

4. System Governance

System governance refers to public sector governance that is focused on the centre of government and takes that perspective in viewing departmental governance (chapter 5) and authority governance (chapter 6). This typically involves cross-public service (or public sector) activity, which has significant implications for the specialised line agencies that make up the bulk of the machinery of government. There is a pervasive vertical basis to the public sector that reflects hierarchical relationships, but also a strong horizontal quality in the sense that agencies are required to comply and respond to standards across the sector and increasingly expected to collaborate (chapter 1). These horizontal and vertical dimensions become more complicated where they are extended to other sectors and levels of government. How these relationships work out vary with the governing styles of the political executive and the demands from and responses to the changing environment.

In addressing the dimensions of system governance, this chapter first seeks to clarify administrative and political machinery and dimensions of system governance and central steering. It then addresses changing approaches to governance and strategies for coping with complex and intractable problems. The chapter concludes with a consideration of challenges and governance styles, the limitations that arise in practice and the implications for the effectiveness of public governance.

Overview of system governance

The governance of the public sector system is focused on the central agencies and, of course, the political executive. The domain may be either the public service as a whole (centred on departments of state and their associated portfolios and agencies) or the non-departmental public sector (centred on the bodies that feature boards and come under the *Commonwealth Authorities and Companies Act 1997* (CAC Act)). For many purposes it will be both. This is a perspective of frameworks, principles and practices that apply across the public service or sector.

Governance elements at the system level are in many respects a more complex variant of those at the agency and public body level, and they are the subjects, respectively, of the next two chapters. The system level, however, is invariably more complicated because of horizontal and vertical questions about *span* (across the public sector) and *depth* (encompassing macro as well as meso and micro levels) with regard to questions about policy development, program

management and implementation and system maintenance. The political and administrative components need to be based on effective working relationships. The configuration of departments, agencies and authorities in the core public service and the broader public sector, and how their relations are defined, allow for different approaches. Questions of system capacity and capability, the values appropriate for public servants, compliance and performance, and how the public service is envisioned, are important.

The main instruments of system governance have long been part of the machinery of government (Weller 2007). The political executive encompasses: the prime minister and the PM's private office; an active cabinet and cabinet committee system; and ministers and their political advisers. For the public service, the core organisations are the central agencies and the departments of state. Rounding out the system as a whole is the spectrum of other agencies and authorities that are located in departmental portfolios, plus interdepartmental committees (IDCs) and task forces. In addition, there is a long tradition of providing advice to government on the management of the public service by way of a collective mechanism that brings together the expertise of departmental secretaries. Originally known as the Management Advisory Board, its most recent incarnation is the Management Advisory Committee. The latest version for providing a forum for discussing Australian Public Service (APS) issues is the Secretaries Board. At the level of intergovernmental relationships, there are the ministerial and official meetings of the Council of Australian Governments (COAG).

As the key organisations in this public sector, the central agencies have as their mandate whole-of-government and systemic responsibilities that cross the public service: the Department of the Prime Minister and Cabinet (PM&C) for policy, The Treasury for economic policy, the Department of Finance and Deregulation (Finance) for financial management, and the Australian Public Service Commission (APSC) on human capital (table 4.1). Each organisation has distinctive and complementary roles and is presided over by the ultimate source of power and policy direction in the machinery of government, PM&C.

Table 4.1: Roles of central agencies

Agency	Roles
Department of the Prime Minister and Cabinet	Policy advice to the prime minister and the cabinet; and driving policy development and innovation and ensuring delivery of high-priority initiatives across the APS, in pursuit of the government's objectives.
Treasury	Economic policy; effective government spending and taxation arrangements: advice on budget policy issues, trends in Commonwealth revenue and major fiscal and financial aggregates, major expenditure programs, taxation policy, retirement income, Commonwealth–state financial policy; the central policy agency with a whole-of-economy perspective addresses issues ranging from macroeconomic policy settings to microeconomic reform, climate change to social policy, tax policy and international agreements and forums; program delivery role supporting markets and business; and providing commonwealth payments to state and territory governments.
Department of Finance and Deregulation	Assisting government across a range of policy areas to ensure its outcomes are met, particularly expenditure and financial management, deregulation reform and government operations; supporting delivery of government Budget; management of domestic property portfolio and key asset sales; and implementation of deregulation agenda and financial framework for government agencies.
Australian Public Service Commission	Promotes good practice in strengthening the capability of the APS workforce to meet the evolving needs of citizens and the government; supports leadership and learning and development in the APS; and fosters ethical behaviour and workplaces that value diversity.

Sources: <http://www.dpmc.gov.au/about_pmc/index.cfm>; <<http://www.treasury.gov.au/About-Treasury/OurDepartment>>; <<http://www.finance.gov.au/about-the-department/index.html>>; <<http://www.apsc.gov.au/about/index.html>>

The most important reorganisation of the machinery of government occurred in 1987, as a key element of the then Labor government's new micro-economic reform agenda. The restructuring focused on line departments that played an important economic role. The resulting mergers of these areas produced 'mega' departments that combined distinctive fields such as foreign affairs and trade, and education, employment and training. The overall departmental system was changed as 28 areas were reduced to 18 portfolio departments, which covered all areas of government and reflected the two-tiered ministry of portfolio ministers who form the cabinet and the outer ministry (in 2011, 22 and 8 respectively).

The basic structure that exists today dates from that time, although recent governments have modified the 1987 conception, and the current number of departments varies between 18–20 (Halligan 1987; Brooke 1993).

The relationship between the political executive and the public service

The significance of political control in the Australian approach to public management needs to be emphasised, even though much of the story about extending the political executive's influence predates this current period. The consistent pattern has been for the political executive, in the drive for a more responsive public service, to challenge elements of the traditional system. Three types of change have been important: the strengthening of ministerial influence and resources, particularly through the extensive use of ministerial advisors; the weakening of the public servant's position through the reduction in the breadth and exclusivity of the public service's senior roles; and, changes to the appointment and tenure of senior public servants who lead agencies (Halligan 2001).

