

# Putting the Public First

Partnering with the Community and  
Business to Deliver Outcomes

Summary Report

October 2009

Economic Audit Committee



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A decorative graphic consisting of three overlapping, wavy lines in shades of blue (dark blue, medium blue, and light blue) that sweep across the bottom half of the page from left to right.

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**Putting the Public First**

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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 (GTEs), 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: <ul style="list-style-type: none"> <li>a) leading the implementation of change in matters of whole of government significance;</li> <li>b) providing advice to Government on emerging issues and directions for agencies in relation to the implementation of Government policy and planning priorities; and</li> <li>c) enhancing and promoting collaborative approaches to problem solving.</li> </ul>	Department of the Premier and Cabinet
3. To support the strategic management of the public sector, adopt an 'Outcome Area' approach by: <ul style="list-style-type: none"> <li>a) grouping related areas of service delivery (for example, health, child protection) that are focused on ongoing citizen expectations of Government for core services;</li> <li>b) identifying matters that cross traditional agency boundaries;</li> <li>c) designating lead roles and accountabilities in policy development across each Outcome Area;</li> <li>d) reporting (at least annually) to Cabinet within each Outcome Area to facilitate planning, decision making and accountability; and</li> <li>e) establishing groups of senior executives from across agencies to provide leadership across each Outcome Area.</li> </ul>	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>

Recommendation	Responsibility
<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>	Department of the Premier and Cabinet
<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

Recommendation	Responsibility
<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; and</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>	<p>Department of Treasury and Finance</p>
<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>	<p>Department of the Premier and Cabinet</p>
<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>

Recommendation	Responsibility
<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>	Department of the Premier and Cabinet
<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>	Department of Treasury and Finance
<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>	Department of the Premier and Cabinet
<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>	Department of the Premier and Cabinet

Recommendation	Responsibility
17. Establish a grants program to promote social innovation in the delivery of human services by community organisations.	Department of Treasury and Finance
<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>	Department of the Premier and Cabinet
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.	Department of Treasury and Finance
<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>	Department of Treasury and Finance
21. Independently review the effectiveness of the Government's Works Reform Business Solution Plan at appropriate milestones (i.e. 18 and 36 months).	Department of Treasury and Finance

Recommendation	Responsibility
<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>	Department of Treasury and Finance
<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>	Department of Treasury and Finance
<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>	Department of Treasury and Finance
<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>	Department of the Premier and Cabinet

Recommendation	Responsibility
<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</p> <p>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> <ul style="list-style-type: none"> <li>a) Does the 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)?</li> <li>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)?</li> <li>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?</li> <li>d) The relative merits of outsourcing, rationalising or decorporatising the GTE and the impact of these options on its governance.</li> </ul>	<p>Department of the Premier and Cabinet 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 Department of Treasury and Finance</p>

Recommendation	Responsibility
<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> <ul style="list-style-type: none"> <li>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</li> <li>b) implementing new and innovative approaches to attracting, developing and retaining a skilled regional workforce.</li> </ul>	Public Sector Commission
<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

Recommendation	Responsibility
<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>	<p>Department of Commerce</p>
<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>	<p>Public Sector Commission</p>
<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>	<p>Public Sector Commission</p>
<p>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.</p>	<p>Public Sector Commission</p>

Recommendation	Responsibility
<p>41. Increase the mobility of Senior Executive Service (SES) officers to foster a whole of government rather than an individual agency perspective by:</p> <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
<p>42. Establish a Chief Information Officer role to:</p> <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
<p>43. Establish a Chief Technology Officer role to:</p> <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

# Report summary

## Introduction

In October 2008, the newly elected 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>2</sup>

A six-member Committee was commissioned to undertake this review, under terms of reference established by the Government (the terms of reference provided at Appendix A). This is the second and final report of that Committee.

While it is common for a new Government to cast a critical eye over the public sector it inherits, all too often the wrong questions are asked by review processes, resulting in lost opportunities for enduring improvement in public service. Debates over agency structures dominate more fundamental discussion of function, purpose 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. The Committee believes that 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?*

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

- supporting the Government in formulating and implementing policy;
- fostering service delivery capability, both directly within the public sector and indirectly in partnership with the community and business; and
- regulating private sector activity to improve economic, social and environmental outcomes.

The Committee contends that for the public sector to perform this role it needs to:

- 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 pursuing the best means of addressing those priorities;

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<sup>2</sup> Buswell, T. (Treasurer) (2008).

- recognise and promote the importance of good planning as a necessary pre-condition for the efficient and effective achievement of outcomes;
- facilitate services, rather than provide them directly, unless there is a strong case for direct provision;
- ensure accountability and transparency without unnecessarily prescriptive processes;
- function collaboratively to deliver improved outcomes across organisational boundaries;
- foster innovation and appropriately manage rather than avoid risk; and
- promote a culture of ongoing self-evaluation and improvement.

Fulfilling this role will require more than a slight shift in focus. It necessitates a fundamentally different way of approaching the business of government that focuses on the needs of citizens rather than the requirements of process. This is a shift in paradigm.

