

Chapter Six: Making 'Accountability for Results' Really Work?¹

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Introduction

Australia was a pioneer in the 1980s and 1990s in what later became known as 'New Public Management' (NPM) (Pollitt 1990; Osborne and Gaebler 1992). The context was widespread demand for greater efficiency in government in response to global economic pressures and concern that government expenditure may be crowding out private investment and activity. Governments could no longer be exempt from competitive pressures and needed to demonstrate efficiency and effectiveness in the delivery of public services.

The main elements of the agenda in Australia were:

- A focus on results rather than public service processes;
- Renewed interest in markets including the use of market-type mechanisms to improve efficiency in the delivery of public services;
- Devolution of authority from central agencies to line agencies and, within line agencies, towards the front-line;
- The use of business management processes including corporate planning and accrual accounting;
- A systematic approach to performance budgeting and management.

The Australian approach differed from that in some other countries. It was mostly pragmatic, not ideological: it was largely initiated by the public service itself and strongly endorsed by a reformist Labor Government and then extended by a reformist conservative Government. While changing the way government operated, the reforms in Australia did not reduce the role of government in any significant way (Keating 2004). The reforms were implemented incrementally over the two decades with each reform building on previous steps; while some corrections occurred, there were no radical 'u-turns'.

Much of the NPM agenda culminated in financial management and public service legislation in the late 1990s. The legislation replaced previous detailed process requirements with principles to guide public administration and to promote firmer accountability for results. Performance management was embedded in the budget process, reporting arrangements and agency management processes.

Between 2008 and 2013 two major reviews were conducted into Australian Government administration (the Moran Report, a largely internal APS review (DPMC 2010)) and Commonwealth financial administration (CFAR, another internal review managed by the Finance Department (DoF 2012)). Neither identified significant failures requiring fundamental re-appraisal of the NPM reforms but both found weaknesses in how they were being managed, some over-reach in devolution and insufficient 'whole-of-government' focus, and some loss of strategic capacity and longer-term focus.

Part of the response to these reviews has been changes to both the public service legislation (PoA 2013a) and financial management legislation, the latter involving a new Act, the Public Governance, Performance and Accountability Act 2014 (PGPA Act) (PoA 2013c). The new and revised legislation

¹ This chapter is based upon the author's 2015 Allan Barton Lecture of Australia's CPA (Certified Practising Accountants) which built on the paper presented to the Dialogue workshop in Taipei.

reaffirms the importance of a focus on results but also places considerable emphasis on ‘whole-of-government’ coherence and cooperation, recognises a wider range of public sector organisations and governance arrangements, represents a further shift to principles-based management rather than detailed rules, extends the concept of performance management to incorporate ‘stewardship’ and organisational capability, reflecting increased concern for ‘how’ and ‘why’ results are to be achieved as well as for ‘what’ results are to be achieved, and expands previous promotion of risk management.

The key question is: will these latest reforms make ‘accountability for results’ really work? The article first describes the journey since ‘management for results’ first became the catchcry in Australia. It then summarises the new legislation and related policies, exploring three particular aspects. Firstly, broad governance concepts. Secondly, the development and enhancement of Australia’s performance management system. And thirdly, the increasing interest in risk management. As these three aspects are explored, the article identifies some of the ongoing challenges involved. These are summarised in the concluding comments.

Evolving governance concepts

The shift to principles

An important part of the evolving concept of governance has been the shift away from process controls to principles that not only provide a robust framework for public management but also allow flexibility to respond to changing environments.

Until the NPM-based legislation in the late 1990s, Australia’s financial management was governed by the Audit Act which applied detailed controls on all expenditures, and by a budget process which focused on inputs with the ensuing Appropriation Acts detailing allocations to individual ‘line items’ based on different inputs, thereby involving the central financial authority (Treasury until 1976, then the Department of Finance) in agencies’ internal management processes.

The shift towards ‘management for results’ began with the introduction of program budgeting in 1984 picking up a recommendation in the 1976 Royal Commission on Australian Government Administration (RCAGA 1976). The shift to a more principles-based approach was gradual and pursued via a range of strategies. Until the late 1990s it occurred without any clearly articulated common purpose or principles of public administration and financial management. There was, however, an understanding that the increased focus on results and the reduced emphasis on process controls required better articulation of integrity requirements: means as well as ends still matter.

The new Financial Management and Accountability (FMA) Act 1997 (PoA 1997a) which replaced the Audit Act for most budget dependent agencies specified (s44) the responsibility of a chief executive to ‘manage the affairs of the Agency in a way that promotes proper use of resources’, where ‘proper use’ meant ‘efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth’. The new Public Service (PS) Act 1999 (PoA 1999) went much further articulating the Values of the Australian Public Service and an associated Code of Conduct, replacing a long, process-oriented Act that dated back to 1922. The legislated APS Values were based upon versions prepared by the Institute of Public Administration Australia and others during the 1980s and 1990s, and followed negotiations with the unions and in the Parliament. They reflected traditional Westminster principles such as non-partisanship, responsiveness to the elected government, accountability, impartiality, professionalism and the merit principle, and also included a specific reference to achieving results and managing performance.

The PGPA Act takes the principles approach further than the former FMA Act. It articulates in Section 5 the objects of the legislation:

- a) To establish a coherent system of governance and accountability across Commonwealth entities;
- b) To establish a performance framework across Commonwealth entities;
- c) To require the Commonwealth and Commonwealth entities:
 - i. To meet high standards of governance, performance and accountability;
 - ii. To provide meaningful information to the Parliament and the public;
 - iii. To use and manage resources properly ('proper' means 'efficient, effective, economic and ethical'); and
 - iv. To work cooperatively with others to achieve common objectives, where practicable; and
- d) To require Commonwealth companies to meet high standards of governance, performance and accountability.

