

Mr Terry Moran AO
Chair, Advisory Group on Reform of Australian Government Administration

Dear Mr Moran

Thank you for the opportunity to provide a submission on the Reform of Australian Government Administration.

The Australian Risk Policy Institute is a non-political and non-profit organisation formed to promote and encourage greater focus on risk policy in leadership, decision-making and management across all sectors in Australia. Risk policy is the driver and pinnacle of risk management and must be clearly articulated by Boards and Executive Committees to ensure integrated risk management is optimised - for best-practice performance and sound corporate governance.

The Institute's purpose is:

1. To contribute to the development of risk policy covering whole-of-business-sector or whole-of-government approaches in Australia to ensure challenges, problems and opportunities facing the country are effectively addressed.
2. To ensure a risk policy approach is better understood and articulated at senior executive levels, from cabinet ministers to boards and company executives and management teams.
3. To make comment on a range of issues, including policy and legislation, from risk-based perspectives.
4. To promote risk policy development and implementation, share risk policy knowledge and understanding, provide a network for professionals interested in risk policy and conduct research into risk policies.
5. To publish papers on risk policy issues to promote community awareness, discussion and debate.

Please see www.arpi.org.au for more information about the Institute. Our Patron is Admiral Chris Barrie AC (R'td) and founding members include Tom Fischer AC and Neville Owen QC.

Consequently the Reform of Australian Government Administration provides an opportunity for ARPI to bring to the attention of the Federal Government innovative risk policy reforms that could enable strategic change across the Australian Public Service (APS). Our submission is in two parts – Part 1 – Strategic Reform and Part 2 – Structural Reform. Please contact the Institute if you wish to discuss any aspects in our submission.

Yours sincerely

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Part One – Strategic Reform

New Times require New Approaches: New Approaches require New Structures Protecting the APS Reforms from Future Failure

Introduction

1. Globalisation and the rapid pace of scientific innovation have created challenges that exceed anything we have seen before. The role and manner of operation of the APS should be seen in this light. Australia is not an island—it is part of global society. The Advisory Group made its voice clear in stating: “Our concern is that the remainder of the 21st century will present the government of the day with significant policy and practical challenges. Our task is to ensure our public administration is up to the task of supporting the government in confronting these challenges.”

The global reform agenda

2. The World Economic Forum (WEF) has stated that improving the state of the world requires catalysing global cooperation to address pressing challenges and future risks. According to the WEF¹:

- 2.1 We need to **rethink** business models, financial innovation and risk management;
- 2.2 Rethinking will trigger **redesign** whose long success will be predicated on the individuals and the institutions empowered to take action having the trust of the stakeholder communities; and
- 2.3 Decision-makers must **rebuild** trust, not only to establish the legitimacy of their redesign but also to instil confidence in their future success.

3. Rethinking, redesigning and rebuilding are invariable complex as values, norms and incentives change and, in turn, reshape stakeholder communities, social networks, governance structures and industry models worldwide.

An Australian perspective

4. Dr Ken Henry’s recent speech² to the Queensland University of Technology Business Leaders’ Forum described the economy as in structural transition in response to four long term forces:

- 4.1 Population ageing;
- 4.2 Climate change adaptation and the prospect of climate change mitigation;
- 4.3 Information and communications technology revolution; and
- 4.4 The impact on Australia’s terms-of-trade of the re-emergence, as global economic powers, of China and India;

View of the Australian Risk Policy Institute

5. The Reform of the APS provides an opportunity for ARPI to bring to the attention of the Federal Government a major innovation in the identification and management of risk; an innovation which provides a unique opportunity globally for Australia.

¹ World Economic Forum Meeting 2010 - Executive Briefing; Improve the State of the World: Rethink, Redesign, Rebuild

² Queensland University of Technology Business Leaders’ Forum, 22 October 2009

A new solution framework

6. The solution framework which the Australian Risk Policy Institute wishes to discuss with the APS Advisory Group can be summarised in the following terms:

