

4

Public administration performance measurement

4.1 Measurement

4.1.1 The challenge

In keeping with the long history of public administration and the focus on due process, the focal point of government accounting for resource use has been on financial reporting. The aggregate performance of the government is commonly conceived of as a net budgetary outcome. More substantial analysis, however, would see the gross budgetary dimensions interpreted for their broad social and economic impacts. In a world of good government, government performance should be viewed in terms of the effective implementation of sound policies delivering targeted impacts and policy outcomes.

The elected government of the day should bear responsibility for both the front and back ends of this process – the expenditure decisions and the policy impacts and outcomes. The administrative arm of government can then reasonably be held to account for program-level design (where sought by government), efficient program administration, the quality of the financial record keeping, due process in managing expenditure, and the measurement of expenditure impacts and policy outcomes.

More generally, if the task of the public service is to convert a government's policy goals into delivered programs, through appropriate advice, structures, programs, strategies, and collaborations, then public service performance measurement should focus on measures of these dimensions, culminating in the effective delivery of a suite of services. Whilst the public service is not responsible for the impacts and associated outcomes of the programs delivered, their capture and measurement through good governance should be.¹

It is important to distinguish between what is happening on the ground (the government's reporting framework and its application), the commentary on this performance (by the government, the public service, and third parties), and what is occurring in the public sector literature (as an indicator of what should be happening). While I continue to draw on comparisons with private sector activity as a further reference point, the starting point for any discussion of performance and measurement must be a discussion of the accountability framework.

4.1.2 The government accountability framework

Chapter 1 of the 2012 publication *Public sector governance in Australia* discusses a number of different but related concepts of governance, comprising (a) public governance (extending out to the private and community sectors); (b) public sector governance (i.e. governance of public administration and the business of government); and (c) corporate governance (organisational governance; i.e. the governance of particular bodies in particular sectors) (Edwards et al. 2012). The primary focus on measurement in this chapter lies clearly with public sector governance and, in particular, with that part of public sector governance relating to public administration, namely the efficiency and effectiveness dimensions of the outcomes of the role played by the public service in administering the government of the day's program. I am also, however, interested in the corporate governance of the Australian Public Service (APS) taken as a whole.

1 Chapter 5 addresses the question of what, exactly, the public service can be held accountable for that is neither predetermined nor substantially constrained by the government. What are the public service's 'degrees of freedom'? Clearly, the public service has some 'administrative degrees of freedom' but what else?

The determining framework for these considerations is embodied in three pieces of legislation. The first is the *Public Service Act 1999*, which assigns responsibilities to the APS and describes the values and conduct to be exhibited in their execution. This legislation places the department or, more correctly, the departmental secretary, at the forefront of the management of these responsibilities, although there are some residual responsibilities assigned to the Secretaries Board. The second piece of legislation is the *Public Governance, Performance, and Accountability Act 2013* (PGPA Act), which establishes a framework of governance and accountability for all Commonwealth entities including government departments (but not the Secretaries Board), focused on a performance reporting framework and requiring the provision of meaningful information to parliament. The third important piece of legislation is the *Auditor-General Act 1997*, which is the Act under which the Auditor-General for Australia operates. The Auditor-General is an important part of setting and influencing the standards for the government's performance reporting framework.²

4.1.3 What should be measured?

A discussion of the desirable content of the measurement of the impacts of government programs and services needs to consider the respective roles of the players. Governments are elected by the community to undertake activities on its behalf, and regular visits to the ballot box enable the community to deliver ongoing direction to the politicians.³ The measurement task should serve the purpose of allowing community assessment of the government's performance in addition to enabling the government to acquit its responsibility to parliament to account for its resource use.

2 The Auditor-General for Australia does not have formal enforcement powers but, as an independent officer of parliament, through private consultation and public reporting, is a critical part of the government's performance reporting framework. The Auditor-General is also the primary source of public reporting of the standards being achieved by public service reporting. These pieces of legislation and the resultant reports published – typically at individual entity level – are complemented at a whole-of-government level by the annual Productivity Commission's report on government services. This report covers the delivery of Australian Government services in six major policy-linked blocs, providing comparative output-based indicators addressing equity, effectiveness and efficiency within each of the six blocs. Some of the more interesting parts of the report – certainly from a public sector management standpoint – are presented in brief discussions of cross-cutting issues for each of the six blocs.

3 This convenient assumption is literally correct in a two-party democracy. But in a world of multiple-party government, the community no longer elects a government with a clear mandate, as negotiations between parties to form a government may move their agreed agenda some way from the separate party agendas under which the individuals forming government were elected.

As the vast majority of government activity and expenditure changes very little from one term of office to the next, this task might be reasonably described as a stable one, affording the public service every opportunity to bring to bear the best available tools – subject, of course, to government acquiescence. The community should want to know and the public service should provide – through its ministers – the costs and benefits of the policies the government has supported and the programs and services the public service has delivered (through annual reports, freedom of information legislation, parliamentary committees, and question time).

The business community and the community at large should also want to make some judgement about whether the expenditure foregone in the process of resource transfer from the community and private sectors for these programs and services was somehow ‘worth it’. It can be argued that, as every dollar spent by the government would otherwise have been spent by individuals and businesses, this places a high level of obligation on the incumbent politicians to spend these appropriated dollars at least as wisely as their former owners would have; this obligation should be equally felt by the public service.

In an introductory section to the Productivity Commission’s *Report on government services* (2018), it is argued that measuring the performance of government service delivery, and public reporting thereof, creates incentives for better performance by:

- helping to clarify government objectives and responsibilities
- promoting analysis of the relationships between agencies and between programs, enabling governments to coordinate policy within and across agencies
- making performance more transparent through informing the community
- providing governments with indicators of policy and program performance over time
- encouraging ongoing performance improvements in service delivery and effectiveness, by highlighting improvements and innovation. (Productivity Commission 2018, Part A, Chapter 1)

The report goes on to explain that it gives equal weight to three sets of performance indicators – equity, efficiency, and effectiveness – and aims also to provide outcome-based measures for each, noting, however, that outcomes are often difficult to measure. Interestingly, the report observes that the rate at which inputs are used to generate outcomes is referred to

as 'cost-effectiveness', further noting that no such measures are included in the report. Equity indicators span access, appropriateness, and quality. The report points to three dimensions of efficiency, namely technical (the production of goods and services at the lowest possible cost), allocative (the production of the set of goods and services that the consumers most value from a given set of resources), and dynamic (the offering of new and better products over time to consumers and the same products at cheaper cost). The report goes on to note the reporting focus on technical efficiency. Several aspects of this framework bear scrutiny before moving on to discuss evolution in public sector performance measurement. It is also important to canvass a fourth dimension of efficiency, namely efficiency of markets.

Firstly, discussion of public sector performance and, in particular, of the delivery of government goods and services, is sometimes at pains to avoid association with the notion of the private sector 'bottom line'. Clearly, however, allocative efficiency requires the calculation of such a bottom line, even if only notionally, if the maximum value of government goods and services is to be produced from any given set of resources. Whilst public sector practice in this regard lags behind academic literature on public sector management, the latter is moving in the direction of an integrated bottom line in the form of public value (where the concept may incorporate the costs as well as the benefits of government service delivery).

The second point is that, in the measurement of the performance of delivery of government services, there has been a long-standing focus on the measurement of technical efficiency. This is partly attributable to the availability of data, which sees costs recorded as part of general financial recording, and physical units of services delivered available in lesser number of programs. The focus on costs and efficiency may also, in part, be explicable by a traditional public service culture that embraces its role as deliverer of government services, but not that of the active management of customer (client) expectations and valuation of the associated satisfaction, as part of the government service delivery charter. In most cases, companion effectiveness data requires separate manufacturing.

Thirdly, a discussion of ‘costs’ and ‘benefits’ should consider the economic literature in order to be clear about what those terms mean and how they relate to the public sector performance measurement. This is important in order to be clear about the benefit criterion when discussing ‘benefits’ and ‘public interest’.

The ROGS 2018 sets out, in principle, three separate sets of measures, namely efficiency, effectiveness and equity, although data is invariably unavailable to measure equity.⁴ If data in dollar terms is available for efficiency and effectiveness, then cost–benefit calculations can be made (in present value terms) either as a ratio or in net dollar terms. If effectiveness data is not available in dollar terms but is available in physical terms, then an inferior calculation, commonly used to compare alternatives (but which provides no indication of overall net benefit) can be undertaken and expressed in terms of cost effectiveness.

The standard cost–benefit bottom line moves beyond the cash value of both costs and benefits to include external effects, commonly called ‘side effects’ or, more technically, ‘spillovers’. These are the often unintended (or unvalued) effects of the production or consumption of a good or service that has value to the community at large. An example of an unvalued cost is of the environmental effects of plastic bags, which might be banned or matched with a tax to discourage their use. An example of an unintended/unvalued benefit is that of patented inventions that incidentally add to the stock of human knowledge and lead to the development of new products and services.