For all agencies other than companies, it also sets out the general duties of 'accountable authorities' (the agency head or board) and the general duties of all officials, the latter including duty of care and diligence, duty to act honestly, in good faith and for a proper purpose, duty in relation to use of position, duty in relation to use of information and duty to disclose interests.

These duties are consistent with the requirements in the PS Act which also apply to about half the people covered by these provisions in the PGPA Act.

The 2013 amendments to the PS Act simplify the APS Values, reducing the number from 15 to 5 (the APS Commission using the mnemonic I CARE: Impartial, Committed to service, Accountable, Respect, Ethical (APSC 2014)) in order to promote their wider understanding across the APS. I remain a critic of this new formulation which may have made the values easier to remember but at the expense of losing sight of important points of substance. 'Merit', which since the Northcote-Trevelyan Report of 1854 (Northcote and Trevelyan 1854) has been a defining characteristic of Westminster civil services, has been downgraded, and the APS Values no longer distinguish the unique role of the public service from that of other parts of government including the parliamentary service, political advisers and politicians (Podger 2011). Moreover, in 1999 the values were openly debated amongst the political parties before an agreed formulation was settled; sadly in 2013 there was almost no debate and the Parliament just went along with what the public service leadership presented without the appreciation of history that one might have expected from the service.

Governance of different types of public sector organisations

The former Audit Act applied financial management controls to all Commonwealth organisations. Some organisations, however, were exempt from some of the controls, particularly those that were expected to operate commercially. These exemptions became important during the 1970s as the Government then commercialised major services including in particular what became Telecom (then Telstra) and Australia Post, which had previously been managed within public service departments under direct ministerial control (the former Post Master Generals Department held the majority of all Commonwealth public servants up until that time).

During the 1980s the Government issued new rules on the management of commercial bodies as part of a rationalisation of accountability arrangements under the more devolved processes emerging under the NPM reforms. Known as the Walsh Rules (after the then Minister for Finance, Peter Walsh), these exempted commercial bodies from many of the Audit Act provisions, making

their boards operate under corporate management law principles, accountable to relevant ministers as if they, on behalf of the public as owner, were the shareholders (CoA 1986). Board strategies were subject to ministerial approval and performance was largely in terms of returns to the shareholder ministers to whom the board was accountable, as well as any specified community service obligations. Decisions on dividends and significant investments were matters for the shareholder ministers, but the boards were given very wide authority to manage the companies' resources including people and finances.

The 1997 legislation reflected this distinction between organisations that were more clearly dependent on government revenue and required close ministerial oversight, and more independent organisations. The former came under the new FMA Act and the latter under the new Commonwealth Authorities and Corporations (CAC) Act 1997 (PoA 1997b), both (together with a new Auditor-General Act) replacing the former Audit Act. The CAC Act covered not only commercial organisations but also all statutory authorities whether financially independent or not. This led to some anomalies, as did the rather arbitrary way in which the PS Act applied: not all FMA Act agencies were subject to the PS Act and many CAC Act agencies were (the other agencies having their own employment regimes under their own legislation or as companies).

In the early 2000s, the Finance Department began to publish a list of all Commonwealth organisations identifying which financial management and employment legislation applied to each (DoF 2005a). The list kept growing and the lack of coherence about the coverage of different financial management and employment laws became increasingly obvious. The problem identified was not new or limited to Australia. The New Zealanders had previously referred to the challenge of 'signposting the zoo', highlighting the wide range of government activities, the varying degrees of independence from political control desired and the range of governance structures used.

In 2003, the Government established a review of statutory authorities and statutory office holders (the Uhrig Review) to examine governance arrangements for these bodies. Led by a prominent businessman, the review had a private sector perspective and recommended the wider use of just two governance templates, with either a single person to be held accountable for such an authority or an executive board (Uhrig 2003). It was a disappointing report because, while the lack of a coherent framework for guiding governance structures was a serious concern, Uhrig did not really appreciate the unique characteristics of the public sector and failed to clarify which organisations should be subject to which legislation.

The Uhrig Review did however convince the Department of Finance to issue its own guidelines on agency governance arrangements (DoF 2005b). These encouraged more functions to be managed within government departments under direct ministerial control and, where greater independence from such control was warranted, the use of authorities under a single agency head or an executive board or, in the case of a commercial body, the use of a company structure. The guidelines also clarified the financial management legislation most suited to each type of agency, and where the PS Act should be expected to apply. The guidance was applied over the following decade, shifting more functions into ministerial departments and leading to more agencies coming under the FMA Act rather than the CAC Act, and more coming under the PS Act. However, there remained concerns that the legislation and the guidance did not 'fit' the wide range of circumstances of different agency types and that a more flexible approach to financial management legislation was needed within common principles.

The PGPA Act addresses these concerns more directly by having a single piece of legislation setting out the financial management requirements for all Commonwealth Government activities and

agencies, based on principles, and allowing a wider range of governance structures. The Act distinguishes between 'Commonwealth entities' and 'Commonwealth companies', and identifies two types of entities: 'corporate Commonwealth entities' and 'non-corporate Commonwealth entities'. Companies are subject to corporations law and financial management is based on private sector principles with the Government acting as shareholder (essentially applying the 1986 Walsh guidelines). Commonwealth entities come under more detailed financial oversight, whether they are departments or statutory authorities or other types of agencies. The distinction between corporate and non-corporate entities relates to whether they are legally separate from the Commonwealth (corporate) as distinct from being part of the Commonwealth (non-corporate), meaning that some features of the legislation may apply in slightly different ways. The legislation does not determine the governance of the entity (eg whether it has a single chief executive or a board) but requires consistent standards of accountability regardless of the legal structure.

