**APS Review 2018 Submission**

**Background**

I have worked in both the public sector and private sector. I have also had the opportunity to work and study overseas. I have worked in the public and private sectors. My employment in the private sector has been with both a large multinational technology company and Australian SMEs.

I am now working with a small Australian SME that has clients in both the private and public sectors. For the last 30 years much of my experience comes from being a supplier of technology goods and services to the Federal Government. Hence my response is influenced by that background.

I have always been interested in innovation and have sought to be involved in some activity that involved change.

**Innovation in Federal Government**

I have observed that there is no shortage of innovative thinking within the Australian Public Service. It is constantly occurring however attempts to harness the outcomes of that activity are only rarely successful. It is now more difficult for innovative ideas from within the APS to be developed to operational outcomes.

At one point in my career I was responsible for finding examples innovation in government use of technology suitable to be presented at an annual international conference run by my employer. The company had subsidiaries in over 50 countries and they all competed for the limited presentation spots for their clients.

The quality of the material that came from within the APS was such that we were always allocated at least prominent time slot in a two day conference agenda. The audience reviews of the Australian presentations ranked in the top 5 of the conference (content and delivery) every year that the event ran. The APS was recognised by the senior management of the company as an environment that fostered and created innovation in the use of technology.

That generation of senior managers in the IT sector that had started their working life in the APS in an area of the business of an agency and had taken the chance to move to a new and emerging IT sector within those bureaucracies. They were career public servants. They had wider experience in the business of government not simply IT and they had experience in service delivery to the community, not simply management experience. They were able to take advantage of the rapid growth in the IT industry with improved productivity and lower costs and combine that with their knowledge of the real services that the APS was tasked with delivering to innovate and produce good results.

There have been many changes in the APS . I believe that four have had an impact on innovation in the public sector. The positive impacts should be retained but the negative should be addressed and learned from.

1. **The change of employment conditions of departmental secretaries from permanency to time limited contracts and the increased influence of multinational consultancy companies**
   1. While obviously a good idea to broaden the talent pool, the loss of permanency has resulted in ministers having a greater influence on the employment of secretaries. It also creates the impression, and likely reality, that secretaries are less likely to be seen as independent “frank and fearless” advisors. The balance between truth and power in those relationships has tilted strongly in favour of power
      1. Impact on innovation over time
         1. Currently both secretaries and ministers are now more dependent on the multinational consultancies that ever before. These organisations have been very successful in engaging with APS senior management and ministerial staff.
         2. It is sad to see both the ministers and senior departmental spokespeople openly supporting the marketing platforms of a small population of international consultancies.
         3. The resultant loop of communications between the minister and the secretary, both influenced by the same coterie of consultancy companies, has the appearance of a self-licking, vanilla ice-cream.
         4. This influence reduces the chances of any innovation from within the operation of APS agencies or from Australian companies, receiving attention or support.
         5. These consultancies fronted by high profile branding campaign are expensive and their engagement sucks taxpayer dollars to overseas companies away from the delivery of services to the taxpayer.
         6. They also promote technologies that their overseas management has established relationships with, and effectively block pathways for Australian companies and technology innovators to government contracts that scale to industry development opportunities.
   2. A disturbing trend is for senior managers and partners from these firms are now being awarded employment contracts at the highest levels of the SES and are heading up agencies.
      1. This can generate the a bias towards a previous employer where choices need to be made in awarding contracts.
      2. Despite all of the integrity measures that have been put in place; that one can construct a pattern of bias in awarding contracts subsequent to these appointments, is not a good look.
      3. The dominance in the provision of consulting services to government from these companies did not happen overnight but it is now very obvious.
   3. Over time the original intention of injecting fresh talent and idea into the APS has resulted in diminishing the voice and influence of the engine of innovation that is constantly working in the APS. International firms are seen as the default holders of that wisdom.
   4. Specifically in the ICT sectors, the track record of the major international consultancy firms as “integrators” is mixed at best. If success is measured as delivery of an operational system on time and on budget (as defined at the time of contract signing), the successes are few, and failures many, and expensive.
   5. These projects transfer large amounts of money out of the public sector into multinational companies for dubious benefit. They divert funds away from opportunities to stimulate Australian industry.
   6. Sadly the influence of these companies is now so great that panels are created that make it impossible for Australian companies to qualify for this work. The only path to engagement is via a sub contract and they always work to the benefit of the multinational
   7. This reflects the stance of the senior management of agencies who believe that they are less likely to be criticised when a project stumbles if they can point to the involvement of a multinational branded consultancy.
   8. This is a bizarre outcome as when the” on time and on budget” measurement is applied, the failures are significant in size and frequency.
      1. Accountability to the community should lie with the delegate who authorised the engagement, and have consequences for both success and failure.
      2. Success or failure measurements should be based on the original terms of the engagement contract and scrutinised by the Auditor General
   9. They (the multinationals) cycle around the Commonwealth agencies despite significant evidence of failure and waste in Australia and overseas.

