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The problem of policy formation

3.1 Introduction

This chapter begins with a focus on the nature of the policy challenge. Is it necessary to examine the performance of a public sector in which the design and execution of its business is straightforward, or one in which the degree of difficulty is high? And how wicked really is the policy environment? A case study in homelessness is used to illustrate some of the critical dimensions of 'wicked problems' and the difficulties involved in delivering beneficial outcomes. The second part of the chapter considers what might reasonably be regarded as a 'tame' problem involving an important piece of government policy, namely contestability, whose importance is both as a piece of government policy in its own right, but also as a major plank in government policy towards its management of the public service. Is it producing the efficiency dividends intended, and what is its impact on the public service?

3.2 The policy environment

3.2.1 The policy framework

If the core business of government is to put in place policies to improve community welfare – expand the 'goods' and shrink the 'bads' as described by Geoff Mulgan – then it is through the processes of policy formation and (successful) implementation that governments achieve this goal. 'Good

policy', as seen from a community perspective, can be characterised in process terms from its formation through to the satisfaction of the end consumers, as well as its achievement of broader societal goals, and in terms of the relationship of costs incurred to benefits generated (that is in outcome terms).

'Good policy' in process terms includes a clear policy objective, canvassing of the alternative policy instruments available for achieving the specified objective, along with the options for service delivery, stakeholder (including internal government) consultation as required, followed by the formal documentation (business case) and government approval (usually Cabinet) processes. The business case should incorporate the extent and outcomes from this process, including the costs and benefits of the options considered, and establishes how the policy/program is to be implemented and managed and how its performance is to be assessed. Ideally any such proposal would incorporate whole-of-policy/program life costing and benefits, and not simply be a proposal limited to the time frame of the government's forward financial estimates.

In any particular set of circumstances, the best case scenario from a departmental management and whole-of-government governance point of view is that 'good policy' is possible, that the problem is clearly defined, there are feasible options to be compared, that a solution can be envisaged as arising within a defined time frame, and there is both sufficient political consensus and social support to enable effective implementation. Many problems, however, do not fit this pattern – be they 'bads' such as crime, substance abuse, and pollution, along with 'goods' such as public health, trade and foreign investment, and education. They may not fit this profile because of any or all of: the policy problem is difficult to define, its causes may be difficult to determine, its full impacts may as yet be unknown, new policy instruments may be required to address the problem, 'success' may be hard to define, and the problem as defined may significantly overlap with existing policies and programs. Moreover, there may also be sharply divided political and societal views about the benefits of investment of public funds in pursuit of any 'solution'.

Then there is the issue that containment may be an expensive path to a solution, where the latter is seen as possible only in the longer term. The problem may be even more complicated where some measure of containment is necessary to reduce collateral damage whilst the major problem is tackled. No issue in our community has engendered more heated debate in this latter regard than proposals to provide publicly

funded, safe drug-injecting facilities to minimise risks to individual health from drug injection whilst the bigger problem of drug supply is tackled. And this debate takes place in the context of a broader argument about legalisation of (some further) drug use (in addition to cigarettes and alcohol) on the twin foundations (a) that it cannot be stopped and might better be regulated, and (b) that it is a matter of personal choice anyway. Counter arguments about 'not giving up' (with regard to (a)), and the impact of drug consumption on others (the economists' argument about externalities with regard to (b)) also deserve consideration.

The class of difficult public policy problems – where the problem is difficult to define, where the ultimate solution is difficult to discern, and where there might be a range of political and societal views clouding the prospects of achieving any implementation consensus – has received much attention in the academic literature for some decades in discussions of wicked problems. Indeed, over the last four decades or so the concept of wicked problems has come to dominate academic discussion of public policy formation, whilst the policymakers and managers have been largely left to manage an increasingly difficult raft of public policy problems and programs with little advance on the traditional ('rational', 'scientific') toolkit.

3.2.2 Wicked problems

The origin of the term 'wicked problem' is usually traced back to the work of design theorist Horst Rittel in the latter 1960s. Rittel formalised the term in a 1973 article co-authored with urban designer Melvin Webber and published in *Policy Sciences* in which they proposed using 'wicked' in regard to the problems of governmental planning 'especially social or policy planning' (Rittel & Webber 1973). The authors defined 'wicked' problems of governmental planning by contrasting them with the 'tame' or 'benign' ones of the natural sciences, such as solving an equation in mathematics. For the latter, the mission is clear, just as it is evident when the equation has been solved. Wicked problems have neither of these clarifying traits and, according to Rittel and Webber, include nearly all of the (then) public policy issues. The authors went on to identify 10 distinguishing characteristics of these 'planning-type problems':

1. There is no definitive formulation of a wicked problem.
2. Wicked problems have no stopping rule.
3. Solutions to wicked problems are not true or false, but good–bad.

4. There is no immediate and no ultimate test of a solution to a wicked problem.

5. Every solution to a wicked problem is a 'one-shot operation'; because there is no opportunity to learn by trial and error, every attempt counts significantly.

6. Wicked problems do not have an enumerable (or an exhaustively desirable) set of potential solutions, nor is there a well-described set of permissible operations that may be incorporated into the plan.

7. Every wicked problem is essentially unique.

8. Every wicked problem can be considered a symptom of another problem.

9. The existence of a discrepancy representing a wicked problem can be explained in numerous ways. The choice of explanation determines the nature of the problem's resolution.

10. The planner has no right to be wrong.

Since publication of Rittel and Webber's article, the term wicked problem has been widely applied across the social sciences to major problems of public policy such as obesity, land degradation, Indigenous disadvantage, and climate change (see, for example, APSC (2012)). Domestic violence, drug and alcohol abuse, homelessness, overcrowding in prisons, and international terrorism, none of which can be seen to have a 'simple' (for example, a unique single policy instrument/single jurisdiction/solution), could be added to this list.

Indeed, Rittel and Webber saw wicked problems in nearly all public policy issues at the time, not simply because of the physical interdependencies but because of the growing plurality of American society involving the existence of multiple stakeholders with divergent sets of values, and the impossibility of specifying broadly acceptable goals around which optimal solutions might be built. They saw this latter development as rendering redundant the traditional rational scientific approach to public policy determination embedded in public sector management practices of collecting and analysing (more) technical data to determine optimal solutions (as would be done for road networks and public transport routes).