The Committee believes that the Western Australian public sector is well placed to undertake this reform. The dedication, professionalism and expertise demonstrated by the vast majority of the State's public servants provide an excellent foundation for improving the performance of the public sector in delivering outcomes for the community. To enable this, however, the framework within which these public servants operate must change profoundly.

Public servants need to be re-empowered. Existing 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 public servants or community support workers.

Public servants and leaders in public sector agencies need to be trusted to do the right thing rather than being suffocated by rules and restrictions that are aimed at preventing them from doing the wrong thing. With that comes new obligations to exercise appropriate transparency and accountability for performance.

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, business and citizens.

Achieving change in large organisations, public or private, is not easy and Western Australia is not alone in grappling with this challenge. However, the Committee is firmly of the view that the Western Australian public sector has a real opportunity to harness the value of its employees in meeting this challenge.

It is imperative to learn from the past. The hurdles and blockers to earlier attempts to refocus the sector must be acknowledged and addressed as part of the challenge of moving forward. This final report of the Committee aims to frame the path ahead. It does not seek to list all the steps along this path, rather it identifies the key issues to be addressed and sets out a vision of where the sector could be in five to ten years if it embraces the journey articulated in this report.

In order to avoid replicating the experience of previous review processes, the Committee has identified 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. Clear accountability for delivery is a critical success factor.

For the recommendations in this report to be successfully implemented, they must be reinforced by actions of individual leaders across government, working with the private and community sectors. It will also involve renegotiation of the best way forward. Ongoing self-assessment is an essential feature of a culture of innovation.

While the journey may change the destination should remain the same, with unwavering commitment to its achievement.

The Committee's vision is built around recommendations in five key themes:

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



## Delivering on Priorities

Delivering on priorities examines the roles of the Government and the public sector in defining, communicating and implementing priorities. Good public policy requires strong leadership from the public sector. The Government should expect and be supported by frank and fearless, well-informed strategic advice based on sound evidence and analysis of community needs and impacts. This requires the public sector to actively engage individuals, community organisations, business and local government in policy development. It also requires that public sector agencies maintain the long-term planning needed to inform Government decision-making. Performance monitoring and evaluation is necessary to ensure transparency and accountability, and to facilitate learning and improvement.

Achieving our vision will result in greater responsiveness from the public, private and community organisations that help develop policy and provide services to citizens. Collaboration will be a standard approach to problem solving and 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.

### *Direction and strategy*

The public sector serves the Government. To enable this, Government needs to assign responsibilities. Without clear direction accountability is compromised. 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.

The public sector must take an active role in providing options to Government to deliver on priorities, working with Government to ensure that Government's vision is translated into practical policies and plans. Facilitating explicit statements of expectations from Government will strengthen the relationship and ultimately deliver better outcomes for citizens. It is a two-way process of engagement.

Resource Agreements and Chief Executive Officer (CEO) Performance Agreements are currently used to formalise Government expectations of agencies. The Committee supports the view put to it that these instruments alone provide insufficient direction to guide agencies. Charter letters, statements of strategic intent and strategic plans have the potential to provide for flexibility while significantly increasing public accountability and transparency.

These instruments can also provide clarity to citizens, communities and industry as to the Government's priorities for a given period of time. These instruments should complement the system of accountability that currently exists rather than adding an extra bureaucratic layer.

**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).

Consistent with Cabinet's response to the Committee's first report, an Executive Coordinating Committee (ECC) of CEOs is to be established to oversee the implementation of the Committee's recommendations as accepted by Government. This same group can provide the necessary leadership to strengthen the link between Government and the public sector. The ECC should advise Cabinet on issues and trends (for example, emerging challenges in land supply, opportunities for investment in early childhood development), and formulate and deliver solutions, on matters that require a whole of government response. This should not detract from the responsibility of all CEOs to respond to issues affecting their agencies and to work 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.

**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.

Government priorities should always drive change in public services – the services that are delivered and how. However, irrespective of the Government of the day, the ongoing business of government needs to be delivered or facilitated by the public sector. The Committee believes that public sector leadership should be demonstrated across a robust policy framework that reconciles longer term strategic planning for the ongoing business of public service delivery with the political priorities and policies of the elected Government.

The Committee proposes an approach organised around 'Outcome Areas' that reflect the ongoing functions of government such as health, education, law and order, child protection, infrastructure and environmental protection. From time to time there will also be the need for more specific Outcome Areas that embrace issues and opportunities that cross traditional boundaries – for example, addressing Indigenous disadvantage, tackling climate change, early childhood development and effectively leveraging Information Communication and Technology (ICT).

**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.

Capacity to formulate policy is essential for the achievement of desired outcomes. The public sector has a responsibility to develop policy proposals rather than expect all policy to emanate from Government. Central agencies such as the Departments of Treasury and Finance (DTF), Premier and Cabinet (DPC), and the Public Sector Commission (PSC), have a particularly important role to play in developing the collective policy capacity of the public sector. They are responsible for coordinating activities to achieve coherent policy outcomes. This requires the right people to ask the right questions and to encourage constructive debate.