In presenting the legislation to the Parliament, the Minister also highlighted the intention to apply the provisions of the Act in a flexible way based on the concept of 'earned autonomy' (PoA 2013b): agencies with proven high performance may be exempt from some of the requirements in Finance Rules under the Act while less effective agencies may be subject to additional disclosure and performance requirements.

The Finance Department has subsequently issued new guidance, replacing the guidance provided in 2005, to assist the determination of appropriate organisational structures for new activities and any review of existing governance arrangements (DoF 2017). The new guidelines (or 'assessment template') continues to encourage new activities to be managed by existing organisations, but provides more guidance on the factors to be taken into account in determining the appropriate governance structure and whether staff should be employed under the Public Service Act (see Figure 1).

Figure 1: Commonwealth Governance Structures Policy Assessment Template

Three Stage Governance Gateway Test

Gateway Test 1

1. Does the Commonwealth have the constitutional power to undertake the activity?

Gateway Test 2

2. Is the Government best placed to undertake the activity, in whole or in part, compared to an external body?
 - Guidance includes: what is the best mechanism to do the activity, examples including grants to state and territory governments, the private sector or the not-for-profit sector.

Gateway Test 3

3. Can the activity be conducted by an existing Commonwealth body, in whole or in part?
 - Guidance includes: what is the most efficient arrangement.

Validation of a (separate) structure

- i. Does the body require enabling legislation?
 - Guidance includes: is statutory independence from government required.
- ii. Will the body exercise coercive or regulatory powers?
 - Guidance includes: will the body involve regulatory functions under a law of the Commonwealth.
- iii. Will the body primarily undertake a non-commercial and core government function?
 - Guidance includes: will the body be primarily budget funded.
- iv. Does the body need to sue or be sued, or does it need to hold money outside the legal entity of the Commonwealth?
- v. Does the body have a commercial focus?
 - Guidance includes: if yes, it may be appropriate to establish it as a company, and to be outside the Public Service Act.

Source: Department of Finance 2017

Notwithstanding this useful guidance, there remains room for further clarification, particularly over the appropriate structure for service delivery: is this best managed within ministerial departments or would a greater degree of independence facilitate more effective and efficient performance (and, if so, is a statutory authority or an executive agency the more appropriate structure, or should a third party be used (a for-profit or not-for-profit organisation)). There would be advantage in such guidance being subject to wider consultation and deliberation by the Parliament.

Whole-of-government

The Australian Government has for a very long time had strong coordinating capacity. Its budget processes have been comprehensive, it has had a strong Treasury (Treasury and Finance since 1976) and, since the 1950s, a strong Cabinet process.

Under NPM, considerable authority for financial management and HRM was devolved to agencies but overall budget control was not weakened – if anything it increased. Cabinet Government also remained strong. The major restructuring of departments in 1987 introduced ‘portfolio’ arrangements where each portfolio was represented in Cabinet, each portfolio minister had responsibility for a wider range of functions and, with assistant (non-Cabinet) ministers and parliamentary secretaries, had more authority to prioritise expenditures within their portfolio allocations, allowing Cabinet to focus its attention on the more important policy priorities and cross-government issues. This restructuring strengthened the role of departmental (portfolio) secretaries, complementing the devolution of authority already underway.

The NPM emphasis on agencies was reflected in both the FMA Act and the PS Act, the FMA Act referring to the responsibilities of agency ‘chief executives’ and the PS Act to the responsibilities of

‘agency heads’. Substantial authority was devolved to these individual leaders who were then held accountable through ministers for the performance of their agencies and their agencies’ programs.

Despite the strength of the Cabinet process and overall budget control, the agency focus increasingly became a matter of concern in the early 2000s, as the ‘stovepipes’ were seen to inhibit effective responses to a range of complex ‘whole-of-government’ issues. A report, *Connected Government*, by the Management Advisory Committee in 2004 addressed these concerns promoting various structures and processes to support more collaboration and cooperation across the Commonwealth and also with other jurisdictions and external groups (MAC 2004).

This development in Australia mirrored developments elsewhere, particularly in the UK where the Blair Government trumpeted ‘joined up government’ and in Canada where the term used was ‘horizontal government’. The broader concept of ‘network government’ was also receiving attention (Rhodes 1997), involving not just linkages within government but also partnerships with business and civil society. The term ‘governance’ itself reflected this idea of inter-connectedness and shared responsibility and has widely replaced the term ‘government’ in academia and the public service.

CFAR and the Moran Report also highlighted whole-of-government concerns and recommended legislative change: CFAR recommended new financial management legislation and the Moran Report recommended changes to the PS Act. The ensuing legislation passed in 2013 gives explicit encouragement of cooperation across government and, indeed, beyond government.

The PGPA Act objects require Commonwealth entities to ‘work cooperatively with others to achieve common objectives, where practicable’ (s5) and the duties of accountable authorities include the ‘duty to encourage cooperation with others’ (s17). The Act also allows for the Government to identify key priorities and objectives (s34) which would then be taken into account in agencies’ own corporate plans (s35(3)); the Rule for corporate plans issued under the Act also requires that plans include the purposes of the entity, with guidance from Finance clarifying that this must include any relevant whole-of-government priorities or objectives identified under s34 of the Act.

A few cautionary comments, however, need to be made about these calls for more ‘whole-of-government’ cooperation. The 2004 MAC Report contained the important warning about ‘group think’ – the risk that pressure to cooperate might discourage healthy professional debate and clarification of different perspectives. There is also the danger of excessive political control constraining advice that does not reflect prevailing political orthodoxy: ‘whole-of-government’ can become a euphemism for everyone to be ‘on message’. The 2004 Report also warned against trying to link everything to everything else all of the time, noting the costs involved and the proven benefits of devolved administration.