The role and character of the public service was transformed as a result of change and reform during the last three decades (chapter 2). In the era of the 'mandarins', prior to the mid 1980s, the expanding bureaucracy occupied a strong position. Its position came to be questioned, which resulted in reforms being made to traditional features, under Labor governments (1983–96). This was followed, during the initial terms of John Howard's Coalition government (1996–2007), by a phase of diminishing influence within government, and of the bureaucracy becoming more subservient to the private sector. Under new public service leadership in the 2000s, a more reflective approach emerged — if one that was sometimes sidetracked by issues concerning the relationship between politicians and public servants. The Labor government of Kevin Rudd (2007–10) sought to address aspects of that relationship, while intensifying control over the bureaucracy and increasing demands for efficient performance.

Traditional values about the independence of the public service in providing advice to ministers prevailed until the notion of responsiveness made an appearance in the 1970s, and the position of public servants was challenged because politicians came to see permanent officials to be too influential. Responsiveness was eventually built into standard APS principles (MacDermott 2008). There was a succession of challenges to the relationship that focussed on the role of the public service on the one hand and the behaviour and resources of the political executive on the other. Over time, the trend has been towards strengthening the political executive. This has been punctuated, however,

by debates about issues that slowed the rate of change, constrained political pressures on the public service, and produced clarifications of aspects of the relationship. These points of challenge have included debate about loss of permanency for departmental secretaries (1980s), the rise and roles of advisers (1980s–2000s), turnover of secretaries (1996), and the demands of a new government on public service (2009). The dynamics of change have progressively redefined the relationship, yet administrative tradition remains influential.

Senior appointments

The debate about the loss of tenure of heads of departments has been intense, with changes to the standing of departmental secretaries proceeding since the mid 1980s. These changes have caused an evolution from permanent positions, to ones that are governed by contracts and, more recently, to positions that are scrutinised by performance review and made competitive by pay scales.

The first formal change (1984) to tenure redesignated the permanent head as the departmental secretary on a fixed term. In 1994, the fixed-term statutory appointment of secretaries was introduced. The issue then centred on the effect on Westminster principles of applying contracts across the senior public service. This became a reality as senior executives were increasingly placed on individual employment agreements. In a further stage (since 1996), performance review was introduced for secretaries. This device in itself was unexceptional, although it could be employed (as it was, at times, under the Howard government) as a scrutiny device that reinforced the vulnerability of senior public servants.

The other aspect of continuity was the association of turnover with loss of tenure. Increasing turnover of secretaries in the 1990s assumed significance because loss of position now meant termination of employment. The turnover associated with changes of government was significant because it represented the ultimate departure from convention. The Coalition government disposed of six secretaries in 1996 without explanation. Even more telling was the readiness of successive governments to dispense with their chief adviser (e.g. the secretary of PM&C). Since 1993, three secretaries of PM&C have resigned with a change of prime minister, and it became accepted that the incumbent would not necessarily continue with a new government. A partial exception was Terry Moran in 2010, who remained at the behest of the new prime minister during the Labor government's first term, but only for a year.

The Rudd government promised to preserve the tradition of permanence, and was able to make changes at the top without incurring public debate about the process. Five new departmental secretaries were appointed 20 months after the 2007 election (in a process that involved shuffling 11 senior executives) as

the government sought to place appropriate officials in significant positions. Performance bonuses were removed because they were thought to have a negative impact on performance.

While the occasional appointment has been challenged as having a political motivation, and other individuals can be argued to have arrived at their appointment on the basis of connections to, or experience of working with politicians, overall, professional public servants have dominated the bureaucracy, even if their domain has been eroded by the rising influence of political advisers. Yet, concerns about the short-term focus of politicians has produced a new formulation of the secretaries' role in terms of stewardship (discussed in chapter 5).

Political advisers

Political advisers have been a particular source of contention between the government and the bureaucracy. The Labor government of Bob Hawke (1983–1991) installed a new set of political mechanisms at the cabinet and ministerial levels (Campbell and Halligan 1993), strengthening political direction to give more prominence to collective responsibility and its priorities. It also proposed a political tier within the senior public service, but eventually compromised with a new position, the ministerial consultant. The minister's office was expanded as an alternative to overt politicisation, and political appointments were increasingly interposed between the bureaucracy and politicians. Ministerial staff took over roles that were previously undertaken by public servants, and could be routinely involved in departmental processes. The ministerial adviser became an established part of government (Halligan and Power 1992; Dunn 1997).

Questions about political–bureaucratic relationships followed on from earlier debates about the role of ministerial advisers, particularly in the aftermath of the 'children overboard' affair (Weller 2002; Maley 2000, 2010).¹ The Senate Finance and Public Administration References Committee (2003) inquiry into the conduct, management and accountability of ministerial staff received evidence about difficulties in relationships between advisers and public servants, the need to clarify roles and responsibilities and the dangers of politicisation. The extensive contact between public servants and the political executive (ministers and their staff) was recorded by the APSC survey of APS staff, leading the public service commissioner to suggest the need to document the role of ministerial advisers through a code of conduct (APSC 2006).

¹ The children overboard issue in 2001 centred on whether asylum seekers had thrown children overboard, as alleged by government ministers in the context of an imminent federal election.

With the growing influence of ministerial advisers, the nexus between the political executive and senior officials became frayed, and public debate continued about the character of the relationship. The press accepted some degree of ‘politicisation’ as a given, one focus being the impact of ministerial advisers on public servants (Barker 2007), and other observers noted the lack of accountability attributable to advisers when they became involved in major public policy issues (Walter 2006). The lack of a governance framework under which advisers could be directed to operate was also noted (Tiernan 2007). At the same time, the role and contribution of advisers in augmenting the resources of the minister and dealing with partisan questions has long been recognised.

As part of its accountability and integrity agenda, the Rudd government recognised the effect of the increasing numbers and roles of ministerial staff on the relationship between ministers and public servants, and the lack of consideration that had been given to formalising their responsibilities. A code of conduct for ministerial staff, introduced in 2008, stipulated that ministerial staff were not empowered to direct APS employees who were not subject to them. Political advisers were now expected to be accountable where they had a policy role, although doubts remained about their conduct (e.g. Moran 2011).