In their view, this long-standing approach might have had some merit in dealing with the postwar infrastructure developments required, but it was seen as not meeting the community's needs for resolution of the growing social problems. Whilst the emergence of this concept in the United

States in the latter 1960s and early 1970s occurred during a particularly turbulent time in American politics in the face of growing ethnic and cultural diversity and income inequality, it effectively foreshadowed an acceleration in the growth and complexity of wicked problems in developed countries around the globe.

The early literature on wicked problems in planning and policy has been followed by research that has generalised the concept and extended it to incorporate super-wicked problems, further developing Rittel and Webber's initial conception of both the social and physical dimensions of wicked problems. The content of this latter literature focuses on the interrelated nature of wicked problems, the existence of multiple stakeholders with sometimes irreconcilable goals, the need for political rather than bureaucratic processes to lead the search for solutions, and the absence of a methodology capable of dealing effectively with these problems (Levin et al. 2009; Roberts 2000; Head & Alford 2008, 2015).

For some decades, discussion of such problems, and the management models developed to address them, have approached the definition of policy problems in a binary manner, treating problems as either wicked or not, without any shades of grey. As a consequence, the academic sphere has made limited progress in developing appropriate management tools to 'solve' such wicked problems. A 2017 article by John Alford and Brian Head criticising such a state of affairs makes a number of useful observations. The first alludes to the absence of data cataloguing wicked problems and the difficulty of determining whether these problems have increased in intensity or not. Second is the essentially binary nature of the discussion – a problem is considered either wicked or not. Third is the consequent, and unnecessarily limited search (by others) for 'one best way' and, fourth, the limitations of the notion of a 'solution' as the success measure in the face of wicked problems. Finally, the authors assert that there is a resulting overuse of the term (Alford & Head 2017).

In response to these problems, they propose a nine-cell typology of policy problems built around what they describe as 'the two irreducible elements of wicked situations' – the actors and the problem – the former described by the number of parties, their values and knowledge levels, and the latter by the clarity of the problem itself and the path to a solution. The cells described are seen as representing a continuum rather than discrete types. The spectrum of problems is then characterised as ranging from tame to very wicked with *degrees* of wickedness applying. With this

framework in hand the authors propose to address the shortcomings in scholarship to date by proposing use of a contingency framework built around a combination of the causal factors applicable within any one cell, allowing targeted interventions to make headway.

Guy Peters echoes many of these sentiments and also criticises the binary nature of the discussion, arguing that the concept of wickedness has captured academic imagination beyond its usefulness as a management construct. Peters also emphasises the primary content of wicked problems as being multiple actors and social and political complexity, and notes the emphasis placed on the capacity of leaders and centralised institutional solutions that accompanies such a binary approach. He then points, as Alford and Head do, to varying degrees of wickedness, requiring in prospect, varying management, strategies for success. Peters' particular contribution is to note how little is known about the existence of wicked problems and their management, and he proposes a research program be undertaken to understand more fully which problems policymakers consider wicked; how they conceptualise policy problems, including the wicked and super-wicked; and how policymakers think about addressing these problems (Peters 2017). Several further dimensions of the nature of today's wicked public policy problems can be highlighted before moving on to consider a response to them. One issue that deserves attention is that of problem resolution. The problems addressed by government services are increasingly long term. This creates a political difficulty as the political cycle – whether three, four, or five years – is out of sync with the problem resolution cycle. And, given that problem resolution invariably requires significant front-end investment, effective government in the prevailing political cycle often means budget pain with little electoral gain for a number of years. There is no end game in the standard definition of wicked (and super wicked) problems and, thus, containment rather than resolution becomes the unstated program goal.

Consider the alternative policy formulation for an elimination strategy rather than one of containment – a formulation of the former could involve investigating the level of investment of public resources it would take to eliminate the problem and what inroads the present set of services is making in achieving this solution. These are the questions that demand attention and require a strategic view of the problem if only because elimination strategies may vary from containment strategies at any point in time. And it could further be argued at a philosophical level that accounting for public expenditures should recognise both

the actual expenditures on services/problems and the total estimated remaining expenditures required to resolve these problems, much in the way that an electricity generator might be expected to account for the cost of decommissioning an electricity generation plant at the time of its installation, or a petroleum marketing company (selling products through company-owned service stations) might be expected to include the cost of cleaning a distribution site from leaked petroleum contaminants, at the end of its useful life.

Just as the private sector and governments account for the unexpired portion of their assets, and liabilities, so governments could account for the unresolved portion of their key service liabilities. 'Goods' and 'bads' should have equivalent treatment in public sector accounts. If included in the public sector balance sheets then the strength of public sector performance could, in part, be judged over time by the impact on its net liabilities, just as the strength of private sector performance is judged by the impact on a firm's net assets. At the very least, an estimate of the total cost of resolving policy problems should be made at the policy formation stage and regularly revised. And these latter estimates could easily be considered for inclusion in public sector balance sheets, even if only as contingent liabilities.[1]

Other difficulties identified by Rittel and Webber include what they refer to as incrementalism, arguing that if a problem is tackled at too low a level it does not guarantee overall improvement. This advice is consistent with the view that today's governments often seek to contain problems rather than solve them, addressing the symptoms rather than attending to the cause(s). This attitude may lead both to the exclusion of long-term solutions (if there are any) and, ultimately, to the exacerbation of the problem. This is commonly the case in dealing with, for example, community crime primarily through incarceration. Such single-fix 'solutions' reflect a difficulty in tracing problems to their root causes – to what Rittel and Webber refer to as the locus of difficulty – and makes a more collaborative

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1   It can be argued that much government expenditure is *necessarily* ongoing and, no doubt, this is true for a range of important fields of government expenditure; for example, in health, transport and education. There are, however, other areas of government expenditure – for example, in some business/economic fields (concessions to small business and housing affordability), and the field of law and order and some social policy fields – where there should be an end in sight; two examples would be road deaths and deaths through domestic violence. Focusing on an end point for government services should help to avoid the more obvious conflict between containment and resolution strategies by inviting formal consideration of the trade-offs, and focus policymakers on the need to resolve problems where this is possible.

approach necessary to many of today's policy problems, going hand-in-hand as it does with the advice to address a problem on as high a level as possible.