The use of cost-effectiveness as a decision-making criterion is, as noted by Edward Mishan, a truncated form of cost–benefit analysis drawing on only one side or the other of the cost–benefit equation, typically the cost-only side, and is often expressed in physical units. It might be expressed as the cost-per-unit of delivering a service, or the number of customers who might be serviced at a given unit cost. As such, it leaves the question of the optimal decision untouched. In general, it is most useful when there is more than one way of achieving change and a comparison of the alternative methods might be made; however, this necessarily leads to a ranking of available alternatives and not to a determination

4 However, when applied as an additional test of the public interest, it is capable of upsetting a positive cost–benefit assessment. See Mishan (1988, p xxiii). Ideally, equity assessments should use a common data set with efficiency and effectiveness assessments to allow a fully integrated assessment.

as to whether one or other is desirable. Political constraints – such as the availability of a fixed sum to increase the number of hospital beds in a community – may enable some optimising behaviour through the choice between alternative methods of supplying these beds, but in the absence of such additional information, the cost-effectiveness criterion does not enable cost and benefit choices to be made and, as such, is incapable of contributing to budgetary resource allocation decisions (Mishan 1988).

The issue of additionality arises with the cost and benefit assessments of many government programs. For example, in the assessment of the benefit side of the cost–benefit equation in a program of tax breaks to grow the number of small business exporters, the counterfactual must be interrogated; that is, how many of the new exporters supported by the program would have succeeded in the absence of government support? This is the question of the additional benefits generated by the program. There are tools available to try to access the answer – for example, running parallel control groups, and ex post market research – but the data provided is invariably imperfect. The pragmatic, and best, way to deal with the issue is to assume that there is leakage from the benefit stream for this reason, and then require that the unadjusted benefit stream must exceed the cost stream – if it does not then, clearly, it fails the cost–benefit test without needing to address the counterfactual. Similar first-stage decision-making processes can be used where externalities are known to be present and the direction is known but the quantity is not. The additionality can be approximately ‘valued’ in this manner.

A final and equally important measure of efficiency, that of efficient markets, can be used in the context of outsourcing decisions and the evaluation of the extent of competition in any market as a driver of efficient resource allocation and use. It is the notion that competitive markets are more likely to drive efficient resource use than monopolistic public sector resource use that underpinned much of the wave of New Public Management (NPM) reforms of the 1980s, particularly its marketisation phase, and has continued to underpin much public sector ‘reform’. Marketisation concepts should be applied on a case-by-case basis. Matters for consideration include the need for the public service to maintain strategic capabilities; to build a service-wide data bank of evidence-based policy, program, and other expenditure activities (to learn, not simply outsource); and to provide for public service capture of a share of the benefits of any productivity-cum-efficiency changes during the life of any outsourcing arrangements.

Nonetheless, the short-sightedness of decision-makers has, in a number of instances, caused the failure of government creation and use of markets and associated privatisations as a substitute for public sector ownership and operation. Terry Moran has been a continuing critic of the capture of Commonwealth policy by economists, and the risks of seeing the solutions to all policy problems in terms of creating markets and competitors: Moran has in particular pointed to the primary healthcare system as an example of this ‘solution’.⁵ The skyrocketing increases in health insurance premiums, and shrinking coverage of individual procedures and costs, must raise serious questions about the effectiveness of this market and, just as importantly, the accompanying regulatory processes themselves.

For example, the chairman of the Australian Competition and Consumer Commission (ACCC), Australia’s competition watchdog and regulator, has expressed serious concern over the privatisation of Australia’s ports and lack of appropriate regulatory regimes incorporated in the contracts of sale (thereby inflating the sale prices) (ACCC 2016). And the latest set of problems to emerge in energy markets suggests that, despite Australia’s abundance of natural gas and coal electricity, the nation could experience regular blackouts in future.⁶ This follows the declaration in a 2014 report commissioned by the Electrical Trades Union that electricity privatisation in Australia had failed.⁷ Both residential and business consumers would have little trouble agreeing, noting a shortage of supply and escalating prices.

There are, then, questions that must be asked about the manner in which successive Australian governments have used markets as a substitute for bureaucratic service delivery. These questions concern the inherent capacity of markets to deliver an acceptable solution to the end consumer (for example health), and the manner in which governments have applied the market tool to particular problems, where difficulties in assessing costs (outsourcing) and inadequate regulatory regimes (ports) have almost

5 See, for example, Terry Moran, ‘If I knew then what I know now’, speech, ANZSOG Conference, Canberra, 7 August 2014, and Terry Moran, ‘How economists captured the policy process’ 2 October 2014, *The Mandarin*, www.themandarin.com.au/5190-terry-moran-economists-capturedaustralias-policy-debate.

6 See press report of Prime Minister Malcolm Turnbull’s press release ‘Malcolm Turnbull gets gas industry guarantee on domestic supply’, *Guardian*, 15 Mar 2017, at www.theguardian.com/Australia-news/2017/mar/15/malcolm-turnbull, on the subject of the roundtable meeting with east-coast gas producers.

7 See John Quiggin, *Electricity privatisation in Australia: a record of failure*, Electrical Trades Union of Australia, 2014.

certainly short-changed the community. The fundamental problem is the short-termism of governments focused on selling off public assets to the highest bidder without putting in place the necessary longer-term consumer-based safeguards. The problem lies not with the concepts and tools – efficiency, use of markets, outsourcing – but rather with the underlying deceit in their use by governments.

This discussion of what (and when) to measure demonstrates that there are reasons for measurement to be undertaken but that the overarching one is to enable the public service to provide ministers with sound advice about matters of resource allocation and, in particular, the allocation of resources that lead to the creation of a maximum (or at least improved) community benefit from an available volume of resources. In order to provide such advice, the public service needs to be able to cost the goods and services provided and generate additional information in regard to the valuation of these individual services by the community and the choices made between in-house and external service delivery. The consequence of this advice should be better program and services decisions by government, greater transparency of government (and public service) activities, service improvements, and more transparent governance.

Finally, in cases where governments are determined to proceed down a path that, on any cost–benefit assessment would be clearly sub-optimal (net non-beneficial or lesser net benefit), it is in the public interest for the public service to undertake the standard cost–benefit assessment. This is simply because it is important that the public service retains a high-level capability to assess and advise on policy options and their implementation. This is a core capability and should neither be outsourced, nor left to languish by governments determined to bypass this assessment process. This is where the public service provides the greatest value-adding role for the Australian public and is a capacity that must be retained and recognised for what it is.

Whether or not, and in what circumstances, public service advice should be made public, is a separate question. But safeguards must be put in place to protect the public service and the public interest in such cases, which at the very least involves preparation and filing of public service advice in cases where it is not sought. The public service should be accorded a right to advise, although not necessarily a right to publish.

4.1.4 The evolution in public sector performance measurement

The transition of government performance measurement from costing inputs to outputs associated with services delivered by departments occurred in a fairly short space of time, given the lengthy history of the public sector and the predominance of the input approach for nearly a century. The refocusing of public sector performance in the 1980s at the operational level on costs and outputs was central to the endeavour of NPM proponents to link the budget with performance, and to strengthen the focus on efficiency. This focus on outputs from public sector programs was accompanied by the development of activity-based costing in the private sector enabling, in prospect, output measures to be matched by activity-based costs. This development should have enabled the public service to take an important step along the path of measuring value for money in government expenditure, albeit a cost-effectiveness path only.⁸

And at one level the introduction of output budgeting provided departments with greater freedom to manage their own budgets, as it was commonly associated with the introduction of program objectives and targets and the certification of all appropriations related to the program objective. It was accompanied by the introduction of a running-costs system applying to non-program expenditure where detailed line items for agency administration costs were replaced by aggregate appropriations allowing agencies to move funds, for example, between salaries and administrative purposes.⁹ In the quest to implement this new tool to fill somewhat of a vacuum, the central agencies – Treasury and the Department of Finance – misinterpreted the intent of the reforms, missing the opportunity inherent in the underpinning private sector

8 This revolution has no private sector parallel, despite the fact that both the public and private sectors are subject to similar economic and societal pressures over time. Indeed the closest that the private sector has come to any change in its measurement philosophy in the same period is its strengthened focus on cash flow, its limited attempts to measure corporate social responsibility, and the demonstration of green/sustainability credentials. (Although putting these last two together suggests, interestingly, that the private sector is inching towards a measure/measures of public value to complement the private value that has been relied on for centuries: these changes have been accompanied by a broadening of the perception of the relevant stakeholder circle.)