Central steering and coordination

As governing has become more complex, challenging (Head 2010) and subject to multiple influences, central steering and coordination have taken precedence. Central steering covers several functions and mechanisms, the choice of roles being shaped by context (e.g. system of government and administrative tradition), leadership style and environmental challenges (Halligan 2011c). As governments, both in Australia and internationally, have moved away from disaggregated public sectors and have sought to reassert central control in order to improve performance, coordination has returned to prominence. The tension between the de-centering and re-centering of governance is a perennial issue (chapter 3), but what emerges from the changing dynamics at the centre depends on the mix and the country context.

Of the Anglo-Saxon countries, Australia has placed emphasis on maintaining a strong prime minister’s department and enhancing the resources of the political executive. While several models have been evident during the reform era (table 4.2), which correspond in part to the reform stages that were outlined in chapter 2, the long-term trend has been towards strengthening central steering, and that system has been pushed to new levels when political leadership has been more strategic, intergovernmental or performance focused.

The main dimensions of central coordination are generally strategic direction, priority setting, coordination and driving the implementation of change and policy although, in practice, those dimensions are not all significant at the one time. Steering within a governance perspective may be primarily one of 'setting priorities and defining goals' whereas, under new public management (NPM) it may mainly be 'an interorganisational strategy aimed at unleashing productive elements of the public service' (Peters and Pierre 1998: 231). A broader view is that the state is both less in charge and more focused on being a societal player within a governance framework (a society-centric view), but a state-centric position continues to be relevant to national government like that prevailing in Australia (chapter 1).

Coordination falls within steering (Dahlström, Peters and Pierre 2011). Following one scheme for analysing levels of 'coordination' generically (Metcalf 1994), steering might cover activities such as government strategy and establishing central priorities, whereas coordination within steering would include the search for agreement and avoidance of divergences among departments.

Although a perennial consideration in system design, as the vacuum at the centre widened, coordination has featured more in reform agendas (Peters 2006; Bouckaert, Peters and Verhoest 2010) and, some would argue, has acquired fresh characteristics. A traditional conception of coordination envisages parties taking each other into account in a process of harmoniously or reciprocally linking activities and decisions (Kernaghan and Siegel 1987). Coordination may once have been regarded as more remedial and reactive, such as responding to disasters and communications problems, but traditional approaches were not solely retrospective, even though there is more emphasis now on the prospective. Another conception addresses procedural and policy/functional coordination that is centred on central agencies (Painter 1987).

Horizontal government approaches, which have been developed in the last decade in order to promote interagency collaboration and cooperation, reflect both old and new forms of organising for connecting distinct parts of the public sector. Such approaches represent a break with conventional notions for dealing with complex policy problems in Anglophone countries. Within these concepts and applications, there are a range of meanings that vary between managing horizontal relationships (operating more at the interagency level) to broader formulations that envisage integration of government operations (Verhoest and Bouckaert 2005).

Models of coordination

The several approaches to studying the centre have different emphases. An executive leadership or core executive emphasises the role of the political executive (e.g. Campbell and Halligan 1993). The literature on the ‘steering state’ covers a range of positions that share a division between steering functions and implementation, although how this separation occurs varies widely in practice. A variation on this theme is the hollowing out of the state (Frederickson and Frederickson 2006), which focuses on delivery beyond the centre. Moving closer to the core, the question of the state’s capacity has received attention, including the relationship with coordination (Painter and Pierre 2005; Verhoest and Bouckaert 2005). The specialised field of central agencies is under-researched, but Lindquist (2001) has distinguished the strong centre in Anglo-Saxon countries, based on central institutions and high capacity for coordination, from the smaller and less influential centres that exist within European systems.

Five models are differentiated (Halligan 2006) for considering central coordinating strategies that are based on (1) whether relationships are concentrated in the core of central government or encompass third parties (such as state governments and non-government providers); and (2) the mix of political and administrative machinery that is used. Each coordinating strategy has different implications for the effectiveness of governance (table 4.2, compare table 2.2), and various instruments are relevant to specific relationships, such as conditional grants and performance management, and more generally the use of political levers for directing the public service.

Table 4.2: Coordinating strategies

Characterisation	Central agencies	Political executive
Integrated hierarchical	Transactional control	Traditional relationships, reliance on public service
Prototype ‘steering’ and ‘rowing’	Strategic and selective steering	Assertion of political executive, cabinet and committees, ministerial discretion
Devolved (weak centre)	Downgraded steering role, departments and agents prominent	Accountability management
Integrated governance	Rebalancing steering at levels of political executive, central agencies and departments	Prime ministerial control, political and performance management and control
Strategic governance	Strategic assertion horizontally and vertically	Strategic priorities and planning prime minister. COAG mechanisms

The *integrated hierarchical* model is grounded in traditional public administration that steered through laws and regulations, hierarchy, and control over the details of financial and personnel transactions. The *prototype steering model* departs from this transactional basis by differentiating strategic policy from operational and delivery matters. The emphasis is on the redefinition of the centre to enhance directive capacity and political focusing, with decentralisation being a secondary consideration. A balanced steering and rowing arrangement is one possible outcome, but it may also be a stepping-stone to a stronger 'steering state' conception, as discussed next.

The *devolved model* is assumed to be a product of reform design, either management and/or market driven, and represents a strong commitment to decentralisation and selective steering at best. It needs to be distinguished from systems internationally that lack a strong centre; weak centres appear to either reflect state traditions, divided central agencies or cultural and political factors that are less determinate (e.g. Lindquist 2004 on Canada). The dominant principle is competition, whereas, the more integrated conception discussed below features collaboration. The main mode of control is 'hands off' under NPM that is reliant on contracts, and 'hands on' where performance is central (Newman 2002).

The fourth model, *integrated governance*, combines the attributes of a strategic centre with active line departments. In terms of governance, it unites elements of modern governance and state-centric approaches (Richards and Smith 2006). This is a demanding option that benefits from the directive role of the political executive and relies on a system of performance management. The final model, *strategic governance*, emphasises strategic planning and priority setting at the centre and is likely to be driven by the prime minister and his or her department and by incorporating capable ministers in key areas. Intergovernmental relations have centrality for driving major policy agenda collaboratively but subject to performance requirements. Compared to the previous model this one ratchets up the intensity of the pursuit of strategically defined priorities. The 'steering state' dimension may still be present but the 'rowers' need to be knitted in to the centre more directly.

