission will play an important role in facilitating the sharing of workforce planning techniques and data, and in identifying and addressing workforce issues that cut across the entire public sector.

**Recommendation 33:** Better equip the public sector to meet workforce challenges by actively supporting the implementation of *Strategic Directions for the Public Sector Workforce 2009-2014* (SDPSW) at both a sector and agency level. Implementation priority should be given to:

- a) improving the quality and effectiveness of agency workforce planning in addressing projected skill and labour requirements, including the application of labour supply and demand side management strategies, service redesign and productivity improvement initiatives; and
- b) implementing new and innovative approaches to attracting, developing and retaining a skilled regional workforce.

**Responsibility**

Public Sector Commission

**Deadline**

Ongoing

**Milestones**

- Prepare Outcome Area level implementation plans for the SDPSW in conjunction with agencies [December 2010]
- Consult and work with key service delivery agencies (with a regional presence) to identify three collaborative initiatives that can improve regional capacity and provide coordination support to the implementation of those initiatives [April 2011].
- Conduct mid and end of strategy reviews of the effectiveness of implementation of SDPSW across the sector [2011 and 2014].

There must be ongoing investment in the skills and capacity of the public sector workforce to respond to new and evolving demands placed on government, and to provide continuous improvement in the services provided to the public. The Committee’s recommendations in other chapters of this report have also pointed to the need for capacity and skills development in specific areas, such as leadership, policy formulation, procurement, contract management, project management, service brokerage, and evaluation. The public sector must do more than pay lip service to the notion of ‘investing in people’. Priorities must be established and adequate resources must be made available at both the agency and sector level to ensure that individual and collective capacity to improve services to the public is being built. However, building capacity and skills requires more than training courses. As observed in Chapter 2, much learning happens by doing and through an ongoing process of observation, reflection and revision of strategies based on concrete experiences. The Committee is therefore of the view that agencies should undertake capability gap analyses to ensure that training is targeted so that new skills are effectively utilised.



In many areas, this training and professional development will be specific to a particular agency. In others, it will be more appropriate to operate centrally organised programs. Across the sector, leaders have the responsibility to promote a culture of questioning and continuous improvement.

The Committee recognises that in some cases, it will not be feasible to build and maintain specialised skills within the public service. For example, it is unlikely that the public sector will be able to sufficiently compete with the private sector for qualified and experienced project managers for major infrastructure projects.

In these instances, selected use should be made of short term contracting arrangements to complement public sector resources.

**Recommendation 34:** Enhance public sector skills and capacity by:

- a) supporting agencies to develop capability gap analyses that enable the targeting of training and development investment;
- b) developing programs designed to give senior officers skills and experience in different strategic and operational environments; and
- c) implementing sector wide programs designed to address identified gaps.

**Responsibility**

Public Sector Commission

**Deadline**

Ongoing

**Milestones**

- Develop and implement a shorter term (interim) program for supporting capacity building in high priority areas for Government [July 2010].
- Develop an ongoing sector level program for building capability in the public sector workforce that applies good practice models, methods and curricula [April 2011].

The Committee has identified a number of areas across this report where enhanced public sector policy capacity is required to deliver on Government priorities. One specific example raised in Chapter 5 relates to market policy advice within the general government sector. Retaining this policy expertise within the general government sector is critical to ensure that Ministers are not compromised by having to rely heavily on a GTE in relation to matters of market policy (where the GTE has a self interest) and to ensure that a broader understanding of Government's priorities and desired outcomes informs policy development.



At present, general government agencies have less flexibility in relation to remuneration than GTEs. As a result, they are unable to compete with GTEs, undermining agency management and policy capacity. This has particular implications for the Committee's recommendation to create a Utilities Policy Office (see Recommendation 32). In order to ensure that this Office is able to attract and retain appropriately skilled people, arrangements should be put in place to allow it to compete with the GTEs. The additional cost to government of competitive remuneration should be funded by a levy on the relevant GTEs and major private sector participants in those markets.

**Recommendation 35:** Mitigate the negative impacts of competition for utility policy capacity between the general government sector and Government Trading Enterprises (GTEs) by benchmarking and linking the remuneration of Utilities Policy Office employees to those in the GTEs.

#### Responsibility

Department of the Premier and Cabinet

#### Deadline

July 2011

#### Milestones

- Drafting instructions for funding levy to Cabinet [October 2010].

Ensuring the financial sustainability of the public sector workforce by controlling employee related expense growth was the subject of several recommendations in the Committee's First Report (see updates in Appendix 7). Based on subsequent deliberations, the Committee notes that:

- increased agency flexibility in recruitment should operate within the rigorously enforced parameters of the Government's public sector wages policy and agency expense limits;
- notwithstanding the reduction in Attraction and Retention Benefit (ARB) applications and approvals, there will be an ongoing need for the use of ARBs in special circumstances; and
- in June 2009 Mr Stephen Amendola was appointed to conduct a review of the Western Australian industrial relations system. That review is considering the nature and number of instruments and the operation of the system that administers them.

**Recommendation 36:** Lift the freeze on Attraction and Retention Benefits (ARBs) while maintaining and enhancing the current controls and the high level of scrutiny being applied to decisions concerning ARBs.

**Responsibility**

Public Sector Commission

**Deadline**

With immediate effect

**Milestones**

- Revise Approved Procedure 7 to give effect to this recommendation and identified opportunities for improvement [July 2010].

**Recommendation 37:** Pursue the following reform proposals separately in the context of the outcomes of the Amendola review of the industrial relations system:

- a) accelerate the standardisation, simplification and rationalisation of industrial awards currently being pursued by the Department of Treasury and Finance and the Department of Commerce, without disadvantage to existing employees; and
- b) a decentralised service model for industrial relations services, with ongoing advice on the identification and realisation of efficiency and productivity opportunities provided by out-posting Department of Commerce officers within agencies with large occupational groups.

**Responsibility**

Department of Commerce

**Deadline**

June 2010

**Milestones**

- Prepare a Cabinet Submission proposing options for reform [June 2010].

The Committee considers that the work of the Labour Relations Division in the Department of Commerce needs to be complemented by greater effort in government to identify productivity improvements that benefit both the Government and the public service. The current focus on negotiating wage agreements ignores a larger set of opportunities that should be exploited.

## **Systems and processes**

To address the second key issue, the Committee envisages a responsive, productive and accountable public sector freed from unnecessarily prescriptive controls. Decision-making should be devolved to agency CEOs and to front line staff who are best placed to respond to the needs of the public. For this to occur, concerted effort is required to shift from the present compliance based, risk averse public sector culture to one of trust and principle. Managers should be encouraged to apply their own informed judgement. Systems and processes to monitor adherence to principles of integrity, ethics, transparency and accountability will be required. Where core principles of public sector governance and administration are breached or where public trust is abused, transgressors should face severe consequences.

