

OPTIMISING APS FINANCIAL MANAGEMENT SETTINGS AND PRACTICES

Recommendation

In order to optimise the long-term efficiency and effectiveness of Australian Public Service (APS) expenditure on supplementing its capability and capacity with external expertise and support, we recommend that the APS Review considers:

- The risks that the Commonwealth seeks to mitigate through current financial management settings and practices
- How well existing financial management settings and practices mitigate these risks, including the nature and extent of any unintended consequences such as market distortion through demand-side impacts
- Whether alternate financial management settings and practices would achieve better outcomes for the Commonwealth.

It is appropriate for the APS to leverage external capability and capacity

The APS has long supplemented its internal capability and capacity with external expertise and support.

This is entirely appropriate for modern organisations, and particularly appropriate for the APS given its operating environment continues to evolve and increase in complexity.

Australia is best served – both now and into the future – by an APS that maximises the value achieved from sourcing this expertise and support from the marketplace.

However, current financial management settings and practices distort the demand side of the market, therefore undermining the APS's ability to do this.

The APS can maximise its return on investment through managing demand for external expertise and support across annual financial cycles

Notwithstanding the influence of external macro-factors such as election cycles, the APS's demand for external expertise and support should be relatively consistent; that is to say, the APS's demand curve for external expertise and support should be reasonably flat.

However, current financial management settings and practices mean that the APS's demand for external expertise and support is particularly (and artificially) high in the lead up to – and around – the end of every financial year.

This can negatively impact the Government's ability to maximise return on associated expenditure for the following reasons:

- Higher prices – The Government effectively pays an end of financial year premium given increased demand, equivalent to surge pricing.
- Reduced quality – Services commissioned around the end of financial year can suffer in quality for two main reasons:
 - Reduced capacity of consultants given the cumulative effect of artificially high demand across all APS departments resulting in reduced oversight of senior consultants and/or reduced overall effort
 - Compressed timeframes (e.g. to ensure deliverables are substantively completed by 30 June) can negatively impact the quality of thinking applied to projects compared to those undertaken without this constraint.

Current settings and practices are designed to address specific risks to the Commonwealth. While these settings and practices may have been appropriate in a previous context, there may be an opportunity to apply more contemporary approaches.

Moreover, it may be the case that some existing practices may be deemed to be required to meet legislative requirements when, in fact, they may not be required (e.g. local agency lore overriding actual legislative requirements).

In summary

We are encouraged by the APS Review and look forward to its conduct and recommendations. This presents a significant opportunity to review existing settings and practices across a range of dimensions, and to help to deliberately guide the APS in wise directions for the benefit of all Australians for years to come.

Yours sincerely



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