These models have been tried successively over recent decades. A combination of internal and external sources of change facilitated the emergence of new approaches, which was first apparent with major reform in the 1980s (Campbell and Halligan 1993). The intensity of the Australian shift to devolution and the subsequent reassertion of the centre resulted from both system shortcomings and environmental uncertainty.

The general pathway for central steering, over 20 years, has displayed features of each of the models. The *integrated hierarchical*, the dominant approach of the

post-war years, relied on the archetypal mechanisms of traditional coordination — the interdepartmental committee and central agency control of transactions. It was succeeded by the *prototype steering* model, under which an explicit solution was prescribed by the managerial culture of the 1980s. Central agency intervention was to be minimised, which meant that traditional controls over line departments were relinquished: ‘They were to assume strategic directions allowing line departments to make specific resource decisions. The central agency stance should be more that of catalyst and intermittent coordinator’ (Campbell and Halligan 1993: 43).

This was followed by an exploration of the *devolved* model (Zifcak 1994) that increasingly assumed NPM features. A strong commitment to market principles was associated with the neoliberal policies of the Coalition government in the 1990s. Within a philosophy that emphasised the private sector, choice for consumers and purchasers, and the use of market mechanisms, action was taken to transfer responsibilities, to privatise, and to conceptualise the public service as a business operating in a competitive environment that was to be judged by its performance. Departmental activities were reviewed using an approach that incorporated competitive tendering and contracting, purchaser-provider arrangements, and business process re-engineering. Market testing of agencies sought to improve internal capacity by benchmarking and outsourcing aspects of corporate services. The resulting disestablishment of monolithic multifunctional departments, and reliance on third parties for service provision, produced increasingly siloed agencies and a fragmented system. Under this devolved public management model, the agency was the focus, individual contracts provided the basis for employing senior public servants, and a disaggregated public service was the result.

The impact on central agencies of the application of management and market principles was resounding. The old Public Service Board was supplanted by a modest commission (Campbell and Halligan 1993). Finance acquired a ‘strategic’ role (Wanna and Bartos 2003), but its diminished role in the second wave of market reform (the second half of the 1990s) meant that debate centred on whether it would survive organisationally (one option being to re-integrate it with Treasury). PM&C confined active intervention to where it was required, and was no longer providing leadership for the public service. In Lindquist’s (2001) terms, Australia moved from a strong centre to a smaller centre, with a corresponding reduction in capacity, coherence and control of coordination. At this stage it had moved to the devolved end of the spectrum that was comparable in some respects with the system operating in New Zealand, which was generally regarded as the outlier in terms of central steering.

Steering through integrated and strategic governance

There was movement again within the public management reform cycle in the 2000s: from an intense neoliberal reform agenda in the first five years of the Coalition government, reflection on the results of that agenda and a changing international environment produced shifts, refinements and reevaluation of the worth of the public service functioning under new central agency leadership that suited different agendas. The *integrated governance* model emerged as a more comprehensive approach that displayed features of the earlier models.

Several themes were recurrent: delivery and implementation, performance, coherence and whole-of-government, and responsiveness to government policy. This model shifted the focus to some extent from the vertical towards the horizontal and a greater concern with cross-agency programs and relationships within central government. At the same time, there was a reinforcement of and extension to vertical relationships. The whole-of-government agenda also had a centralising element, in that central agencies were driving policy directions or principles, either systemically or across several agencies. The result was the tempering of devolution through strategic steering and management from the centre and a rebalancing of the positions of centre and line agencies.

The Howard government tightened its control of the centre through management of the appointment processes within the public service, public boards and parliamentary positions (e.g. a political appointee headed the cabinet secretariat). The political control aspect also underlay each dimension of change: improved financial information on a program basis for ministers, strategic coordination under cabinet, controlling major policy agendas, organisational integration through abolition of bodies and features of autonomy, and monitoring the implementation of government policy down to the delivery level. The rebalancing produced, according to Hamburger (2007: 210):

a network of central coordinating mechanisms in place of the direct central control and institutionally based central agencies [and a system] in which political control of administration is coordinated by a Prime Minister whose head-of-government role exists within a strong culture of collective involvement of other ministers through the Cabinet.

The overall result was significant potential for policy and program control and integration using the conventional machinery of cabinet, central agencies and departments.

There were five dimensions to the integrated governance strategy, which operated at several levels, as discussed below.

Central steering of departments through the resurrected central agency

The overriding trend in the 1990s — to devolve responsibilities to agencies — remained a feature, but it was modified in two respects involving central agencies. This occurred first through the enlarged role of PM&C because of its revitalised role in policy coordination and other major agenda in the early 2000s, as discussed below.

Secondly, there were more prominent roles for the other central agencies in espousing and enforcing principles, and monitoring and guiding in the areas of budgeting, performance, human resources and values. Finance's role and capacity to oversee financial management and information was enhanced, with a greater focus on departmental programs, a renewed emphasis on cash accounting and an expansion of staff capacity, in a shrunken department, to provide the necessary advice for government. The APSC invested in improvements to its capacity for monitoring and evaluation, particularly through an annual report, 'State of the Service', that surveyed employees and agencies and scrutinised public service human resources, values and practice.

Central steering of performance through monitoring down to program delivery

A core principle of the 1980s was to require departments to manage as well as to provide policy advice. Under the market agenda of NPM, outsourcing, agents and specialised agencies were favoured for service delivery (e.g. Centrelink). The language of the mid 2000s was refined to enforce effective delivery as well as policy advice, with the latter defined in terms of outcomes.

Implementation had often been the neglected end of the policy spectrum. Under the market agenda, outsourcing, agents and specialised agencies were favoured for service delivery. The internal constraints on implementation were reviewed by the government as a result of public perceptions of the performance of delivery agencies, particularly those where ministers had direct responsibility. In late 2003, PM&C was responsible for an Australian Cabinet Implementation Unit, which was established to seek effectiveness in program delivery by ensuring government policies and services were delivered in a timely fashion and on a responsive basis. It was depicted as a partnership with agencies in producing systematic reform to the implementation of government policies, and ensuring effective delivery.

The authority of cabinet was drawn on as a 'gateway' and a 'checkpoint'. New proposals required appropriate details regarding implementation and cabinet submissions that were seen to have a risk element in their delivery were required to address a delivery framework including milestones, impacts and governance.