9 For further details see John Nethercote, *The Australian experience of public sector reform*, APSC Occasional Paper 2, Commonwealth of Australia, 2003, esp Chapter 6.

philosophy of determining a bottom line through an accompanying focus on an outcome or consolidated set of outcomes, and instead focused on the development of a growing multiplicity of output measures.¹⁰

Since this ‘revolution’, there has been a growing realisation that much of the additional performance information generated may have facilitated government and departmental budgetary control, but has contributed little to the effectiveness of whole-of-government budgetary allocation processes, nor to an understanding of the impact of government activities. Even today, little is understood in a systemic manner about the impact of program expenditures beyond their macroeconomic impact as part of the total budget. This is because the responsibility for value-for-money program expenditure assessment is left to state and national auditors-general to pursue through a program of performance audits. They do this through rolling (often five-year) audit programs, applying the principles of economy (acquisition of resources), efficiency (combination of those resources in program activities), and effectiveness (the activities/impacts measured against program goals).

Today, performance auditing has achieved such prominence that auditors-general are commonly devoting more time and effort to performance audits than to the traditional financial audits. Nonetheless, despite some 30 years of activity in this area, a common theme in state and national auditor-general and public accounts and estimates committee reports remains that departments need to devote more time to the measurement of outcomes and impacts of departmental expenditure. For example, the former Auditor-General for Australia, Ian McPhee, identified this as a soft area of government administration in his introductory comments to the 2013–14 Australian National Audit Office (ANAO) annual report, and repeated the sentiment in his outgoing speech in April 2015 (ANAO 2014b; McPhee 2015). The plethora of low-level, non-aggregatable performance measures dominates departmental performance reporting from which it is: (a) difficult to form any reasonable impression of the

10 When I moved from the Department of Management and Budget to the Department of Industry, Technology and Resources in the latter 1980s, the dominant method of performance assessment in place there was a rolling (three- or five-year) schedule of program cost–benefit assessments. This had been put in place by a head of department who was determined to bring a private sector performance measurement discipline to his department, insisting that all costs had to be allocated to programs including head office salaries and operating costs. The department was well ahead of its time (it would even be so today!) and unfortunately took a big step backwards with the change of government in 1992 and the introduction of output budgeting.

impact of individual program level expenditures; (b) invariably impossible to assess the impact of aggregates at any of the outcome, policy, whole-of-department, and whole-of-government levels; and (c) equally impossible for the Australian public to determine how well their resources have been used.

The academic literature and government department reports suggest that little effective progress has been made in this regard globally. Supporting evidence for this at the Australian end lies in: (a) a series of state and federal public accounts and estimates committee reports, (b) national and state auditor-general reports, (c) ombudsman reports, (d) parliamentary committee reports, and (e) the standard audits commissioned by incoming governments at state and federal level. Collectively these reports cast doubt especially on the utility of the plethora of performance (output) indicators published by many government agencies.

While the NPM reforms promised much in terms of a transition from accounting for inputs to accounting for outputs, agencies continue to undertake transactional reporting, and little has been achieved in terms of a sharpened focus on outcomes and results. This gives rise to the problem with the public service's role as arguably the central pillar of good governance and accountability. As a consequence, much of the 'evidence' of public service performance revolves around auditor-general performance audits of government programs, rather than on the publication of departmental and whole-of-public-service data, in annual reports. Despite this being an area of public service under-achievement over the last three decades, there have been interesting developments in measurement over the last decade or so, with the management challenge for the public service continuing to evolve.

Growing community involvement in the processes of government and the development and application of underpinning networking models and processes of governance has further challenged the public service. If joined-up government failed to deliver its promise, then networked government promises a revolution in the responsibilities for, and the processes of, government, impacting negatively on the accompanying performance measurement and governance activities in the absence of any new and determined attempts to address its impacts. Moreover, if the primary outcome to be sought under joined-up and networked government has been improved effectiveness through the impact on individual recipients then, over the last decade (in the academic literature

at least), this has evolved to include not just the private value placed on services by individual recipients, but also the broader value placed by the citizenry at large on the delivery of such services to others.

The focus on public value in the early part of the 21st century has followed substantial development in the private sector management literature in the last two decades of the 20th century around the notion of creating customer value, including value propositions, value-delivery systems, and value chains, and the placement of these concepts at the centre of corporate strategy.¹¹ The related major public sector measurement challenge involves breathing life into the concept of effectiveness, invariably a poor cousin to the dominant notion of efficiency, to enable more systematic assessment of the costs and benefits of government program and service delivery expenditure.¹²

The degree of difficulty in measuring government policy and program performance continues to increase, however, with the goalposts and the game itself continuing to change. If the two important characteristics of anarchic governance, an evolving model of governance discussed in Chapter 2, are the distributed nature of the decision-making processes of government and an associated inability to account to the community for resource use, then it must be observed that Australia is at the very least ‘on the way’.

4.1.5 Wicked problems and performance measurement

The complexities of dealing with program management in the context of wicked problems are substantial as it is difficult to determine their root causes. Overlapping causes and consequences beset many problems in the social policy field and create difficulties in determining the relative

11 The notion of public value can also be utilised as a (new) paradigm through which to view the role of the public service. While it has received little attention, it makes sense as a new hymn sheet from which the whole public service could sing (together).

12 In *Delivering profitable value*, Michael Lanning is critical of organisations that suddenly look outside their four walls to discover the customer and become ‘customer-compelled’. He warns against such a strategy and distinguishes carefully between feeling compelled to do everything that the customer appears to want (being ‘customer-compelled’) and looking beyond what the customer knows and ‘wants’, to seeking to add value from an understanding of the experiences that a customer would most value (being ‘customer-driven’). Being run by your customers, according to Lanning, is just as much a prescription for failure as being run by the supply side of any business. The analogy with networked government should not be lost in a future in which the customer becomes king (and queen) in the public sector system. See Lanning (2000, pp 6–7, 24–28).

importance of the influencing causes across wicked problems. Determining policy objectives, for example, for a child abuse and protection program requires a set of difficult decisions to be made in the presence of overwhelming need. The drivers for such a program will include drug and alcohol abuse, domestic violence, unemployment and homelessness, and it is necessary to determine the respective contributions of the drivers, the development of an appropriate case management model, and the recruitment and training of suitable staff to deal with complex client management problems.

These wicked policy problems present the most complex program management and service delivery problems for the public service. And the particular (political) difficulty that presents itself is the long-term nature of the commitment required to address them. This presents two further management and measurement problems for ministers and public servants. The first is the (political) temptation to resort to input, output, and activity measures in claiming success for these endeavours in the face of inevitably slow progress with outcomes. This is a challenge for the public service to develop outcome-based measures that capture progress in a manner that encourages successive ministers and governments to 'stay the distance' on outcomes (this is an example of the notion of a public service that should 'endure' in the public interest), and not resort to a short-term focus on activities and outputs.

The second and related temptation is to resort to measures of containment rather than resolution so that the former do not necessarily contribute to the latter. Perhaps the best example of this is 19th-century debtors' prisons in Western Europe. A modern-day version of this is incarceration of people with a variety of addictions for unrelated criminal activities (drugs, alcohol, gambling) without treating the addiction. Both of these problems raise the question of whether governments are willing to acknowledge and invest in long-term solutions or merely consume resources in containing such problems. A forward-looking government might consider preparation of regular estimates of the cost of elimination of individual policy problems and their inclusion in public sector balance sheets if only as contingent liabilities.

4.1.6 Is public value the answer?

In the tome *Bureaucracy*, first published in 1944, the Austrian economist Ludwig von Mises offered an austere view of bureaucratic management in a democracy (in keeping with the school of economists to which he belonged):

Bureaucratic management is management bound to comply with detailed rules and regulations fixed by the authority of a superior body. The task of the bureaucrat is to perform what these rules and regulations order him to do. His discretion to act according to his own best conviction is seriously restricted by them. (von Mises 2017, p 45)

Nearly 75 years ago, von Mises saw the role of bureaucrats as undertaking activities that the private sector would not, with the unifying factor being that there was no market price, indeed cash value, by which the delivered services could be valued. By contrast, he saw great merit in the capitalist system, the market mechanism, and in what he called 'the economic calculation'. By this he meant the valuation of consumer goods, and the consequent array of market prices that enabled designing and planning in the system – of additional supplies, of new products, of capital investment — to be undertaken outside of government. As he pointed out, the real bosses in the capitalist system are the consumers. Questions for today include whether the customer should be king in the processes of resource allocation within government and, if so, whether public value should be the preferred criterion. Again, a little history is useful here.