It is evident to the Committee that policy capacity in the Western Australian public service needs to be significantly enhanced. This can be achieved through the recruitment of a broader range of skill sets from the community and private sectors as well as other jurisdictions and through better use of structures and processes such as taskforces and think tanks to use the skills that exist. Placement of more experienced policy staff in Ministerial offices is also likely to enhance the overall quality of advice to Cabinet.

**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.

### ***Budget process***

Governments allocate limited resources to achieve outcomes for the community. This requires a disciplined budget process that balances current priorities with an appreciation of future pressures. Western Australia has a rolling budget process that is primarily focused on incremental changes to spending. This approach:

- puts constant pressure on the State's financial position;
- undermines longer term strategic focus by agencies and the Government;
- reduces flexibility to re-balance spending allocations to ensure best use of resources; and
- focuses attention and resources on the evaluation of spending at the margin rather than evaluation of the efficiency and effectiveness of the existing expenditure of agencies.

A more holistic budget process is built on robust cost and demand estimates of existing expenditures and longer term needs. There is considerable scope to improve the use of such models across the public sector.

The budget process should promote best use of public resources to achieve the Government's desired outcomes. It should drive innovation and support collaboration between agencies, as well as rewarding agencies for placing a greater focus on citizens in the design and delivery of services. It should also enable the public sector to provide greater funding certainty to community organisations that are contracted to deliver services.

**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 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.

### ***Implementation through collaboration and innovation***

Major change requires a culture that fosters collaboration and innovation. Assigning leadership and accountability through formal structures or contracts is a common approach to driving change. Where a change lies within the scope of a single agency there is clear authority to effect it. The approach to, and accountability for, implementation should rest with the responsible Minister and CEO. The more challenging instances are where the necessary authorities to effect change are dispersed across agencies and/or Ministers. Regardless of structures, cooperation and collaboration are required within and across agencies and sectors to exercise these authorities to a single set of objectives.

The Committee proposes a set of principles and enablers that it believes would be useful in guiding collaborative effort across the public sector and with community and business organisations. These principles must be applied both within agencies and across the 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.

### *Performance reporting and evaluation*

The existing accountability requirements of the Western Australian public sector are both onerous and complex, placing a uniform burden of compliance on all agencies without necessarily providing external stakeholders with information that is useful. Key Performance Indicators (KPIs), in particular, often fail to convey useful information to:

- the Government to ensure its decisions are based on considered evidence of what does and does not work; or
- the Parliament and the community to assess performance.

The Committee is of the view that the Outcome Area approach outlined above provides a framework that will support more useful and meaningful performance metrics.

In Outcome Areas like education and health, considerable effort has gone into developing KPIs that are consistent across time and with national and international jurisdictions. This should continue. However, the issue remains that this information needs to be better used to inform decision-making.

There are three areas where the Committee believes a different approach is required to ensure that the information generated is more meaningful, appropriate and cost-effective:

- The cost-effectiveness of the reporting function is questionable given the requirement for all agencies, irrespective of their scale and risk profile, to report not just KPIs but to conform with an extensive range of reporting requirements. These reporting 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. These issues should also be considered in relation to Recommendation 40 taking into account the minimum necessary reporting to meet statutory requirements.

- There is considerable scope for the performance of agencies which have a facilitative role (for example, monitoring compliance with legislation, managing contracts or providing funding) to be measured in the same way. Indicators are more likely to reflect outputs rather than outcomes.
- 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. Many of the current KPIs are demonstrably useless. If useful and cost effective measures of efficiency and effectiveness cannot be developed, then descriptive information about how resources were spent should suffice. The Committee understands that this may require amendments to existing legislation and Treasurer's Instructions and appreciates the need to seek the views of the Public Accounts Committee in this regard.

**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.

There has been inadequate attention to regular evaluations of program effectiveness and the general administrative and management practices of agencies. In recognising the benefits derived from evaluation findings, the Committee notes that Cabinet recently approved a program of value for money audits. The program's objectives include identifying options for ceasing or rationalising functions. A comprehensive and rigorous evaluation function will ensure that programs continue on the basis of need and effectiveness rather than precedent.

Central ownership of the evaluation function is required to provide leadership and guidance. The Committee supports an area with expertise in evaluation also taking a lead role in facilitating the development of good statistical resources for agencies and community organisations. This area should also take a lead role in ensuring access to common data sets.

**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 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.

## Designing Services to Meet Citizens' Needs

Designing services<sup>3</sup> to meet citizens' needs identifies the need for the public sector to increasingly act as a facilitator of services, rather than a direct provider. Doing this will require government to revisit how services are designed and delivered, redefining the relationships between the public sector, citizens and community sector organisations.<sup>4</sup> The goal should be to meet citizen need in the most effective manner. In many instances, it will be more appropriate for community sector organisations rather than public servants to deliver publicly funded services. In general, community organisations are more responsive to the needs of those to whom they deliver programs.

The public sector will not have a monopoly on the provision of a particular service, with all areas of service delivery opened to competition. Community and public sector organisations should become genuine partners in the delivery of human services. The outsourced delivery of human services by community organisations must be freed from unnecessarily prescriptive processes and controls, and the burden of multi-layered reporting obligations. With less emphasis on contractual compliance and more prudent risk management, social innovation can flourish.

