



# Submission to the Australian Public Service Review

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2018



## Overview

The Department of Infrastructure, Regional Development and Cities (Infrastructure) covers policy, projects, programs and regulation, with activities ranging from implementing the Western Sydney Airport project, regulating the import of motor vehicles, negotiating City Deals, developing regional programs and managing Australia's external territories.<sup>1</sup>

The recurring and emerging challenges faced by the APS - most notably, population growth, globalisation and technological change - are changing the policy landscape generally, and leading to changes in the way Infrastructure approaches policy, engagement and implementation. This includes preparing for changes in technology such as automated vehicles, new engagement approaches such as City Deals and being a more active investor in infrastructure including through direct equity investment in projects.

In considering how best to ensure the APS remains fit for purpose in the decades ahead, this submission focuses on three areas that we consider warrant focus in the APS Review: staff and structure, external engagement, and risk management. Staffing and structure issues of note include recruitment and probation arrangements, rewards to specialisation, mobility in and out of the APS, hierarchy and oversight, and flexibility in the ASL cap. Engagement issues relate to the APS' capability to foster authentic connections with communities, and productive partnerships with state and local governments. Finally, there are issues relating to how the APS might better manage risk while fostering entrepreneurship and innovation.

## Context – The Changing Policy Landscape

Australia's policy environment is changing in the face of a number of powerful economic and social forces. Of particular relevance to Infrastructure are population growth through migration, globalisation and technological change (Attachment A). These three forces present great ongoing opportunities for Australia to seize. But, they can also lead to uncertainty and apprehension in parts of the community, as the benefits and challenges are not spread evenly across Australia. For the first time the Lowy Institute Poll in 2018 found that the majority of Australians oppose the current rate of immigration<sup>2</sup>. On the other hand, three quarters of Australians believe globalisation is 'mostly good'<sup>3</sup> and the vast majority of Australians are not concerned that technology will negatively impacting their work opportunities<sup>4</sup>.

The need to meet elevated community expectations has important implications for the APS. For Infrastructure there will be increasing demands to deliver infrastructure and adapt regulation to accommodate a growing population. We must find new ways to engage other levels of government and the community to deliver on government initiatives. The Department is not alone in these challenges. Across the APS, agencies will face increasing demands that require preparation and adaptation.

### Policy

Policy development has always been a challenge, but there are rising expectations from the public for more rapid responses to policy problems. Infrastructure, as a primary transport regulator, will be

<sup>1</sup> Infrastructure administers the Ashmore and Cartier Islands, Christmas Islands, the Cocos (Keeling) Islands, the Coral Sea Islands, the Jervis Bay Territory and Norfolk Island. The department also manages the Government's interest in the Australian Capital Territory, and the Northern Territory.

<sup>2</sup> Lowy Institute Poll 2018. <https://www.lowyinstitute.org/publications/2018-lowy-institute-poll>

<sup>3</sup> Lowy Institute Poll 2017. <https://www.lowyinstitute.org/publications/2017-lowy-institute-poll>

<sup>4</sup> Australian Information Industry Association (2017). Skills for Today: Jobs for Tomorrow; Biddle, N. Gray, M. Sheppard, J. (2018, July) ANUpoll Job Security and the future of work: Australian workers' view. Australian National University (No. 25)



at the forefront of understanding the impacts of technological disruptions like automated vehicles. This is a complex policy issue given the uncertainty over the timing and impact of the technological change. It will require significant community consultation and any national policy response must be agreed and coordinated across the state and territories to be fully effective.

### **Engagement**

As with many areas across the APS, state and territory relationships continue to be a priority for Infrastructure as they are fundamental to our ability to deliver Government initiatives.

The Government's negotiation of City Deals is an example of active engagement by the Commonwealth with state, territory and local governments, as well as businesses and the community. City Deals allow a customised approach to address the particular needs of Australian cities. They are long-term partnerships which focus on aligning planning, infrastructure investment and governance to accelerate job creation, stimulate urban renewal and drive economic reform. For instance, the recently signed Western Sydney City Deal is an agreement with the Commonwealth and NSW government as well as eight Western Sydney councils. The City Deal is focussed on job growth and connectivity through a centrepiece commitment to connect Western Sydney and deliver the first stage of a North South Rail Link. Other commitments include a new planning partnership and establishment of an 'Aerotropolis' employment precinct alongside the new Western Sydney Airport.