At the same time that the public sector was undergoing its NPM revolution in the 1980s and 1990s, there were important developments taking place in the private sector management literature. These focused on delivering customer value, and its companion strategy of refocusing competitive efforts on building value chains and value-delivery systems around customers (rather than resources and competences) (Porter 1985; Golub et al. 2000; Lanning 2000). These developments have been latterly mirrored in the public sector management literature placing the end consumer at the centre of the public service delivery challenge, engaging the concept of customer value, and extending this analysis with the application of the notion of the value chain ('the public-value chain') to provide a focus on the interactions between a wider array of potential contributors to achieving public purposes. The concept of public value lies at the heart of this literature (O'Flynn 2006; Alford & O'Flynn 2012, Chapter 10).

The initial development of the concept of public value in the mid-1990s and its subsequent articulation into three components offered a new paradigm and a different narrative for public sector reform. The three components identified are the services (seen as the vehicle for delivering public value); the outcomes (which includes higher-level aspirations of other citizens); and, trust, legitimacy and confidence in government (even where formal service and outcome targets are met it is argued that a failure of trust may destroy public value). According to O’Flynn, the strength of the public value concept encompasses its inclusion of the citizenry in the choice of services through the electoral process; its redefinition of how to meet the challenges of efficiency, accountability and equity; and a fuller, rounder, vision of humanity. Indeed, with the addition of costs to the estimate of value, the criterion would seem to meet the goal of incorporating all of the key dimensions of efficiency, effectiveness and equity, in one measure (albeit with the last of these three in an approximate manner).¹³ At a public sector management level, its prospective contribution lies primarily in its reconceiving of the role of the citizenry in shaping public services and its derived performance measurement framework. At the political and social levels, its value lies in the inclusion of the citizenry directly in government resource-allocation decisions.¹⁴ Table 4.1 describes the evolution in the concept of the customer and performance measurement.

Under the traditional public administration model, citizens were regarded as passive recipients of services whose value was determined by public service professionals acting on a mandate from government. NPM brought a reconceptualising of this relationship: the citizenry was now an aggregate of individual customers who collectively placed a value

13 The focus of the majority of the discussion of public value lies with the effectiveness and equity dimensions of the concept, focusing on its democratic nature through the inclusion of the citizenry in the processes of government. It is sometimes unclear whether writers intend also to include the costs of service delivery in the criterion. Matters of externalities and ‘additionality’ are also rarely specifically attended to. The content of the standard cost–benefit criterion can be extended to be a net-benefit criterion incorporating notions of cost, of externalities, and additionality in the concept. In this form it is an appropriate resource allocation (budgetary) criterion. For background see, for example, Bason’s discussion of measuring the value of public sector innovation (Bason 2010).

14 The choice of a cost–benefit criterion and the manner of incorporation of equity into the analysis is a much-vexed question in welfare economics. Mishan devotes an important part of his seminal book on cost–benefit analysis to it (Mishan 1988). For a case study in the practical challenges involved see, for example, VC Nwaneri, ‘Equity in cost benefit analysis: a case study of the third London airport’, *Journal of Transport Economics And Policy*, vol 4, no 3, 1970, pp 235–54, doi.org/10.1016/S1573-4420(87)80009-5. For a local discussion, see: ‘Cost-benefit analysis’, guidance note, Office of Best Practice Regulation, Department of Prime Minister and Cabinet, Australian Government, Feb 2016, www.pmc.gov.au/resource-centre/regulation/cost-benefit-analysis-guidance-note.

on the services – services in which the private value (of the service in consumption) was the sole determinant of public value (the aggregate of individual private valuations). In turn, joined-up and networked government together brought a (notional) focus on outcomes, in the case of the former on solutions for clients and, in the latter, on the value placed on these services through the involvement of citizens and a broader range of parties in the design and delivery of these services and solutions. The latter also envisaged an expanded role for the customer including (a) being an active participant in shaping the services delivered (a ‘co-producer’ even ‘co-creator’); and (b) as a partial participant in the evaluation of the services delivered; in addition to, (c) being the consumer of services.

Table 4.1 The changing role of the citizen

Models of governance	Who is the customer?	Role of the citizen	Valuation
Traditional public administration	The recipient	Passive recipient of services.	Input costs
New Public Management	The government The citizen	The government buys outputs (quantity, quality, cost and timeliness) from the public service. The citizen values consumption.	Outputs Aggregate of individual valuations
Joined-up government	The citizen	The citizen consumes services and solutions.	Outcomes
Networked government	The community at large, including citizens and businesses	Individual citizens, the community at large, including businesses of all sorts, may participate in the design and production of these services.	Outcomes and community engagement
Anarchic governance	The community at large	To determine government priorities and participate in their delivery.	Community participation
The public value paradigm	The individual citizen Non-consumers The citizenry in toto	Consumes and values services. Values delivery and outcomes to others. Values effective role of government – trust.	Private value Policy and program outcomes Trust/legitimacy of government

Public value broadens the outcome notion to include both the valuation of services by non-consumers, and their impact on community perceptions of the legitimacy of government. It extends the notion of public sector effectiveness beyond private value. It also raises the possibility of extension of the supplier/customer relationship from a series of unconnected transactions to an ongoing relationship. Much of what happens in the political and public sectors is transactional, with parties being focused on a set of short-term exchanges, to be contrasted with the notion of a relationship built on a sequence of linked transactions.

Whilst not strictly a new ‘model of governance’, public value embodies a new public administration paradigm and incorporates another step in the performance measurement evolution – at least at the academic level. And, while its potential contribution to the practice of public sector accountability, in particular, is significant, providing as it does an enhanced value-based, outcome-driven model, these developments present new measurement and management challenges for a public service struggling to give proper effect to developments set in train some 30 years ago.

The position reached today is one of transition, with the theory of public value and its outcome-based foundations to the fore in the public sector management literature, but with public sector practice still rooted in the measurement of outputs. The active adoption of this new paradigm may come more slowly than is desirable, if private sector experience is any guide. It remains a common failure of strategic planning and strategy formation in business to focus on the cost side – ‘inside the four walls’ – at the expense of the customer. As the Canadian business strategist Roger Martin points out, this is comfortable for most organisations because supply and costs are under the control of the organisation, and customers are not (Martin 2014).

An interesting subsidiary question that emerges is what role the public service might play in actively creating public value. The literature on public value clearly envisages a more active role in the political domain for the public service in the realm of stakeholder management and beyond the delivery of services. One avenue for doing this, viewed from within the Public Service Act, is the invitation to departmental secretaries ‘to engage with stakeholders’. At the head-of-department level, this might range from regular meet and greets with major ministerial and departmental clients (and suppliers), to forging new political alliances with the minister to break new policy ground.

This could be something of a slippery slope for the public servants concerned, being seen as 'political' and being a (bigger) target with a change of government. Balancing a more active stakeholder leadership and management role (as far as the business of government goes) with the preservation of an apolitical standing in the community requires careful footwork by the public service. Ultimately, this is a question of role.

At the start of this section, I asked whether the customer deserved to be 'king' in government resource-allocation processes and whether the public value criterion was 'the answer' (or at least a plausible answer) to the public service measurement challenge. And the answer to both questions is a qualified 'yes'. Placing effectiveness (and therefore the final customer) at the centre of public service advice to government on resource allocation seems eminently sensible from a public policy standpoint. Public value is also a useful paradigm through which to view the role of the public service and, as such, can become more than simply another measurement tool.

That is not to suggest that public value is always the criterion by which public resources should be valued and allocated. The government must be allowed to override public policy-based rankings of activities and, indeed, the apparent wishes of the broader community. 'Political' decisions are a known phenomenon, but such decisions might also be made in the interests of the broader community, where the government has a breadth of view that the community does not, and/or in circumstances where the community does not have access to the full array of information that the government does. The government must be more than a simple conduit for community preferences, and must be allowed to make independent judgements about matters of community welfare in addition to its political calculations. Placing the consumer at the heart of the resource-allocation process, and in a more public manner, might avoid the worst of those policies largely valued by governments for their narrow political value.

Is public value the right criterion? It is certainly a plausible criterion. In its all-embracing form it would undoubtedly be a more representative criterion of community value and welfare than the output-budgeting framework that presently dominates government performance reporting. The journey from the reporting of outputs through the measurement of private value, and community valuation, is a long one. It is, however, a journey worth committing to. Bureaucratic concerns about the

difficulties of achieving satisfyingly precise outcome measures, which seems to inhibit progress in this area, need to be set aside and the journey undertaken in the expectation that a lot will be learned along the way.

It may well be that new goals and concepts of ‘outcomes’ and accountability need to be developed in a world of collaborative service delivery – where the sharing of power may be an important ‘outcome’ in itself. Most promising in this regard is the work being undertaken in the Department of Social Services under the banner of Australian Priority Investment with the goal of making service recipients self-sufficient to the degree that they can permanently leave the welfare system. Developing such a long-term investment approach to government support and services would reorient the focus and manner of delivery of government services across the board and would be a useful way of signalling a new focus on measurement. Active support from government for sharper performance measures and better governance would materially assist the public service in this journey.

