

## **SUBMISSION TO THE INDEPENDENT REVIEW OF THE PGPA ACT**

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### **Background**

We were both members of the Finance Department's advisory panel of experts for the Commonwealth Financial Administration Review which preceded the PGPA Act. We also, with the Australasian Evaluation Society, hosted a workshop in the latter stages of finalising the legislation which led to a joint ANZSOG/AES submission in 2014 on the Enhanced Commonwealth Performance Framework.

The ANZSOG/AES submission supported the main thrust of the new legislation including its more coherent whole-of-government approach, the enhanced focus on performance and evaluation and its recognition of organisational capability issues as well as performance reporting. We also noted that persuading ministers, the parliament and the public as well as senior officials to focus on performance information would take more than a redesigned performance framework. We endorsed the need for flexibility in applying the new framework and time for agencies, ministers and the parliament to learn and to improve the application of the framework.

Andrew Podger has since written about the PGPA Act and its development and application after consulting with the Department of Finance. A copy of a chapter in a forthcoming ANU Press book is attached for information. While supportive of the Act and Rule, he also drew attention to some areas where further effort will be required and noted there remain political hurdles to a genuine focus on results. In some respects, the Act attempts a return to good practices that seem to have fallen into disrepair since the 1990s, such as corporate planning (Chapter 6 in Podger's *The Role of Departmental Secretaries* (2009) includes descriptions of corporate planning and other practices in the 1990s and early 2000s to increase organisational capability and performance).

It is still early days in the implementation of the Act and we have not closely studied how agencies have responded or the Parliament reacted. We would be particularly interested to know whether the Parliament or the Auditor-General has 'embraced' the scope allowing for more meaningful performance reporting and management. We have, however, reviewed documentation produced by a small number of large agencies which tends to confirm the generally positive aspects of the legislation but also tend to confirm the areas that need further attention. It is a positive that corporate plans are now required of all Commonwealth agencies.

This submission focuses primarily on the enhanced Commonwealth performance framework and its application to non-corporate entities, with some associated comments on accountability and governance.

### **Improved Focus on Performance**

From our experience in reviewing agency performance statements, we consider that agencies have been genuinely looking to improve their measures of performance, the articulation of targets and the clear reporting of performance in their annual reports. There is evidence also of more attention to relationships across agencies and portfolios (for example in the Defence and Health Departments'

documentation), although we also note recent Auditor-General reports pointing to remaining deficiencies in important inter-agency relations such as Social Services and Human Services.

Less clear is whether these efforts are affecting parliamentary scrutiny or even ministerial deliberations.

### **Respective Roles of Portfolio Budget Statements and Corporate Plans**

The mandating of publicly available corporate plans is central to the PGPA Act's enhanced performance framework, but it seems there continues to be confusion over the respective roles of the PBS and the corporate plan. In part, we believe, this is caused by the Finance Department placing excessive emphasis on the inclusion of performance information in the corporate plans.

Clarification might be improved if the Government stated clearly that:

- The PBS as a formal accountability instrument is '*owned*' by the minister and the elected Government which sets the objectives and targets for performance (answering the question '*what*' is expected to be achieved with the resources authorised by the Parliament);
- By contrast, the corporate plan is '*owned*' by the agency and in statutory terms the agency head is personally responsible for the stewardship of the agency and its capability to perform. This enables the agency to describe '*how*' the agency will achieve the objectives and targets set by the Government, both now and into the future.

To maintain accountability, the two documents must be entirely consistent, and the corporate plan should be endorsed by the minister, but the corporate plan should be about capability to perform, not about performance *per se*. Agencies should have the opportunity in their corporate planning processes to identify where they are presently deficient or areas in need of attention as an organisational entity delivering outputs or services on behalf of Government. We would then expect the corporate plan to spell out the concrete plans of the agency to redress any such deficiencies or areas needing attention. Agencies generally know their own business best and are well placed to evaluate their capabilities and recommend any rectifications.