A necessary first step to achieving this culture shift is a review of the legislation and subsidiary instruments that underpin the existing system. In this regard, the Committee notes the Government's recent announcement of a range of public sector reforms, including proposals to amend the PSMA.<sup>107</sup> These amendments lay a foundation for a stronger and simpler accountability framework, with streamlined administrative processes.

The Committee strongly recommends that the proposed amendment of the PSMA be followed by measures to address the constraints on agency management identified during its consultation. In particular, subsidiary instruments (including Public Sector Standards in Human Resource Management, approved procedures, policies and Public Sector Commissioner's circulars) should be revised to provide greater flexibility for agencies in human resource management.

This would include the flexibility to offer financial or non-financial incentives, particularly in regional areas, tailor performance management and disciplinary procedures, determine job classifications, and reassign or transfer staff.

**Recommendation 38:** Strengthen and simplify the public sector management framework by streamlining public sector oversight structures and removing unnecessary prescription, including through:

- a) merging the role of the Public Sector Standards Commissioner and the Public Sector Commissioner;
- b) streamlining discipline provisions and arrangements for the regulation of conduct; and
- c) removing unnecessary prescription from those instruments that regulate the recruitment, management, performance management and discipline of public sector employees.

<sup>107</sup> Barnett, C. (Premier) & Porter, C. (Attorney General) (2009).

Responsibility	Deadline
Public Sector Commission	2009-ongoing
<p><b>Milestones</b></p> <ul style="list-style-type: none"> <li>• Draft and introduce changes to the <i>Public Sector Management Act 1994</i> in accordance with Government’s legislative priorities and reform agenda.</li> <li>• Following passage of amended legislation, implement required structural changes to achieve integration of Office of the Public Sector Standards Commissioner/PSC functions and processes [within three months of proclamation].</li> <li>• Develop and commence a program to revise subsidiary compliance instruments [March 2010].</li> </ul>	

The mobility of employees around, in and out of the public sector was raised in the Committee’s First Report and through its subsequent consultation. Shifting from appointment to position to appointment to level was raised as a potential measure by several stakeholders. Those in favour believe that by removing the requirement for people to be tied to specific job descriptions on appointment, CEOs and managers would have more flexibility to respond to changing circumstances and public expectations. For example, it would facilitate the creation of temporary policy development teams, removed from their day-to-day roles to focus on a policy issue, without facing the bureaucratic hurdles (creating positions, conducting expressions of interest, reassigning positions) that such initiatives currently involve.

The Committee’s consultation revealed support for the concept of involuntary separation as an option of last resort, moving the emphasis from permanency to performance (for example see box below). The introduction of involuntary separation would remove an employee’s guarantee and sense of entitlement to continued employment. As a result, employees would have more incentive to accept redeployment or voluntary severance if they were offered. It is anticipated that by providing this incentive, involuntary severance powers would rarely need to be exercised.

*Permanency pervades the Public Sector; it drives the culture, norms and behaviour and often impedes responsiveness to the changing demands of Government and the community. In addition, it leads to unnecessarily long and arduous performance management processes, and ultimately works against building a highly motivated and skilled public sector. Nowhere is this more obvious than in the ranks of middle to senior management. While representing an acceptable safety net for potentially vulnerable lower-ranked officers, uniform permanency (outside the SES) has long outlived its usefulness as an employment strategy and is antagonistic to the needs of the modern outcome-driven organisation. (Department of Housing)*

**Recommendation 39:** Provide for involuntary separation in the public sector as an option of last resort by further amendments to the *Public Sector Management Act 1994* and relevant subsidiary instruments.

**Responsibility**

Public Sector Commission

**Deadline**

December 2010

**Milestones**

- Draft legislative amendments and revised subsidiary instruments to enable involuntary separation [December 2010].

A cultural shift from compliance to trust will also require central regulatory bodies, CEOs and managers to be willing and able to exercise devolved decision-making powers. Devolution requires new ways of working and managing across organisations. Front line managers will assume the additional responsibilities associated with decision-making. Middle managers will require new skills and approaches, moving away from traditional roles of making sure that things are done in accordance with systems and processes designed to provide a common level of service within agreed rules and protocols.

CEOs will need to focus more on the strategic direction of the organisation and exercising sound judgement than on complying with centralised regulations. The Committee envisages a ‘supported’ devolution of decision-making, in which CEOs and managers are granted increasing flexibility and authority based on their performance in exercising sound judgement. This will require a continued focus on training in accountability and ethical decision-making and on the principles that underpin current regulatory arrangements across a range of activities. The Public Sector Commissioner has the authority to devolve decision-making in many areas, particularly relating to human resources. The Committee envisages that the Commissioner will be supported by the ECC in the exercise of these powers.

While not advocating a specific model, the Committee is of the view that the ECC should review approaches to excellence in organisational management (as outlined in Chapter 2) and consider the adoption of a model that can be applied in the Western Australian public sector.

For instance, if a form of the Australian Business Excellence Framework was adopted, then those agencies that scored highly in the ‘People’ category<sup>108</sup> would have greater control over their human resource processes. Those with high scores in the ‘Knowledge and Information’ dimension might be exempted from a range of external reporting

<sup>108</sup> The Australian Business Excellence Framework provides a holistic approach to organisational management by providing a framework for assessment and development of activities on seven dimensions: Leadership; Strategy & Planning; Knowledge & Information; People, Customer & Market Focus; Innovation, Quality & Improvement; and Success & Sustainability.

requirements. Agencies achieving a high ranking against predetermined standards should be afforded authority for organisational management.

*There should be greater executive accountability where public sector agencies have demonstrably poor performing cultures. ...Guidelines/checklists should be provided on benchmarks for high performing organisations. There is a body of literature available and this content would enable self assessments, guide internal audits and provide fabric for portfolio performance assessments. (Department of Sport and Recreation)*

**Recommendation 40:** Expand the range of powers devolved to accountable authorities by giving agencies greater control over administrative processes that are currently managed centrally, based on a mechanism that recognises administrative capability and performance.

**Responsibility**

Public Sector Commission

**Deadline**

With immediate effect

**Milestones**

- Where appropriate, agencies granted increased delegations. [December 2010].
- Provide agency support and capacity building initiatives in relevant compliance areas [ongoing].

**Working across structures**

As a general rule, the Committee supports a reduction in the number of statutory authorities, not least because they provide less flexibility for the Government to reorganise structures and resources to best meet its priorities and emerging issues. The Committee would also favour a long-term reduction in the number of small agencies (particularly those with less than 50 full time equivalents [FTEs]), boards and committees given the additional costs and complexity that large numbers of small agencies involve. As at June 2009, there were 52 agencies with fewer than 50 FTEs, of which 29 had fewer than 20 FTEs.<sup>109</sup> However, the Committee recognises that there is no one best structure, and that it is the prerogative of the Government to decide on the structure of the public sector that reflects its priorities. The public sector's role is to facilitate smooth implementation of Government decisions around structural change. To this end, and in

<sup>109</sup> Public Sector Commission (2009d).

response to its Terms of Reference, the Committee proposes machinery of government principles attached as Appendix 8 as a guide to planning and decision-making.