Policy proposals that were adopted required formal implementation plans with progress reported to the prime minister and cabinet against milestones that were set out in 'traffic light' format. Around 200 policy implementations were monitored under the Howard government. The 'traffic light' report to the prime minister and cabinet was regarded as a powerful incentive for organisational learning for public servants. Cultural change was promoted around a project management approach that employed a methodology designed to codify and think through the connections between policy objectives, inputs, outputs and outcomes (Shergold 2004b; Wanna 2006).

Ministerial departments and portfolios

The third important dimension of the model involved the swing back to a more comprehensive ministerial department and ministerial steering of portfolios. The targeting of the broader public sector was derived from election agenda and led to the review of corporate governance of statutory authorities and office-holders. An agenda was developed, because of the extent of non-departmental organisations, for ministerial departments to have tighter and more direct control over public agencies, and their governance (see discussion of *Review of the Corporate Governance of Statutory Authorities and Office Holders* (Uhrig review) in chapters 5 and 8).

The language of the mid 2000s enforced effective delivery as well as policy advice with the latter defined in terms of outcomes (Shergold 2004b). Departmentalisation was expressed through absorbing statutory authorities and reclaiming control of agencies with hybrid boards that did not accord with a particular corporate (and therefore private sector) governance prescription, as expressed by the Uhrig review (2003) (chapter 2, this volume). The medium term result was a reduction in the number of agencies in the outer public sector (114 to 84 between 2003 and 2012) and an expansion in the number of agencies that were placed within the core public service (84 to 111). The key example of agencification, Centrelink, was also affected. Established in 1997 as an independent statutory authority that was responsible for delivering welfare benefits, Centrelink accounted for about 30 per cent of Commonwealth expenditure. This position, however, changed from 2004 under the integrating governance agenda and Centrelink came to be increasingly integrated within the Human Services Department (chapter 5 and Halligan 2008b).

Steering across the public service: Whole-of-government and horizontal management

Australia was slower to adopt a systematic approach to whole-of-government issues than the other Anglophone countries of Canada and the United Kingdom, which pursued these issues in the 1990s while Australia was focused on

management reform. The environment created by these reforms emphasised devolution of responsibility to agency heads and each agency pursuing its own business and policy agenda. The need to temper devolution with a broader, whole-of-government perspective came to permeate much government activity (cf Verhoest and Bouckaert 2005 for how such a trajectory was worked through elsewhere). The shift was expressed in three ways.

At the political level, the prime minister committed to a series of whole-of-government priorities for new policy-making that included national security, defence and counter-terrorism and other generally defined priorities such as sustainable environment, rural and regional affairs and work and family life (Howard 2002; Shergold 2004a). These priorities were pursued through a range of traditional coordinating and new whole-of-government processes including changes to cabinet processes that were aimed at strengthening its strategic leadership role.

The priorities were also followed through a range of coordinating or whole-of-government processes, including: cabinet and ministerial processes (e.g. Ministerial Oversight Committee on Energy); COAG and other Commonwealth–state arrangements (e.g. sustainable water management); interdepartmental taskforces, as discussed above (e.g. work and family life); integrated service delivery (e.g. stronger regions); and lead agency approaches. An example was the COAG agreement to develop a National Water Initiative to increase the productivity and efficiency of water use, sustain rural and urban communities, and to ensure the health of river and groundwater systems.

The organisational response to the external environment that was experienced by Australia in the 2000s was to build coordinating units within current structures centred on PM&C. The whole-of-government approach to national coordination covered strategic and operational levels: a National Security Committee of Cabinet, a National Counter-Terrorism Committee (for intergovernmental coordination), and a National Security Division for coordinating and applying whole-of-government principles to border protection, counter-terrorism, defence, intelligence, law enforcement and security.

Thirdly, the agenda was given impetus through a report, *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*, by the Management Advisory Committee (comprising departmental secretaries, the primary vehicle at that time for examining and setting reform agenda: MAC 2004), which indicated how to address issues about whole-of-government processes and structures, cultures, managing information, budgetary frameworks. Whole-of-government was defined as denoting 'agencies working across portfolio boundaries to achieve a shared goal and an integrated government response to particular issues' (MAC 2004: 1). Despite this specific definition,

the boundaries were not readily drawn for coordination was also viewed in terms of coordinating departments (i.e. central agencies), integration (reducing the number of departments) and cooperative federalism (MAC 2004: 6–7). Approaches to coordination could operate formally and informally, ranging from policy development through program management to service delivery. There was an underlying rationalist conception suggesting that difficult policy problems and management questions could be laid out, solutions designed and challenges managed leading to improved problem solving, service delivery and performance.

The medium term impact of horizontal coordination in Australia was mixed. The level of horizontal management activity expanded within the public service through a mixture of central agency push and shove using task forces, a reliance on traditional IDCs for some purposes, and some new interactive mechanisms. An official verdict reported some success but ‘overall implementation of the Connecting Government report has been disappointing and the report does not appear to have had a fundamental impact on the approach that the APS takes to its work’ (APSC 2007d: 247; Halligan, Buick and O’Flynn 2011; O’Flynn et al 2011). However, whole-of-government continues to be an imperative (Sedgwick 2010b; Metcalfe 2011), and is reflected in the aspirations for shared outcomes that were outlined in *Ahead of the Game: Blueprint for the Reform of Australian Government Administration* (AGRAGA 2010).

Performance management systems

The fifth dimension addresses the role of performance, which had become a central and constant theme for Australian leaders. The former head of the public service, Peter Shergold, declared that ‘The next challenge is to ensure that the performance of the APS — as a coherent whole — is lifted’, and used the concept of the ‘performing state’ for a system ‘that is continuously open to, and reading its environment, and learning and changing in response: a state "inherently in transition"' (Shergold 2004b: 6). A consistent theme of Prime Minister Rudd was for improving performance (e.g. Rudd 2009b), and the Advisory Group on the Reform of Australian Government Administration regarded high performance as a criterion for the agendas in *Ahead of the Game*. These ideals and aspirations remain to be realised.