The PBS is important as the main document setting out the Government's current and proposed authorised finances and any important policy changes. It should therefore be the primary source of information about outcomes, targets and resource allocation, available to the Parliament *before* it passes the Appropriation Bills. The corporate plan may include a summary of these performance expectations, but it is not the main vehicle for such information. Perhaps good practice would be to have a summary in an attachment to the corporate plan, and not press for its inclusion in the body of the plan. This way we could maintain the integrity of corporate plans as organisational enhancement instruments while attaching an appendix on intended performance for information purposes. The PBS should be the main document setting out any intended performance information and the agencies plans to achieve such performance targets.

### **Quality of Corporate Plans**

The quality of corporate plans continues to vary significantly, though there are some signs of improvement.

Following the Moran Report in 2010 and CFAR, there have been concerted efforts to address organisational capability in the Australian Public Service with new emphasis on the 'stewardship' responsibility of agency heads. This is reflected in both the PGPA Act and the amended Public Service Act. The Moran Report and subsequent Capability Reviews conducted into agency capacities led by

the APSC between 2012 and 2015 revealed that the promotion of corporate planning in the late 1980s to the early 2000s (including via the 2001 MAC Report on Performance Management) was relatively short-lived and needed renewed attention. In particular corporate plans needed to address the skills requirements/shortfalls faced by agencies, as well as deficiencies in leadership depth and stewardship of the service.

The Health Department's recent corporate plan of 2017-18 is an example of good practice. It includes a substantial review of the environment the department is operating in and the challenges it is facing; it is clear about the key result areas for further improving capability and the strategies it is pursuing; and it sets out its vision and mission in meaningful terms. It includes explicit discussion of the gap between the looming challenges facing the department and its organisational capacities to address those challenges.

On the other hand, the DHS 2017-18 corporate plan is much weaker. While it gives appropriate priority to its technological capacity and challenges, it provides limited assessment of other aspects of its environment over the next four or five years. It also only touches on HRM matters and omits any strategies (other than technological) to do with relationships with other departments, stakeholders or clients. Its focus instead is more on conveying the performance information it intends to achieve which more appropriately should be set out in the PBS (in our view).

The Defence Department's corporate plan lies somewhere between the two. It understandably draws heavily on recent major reviews including the First Principles Review, and emphasises the department's important relations across government, but it too seems to give excessive weight to specific performance targets rather than organisational capability.

In all these examples there is still a tendency to rely on performance indicators that report transactional activities such as providing funding for approved purposes, recording departmental interactions, overseeing third-party standards or deliverables, supporting desired community practices, delivering against set timelines or waiting times etc.

Perhaps as a way of improving corporate plans and the construction of performance indicators, Finance and the APSC should re-establish training programs about corporate planning, including on environmental scanning, SWOT analysis, identification of KRAs and critical success factors (CSFs), the development of strategies and the measurement of capability and progress on strategies. Such training might also cover the important matter of good corporate plan processes including the involvement of staff and stakeholders (and ministers). Finance and the APSC could also provide guidance on typical KRAs and related strategies, including HRM/people, systems and structures (including governance), information, information technology, stakeholder relations and communication, and client service. Ideally, the JCPAA should also become involved in this process of recommending improvements to agency-level corporate planning and in increasing the salience of corporate planning to the parliament. We note IPAA's annual evaluation of agency annual reports often comments on precisely these aspects of agency-level reporting.

One strategy a corporate plan could pursue to achieve a stronger performance culture is to have within the agency's governance structure a Performance Implementation Committee. Something similar was pursued in Podger's Health Department in the 1990s. The Independent Review might like to ask how far agencies have experimented with such a committee and with what effect so far.

Corporate plans do not need substantial revision every year, but do need close review or even total replacement when agencies face radical changes in their responsibilities or environment such as with new Administrative Arrangements Orders, new governments with new policy agendas, new

ministers with different priorities, or new technology; a change of agency head may also be a good opportunity to reflect more seriously on capability and strategic direction.

In suggesting more support from Finance and the APSC (and possibly the JCPAA) is not to suggest more prescription or demand consistency to a given template. Indeed, the value of corporate plans lies heavily in fully understanding the organisation's particular role and context, its strengths and weaknesses and its functions and relationships.