The public sector must also operate in such a way as to minimise the risks of any given structure. In particular, the high administrative overheads associated with a large number of agencies should be minimised. The shared services reform is a key strategy in this regard, removing the need for agencies to operate separate payroll and finance systems. The Committee also encourages the adoption of administrative ‘hosting’, whereby larger agencies provide the full range of administrative support to smaller agencies, as in the boxed example.

### **Administrative hosting**

Western Australia has a number of environmental agencies. To avoid high administration costs, and to enable the smaller agencies to focus on their core business, the Department of Environment and Conservation (DEC) provides an administrative hosting service (Corporate Services Bureau service). At present, this includes the Swan River Trust, the Forest Products Commission, the Keep Australia Beautiful Council, the Conservation Commission, the Marine Parks and Reserves Authority, and the Waste Authority. DEC takes care of a tailored range of financial, human resources, annual reporting, ICT, and accommodation requirements of these agencies.

Regardless of the organisational structure of the public sector, public sector management should foster collaboration and innovation across organisational boundaries.

Recommendations in other chapters (for example, Recommendations 3, 6 and 10) are intended to facilitate this. The Committee is of the view that immediate additional action is required in two areas: the arrangements around the use of members of the SES and the enhanced use of ICT.

Removing impediments to mobility by revitalising the concept of a mobile and multi-skilled SES can enhance capacity to address key issues and priorities across the sector. There is no greater motivator to understanding issues from the perspective of another agency than the thought that ‘I might be working there next week.’ New arrangements and expectations require a fundamental rethinking, not simply of the way in which people are deployed, but of how they are recruited and rewarded.

The Committee envisages that in the future, the public sector will recognise the value of public servants who have operated at a senior level across agencies. In particular, it anticipates that people who work in senior levels in central agencies will have worked in a line agency and a Ministerial office.



**Recommendation 41:** Increase the mobility of Senior Executive Service (SES) officers to foster a whole of government rather than an individual agency perspective by:

- a) adopting employment arrangements that encourage mobility of SES officers between agencies;
- b) introducing alternative arrangements for senior executive remuneration setting by amending relevant legislation to allow the responsible employer to set individual remuneration for senior executive employees within established bands; and
- c) reviewing the recruitment criteria of SES positions to ensure broad exposure to a range of strategic and operational environments.

**Responsibility**

Public Sector Commission

**Deadline**

March 2010

**Milestones**

- Develop a framework for SES development, succession planning and remuneration [March 2010].

New technologies can create opportunities to build customer and client relationships in cost-effective ways and have the potential to facilitate collaboration between entities and across sectors. New technologies can also provide enabling functions such as information exchange, knowledge sharing, cross-agency project management, collaborative policy development, stakeholder networking, shared services arrangements and shared infrastructure.

To position the Western Australian Government as a leader in the strategic use of ICT the Committee is strongly of the view that:

- a well resourced Chief Information Officer (CIO) role be established to identify opportunities for the effective and efficient achievement of Government's desired outcomes through the use of ICT; and
- the implementation of this strategic direction be maximised by the establishment of a Chief Technology Officer (CTO) role to optimise government ICT investment through procurement processes that enforce common standards interoperability and system consolidation.

Both the CIO and the CTO should work in partnership to identify and then facilitate initiatives for delivering solutions that support or foster enhanced service delivery and efficiencies across agencies through the adoption of ICT.

**Recommendation 42:** Establish a Chief Information Officer role to:

- a) identify opportunities for harnessing information and communication technology (ICT), including social media, to promote collaboration and more citizen focused service design and delivery; and
- b) sponsor innovative and collaborative ICT initiatives through the provision of seed capital.

**Responsibility**

Executive Coordinating Committee

**Deadline**

December 2010

**Milestones**

- Resource a Chief Information Officer capability within Treasury [February 2010].
- Build on existing strategies and protocols to develop a framework for identifying, assessing, supporting and reporting on across government ICT coordination and investment [June 2010].

**Recommendation 43:** Establish a Chief Technology Officer role to:

- a) promote strategic and coordinated investment in information and communication technology (ICT) across the public sector; and
- b) implement procurement processes that enforce common standards, interoperability and system consolidation.

**Responsibility**

Department of Treasury and Finance

**Deadline**

December 2010

**Milestones**

- Resource a Chief Technology Officer capability within the Office of Government Procurement [February 2010].
- Build on existing policies and standards to develop a framework to guide more strategic and coordinated investment in ICT across the public sector. [June 2010].

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## Appendix 1 – List of Committee Meetings Held

Date	Meeting Type
19 November 2008	Committee meeting
11 December 2008	Committee meeting
16 January 2009	Committee meeting
23 January 2009	Teleconference
30 January 2009	Teleconference
6 February 2009	Teleconference
13 February 2009	Teleconference
19 February 2009	Committee meeting
27 February 2009	Teleconference
13 March 2009	Committee meeting
19 March 2009	Committee meeting
27 March 2009	Committee meeting
16 April 2009	Committee meeting
22 May 2009	Committee meeting
18 June 2009	Committee meeting
8 July 2009	Workshop with external stakeholders
4 August 2009	Workshop with external stakeholders
20 August 2009	Committee meeting
3 September 2009	Teleconference
11 September 2009	Committee meeting
17 September 2009	Committee meeting
2 October 2009	Teleconference
15 October 2009	Committee meeting
26 October 2009	Committee meeting

## Appendix 2 – List of Submissions Received

Item	Organisation	Date
1	Individual Submission	10/11/2008
2	LandCorp	24/11/2008
3	Department of Treasury and Finance	2/12/2008
4	Public Sector Commission	12/12/2008
5	Department of Treasury and Finance	15/12/2008
6	Department of Housing and Works	19/12/2008
7	Department of Agriculture and Food	19/12/2008
8	Curtin University of Technology	22/12/2008
9	Department of Fisheries	15/01/2009
10	Commissioner for Children and Young People	19/01/2009
11	Department of Treasury and Finance	19/01/2009
12	Department of Mines and Petroleum	19/01/2009
13	Department of State Development	21/01/2009
14	Botanic Gardens and Parks Authority	21/01/2009
15	Department for Planning and Infrastructure	30/01/2009
16	CentreCare	03/02/2009
17	Disability Services Commission	03/02/2009
18	Department of Treasury and Finance (State Revenue)	03/02/2009
19	Public Sector Commission	05/02/2009
20	ScreenWest Inc	20/02/2009
21	Institute of Public Administration Australia WA	23/02/2009
22	Australian Institute of Aboriginal and Torres Strait Islander Studies	24/02/2009
23	Landgate	03/03/2009
24	Serco Asia Pacific	03/03/2009
25	Individual Submission	08/03/2009
26	National Trust of Australia	09/03/2009
27	Individual Submission	09/03/2009