Performance management

Australia’s performance management system drew heavily on the program budgeting experience in the US in the 1970s but applied in Australia’s parliamentary democracy framework.

The central elements of the system that emerged in the mid-1980s and largely continued until 2015 were:

- A comprehensive budget and three-year forward estimates system based on identified programs for each government agency, with the system being managed by the Department of Finance;

- Annual budgets developed primarily through an Expenditure Review Committee of Cabinet after consideration of portfolio budget submissions from portfolio ministers that had been subject to scrutiny by the Departments of Finance and Treasury;
- Tabling in the Parliament with the overall budget statements and appropriation bills a 'portfolio budget statement' (PBS) for each portfolio setting out the detailed budget and forward estimates of expenditure by program and agency in the portfolio along with the new policy measures proposed by the Government, with specified program objectives, performance indicators and targets;
- Annual reports by each agency in each portfolio tabled in the Parliament after the end of the financial year with the audited accounts for the year and performance reports for each program using the indicators and targets set out in the relevant PBS.

FIGURE 2: The Budget and Performance Management Cycle until 2015



Source: Author's personal knowledge and correspondence with Finance Department

The Parliament processes have responded to this cycle by holding regular Senate Committee hearings to scrutinise the budgets and performance of each agency in each portfolio based largely on the PBS in May and June of the pre-budget year (directly after the budget is announced and before the appropriation bills are passed) and the annual reports in November and December (after the reports have been tabled, and usually in association with the 'additional estimates' process).

Around the central elements there is an elaborate process of government decision-making at both the whole-of-government level and within each portfolio and agency. At the whole-of-government

level, the Expenditure Review Committee (ERC) of Cabinet plays the central role but it is also guided by a group of senior ministers usually comprising the Prime Minister, Treasurer, Minister for Finance and Deputy Prime Minister. These senior ministers set the broad fiscal parameters for the coming budget in light of the most recent data available to Treasury and Finance on the economy and revenue and expenditure trends; they also set high-level political priorities to guide portfolio ministers on what they may bring forward to ERC in their budget submissions. The central agencies (the Departments of Prime Minister and Cabinet, Treasury and Finance) also exercise considerable influence over the content of the portfolio budget cabinet submissions, and control the integrity of the estimates and the provision of evidence in support of new policy proposals; they also comment on all submissions, with Finance's guidance (its 'green briefs') often becoming the central focus of ERC discussion; Finance is also frequently asked to identify options for expenditure savings.

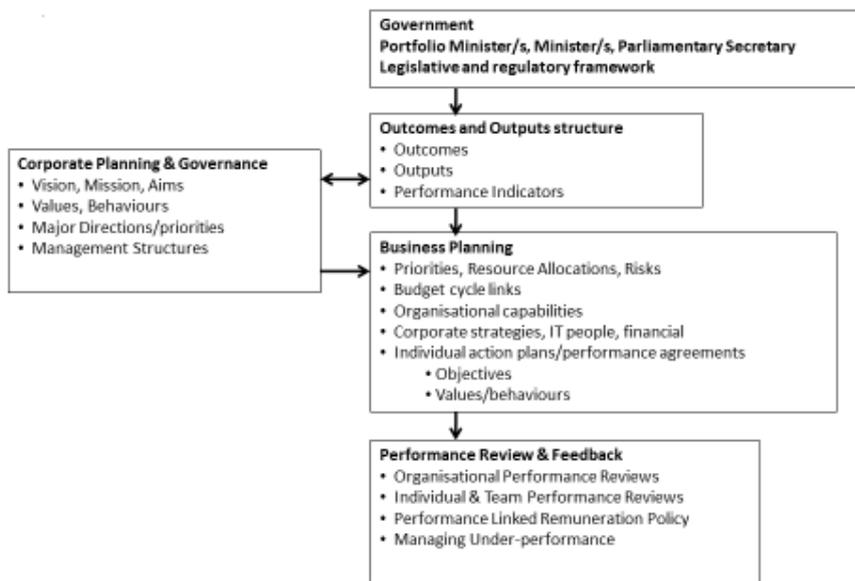
At portfolio and agency levels, the development of budget submissions begins well before any guidance from the senior ministers, drawing on both external political input and internal analysis of program performance. The portfolio department coordinates the process for the portfolio minister and advises on the package of proposals to be included in the submission consistent with the requirements of the senior ministers and their departments. After the budget is presented and any legislation is enacted, each agency manages its program responsibilities and any new policy measures bearing in mind the objectives and performance targets set.

Strategic or corporate planning by each agency with supporting business plans by each business unit in the agency has been encouraged since the 1980s, complementing the PBS by focusing on the management strategies needed to meet performance targets. In addition, individual performance appraisal processes managed by each agency have been encouraged, linked to the agency's corporate and business planning and hence to the PBS and the broader PM system.

The legislation which emerged in the late 1990s refer specifically to performance management and accountability. The 1999 PS Act included amongst the APS Values that 'The APS focuses on achieving results and managing performance'. The 1997 FMA Act required the 'efficient, effective, economical and ethical' management of resources, emphasising accountability for performance through ministers. The 1997 CAC Act required boards to be accountable for performance.

The ideal relationship between the performance budgeting process and agency planning and performance management was identified in a MAC Report on performance management in 2001 (MAC 2001).

FIGURE 2: THE PERFORMANCE MANAGEMENT FRAMEWORK



Source: MAC 2001

This had the Government determining the outcomes and outputs and performance indicators ('what' is to be achieved) in the PBSs and each agency's corporate planning and governance determining the vision and mission, strategies and behaviours to achieve these results ('how' and 'why'). Business plans and individual performance appraisal were expected to draw on both. This relationship was not prescribed in any legislation or other formal requirements and each agency was left to design and manage its own corporate planning and governance arrangements, and its own performance appraisal system, consistent with the general principles of accountability for results that were eventually set out in legislation.

