



Speech

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Restoring a High-Performing Public Service

Introduction

Thank you Nick and thanks to Geraldine and the organisers for inviting me to take part today.

I come here today with understanding and respect for what you do, having worked for much of my professional life within the public sector – in senior positions and across different portfolios.

In the private sector, I've worked in a direct delivery role and as a partner within a professional services firm.

And now, in running the Business Council of Australia, I have an incredible insight across the entire economy and of different sets of issues.

I've thought a lot about this presentation. I've talked to friends and colleagues in both sectors.

And I've been thinking back over my own career and reflecting on the fact that some of the things I did as a public servant remain the things that have given me the most enduring pride.

So what I want to do today, is to talk to this group very frankly about restoring precious things about the civil service. Things that I am deeply concerned are being lost.

And I want to put forward some steps to restore them – some for the parliament and political parties, and some that are down to you.

My core concerns are these:

- That many modern politicians have lost sight of the fundamental role of the public service.
- That your authority has been undermined by political gatekeepers, often with little expertise and no accountability. Australia now has more personal staff per minister than many other comparable countries.
- That your custodianship of the long-term policy agenda has been eroded by short-term thinking, and
- That the necessary investment in capacity building, succession planning, technology and new ways of providing services just isn't there.

The effect of these trends is felt most keenly by public servants themselves – the frustration from the lowest to the highest levels of seniority is palpable in every conversation I have.

But its impact on Australia is dangerously far reaching.

Importantly, what I want to do this afternoon is to encourage you, and others, to do something about it. And to tell you that business is right behind the restoration of a high-performing and efficient public sector.

I am going to cover three main themes:

1. The value and importance of a high-performing public sector.
2. Some of the urgent improvements needed in three areas, namely:
 - policymaking,
 - decision making, and
 - the process for making rules and regulations.

3. And to finish, I'm going to make some observations and suggestions for restoring the independence, authority and legitimacy of the public service.

Importance of a high-performing public sector and priorities for business

So let me begin with the importance of the public service and the priorities for the business community.

I believe we are at a crossroads in Australia when it comes to the future of the civil service.

There is no escaping the demands of the modern political environment and I'm not suggesting you can pretend the constraints aren't there.

But I am asking you to find ways of balancing those immediate demands with the essential task of developing and advancing longer-term policy reform.

One of the fundamental roles of the public service is your custodianship of the long-term national interest agenda.

And business understands that we must work side by side with you on that.

We don't see ourselves in competition with, or substituting for, your policy and regulatory role. Although we do believe there are aspects of service delivery that could be done better by the private or community sector.

We do believe that a high-performing public sector is an essential element of a wealth-generating economy and a fair society. One that offers rising living standards for this and the next generation of Australians.

While business creates the wealth on the ground, our elected representatives, together with you, create the environment in which that can happen.

That environment can enable wealth to be generated or it can stifle it, by stifling innovation, risk taking and adaptation.

It's the two sectors working effectively side by side that can deliver on the important principles of shared value.

Our CEO members, probably like many of you, are increasingly concerned about what's looming for the Australian economy and the risks this creates for intergenerational living standards.

The fundamentals are still strong but there are worrying signs emerging.

- Volatile commodity prices are stripping away the always ill-conceived idea of a permanent purple patch in respect of our terms of trade.
- Recent announcements show that the capital investment pipeline is far from assured.
- Our costs are too high, our productivity is poor and this is undermining our competitiveness and our capacity to diversify the economy.
- Over time, poor productivity will erode our living standards. There are no silver bullets here – the problem requires a comprehensive policy response.

- Our demographic profile is transforming. And if we don't do something to shore up the fiscal sustainability of governments across the federation, we simply won't be able to afford a decent future.
- Our tax system, in its current form, will not meet this challenge.
- Our federation is not functioning and if we don't fix it we won't tackle the country's unfolding fiscal problems.

Alongside these worrying signs, there are also tremendous opportunities.

- The digital economy will transform every aspect of our lives but I'm not sure we have the policy settings to take advantage of it.
- Asia will be the growth story for the foreseeable future but the last two weeks have shown tremendous confusion about the right course of action to capitalise on the Asian opportunity.

