1

DELIVERING UNDER PRESSURE: PUBLIC SERVICE, PRODUCTIVITY AND PERFORMANCE

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We have no money. Economic circumstances are driving the imperatives for change in government and the search for alternative approaches in behavioural incentives.

—David Halpern, UK Cabinet Office, Behavioural Insights Team, 2013

Austerity should be used as a springboard to explore new models, productivity and innovation.

—Director-General, Australian State Government, 2013

Productivity isn't everything, but in the long-run it is almost everything.

—Nobel Prize Winner, Professor Paul Krugman, 1994, p. 11

This volume of essays is focused on public sector renewal in the context of 'austerity'. Previous Australia and New Zealand School of Government (ANZSOG) volumes have explored implementation and project management in the public sector; collaborative governance and working collaboratively with the non-government organisations (NGOs) and third sector; inter-jurisdictional and intergovernmental policy relations; managing the Global Financial Crisis (GFC); attracting political interest in delivering policy reform and making it 'stick'; citizen engagement and putting citizens first in service delivery; and learning from disaster management to future-proof the state and society. In all of these

books ANZSOG has striven to be relevant and engaging to governments, public sector executives, policy practitioners and service deliverers. The latest edition is no less aimed at relevance and engagement, but has a harder managerial edge. It will examine in practical ways how governments can best respond to the ongoing conditions of austerity. It is also an agenda with which most Western societies will have to wrestle for some time: perhaps the 'new normal' for modern government into the future.

At the onset of the GFC, most Western governments thought it would likely be a short-term correction and that expedient Keynesian and regulatory initiatives would avert global recession. However, the nature of the global crisis kept changing, morphing from one type of crisis to another. It began as a sub-prime housing mortgage crisis, then became a banking credit freeze, leading to a broader credit crisis, then a macro-economic crisis lowering investment, confidence and creating higher unemployment and finally into a fiscal crisis impacting on government budgets.

Today, most advanced nations are locked in various fiscal straitjackets that have caused a near-universal resource squeeze on public sector provision and government policy appetites. The resource squeeze is close to a worldwide phenomenon. Governments are experiencing sustained structural deficits, expenditure overhangs, increasing levels of debt and debt-servicing charges, bringing in turn renewed pressures to privatise public services and increase user-charging. There is growing concern that these austerity strategies may perversely reinforce the economic downturn and continuing fiscal crisis. Moreover, fiscal problems have also led to crises of confidence among constituencies and increasing questions as to the sustainability of many areas of public policy. The value, funding and management of policy and program areas is widely coming under scrutiny with calls for circuit-breaking change and a transformation in the ways of doing business. So how do we respond in such circumstances?

Responding to the new fiscal context: New pressures, new modes of governance

Governments worldwide have responded to their cash-strapped predicaments in various ways: some political, some fiscal, some technical or managerial. Some have tightened entitlements and eligibilities for selected constituencies; or they have deferred spending on projects or programs. Many have imposed severe budgetary disciplines across their own public sectors and the services provided (including where possible broadening revenue bases). Some governments have radically downsized.

Australasian governments have not yet had to resort to the deep austerity measures that many southern European nations have been forced to implement. Nonetheless, our governments are still imposing expenditure reductions, reducing the size of the public sectors, de-scaling activities in agencies, and increasing revenues by using various forms of co-payment and special levies, and exploring the possibilities of shifting areas of responsibility back to citizens and communities themselves (shifting costs). And changes in government may produce further edicts to reduce spending or implement agency cutbacks.

We are also seeing a reassessment of government itself. The mid-2010s may be heralding in fundamentally new thinking about governments' roles, responsibilities and the ways of achieving its desired outcomes. We may be transitioning into a new mode of governance, marking a distinct departure with previous ways of thinking about the nature of government. Broadly, we may characterise these previous eras as ones of leap-frogging providence and managerial reform, whereas today we may be heading in a direction of radical re-engineering, with innovation founded on frugality.