The reception to the Government's City Deals has been overwhelmingly positive. State and territory governments, many local governments and other stakeholders have publically called for, or expressed an interest in City Deals for their city or region. This is testament of the desire to deliver more targeted outcomes in a location, as well as the demand for new ways of engaging. There are however challenges, as such engagement takes time and resources to identify local priorities and actions. Subsequently, there is a limit on how many high quality City Deals can be effectively negotiated at any one time.

### **Changing business models**

In recent years the Commonwealth has taken an increasingly active role in the implementation of projects and policies. Notable examples in the APS include the National Disability Insurance Scheme and the National Broadband Network.

In the Infrastructure portfolio, the Commonwealth is varying its approach both by being more discerning in project categories and by becoming a more active investor. This involves the APS being more engaged throughout the project lifecycle: from problem definition to development and delivery of a transport solution. The level of involvement aligns with the scale of the project, the nature of the Commonwealth's investment and the risks and complexities.

Projects are delivered in three main categories: Commonwealth-owned equity investment; jointly delivered; and funding delivered with conditions.

- The Commonwealth has sought to use equity investments through Government Business Enterprises (GBE) to deliver Commonwealth led projects, such as Western Sydney Airport and Inland Rail via the Australian Rail Track Corporation. Equity arrangements require that the Commonwealth be responsible for managing risks and for the operations and maintenance of the asset.
- The Commonwealth is also delivering a number of major projects in partnership with state governments, such as Western Sydney Rail and Melbourne Airport Rail, where there are



joint project teams through the planning and business case phase, requiring the APS to have a view on key issues through the development of a project. Other significant Commonwealth investments are being managed through joint project or steering committees with states and territories to oversee the delivery of major projects—ensuring the intent of the Australian Government’s commitment is being delivered rather than just state objectives;

- The Australian Government is also increasingly looking to make funding commitments conditional to better leverage investment, where there are opportunities to support broader Commonwealth objectives through the provision of major transport infrastructure. This includes key policy objectives, such as greater indigenous participation in infrastructure delivery or increasing opportunities for local contractors.

Funding for projects varies, but there is a general shift away from arm’s length grants, towards more active involvement and innovative finance. The Infrastructure and Project Financing Agency (IPFA) was recently established and transferred to the infrastructure portfolio to support this work. The IPFA provides expert advice on opportunities to apply innovative funding and / or financing mechanisms to support infrastructure delivery. Infrastructure Australia also continues to have a key role in providing independent advice on infrastructure priorities and the costs and benefits of projects through its assessment of business cases. The Department is also further investing in capacity to meet these evolving objectives.

## Response – Positioning the APS for the Future

### *Staff and structure*

The public service depends on staff capability, professionalism and how effectively these resources are deployed. This hinges on retaining the best staff, ensuring staff acquire the right skills and making sure structures support effective job matching to meet changing demands.

In the Infrastructure portfolio, there is an increased focus on financial aspects of investments requiring greater specialist financial skills. For example, some investment decisions take the form of the Government making equity investments in wholly owned companies (e.g. GBEs) or partly owned companies (such as the proposed Melbourne Airport Rail Link).

We are focused on positioning ourselves to best support Ministers through the decision making processes on whether to invest in the project, what form that investment should take and the ongoing management of that investment/GBE. More broadly there is a need for APS staff to understand standard commercial considerations but also the unique issues for government, that are different to private sector investors. One option for filling these skill gaps is to improve the flow of people in and out of the APS. This includes better utilising external capabilities (e.g. universities, consultants and think tanks) to augment and improve the work of the APS.

The structure, approach and operations of the APS reflect a framework for public administration shaped largely by the 1974-1976 Royal Commission on Australian Government Administration, and refined by subsequent inquiries and reforms. These structures provide clear accountabilities and structured guidance to junior staff. However, a faster-paced environment and a need for greater whole-of-government solutions means structures need to be flexible.

It is important that going forward the APS is able to unlock employees’ capabilities to access the value and contributions all our staff can offer. Supporting staff movement within the APS could help encourage better matching of existing specialist skills with areas of work. This can be a challenge as



there may be disparities in remuneration between agencies, perceived or real barriers between central and line agencies, or agencies may not be able to return unsuitable staff to their home agency.

APS Average Staffing Level (ASL) caps affects the ability to manage capabilities. On the one hand, the ASL cap is a good discipline on recruitment, focusing Departments and ensuring the best person for the job is hired and retained. But the cap also creates capability challenges by increasing the use of labour-hire contractors. Contractors allow the APS to employ people above the ASL cap and also engage external specialist skills that may not be required over the longer term. However, contractors cost around 40 per cent more than permanent staffing and when they leave there is a loss of corporate knowledge. The APS needs to consider the optimal level of ASL but also ensure that the flexibility provided by hiring contractors is maintained.