At a more fundamental level, we have the challenge of convincing the community of the benefits of growth and the risks of decline.

As long as people feel they're not benefiting from growth, they will reject the policy reform needed to lock in national prosperity.

All this is not about scaremongering – it's simply the way it is.

And, as we've seen in Europe, and indeed at the state government level, the longer warning signs are ignored, the more abrupt and difficult the adjustment will need to be.

Both the challenges and the opportunities are clear to all of us, and our two sectors have a collective responsibility to prepare Australia to meet them in the best way we can.

In a nutshell, business and government have to work together to grow the size of the economic pie in a rapidly changing environment.

An effective tax system helps grow the pie, the right infrastructure helps grow the pie, efficient regulation grows the pie ... and so on.

Business wants and expects the public sector to recognise and respond to that.

And one of the essential steps is for public servants and governments to get a better understanding of how business works.

If you'd had a better sense, in recent years, of how particular policy decisions would affect business on the ground, chances are some of those decisions might have been very different.

The importance of growing the pie is relevant for each and every one of you. Not just those of you who work in Treasury or Finance.

It must be the domain of every department, every public servant, every piece of public policy.

Because without a strong, growing economy the parts of the public sector concerned with services, infrastructure and wealth distribution will be constantly under threat.

Proper process

So let me turn to three areas we must improve to create a high-performing public sector.

Let's start with the policymaking process.

The policy process is a problem across Australia, not just in the federal sphere.

If we think about some of the most divisive issues in Australia, you don't have to look at them too hard to see how poor policy process has contributed to that.

We now have major policies unravelling before our eyes because:

- the process was poor
- the architecture was wrong – a pre-determined political compromise dressed up as economic reform

- the assumptions flawed
- the consultation disingenuous, and
- the communication, at best, opaque.

The fiscal implications of these flawed processes is huge.

Complex things done badly, political reforms disguised as economic reforms, are hugely expensive.

And not only in financial terms.

They squander the community's appetite for reform, and its trust.

The people in this room know that good policymaking process is:

- backed by evidence
- always comprehensive, with a view to the long term
- based on sensible time frames and done incrementally
- allows for alternatives to be considered, contestable ideas to come forward, and
- it informs and brings the community along.

Good policymaking processes are the last line of defence against the whims of short-termism and that is what a high-performing public sector can and must provide.

Apart from getting the process right, the public sector has a responsibility to lead long-term policy reform. To take on the next wave of structural reform that will shore up our prosperity.

Only you can lead and coordinate the decade-long tax reform we need.

Only you can tackle the 50-year agenda to restructure the federation.

Only the public sector can plan for Sydney and Melbourne as cities of 8 million people, and drive the integration of transport and land use to service them.

But getting the process right and tackling the big issues requires the vision and capacity to start all policymaking processes by asking the right questions.

On carbon pricing, I ask myself should this have been part of a broader conversation about developing a long-term energy policy for Australia. What was the right starting point?

Instead of asking how many gigalitres of water could flush out the mouth of the Murray, we could have looked at how to restructure the agricultural sector to become one of the leading food providers for Asia while preserving the icon assets of the Murray–Darling Basin and the health of the river.

While a high-performing public service is still answerable to its political masters, the policymaking process can and must transcend political cycles.

Most importantly, it must independently and diligently put the right things on the agenda.

Decision-making process

It follows then that when policymaking is flawed, so is important public decision making – and not only the decision itself but the whole planning and prioritisation process that underpins it.

Looking back in 10 years time at how taxpayers' dollars were spent between 2005 to 2015, the questions **will** be asked:

- have we got a high-speed train to anywhere?
- a different teaching/learning model in Australian schools?
- have we resolved Sydney's congestion problems?
- are our ports and freight systems going to allow us to compete in the Asian Century?

More importantly, have we changed the fundamental productive capacity of our economy to prepare for a very different future?

In each case, I fear the answer will be no.

This is not to be critical of government. The GFC stimulus was vital but it highlighted major deficiencies in long-term planning.

All agencies should be ready to spend serious money on worthwhile projects that build our economic capacity and improve social progress – like critical infrastructure.

We've known about our productivity problems for years – you should all be in a position to recommend productivity-enhancing projects if and when the fiscal opportunity arises.