Australia’s performance management has moved through stages (Halligan 2003b; McKay 2003), and continues to evolve hesitantly. In the first stage, the elements of performance management were developed within a centralised approach featuring Finance. The strengths of this process were institutionalised performance management elements and the requirement for formal evaluations. The weaknesses were the reliance on evaluations that were mandatory (and imposed top-down by a central agency) and the quality of program objectives

and performance information. There were questions, also, about what program budgeting represented (Wanna, Kelly and Forster 2000), because a program framework was used as an instrument for managing and reporting on programs, but this did not lead to budgeting by programs that were linked to appropriations.

The second stage was based on the outcomes/output framework, devolution to agencies, principles instead of formal requirements, and an emphasis on performance information. The strengths of this approach lay in systemic review by central agencies, departments' ownership of outcomes, and management being modified by the influence of explicit results achieved. The weaknesses included insufficient information for parliamentary needs and for sound management, inconsistent departmental support for good evaluation, and the subjectivity of performance assessment. These limitations produced continuing reassessment of aspects of performance management practices such as the types of information provided.

The budget framework that was introduced in 1999 changed financial management and reporting by applying budgeting on a full accrual basis; implementation of outputs and outcomes reporting; and extended agency devolution to inter alia budget estimates and financial management. Departments and agencies were now expected to identify their outcomes and outputs and be held accountable for them. Agency heads were clearly assigned responsibility and accountability for performance. Agencies were required to identify explicit outcomes, outputs and performance measures. Reporting now occurred through budget plans (portfolio budget statements) and financial year results (annual reports). Major benefits of the new framework were to be an improved information base, better incentives to be efficient, greater precision about public value and, for the first time, the linking of outputs to outcomes.

However, the limitations of the framework in practice — the need for information on implementation and operations as well as results — produced reincorporation of departmental programs, a renewed emphasis on cash accounting, the Cabinet Implementation Unit and other changes including improvements to cash management, budgeting and program reporting and financial information systems. This meant, of course, enhancing Finance's role and capacity to oversee financial management and information, and provide the necessary advice for government.

The question of engaging ministers in the new system proved to be problematic as performance judgments ultimately involved them and there had been considerable investment in seeking improvements to the information provided through performance management. A number of the expected benefits did not accrue from the combination of a highly centralised budgetary process and highly devolved agencies. Most importantly ministers experienced difficulties

with the lack of information on programs, the level at which they made decisions, which had been dropped under the new framework. At that time, however, Finance no longer collected program data on a systematic basis (Watt 2003), and what was available was not published. There was also parliamentary criticism of the lack of information available about the Commonwealth's position. This paucity of information was regarded as a result of financial management information systems that were accrual based, in contrast to those of traditional cash transactions.

Finance's Budget Estimates and Framework Review, to evaluate system effectiveness and responsiveness in meeting government needs, reported on the scope for streamlining the financial framework, improving information management systems, and enhancing the quality of financial information that was being provided to the government and its central agency. These measures enhanced Finance's role and capacity to oversee financial management and information, and a greater focus was placed on departmental programs, a renewed emphasis on cash accounting and an expansion of staff capacity, in a shrunken department, to provide the necessary advice for government. The reported changes included improvements to budgeting and program reporting and financial information systems (Watt 2003; DFA 2004). Program information was reintroduced surreptitiously (in so far as the details of its reintroduction were not public) by 2003.

A change of government produced an agenda to improve budget transparency, termed Operation Sunlight (Tanner 2008; Hawke and Wanna 2010). The diagnosis of the existing outcomes and outputs framework was savage. The government's response to the limitations of its performance management framework has been to seek improvements to it. Rather than discard outcomes as a focus, they remain, with augmented features, to several dimensions of the framework. Programs have been revived for portfolio budget statements and, along with outcomes, form the basis for reporting. Performance was reinforced and extended by this initiative, and there was greater interest in targets and league tables, and service delivery focused on outcomes. Yet, a series of studies, mainly by the ANAO, have raised questions about the efficacy of aspects of the existing performance management system and the need for significant renewal (Bouckaert and Halligan 2008; ANAO 2011; Hawke 2012).

The Commonwealth Financial Accountability Review (CFAR) has provided an authoritative diagnosis of the position that includes insufficient integration of the components of the resource management cycle, lack of coherence in the performance management process, the role of outcomes in appropriations, and weaknesses in performance monitoring and evaluation (DFD 2012b).

Reformulating steering under Rudd through strategic governance

What differentiates strategic governance from integrated governance? Strategic governance places greater emphasis on strategy, targeted performance and the design of governance nationally and federally. This difference was indicated by the style and actions of Rudd in the role of prime minister. Rudd's leadership approach was close to a 'priorities and planning style', which was defined by Campbell (1988: 59) as occurring when first ministers were 'in a strong political position and choose to pursue an ambitious, creative, and comprehensive legislative program'. This style favoured central agencies and their role in 'assembling coherent policies and programs'.

The government explored new ways for engaging the public (e.g. the Australia 2020 Summit of 1000 delegates, and community cabinets) and produced a five-point agenda (Australian Government 2008). A key aspect was the reform of governing through improved external engagement, building accountability and integrity, and modernising the federation. The focus on accountability and transparency addressed the question of respect for government institutions and 'public confidence in the integrity of ministers, their staff and senior officials' (Australian Government 2008: 73).

A new phase in intergovernmental relations was initiated in 2009 with the intention of strengthening vertical relationships within the federation. The COAG reform agenda was at the forefront of the government's modernisation and policy agenda. At the interface between levels, the Australian Intergovernmental Agreement on Federal Financial Relations was designed to improve the well being of Australians through collaborative working arrangements and enhanced public accountability covering outcomes achieved and outputs delivered. The arrangement provides for public accountability at the Commonwealth level with state-level flexibility regarding delivery and indicators (APSC 2010b).

Central steering was reformulated under Rudd through a strategic governance approach that placed greater emphasis on strategy, targeted performance and the design of governance nationally and federally. In his first two years, Rudd's 'priorities and planning style' reflected his political pre-eminence and the pursuit of an ambitious reform program that was centred on central agencies' roles in developing policies and programs. A major organisational audit of PM&C indicated that it was 'heavily focused on the day-to-day activities of government, and that [its] capacity to provide strategic policy advice could be improved' (PM&C 2008a: 3). A Strategy and Delivery Division was established to advance administrative priorities that were more strategic, long term and proactive. The overall objective was a strong department for supporting the

prime minister's reform agenda for the nation with monitoring of progress assuming significance. The emphasis under Rudd has not been maintained by Prime Minister Julia Gillard.