**Some questions for the Review to consider include:**

Recruitment systems

- Does the APS use best practice candidate screening and assessment techniques? Are these customised for the public service or borrowed from private sector practices? Is there sufficient accountability for interview panels that make unwise recruitment decisions? Do recruitment processes actively promote diversity? Does the public service promote itself effectively to job seekers with the skills needed?

Probation and performance management systems

- Does the APS allow sufficient time to test new recruits before a probation decision is made? Is underperformance addressed in a timely and effective way? Is performance pay and promotion sufficiently focussed on merit?

Promotion and reward systems

- Does the APS adequately reward specialised skills? Is there too much of a one size fits all approach to pay and conditions across the APS? Should there be clearer specialist streams that move about the APS but stay within their specialisation such as the economist stream in the United Kingdom?

Transferring within and outside the APS

- Does the APS adequately facilitate the movement of expertise in and out? Are there ways to harness external expertise to build internal capability? Can we better retain knowledge with increased use of outsourcing and contracting? Can we better promote movement across agencies, particularly within skill streams? Could movement be encouraged by having probation periods for movements between agencies?

APS structure and flexibility in the ASL cap

- Does the APS ASL meet its objectives? Are there ways to make the cap more flexible such as allow agencies not to count staff while they are on maternity/paternity/long service allowing long term personal leave? How do we break down unnecessary hierarchy, while maintaining senior oversight?



### External engagement

The APS can appear isolated from Australia's citizenry, sometimes in terms of lived experience in Canberra, compared to big cities such as Sydney or small regional towns. The ideals of the APS may also be criticised as distant from the broader Australian community. The APS needs to build more authentic connections with communities. This can be facilitated through increased consultation with stakeholders, to improve transparency around how decisions are made; what evidence was used; and who influenced this decision.

The APS does excellent work but this is not always effectively communicated to the broader Australian public. Across the APS we need to think how best to tell the story of the work that is being done. To do this the APS needs to facilitate a stronger connection with parts of the Australian community who are less engaged in policy. Our ability to communicate with influence will be important, particularly for Infrastructure as we increase our role as primary implementers.

States and territories are key partners for the APS, specifically for Infrastructure. At times, with differing perspectives and politics, relations with states and territories can become strained. The APS needs to think through different systems and protocols to better maintain strong communication channels with our state and territory colleagues. Improved communication would reduce confusion and prevent future conflicts.

#### Some questions for the Review to consider include:

##### Connections with the community

- Does the APS have sufficient engagement with the community? Is the APS representative of the ideals and political views of the broader Australian community? How can the APS facilitate a stronger connection with the average person?

##### Managing relationships with other levels of government

- Does the APS have sufficient connections with other levels of government? Can the APS learn from the City Deal approach to improve outcomes on the ground?

### Risk management

A prudent and methodical approach to addressing issues is important given the wide ranging implications of policy change on the community. However, the speed at which policy and the media moves can strain the ability of the APS to respond with such robust advice. If the APS is going to be able to keep pace with the demands of the community, then it will need to examine its interpretation and assessments of risks. Enabling and rewarding experimentation requires a shift in APS culture and the acceptance of the risk of failure.

Ministers need an APS that can help them identify their appetite for strategic risk and mitigate the possibility of failures. The management of risk, whether of projects and programs, could be improved across the APS. Work needs to be done to embed a strong risk management culture, so that every employee fully appreciates that they have a role to play in identifying and managing areas of uncertainty. This means moving away from reactive and defensive risk management to proactive risk management.



Ministers make policy decisions, not officials. At times, slower moving regulation and program delivery responsibilities can abate faster moving policy development. The APS provides advice including outlining key strategic risks to enable Ministers to make an informed decision. To better improve policy design, the APS can work towards better gauging ministers' appetites for risk across their portfolio. Better understanding of risk appetites can lead to increased policy experimentation, increased speed of advice and consistent regulation.

Risk management is a recurring issue for APS reform agendas and progress has been made. However, further work should focus on evaluating the different structures and underlying behaviours which have been successful in embedding a strong risk culture.

**Some questions for the Review to consider include:**

Increasing agility while managing the inherent risk

- Does the APS have the balance right between agility and reliability? How can the APS better align its risk taking with the risk appetite of the government and the community? How should we reward and encourage experimentation and entrepreneurial attitudes within the APS?