A strong experience-based case for a more systematic approach to this problem is made in a 2011 McKinsey & Company briefing paper in which the authors assert that an integrated approach should be taken if sustained improvement is the objective. The proposed concept of integration to achieve this outcome has two key elements to it. The first is the recommendation to look at the policy and service delivery supply chain as a whole because of the possibility that major service delivery efficiencies can be secured through minor policy (or program) changes. This is an important reminder for a public service under continuous pressure to deliver efficiency dividends at the service delivery end point. The second is to recognise the associated people dimension, as sustained business improvement requires a culture of performance integrating the personal and business performance management systems (McKinsey & Company 2011).

4.2 Public sector performance

4.2.1 An audit perspective

In its 2014 *Better practice guide*, the ANAO defines governance as a term that would normally be applied to the arrangements and practices which enable an entity to set its direction and manage its operations to achieve expected outcomes and discharge its accountability obligations’

(ANAO 2014a, p 7). In highlighting changes that have taken place since the publication of its 2003 guide, the ANAO notes increased emphasis on public sector performance in the light of fiscal constraints, and an associated increased emphasis on performance monitoring, not just at the program or activity level but in terms of a cost-effective contribution to policy outcomes. The 2014 guide goes on to note both the management and measurement challenges that accompany this increased emphasis in a changing environment in which program delivery has commonly been the responsibility of individual government entities but where, increasingly, the outcomes sought by government depend on the contribution of multiple parties – including public sector entities, other governments, private sector and not-for-profit entities, and citizens.

The guide further notes the importance of leadership working across entity, jurisdictional and sectoral boundaries to collaboratively design and deliver programs and services to enhance policy outcomes. The guide reflects the importance of this emphasis by noting the contemporary challenge of engaging constructively with stakeholders and citizens in this collaboration. Public sector managers face a formidable challenge in leading and managing a moveable feast of collaborative arrangements and it is significant that the academic literature struggles to properly frame the problem and develop suitable management tools.

The ANAO guide goes on to explore the challenges of performance monitoring in the presence of these collaborative arrangements, stressing that the building blocks should include recognition of the three dimensions of accountability – horizontal amongst partners, vertical within an entity, and collectively of all partners to a governing body. The guide emphasises the difficulties of reporting on a whole-of-government basis, given that reporting arrangements are invariably geared towards individual entity reporting. Then there are the compounding difficulties of cross-boundary service delivery, including, as the ANAO points out, establishing aggregate budgets, resource sharing and performance measures, as well as confronting different cultures and information technology platforms. These difficulties are not to be underestimated but it is their size that demands a strategic response, not one that seems limited at best to the department and program level. The depth of this challenge makes it clear that this is not a stand-alone project and should be regarded as core business. It is the sort of activity that should be led by a properly equipped,

head office team and should not be left to individual departments to grapple with under central agency direction, with the latter running their own (control) agendas.

One of the common responses is to aggregate such activities in order to more readily place them under one management. This occurred, for example, in September 2013 with the announced co-location within the Department of the Prime Minister and Cabinet (PM&C) of 27 programs comprising 150 administered items, activities, and sub-activities from eight separate departments, incorporating responsibility for the majority of Indigenous-specific policies and programs. In May 2014 the Australian Government announced the Indigenous Advancement Strategy with a commitment of \$4.8 billion over four years from 2014–15 and a proposal to save \$534.4 million by rationalising programs, grants, and activities. The ANAO commenced an audit in March 2016 within the context of the strategy's aim to improve results for Indigenous Australians (ANAO 2017b).

This was a difficult process to undertake, as evidenced by the large numbers of activities to be aggregated and rationalised. One measure of the challenge is the 2,961 contracts that required formal transitioning to the new arrangements. The audit findings identified a work in progress; these findings included a short planning time frame that affected the department's ability to prioritise Indigenous customer needs; a grants administration process that fell short of Commonwealth standards to manage a billion dollars; and a performance framework and measures that would not enable assessment of progress towards achievement of program outcomes. Achieving success with this aggregation and rationalisation process is a work in progress.

This major task was taken on by the lead department in government and not done well. The ultimate test(s) of the changes will be whether better outcomes are delivered (and demonstrated!) for Indigenous Australians and whether the half-billion dollars of projected savings are captured. Strangely, the audit report was silent on this latter matter, not even commenting on whether processes had been established to capture these savings. Also worth noting is an important issue in public administration, which is associated with the report from the Royal Commission into

the Home Insulation Program, namely that there was an observed unwillingness to advise the responsible minister of the risks associated with such a short planning time frame.¹⁵

Apart from identifying common performance shortcomings, as this report does, it also points to an organisational issue relating to the manner in which the public service is organised – as a set of departments overseen by a board (the Board of Secretaries) where the core of the board members are departmental (divisional) leaders with full time responsibilities.¹⁶ A reference point is of similarly diverse private sector organisations and the structures and resourcing they use and leads to the question of what leadership the public service requires and how it should be provided. Possible answers range from (a) a PM&C that detaches itself from operating responsibilities and takes on the role of the corporate office; to, (b) a public service led by an ‘independent’ board, with a CEO and supporting corporate headquarters.

4.2.2 ‘Insider’ assessments of public service performance

In looking back on 10 years as Auditor-General for Australia, Ian McPhee identified a number of strengths in government administration – governance frameworks, high profile events, public sector reform and values, culture/collegiality, and accountability. McPhee also identified a number of ‘soft areas’, including risk identification and management, implementation under pressure, taking a narrow view of responsibilities, and performance measurement for programs and outcomes particularly impact assessment (McPhee 2015). The Auditor-General’s assessment points to a government administration with sound high level frameworks but one somewhat let down by execution and the detail required to make these frameworks stick. Reviewing occasional speeches from departmental secretaries, along with other published material from successive APS commissioners is valuable in assessing the performance of the APS. The valedictory speeches of a number of secretaries also provide a rich vein of reflections of both a backward-looking and forward-looking nature.¹⁷

¹⁵ This final point was noted in paragraph 16 of the ANAO report (ANAO 2017b).

¹⁶ In Chapter 5, I argue that it is a board in name only, lacks the commitment of resources and skills to perform an appropriate set of board functions, and operates much more like an executive committee.

¹⁷ See Wanna et al. (2012) and IPAA (2017).

Collectively, this material is a useful perspective on the APS as it is a combination of a mix of observations from those 'on the job' and those post-employment. As APS commissioner, Stephen Sedgwick's 2013–14 state of the service report is a useful starting point for these reflections, as are his comments on retirement (APSC 2014a).

In the 2013–14 report, published in December 2014 at the end of Sedgwick's five-year term as commissioner, he called for transformational change in the APS to meet what he described as 'the productivity imperative'. In his overview, Sedgwick noted that for all of the post-Second World War period to the mid-1980s, the APS was heavily regulated and centrally controlled, but within an environment in which senior public servants were often seen to be very powerful compared with their ministers. By the mid to late 1980s, much had changed, with ministers assuming control of the agenda of government and responsibility for the national interest and the public service seen as being responsible for results. Central control of the public service was dismantled, with the progressive devolution of authority and decentralisation of major decisions by government agencies.

Sedgwick suggested that, almost 30 years on, the pendulum had in some respects swung too far. He suggested that the APS may have become too reactive, too focused on the short term and the delivery of tasks, and unable to generate the range of new ideas that it might have liked. In subsequent passages in the same report he pointed to critics who praised the public service problem-solving and issue management capabilities but questioned whether there was sufficient genuinely 'blue sky' thinking. He further pointed to the consequent need for public service leaders to provide forward-looking, creative contributions to government about what the agenda should be and to their stewardship of an enduring institution that can scan the horizon and think beyond the immediate to the medium and longer term.

On taking up the role of commissioner following Sedgwick's departure, John Lloyd echoed many of the same sentiments. His view of the public service role was that the APS advised the government about policy and program options. The advice was thorough, identified choices, and frankly canvassed implications and options. Then, once the government made a decision, public servants were to implement and administer the policy or program with enthusiasm and flair (APSC 2015b). In the same speech he echoed the longer-term perspective that the public service should take,

noting that in discharging these roles the public service must be mindful of the longer-term national interest, and that the APS endures beyond elections and its attention to the national interest is important.

Before resigning in 2018, Lloyd brought new emphasis to the role of commissioner with a focus on modernising the employment framework. He pointed to the need to change the current highly regulated, reactive, and prescriptive employment framework to attract, utilise and retain the best people. He noted that the bulk of the restrictions are self-imposed and do not reside in the Public Service Act, and he referred to resulting problems with performance management, absenteeism, and unnecessarily long recruitment processes. He also referred to an excessive focus on transactions and not enough on workforce strategy, with many people being ‘stuck in the system’.