***The political and operational leaders of public agencies are all being provided with advice and information from expensive consulting firms. They shut out the innovation from the Australian community. Their record of delivery does not justify the real and opportunity costs to the community.***

***The impact on the strength of the APS is analogous to the impact of both muscular dystrophy and osteoporosis on the human body. It needs urgent attention and remediation both in the short and long term.***

1. **Attempts to Codify Innovation**
   1. Innovation requires that new ideas or approaches are applied, and that generates an element of risk as they are new and untried
   2. Many of these projects fail as risk is realised
   3. Management structures grow to manage risk and usually only endorse projects of minimum risk.
   4. Solutions that are endorsed become less innovative and the management overhead grows
   5. The management overhead becomes an end in itself and innovation is stifled

An alternative approach would be to encourage all agencies to foster innovation by developing pathways for innovative ideas to come to senior management. Funds should be provided for smaller scale proof of concept projects, and seed more activity. That pathway could evolve and become a feature of the culture of the agency and a celebration of success. Small scale failures should not be fatal to careers and successes should be well rewarded.

***There must be pathways for APS staff at all levels to conceive and undertake innovative ideas and provide an outlet for the innovative energy that the public sector should foster and develop to successful outcomes.***

1. **The Creation and Expansion of the Department of Finance and its Role in Innovation**
   1. The Department has been reconstituted by various instruments of parliament since 1976. It has a broad charter to oversee the finances of the Federal Government which require financial, legal and administrative skills. Its mission was “*to support and promote excellence in Commonwealth financial management and budgeting, and in program performance throughout the public sector*.”
      1. Despite all of the language around its role and aspirations it really is **the accountant**
   2. At various times its had “administration” and “deregulation” in its title
   3. Somehow along its journey it acquired an advisory role on information technology that went beyond procurement and financial advice.
      1. This group has had multiple name changes NOI?, OGO. OGIT, AGIMO etc etc
      2. It has ventured briefly into other departments but has generally found its home in the Finance portfolio.
      3. All varieties of this group have had little impact on the operation of front and back office services that the public should expect from the Federal Government.
   4. The current “Digital Transformation Agency” is still housed in the Department despite a brief sojourn elsewhere

A business comes to its accountant for information about its ability to fund the activities that it wishes to undertake**. It does not go to the accountant as the principal source for innovation projects.** The unfortunate fact is that this agency has been gifted the task of centralising innovation and being the gatekeeper for technology adoption in the public sector.

The culture of an accounting and administrative agency with a strong legal backbone is hardly conducive to innovation. It is driven to centralisation and cost reduction and the ubiquitous “efficiency dividends”. These may provide a theoretical stimulus for a focus on innovation, but it is more likely to diminish the services delivered to the public. The most common outcome from these exercises is a degradation of the services that face the public.

The Department of Finance does not work with the community. At best it provides an independent service to agencies in their use of public money. It has no experience or requirement for experience with direct public services. It is not well placed to decide on what are or are not innovations worthy of developing or funding. It is highly susceptible to the tactics of multinationals.

***Innovation is more likely to occur in the field than in a central agency that has minimal interaction with the public. Innovation will occur when APS staff work with their clients. Co design projects with recipients of public services is more likely to generate effective innovation than those designed by 1 Canberra Avenue.***

1. **Outsourcing…ICT Outsourcing**
   1. Outsourcing can be an ideal response to an issue or problem under two circumstances
      1. When the agency knows precisely and in great detail what is involved in the delivery of a good or service. This would include every element of activity and behaviour and **most importantly the true lifecycle cost of that good or service.**
      2. When the agency knows very little about a new good or service and wishes to explore its potential in a limited and well managed environment with a precise budget and milestones to access more funding if required
   2. The Department of Finance “sold” ICT outsourcing to government almost 20 years ago. In the rush to outsource, significant cost centres were consigned to multinational integrators of ICT goods and services. Generally with poor outcomes for the Commonwealth and significant financial benefits to the outsourcers.
   3. These companies had far greater expertise in the contracting of these services than did any government agency. There were significant mismatches between what Departmental staff believed they would be receiving from an outsourcer and what was actually to be delivered under the contract.
   4. This resulted in change of focus from expertise in ICT management to strengthening contract management. The knowledge and expertise in the ICT domain was diminished as agencies were forced to get up to speed with contract management
   5. Over time this has resulted in agencies becoming more dependent on external technical ICT expertise and has enabled the multinational consultancy firms promoting themselves as ICT experts. They exploit the combination of lack of ICT expertise within agencies and the promise of ICT developments to deliver operational efficiencies. The shiny monkey syndrome.
      1. An example is their involvement in the deployment of ERP technologies into the federal government over the last 15 to 20 years.
         1. Department of Finance established a panel of endorsed ERP technologies that closed the ICT industry development of Australian companies. One Australian company made the list
         2. This ignored the existence of Australian companies that had developed, deployed and were continuing to enhance locally conceived ERP solutions.
         3. Departments signed contracts that enabled the “integrators” to implement their ERP systems
            1. contracts allowed for additional charges for change requests
            2. the requirements in these contracts were poorly described and any clarification resulted in a change request
            3. exploit the costs of “change requests” as the contractor found numerous “essential requirements” that materialised over the course of the engagement.
            4. additional revenue flowed to the multinationals
         4. Costs grew and attracted the attention of the Department of Finance again, which saw an opportunity to consolidate the ERP deployments into a “model agency” and standardise all ERP deployments with a one size fits all mentality.
         5. This now provides the integrators the opportunity to exploit the opportunity to wrangle agencies into the endorsed model of operation. This approach will entrench the change request gold mines multinational integrators thrive on.
         6. It also ignores the reality that the operation of government agencies, who the politicians and the public expect to be responsive, have evolved differently.
      2. The end result of this extended multiyear exercise by the Department of Finance is that, despite the good intention of the policy for standardisation to reduce costs to the Commonwealth, the end result is likely to be
         1. The Commonwealth is dependent on a few technologies that are owned and developed overseas.
         2. Gatekeepers to those ICT services have become the multinational integrators who have relationships with overseas vendors and who have no interest to engage with Australian developers of complimentary or competitive technologies
         3. Costs will rise in a closed environment and innovation in the provision of ERP services will pass by the Commonwealth.
      3. CIO’s have become managers with little depth of ICT expertise and are at risk of being distracted by sophisticated consultancy selling rather that identifying projects that would benefit the Australian community. They have become ICT followers rather than leaders.