Item	Organisation	Date
28	Individual Submission	11/03/2009
29	Oxford Said Business School	11/03/2009
30	Department of Water	03/02/2009
31	Individual Submission	12/03/2009
32	Individual Submission	12/03/2009
33	AIM UWA Business School Alliance	13/03/2009
34	Individual Submission	13/03/2009
35	Individual Submission	16/03/2009
36	Office of the Public Sector Standards Commissioner	16/03/2009
37	Western Australian Council of Social Service (WACOSS)	16/03/2009
38	LotteryWest	17/03/2009
39	Department of Environment and Conservation	17/03/2009
40	Department of Health	18/03/2009
41	Individual Submission	18/03/2009
42	Individual Submission	18/03/2009
43	Individual Submission	18/03/2009
44	Individual Submission	18/03/2009
45	Individual Submission	19/03/2009
46	Individual Submission	19/03/2009
47	Department of Planning and Infrastructure	19/03/2009
48	Individual Submission	20/03/2009
49	Tourism Radio	20/03/2009
50	Individual Submission	23/03/2009
51	Department of Treasury and Finance	24/03/2009
52	Individual Submission	24/03/2009
53	Individual Submission	25/03/2009
54	Western Australian Sports Centre Trust	02/04/2009
55	Classroom Management Strategies Program	03/04/2009
56	Department of Treasury and Finance	03/04/2009

Item	Organisation	Date
57	SAP Australia Pty. Ltd	14/04/2009
58	Individual Submission	17/04/2009
59	LotteryWest	20/04/2009
60	Neltronics	30/04/2009
61	Duncan Solutions, Duncan Technologies	01/05/2009
62	Individual Submission	04/05/2009
63	Australia Post	04/06/2009
64	Department of Housing and Works	16/06/2009
65	Individual Submission	06/07/2009
66	Business Management and Works	14/07/2009
67	City of Melville	14/07/2009
68	Disability Services Commission	20/07/2009
69	CentreCare	20/07/2009
70	Mercor	21/07/2009
71	Office of Shared Services	04/08/2009
72	Department for Communities	05/08/2009
73	Department for Child Protection	08/08/2009
74	Main Roads	11/08/2009
75	Richmond Fellowship of WA	14/08/2009
76	Nulsen Haven Assn. Inc	17/08/2009
77	EON Foundation Inc	20/08/2009
78	Cancer Council Western Australia; and National Heart Foundation (WA Division)	20/08/2009
79	National Disability Services	23/08/2009
80	Individual Submission	24/08/2009
81	Master Builders Association of WA	27/08/2009
82	Diabetes WA	27/08/2009
83	Individual Submission	27/08/2009
84	City of Melville	28/08/2009



Item	Organisation	Date
85	Alliance for Children at Risk	28/08/2009
86	Individual Submission	28/08/2009
87	Public Transport Authority	28/08/2009
88	In Control Australia	30/08/2009
89	Desert Knowledge Australia	31/08/2009
90	Department of Corrective Services	31/08/2009
91	Western Australian Fishing Industry Council (WAFIC)	31/08/2009
92	Department of Education Services	31/08/2009
93	EDI-Rail - Bombardier Transportation Pty Ltd	31/08/2009
94	Commissioner for Children and Young People	31/08/2009
95	Norwest Pearls Pty Ltd	31/08/2009
96	Individual Submission	31/08/2009
97	Western Australian Association for Mental Health (WAAMH)	31/08/2009
98	Australia Post	31/08/2009
99	SAP Australia Pty. Ltd	31/08/2009
100	Health Consumers Council WA	31/08/2009
101	University of Western Australia	31/08/2009
102	Western Australian Council of Social Service (WACOSS)	31/08/2009
103	Northern Agricultural Catchments Council	31/08/2009
104	IBM Australia Limited	31/08/2009
105	Department of Health	31/08/2009
106	State Records Office of Western Australia	31/08/2009
107	Chamber of Commerce & Industry of WA	31/08/2009
108	Department of Planning	31/08/2009
109	Central Tafe	31/08/2009
110	Individual Submission	31/08/2009
111	Department of Transport (Public Transport Centre)	31/08/2009
112	Water Corporation	31/08/2009
113	Department of Agriculture and Food	31/08/2009

Item	Organisation	Date
114	State Solicitor's Office	31/08/2009
115	Youth Focus Inc	31/08/2009
116	Norwest Pearls Pty Ltd	31/08/2009
117	WA Police Union	31/08/2009
118	Office of the Inspector of Custodial Services	31/08/2009
119	LandCorp	31/08/2009
120	Tenants Advice Service (WA) Inc	31/08/2009
121	KPMG	31/08/2009
122	Department of Commerce	01/09/2009
123	Disability Services Commission	01/09/2009
124	Department of Culture and the Arts	01/09/2009
125	Department of Education Services	01/09/2009
126	Community & Public Sector Union	01/09/2009
127	Horizon Power	01/09/2009
128	Individual Submission	02/09/2009
129	Department of Sport and Recreation	04/09/2009
130	Western Australian Police	04/09/2009
131	Department of Water	04/09/2009
132	Ethnic Disability Advocacy Centre; and Aboriginal Disability Network WA	04/09/2009
133	Department of Education and Training	04/09/2009
134	Department of Transport	04/09/2009
135	Suncorp	07/09/2009
136	Duncan Solutions, Duncan Technologies	09/09/2009
137	Main Roads WA	09/09/2009
138	Landgate	11/09/2009
139	People with Disabilities	11/09/2009
140	The Chamber of Minerals and Energy of Western Australia	14/09/2009
141	Insurance Commission of Western Australia	16/09/2009
142	Department of Treasury and Finance (Government Enterprises)	15/09/2009

Item	Organisation	Date
143	Insurance Commission of Western Australia	16/09/2009
144	Individual Submission	18/09/2009
145	Department of Treasury and Finance (Microeconomic Reform)	25/09/2009
146	Redress	05/10/2009