We are left with some especially difficult challenges in the public policy field. One promising option is to use large quantities of data and computer power to try to map out and estimate the interrelationships between key variables in complex public policy problems to sort out the more important of the drivers and their relationships. This is a promising step in a long journey towards developing methodologies to deal with the more complex public policy problems. There have been some interesting developments in Australia in the use of big data, under the banner of Australian Priority Investment, and some of these are discussed in the case study of homelessness presented in this chapter.

3.2.3 Responding to wicked problems

The identification of wicked problems as lying at the heart of public sector planning challenges in the late 1960s and early 1970s was followed within a decade by the introduction of the New Public Management (NPM) reforms across a range of countries. The attack on the traditional style of public sector management represented by the identification of wicked problems underpinned the introduction of private sector goals and tools to the public sector. This attack was focused on the capacity of the public service to continue to deliver ready-made solutions to public policy problems:

> The streets have been paved, and roads now connect all places; houses now shelter virtually everyone; the dread diseases are virtually gone; clean water is piped into nearly every building; sanitary sewers carry wastes from them; schools and hospitals serve virtually every district. (Rittel & Webber 1973, p 156)

Rittel and Webber argued that the relatively easy public policy problems had by that time been dealt with (at least in the United States), that the traditional tests for efficiency were being challenged by a renewed preoccupation with the consequences for equity, and that the traditional, rational scientific approach to planning as a straightforward process of designing problem solutions was redundant. They argued that the notion of the rational public sector manager assembling all relevant information, defining the range of possible solutions and choosing 'the best' solution

should be abandoned. They identified 'the weak strut in the professional's support system' as lying 'at the juncture where goal formulation, problem definition, and equity issues meet' (Rittel & Webber 1973, p 156).

This attack on the pre-eminence of the public sector managers was followed by the introduction of the managerialist phase of the NPM revolution shortly after. There was to be a renewed focus on (technical/cost) efficiency and a new focus on delivering 'outputs'. This was to be a step towards greater accountability for the public service, moving on from simply accounting in financial terms for 'inputs'. Rittel and Webber further cast doubt on the professional capacity of the public service to solve public sector policy and planning problems: this was followed by a significant curtailment in the public service role in this regard, both through the NPM contestability reforms (of both policy and service delivery activities), but also by circumscribing its budgetary freedom through the introduction of 'outputs'.

Ironically, it can be argued that, if anything, the introduction of the NPM reforms to the public sector exacerbated wicked policy management problems through the creation of departmental silos and the fragmentation of public service capacity to respond across departmental and sectoral boundaries.[2] In hindsight, what needed enhancing was the collective capacity of the public service to address these problems, not the capacity of the individual organisational units within it. The consequent emergence of a large number of non-government players in policy development and service delivery, and the growing influence of community groups, has challenged the role of government itself and has led to a re-evaluation of the alternative governing structures, and the practice of public sector management.

In a 2008 conference paper, Head and Alford confirmed that wicked problems sat uncomfortably with the structures and processes of traditional public sector management models and they examined alternative approaches to the conceptualising and mapping of wicked problems, and responses to them. In a later (2015) article they concluded that the role of leadership is critical – through adaptive and collaborative

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2   It is important to continue to bear in mind that this was the result of the NPM reforms as implemented. This statement makes no judgement about how well the component parts of the NPM reforms were adapted to public sector needs, nor of the effectiveness of their subsequent implementation. These are matters for later consideration and need to be addressed alongside the political motivation for taking this reform route.

leadership models – and that with enabling organisational structures and processes it might be possible to frame partial and provisional courses of action to address these problems.

These enabling processes and structures include more flexibility in organisational structures (e.g. matrix management) associated with targeted project-based interventions, more flexible budgeting and financial systems (e.g. to permit the creation of cross-agency project budgets), acquisition of new skill sets, and a more sophisticated approach to performance measurement. A 2007 Australian Public Service Commission (APSC) publication (updated in 2012) emphasised the role of leadership that focuses on collaborative processes (as opposed to authoritative or competitive) and identifies some of the necessary next steps to establish enabling structures and processes, emphasising adaptive, flexible and innovative leadership (APSC 2007).

Head and Alford's 2015 article is a useful framing of the problem, pointing to the areas requiring attention if even partial solutions are to be found. It is necessary to note the issue of performance measurement and management – acknowledging its challenges and pointing to related accountability issues – especially in the context of cross-boundary public sector collaborations. While they point to a desirable new form of leadership, they do not address the major challenges of (1) defining the detail of these enabling structures and processes; (2) identifying the (new?) organisational source of leadership that will 'assemble and reassemble project teams as problems emerge, progress and come to some sort of resolution' (Head & Alford 2015, p 21); (3) addressing the central questions of governance and accountability in this flexible new world of public sector management; and, (4) the matching of these requirements with context.

This list of the unresolved matters is of central importance to public sector management. Noting the importance of leadership style and the enabling structures and processes is a first step to progress; the next step is to start to lay out some of the management content and to move on from an argument of the need for flexibility in applying these leadership models – organisations need to be able to assemble and reassemble project teams as problems emerge, progress, and come to some sort of resolution – and understand how this might occur. We need to ask at what level in government departments does this leadership reside? What information do these leaders use to make decisions about such complex matters? What

are the information sources that generate the evidence for these decisions, and what are the analytical tools and skill sets required to forge these decisions?[3] What are the supporting governance processes? What is the source and location of this new management capability?