Over many years, the Business Council has promoted the importance of cost–benefit analysis to evaluate major public expenditure, particularly in infrastructure.

But we are still seeing decisions made about regulation and spending programs involving large amounts of public funding without proper, transparent analysis of the costs, benefits and risks.

This is not just an issue of how public monies are spent. It creates much broader problems.

When the community sees big money going to projects where the benefit is not clear, they lose confidence in the broader decision-making processes of government.

This undermines support for economic reform, and the importance and value of growth.

Decision making underpinned by good practice is also the only way to unlock private sector confidence and investment – if business doesn't trust the process, they'll hold back.

We want cost–benefit analysis used for every decision that carries serious implications for the community – and that includes business. And we want the analysis to be forward looking, transparent and focused on implementation.

In government, unlike many large businesses, changing course is so difficult. Therefore, decisions have to be made with optimum care upfront.

Regulation

If I can turn to the issue of regulation – you would be surprised if I didn't raise regulation this afternoon.

The truth is good regulation plays an important role in a modern economy.

Business is not anti-rules or regulation. We just believe they need to be set according to sensible and transparent standards, that clarify the parameters of the game and protect property rights, without restricting freedom.

The Business Council does not believe that processes for rule making in Australia are getting this balance right.

You only need to look at the stock of regulation we have and how fast it's growing to know that something has to change.

- At last count, Australia had well over half a million pages of regulation and 24,000 licence requirements across the country for a range of activities.
- Across Australia there are 14 separate pieces of legislation that deal with anti-discrimination.
- It takes 10 years-plus to get a major project approved, and the list goes on.

This is happening at a time when Australia is experiencing significant structural changes.

Poor, unnecessary regulation reduces business competitiveness and discourages productivity-enhancing innovation.

It limits our ability to adjust quickly to changing circumstances.

Australia was recently ranked 96th out of 144 nations on the World Economic Forum's Global Competitiveness Index for regulatory burden.

A lot of this comes down to poor process.

Committing to regulation in response to a hot media issue and without thorough public discussion, analysis and debate is not good process.

This is bad for all of us. But it can be turned around – not by you or me but by encouraging the Australian community as a whole to reconsider our expectations of what governments can and should regulate.

In the context of this conference, the Business Council has today released a paper outlining what we believe to be sensible standards for rule making.

We developed these standards by looking around Australia and the world at principles and guidance considered to be best practice.

Our standards are based around the following five principles:

1. The problem to be solved *must be* well understood. That is, before government seeks to regulate, it must understand the problem or policy priority in depth and test the case for regulation, along with the risks and consequences of not regulating a particular activity.
2. *New regulation must be subject to cost–benefit analysis.*
3. *Regulation needs to achieve its objectives at the least cost.*
4. *Regulators must perform efficiently, and*
5. *Regulation must be constantly reviewed.* We are calling for mandatory five-year statutory reviews and legislation to effectively expire at least every 10 years, if not sooner. If legislation is to continue, a new business case would need to be developed.

Effectively, what are we saying with this document is that before government responds to a problem by making a rule or law, it needs to ask three questions:

- whose costs will rise as a result?
- whose choices will be constrained?
- whose freedoms are being compromised?

Trust me, if you deregulate, you will unleash innovation, you will foster growth and you will unlock creativity at the community level.

We recognise that some of these principles are not new, and already feature in governments' guidance materials, and we know people are trying. The Prime Minister's Business Advisory Forum was a welcome initiative.

But we have simply not cracked the culture of poor and unnecessary regulation.

They are commonsense propositions, but performance against them all too often falls short.

For this reason, we'll be using the standards to hold governments accountable for regulatory outcomes.

Of course, when I talk to people about regulation, it's not always the regulation that's the problem, but the regulator.

Their influence on the increasing burden of regulation is far less easily tracked than that of rule makers. But it's just as important.

We want to see regulators use their powers to look out for the nation's long-term economic wellbeing.

What we don't want to see are regulators exploiting these powers through ideological crusades.

Regulators should explain their role and actions to the community but they shouldn't be celebrities.

To finish

This brings me back to where I started this afternoon.