As the PM system has developed and evolved, a number of challenges have emerged, not all of which have been met as successfully as the advocates of the system had hoped.

A continuing challenge has been how best to link inputs, outputs and outcomes. In the 1980s, the system focused on individual programs within agencies with reasonably easily identified inputs and outputs, but with narrowly defined objectives and measures of effectiveness. There were, however, complementary requirements for regular evaluations of programs and all new policy proposals put to ERC were required to identify how and when they would be evaluated if agreed. This latter requirement was dropped in the late 1990s to streamline the ERC process and the narrowness of the program approach was addressed instead by way of a new 'outputs and outcomes' framework that allowed related programs to be aggregated with the intention of giving more emphasis to the overall impact – and effectiveness – of government activity in that field.

The outcomes framework, however, presented its own problems partly because the associated appropriation items were very broadly expressed. The Parliament was concerned that it allowed ministers and agencies too much flexibility with insufficient accountability (one case went to the High Court which, while finding the relevant spending lawful, accentuated the dangers involved (HCA 2005)). The language used in outcome statements was also not as publicly recognisable as the names of programs, and the gap between 'outputs' and 'outcomes' made it difficult at times to be confident of cause and effect. A study led by former Senator Andrew Murray, 'Operation Sunlight'

(Murray 2008), led to a compromise 'outcomes-programs framework' with a renewed focus on programs within outcomes and related 'sub-outcome' objectives and the use of 'intermediate outcomes' as indicators of likely overall outcome performance.

A related concern was the constant reframing of the outcomes and the indicators of performance used, making more difficult the monitoring of performance over time and the assessment of performance across government activities at a point in time (ANAO 2007).

The limited success of the outcomes framework was also at the expense of the less systematic approach to evaluation after the framework was introduced, and it seems evaluation was not given the priority it had attracted previously.

Another ongoing challenge has been the quality and integrity of performance measures. Associated with this has been the incidence of 'gaming' to report better performance than was really achieved. The latter has been particularly significant when financial rewards for organisations are directly linked to particular measures of performance such as hospital waiting lists and times and university research rankings.

Managing individual performance has also raised challenges. During the late 1980s the idea of performance pay took hold, initially for senior executives and later extended more widely. Practice varied widely under Australia's devolved financial and human resources arrangements, but for a while performance pay was applied to all chief executives and to almost all senior executives and middle managers. Staff surveys consistently reported unhappiness amongst the majority of the public service not only about the fairness of the system but also about whether it was in fact supporting teamwork and organisational performance or was instead undermining morale and public service motivation (eg APSC 2004, APSC 2005). I also expressed concern in 2007 that performance pay for departmental secretaries was placing undue political pressure to be responsive (Podger 2007). While performance pay still operates in some agencies, the practice is becoming less common (and no longer applies to departmental secretaries) and more emphasis is now on appraisal and feedback to promote alignment with organisational goals and staff development.

A particular issue identified in the Moran Report related to organisational capability and concerns about strategic policy capacity and aspects of people management in particular. This led to the inclusion in the amended PS Act of references to the 'stewardship' responsibility of secretaries and the introduction of a capability review program by the APSC; it also contributed to CFAR's focus on corporate planning. It seems that, despite the encouragement of corporate planning since the 1980s, practice had waned by the late 2000s and the quality and usefulness of plans varied widely.

The PGPA Act builds into the performance management system specific new requirements about corporate planning. A statutory rule under the PGPA Act was issued in early 2015 spelling out the nature of the corporate plans that must be prepared and the matters that must be included (PoA 2015). The plans must cover at least four years starting with the immediate budget year (or 'reporting period') and must be published. The matters that must be included are:

1. Introduction: a statement that the plan is prepared for the PGPA Act, the budget year for which it is prepared, and the years covered by the plan.
2. Purposes: the purposes of the entity.
3. Environment: the environment in which the entity will operate for each year covered by the plan.
4. Performance: for each year covered by the plan a summary of how the entity will achieve the entity's purpose, and how the entity's performance will be measured and assessed

(including any measures, targets and assessments that will be used in annual performance statements).

5. Capability: the key strategies and plans the entity will implement to achieve the entity's purposes.
6. Risk oversight and management: a summary of the entity's risk oversight and management systems.

The PGPA Act and the Rule are also firmer than the previous legislation about reporting on performance. Annual performance statements must be included in entities' annual reports tabled in the Parliament setting out the results of the measurement and assessment of performance set out in the corporate plan for the relevant budget year (reporting period). The annual performance statements must include the following matters:

1. Statements: that it is prepared for the PGPA Act, the reporting period concerned, and that, in the opinion of the accountable authority of the entity, the performance statement accurately presents the entity's performance and complies with the legislation.
2. Results: the results of the measurement and assessment.
3. Analysis: an analysis of the factors that may have contributed to the entity's performance, including any changes to the entity's purposes, activities or organisational capability, or its environment, that may have had a significant impact.

These provisions address some of the key findings of both the CFAR and the Moran Report about the importance of a longer-term view and the need to pay more attention to organisational capability and 'how' and 'why' agencies go about trying to achieve 'what' results the government is seeking. They also reinforce the stewardship responsibility of agency heads ('accountable authorities') for organisational capability as well as results, and by implication the capability to achieve future results that may be different under different governments or in different circumstances.