## Economic and social forces shaping Australia

### Population Growth

Australia’s population is growing strongly, particularly relative to other advanced economies (Chart 1), reflecting increases in net overseas migration (Chart 2). This growth is set to continue, with the ABS projecting population will reach around 34 million over the next 30 years, concentrated in our largest cities. Over the next 30 years the major cities are projected to grow by around a half. This equates to around 2.5 million extra people in each of Sydney and Melbourne. Australia’s population growth has real implications for infrastructure, housing, government services, and population policy – all of which sit within or relate to the infrastructure portfolio. For example, public spending on infrastructure is closely tied to population growth (Chart 3).

Chart 1 – Australia’s population growth is high

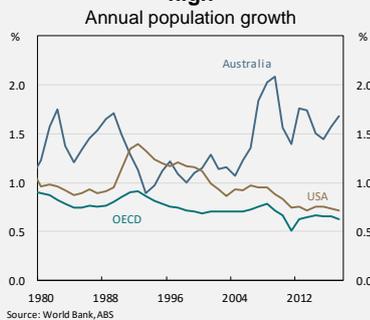


Chart 2 – Net overseas migration the largest contributor to population growth

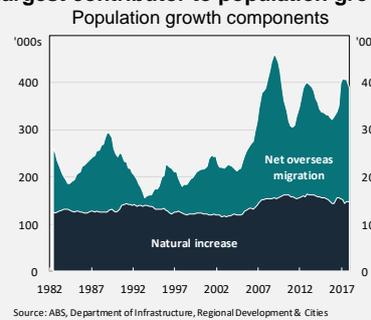
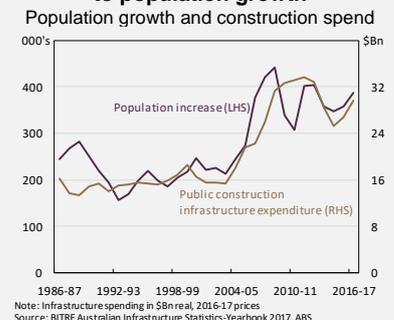


Chart 3 – Infrastructure spending is tied to population growth



### Globalisation

The global economy is better connected than ever before. Increased movement of capital, labour and ideas has contributed to economic growth and development worldwide. In the transport sector there has been a dramatic reduction in costs (Chart 4), which has prompted significant expansion in global trade in absolute terms and as a share of GDP (Chart 5).

The Australian economy has prospered from the international interconnectedness that globalisation brings, but the benefits have not always been spread evenly. Globalisation has meant the price of many goods has reduced. However, it has also placed competitive pressures on advanced economies’ lower-skilled workers as well as the regions and industries that support them. This has led to a structural transformation in the Australian economy, and an increasing focus on services employment (Chart 6), further concentrating economic activity in the big cities.

Chart 4 – Cost of transporting and communicating falling

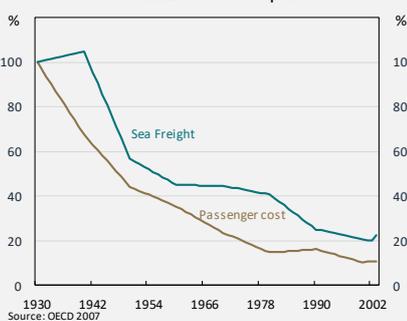


Chart 5 – Trade has accelerated

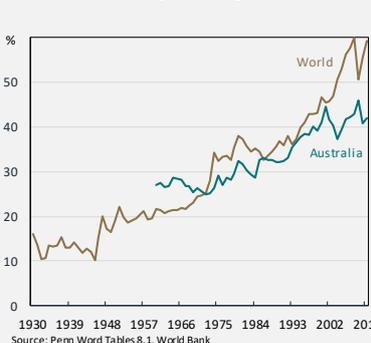
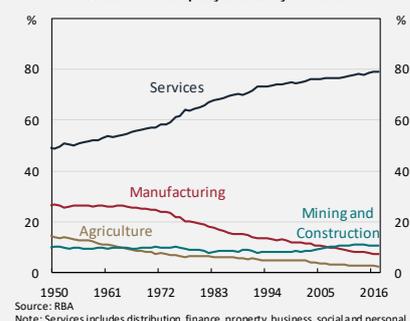


Chart 6 – Services as a share of employment has grown dramatically





Attachment A

Economic and social forces shaping Australia continued

With increased mobility, capital, goods, people and ideas are tending to locate in large cities globally and in Australia. Our capital cities account for around 70 per cent of GDP (Chart 7), and 80 per cent of Australians live and work in our largest 21 cities (Chart 8). Continued globalisation means our economy will increasingly rely on knowledge services, which have steadily increased their share of our economy over the past 30 years (Chart 9). Our cities are gateways to the global economy and the engine rooms for knowledge services industries, supported by rising education levels. On the other hand, with economic activity gravitating to large urban areas, low-skilled workers and regional Australia is facing increased strain.