What is particularly interesting given the excesses and lingering impacts of the wave of NPM reforms is the notably private sector emphasis that Lloyd has brought to his role. Whether discussing absenteeism, service delivery efficiency, or performance management, the reference points for Lloyd were always private sector – for example, reference to the manner in which (some) private sector companies avoid having people ‘stuck in their systems’ by managing out the bottom 10 per cent of performers each year. As noted earlier, it is argued that a pragmatic, evidence-based and context-driven approach needs to be taken to the adoption of private sector practices by the public sector. Perhaps a considered examination of the causes of poor performance, against a background of a career-driven public service, the rate of voluntary departures, and a careful examination of the 10 per cent cut-off might be more beneficial than any arbitrarily embedded private sector departure practice?

Another area where caution is required in the adoption of private sector practices lies with the application of the notion of technical (or productive) efficiency to the operations of the public sector. As president of the Institute of Public Administration Australia, Terry Moran targeted notions of private sector efficiency as the standard by which all public sector activities should be judged. Moran’s experience as head of both the Victorian Public Service (as secretary of the Department of Premier and Cabinet) and the APS (as secretary of PM&C) has equipped him with a sanguine view of the application of private sector tools and techniques to the public sector.

In a speech to the 2014 Australia and New Zealand School of Governance conference, Moran (2014a) asserted that there are many private sector techniques that the public sector should know more about – commercial strategy, business planning, project management, IT and systems capability development, and accountability. He argued, however, that due to the preponderance of economic analysis, Canberra’s policy establishment missed getting the right balance of economics, and advances in contemporary management and the parallel real-world commercial experience, in thinking through the challenges facing government as a whole.

In a subsequent speech, Moran (2014b) repeated this message in pointing to the perils of pursuing a narrow economic focus over more strategic policy analysis. And, in 2015, he pointed to the loss of important capabilities and skills in the APS – engineering and construction (important in the case of the infrastructure deficit), approaches to the management of large organisations (e.g. how to deliver better government with a smaller public service) and broad strategic planning (central to the achievement of effective whole-of-government responses to today’s problems), and their replacement with the economist’s world view that the answer to big policy challenges is the development of a well-structured market and putting a price on everything (Moran 2015). Moran gave the example of the primary health care system, arguing that the Commonwealth sees it as an aggregation of fee-for-service traders in healthcare rather than as a system.¹⁸

Beyond the prevailing difficulties and capability shortfalls, Sedgwick and Lloyd both provide useful comments about the perspective that the APS should bring to its tasks. Moran’s comments on capabilities and solutions are equally informative and a complementary view is offered by Patricia Scott who, in her valedictory speech following completion of her term as secretary of the Department of Broadband, Communications and the Digital Economy in 2009, made a strong case for the strengthening of

18 It is a moot point whether to take most notice of speeches by leaders in office, their valedictory speeches, or those post-office, as they have differing motivation. I suggest that the last of the three are most useful as the first are underpinned by some notions of loyalty to one’s colleagues (and confidentiality), the second by the warm glow of one’s own time well spent, and the third might be regarded as both ‘objective’ and time for a little payback. This rationalisation differs markedly for the private sector where the process starts with in-office speeches, certainly the early ones, invariably pointing to mismanagement that (only) the incumbent is well suited to fix.

the Cabinet process through the reinstatement of traditional relationships between the departments, ministers and staff, and Cabinet. Her argument pointed to a number of weaknesses in the existing system, including:

- central agency domination of public service advice to Cabinet
- the need for written submissions based on addressing a common set of questions to underpin Cabinet deliberations
- major decisions taken by a few Cabinet ministers to the exclusion of their colleagues
- the undue influence of ministerial staffers associated with the absence of senior public service advisors in ministerial offices.

Taken together, the cumulative effect was a compromised Cabinet process that had been diminished to the role of a rubber stamp (Scott 2012).

Scott's observations are reflected in Laura Tingle's essay 'Political amnesia' (2015) and spell out the accompanying government and public service process dimensions necessary to give effect to a capability that should lie at the heart of the competitive advantage of the APS but which has been progressively diminished over the last 30 or so years.

4.2.3 A view from the 2014 National Commission of Audit

A final view of the performance of the APS is provided by the 2014 National Commission of Audit (NCOA) headed by Tony Shepherd, president of the Business Council of Australia, which yielded a range of interesting views and proposals for government to consider around the notion of good government (NCOA 2014). The report noted that the overall efficiency and effectiveness of government is heavily dependent on the performance of the public service and that, by international standards, Australia had been well served by its public service. Nonetheless, the review went on to make some broad-ranging recommendations to improve public sector performance. The Phase Two report and its focus on public sector performance and accountability is most relevant to this discussion. The commentary and recommendations covered a number of issues of interest, including public service structures, accountability, and performance measurement as well as four overlapping matters: devolution of authority, the organisational structures of the public service, performance measurement and evaluation, and the public policy – service provider split.

The devolution and exercise of authority within the public service was the NCOA's underlying theme, with strong support being expressed for its continuing devolution. The Commission noted the trade-off between centralisation of responsibility for employment matters in agencies like the Australian Public Service Commission (APSC), and the provision of appropriate flexibility to individual agencies to manage their own affairs. The NCOA's view was that departmental heads should be empowered to manage their own organisations, drive productivity, pursue innovation, and better deliver on the government's agenda. The proposed decentralised alternatives to the current arrangements for the APSC involved transferring its responsibilities to other departments so as to enable a stronger role for secretaries, coordinated through the Secretaries Board, and thereby improve the strategic focus on the future needs of the APS. This would replace the APSC's stewardship, strategy, and network management functions, with residual functions transferred to other agencies.

The NCOA further noted the need for better information on the performance of programs, to answer basic questions about such things as what the money was used for, what the policy objective was, and whether the policy objective was achieved. The prospective benefits included improved government capacity to assess the merits of different programs and prioritise expenditure. The NCOA recognised that during the last 25 years of the government's reporting framework there was movement from a narrow focus on reporting financial inputs towards an attempt to provide greater information on results and outcomes. Despite this, the NCOA assessment asserted that most performance information remained focused on financial accountability. Referring to several ANAO assessments of entity performance, the NCOA supported the introduction of the PGPA Act to rebalance the focus of entity reporting towards non-financial reporting as opposed to financial. The Commission recommended that more meaningful key performance indicators be developed for each program and that the Department of Finance maintain a central register of all programs. Noting that there was no systematic evaluation of expenditure programs at the Commonwealth level, nor any linking of evaluation to the budget process, the NCOA recommended that Finance undertake a small number of strategic annual reviews of programs and that a separate process be established to audit portfolio agencies.

Finally, the NCOA commented on the effectiveness of the public policy – service provider split and the need for change and examined the potential for a clearer delineation of responsibilities for policy and service delivery.

The Commission concluded that portfolio departments should undertake policy development while agencies should deliver programs and services, and noted that while much of this had happened, the challenge now (ironically) was how better to connect them. In lauding the results of the split being matched by a supportive budget process, the NCOA reported the gap that existed between policy and service delivery, with the policymakers view of the world often differing substantially from that of 'the frontline'. The dismissive attitude of policymakers in these circumstances was anticipated to result in a tendency to revert to first principles rather than learn from 'lived experience'.

4.2.4 A note on the role of the Auditor-General

One of the issues that flows from the NCOA's final point is the role of the auditor-general. Despite 30 years of evolution of performance measurement and an accompanying audit focus on performance audits, the public service seems little advanced from its focus on financial accounting and the measurement of financial inputs, with measurement of outcomes limited only to those parts of the public service in confined fields where cost-benefit analysis has been used as a matter of course throughout the period. There is little advance from the position 30 years ago, with the government strategy remaining to rely on the auditor-general to lift the game in this regard and the auditors-general adopting a strategy of working cooperatively with senior public servants rather than taking a more aggressive 'naming and shaming' approach. The auditor-general's role, it can be argued, diminishes the public service's accountability for performance measurement and government governance.