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<sup>3</sup> This chapter focuses on improving the quality of human services. However, the recommendations may be relevant to other services including those in the environmental, economic and law and order outcome areas. Human services are 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 communities.

<sup>4</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.



### ***Empowering individuals and communities***

Currently, due to the culture and mode of operation of the Western Australian public sector, citizens and communities are not sufficiently empowered to contribute to the decisions made on their behalf by service delivery agencies. They need to have the opportunity to exert more responsibility. The Committee envisages that citizens in need of services should be able to exercise control over the range of services they access and the means by which they are delivered.

The management of payments and concessions to individuals is highly dispersed and imposes high costs on both the public sector and recipients. In examining a range of potential reforms to these payments and concessions, the Committee concluded that a full transition to means tested direct payments is not feasible.

Nevertheless, there are opportunities to improve eligible citizens' access to relevant payments and concessions and to improve the targeting of such payments, whilst reducing administrative costs.

**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.

The Committee notes 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. Agencies should increasingly provide for transactions to be processed online. New forms of social media that more actively engage citizens need to be pursued with vigour.

Western Australia's low population density and vast size pose unique challenges that require innovative approaches. Reforms that empower citizens and communities across Western Australia, including community hubs and self-directed service design and delivery, have the potential to deliver greater benefits in regional and remote areas. Local governments also have an important role to play in empowering citizens. They are the level of government closest to the community.

Services for those vulnerable Western Australians who are most at risk or in greatest need of support are not well integrated, with individuals facing multiple entry points, possessing inadequate information and being repeatedly referred between agencies and waiting lists. Community hubs can offer citizens seamless support, based on the simple but fundamental principle that there should be 'no wrong door' for a person in their search for support or accessing services provided by government. This involves place-based collaboration between human service providers at all levels of government and across the community sector. The concept holds the greatest potential for those with multiple service needs.

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 preferences and circumstances of specific communities additional features could be included in the design of a community hub such as discretionary budgets for brokers.

**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.

Citizens' participation in the design of services must go beyond voting in elections, speaking at public forums, or completing surveys. Self-directed service design, mix and delivery models enable service users to work with providers to optimise the outcomes achieved. They should not be limited to choosing between services that have already been designed. If an individual does not have the capacity to make these decisions alone, then governments and service providers can assist that individual to make those decisions through advice, brokerage and support. The Disability Services Commission's individualised funding and Local Area Coordination model exemplifies this approach. The Independent Public Schools initiative is another promising local example. The Committee is convinced that the application of similar approaches for other services can empower citizens, deliver improved outcomes at equal or lesser cost, unlock a broader pool of community knowledge and resources, and generate greater trust in government.

Cognisant of the challenges involved in such approaches, the Committee recommends that such reform is approached in a targeted and gradual manner, 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 disability service 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.

### *Partnerships with the community sector*

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 delivery of human services in Western Australia, although increasingly common, remains under-utilised.

As evidenced by submissions received, the relationship between the Western Australian public service and outsourced service providers is too often managed by short-term contracts rather than through ongoing partnerships. Low levels of trust are evident on both sides. Statements of good intent are not adequately embraced. Effective long-term relationships need to be based on commitment and trust.

A formal partnership mechanism will be essential in rebuilding trust and mutual respect between government agencies and community sector organisations.

This does not have to involve the development of a 'compact' or a commission. Rather is it proposed that a new Partnership Forum be established, with terms of reference including, but not limited to, improving and strengthening the relationship between the Government, public sector agencies and the community sector.

**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.

Financial and contractual issues are often at the heart of tension between government and the community sector. The development of a 'Collaboration for Community' policy to resolve these issues would therefore be an early priority for the new Partnership Forum. This should build on the Principles of Collaborative Government referred to in Recommendation 6. At the heart of this policy is the clear articulation of a range of different contractual and funding relationships, including grants, service agreements, low interest loans and individualised funding and when each should be used. 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. It believes that such a centralisation would undermine relationship building, reduce the incentive for agencies to increase funding to community sector organisations, 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 outcome. Instead, the Committee recommends that the implementation of the policy be modelled on procurement reform, with human service agencies remaining responsible for managing relationships with community sector organisations, but supported (not controlled) by centralised systems for administration and monitoring.

**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.

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

**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.

Grants are an essential complement to service agreements that 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 lack of a strategic approach to grant-making and high administration costs for both government and recipients, the Committee recommends that agencies simplify their approach to grants, drawing on the successful experience of LotteryWest in transforming its grant-making.

**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.

### ***Innovation and sustainability in service delivery***

Excessive controls on community sector service delivery reduce the incentive and capacity for these organisations to innovate in the delivery of human services. Short-term contracts force community sector organisations to manage volatility in recurrent funds, with few assets or reserves to fall back on. Access to risk capital to establish new social ventures, promote organisational rationalisation and to scale up innovative practice is scarce.

To address this, the Committee recommends that Government funding be made available in the form of low interest loans to support social enterprise (i.e. the income-generating businesses of not-for-profit organisations or emerging social businesses that seek to operate with less 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.