- 6.1 We live in a world of networks; the GFC, supply chain failures, climate change, GMO's provide the evidence
- 6.2 New Times require New Approaches: new Approaches require New Structures. This is what living in a world of networks means in practice
- 6.3 As a matter of Principle:
 - 6.3.1 Policy is the highest level of consideration of purpose
 - 6.3.2 Managing risks strategically is an issue of risk policy
 - 6.3.3 Governance of risks is informed and guided by the risk policy and measured against fitness for purpose criteria in respect of the risk policy
 - 6.3.4 Risk Management is the manner by which the risk governance achieves the risk policy reliant upon a rigorous framework implemented with rigour
 - 6.3.5 This applies equally within an organisation as in a network up to and including a global network
- 6.4 The way forward is based on:
 - 6.4.1 Executives shifting from firm/agency-centric to network-centric thinking and acting;
 - 6.4.2 Elevating risk policy to a higher guiding level;
 - 6.4.3 Shifting risk management onto a new footing based on a rigorous framework implemented with rigour; and
 - 6.4.4 Working out new and in many cases enduring methods of collaboration.
- 6.5 The above applies to the APS and more specifically to the Reform Agenda

Responding specifically to the APS Reform invitation

7. The Risk is that we will get the Reform wrong. So, the Risk Policy is the protection of the Reform Agenda so that it achieves the goal established: to ensure our public administration is up to the task of supporting the government in confronting these challenges.

- 7.1 Risk Management failures associated with the Reform could present a continuing sore and potentially catastrophic points of future failure for the APS and for all those directly affected by its activities
- 7.2 A Review of Risk Management in the context of the Reform Agenda could provide the natural juncture of mutual interest extending well beyond these shores.

Summary

8. Reform of the Australian Government Administration to build the world's best public service embodies significant opportunity and risk in a turbulent world. The Australian Risk Policy Institute has an innovative solution framework purposefully designed to address these challenges. We would welcome an invitation to discuss this innovation not only for its value in protecting the Reform Agenda but also for the opportunity it represents for Australia globally.

Part Two – Structural Reform

Introduction

1. The Australian Public Service (APS) administers the policies of the Australian Government assisting the Australian economy and community to function. The effectiveness of those policies in achieving a high performing economy which supports an inclusive supported community relies on both the appropriateness of policies and effectiveness of their implementation. The APS supports the Government of the day with both these outcomes.
2. The context in which the APS supports the Government of the day to determine and deliver its manifesto is rapidly changing and is very different to that of 20 years or indeed 10 years ago. It is also very different to that which it will be in 10 or 20 years time. Globalisation and the rapid pace of scientific innovation are two key aspects of this change. Australia is no longer an island—it is part of the global community.
3. It is against the delivery of its manifesto that success of the Government is measured. Measurement is conducted using a variety of performance indicators, each of which is determined by the stakeholders.

Corporate Governance

4. Sound Corporate Governance is essential for business success in both the public and private sectors. For those private sector companies that are listed on the Australian Stock Exchange (and therefore owned by non controlling shareholders – a similar relationship to that between the Australian public and the Government of the day) there are expectations about the application of corporate governance. These expectations are defined in the Corporate Governance Principles and Recommendations issued by the Australian Stock Exchange (ASX).
5. Many of these corporate governance principles and recommendations are already embedded in the governance frameworks of the APS. For the purpose of this submission, the Australian Risk Policy Institute (ARPI) contends that Principle 7 – Recognise and Manage Risk is deficient in its authority and application across Government, the APS as a whole and in many cases the individual agencies of the APS. That is not to say that risks are not managed, rather that policies and processes do not exist to identify, manage and report on risk systematically across the business environment of policy determination, implementation and evaluation by APS agencies.
6. Broadly, Principle 7 – Recognise and Manage Risk, involves:
 - 6.1 The establishment of policies for the oversight and management of material business risks and the disclosure of those policies.
 - 6.2 The design and implementation of risk management and internal control systems to manage material business risks and the provision of assurance that they are working effectively.
 - 6.3 Assurance that financial management is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting.
 - 6.4 The use of the annual report to provide assurance on compliance with these recommendations.

7. Rather than mandating a governance framework of rules, relationships, systems and processes, the ASX is of the view that the market will pass judgment on the corporate governance practices of a listed company through analysis of its annual report (including disclosures on the extent to which a company has complied with the Corporate Governance recommendations) and, ultimately, company performance.