### **The Value of Annual Reports**

Under the Performance Framework of the PGPA Act, annual reports of agencies must report against both the PBS objectives and targets and the corporate plan. These annual reports, like the corporate plans, are rightly '*owned*' by the agency head, not the minister. This is an important protection reinforcing the integrity of the information conveyed. It ensures an impartial and apolitical reporting of performance in line with the APS Values. The enhanced role of audit with regard to performance measures and reporting should reinforce this degree of independence and professionalism in annual reports.

There is some evidence of clearer reporting in annual reports via the new mandated performance statements.

For example, the DHS has useful summaries (with ticks and crosses) of target achievements as well as descriptions of its performance results. Perhaps it could consider in future further enhancement by using double ticks and double crosses for outstanding successes and failures, with single ticks and crosses for more modest achievements or failures. Or alternatively adopt a traffic light approach to reporting gradations of achievements.

What is less clear is the understanding of agencies about how best to report against the corporate plan and their success or otherwise in improving capability. It might be best to keep this reporting somewhat separate from the reporting against the formal PBS objectives and targets. One possible approach is to address directly the strategies set out in the corporate plan, and discuss progress in achieving implementation. The value of this is of course dependent on the quality of the corporate plan and the strategies it contains for improving capability. Another approach which could complement the first, is from time to time use a methodology such as that applied to the Capability Reviews to test the organisation's overall capability and not just the progress being made on the strategies in the corporate plan.

While the Parliament and its committees should be interested in both the performance reporting against the PBS targets and reporting against the corporate plan with regard to capability, the latter should be of particular importance to our main oversight agencies including the APSC, Auditor-General and the Secretaries Board given their various responsibilities for the State of the Service and stewardship of the APS.

### **Timing of Documents and their Parliamentary Scrutiny**

It is essential, as the Auditor-General advised when the new framework was introduced, that the PBS and its material on objectives and targets is available to Parliament for consideration with the Appropriation Bills. The timing of the other two documents is less critical though, given annual reports relate back to the PBS presented before the beginning of the previous year, it is important it be made available as soon as practicable after the end of the financial year concerned. The current deadline of end-October should be seen not as the target but as the final date allowed with agencies encouraged to report earlier if at all possible.

The timing of the corporate plan is also not particularly critical, and it is important that on occasions the plan is subject to very extensive review. Perhaps the deadline should be presented as a guide with some discretion for delay where a more significant review is being undertaken by an agency head.

If the Parliament is to take its role in scrutinising performance more seriously, it might be worthwhile setting aside a Senate Estimates period separate from the times when the budget appropriations or additional estimates are being considered, with the focus being more firmly on annual reports and corporate plans. This would have the added benefit of increasing parliamentary attention/awareness of organisational capacity to deliver, and provide both government and non-government members with better information on the quality of our public services.

### **Governance Structures**

Following the introduction of the PGPA Act, the Government has issued the Commonwealth Governance Structures Policy which replaces and updates policy guidance from the Finance Department in 2005. An Assessment Template has been provided by Finance for reviews of new or existing bodies.

This policy and assessment template is welcome as it at long last provides some coherence to the governance structures that have been employed for different government functions and activities. But it could go further.

The template sets a series of 'gateways' for assessing the appropriate structure for a function or activity including the constitutional power, the role of government and whether an existing body ought to conduct the activity. The strong impression is that efficiency considerations dominate and the default option is management by a ministerial department. Not included in the guidance is the sort of factors that might lead to other structures and governance arrangements including statutory authorities and executive agencies: this is left to whoever is conducting the review. The absence of such guidance is likely to have contributed to current inconsistent approaches, for example, to service delivery where governments seem on the one hand to favour using independent non-government organisations or allowing increased independent management of hospitals and schools while on the other hand bringing other service delivery activity back into ministerial departments (eg Centrelink, Medicare Australia, ATSIC).