## Appendix 3 – Consultation List

Anglicare  
Australian Red Cross  
Australia Post  
Barrington Consulting Group  
BGC  
Centrecare  
Chamber of Commerce and Industry WA (CCIWA)  
Chamber of Minerals and Energy  
CHILD Australia  
City of Melville  
Commissioner for Children and Young People  
Commonwealth Bank  
Communicare Family and Employment Services  
Community and Public Sector Union  
Community Employees of WA  
Curtin University  
Department for Child Protection  
Department for Communities  
Department of Commerce  
Department of Corrective Services  
Department of Education and Training  
Department of Environment and Conservation  
Department of Health  
Department of Housing  
Department of Indigenous Affairs  
Department of Local Government  
Department of Planning  
Department of Regional Development and Lands  
Department of Sport and Recreation  
Department of State Development  
Department of the Attorney General  
Department of the Premier and Cabinet  
Department of Transport  
Department of Treasury and Finance  
Department of Water  
Disability Services Commission  
Dr Sue Gordon  
Drug and Alcohol Office  
Duncan Solutions  
East Perth Redevelopment Authority  
Economic Regulation Authority  
Ernst and Young  
Ethnic Communities Council of Western Australia Inc.  
Good Samaritans Industries  
Holyoake  
Insurance Commission of Western Australia  
KPMG  
LandCorp  
Landgate  
Learning Horizons  
LotteryWest  
Main Roads  
Master Builders Association of Western Australia  
Mercor  
Murdoch University  
National Disability Services  
Ngala  
Nulsen Haven  
Office of Energy  
Office of Hon. Elizabeth Constable

Office of Hon. Graham Jacobs  
Office of Hon. Robyn McSweeney  
Office of Hon. Peter Collier  
Office of Hon. Terry Redman  
Office of the Auditor General  
Office of the Premier  
Parkerville Children and Youth Care (Inc)  
Public Sector Commission  
Public Transport Authority  
Richmond Fellowship WA  
Rocky Bay  
SAP Australia Pty Ltd  
Satterley  
State Solicitor's Office  
Synergy  
The Serco Institute  
UnitingCare West  
University of Western Australia  
Urban Development Institute of Australia  
(UDIA)  
Water Corporation  
Western Australian Council of Social  
Services Inc  
Western Australian Local Government  
Association (WALGA)  
Western Australian Planning Commission  
Western Australian Police  
Zoological Parks Authority

## Appendix 4 – Executive Coordinating Committee Terms of Reference

In line with the recommendations of the First Report of the Committee, a leadership group chaired by the Director General Department of the Premier and Cabinet, and including the Public Sector Commissioner, the Under Treasurer and selected Chief Executive Officers (CEOs) of major line agencies, is to be established to advise Government on strategic issues and lead the implementation of change in matters of whole of government significance, including recommendations arising from the work of this Committee.

The roles of this group (the Executive Coordinating Committee [ECC]) include:

- leading the implementation of change in matters of whole of government significance;
- providing advice to Government on emerging issues and directions for departments and agencies in relation to the implementation of Government policy and planning priorities, as appropriate; and
- enhancing and promoting collaborative approaches to problem solving.

Permanent members include:

- Director General, DPC (Chair)
- Public Sector Commissioner
- Under Treasurer
- Director General, Education
- Director General, Health

Membership is to be supplemented by a small number of rotating members including:

- Chief Executive of at least one government business enterprise;
- Chief Executive of at least one medium size agency; and
- Chief Executive of at least one small agency.

The Executive Coordinating Committee is to consult with and may establish committees of CEOs to assist in its work, as it considers appropriate. The Committee notes that a subgroup of Directors General with responsibility for community services has already been established to address matters of mutual concern. The priority of the ECC from 2009-10 is to oversee implementation of the recommendations of the report of the Economic Audit Committee.

A further key role of the Committee will be overseeing those collaborative initiatives where the support of Cabinet is considered critical to their success. As such, it is anticipated that the Committee will develop a small number of strategic plans annually on issues of cross government significance for endorsement by Cabinet.

The ECC can play a valuable role in advising Cabinet on issues and trends (for example, demographic change) and formulate and deliver solutions that require a whole of government response. In doing so, this should not detract from the responsibilities of all Chief Executives to respond to issues affecting their agencies and working with colleagues in the public, private and community sectors on matters of mutual concern. It is intended that the ECC will add value to this interaction by supporting Cabinet and encouraging agencies to overcome silos and facilitate a coherent whole of government agenda.

The operation of the ECC is to be supplemented by a CEO Forum of quarterly meetings of CEOs of major agencies. The list of major agencies is to be determined by the Chair of the ECC and may be revised from time to time. The purpose of the CEO Forum is to enhance communication between all CEOs and the ECC. As such, protocols are to be established to ensure that those chief executives who are not members of the CEO Forum are apprised of matters which are relevant to their roles.



## Appendix 5 – Benchmarking Service Delivery Outsourcing

Table 1 provides a high level summary of the degree of outsourcing across key agencies in the human services sector (which together account for 61 per cent of total general government expenses), using the proportion of total expenses paid to non-government organisations as a proxy measure. This measure includes grants,<sup>110</sup> service agreements and contracts with the private sector for frontline service delivery. It excludes the procurement of goods and other services (consultancies, back-office functions etc.). Given varying accounting treatments, this information should be taken as indicative.

**Table 1 – Western Australian Agencies**

Agency	Total 2009-10 – 2012-13		
	Total Cost of Services (TCOS) \$m	Payments to non-govt \$m	Payments to non-govt as % TCOS %
Department for Child Protection	1,573	593	37.7%
Department for Communities*	209	84	40.4%
Department of Health	22,194	3,107	14.0%
Education agencies**	18,491	1,700	9.2%
Department of Corrective Services	2,396	225	9.4%
Housing Authority	4,232	732	17.3%
Department of Culture and Arts	556	145	26.1%
Department of Sport and Recreation	255	148	58.0%
Disability Service Commission	2,169	1,475	68.0%
Department of Indigenous Affairs	124	10	7.7%
<i>Total selected agencies</i>	52,200	8,218	15.7%
<i>Total selected government</i>	85,697		
<i>Selected agencies as % total as GG</i>	61%		

\* Net of Redress WA and Seniors' Rebates.

\*\* Includes grants to non public schools under the State Government's discretion, but excludes grants to non -public schools on-passed from the Commonwealth.

Source: Department of Treasury and Finance data.

<sup>110</sup> It is recognised that in many cases, grant making is not equivalent to outsourcing in that grants support the general activities of non-government organisations whilst the concept of outsourcing involves government paying a non-government organisation to provide a service that would otherwise be provided directly by government. However, given the lack of clear accounting distinction, grants have been included in this analysis.

The Departments for Child Protection and Communities, and the Disability Service Commission largely outsource through service agreements with community sector organisations. The Departments of Health (DOH) and Corrective Services (DOCS) have contracts with the private sector for frontline service delivery. For the DOH, such contracts (largely associated with Joondalup and Peel Health Campuses) account for 4 per cent of payments. For the DOCS, such contracts account for 8 per cent of payments. The Departments of Culture and the Arts and Sport and Recreation are grant-giving bodies.

It is recognised that the use of payments to non-government organisations as a proportion of total expenses as an indicator has its limitations. Different services vary in their appropriateness for outsourcing and as such, no optimal global target for outsourcing could be applied across all sectors.

Table 2 presents inter-jurisdictional comparisons. It should be noted that differing accounting treatments and composition of relevant agencies between States mean that this analysis should be treated with a degree of caution. As a result of data availability issues, the inter-jurisdictional comparison excludes payments to the private sector that are included in Table 1.