Finding a useful balance between adaptive, flexible and innovative processes and the confines of traditional hierarchical public sector administration whilst establishing suitable governance regimes remains the central challenge, for in the absence of some sort of defined structure and oversight to the consequent management task, which provides clear visibility down the management line, flexibility, adaptation, and innovation could be a prescription for chaos. If we look past the public sector management literature to the organisational literature some insights are provided in terms of the need to balance exploitation and exploration, for the development of so-called 'ambidextrous organisations' coping both with stability and chaos, and with dual structures ('mechanistic' and 'organic') coexisting in the same organisation (see Lam 2005, p 117 ff). More recent literature focuses on the contribution that design thinking can make to the resolution of management problems (Martin 2009).

A further important issue is that of performance measurement. Head and Alford argue that an outcomes focus is a necessary part of a solution to wicked problems, but that it should be placed in the context of a collaborative solutions process or systems approach that pays attention not just to the end results, but to the whole chain of inputs, processes and outputs that lead to them. They argue that a systems approach to outcome measurement should thereby acknowledge the role played by all of the organisations involved in the solution chain.

Head and Alford also see value in the adoption of the tools of corporate strategy in the public sector to widen the horizon of choice from simply how to do things to what to do. In the context of a multiplicity of players involved today in fashioning and delivering solutions to wicked public sector problems, Head and Alford see making choices about what to do through the use of tools such as strategic positioning and determination of core competences as potentially beneficial when applied with flexibility in

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3   An excellent discussion of these challenges, framed by the question 'what causes what?' is provided by Mulgan in *The art of public strategy* (2009). In Chapter 4 he considers the challenges of policy formation in the presence of wicked problems, laying out the mechanics of 'mapping the system' as an effective front-end to policy formation and implementation, providing examples in the fields of urban regeneration and the influences on obesity.

goal-setting and strategy development. At present, however, the common public sector application of these sorts of tools is limited to internal matters such as processes, capabilities, competences and efficiencies and to the departmental level rather than to the whole-of-public-service activities.

I will pick this point up later and argue that the application of these tools to the public sector is potentially much more valuable than this and points to an integrated and better way to tackle the broader challenges of public administration.

In addition to the structural dimensions of wicked problem management, there are also important behavioural dimensions, especially those of teamwork. In circumstances where individual work units and entities across the public service do not 'own' the customer for many government interventions, suitable consumer-based outcomes can only be delivered through cooperative activity. Clearly enhanced teamwork is called for as part of the solution, and the academic literature abounds with recommendations of greater public sector collaboration in pursuit of this goal. This can be seen in contradistinction to traditional public service coordination, sight of which was lost in the academic literature within several decades of Rittel and Webber's declaration in 1973 of the passing of the age of scientific public sector management.[4]

In practice, coordination is the bread and butter of collegiate activity expected of the public service and its employees as a matter of course across the range of organisational levels. This is the same expectation that might be held of any organisation, where the failure to coordinate would be seen as a significant personal and collective failure. Unfortunately attempts to 'join-up' (i.e. better coordinate) government services have shown limited only success around the globe. Determining exactly why this should be so is difficult, as researchers have limited access to the internal workings of the public service. It is a global phenomenon, however, and recent national government audit reports point to continuing difficulties, even amongst central agencies, in coordinating their respective activities.

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4   In a 1991 article, Christopher Hood expressed bemusement at the emergence of this new term of 'collaboration' asking, rather tongue-in-cheek, whatever happened to the concept of coordination in the public service.

Box 3.1 Homelessness

The public policy challenge

One of the more intractable social problems in Australia is that of homelessness. The 2011 Census found some 105,237 people were reported as 'homeless', or 0.5 per cent of the population. At an Australian Government level, homelessness is managed by the minister for social services within the portfolio of Housing and Homelessness Programme. It is one of a number of portfolios serviced by the Department of Social Services.

For the purposes of data collection, homelessness is defined to include all of the following: current living arrangements in inadequate or overcrowded dwellings, accommodation with little or no tenure, living in supported accommodation, and living in improvised dwellings (this latter being the common understanding of homelessness). During 2014–15, living in severely crowded dwellings accounted for 39 per cent of all homeless people, people staying temporarily in other households accounted for 17 per cent, and those in boarding houses accounted for a further 17 per cent, with some 6 per cent living in improvised dwellings.

The Commonwealth, state and territory governments jointly fund a program to alleviate the difficulties of people who are homeless or at risk of homelessness. Under agreements signed in 2009 and extended to 2017, the states and territories are responsible for day-to-day delivery of services. In the latest year for which consolidated information is available (2014–15), recurrent government expenditure was $707.2 million delivered through partnerships with business, the not-for-profit sector, and the community sector to fund over 800 homelessness services around Australia.

The program performance indicator framework – built around the standard equity/efficiency/effectiveness elements – envisages key program outcomes to include independent housing through financial independence. During 2014–15, the total number of clients addressed by the system amounted to 255,657, with accommodation provided to some 33.3 per cent of clients, assistance to obtain housing to 27.8 per cent, and 23.1 per cent of clients accessed domestic violence services. Annual expenditure and client numbers have been steadily rising over the three-year reporting period in the presence of significant unmet demand for services (primarily accommodation) (Productivity Commission 2016).

Specialist homelessness services

The list of services set out below is of interest because of its extensive nature, the diversity and depth of skills required to deliver the individual services, and the case management skills required both in the diagnostic and management phases of client management. We can also note many other wicked problems present amongst both the specialised and general support services including child abuse; mental health; gambling, drug and alcohol abuse; domestic/family violence; and, inadequate employment skills.

Housing/accommodation services: short-term or emergency accommodation, medium-term/transitional housing, long-term housing, assistance to sustain tenancy or prevent tenancy failure or eviction, assistance to prevent foreclosures or for mortgage arrears.

> **Specialised services:** child protection services, parenting skills education, child-specific specialist counselling services, psychological services, psychiatric services, mental health services, pregnancy assistance, family planning support, physical disability services, intellectual disability services, health/medical services, professional legal services, financial advice and counselling, counselling for problem gambling, drug/alcohol counselling, specialist counselling services, interpreter services, assistance with immigration services, culturally specific services, assistance to connect culturally, other specialised services.
>
> **General assistance and support services:** assertive outreach, assistance to obtain/maintain government allowance, employment assistance, training assistance, educational assistance, financial information, material aid/brokerage, assistance for incest/sexual, assistance for domestic/family violence, family/relationship assistance, assistance for trauma, assistance with challenging social/behavioural problems, living skills/personal development, legal information, court support, advice/information, retrieval/storage/removal of personal belongings, advocacy/liaison on behalf of client, school liaison, child care, structured play/skills development, child contact and residence arrangements, meals, laundry/shower facilities, recreation, transport, other basic assistance.