**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.

Freeing community sector organisations from excessive bureaucracy and providing low interest loans to scale up innovative practice will reduce existing barriers to social innovation. A social innovation fund (as is emerging in other jurisdictions) would complement these actions and sends a clear message that innovation is encouraged in the delivery of human services.

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

## Maximising Value through Planning, Competition and Innovation

Maximising value through planning, competition and innovation starts with the need to recognise and promote the importance of good planning as a necessary condition for the efficient and effective delivery of public services and public infrastructure. The Committee has already observed that planning has been afforded insufficient priority across many areas of public service delivery in recent years. This is a particular problem for public sector infrastructure development, resulting in unacceptable cost blowouts and delays in the delivery of many major projects.

Providing the right services and infrastructure at the right time and in the right location requires good planning. Of equal importance to sound planning is the need to continually explore a variety of options for meeting identified demands. This includes introducing greater competition into the delivery of public service outcomes to ensure efficiency and flexibility in responding to the complex and changing needs of citizens.

Increasing demand for public services cannot always be met by continually expanding existing services in the same form as they are currently delivered. Demographic trends and their impact on both demand and the workforce that is available to meet that demand mean that change is not optional or desirable – it is absolutely essential.

New and innovative ways of delivering services, providing infrastructure and managing demand (including via competitive service delivery models) can potentially increase public value, by delivering the same or better outcome at a lower or equal cost. Agencies must continually explore a variety of options for introducing greater competition into the delivery of public services and infrastructure to ensure that innovation is being fostered and value for money outcomes achieved.

The Committee's vision is that public services and infrastructure will be delivered in a way that maximises value for the community. This will be achieved through:

- affording greater priority to robust and coherent planning prior to making commitments;
- delivering projects with appropriate scope, on time and on budget; and
- introducing greater competitive pressure to the delivery of public services and infrastructure.

### ***Delivery of infrastructure projects***

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.

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

**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.

The Committee found the Government's Strategic Asset Management Framework (SAMF) to be consistent with best practice in strategic asset management. Although this is a robust policy framework, its implementation, including training and support across agencies by DTF, has been patchy at best. Over the past decade, few agencies have prepared strategic asset plans. Partly as a consequence, a large number of 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 rather than why it was needed. In numerous instances, business cases were not prepared at all. This has been a major contributor to poor capital works project outcomes in terms of cost, timelines and scope.<sup>5</sup>

The Committee also noted that two-thirds of government spending on capital works is undertaken by Government Trading Enterprises (GTEs) which currently have no binding obligation to comply with SAMF. Given the significance of this investment, and the risks this poses to the Government as the owner, the principles of SAMF should also apply to GTEs.

The Committee believes that general government agencies must be obligated to adhere to SAMF if successful project outcomes are to be achieved and GTEs should be required to comply with the principles of SAMF.

**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 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.

The normal planning timeframe for infrastructure projects can range from four to seven years, depending on the complexity of the project. However, the Committee accepts that Government will introduce new, or previously deferred, infrastructure projects into its overall planning at short notice.

In circumstances where projects are 'fast-tracked', the planning process can be significantly compressed, raising the risk that SAMF principles may be bypassed or dealt with superficially in order to meet deadlines imposed by the Government. History shows that non-compliance with SAMF results in poor project outcomes (for example, the Fiona Stanley Hospital).

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<sup>5</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)



The Committee is of the view that delivering sound outcomes from fast-tracked infrastructure projects requires SAMF to be applied in a different form – but nonetheless applied. SAMF must be implemented through a process that applies enough resources to ensure informed decision-making by Government and sufficient clarity for the planning, procurement and delivery of the project.

**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.

The Committee recognises that the Works Reform Business Solution Plan is critical to sound planning, delivery and management of public buildings and endorses this initiative. However, the Plan should be the subject of independent reviews at appropriate milestones to evaluate its effectiveness in meeting its stated objectives.

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

The Committee is strongly of the view that if scope, cost and time blowouts are to be minimised, then the Works Reform initiative needs to be supplemented by strong independent governance of progress on all major capital works projects undertaken by agencies. Any cost blowouts and delays must be subjected to stringent examination, and decisive action to address these. In establishing this strong oversight role, it will be important to ensure robust and transparent decision-making based on full information where scope changes, cost overruns or delays may be in the best interests of the project outcomes. This will also expose those circumstances where the grounds for increased funding or extensions to completion deadlines are weak or non-existent.

**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.

### *Re-invigorating competition in public service delivery*

Significant blowouts in the cost of public service and infrastructure delivery are clear signals that agencies cannot remain complacent about how they continue to deliver their services and infrastructure.

The Committee notes many examples where significant benefits and efficiencies were gained from exposing the delivery of Western Australian public services to competition. It also notes the trend worldwide of governments exposing their public service delivery to competitive sourcing to drive value for money outcomes. The introduction of competition also serves as a catalyst for innovative and cost-effective service delivery, whether by existing or new service providers.

During its consultation process, a point that was 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 has been 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 Committee is of the view 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. 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.