**Table 2 – Inter-jurisdictional Comparisons**

Agency Type	Payments to not-for-profits as % total expenses				
	WA	NSW	VIC	QLD	Average
Health	10.2	7.8	8.2	7.6	8.5%
Communities, Child Protection, Indigenous, Disabilities and Housing	34.8%	54.4%	48.0%	36.7%	43.5%
<i>Communities and Child Protection</i>	38.0%	57.7%	48.7%	36.7%	45.3%
<i>Disabilities</i>	68.0%	52.1%	55.8%		58.6%
<i>Housing</i>	17.3%		33.6%		25.4%
Sports, Arts and Culture	36.1%	22.9%			29.5%

WA figures are for 2009-10 budget. Other States are 2007-08 actuals from relevant Annual Reports.

The analysis suggests that Western Australia is further advanced than the other States surveyed in terms of outsourcing to community sector organisations in the health sector. This is partly due to the DOH’s contracts with St John’s Ambulance and SilverChain. As expected, Western Australia is a leader in the outsourcing of disability services to the community sector. However, Western Australia appears to be less advanced in terms of communities, child protection and housing services. These services may therefore be the most fruitful for exploration of further outsourcing opportunities.

## Appendix 6 – Microeconomic Reform Priorities

Following the establishment of new institutional arrangements to review, monitor and implement economic reform (for example, establishment of a Utilities Policy Office), the Committee is of the view that the following priority reforms should be pursued. These reforms will have high economic impact and are considered feasible to implement.

### **WATER REFORM**

A water reform program should be put in place with the aim of encouraging greater private sector participation, competition and innovation. This will provide enhanced consumer choice and the role of Government will be lessened, while ensuring environmental and sustainability safeguards are maintained. Key actions include:

- Implementation of the Water Resources Management Bill – The Department of Water (DOW) to implement a water trading regime by September 2011, including a water register, in accordance with the State's obligations under the National Water Initiative. This will require the finalisation and implementation of the Water Resources Management Bill by September 2010. This measure recognises the importance of water access entitlements to the development of an efficient, best practice water trading regime.
- Creation of an Independent Procurement Entity – The DOW and the DTF to establish an Independent Procurement Entity (IPE) with a mandate to balance supply and demand for potable water through the procurement of least-cost bulk water supply options. The IPE should commence operations by July 2011 and would be merged with the Independent Market Operator which performs similar functions in the electricity sector.
- Development of a third party access regime to water distribution infrastructure – The DTF and the DOW in consultation with the Water Corporation to develop a third party access regime for the Western Australian water industry, to be administered by the ERA. The regime should be developed over the 12 months from December 2009, so that the regime can be utilised by the IPE in time for its establishment by July 2011.

### **ENERGY REFORM**

Notwithstanding the significant reforms undertaken in the energy sector earlier in the decade, there remain a number of reforms that could be implemented. Given the significance of the energy sector to the State's economy, these reforms will have major benefits. The reforms will encourage increased private sector participation, competition and innovation and should reduce the role of and financial impact on Government.

## **ELECTRICITY**

Ensuring a competitive market for electricity – Review market rules in order to achieve a level playing field between Verve and other generators. A review should be finalised for the Government's consideration in the 2010-11 Budget process.

Full retail contestability in the electricity market – Extend retail contestability to small use and residential customers following the introduction of cost reflective tariffs.

## **GAS**

Investigate constraints on competition in the upstream gas market – Implement reforms that enhance competition in the upstream market, including but not limited to issues associated with joint marketing arrangements for domestic gas, renewal of retention leases, relaxation of gas specifications and amendments to policies relating to tight gas.

Ensuring a competitive retail market for gas – Remove the moratorium on Synergy selling gas to domestic small-use customers, following the implementation of full retail contestability in the electricity market.

## **TRANSPORT REFORM**

Reforms in the transport sector should be focused on achieving higher productivity in the provision of transport services, lower service prices and the promotion of sustainable transport networks. A reliable and efficient transport system is critical to the Western Australian economy.

### *Port facilities*

The DTF and Department of Transport (DOT) to develop a state-based third party access regime for ports that may be applied to both privately funded and government owned port facilities. The regime should be finalised by the third quarter of 2010 for implementation in the first quarter of 2011.

To facilitate the creation of a third-party access regime and emphasise the focus on effectively serving regional transport, the existing port authorities should be merged to create three port authorities – North, South and Metropolitan.

### *Intra-state aviation services*

The DOT should implement the recommendations in the Review of Intrastate Air Services in Western Australia, beginning at the start of the 2010-11 financial year, in order to establish a framework of light-handed regulation. This would require the deregulation of licensing arrangements on the majority of air routes.

### *Road and rail*

Reform road and rail regulation in order to ensure that regulations are economically efficient, competitively neutral and promote choice. This should include the consideration of the costs and benefits of utilising congestion or road-use charges to fund investment in additional transport infrastructure.

## **INDEPENDENT TARIFF DETERMINATIONS**

In many other jurisdictions utility pricing decisions are undertaken by an independent authority. This places the complex and often controversial decision making process at arms length from Government.

### *Water*

Give the ERA the task of deciding on the optimal level of cost reflective tariffs for water service providers. This change should be implemented by the DTF after the 2010-11 tariff adjustment, giving effect to the amendment in time for the next tariff adjustment in 2013-14.

### *Electricity*

Introduce cost reflective electricity tariffs by 2011-12, from which date the ERA will be given the role of deciding appropriate electricity tariffs.

### *Gas*

Responsibility for the determination of gas tariffs for small and residential customers is passed to the ERA immediately.

### *Port facilities*

In addition to being the regulator of the third party access regime to ports, the ERA should also decide on port charges, in accordance with an incentive based regulatory process. The implementation of the third party access regime and the determination of port charges should occur simultaneously, in the first quarter of 2011.

### *Taxi services*

Responsibility for the regulation of taxi fares to be transferred to the ERA. Terms of Reference should be passed to the ERA in the first quarter of 2010 that will establish an optimal approach to calculating tariffs, allowing the ERA to decide tariff levels by the third quarter of 2010.

## REGULATORY REFORM

### *Petroleum*

Achieve national consistency on diesel standards – Amend the Environmental Protection (Diesel and Petrol) Regulations to bring them in line with Commonwealth standards, and thereby remove a barrier to entry for independent suppliers in the wholesale petroleum market.

Remove constraints on petroleum retailing – Repeal the FuelWatch legislation (*Petroleum Products Pricing Act 1983*). Failing this, the Department of Commerce (DoC) should amend the legislation to allow intraday downward price revisions, while maintaining current administrative arrangements for the publication of daily maximum prices.