Chart 7 – Most GDP is generated by cities
GDP in AUD billions

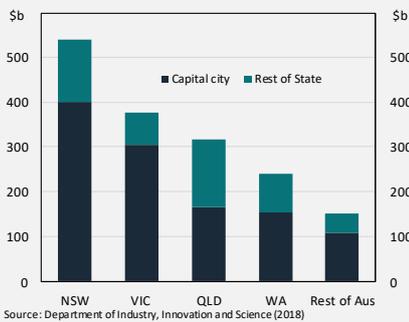


Chart 8 – More Australians living in our largest cities
Share of population

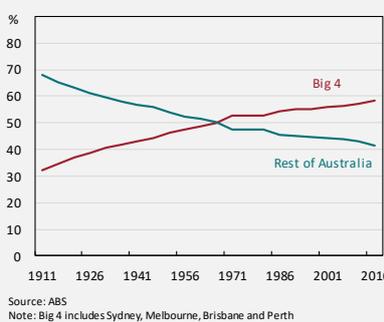
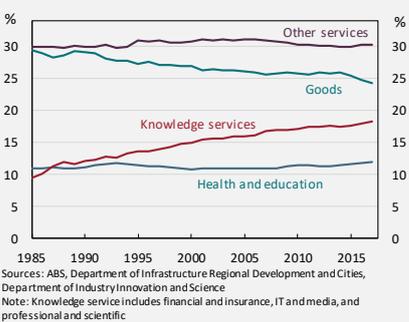


Chart 9 – Rise of knowledge services
Share of GDP by industry



Technological change

Australia will continue to see technological advances that change the nature of how and where we live and work. Global innovation has been increasing at a rapid pace. For example, computer technology and electrical machinery innovation are outpacing most other sectors in patent grants (Chart 10). New technologies and innovation are key to our future national productivity and economic growth. However, advances in automation and the application of artificial intelligence creates uncertainty, particularly for low to medium skilled workers.

In Australia over the past decade, there has been a decline in the share of people employed in routine manual jobs. Conversely, there has been an increase in non-routine work (e.g. health care) (Chart 11). People will need skills that are not easily replicated by technology, such as social intelligence and creativity. Research suggests low skilled jobs are more likely to be automated. Jobs most at risk are those related to the handling of information while growth is occurring in jobs related to the analysis of information. This is particularly relevant to the APS, given its services and advisory focus. Likely as a consequence, the APS has experienced one of the most rapid rates of upskilling of any sector (Chart 12). This suggests the APS is transforming (as it should), but also reflects the pressures on low skilled segments of the service to transform.

Chart 10- Computer and electrical innovation is growing at new speeds
Patent grants per sector

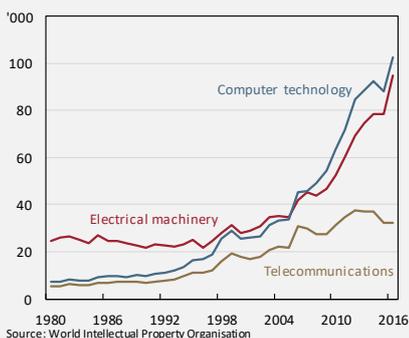


Chart 11 – Non-routine work is on the rise, while routine work is declining
Australia – employment shares by job type

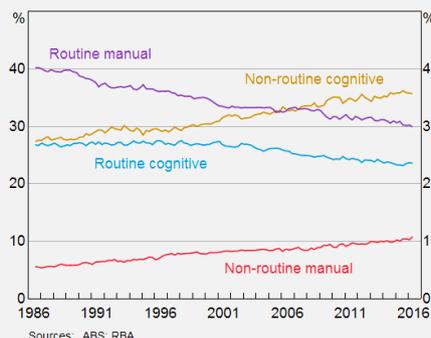
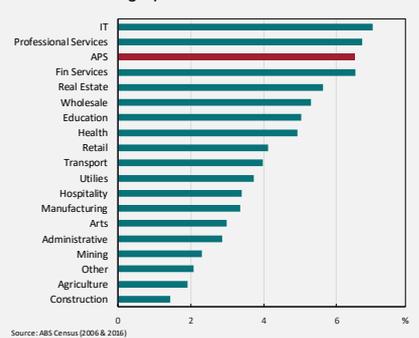


Chart 12 – APS' share of post graduate qualifications has grown more than other industries
Percentage point increase of workforce





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