Source: Productivity Commission (2016).

3.2.4 Homelessness is a wicked problem

Homelessness is an interesting case study in wicked problems because of a number of related manifestations, lack of clarity of solutions, the involvement of a large number of constituencies, and a number of intertwined policy problems. On the scale of wickedness, homelessness certainly deserves to be considered one of the more wicked (*very* wicked) problems. Box 3.1 outlines the key elements of the government program to address homelessness.

According to the 2016 Productivity Commission report, homelessness has multiple causes, including a shortage of affordable housing, family and relationship breakdown, unemployment and financial hardship. Specialist homelessness services aim to provide support to people who are homeless or at imminent risk of becoming homeless as a result of a crisis, including women and children escaping domestic and family violence. Government and non-government service providers (including community organisations) deliver over 50 separate homelessness services to clients, including short–medium and long-term housing assistance, education assistance, child care, transport assistance, family planning, drug/alcohol counselling, parenting skills, counselling, advocacy, meals services, and financial and employment assistance. The stated objective of

these services is to provide transitional supported accommodation and to help people at risk to achieve the maximum possible degree of self-reliance in regard to income employment and housing.

It is clear that the public policy problem of homelessness is a complex one. If the many specialist services are designed to deal with its causes and consequences, then it is also clear that any number of the so-called specialist services for homelessness could equally be listed as 'the problem' and homelessness listed as a cause/consequence; for example, homelessness could easily swap places in this hierarchy with child abuse, family planning, physical disability, intellectual disability, drug and alcohol abuse, and gambling addiction. This reflects a core characteristic of wicked problems – that every wicked problem can be considered a symptom of another problem. The public policy challenge posed by wicked problems is that an attempt to address one of these wicked problems may impact on the state of others, and on the 'solutions' to those wicked problems.

Regarding this latter problem, there are some interesting developments taking place in the Department of Social Services. In a speech to the Family and Relationship Services Australia Senior Executive Service on 24 February 2016, the minister for social services, Christian Porter, outlined his plans for tracking over 1,600 grants to 800 family and community service organisations with the aim of better assessing and improving the services offered and focusing on outcomes. The minister discussed the frontline data collection tool Data Exchange (or DEX), which it was anticipated would enable a shift from outputs to outcomes by standardising data collection from service delivery and putting in place the capacity to amass and manipulate data to measure how services contribute to the immediate, intermediate, and long-term outcomes of clients. He predicted that it would revolutionise service offering over the next decade (Porter 2016).

In the context of a discussion of homelessness, this is a promising prospect that should enable the government to identify risk factors and characteristics of groups and thereby address their specific barriers to independence and employment. It should enable case management plans for individuals to be tailored from their group-based risks and circumstance characteristics. It offers something akin to the provision of small business support based around detailed analysis of individual business's financial statements (enabling comparison with industry norms).

If this project enables the approximation of relative contributions of key causal factors to policy outcomes in a world of complex interrelationships, it will allow better targeting of policies, programs and services to clients, and more efficient use of public dollars to achieve targeted outcomes for the homeless. It might also provide a first step towards unravelling the links between causes and consequences in wicked problems and their interrelated impacts. Those steps forward are, however, some years away. Meanwhile, policymakers must live with 'what is', not 'what might be', and that is a world of complex social problems with interrelated causes and consequences.

3.3 Contestability and outsourcing: Good policy or bad policy?

3.3.1 Contestability is a tame problem

The discussion of wicked problems indicates that there are inherent difficulties in public sector management not likely to be present to the same extent in private sector management. That is not to say that, in the face of growing shareholder and community activism, private sector management is not becoming more difficult also, although the same underlying societal forces are also at work in further challenging the public sector. What it does mean, however, is that the bar is set higher for the public than the private sector in achieving and demonstrating success in its day-to-day operations.

In this section of the book I consider a contrasting 'tame' problem, namely outsourcing. I have chosen this as a case study of government policy for a number of reasons:

- there are few tamer public sector 'problems', given the largely internal nature of the policy challenge
- it is a test of government governance because, with all parties involved under direct or contractual control, the government should be able, through the public service, to manage this program tightly
- whilst essentially a tame problem, there are a number of complexities that arise
- it is an important case study in the application of private sector tools to the public sector

- it provides further pointers to the challenges of strategic management and governance in the public sector.

In the discussion that follows I address the general set of issues that relate to government contestability and outsourcing activities and consider their application to the Australian Government's Efficiency through Contestability Programme.

3.3.2 The challenges of outsourcing

The discussion of homelessness is a useful lead-in to a discussion of outsourcing because of the mixture of public service and external delivery of services, combined with public service program management that the government's approach to the problem of homelessness represents. One of the more important issues in the management of such a large program involves the integration of a number of services for individual clients and a mixture of public service and outsourced service delivery, managed at the pointy end by case officers. In such a world of multiple services and service providers, it can be complicated to maintain a clear line of sight from policy formation to customer for effective service delivery management and governance.

Successful outsourcing of service delivery, which is a critical element in the delivery of a large and geographically dispersed program, is dependent on the contract between the purchaser and the provider addressing and costing the major duties to be performed under the contract, and building reliable and capable sources of supply. Oliver Williamson pointed to some of the challenges in his 1999 discussion of public and private bureaucracy transaction costs, noting that public sector outsourcing may be relatively straightforward where services are standardised, impacts are relatively easy to anticipate, and quantities relatively easy to control (Williamson 1999). But this is not the world of wicked problems. Outsourcing becomes more difficult and less attractive when services are not standardised and it is difficult to define the services to be delivered to clients, and when multiple players and services are involved at either or both of the client and service provider ends.