The minimum requirements for corporate plans are not intended to impose a standard template but there is a danger that they will be interpreted as a prescription for all plans. There is an extensive literature on corporate planning processes and content which emphasises the importance of organisations clarifying their particular role or 'mission', the overall strategic direction they are determined to pursue, the particular circumstances in which they are operating and the challenges they face, and the particular strategies they need to follow. As the legislation provides, agencies will need to consider any whole-of-government priorities and objectives and must work cooperatively to achieve common objectives, but each agency will need to develop its own plan to meet its particular purpose taking into account its particular circumstances.

A common theme in the literature is that the process of corporate planning is almost as important as the content (e.g. Senge emphasises the development of a 'shared vision' (Senge 1990)). Plans need to be owned by agency staff, and accepted by the agency's stakeholders. They need explicit endorsement by the agency's ministers. They must be based on sound and frank analysis, including of organisational strengths and weaknesses and of the likely impact of social, economic, environmental, technological and political developments. On occasions, corporate plans require fundamental re-appraisal of the agency's *raison d'être* and its relationships with other organisations as well as its internal management structures and processes.

This has been my own experience as a departmental secretary. On taking charge of the new Department of Housing and Regional Development in 1994 which the Keating Government established to lead renewed Commonwealth involvement in cities and regions, I embarked upon a

major corporate planning process which included time reflecting on the failures of the former short-lived Department of Urban and Regional Development under the Whitlam Government (1972-75). We recognised the need to build better partnerships with the States and to have clearer alignment with the Government's broader economic policies if we were to succeed. The process therefore included extensive engagement with both State officials and leaders of Commonwealth central agencies.

When appointed secretary of the Department of Health and Family Services by the newly elected Howard Government in 1996, I used corporate planning to gain the new ministers' confidence, to engage with a very wide range of stakeholders and to reset the organisation consistent with the new government's policy priorities. The final document (DHFS 1996) contained a wide range of specific measures that guided management action over the following three years aimed at an agreed vision that the department should become the accepted leader of Australia's national health system. The plan was endorsed by ministers and became in effect an agreement between the portfolio minister, Michael Wooldridge, and me as secretary of the department. Measures included new portfolio consultation arrangements, improved processes for engaging with the States and other external stakeholders, the commercialisation and outsourcing of various activities under a dedicated project team, a new information strategy, a two-year leadership development program for all SES and EL staff, and significant downsizing to achieve efficiency targets.

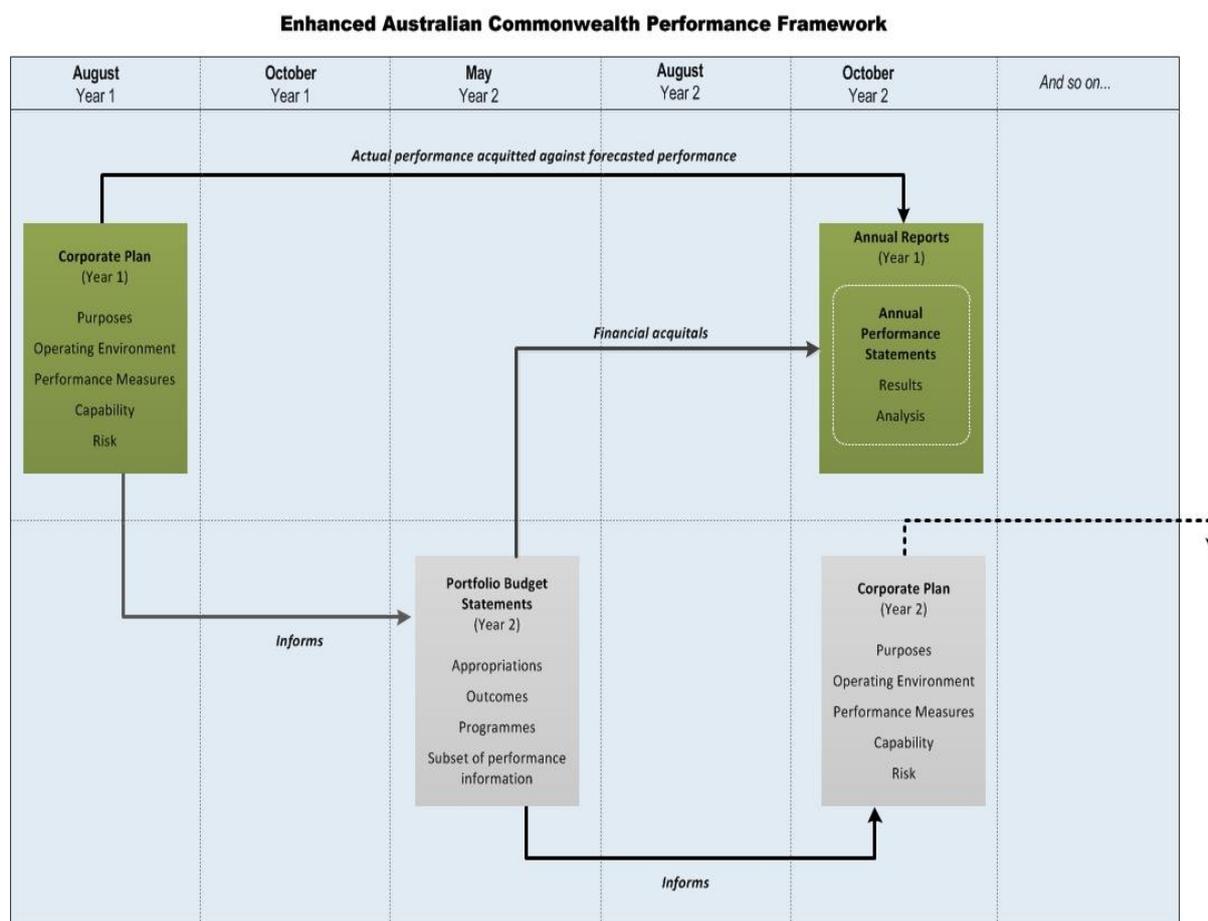
The current (2015) Health Department's corporate plan, prepared in line with the PGPA Act requirements, is also a substantial document that should guide the organisation for several years and help it play a leadership role in strengthening the national health and health insurance system (DoH 2015). But the requirement to publish plans by a particular date and to include specific matters may impede some agencies from pursuing the most valuable planning processes and may constrain plan content. The requirements may not appear onerous, but more value is likely from simply encouraging agencies to compare practices and to draw on the considerable literature available, including by having corporate planning in top management training programs, with CEOs and their top executives applying their learning to their agencies' particular circumstances.