**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 (EERC) prior to the commencement of the annual budget process.

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 currently being pursued (also through DTF). However, if agencies are to inject a larger element of competition into the delivery of services and asset delivery, particularly for the more complex contractual sourcing of services and infrastructure, then this will require a more highly developed skills base within the public sector. It is crucial that government develops, or purchases if necessary, the skills to match those of private providers when contracts are being specified, negotiated and managed. The lessons learnt by the Office of Shared Services should be noted in all major reform projects. Inevitably, reducing the mismatch in the terms and conditions of employment requires matching private sector capabilities.

**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.

### ***Role of the State in land development***

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.

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 the absence of forward looking planning, cumbersome and duplicative development approval processes (at both State and local government levels), lengthy environmental and native title approval processes, capacity constraints in land development and supporting infrastructure. There were also perceptions that developers were constraining their release of lots to create scarcity and generate additional profits.

The Committee recognises that this is a complex issue. 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. There is also a concern 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 in order to impact the market.

**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 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, through competitive tendering processes.

The Committee notes that the Government's land development functions are fragmented across several agencies. This fragmentation increases the potential for duplication and overlap. In addition, redevelopment authorities (created to address specific development requirements in particular locations) may no longer be needed once these original 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.

The existing fragmentation of the Government's residential development activities has led to a lack of transparency in the resourcing of social housing objectives. There are a number of ways in which transparency could be improved, including 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.

**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 only in those circumstances where DRDL's open market tender processes clearly demonstrate that either:
  - 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.

## Realising Western Australia's Economic Potential

This section examines how the Government can maximise the community's ability to take advantage of Western Australia's unprecedented opportunities for economic and social development. Government plays a role as regulator, policy maker and supplier in the markets for key growth enablers such as water and energy. Lessons from the recent past suggest that if this role is not performed effectively, government can inadvertently limit the benefits and increase the costs associated with long periods of strong economic growth. There is a need to strengthen the public sector institutions that support Government's economic reform agenda and achieving better outcomes from government businesses operating in key markets.

The Committee's vision is that government regulation, market policy and commercial activity will better facilitate the realisation of Western Australia's economic potential. Economic reform will free the State's businesses and community from excessive constraints on their decision making. This will require the public sector to ensure that the Government's reform agenda can be refreshed on an ongoing basis and that the sector is better able to provide high quality advice on policy in key industries, particularly energy and water.

Achieving optimal outcomes from the State's GTEs requires Government to continually examine its ownership of each business and the governance model under which they operate. Where retaining ownership of a GTE is deemed the most effective way to deliver Government's desired outcomes, the governance model must ensure an alignment between Ministerial accountability and control. Currently, Government has almost all accountability but very little control in many instances.

The Committee also heard in the consultation process that some GTEs are torn between their statutory obligations and their accountability to deliver on Government priorities.

### ***Governance of GTEs***

The State's GTEs are significant contributors to government revenue, expenses and capital works expenditure. They are also a significant government asset. As stand-alone commercial activities they appear well run on the basis of Productivity Commission assessments of the rate of return on assets. However, the performance of the GTE sector must also be considered in terms of their contribution to Government's desired outcomes. A robust governance relationship is crucial in ensuring that this occurs.

The Committee's work has highlighted a number of issues that suggest that the current governance framework for GTEs is not always functioning as effectively as it should, is confusing in terms of public accountability and lacks transparency. In particular, GTE boards have not always been effective in protecting the interests of the owner (Government). Examples include boards failing to recognise the Government's wider interest across a number of closely related GTEs, and boards approving financial or investment proposals that may not always meet private sector standards of commercial rigour.

Equally, when such issues have arisen there has often been uncertainty as to the powers available to the shareholder Minister to address governance failings and ensure that Government objectives and GTE outcomes are closely aligned. There have been recent instances in which accountability for decision-making is blurred.

Part of the problem would appear to be that governance arrangements for GTEs are highly fragmented because they are set out in the enabling Acts for each individual GTE. They often reflect prevailing thinking on corporate governance at the time they were drafted, resulting in significant inconsistencies in the arrangements applying to individual GTEs.

The fragmentation of GTE governance arrangements highlighted above creates significant challenges for Government. These 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 Ministers and the Treasurer being ultimately responsible for the activities of GTEs; and
- administrative complexity in the discharge of governance responsibilities.

Adopting umbrella legislation would be consistent with the recommendations of the Government Structures for Better Results Report, 2001 and align arrangements in Western Australia with practice in all other Australian jurisdictions.

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.

**Recommendation 28:** Introduce umbrella legislation to:

- a) standardise, strengthen and clarify governance arrangements for all GTEs; and
- b) establish a remuneration policy for GTE board members and their executives, administered by the Salaries and Allowances Tribunal.



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

The Committee is firmly of the view that effective governance requires a strong commitment to achieving best practice on the part of shareholder Ministers,<sup>6</sup> advising agencies and boards of GTEs. Specifying a sound system is necessary but definitely not sufficient. Shareholder Ministers need to be actively supported with high quality advice in relation to their role and there needs to be strong monitoring and assessment of the performance of GTEs and their governing boards.