Wicked problems across the spectrum have elements of complexity and routinisation from the point of view of transaction cost. Problem definition and management can be characterised by a difficulty with the former in defining solutions and, with the latter, in managing the

many overlapping services in an integrated manner designed to address the problem. In the case of homelessness, many individual services are sufficiently routinised to allow contracting out. This is the model followed by the Department of Social Services, which has over 50 separate services available and some 800 separate service providers meeting the needs of program clients around Australia.

Outsourcing was one of the central features of the NPM revolution and, arguably, the key feature designed to deliver private sector–style cost efficiency and cost savings to the public sector. Contracting externally for the provision of goods and services in the form of government procurement has a long history in the public sector, but outsourcing the policy advice that underpins the development of services, and the delivery of the services themselves, was far less common as the public sector entered the 1980s. Alford and O'Flynn point to the explosion of outsourcing in the 1980s and 1990s, built around the cost-cutting promise, the methodology of which offers clearly identifiable short-term cost savings but less certain long-term costs. They also point to mixed experiences with outsourcing and a recent subsequent partial reversal of this activity based on a more considered evaluation of its merits and shortcomings (Alford & O'Flynn 2012, Chapter 4, esp pp 87, 102).

Alford and O'Flynn identify three types of costs and benefits associated with managing with external partners: first there are those relating to the service itself (effectiveness, efficiency, equity and quality); second there are the costs and benefits of establishing and managing the relationship; and third there are the impacts on the strategic positioning, power or capabilities of the organisation itself. They also identify the costs of transition. In establishing a cost–benefit framework and considering a variety of relationships between external service providers and end users, their conclusion regarding the merits of 'externalisation' as the preferred course of action, is the pragmatic response that 'it all depends'.[5]

On the credit side of the ledger, the involvement of governments with customer-focused and community-based organisations as outsourcing contractors and as partners in service delivery provides a number

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5   Alford and O'Flynn (2012) introduce the term 'externalisation' to embrace all arrangements in which one or more external providers produce all or part of a service. As defined it includes outsourcing, contracting out, partnering, volunteering and co-production. I do not propose to go into this detail using 'outsourcing' as a generic descriptor as is commonly done in the business literature and much public sector management literature. (See Alford & O'Flynn 2012, pp 23, 24).

of prospective benefits. Many of these organisations have a long history of serving their communities from their own resources as well as through delivery of government programs and have accumulated practical experience to bring to bear in meeting targeted customer needs. Creating joint entry points, common service offerings, and shared staff training programs provides the foundations for mutual cooperative advantage.

The challenge of properly assessing any such externalisation option is, however, that the service delivery cost savings are immediate and real; the transition and relationship management costs are less visible and ongoing; and the longer-term organisational opportunity costs – in terms of strategic capabilities/de-skilling/loss of career opportunities, foregone productivity gains, market intelligence and institutional memory – are largely invisible and continue past any service delivery contract.

There is also good reason to believe that, whilst a generic approach to outsourcing and externalisation is warranted in the case of service delivery to 'citizen–clients' (the focus of this discussion thus far), there may be important differences between the outsourcing of such services and of policy advice where the 'client' is the government. While it can be argued that outsourcing 'routine' activities is likely be more successful than non-routine, policy advice rarely is 'routine', being the strategic foundation on which the business of the public service is built. As I argue later, policy capability enables the public service to take an overview of government activities and this should be the focus of its competitive positioning. Whilst the public service needs to maintain sufficient service delivery capability to 'keep its hand in', only policy capability enables it to take the necessary strategic and operational overview of government activities that creates real public value.

On the debit side of the ledger, ceding any core organisational capability to other parties carries risk in any institutional setting. Ceding such a critical organisational capability as the ability to think strategically about the business it is in, is likely to come at a high cost to its stakeholders in any business. An organisation that does not have such a capability wired throughout its structures becomes a captive of its past and a ready victim of changes in its environment (see Kiechel 2012). In addition, external organisations providing policy advice invariably 'sell' such advice to other such organisations, thereby substantially diminishing its value.

In looking back over the last 40 years of government in Australia, journalist and author Laura Tingle notes the loss of the public service policy capability, emphasising the legacies of this period as loss of institutional memory, loss of a career-driven public service, and the broad-based loss of policy capability (Tingle 2015). One consequence of this loss of policy capability – made possible by governments determined to make both policy advice and service delivery contestable – has been an increase in the numbers of think tanks, lobbyists, and other third-party organisations. Successive governments have reinforced the initial loss of capability by choosing to bypass their own expert government advisory organisations.

Most of these external groups have the resources to undertake sufficient research to provide credible policy options and then lobby effectively for their solutions. But, those that choose to work with governments are often free to organise 'evidence' around what they presume to be the government's preferred solutions, and not address the associated implementation challenges, opportunity and transition costs. These are organisations attuned to providing policies and solutions to governments to meet their own organisational charters. These policies may meet the political needs of governments, but not necessarily any reasonable community-wide test of net benefit.[6] The rise of such organisations has removed from the administrative arm of the government (and, to a lesser extent, the political arm), the necessity to think at higher strategic levels – what might be called 'strategic policy' at a departmental level where there are individual policy responsibilities with whole-of-government implications, or systemic policy best described as 'whole of public service'. The remaining public service capability is fragmented and not highly valued as a consequence.

At the systemic policy level, this ability is required by the public service to scan the horizon to identify emerging trends, connect the dots, and formulate responses for government consideration; that is, to enhance the effectiveness of the business of government. But it is equally required today to focus on the future of the public service itself, including government policy towards the public service. The public service should not allow itself to be a passive recipient of this policy. At the strategic policy level, individual departments must be able to perceive the effective implementation of an agency minister's policies not just in terms of their

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6   See, for example, Milliken (2015).

department's role but also in terms of the involvement of, and impacts on, other departments and external organisations. A higher public service level should guide this advice.

The decline in public service capability has occurred at a time – due to the complexity and multiplicity of problems facing government – that an enhanced rather than diminished whole-of-organisation thinking capability is required. Think tanks may well be capable of articulating new political belief systems and accompanying policy frameworks, but there is a huge implementation gulf between this level of strategic thought and effective service delivery on the ground. The very notion that problem/ policy formulation could be successfully split from implementation (the policy–provider split), a notion lying at the heart of the NPM revolution of the 1980s, continues to deserve serious questioning.