Governance styles and issues

Challenges to governance

How the centre perceives governance challenges depends in part on governing style and whether governments are either seeking to anticipate problems before they become full-fledged issues or are merely responding as the need arises. While simultaneous invention is possible, the articulation of problems often reflects the general influence of both a global community and the specific circulation of ideas in the Anglophone realm (Halligan 2007a). In these days of assertive political executives, the definition of challenges is more often lead by the government, but the vagaries of public debate and the politics of governance mean that control of the agenda can be tenuous, particularly where clear direction and effective implementation are wanting. The political appetite for tackling different challenges is affected by a range of factors, including the source and nature of the challenges, the cross-jurisdictional and other complexities of the challenges, and the selection and coordination of different implementation strategies.

External challenges

External challenges have usually been fiscal in nature and economic factors (e.g. international competitiveness) have remained a driver, although nothing compares to the global financial crisis of 2008. Otherwise, the most important external threat during the 2000s was the issue of security and terrorism, which dominated both the domestic and international landscape (apart from the long-term impact of 9/11, there were terrorist attacks in Bali and the commitment of forces to Iraq), and had lasting effects on public management and the community. The then secretary of PM&C observed that the threat of global terrorism and the emerging challenges of counter-terrorism, protection of borders and domestic security had transformed Australian life and identity. 'Those issues, typically "non-routine", will test bureaucratic structures. Ensuring effective coordination of intelligence, analysis and strategic policy responses will test public administration' (PM&C 2003). The security question was still resonating in late 2008 when Rudd (2008) presented the first national security report to parliament as a coherent statement of the challenges and a comprehensive

approach to them. The impact of internationalisation was demonstrated most dramatically by how the issue of climate change helped to derail the Rudd government, and continues to challenge the Gillard government.

Complex policy problems that cross boundaries

A number of whole-of-government priorities for new policy-making were adopted by Howard (2002), which included national security, defence and counter terrorism and other generally defined priorities such as sustainable environment, rural and regional affairs and work and family life. The Rudd government maintained and extended this emphasis covering some similar ground (e.g. national security) and new and more specific fields (climate change and productivity). Yet the question of how to handle the contending interests in the Murray-Darling basin, which emerged under Howard, also confronts the Gillard government.

Implementing government policies and priorities

Implementation of government policy was an issue at the beginning of the reform era as a result of political concern with public service independence, which produced a sustained process of redistributing power between politicians and public servants (Halligan 2001). Despite the use of different instruments, political control and performance continued to be an issue for governments, with the concern in the 2000s being that political priorities were not being sufficiently reflected in policy directions, and were not being followed through in program implementation and delivery.

Juggling and balancing relationships across the reform era

There are indications that, over time, the processes of change in the reform era have produced a return to several traditional verities. There are several strands to this argument.

First, the policy role of the senior public service experienced progressive attrition from the traditional position of centrality. With the rise of managerialism there was a reaction against the emphasis on policy work and the lack of management skills. At the same time, ministers increasingly relied on alternative sources of advice and their staff both advised and provided conduits for extra-government proposals. Over time, the policy capacity of the ministerial office was strengthened and the public servant's role became more limited. As well, external advice was routinely relied on and an atmosphere that encouraged contestable advice meant more competition than before. The overall effect was to transform the public service's policy role from a near monopoly to a competitor for government's attention.

Secondly, the traditional public service's identity derived from being clearly demarcated from its environment, particularly the private and political spheres, and being relatively closed. From the 1980s, these boundaries were systematically eroded. The assault on the senior public service was directed at the traditional career system. The political executive's influence could be expanded by transforming the officials' position through abolition of permanency and the introduction of a senior executive service that offered management flexibility and external entry. The shift of the public sector towards private sector practice, which had been apparent for over a decade, acquired centrality under Howard's first conservative government of the reform era. Agencies were required to identify contestable functions that could be transferred to the private sector, unless the public sector added greater value.

A further dimension was the coherence and identity of the public service. On the one hand management devolution and then the workplace agenda required agencies to be responsible for employment and other matters. The balkanisation of the public service was recognised as one possible consequence of a strong agency focus. On the other hand, there was a lack of countervailing mechanisms for fostering public service integration and identity.

At the same time, the concept of an apolitical public service was maintained throughout the reform era by successive governments. Even the leader of a government at times unsympathetic to the public service declared commitment to a 'non-partisan and professional public service' (Howard 1998b). If the rhetoric was consistent, the parallel language and action provided the guide to changing government thinking about the bureaucracy. While requiring this highly responsive system, governments continued to assert the integrity and apolitical character of the public service, and the *Public Service Act 1999 (Cth)* enshrined this central value.

Although overt political appointments were not much used in Australia, the Hawke government's desire for greater control was substantially realised. The combination of strong political direction and changes to the employment basis and insularity of the senior public service redistributed power between ministers and public servants and produced greater responsiveness. Careers at the most senior levels were no longer guaranteed. The promotion of a climate of insecurity for senior officials during the Howard government's first two terms moved beyond 'new government' behaviour. One diagnosis was 'personalisation' based on a narrow conception of politicisation — one linking appointments and use of the public service for party ends (Weller and Young 2001). In a broader sense that includes other dimensions of politicisation, the system might be pronounced as politicised (Mulgan 1998).

The weakened relationship between politicians and public servants surfaced as the 2007 election approached. There was private discussion among senior officials about the short-term focus of politicians, and eventually strident public comment about ad-hoc decision-making by the government in an election year. The press continued to accept some degree of ‘politicisation’ as a given (e.g. Grattan 2007 on how public servants have been constrained under the Howard government), and the debate surfaced again in the exchange that followed the then public service commissioner, Andrew Podger’s (2007) reflections on the handling of senior appointments, which produced a defence of the record from Shergold (2007b).