There was some debate within the Parliament during 2015 after Finance had suggested that the performance measures be in the corporate plans and not the PBSs. The Auditor-General rightly advised the JCPAA that the PBSs tabled in the Parliament with the Budget must contain the expected performance measures and targets because the corporate plans would only become available after the Parliament approved the Appropriation Bills (McPhee 2015). This was an important matter going to the heart of the performance management system: the system is not just about the public service managers but about the way the legislature considers executive budget allocations and measures, and subsequently holds the executive to account. Program objectives and performance indicators are fundamentally political: they require political authority and form the basis for political accountability. The Finance suggestion would also have reduced the emphasis of corporate planning on capability building muddying the water about the respective roles of the PBSs and corporate plans and the associated roles of ministers and senior administrators. The capability of organisations is related not just to delivering the results set out by the Government at that time, but also to positioning the organisation to deliver results a future government may want in the years to come.

The JCPAA accepted the Auditor-General's advice so that the PBSs remain as Government documents owned by ministers and informing the Parliament when approving Appropriations, while corporate plans are owned by the officials who are the 'accountable authorities'.

Finance now presents the PBSs, corporate plans and annual reports as comprising a continuous performance and budget cycle (Figure 4). This is a helpful presentation but might be improved if it made more clear that the PBS remains the key document setting out ‘what’ results the Government is seeking, the corporate plan is the key document on ‘how’ and ‘why’, and annual reports should report achievements against both.

FIGURE 4: ENHANCED COMMONWEALTH PERFORMANCE AND BUDGET CYCLE



Source: Correspondence in 2015 with the Department of Finance

More generally, a difference in perspectives on performance and performance management between politicians and administrators has been apparent from the beginning of the NPM journey in the 1980s and remains today, typified by the limited use of performance information by Senate Estimates Committees. In part this is driven by our strongly adversarial two-party approach to politics where parliamentary scrutiny is dominated by party-political considerations. But it is also partly to do with a misunderstanding of the political process by some administrators (and of administration by some politicians), and of insufficient appreciation that program objectives and associated performance indicators are not just technical issues but reflect political judgments and require political input.

This is not something that the PGPA Act can or should resolve on its own, but it highlights the importance of a good understanding of the respective roles of the legislature and the executive and of the different worlds of politics and administration. There remains a great deal of room for improved deliberation and debate in the legislature drawing on the improved information that should result from the PGPA Act. This could motivate ministers also to have more regard for

performance information and to be more involved in determining the performance indicators used. Administrators also need to accept the legitimate interest of politicians in information that is not directly related to program results, and of their demands for information about events as they occur outside the formal budget and performance cycle.

Risk Management

Managing risk was not identified as relevant to public administration in Australia until the late 1980s as NPM embraced a number of private sector practices such as corporate and business planning and the use of accrual accounting in commercialised government activities. Risk management also had synergy with the general shift underway from a focus on process controls to a focus on performance for results which required more pro-active and innovative management.

Risk management was explained and promoted during the 1990s by the Department of Finance and ANAO and led to an influential report, *Guidelines for Managing Risk in the Australian Public Service*, by the Management Advisory Board's Management Improvement Advisory Council in 1996 (MAB-MIAC 1996). The concept was not identified in the 1997 financial management legislation, however, which only touched obliquely on the issue with its requirement for agencies to have fraud control plans.

Action was nonetheless being taken in particular through an increased role by internal audit committees strengthened by requirements for independent chairs and members and a clearer focus on agency risk assessments and management strategies. The ANAO also referred to the issue in a number of its audits and in speeches by the Auditor-General, providing a strong impetus with the implied threat of adverse ANAO findings presented to the Parliament if risk management was inadequate.

Concerns about poor implementation of some policy decisions also led the Government in the early 2000s to strengthen senior management accountability for implementation as well as policy advising (Shergold 2007). A new Implementation Unit was established in the Department of Prime Minister and Cabinet to ensure Cabinet was informed of implementation risks when considering new policy proposals, and to monitor implementation through a 'traffic signals' approach; major projects were also subject to a 'gateways' monitoring system based on risk assessments. The stated intent of these measures was not to introduce second-guessing or centralised control, but to ensure early risk assessment and light-touch monitoring by the centre to promote active risk management by the responsible agencies.

The growing interest in 'innovation' in the 2000s added weight to the importance of risk management, reflected in both CFAR and the Moran Report.

The PGPA Act now includes a specific duty of accountable authorities 'to establish and maintain systems relating to risk and control' (s16), and a further duty that requirements imposed on others (such as grant recipients) in relation to 'the use or management of public resources must take account of the risks associated with that use or management, and the effects of imposing the requirements' (s18). The Rule issued under the Act about corporate plans also requires plans to include risk oversight and management, this being seen as an essential component of agencies' core planning and relevant to its day-to-day operations. The Minister for Finance has also issued a Commonwealth Risk Management Policy that non-corporate entities must follow and corporate entities should use as a guide to better practice (DoF 2014). This policy sets out nine elements agencies should adhere to:

1. Establishing a risk management policy
2. Establishing a risk management framework
3. Defining responsibility for managing risk
4. Embedding systematic risk management in business processes
5. Developing a positive risk culture
6. Communicating and consulting about risk
7. Understanding and managing shared risk
8. Maintaining risk management capability
9. Reviewing and continuously improving the management of risk.