An obvious option to address this shortfall would be to provide the auditor-general with enforcement powers. This would not only be at odds with private sector standards, however, but it would also do little for the public service's assumption of responsibility for this important task. Performance measurement would remain a compliance activity and not be accorded the resources needed to develop the analytical tools and data collection systems necessary to generate better management information and capture public value, let alone impacts and outcomes. This should be an area of creativity, not one of compliance for the public service, and little seems likely to change until the public service is made fully responsible and held properly accountable for policy and program performance measurement. The present system does not create the right environment and incentives for the public service to assume responsibility

for this important part of their role in effective public administration; it is too heavily balanced towards ex post audit and away from incentives, and along the way provides opportunities for ministers to avoid the transparency necessary to underpin real accountability. Patricia Scott makes this point well:

It is easy to create a veneer of greater openness by reforming Freedom of Information laws but then have a minister insist that the most sensitive material is never provided in writing or have political advisers inappropriately seek to reprimand departmental officers for committing views to paper that would be 'unhelpful' if they were made public. At the same time, self-censorship by public servants in advising is a dangerous trap that is easy to fall into. (Scott 2012, p 122)

Further, and as noted earlier, the area of government governance that remains as absolute virgin territory is that of the governance surrounding policy formation. This has received little attention in Australia at any of the academic, auditor-general, or public service levels. The case in principle for it to receive a similar level of attention to the financial record keeping and performance-reporting activities of the public service is strong. Indeed, it is the missing link in the public sector audit chain, with auditing of record keeping, expenditure processes and their impacts being undertaken, but not the decisions that give rise to these activities. Simply auditing the end point of the chain – expenditure – suffers from the same logical weakness that focuses primarily on the processes of service delivery to the exclusion of the underlying policy in attempts to improve its efficiency.

In the private sector, auditors can identify the source of high-level decisions by pursuing an existing paper trail. Yet, in the case of government, there is no such trail and scrutiny. Given the size of the benefits conferred by the choice of policy areas for attention, the policies themselves, the choice of policy instruments, and the settings of those policy instruments that determine the beneficiaries, there are multiple stages where influence might be exerted, both from inside and outside of government. This area should not go untouched and is ripe for auditor-general attention. Auditing the consequences of decisions without examining how the decisions themselves are made arguably ignores an important determinant of the impact of the decisions.

A thorough reconsideration of the role of the Auditor-General for Australia is warranted. The financial record keeping practices of the Australian public sector are excellent and, as with private sector accounting, require regular external auditing. This function should continue to reside with the auditor-general. In regard to performance reporting, I believe it is time to assign full responsibility for this to the public service and reduce this responsibility of the auditor-general to one of broadly commenting on progress. A new responsibility should be added to this, namely to develop and advise on the implementation of (then oversight) the public sector accounting and governance procedures to go with policy formation. It is anomalous that of the two central responsibilities accorded to the public service under the Public Service Act – the policy advisory and service delivery management roles – only one is accorded any external scrutiny, and the lesser important of the two. This is poor public sector governance indeed!

4.2.5 The cost of governing

The complexity of the cost of governing lies behind a range of issues. The two primary forms of cost are out-of-pocket expenditures and opportunity costs; the latter involve the costs of poor (i.e. sub-optimal) choices. With regard to the latter, there is little to say of a definitive nature, other than to observe that auditing of government expenditure and associated processes makes it evident that opportunity costs are often likely to be substantial. I again point to improved measurement of policy and program impacts as an important step in improving resource allocation (and reduced opportunity costs), especially when it places a value on the consumption of government services.

While it is no less difficult to be definitive about the unit cost of producing and delivering government services, where this cost is considered in terms of a standard unit of community benefit, there are good reasons to believe that the cost of governing is rising rapidly and has been doing so for some decades. My ‘evidence’ for this includes the UK-based evidence from Hood and Dixon’s 30-year study that shows the rising ‘cost of governing’ is driven both by rising costs and declining value. It is likely that this research, if repeated in other jurisdictions (such as Australia, New Zealand and Canada), would produce similar results because of a similar set of drivers and evolution of the practice of government. Moreover, in a world of complex problems and diverse stakeholders, where the citizenry is becoming more actively involved in the processes of government, is

using legal processes in some cases to frustrate governments and project proponents, and is seeking to replace bureaucratic and legal processes with citizen-based processes in others, the administrative cost of government – of a standardised unit of government-delivered outcome – will almost certainly be rising.

Moreover, at the political level, there is increasing minority party representation and diminishing major party representation in parliament, and an associated greater difficulty in forming governments, and lengthy negotiations amongst the parties to achieve passage of government policies. Continuation along this path is likely to lead to the passage of fewer bills through parliament. The productivity of parliament must be diminishing. Good policy is less likely to emerge from such an environment and it is further likely that such political compromises will diminish the value to be placed on policy outcomes. Therefore, not only is the unit administrative cost likely to be rising because of a less-productive parliament and more time-consuming parliamentary approvals processes, but also the aggregate of delivered benefits is similarly likely to be declining, with the added reasoning of diminishing quality (and quantity) of government policy.¹⁹

A further dimension to consider in assessing the cost of governing relates to the balance of government's ex ante incentives and ex post governance procedures. As Simon Longstaff (2015) points out, it is costly to maintain an array of watchdog and integrity bodies including anti-corruption bodies, a variety of 'commissioners', ombudsmen and women, regulators and auditors-general.²⁰ All are deemed necessary by governments determined to ensure that our political and administrative systems are 'clean', or appear to be, on some level, and functioning efficiently and effectively. Few of them bring new skills to government: many are designed to be consumer representatives inside a system that is not working. There has been an explosion of these roles over the last decade at state and federal levels in Australia, itself an indicator of declining political and bureaucratic performance.

One notable aspect of this problem is the growing reliance placed on such ex post governance procedures at the expense of building the right incentives into the related systems. As Longstaff points out, this only

19 It would be an interesting exercise to measure the productivity of parliament in a composite quantity and quality measure as part of an exercise in measuring the cost of governing.

20 And it seems likely that the financial cost of these bodies will be added to in the foreseeable future with the addition of a national broad-based anti-corruption body.

adds to the cost of governing. One such example, as already argued, is the use of auditors-general to audit performance reporting. Similarly, the appointment of most of the ‘commissioners’ at state and national levels are an indication that ‘the system’ is not working, whether ‘the system’ involves administration of the *Freedom of Information Act 1982*, transport network operation, fair work, privacy, health, small business, the digital economy, domestic violence, disability services, or child safety. As a particular burden on taxpayers, they should be abolished, externally scrutinised and the underlying systems and incentive problems fixed.²¹

The final cost of governing to highlight is the growing scale (both dollars and issues) of government activities. This is a problem of size, in terms of the difficulties of maintaining effective communication and management focus within large and growing government departments. Oliver Williamson (1970) argued that efficiencies are to be gained through divisionalisation of large, functionally arranged organisations, but mused that even these benefits would diminish if organisations became big enough. The impact of size on organisational efficiency in the public sector is another area for research, including consideration of the costs and benefits of different organisational options – both form and size – for the public service. Such research could review the design options for the public service as a whole (holding company, functional form, divisionalised, ambidextrous, and so on) and the contexts within which various organisational forms and mixtures might prove the most beneficial.²²

Such research should look at structural options (whole-of-public-service and individual departments); the impacts of size on organisational efficiency (both); and the efficiency dimensions of super-departments, including the demonstrated ability of such departments to capture

21 Cataloguing the rise and effectiveness of these bodies would be another useful exercise in measuring the overall cost of governing.

22 In later analysis, Williamson (1991) focuses on the efficiency of organisations and seeks to incorporate the cost of changing the organisational state in his organisational efficiency criterion. This is a reminder that the costs of transition must be included in applying a cost–benefit analysis to organisational change. This reminder is relevant in the context for organisational restructuring in the public sector where not only is there limited accounting for the direct (financial) costs, but virtually no accounting for the costs of lost productivity. It is also tempting to treat such change as instantaneous or timeless but, whereas the direct costs are likely to be incurred quickly, the indirect costs, especially those related to lost productivity, may flow for some time *and* the projected benefits may only occur with a lag. Anything less than a present value-based analysis of such change embracing all of these elements would be misleading.

sufficient net-cost savings to justify the aggregation. Effectiveness should also be captured by this research, as should the notion that organisational structures are aggregates of functions, each with its own minimum efficient scale, and this has an impact on organisational design in both horizontal and vertical terms.

4.2.6 The data requirements for good performance and governance

There are many data-based systems within large organisations that contribute to the effective and efficient management of the total organisation, with each function and division having its own part of an integrated recording and management system, both receiving and generating data on which its own performance might be assessed. The business performance measurement system is only one such system, but a very important one. Nonetheless it is important to remember that business performance measurement is not an end in itself, should not be seen as separable from the other tasks of management, does not have a life of its own, and the data required for performance measurement (and good governance) should naturally fall out of any well-designed management information system. Deficiencies in performance measurement inevitably point to deficiencies in management because good performance-based data, required in the determination of what to do and how to do it at all levels of an organisation, provides not just the results of the business, but must also be the basis for its ongoing improvement. As Bason points out, measurement should drive learning and innovation (Bason 2010).