At present, shareholder 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 Western Power). However, over time some arrangements have evolved to a point where there is minimal involvement by a responsible department (for example, water policy matters). This may be due at least in part to a lack of resourcing of the shareholder advice function. The skill-sets of financial statements analysis, corporate finance, project evaluation, market design and governance, which are needed to inform Ministers on the performance of this function, may not be readily available in particular departments. Attempting to build and maintain these skill-sets across multiple agencies would seem to be a relatively inefficient approach.

**Recommendation 29:** Establish a GTE advisory and monitoring unit.

The role of this unit should include:

- maintaining the GTE governance framework at best practice through ongoing monitoring, evolution and learning;
- developing, in consultation with shareholder Ministers, selection criteria for board members, maintaining a pool of suitably qualified potential board members, 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 Statements of Corporate Intent and Strategic Development Plans to ensure their consistency with Government policy and direction; and
- providing recommendations to Ministers on appropriate governance actions and when to exercise their sole shareholder obligations and authorities.

<sup>6</sup> Shareholder Minister is used throughout the report to refer to the Minister responsible for the enabling Act of a GTE. It also reinforces that in terms of both the Minister's role and the accountability of a GTE's Board that the Minister is comparable to the sole shareholder of a private corporation.

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

GTEs are major participants (if not the only participant) in the markets for key growth enablers including energy, water and transport. Accordingly, their planning and performance will be an important factor in ensuring that the State can take full advantage of the growth opportunities available.

It is important that the governance framework for each GTE aligns the degree of independence of a GTE with that which is required for Government to be able to achieve its desired policy outcomes. Excessive independence leads to blurred accountabilities and the loss of appropriate Government control.

The most prevalent governance model, at least in terms of financial importance to the State, is the public corporation. This model was initially adopted by governments during the 1990's, as a step on the road to privatisation. It promised gains in efficiency through the provision of clear commercial objectives for government businesses and by allowing management to operate on a day-to-day basis in a way that was largely free from political influence. However, at least in the case of Western Australia's public corporations, the adoption of this model has not been accompanied by privatisation. Consequently, there is a misalignment of the political accountability of responsible Ministers with their level of influence and control.

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.

**Recommendation 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:

- a) Does the 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.

### ***Supporting Government's economic reform agenda***

The Committee believes that existing microeconomic reform and utilities policy formulation, analysis and evaluation should be enhanced by a mechanism with a greater degree of independence, which is also empowered to identify costs and benefits of existing and proposed policy settings. Open 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 Government. The results of such processes can then be used by Government to address the public interest against the resistance of minority interest groups or, at least, take decisions to maintain the status quo on the basis of full information.

To deliver this mechanism, the Committee recommends that the Economic Regulation Authority (ERA) be enhanced to align its roles and responsibilities with those of the Commonwealth's Productivity Commission.

Providing a wider mandate for the ERA would allow it to play a greater role in ensuring that public debate around potential economic reforms is well informed and provides Government with the opportunity to refresh its reform agenda on an ongoing basis. The self-initiated work of the ERA operating with a broader mandate can also act as an impetus for change within the wider public sector without requiring Government to adopt specific policy proposals. For example, scrutiny of regulatory practices could act as a driver of an acknowledged need for cultural change within regulatory agencies. The need for reduction in excessive safeguards and processes was raised repeatedly with the Committee during its consultation.

**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.

Providing the ERA with the mandate and required resources to allow it to perform this broader role will not mean that Government will lose control over the economic reform agenda or the reform issues being considered by the public sector.

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, any self-initiated work of the ERA would need to be developed in consultation with Government, which would retain the right to rule out specific issues.

### *Energy and water policy formulation*

It was frequently argued by participants in the Committee's consultation that the public sector's water and energy policy capacity has diminished over time, and that some of that capacity has subsequently re-emerged in the GTEs themselves.

If this situation is allowed to continue, then Government will face at least two significant constraints on its capacity for economic reform:

- an inability to develop and maintain appropriate governance practices due to a lack of policy capacity within the public service. 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 departments with responsibility for advising Ministers (and there are recent examples of this); and
- a potential conflict of interest when GTEs competing in the market are also the chief source of policy advice to Government. This may deter private investment, competition, and prevent efficient costs and prices for consumers.

A rebuilding of appropriate policy capacity within the public service is urgently required to address these issues 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 and industry.

**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.

The Committee envisages that the existing market policy capacity within the Office of Energy, the Department of Water and elements from within DTF would be absorbed into the Utilities Policy Office. In addition, a Utilities Policy Office would need to be able to match, or at least substantially reduce, the current gap between the remuneration that can be provided by the public service and that which can be provided by the GTEs.

## Modernising Public Sector Management

This section argues that the potential of the public sector is constrained by multiple layers of regulatory scrutiny. The resulting culture of the public sector is excessively compliance-driven and risk averse. Changing this culture will be essential to the achievement of Government priorities and to the implementation of the recommendations in this report. In this chapter the Committee also emphasises the importance of workforce redesign and planning in the face of increasingly complex and changing community expectations. Mechanisms to work across structures will also need

to be embedded in public sector management practice, including fostering the sector's ICT capacity.