The ICT industry is global, and the Australian community continues to produce outstanding individuals and companies, but their access to projects and opportunities in the Commonwealth Public Sector is severely constrained by the loss of appetite for innovation from APS senior management and its favoured advisors. The talented go overseas where appetites and environments for innovation are greater than at home. Those who follow that path can gain experience and apply their skills to challenges unimpeded by a management culture of timidity.

***Innovations cannot gain traction in an accountancy led management environment***

The opportunity to innovate will always be present but for the nation to benefit from the substantial ICT investments that government makes the APS has to grow in self-confidence and expertise. It must resist the siren calls of the multinationals and develop national capability in areas of that will enhance the quality of the delivery of public services.

**Progress or regression**

The above was written prior to the recent announcement from the Digital Transformation Office and Department of Finance that they had signed a 1 billion dollar deal with IBM.

“ICT innovation will always present opportunity for change and improvement. The current emergence of cloud based platforms and services provides the opportunity for the APS to exploit this by providing safe and secure digital services and engage will Australian industry to create the required tools, services and applications. Allowing that and future opportunities to provide a more effective and responsive set of public services to the community…...”

the accompanying breathless press release by the minister stressed the **savings** that the contract generated. That’s what an **accountant** would see as a significant win. However it underscores the folly of making innovation the province of the accounting agency. They have effectively taken a large slice of funds out of the marketplace for innovation and anointed a multinational and its consulting arm with an uncontested seat at a feast of funds and barred the door to the innovations that the local industry is developing with limited access to opportunities and funds.

IBM undoubtedly has many innovative products and concepts that it is developing. However this arrangement will deliver the productised outcomes of their laboratories and think tanks not the early stage concepts that will be the foundations of the ICT sector in 10 to 20 years’ time.

IBM differs from the multinational consultancies that have grown from an auditing and accountancy services base. However they have a consulting arm that mirrors the auditing based consultancies. If we could engage with the inventive IBM then that may be something to embraced and became a platform for local companies to evolve from.

The end result is that the current situation does not encourage or support the Australian IT sector to engage with government. The barriers are high and becoming higher. The multinationals act as gatekeepers to the very projects that would foster and accelerate the growth of Australian ICT and professional services companies. Their pyramid selling business model ensures that any profit that may be available for industry development is under the control of overseas senior executives. They have effectively strangled the growth of local companies and now that approach is endorsed by the current management of the Department of Finance and the Digital Transformation Agency.

Suggestions

1. The Productivity Commission to be commissioned to investigate all aspects of government IT procurement – with reference to the:
   1. creation of barriers that preclude the development of Australian companies
   2. red tape impact on small businesses in particular
   3. use of panels that favour multinational companies
   4. potential to leverage government procurement to build a robust services industry
2. Provide the ANAO with the resources and skills to objectively evaluate ERP installations and the adoption of new technologies with particular reference to the use of change requests to inflate the value of contracts in flight.
3. Let all existing contracts with all multinational consulting firms run for no longer than 3 years
   1. If any work is left undone the allow Australian firms to compete for it
4. Any new work for the next 5 years should be embargoed from the multinational consultancies.
   1. the demand generated by government would cause professional services consultants to coalesce into Australian companies with experience and skills
   2. the new firms will compete and costs likely reduce
   3. results in terms of on time and on budget delivery should be compared to the existing track record of the multinationals
5. Re instate or at least strengthen the independence of the APS.
6. Develop career paths for APS staff within the business lines of government such that subject matter expertise lies within the APS rather than be an opportunity for external consultants.
7. Open government panels to shorter refresh cycles as new services and ideas can be locked out by the overly ponderous panel evaluation cycles
8. Create an Australian based professional services industry