Notwithstanding the profile now given to risk management, there is an ongoing challenge for the public sector because of the very nature of its role which includes providing a secure and stable environment in which people can go about their lives, and organisations can go about their business, with confidence (Podger 2015). Innovation in the public sector is not the same as the concept used in economics to describe the process of 'creative disruption' in the market. Innovation in government administration requires a degree of public support, and must be managed fairly and in accordance with administrative law. These factors help to explain the political environment, and the tendency to highlight mistakes and to promote a risk-averse culture, and the limited extent of political acceptance of the principles of risk management. Countering these institutional factors by mandating specific processes for risk management may, however, cause agencies simply to comply with the new rules without genuinely improving management or promoting innovation.

The challenge is to gain a genuine understanding of how good risk management can support a forward-looking approach to performance management rather than a focus on measuring the past and holding people to account. This requires applying the idea to the way new policy is developed and the way new ideas for program management are encouraged and reviewed, without necessarily imposing a new set of processes on top of the old ones.

One area which deserves particular attention is whether and how to work across government, with other jurisdictions or with external organisations. As mentioned earlier, working cooperatively is explicitly encouraged by both the PGPA Act and the amended PS Act. There are risks in agencies managing programs exclusively on their own – inadequate skills and information, insufficient pressure to be efficient, and limited effectiveness because of the failure to take advantage of the capacity of other agencies and organisations. But there are also risks in working with others.

Competition through outsourcing and public private partnerships has often delivered greater efficiency over the last 30 years, but care is needed to ensure the services being purchased are effective in delivering the outcomes the responsible agency is seeking through its program responsibilities. IT outsourcing in the late 1990s largely failed because the policy was imposed politically with no regard for risk and because agencies' specific requirements were treated as secondary considerations.

Ongoing efficiency from outsourcing also requires agencies to retain sufficient skills to continue to be an informed purchaser, retain strategic management capacity, and carefully balance the need for regular competition with the benefits of long-term agreements (e.g. limited disruption and the capacity for both providers and purchasers to learn on the job). There are too many cases over the years where these have gone badly wrong: IT outsourcing that has led to excessive costs because of over-reliance on contractors to advise on future requirements and procurement processes; HRM outsourcing that has left the agency with insufficient people management expertise, a corporate priority for any organisation; PPPs that have provided a monopoly deal to a company despite all the

risks remaining with the government as if it were still the owner and manager of the infrastructure – airports and some road contracts come to mind.

Amongst the lessons I would draw from Australia's recent experience in both within-agency management and management through others are the importance of a forward-looking approach to risk management; that an appropriate mindset is far more important than a list of prescribed processes; the need to ensure a learning environment and to have the capacity to adjust in light of experience; and the importance of values and of recognising differences in values and objectives when working with external organisations.

Conclusion: challenges and lessons

The Australian approach towards financial management, and performance management in particular, is rightly referred to by external observers as one of the most successful models (e.g. Hawke 2007, Bouckaert and Halligan 2008), partly because of its comprehensive and systemic nature. But it is important to note from the experience of over thirty years the following points:

- It has evolved on the back of highly sophisticated systems of civil service and financial management that, while previously focused on detailed rules and processes rather than results, ensured integrity in the use of public resources.
- Means and ends both matter, with appropriate means ensuring both integrity in government as well as concern for capability to achieve results into the future.
- Performance management encourages a disciplined results-based approach but has never been (and can never be) the only way in which decision-making in government occurs: much government decision-making is inherently political requiring judgments on priorities, and it also often involves reactions to events where performance information is lacking.
- It has proven to be a constant 'work-in-progress' particularly in the development of performance measures, in learning to use new techniques like risk management, and in responding to new policy agendas and events.

The latest iteration of the system reflected in the PGPA Act responds to concerns that devolution had gone too far, fragmenting government, and that a more 'whole-of-government' approach was needed; and that too little effort was being directed to organisational capability to meet current and future needs and too much was towards short-term and tactical issues with an inevitably risk-averse attitude.

Some of the challenges officials face in responding to the new legislation are:

- Recognising the importance of ethical standards – of means as well as ends - and appreciating how public service values differ from those in the private and not-for-profit sectors;
- Getting the balance right between whole-of-government coherence and agency flexibility and agility to maximise efficiency and effectiveness;
- Promoting better management and enhanced organisational capability without introducing unnecessarily prescriptive processes that merely demand compliance;
- Relating inputs, outputs and outcomes in a meaningful way, and ensuring individual performance appraisal promotes better organisational performance;
- Presenting the documentation to ministers and the Parliament (and the public) that is easily read and understood, is relevant to their concerns and promotes informed discussion and debate; and

- Gaining public and political acceptance for public officials to ‘engage’ with risk rather than having their attitudes consciously or unconsciously promoting a risk-averse culture in government administration.

Several of these challenges go to the underlying relationships between the legislature and the executive and between politics and administration that define Australia’s accountability process. Better understanding of these relationships and mutual respect would go a long way to achieving a more results-based approach to both management and political decision-making, while recognising the limits involved.

The PGPA Act improves upon the ground-breaking legislation that came out of the NPM reforms and rightly does not represent any fundamental change in direction. It draws on a further decade and a half of experience with the aim this time of making ‘accountability for results’ really work. Whether this can ever be fully achieved is uncertain, but if the PGPA Act is to deliver a significant improvement, it needs to influence both politicians and administrators, and it needs to promote genuine learning and leadership about good management and capability building.

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