What is missing from this notion is an understanding of how the public service adds value through a whole-of-process view underpinned by ongoing learning on the job. It is harder to identify and capture the lessons that will better shape service delivery in the future through outsourced contracts than it is through internal service delivery. The outsourcing process lacks a dynamic sense and is, rather, a comparatively static comparison of alternatives.[7] In my experience, some of the better policy ideas are likely to come from public servants who are intimately involved in service delivery, who continuously form and reform hypotheses about customer behaviour and the role played by government support, and who can reshape policy 'on the go'. This is not high-level policy, rather what might best be described as 'operational policy', but it is at this level

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7   The simplicity, elegance, and certainty of comparative static analysis, which is a particular weakness of economists, is alluring. In an adjunct to *Griffith Review* 51, Jonathan West and Tom Bentley point to some of the public policy dangers of ignoring the dynamic implications of such analysis. West and Bentley use the example of the application of the economists' conception of comparative advantage as a framework used to shape government policies towards industrial development. They make the point that, as a guide to the economic future, static comparative advantage theory is fatally flawed, ignoring as it does three vital dimensions of economic development, namely differential industry growth rates, technological improvement, and the social consequences of concentration in different types of economic activity. The authors use historical examples to argue that what is required is a shift from an industrial development policy based on static one-off comparative advantage, to one of cumulative dynamic advantage. See West and Bentley (2016).

of policy where substantial gains in program effectiveness and service delivery efficiency can be confidently expected over time. This observation applies to outsourcing in both public and private sectors.[8]

A further and growing risk associated with the outsourcing of both policy advice and service delivery is that political processes are delivering 'solutions' to the administrative arm of government without due regard to their ability to be implemented or their contribution to the resolution of the more complex problems of which they are but part. Depending on associated political motives this may not be accidental. Another risk, and one that should be particularly concerning to the public at large, is that these external bodies have the capacity to handsomely reward those in public office for their support – and many 'public officials' choose to further their careers in the subsequent employ of a variety of industry-based and professional lobby groups. The decision-making processes for both service delivery and policymaking deserve to be scrutinised in the public interest, and the former regularly are by auditors-general, with occasional involvement of state-based anti-corruption bodies.[9] Given the potentially substantial impact of policy decisions and their ongoing nature, major policy decisions should come under the greatest scrutiny, and this is where our system of government is at its weakest (see Netherlands Ministry of Finance 2000).

It is difficult to make evidence-based judgements about the costs and benefits of outsourcing as it has been applied in public administration in Australia; certainly there is international evidence that the enthusiastic application of the principles of contracting out in the 1980s and 1990s did not fulfil their promise (Hood & Dixon 2015, pp 84, 91, and esp p 178; Alford & O'Flynn 2012, pp 86–88). In addition, Donald Kettl tells a cautionary tale about the limits to which contracting out might go before it starts to incur additional costs in terms of effectiveness, and requires substantial organisational change to accommodate it. Indeed, Kettl paints a disturbing picture of the US public health system, where

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8   The policy–provider split, as practised in the public sector, whether merely practised in-house or involving outsourcing, may well produce unintended consequences by placing the service deliverer in a policy straightjacket that removes the incentive and opportunity to continuously improve the service. The emphasis on this split of ownership of policy and operations is much greater in the public than private sectors and may lead to policy advisers (who do not have ready access to the lived experience) and operators following different paths.

9   See, for example, the Independent Broad-based Anti-Corruption Commission (IBAC) press release 'IBAC lays charges in relation to "banker schools" corruption', 10 Jan 2017.

outsourcing has resulted in patients never coming into contact with anyone from 'the government', and no one from the administration has responsibility for the patient (Kettl 2008).[10]

A suitable evaluation of the impacts of the efficiency-driven contestability and outsourcing program that is present today in the public administration arm of government would consider its roots in the NPM reforms and over 30 years of history. It would also consider the three types of costs and benefits identified by Alford and O'Flynn that have been variously incurred and generated by the public service over this period (those relating to the performance of the service, relationship management costs, and strategic positioning), and be founded on a dynamic view of the process embracing whole-of-organisation impacts on productivity, effectiveness, and the capacity of the public service to learn from its activities.

3.3.3 The Efficiency through Contestability Programme

The Efficiency through Contestability Programme was announced with the 2014–15 Commonwealth budget, piloted in 2014 and implemented in 2015. It was established as a three-year program and duly ceased on 30 June 2017. The program sought to determine on a case-by-case basis whether and how the government should deliver particular functions, programs or services, with the primary emphasis on the government's desired outcome. It had four interrelated parts – portfolio stocktake, function review, efficiency review, and contestability review – with potential actions to include cessation of performance of an activity, its provision under commercial arrangements, allowing other government providers to participate, or even modifying governance or organisational structures to improve efficiency.

The program guidelines contained directions to consider a wide range of issues including risk, market maturity, legal, treaties, security and culture, along with an invitation to set the analysis in a dynamic environment involving the sustainability of the options generated within both medium and long-term time frames. And, at the more detailed level of costs and

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10   Indeed, Kettl's analysis leads one to ask whether there is an optimal (maximum) level of outsourcing well short of the 100 per cent that seems to be the long-term direction of outsourcing in the United States. The problem is that, whilst an ongoing series of individual decisions to outsource may be separately 'justifiable', there are accumulating systems costs not considered, which may render further individual decisions costly.

benefits, matters to be considered included all monetary costs and their form, transition costs, ongoing management costs, and environmental costs. Further instructions included the need to have regard to accountability and governance, the risks associated with inflexible contracts in a dynamic policy environment, and the implementation challenges arising post a contestability review, including accurate specification of outcomes and ensuring that the requisite public service skills were available.