Additional guidance might require input from the Department of Prime Minister and Cabinet (responsible for the AAOs and associated 'government' functions) and the APSC. Perhaps some consultation with the Parliament would also be helpful via a JCPAA review, engaging with relevant external governance experts.

Andrew Podger has written about this issue and could provide the Independent Review with a recently presented paper if desired.

### **International Best-practice with Public Management and Performance Improvement**

Australia is often looked at internationally as among the best performing nations in terms of good public management (e.g. Bouckaert and Halligan 2008). Some of this reputation is deserved and we can point to good examples of best practice in Australian government organisations. However, some of this reputation is also down to hyperbole and exaggerated claims of improvement. We often talk of how much reform we have promoted, without analysing how much has been taken up and produced actual performance improvement. Many overseas practitioners and scholars find it hard to understand why Australian governments are reluctant to engage in evaluating the effectiveness of

government policies and programs. Measuring program transactions is not necessarily related to the net worth of a policy/program, nor related to the effectiveness or otherwise of a particular policy/program direction.

The United States, for example, tends to use and publish far more comparative managerial reporting on programs – whether they achieved their stated purposes, achieved effective outcomes, delivered value for money compared to alternatives etc. Policies and programs are compared on a state or site basis, with managers reporting on a myriad of managerial factors as well as client satisfaction rates. Such information is used to both re-frame policy/program design as well as improving program management by learning and comparative performance. American managers find it perplexing that Australia spends enormous effort in perfecting public management cultures without publicly paying much attention to evaluating the worthwhileness of policy/program initiatives.

Singapore spurs public management improvement with very specific public targets for policy achievements laid out in cascading 20, 10, 5 year and annual plans. Agency executives rather than ministers are personally responsible for achieving these targets, and can be dismissed for failure to achieve them. Targets are generally tailored to demonstrable improvements in client experiences, well-being, access to quality services, rather than transactional measures. For instance, public hospitals have a ‘no waiting time’ policy for private and public patients, against which hospital performance is measured.

Other nations have adopted a more experimental, customised attitude to the delivery of public services against desired outcomes. Program deliverers are granted greater discretion to innovate and try out new ways of achieving results, making program improvements in situ, and learning from improved performances in other sites. Uniformity, standardisation and formal equity considerations are less important than achieving and building on improved outcomes for constituent groups.

Some European nations have not engaged much with new public management – choosing to continue to perform as administratively oriented bureaucracies, but with greater attention paid to legal entitlement and statutory provisions governing client-centred services. Germany, for instance, is geared toward criteria-based public services for many basic services (housing, health, education, transport, etc).

There is an increasing awareness among international scholars that the challenges facing governments and public managers in the future will become immensely more complicated, ambiguous, and uncertain (see van der Wal 2017 for more discussion). New disruptions in technology, artificial intelligence, avatars, etc will complicate the world of administration. Changing workforce and social demographics will place additional challenges on government, and career-long employment may be a thing of the past. Some Australian agencies are already contemplating and planning for future changes in delivery potentialities, but our impression is that these are the exceptions. Most of this foresight and preparatory work is focused on augmenting delivery possibilities going forward rather than improved performance reporting from an agency perspective.

Andrew Podger is visiting the US this week and will be exploring with the GAO and relevant experts in the National Academy on Public Administration developments in the US on performance management and what they refer to as ‘organisational health’. If he sees anything directly related to the PGPA Act review, we will provide a supplementary submission later.

## **Conclusion**

The broad trajectory of public sector reform in Australia is not dissimilar to that in the UK, Canada and New Zealand, or elsewhere amongst OECD countries: from NPM's performance budgeting based on programs and agencies to more 'joined up' or 'whole-of-government' considerations (sometimes referred to as 'new public governance' or 'network governance') and most recently to concerns about organisational capability (in part addressing the downside risks of NPM including 'hollowing out' and 'politicisation'). We are yet to take the capability concerns as seriously as some European countries, at least in attracting political commitment to re-invest in the public sector, but the PGPA Act does offer the opportunity for more careful examination not just of performance today, but also of capacity to perform into the future.