The Committee envisages a public sector that 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, and the public sector will embrace the use of technology to deliver services focused on individuals.

The Committee recognises 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 better achieve outcomes for the community, in line with Government priorities.

### ***Workforce skills and capacity***

Western Australian public sector employees make a vital contribution to the well being of the community. A key challenge will be to maintain a workforce that can adapt to demographic changes and economic conditions. The existing workforce needs to be better utilised and more highly valued. Improving outcomes and delivering on Government priorities 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. The Committee supports the intent of the *Strategic Directions for the Public Sector Workforce 2009-2014* 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.

Improved workforce planning will require enhanced forecasting of service demand and labour markets in order to identify resource gaps, and corresponding strategies to secure those resources. However, planning for an ever expanding workforce to meet ever increasing demand for services is neither realistic nor sustainable. Workforce planning will also require agencies to rethink how services are delivered and to redesign their workforce (including job roles and the mix of different skill-sets required to support service delivery) to maximise the use of people's skills and experience.

The challenges of sustaining a workforce in regional and remote parts of the State are particularly acute. The recent 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.

**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* 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.

The need to build and maintain the capacity of the public sector workforce is a common theme throughout the Committee's consultation, particularly for the following skill-sets:

- policy formulation;
- leadership and management;
- project management;
- contract management; and
- skills needed to build partnerships with community and business organisations.

The Committee is of the view that agencies should undertake capability gap analyses to ensure that training in these areas is targeted on agency specific priorities. Once acquired, effort must also be taken to ensure the effective utilisation of these skills.

**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.

The Committee has identified a number of areas across this report where enhanced public sector 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.<sup>7</sup> 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 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 significantly less flexibility in relation to remuneration than GTEs. As a result, they are less able 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.

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. 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 on-going 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.

<sup>7</sup> The general government sector excludes Government Trading Enterprises.

**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.

**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.

### **Systems and processes**

The current compliance driven approach to public sector management, originally intended to guarantee transparency and accountability, is disempowering agencies, thwarting responsiveness and valuing procedural compliance over the exercise of sound judgement. It is stifling innovation and improvement of outcomes.

The Committee heard from a number of stakeholders about the barriers to effective agency human resources management, and perceived limitations of the *Public Sector Management Act 1994* (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>8</sup> that sit under the legislation and by in some instances overzealous agency self-regulation. Amendments of the PSMA should therefore be complemented by a range of other measures to modernise public sector management.

**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>8</sup> Including Commissioner's Circulars, Approved Procedures, Policies and Guidelines.



The mobility of employees around and out of the public sector was repeatedly raised during the Committee's consultation as an impediment to improving outcomes. Two main solutions were proposed:

- Shifting from appointment to position to appointment to level 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.
- Involuntary separation as an option of last resort removing an employee's guarantee of permanent employment, resulting in greater incentive to accept redeployment or voluntary severance if offered.

The Committee recognises that the removal of the 'public sector job for life' is a significant step. However, submissions and consultation support the need for this to be considered, arguing that performance rather than permanency must underpin employment.

**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.

A cultural shift from compliance to trust will also require CEOs and managers to be willing and able to exercise devolved decision-making powers. The Committee proposes a 'supported' devolution of decision-making, in which CEOs and managers are granted increasing flexibility and authority. 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.

There are many models that provide benchmarks for high performing organisations which enable self assessment, guide internal audits and provide opportunities for comparative assessment. While not advocating a specific model, the Committee is of the view that the ECC should adopt an approach that facilitates the ranking of agencies to support a model of devolution based on achievement of agreed benchmarks.

**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.

### *Working across structures*

The effectiveness of the structure of government (i.e. Ministerial portfolios, departments and other agencies) relies upon the people and the culture within it. 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.

The Committee recognises that recommendations in other chapters intended to facilitate collaboration and innovation across organisational boundaries will require support to succeed. There needs to be a quantum shift in public sector systems, processes and policies so that they encourage and reward collaborative and innovative behaviours. The Committee is of the view that immediate action is required in two areas: the arrangements around the use of the people in the Senior Executive Service (SES) and the enhanced use of ICT.

The Committee sees increased mobility of senior public servants as an important means of fostering collaboration, learning and innovation. At present, the SES does not work as originally intended with little evidence of movements across agencies.

The current rigidities in SES arrangements also restrict the flexible deployment of capabilities to areas where they are needed most. A key constraint is the narrow classification and remuneration bands within which SES officers are employed. These constraints and the resultant inflexibilities are in stark contrast to other States and the Australian Public Service. It is therefore not surprising that the cultural norm for people in the SES is to see themselves working for their individual departments rather than for the Government and the public sector as a whole.

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 at 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.

The potential for innovative use of new technologies in providing services to the community is not well understood across the public sector. Central government leadership on ICT investment is lacking. Common standards that facilitate information sharing and seamless user experiences have been developed. However, 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.

**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.

**Recommendation 43:** Establish a Chief Technology Officer role to:

- a) promote strategic and coordinated investment in ICT across the public sector; and
- b) implement procurement processes that enforce common standards, interoperability and system consolidation.

## Appendix A – 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;
- 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.