### *Liquor regulations*

A reformed regulatory regime should allow Government to effectively implement any changes required to deliver social policy outcomes in communities or to promote economic and cultural development. Any amendments should be implemented by the second quarter of 2011.

## Appendix 7 – Progress on Stage 1 Public Sector Management Recommendations

Progress has been achieved in implementing the recommendations of the Economic Audit Committee's First Report that were endorsed by Government. This Appendix outlines this progress against each of the recommendations relevant to public sector management.

### **First Report Recommendation:**

Implement a public sector wages policy based on the following principles:

- the management of employment costs by public sector employing authorities must be fiscally, economically and industrially sustainable and should be consistent with the collective interest and financial objectives of Government;
- changes in total employment cost that produce outcomes in excess of inflation must be linked to workplace reforms that produce efficiency and/or effectiveness gains and a clear public value benefit in line with Government's service objectives for that enterprise;
- wages and conditions for occupational groups should be negotiated within a broad wages policy and a simplified framework of agreements and instruments; and
- for both employers and employees, flexibility of employment conditions within a standardised award framework needs to be enhanced.

### **Implementation update**

The WA Government's new Public Sector Wages Policy commenced on 1 July 2009. The policy forms a key plank of its strategy to restore public sector wages expenditure to fiscally sustainable levels. The Policy links wage rises to projected growth in inflation. It enables employing authorities to offer increases equivalent to projected growth in the Perth Consumer Price Index (CPI). Increases above projected CPI must be linked to improvements in efficiency/work practice reforms (preferably quantifiable), to be assessed on a case-by-case basis.

It has been estimated that if the Policy is successfully implemented throughout the public sector, indicative wage cost savings in the order of \$500 million could be realised over the next three years. This is premised on all new agreements providing for cumulative increases of between 8.2 per cent and 9.3 per cent over a three-year period.



### First Report Recommendation:

Adopt the following specific cost saving and cost management measures as part of the 2009-10 Budget:

- authorise DPC and PSC to mediate in facilitating the re-allocation of FTE across agencies to address government priorities;
- ensure priority allocation of employment costs by capping total employment cost expenditure and FTE growth to constrain wage cost escalation;
- place a freeze on all new Attraction and Retention Benefit arrangements and closely examine existing arrangements to determine their sustainability in the changed economic climate and labour market;
- reduce aggregate vehicle fleet costs by promoting cost effective vehicle choice by agencies, establishing asset utilisation benchmarks, monitoring the performance of agencies against those benchmarks and the use of the Government Vehicle Scheme as an additional de-facto salary benefit;
- providing options for a higher level of employee contribution on vehicles that are operationally convenient rather than integral to the role; and
- place greater responsibility on agency Chief Financial Officers and Human Resource Managers to effectively manage, monitor and contain employee cost escalation and make leave liability reduction and employment cost management an integral part of agency performance measurement and management.

### Implementation update

**Vehicle fleet reform:** The Government has adopted a quota based fleet reduction strategy to achieve a 10 per cent reduction in the size of the State fleet. CEOs have been notified of their reduction target and are implementing savings at the agency level.

**Attraction and Retention Benefits:** In responding to concerns about rapidly escalating employment costs the Government placed a freeze on all new Attraction and Retention Benefit arrangements.

The Public Sector Commission reports that 21 ARBs are in place for individual SES Officers on a case-by-case basis.

In total, 1104 non Senior Executive Service (SES) positions have approved ARBs (managed by the Department of Commerce), which is approximately 1 per cent of the 103,528 FTE positions in the public sector workforce. Of this total, 1077 positions were paid approved ARBs in the period 2004 – 2008. A further 27 positions were approved in 2008-09, with 26 operating for a period of 12 months or less. Of the 1104 non SES positions with approved ARBs, 669 have ceased receiving the allowance and a further 226 will cease in 2009-10. 209 positions continue to receive ARB payments.

A large number of the remaining ARBs apply to regulatory positions for the energy and resource industries. These areas are continuing to experience significant difficulty in attracting and retaining the specialist expertise required to fulfil statutory safety and approval functions.

Notwithstanding the reduction in ARB applications and approvals, it is considered likely that there will be an ongoing need for the application of ARBs in special circumstances.

#### **First Report Recommendation:**

That the following long-term actions be further investigated in Stage 2 of the Economic Audit process:

- employ staff exclusively through state based agreements i.e. deliver a single industrial relations jurisdiction, under the control of the State Government for all public sector employees;
- halve the number of agreements operating in the public sector each year for two years. Simplify award structures, agreements and allowances to reduce costs associated with managing multiple awards and specialised arrangements like 'specified callings'; and
- expand the ongoing review of the *Industrial Relations Act 1979* and the functions of the Western Australian Industrial Relations Commission to identify efficiencies in the labour relations functions in agencies (and in the Department of Commerce), including consideration of a centralised industrial relations function to support out-placed officers in agencies.

#### **Implementation update**

The proposed halving of the number of industrial agreements would facilitate flexibility and mobility and reduce costs associated with managing multiple awards and specialised arrangements. The Department of Commerce (DoC) has put a strategy in place to effect standardisation, simplification and rationalisation of industrial instruments. This strategy does not rely on reducing the number of agreements but rather seeks to expand on the existing set of core standard public sector employment conditions, including leave and allowances.

The Department contends that this initiative offers substantial cost and time saving for payroll build and maintenance. It also provides an opportunity to create a coherent blueprint for public sector employment entitlements that:

- provides savings to Government by reducing administrative time, and effort;
- reduces employment complexity;
- gives Government greater control and certainty over employment provisions and bargaining strategies;

- promotes employment equity; and
- facilitates mobility within the public sector.

There is some cost to this simplification as it involves bringing some allowances within the various categories up to the highest level. It is reported by DoC that the administrative efficiencies achieved through this outweigh the costs.

In June 2009 Mr Stephen Amendola was appointed to conduct a review of the WA Industrial Relations system. That review is considering the nature and number of instruments and the operation of the system that establishes and administers them.

The Committee, in looking at possible options to enhance the management of employee expenses across the sector, sought consideration of the feasibility of adopting a model similar to the model applied by the Department of Treasury and Finance for procurement. Initially, it had been suggested that this review might be undertaken in conjunction with the review of *the Western Australian Industrial Relations Commission Act*. However, the Terms of Reference for that review were found to be incompatible. Notwithstanding this, the Department of Commerce provided comment to the Committee on the feasibility of the procurement model.

The submission from the Department highlighted structural differences between the procurement model and centrally-based officers providing an IR consulting and advisory service to agencies. The Department drew the attention of the Committee to the situation that, unlike procurement, wage bargaining is not a continuous process but periodic, taking place at the end of existing agreements that have a two to three year duration. The Department has argued that a centralised consulting model is more flexible and allows for concentration of skills where needed when needed.