- The 1960s was an era of government expansion, programmatic investments and seemingly endless policy possibilities (the so-called 'great society' reforms); governments still struggled to manage budgets.
- In the 1970s, expansionary governments hit the first wave of crises (oil shocks, post-Vietnam debts, the end of Bretton Woods, stagflation); governments talked of 'hard times' but often carried on business as usual.
- The 1980s was an era of structural reform and managerialism (new public management (NPM)) within public agencies; budgetary surpluses were produced across Australasia and in many other Organisation for Economic Development (OECD) nations.
- In the 1990s reforms stalled, outsourcing and contract management were increasingly favoured for services giving known 'prices' for program delivery.
- By the 2000s revenue growth was considerable, and there were few internal disciplines on government or pressures for reform; non-discretionary spending became a very significant component of public finances (up to 80 per cent of expenses in some nations such as Australia).
- The 2010s—post-GFC and some fiscal stimuli; governments begin to consolidate their fiscal position, belt-tightening, downsizing, allowing programs to lapse; there is mounting pressure for significant innovation and functional reforms.

Paradoxically, while embracing notions of austerity, there remains scant evidence that governments have developed an appetite to be doing less. Governments continue to want to intervene in society—formulate new programs and tackle

new challenges—often with their own political survival in mind. Their political instincts remain activist, interventionist and regulatory; and heightened community expectations continue to impose pressures for additional services, qualitatively improved services and spending augmentations. Whereas once the rationale for government intervention was ‘market failure’, we are now also addressing perceived new complex community failures in many areas of social provision. This has become a present-day global conundrum of governance—governments trying to do less but still wanting to do more, and becoming more comprehensively enmeshed into new and emerging policy sectors (e.g. aged care, vocational training, early childhood education, climate change, and environmental issues).

Hence, in the current context and for the foreseeable future, governments are going to have to manage more smartly, for improved efficiency and greater productivity. Demands for better or additional services will require governments (and the policy process more generally) to find improved ways of doing business. This challenge will affect policy design, program management and administration, and a reconsideration of processes and procedures.

To date, existing reform efforts in the public sector have tended to focus on high-level reform blueprints, initiated from the centre and focused on policy, accountabilities and system-wide changes. Often the *capacity* of the public service to implement reform efforts is ignored or shown lip service. Many reform initiatives have failed to acknowledge service delivery imperatives, and indeed some have arguably disrupted operations, diverting attention away from the efficacy and efficiency of service delivery. Various efficiency dividends, ostensibly imposed to improve efficiencies, have reputedly eroded actual capacities. A corresponding thickening of monitoring and oversight processes has mired frontline personnel in red tape and compliance issues.

So, how do we improve productivity in public agencies and harness innovation across policy areas, and what impediments stand in the way of better efficiencies? How do we realistically and sustainably deliver better services for government and the community? What practical and achievable ways can we pursue to meet increasing expectations in a highly constrained environment? How can we reposition ourselves internationally to meet global challenges, making ourselves more adaptable, leaner and competitive? These are the fundamental questions we are addressing in the latest ANZSOG collection of essays, *Managing under Austerity, Delivering under Pressure*.

The volume will canvas such issues under six themes:

1. How should governments crystallise their core choices to maximise their input and value for money?

2. Why and how should we use the current era of austerity as an opportunity or springboard to improve policy and delivery?
3. Can we find ways to enhance the adaptive capacities of government and its delivery systems (adapting its provision), including new models of provision (adopting models from other contexts or jurisdictions)?
4. How can the productivity of government providers and hybrid provider networks be improved?
5. In what way can experimentalism and frugal innovation as ways to improvement be encouraged?
6. How can we find ways to manage community expectations and make expectations more realistic in the current austerity context?