A telling public disclosure was the declaration of a key central agency, Treasury, that it was ignored by the government in key policy fields. The secretary of the Treasury, Ken Henry (2007: 13–14), observed that the election year would ‘test our mettle as apolitical public servants ... Our capacity to ensure that our work is “responsible”, and not just “responsive”, will be put to the test. How successful we are will impact on our integrity as public servants and our long-term effectiveness’.

The strength of an administrative tradition grounded in Westminster has been apparent where governments have overstepped the limits of acceptability (Labor’s back peddling on political appointees in 1983–84, the backlash to the purge of secretaries by the Coalition in 1996, and the response to the role of political advisers in the mid-2000s). System correction was again apparent with Rudd’s current and evolving agenda (Halligan 2010b), but the effect of the Rudd agenda was a double-edged sword. It reinforced traditional values, a professional public service and accountability and transparency; while cutting the size of the service and making heavy demands on public servants, including a renewal of the emphasis on performance. The trade-off then was that the consolidation of the public service and reaffirmation of Westminster principles meant higher expectations for a modernised public service.

Four dimensions of the Labor government’s agenda can be noted (Halligan 2010b). First, integrity and accountability comprised two elements: the government’s view of the future public service and reinvigorating the Westminster tradition (independent and professional public service, merit-based selection, continuity of employment, and removal of performance pay). The Office of the Special Minister of State was used to pull together and strengthen a range of integrity and governance responsibilities under one minister: the public service, codes of conduct, privacy and various procedures for handling transparency and accountability.

Secondly, there was the interest in 'One APS'. A lament across the service has been the limitations of a devolved agency structure for conditions of employment. The public service head, Terry Moran (2009), asserted that 'the APS is not a collection of separate institutions. It is a mutually reinforcing and cohesive whole'. The prime minister echoed these themes by arguing for a stronger collective identity, a greater sense of cohesion and esprit de corps, and the need to address constraints on mobility and the disincentives public servants encounter in moves between departments (Rudd 2009a; AGRAGA 2010).

Thirdly, the public service was being consolidated in conjunction with the demise of outsourcing. The Rudd Government sought to reduce dependence on external consultancies although the pattern has been variable. Legal services were being brought more in house, and the government was reversing a reliance on outsourcing of information communications technology to 'correct imbalances'.

Finally, although the institution of the public service has potentially been strengthened by attention to political and private sector relationships and traditions, there were elevated expectations for performance and for improved innovative policy capacity. The perceived deficit in capacity was a factor leading to the review headed by the secretary of PM&C, and *Ahead of the Game* (AGRAGA 2009, 2010; see also chapter 2).

Governance failures and solutions

Governance issues have arisen from the fallout from aspects of new public management, weaknesses with corporate governance and strategic focus, and public crises over oversight and implementation. Features of new public management — such as disaggregation, devolution, outsourcing, and multiple services providers — supported specialisation but also encouraged fragmentation and reinforced vertical structures. There was also official concern with opaque governance. 'Good governance depends upon transparency of authority, accountability and disclosure' (Shergold 2004b).

Nevertheless, two extraordinary cases that occurred during the Howard government's fourth term revealed fundamental weaknesses in the internal operations of a major department and lack of oversight of a privatised body with public policy roles. The first case was one of internal governance failure involving the Department of Immigration and Multicultural Affairs (DIMA), and is discussed in the next chapter.

The second case concerned oversight of privatised public policy, and several governance issues that arose. The Australian Wheat Board (AWB) paid kickbacks to the Iraqi government in the form of a transport surcharge. The Department of Foreign Affairs and Trade (DFAT) claimed to have been unaware of the nature of the AWB's actions. Both DFAT and the Wheat Export Authority (WEA), a statutory body responsible for monitoring AWB, were unable to demand documents from the AWB, inhibiting their capacity to confirm or certify the AWB's claims. The AWB was found to have faked several of the documents that it had provided to DFAT (which were then forwarded to the United Nations (UN)) (Cole 2006). Two governance issues stood out: the unwillingness of senior officials and ministers to acknowledge awareness or responsibility (including the prime minister's failure to require ministers to accept ministerial responsibility); and the limited capacity of DFAT and the WEA to oversee the actions of the AWB (chapter 6). Neither could demand documents from AWB nor could they force it to cooperate with the UN investigation. Given AWB's role in representing Australian farmers there appeared to be serious gaps in the regulatory framework (see also the discussion in chapter 6 and Botterill and McNaughton 2008), and the corporate governance issues that arose from making payments in breach of United Nations sanctions (Cole 2006: liii, lix).

A deterioration in governance relationships occurred in the fourth term of the Howard government. Tensions between politicians and their public service advisers increased as party government became disengaged from the public service and pragmatic decision-making became a feature of an election year. Howard's mode of governing registered discontent at senior levels within the public service with private discussion among senior officials about the policy process (Henry 2007) and the lack of strategic focus of politicians. The head of the Treasury observed that the government bypassed his key agency even though it had developed frameworks for considering climate change and water reform. 'All of us would wish that we had been listened to more attentively over the past several years in both of these areas. There is no doubt that policy outcomes would have been far superior had our views been more influential. That is not just my view; I know that it is increasingly widely shared around this town' (Henry 2007: 6). More generally within the nation, the government was widely castigated for decision-making that was capricious, populist, short-term and ad hoc (Halligan 2008a).

Equally disturbing for public governance was the apparent loss of impetus as the first-term Rudd Government similarly experienced an *annus horribilis* as it compromised its agenda in the run up to the 2010 election, and the prime minister forsook policy and planning for short-term pragmatism. The turning point was provided by the very public implementation failure with two programs: the Home Insulation Program and the Building the Education Revolution Scheme (chapter 5).

Conclusion

System governance raises several sets of questions that go to the heart of government. Several different models for coordinating the system have been outlined. However, the effectiveness of central systems ultimately depends on both the political leadership and the capacity of the system to respond. If leaders' aspirations exceed the capacity of the system — apparent under the heightened demands of Rudd — this will invariably lead to shortfalls in capacity and associated dysfunctions. In contrast, Prime Minister Gillard's leadership in response to the demands of system governance remain elusive.

The art of system governance requires the mastery of complex vertical interrelationships at several levels within central government and nationally, the growing horizontal dimensions, and the reconciling of pressures from politicians and the environment. If modernisation of the system is undervalued and capability development miscalculated, a mismatch is also the result.