8. This consideration can be equally applicable to the public sector. The effectiveness of a Government in selecting and implementing appropriate policy to achieve a high performing economy which supports an inclusive community will be judged by the shareholders (voters) on election day. This concept is, to a certain degree, already being played out at a State level where a number of State Governments in Australia now produce a State Plan and an annual report on the achievement of the goals specified in the State Plan.

Reform 1

That the Australian Government issues an annual report detailing the operations and performance of the Government. This would include disclosing the extent to which risks have been recognised and managed (similar to the recommendations in the ASX Corporate Governance Principles relating to Recognising and Managing Risk).

Managing Risk through Structural Control

9. The organisational structure of the APS is a fundamental control mechanism for risks that would impact on the functioning of the Australian economy and community. This structural control is well established with core departments like Prime Minister and Cabinet, Finance, Treasury, Defence, Foreign Affairs, Centrelink and Attorney-Generals forming the foundation structure whilst other departments and agencies are created at the behest of the Government based on a high level need to control risk. The recent creation of the Department of Climate Change provides an example of this.

Reform 2

That a strategic risk assessment be conducted on the functioning of the Australian economy and community. The purpose of this assessment is to identify the strategic or highest level risks to the Australian economy and community, analyse the roles of the various government departments and agencies in controlling those risks and map each into a control matrix. This will inform an opinion on the adequacy of the structural makeup of the APS in controlling strategic risks to the Australian economy and community.

10. Each department and agency of the current APS performs a specific function with the outcomes required of each (by Government) detailed through a Portfolio Budget Statement or similar document (This will inform the analysis recommended in Reform 2). These outcomes are also subject to risk which must be identified and controlled, which is ultimately the responsibility of the Minister and agency head. This risk management currently remains shrouded in the internal workings of departments and agencies.

Reform 3

That each department and agency of the Australian Public Service includes in its annual report a disclosure on the extent to which risks have been recognised and managed (similar to the recommendations in the ASX Corporate Governance Principles relating to Recognising and Managing Risk). Details of the strategic risks and controls of the department or agency should also be made available.

Reform 4

That performance audits conducted in departments and agencies of the Australian Public Service draw on the strategic risks of the department or agency as the source for audit topics. This may include auditing the strategic risks, a single strategic risk or any of the various controls for strategic risks.

Supporting Change

11. Improving the efficiency and effectiveness of the APS in supporting the government in confronting the challenges of the 21st century is a key outcome of the Australian Government Administration reform agenda. A failure to successfully reform the APS to achieve this may result in catastrophic points of failure impacting those affected by the APS's activities.

12. We live in a world of networks. ARPI's view is that New Times require New Approaches and that New Approaches require New Structures. This is what living in a world of networks means in practice. At a practical level, the APS must look to:

- 12.1 Shift APS Executives from department/agency centric thinking and acting, to network centric thinking and acting.
- 12.2 Elevate risk policy to a higher guiding level.
- 12.3 Shift risk management onto a new footing based on a rigorous framework implemented with rigour.
- 12.4 Work out new and in many cases enduring methods of collaboration.

13. The reforms proposed by ARPI lay the foundation for practical change across the APS to improve the efficiency and effectiveness of the APS. This, of course, is contingent on Government vision and commitment, and appropriate guidance and support.

Reform 5

That a specific function of “Government Chief Risk Officer” is established for the Australian Public Service to:

- i) Oversee the identification and analysis of risks to the functioning of the Australian economy and community, including mechanisms for capturing citizen contribution.
- iii) Establish a framework for the application of risk management across the APS and support departments and agencies identify, analyse and report on their strategic risks. This would include “signing off” on the effectiveness of each department’s or agency’s recognition and management of risk.
- iv) Establish a risk based audit topic selection process.

Summary

14. ARPI welcomes any further opportunity to contribute to the Reform of Australian Government Administration that may be offered to the Institute. Specifically ARPI can:

- 14.1 Assist through an innovative solution framework purposefully designed to address the challenges of the Reform agenda; and
- 14.2 Conduct a scoping review of the Governance of the Reform Agenda with the aim, in the first instance, to identify how risks are attended to and how they are governed in each area of the Reform Agenda.

15. Further, there is a very considerable multi-professional bank of knowledge and experience across the membership of the Australian Risk Policy Institute, upon which the Government and APS are invited to draw, for further strategic and independent advice and opinion without prejudice or conflict of interest.

Tony Charge
President
ARPI

30 November 2009