### **First Report Recommendations:**

Government endorses in-principle a process of structural consolidation involving:

- abolishing or integrating into agencies bodies whose separate function is no longer relevant, for example where it was created due to a particular policy focus that is no longer required;
- eliminating unnecessary duplications in the functions of, and scope of activities undertaken by, agencies, including regulatory bodies;
- consolidating statutory authorities where independent governance is no longer required into government departments;
- rationalising departments so that in general one portfolio department serves each Minister; and
- abolishing unnecessary, inactive and outdated boards and committees (other than statutory authorities).

Under the leadership of the Public Sector Commissioner, the management and implementation of machinery of government changes should be strengthened to include:

- the leadership group chaired by the Director General of the DPC being empowered to implement and evaluate machinery of government reform and report back to the Government;
- the evaluation of proposed machinery of government changes prior to the creation, abolition or alteration of government bodies;
- improved governance arrangements for overseeing organisational change management across the sector; and
- clear guidelines for the transition to new structures, which include value for money considerations, similar to the Commonwealth Good Practice Guide.

#### **Implementation update**

***Machinery of Government:*** The Public Sector Commission has drafted a set of principles to assist planning and decision making with respect to machinery of government changes. Principles are to be supported with focus questions to assist analysis and evaluation of governance options.

***Boards and Committees:*** The Government has committed to a reduction in the number of Boards and Committees. The Department of the Premier and Cabinet is working with Ministerial Chiefs of staff and relevant Departments.

The review methodology draws on the Queensland public interest framework and threshold criteria applied in the Uhrig review of governance arrangements for boards and committees undertaken by the Commonwealth Government. The key questions in this approach are:

- Does the activity need to be done?
- Should Government undertake the activity?
- Is there a compelling reason why a department cannot undertake the activity?

The following process has been adopted to complete the review:

- Each Minister has been provided with a template specifying those boards and committees to be reviewed.
- A threshold test is to be applied to test the necessity of each body.
- Ministers are to provide a response to the Department of the Premier and Cabinet detailing options to rationalise boards and committees within their portfolio within three months.

The Department of the Premier and Cabinet is working with agency heads to complete the process.

**First Report Recommendations:**

Government implements a suite of measures to substantially increase the flexibility available to manage the public sector workforce, including measures related to recruitment, performance management and the movement of employees around and out of the sector.

The PSMA, associated regulations, approved procedures and other instruments be amended to:

- streamline public sector disciplinary procedures;
- remove administrative anomalies;
- improve the capacity to manage recruitment and deployment of staff across the sector;
- establish alternative arrangements for senior executive employment and remuneration setting aimed at mobility;
- simplify the process for appointments (including acting appointments) to CEO positions; and
- separate entirely policy setting from auditing and reporting responsibilities similar to the DTF/Auditor General model.

In relation to matters of public sector integrity and accountability, the Public Sector Commissioner examine the intersection of the PSMA and other statutes and recommend changes to government, as part of Stage 2, to eliminate overlap and improve administrative effectiveness.

**Implementation update**

The Government announced its intention to amend the PSMA on 13 July 2009.

Recommendations 38 and 41 of this report take this agenda forward.

## Appendix 8 – Machinery of Government Principles

The following key points can be applied in guiding effective decision making and planning in relation to Machinery of Government.

1. A balance needs to be achieved between efficiency and responsiveness to customer needs – big is not necessarily the best. Structure of government reform is not about ‘jamming agencies together’, regardless of ‘fit’.
2. Effectiveness and efficiency should not be achieved at the expense of appropriate governance and accountability frameworks. Accountability cannot be satisfactorily achieved when agencies are established as partnerships or limited liability companies.
3. Responsibility for policy development, regulation and service delivery should be separated where separation is economic and feasible and synergies are not adversely affected.
4. Effectiveness should be promoted by encouraging close client relationships.
5. Amalgamation of agencies should be considered where there are:
  - a) Multiple related agencies reporting to the same portfolio Minister
  - b) Overlapping areas of responsibility or service delivery
  - c) Common customers and demands
  - d) Common skills bases
  - e) Compatible information and administrative management systems and processes.
6. Efficiencies should be sought through:
  - a) Appropriate economies of scale (i.e. agencies should not be too small nor should they be too large)
  - b) Seeking alternative means of service delivery through private or not for profit sectors where there is a competitive marketplace
  - c) Eradication of over-staffing and duplication of functions
  - d) Increased budgetary flexibility in larger agencies
  - e) Increased workforce flexibility within and between agencies.
7. Where appropriate, statutory authorities and boards/committees should be subject to a sunset clause or regular statutory review. The effectiveness of a statutory authority or board/committee should be determined prior to any decisions being made about its future. At the time of review, an examination of the organisational form and accountability framework should be undertaken.

8. Reforms to the machinery of government should be prioritised and sequenced. In determining the rate and timing of reform activity, due account should be taken to materiality and proportionality of benefits to costs, public interest considerations (including election commitments, resisting the temptation to focus on 'icons'), the need for legislative change and the status of CEO positions involved.
9. In undertaking machinery of government reform, due regard should be given to the principles of natural justice; to planning and communication; consultation; redeployment consequences; and to ensuring that appropriate support mechanisms for staff are in place. These are further described in the people management aspects of change included in the Hicks machinery of government review.<sup>111</sup>
10. A review of an agency can be triggered in response to a statutory requirement, a sunset clause in its Terms of Reference, or to address performance issues. Wider structural consolidation of the sector can be triggered by government strategic policy goals. Reviews undertaken without a justifiable trigger or clear objective may be counter-productive to the principles of effectiveness and efficiency. Typically a reviews would be guided by the following stages and questions:
  - a) Determine the effectiveness of the entity.
  - b) Should the entity be abolished or merged with another entity?
  - c) Should the State Government be undertaking the function?
  - d) If it is determined that the State Government is the most appropriate body to undertake the function then should it be undertaken by a department rather than a statutory authority?
  - e) If it is determined that a non-departmental government body is the most appropriate body to undertake the function then the organisational and accountability frameworks should be examined.

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<sup>111</sup> Hicks, S. *et al* 2001



## Appendix 9 – Economic Audit Secretariat

The Economic Audit Committee was supported by the Economic Audit Secretariat. The Secretariat was established within the Department of Treasury and Finance.

The Members of the Economic Audit Secretariat included:

Ms Simone Spencer, Director (February 2009 to November 2009)

Ms Rebecca Hamilton, Director (November 2008 to February 2009)

Mr Glenn Barrett

Mr Mark Bryden

Ms Jennifer Court

Mr Evan Davies

Ms Megan Garner

Ms Angela Kyme

Mr Tom Leeming

Ms Lauren Miller

Mr Hew Mortlock

Mr Alex Rimkus

Ms Ollie Samakovidis

Ms Taryn Shaylor

Dr Lesley van Schoubroeck

Mr Richard Watson

Mr Andrew Wilkinson

The Committee extends their appreciation to the Secretariat for their dedicated support.

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