I fear these things I've been talking about, these standards and the kind of big thinking they afford, will not happen within the kind of public service we have now.

So to finish this afternoon, I want to put forward five practical game-changers for restoring your authority and legitimacy.

1. Halve the allocation of personal staff in ministerial offices and establish a mandatory code that prohibits them from directing public servants.
2. Reinstate the tenure of the departmental secretaries.
 - There will be very different views on this but I do not believe the contract system could give us a Nugget Coombs or a CJ Bradfield.
 - What it cultivates and rewards is reticence and timidity – not the tough thinking we need to deal with complex challenges.
 - It opens the door on a culture of intimidation and bullying of public servants. An environment where merit can be substituted for favouritism.
3. The public sector has to be smaller, more focused and more productive.
 - We need clear fiscal rules for determining the size of the public service based on our ongoing capacity to pay. We don't want 'boom and bust' times in the public sector.
 - We need clear productivity measures for the public sector. We need to remember that public sector spending accounts for around 25 per cent of GDP. If we improve public sector productivity, we improve national productivity.

We need a comprehensive audit of the scope and size of government to forestall the need for tough corrections like we're seeing in Queensland.

4. Rethink service delivery.
 - We have to dramatically rethink the way we deliver some public services and let go of things that aren't working.
 - Consumers will dictate how they want services delivered but there's a big question mark about the public sector's capacity and willingness to respond.
 - Leaving aside our different views on the NBN, the real conversation now has to be about how we use it to change the way we deliver public sector services and, across the economy, lift our productivity.
5. Introduce simple performance management systems across all jurisdictions and remove the 'no forced redundancy' policy.
 - You can't have a high-performing sector where people can't be dismissed for poor performance, even if that is more perceived than real.
 - Or where people don't have the two performance management discussions a year with their supervisor that are standard form in the private sector.
 - Or unless every public servant has a clear career plan and professional development strategy.

I know that versions of these systems exist. But I question their effectiveness given that one of the continuous frustrations I hear from friends in the public service is the failure to tackle poor performance.

Other general suggestions I'd offer before finishing ...

Make whatever cultural and structural changes you can to nurture long-term policy thinking capacity.

- All the while the kind of creative, long-term strategic thinking I'm calling for is not being practised, the skill is being lost.
- I see little value being placed on specialist policy skills, with the possible exception of Treasury.
- And while generalist skills have their place, they are not the kind of skills public servants need to navigate increasingly complex challenges and relationships.
- There needs to be a new way of structuring things so people can work on long-term policy development, free from the day-to-day responsibility of serving ministers.
- There needs to be avenues for smart, young public servants to have ideas and be promoted based on talent. Reward the innovators and the risk takers.
- Promote the public service as a good place to work in schools and universities.

Still on cultural and structural issues – there has to be a way to get past the irrational trench warfare between departments. Most notable, the long running but increasingly unhelpful tension between finance and the social departments.

- But also the tension between social departments even where they are working together on the same programs.
- Indigenous programs are a sad, standout example of this and our member companies are confronted with it every day in their efforts to support economic development.

None of what I've suggested today is easy but we can't continue going the way we're going when it's clearly not where we need to be.

And if you're sitting there thinking that what I've said is all very well but that what I'm asking of you just isn't real, I'd say that's a cop-out.

Yes, you all operate within constraints. And yes, a whole lot needs to change at the political level.

But there's a whole lot you can do too.

You can't wait for permission to take on the agendas I've been talking about.

You have no option but to take account of political realities around pragmatism, incrementalism and compromise. But it's one thing to understand the art of the politically possible and another to second-guess it.

Australia can't afford for you to be passengers, spectators, victims of political short-termism.

The reality is that good ideas ultimately percolate to the top, providing they are well thought through and grounded in good process.

We have to remember that there are many talented, visionary people in political life ready to partner with a high-performing public sector to get important things done.

I urge you to think big and to take steps to regain control over your world.

To do what you can to build a public sector driven by excellence, that attracts the best and brightest, and channels their talent and their skill to create a prosperous, progressive and decent society.

Thank you.

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The Business Council of Australia (BCA) brings together the chief executives of 100 of Australia's leading companies. For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole.

Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.