It should be clear that there is a significant and growing challenge confronting the public service in developing a performance measurement regime that matches the aspirations of the higher levels of government accountability. Moreover, if the arguments about the existence and extent of wickedness inherent in government policy are accepted, then the public service has an unenviable challenge in trying to design solutions; the interrelated nature of problems requires development of a systematic understanding of policy problems and their root causes – how to do this in an analytically useful manner is a complex challenge. Such questions as what sort of linkages exist between the root causes of different complex problems, how strong these linkages are, where the best return on investment would be gained by intervening through one or more of these linkages, how one could be confident that such interventions would not

worsen related wicked problems, and what organisational structures and interventions would offer the best chance of success, deserve systematic attention underpinned by measurement.

The systematic application of such a 'model', which mapped wicked problems and their root causes onto public service organisational structures, would be extremely difficult to build but invaluable to public service managers for insights it might generate. Looking at government as a collection of projects to address policy problems would be a similarly valuable exercise. The application of standard systems mapping tools to examine links between system elements, feedback loops and lines of causation outlined by Geoff Mulgan offers promise in this direction (Mulgan 2009, Chapter 4). As he points out, this formal data analysis is only the start, to be followed by policy formation, defining goals, and setting direction. To be useful as a service delivery guide, it needs to be accompanied by the development of accommodating structures, a framework for shared resources and rewards, and risk-sharing arrangements that cross departmental and sectoral boundaries.

Mulgan further points to the extensive nature of data demands of effective policy and strategy, with the need for good analysis as a starting point, suggesting that:

Around any public policy goal there will be many pieces of potentially relevant knowledge, but these are unlikely to have been synthesized into a comprehensive view of the dynamics of change. (p 90)

And:

the quality of analysis is often the critical factor behind good strategy because all bureaucracies build up systematically distorted views of the world around them. Analysis helps to peel away false assumptions. (p 88)

It is almost certain that progress in this endeavour will involve not only the mining of large amounts of data, but also integrating this with the recorded history and accumulating experience of field staff. The relationships that the data miners look for must be informed by the practitioners' understanding of what happens in the field.

It also points to the need for a corporate market intelligence system, which most successful organisations possess, but that exists at best in the public service in a piecemeal manner. Tingle has pointed to institutional memory as an important component of this function that plays a critical

value-adding role in the interpretation of current events, but market intelligence is more important than that. It should deliver information on competitors, customers, underlying demand and supply trends, the impact of technology, market risks, and marry this to information on its own business(es). At the whole-of-organisation level, this information must enable a regular review of the businesses it is in and individual business unit performance (in public service terms, the individual department), together enabling regular adjustment to its determinations of where to play and how to win.

Market intelligence in a public service context should comprise the information that is collected at individual departments level and at whole-of-public-service level. This may range from 'global' developments in consumer, political, industry, social, and environmental behaviour (the core of corporate market intelligence), through to such behaviour in local markets allied with competitor analysis (the core of business unit market intelligence). Good performance starts with good policy and good policy requires sound market-driven foundations. In the best-performing organisations there will be a clear line of sight from the performance of individual businesses (programs/services) through to the local and international market intelligence collected on which basis each such individual activity is managed and evaluated.

4.3 Conclusions and unresolved issues

When the operating environment is viewed in terms of the challenges it throws up for governance, it is clear that there are important gaps in government governance in Australia. In part these relate to high-level institutional shortcomings in regard to the oversight of the probity and integrity of the operations of government. Below that level, where the public service is responsible for establishing the systems, processes and administrative procedures that capture the required dimensions of good government governance, there are serious deficiencies.

Considering performance from a governance point of view enables a broader discussion of the quality of government and public administration performance, in regards to both structural and operational dimensions. While much of this discussion is structural, focusing on the institutional settings and the organisational processes and systems in place, the broad conclusion is that the quality of government in Australia is almost certainly

poor and deteriorating and, when considered in qualitative terms on an equivalent own-benchmark basis, is most likely well below the standard of government delivered three or four decades ago. The limited availability of sound performance data confirms this view, which disappointingly reflects little of the recent academic literature on performance measurement.

It is difficult to discern how much of this deterioration is due to a difficult external environment or to internal management failures, but both are contributing. There is clearly also a behavioural component to consider, as politicians who are substantially focused on their own interests at the expense of the public and national interest clearly invite public servants to behave in the same manner and waste time on unproductive matters. In addition, the practice of government in primarily adversarial terms must impose costs on the practice of public administration. The difficulties experienced today in governing surface repeatedly and in the form of the problems of coordination of public administration activities – vertical within departments, horizontal across departments, and the broader cross-sectoral coordination accompanying more networked government.

A more collegiate attitude within the public service and across participating departments could materially assist in addressing some of these difficulties. This issue of coordination in turn highlights the performance measurement challenge where multiple work units, multiple departments and multiple organisations are involved in conceiving, designing, delivering, and managing government-funded programs. Questions of effective program management, risk and reward sharing, and reporting, are yet to be resolved.

Yet this is only the more visible edge of effective performance measurement, there being a number of dimensions of organisational operations where data and measurement is critical to the management of the business, thereby making an important contribution to the overall performance of the organisation. I argue that, for successful strategic management – driving the organisation from the top – there must be clear linkages between the program-level generation of activity and management information; whole-of-organisation resource allocation, and the consequent performance reporting; and the whole-of-organisation management and direction of its portfolio of activities. Lack of effective information at the operating end of the organisation can only be expected to lead to sub-optimal decisions at the top, whilst lack of effective conception of the whole at the top will most likely be the cause of this failure.

One of this chapter's underlying assumptions could be seen to approximate the epithet usually attributed to Peter Drucker, namely that what gets measured gets managed and what doesn't ... doesn't. While this is a useful basis for starting a discussion of what should be measured and in describing how data can be used productively in an organisation, I prefer the approach of Christensen and Raynor because they emphasise the learning dimension of data rather than simply the recording of the past. They describe successful management's ongoing quest for predictability (and therefore manageability) in its operating environment and the journey as a learning process of the continuous formation and testing of theories (both personal and organisational) to refine the ability to predict what actions will cause what results (Christensen & Raynor 2003, p 13). The formation of hypotheses about cause and effect, the quantification of relationships, and the observation of results is the foundation of this learning process and sound long-term management: it is both a mental (individual) and physical (organisational) process. No quantification or testable hypotheses means foregone opportunities to learn about cause and effect, build organisational capital, and secure longer-term benefits.

This, in my view, is where the real gains in organisational performance come from – demanding and developing a culture of measurement that encourages individuals to take responsibility for the performance of public resources within their domain – not from one-off outsourcing that contracts out the opportunity to learn and build organisational capital from the experience gained in designing, building, delivering, and evaluating services. Nowhere is this more evident than in the political pursuit of 'efficiency gains', often simply a euphemism for budget cuts. Unfortunately, short-termism prevails with the documented and short-term efficiency gain being more highly valued than the more important challenges of the harder to document development of a culture of learning and innovation.

There is a raft of reasons why individuals and organisations do not take up the opportunities to learn in the manner described by Christensen and Raynor: they may have no conception of how to quantify relationships, they may come from cultures where such quantification is not the standard modus operandi, their minds may be made up with the risk that any quantification might show up bad (in economic cost–benefit terms) decisions, they might regard quantification a waste of time when ultimately policy and program decisions will be (rightly) made on political

grounds, and they may regard the quantification as 'too hard'. And, when viewed from within an organisation, the signals from the top may create and/or compound some of these difficulties.

For the public service as a whole, no such excuses should be allowed. The journey of quantifying the benefits and the costs of all government programs and services should be built into the programs. Moreover, whilst quantification may be alien to some parts of the public service, there are pockets of outstanding capacity within it that could and should be built on. Activity measurement – in the integrated form of management information and impact, outcome, and public value assessments – should be automatic in the public service, rather than the afterthought it is. It is easy to forget the wide range of functions that performance measurement plays and the linkages between these functions. They include: resource allocation, budgeting, governance, policy development, and learning and innovation.

The inevitable consequence of a failure by the public service to take responsibility for measuring program and policy outcomes and connecting costs and benefits will be a continuing slide in the quality of government governance. On the other hand, were it to openly and publicly take on the measurement challenge, publish an annual report on the task and progress, it would, I suspect garner a lot of business and community support. This might be viewed as not only a desirable but necessary step for longer-term survival for the public service as an influencer of government policy, as the trend for increasing participation of community groups in policy formation and service delivery continues to multiply the governance challenges in the absence of an appropriate governance toolkit. In the next chapter, I turn to the issue of the conception and management of the public service as a whole in the public interest. This is the question of public service leadership, what it is empowered to do, and what it should be able to do in the public interest.

This text is taken from *Competing for Influence: The Role of the Public Service in Better Government in Australia*, by Barry Ferguson, published 2019 by ANU Press, The Australian National University, Canberra, Australia.