Most of the key elements identified by Alford and O'Flynn for externalisation programs were incorporated in the program guidelines including the efficiency/effectiveness/equity dimensions of performance, the management relationship costs, transition costs, and the broader organisational implications of change. The guidelines also addressed the dynamic consequences of outsourcing, along with inter-organisational consequences and with the costs and benefits to be considered in different time frames as required. Initial estimates of program savings of over $5 billion for the period 2013–14 to 2020–21 and $14 billion for 2021–22 to 2026–27 were projected by the Department of Finance in their 2016–17 annual report and confirmed in the 2017–18 annual report. The ANAO end project performance audit was completed and published in May 2018 (ANAO 2018a).

In this audit report, the ANAO considered the effectiveness of the Efficiency through Contestability Programme in supporting entities to improve the efficient delivery of government functions. The participating entities considered a large number of recommendations from the functional and efficiency reviews, and from the contestability reviews, accepting most and rejecting few outright. The performance audit concluded that the program was effective in supporting activities to review the efficient and effective delivery of government functions and supported Finance's view of budget repair in excess of $5 billion over the forward estimates. In these broad terms, the program might be deemed a success.

However, whilst providing a generally supportive review of program processes, the ANAO report pointed to a number of side issues of concern. These issues included:

- review reports did not generally include benchmarks to demonstrate efficiencies or assessments to evaluate the benefits of implementation
- relatively few recommendations were made to cease functions or identify opportunities for alternative providers

- most projected savings outlays derived from reduction in budget outlays without directly linking these reductions to efficiency
- entities reporting on implementation of recommendations focused on milestones and deliverables and rarely on outcomes
- Finance's implementation of the program and the accountable entities fell short of the ANAO's expectations.

The ANAO report further notes that the majority of the substantial savings were identified in efficiency reviews, which are commonly of organisational administrative processes, rather than through reviews of functions and contractor services. The audit report gives the impression that Finance arranged the exercise to review the externalisation activities of an important part of the public sector and, while it could have delivered substantial one-off savings and ongoing efficiency gains, it was essentially treated as a low-level budget-saving program. This view is supported by the ANAO observation of the relatively low level of projected budget savings of a *total* of a little over $5 billion in the first seven years of the program (less than an average of $1 billion per year) considered against total Australian Government budget expenditure of some $419 billion per year in 2013–14, which was the first year of the program.

The report's key learnings for all Australian Government entities embraced program design, governance and risk management, and performance and impact measurement with specific learnings including:

- the need to prepare an implementation plan and provide advice on implementation risks
- the need for policy design advice to government and program implementation to be informed by sound analysis and a strong evidence base
- the need for the key actions required to meet program responsibilities to be documented, assigned and monitored
- the need for cost savings and benefits to be identified in the design phase along with review and evaluation arrangements.

Either by design or default, a major opportunity seems to have been let slip.

This brief review of the Efficiency through Contestability Programme leads to some general pointers about 'good policy' and, in particular, its implementation. We might reasonably conclude that in this case

a seemingly well-designed program was let down by poor implementation primarily in the affected agencies as well as by less-than-wholehearted oversight by the originating agency.

While public service efficiency has a history of government focus extending well back into the last century in Australia, it is arguable that it has typically been delivered in 'hits' or projects by political intervention rather than seen and encouraged as an important and ongoing public service management responsibility. The NPM reforms, for example, were seen as a means of shocking the public service around the world into private sector levels of efficiency but there are mixed views about the effectiveness of these reforms. Indeed, the most comprehensive applied study of the impacts – Hood and Dixon's study of some 30 years of UK experience – points to a likely negative outcome on this count (Hood & Dixon 2015). Later chapters explore the means and benefits of the public service treating efficiency and effectiveness as an ongoing management responsibility in place of regular but somewhat random government interventions in public service operations.

A further general concern arises from the design of the Efficiency through Contestability Programme. Whilst the program guidelines noted the need for governments to adopt 'hybrid delivery models' with greater involvement of other service providers across and outside government and to adopt a new role as 'co-designer and regulator of a transaction environment between clients, government, and service providers', there is little recognition of the overall governance challenges posed by this intended shift, either in the guidelines' preamble or its detail. The few references to governance are primarily concerned with the governance of the program, with the only reference to the challenges of governance of a more distributed form of government being the need to consider possible improvements in governance where they might improve efficiency. And, whilst the word 'effectiveness' is used a number of times, it is clear that generation of client benefits is seen largely as those consequential from securing targeted efficiency gains (rather than being a focus in their own right). The challenges of governance in a world of collaborative and networked government must be placed at the front of considerations of such a mode of service delivery, not tacked on at the end of the design and implementation processes.

Finally, the dominant and easiest component to calculate in the cost–benefit equation for any externalisation exercise is monetary cost savings, which is a readily identifiable benefit. The *costs* of externalisation, beyond contractual costs, however, are dispersed in the form of transition costs, new management relationship costs, and whole-of-organisation costs relating to lost capability and the loss of flexibility in a dynamic environment arising from contractual arrangements with a new provider. There is also the matter on the benefit side of the equation of capturing contract life efficiency gains and not merely letting them accrue to an external service provider. Moreover the costs that only occur in the medium to long term – such as loss of organisational capability and the risks associated with commitment to long-term contracts in a volatile environment – may well be ignored in public service calculations. Put simply, a number of prospective outsourcing costs are dispersed in time and space and are difficult to estimate. Any externalisation calculation is therefore unlikely to capture all of these costs especially those not associated with immediately identifiable outlays and is therefore likely to exhibit bias against in-house continuation of service delivery.

3.4 Conclusions

This chapter has identified the operations of government from the direction of its core business as the formation and delivery of good policy to the Australian community. Whilst a case study of homelessness has been used to consider the formation and implementation of good policy in an environment of multiple and overlapping problem drivers, the case study of the Efficiency through Contestability Programme takes a primary implementation focus and considers a range of reasons why good design may not result in beneficial program outcomes. Given that a major component of effective delivery of the homelessness program is itself a substantial outsourcing program, the breadth and depth of the total effective policy challenge is significant. Nonetheless, it should be clear that the wickedness of policy problems is only one of a number of challenges in the policy business in practice, and that many reasons may drive substandard policy formation and ineffective delivery, of which problem complexity is just one.