Enabling governments to crystallise their core choices requires them to exercise forms of self-discipline by asking a series of basic questions. For what purpose does government wish to act or intervene? Where and how does government seek to have an effect? Are governments forced to act through various market or community failures or do they choose to act themselves? What roles or partial roles do the government wish to fulfil? How can governments ensure effective delivery systems especially involving complex value chains? Governments will thus have to be far more explicit in defining and defending where they choose to have an impact. They will need to articulate some overarching strategic directions with long-term sustainability in mind, choosing their preferred scale of responsibilities carefully. In many ways, and especially given our recent histories, this represents a huge task for elected governments.

Austerity measures and downsizing are often deeply painful exercises; but they are also opportunities for re-examining how we do business. Even as governments impose such measures, they know that the present strictures will be insufficient to rebalance the books as well as meet the new demands for additional services. Maybe the old ways are no longer adequate or appropriate to the new circumstances—especially given the combination of new technologies and more educated and skilled communities. Limits on budgets or staffing in public agencies are not necessarily limits on policy impacts, but searching for alternative modes of provision will call for new thinking and more open mindsets. The challenge for public managers is how to build a positive and inventive culture contemporaneous to downsizing planning or after going through the downsizing exercises. In many agencies this calls for new types of leadership and managerial mentalities. The agenda of austerity makes imperative a fundamental rethinking of the ways in which public services are delivered, innovations are identified and adopted, outcomes are measured and the quality and responsiveness of services are assessed.

Going forward, governments will have to be less monolithic, hierarchic, conservative, inertia-ridden, risk-averse and controlling, and explore new ways to enhance the adaptive capacities of delivery systems. There are many viable new models of provision and incentive structures (including greater involvement from the community through social benefit investments, greater community ownership, crowdsourcing, etc.). But such adaptive capacities cannot readily prosper under traditional constraints and narrow accountabilities. Alternative models will require sharing power and responsibilities, granting more autonomy to providers, accepting more diversity and customisation in provision. These qualities in turn raise new challenges for governments motivated by conformity and standardisation.

There are major impediments to improved efficiencies and effectiveness in program delivery in the existing public sector. Productivity improvements will involve policy redesign and business re-engineering, not merely to improve input ratios but to enhance service quality and the effectiveness of outcomes. This is a complex iterative process involving allocative and technical efficiencies, lowest cost, scale and specialisation, effectiveness indicators, and analysis of the determining causes of net changes in performance. It will require the greater involvement of hybrid provider networks, especially to deliver heterogeneous services such as health, education, social services, defence and even regulatory and public order services. Above all, an emphasis on productivity involves governments being prepared to drive reform through 'performance accountability' rather than remain preoccupied with 'process accountability'.

Alongside the importance of productivity lies the capacity to innovate and experiment. Innovation in the public sector is less motivated by the imperatives to bring new commercial products to market, but rather to transform the nature of production processes or service provision to radically change their form for the better. Innovation is a process of discovering latent potential or hidden possibilities, or a 'perpetual search for new capabilities'. In public agencies, innovation tends to rely on conducive cultures, supportive leadership, learning and nurturing, autonomy and a preparedness to learn from failures, as well as in responses to crises and major challenges. Innovation can occur with the *instruments* used to deliver some value (e.g. technological developments, software innovations, improved human resource management, budgetary flexibilities), or with the *output/services* themselves (e.g. co-production, product redesign, radical re-engineering).

We can also think of stimulating innovation in various phases of the public service *value chain* (agenda-setting, formulation, consultation, implementation, etc.). The vast majority of innovations are 'new to business' rather than 'new to world' initiatives. In the current context of austerity, agencies may be

encouraged to explore forms of learning from others (including *frugal* innovation, experimentalism, contestable or randomised trials, forms of ‘nudging’ and other behavioural incentives as ways to improvement).

In some cases, innovation can spur productivity improvements and create so-called ‘radical efficiencies’ (different services at much lower cost), but in others innovations can create additional work or consume more resources (perhaps to enhance an output or service, such as enhanced information technology (IT) services). Hence, the challenge for governments today is to imagine service systems that unleash the potential for innovation—harnessing the energy, knowledge and networks of local providers to improve services, while also ensuring high standards of accountability and appropriate risk management.

Our final theme concerns the gulf between what governments can sustainably deliver and community expectations of what governments ought to deliver (within prevailing fiscal parameters suggesting no increases in taxation and little tax reform). Despite the GFC, it is not apparent that community expectations have become more realistic or de-scaled—and, indeed, in new areas of policy they have become more ambitious. Governments have not been good at managing expectations and indeed have often contributed to their inflation. Managing in the current context of austerity implies that expectations have to be contained—not only for the legitimacy/credibility of elected governments but also for the levels of satisfaction and trust in public delivery systems more generally.

Practical and feasible strategies to deliver better under pressure

These themes strike at the very core of the relations between government and the community. As public officials what should we do in this challenging new setting? Arguably, we need to think of ourselves as stewards of sustainable public outcomes investing in more efficient and effective modes of delivery. In addressing these themes *Managing under Austerity, Delivering under Pressure* will explore four key strategies that are practicable and feasible in constrained resource contexts, and which can be used to assist the necessary future adaptations and transformations. These are:

1. Strategies to assist governments embrace smarter thinking to deliver better value for money, offering alternative modes of delivery and involving an array of incremental improvements to business practices (‘doing a thousand things a bit better than yesterday’).

2. Strategies to engage the real ‘doers’ in experimentation and innovation—taking devolution seriously to empower the frontline providers and local deliverers in producing innovation and making practical transformations (including non-government deliverers).
3. Strategies to encourage bottom-up input and creative suggestions about how greater productivities can be achieved (harnessing ‘great ideas’ from the coalface or the frontline counter).
4. Strategies to test the appetite for more radical transformational change in public policy delivery—asking how far governments are prepared to reconceptualise or re-engineer their delivery options.

These strategies may not sound all that radical, but on closer inspection they pose major challenges to many traditional government departments and public organisations used to the incremental expansion of their roles and responsibilities, working from standard operating procedures, displaying defensive cultures and risk-adversity, as well as assuming that additional resources and staffing would follow increased policy responsibility. Some of these challenges are inevitably cultural in nature, some philosophical in origin, some confronting institutional norms and conventions, and some involving threats to bureaucratic hierarchies or executive power. For example, cutting across all of these domains are the challenges of promoting local innovation and encouraging other areas to ‘adopt or adapt’ acknowledged successes.

To progress these strategies we need to re-examine the question of what distinctive contributions a plethora of institutions and actors can make to deliver improved outcomes and where they can best make these contributions. These institutional actors include government, the private sector, the not-for-profit organisations and voluntary organisations and various community bodies and groups of citizens. They are all institutional forms of organisation made up of people operating within incentive structures. This requires us to understand the benefits and costs of new forms of service delivery, free of the historical biases dictating which policy instrument has typically been given carriage of delivery—public bureaucracies, markets or community associations. We will need to re-examine our normative presumptions and choices, and begin with a fresh look at possibilities guided by efficiencies and effectiveness.

Clearly, in some quarters we will need to overturn old cultures of ‘in-house’ autarky and complacency in public bureaucracies—in particular to gain a better alignment between citizen expectations and service provision. This will impact on incentive/disincentive exchanges between institutions and actors; managerial discretion and initiatives; labour market flexibilities and the relaxation of imposed rigidities; the exploration of forms of hybrid integration between public and private providers in delivery chains; and collaborative partnering

between complementary actors. We may also need to overturn the pervasive community mindset that governments *can* and *should* be expected to solve every passing problem society identifies, and in particular find ways to improve communication between government and the community to enable a better understanding of priorities, context, circumstance and mutual responsibilities.

The overriding intention of *Managing Under Austerity, Delivering Under Pressure* is to find practical ways to gain more value from inputs and resources in delivering effective outcomes across our various domains of public policy. It is a challenge we hope to share with the reader, so they can take back these concepts, ideas and practical ways of doing the business of government under today's more productive imperatives.

Reference

Krugman, Paul. 1994. *The Age of Diminishing Expectations*. Washington: The Washington Post Company.

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