

*Don Dunstan Oration
Institute of Public Administration Australia, South Australia
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Introduction

Thank you all for coming.

And I thank the Institute of Public Administration – and Elaine Bensted, President of the Institute – for inviting me to give the Don Dunstan Oration.

Tonight I want to talk about one of the fundamental tasks of the Australian Public Service – to advise on public policy.

I want to argue that our thinking about what constitutes ‘policy advice’ has become muddled – to the detriment of our effectiveness in serving the government and the long-term interests of the nation.

I will clarify what I believe we should mean by the term ‘policy advice’.

I believe it is advice that provides democratically-elected governments with high-quality options for decisions on where the country is going and where it should be going.

I will then seek to demonstrate why this clarity matters – that when we focus our efforts on high-quality and far-reaching ‘policy advice’, our efforts can generate transformational thinking that can help to shape the nation.

Finally, I will illustrate this argument through its application to a policy challenge of great importance to the nation and to this state – the future of the Murray-Darling Basin and its role in securing our supply of water.

It is an honour to be asked to give this address.

One, because the Institute is such a strong advocate of excellence in public administration, and two, because of the man whom this lecture recognises and remembers.

The late Don Dunstan was a politician, not a public servant.

Yet, like the best within my profession, he lived a life marked by a passion for serving the public.

I don’t need to tell a room full of South Australians about all that Don Dunstan did during his nine-year premiership.

While the rest of us were simply living in the seventies, you South Australians were living in the fabled **Dunstan Decade**.

Electoral reform, Aboriginal land rights, anti-discrimination, consumer protection, the environment, the arts and the planning of Adelaide...

These are just a few areas in which he transformed this state.

And, as we shall see, he keenly understood the importance of water in South Australia’s affairs.

Don Dunstan was bold, but not reckless.

He was a spirited reformer, but no ideologue.

He knew how to compromise when that was right; and how to build coalitions and community support.

He managed the relentless daily demands of government while maintaining a vision of pursuing excellence, expanding social justice and driving deep-seated change.

Last but certainly not least, he could wear a batik shirt without looking ridiculous, and he knew how to handle a frying pan.

To be the only Australian Premier to produce a top-selling cookbook while in office is no small achievement.

It is this life of great gifts exercised for the greater good that we honour tonight.

What do we really mean by the term 'policy advice'?

The present Australian Government came to office pledging to reinvigorate the Westminster tradition of a merit-based, independent public service committed to the highest-quality policy advice.

In his Paterson Oration in September, the Prime Minister announced the creation of an Advisory Group to develop a blueprint for reform of Australian Government Administration.

As the chair of that Advisory Group – which will produce its blueprint by early next year – I want to reflect tonight on one substantial challenge of public sector reform.

And that is how to produce policy advice that changes this country for the long-term and for the public good.

The truth is that in the Australian Public Service we don't produce enough of this kind of policy advice.

The last State of the Service report shows that 10 per cent of all Australian public service employees – that is, about 16,000 people – identify themselves as working in policy.

But we need to question this self-identification closely – what do we really mean by 'working in policy'?

The question can be asked of the Commonwealth public service or of a state public service, such as yours here in South Australia.

The latest South Australian Government State of the Service Report highlights many of the same challenges that confront the Australian Public Service.

They include a focus on whole-of-government activity, on the need to attract top-quality graduates, on leadership, on the ageing workforce and on an exceptionally tight labour market that places a premium on attracting and retaining employees at all levels and ages.

Like the Commonwealth, you have begun a program to enhance future leadership and management capability.

You understand the need to free senior executives to work across departmental boundaries in order to make best use of their abilities.

And you have been leaders among Australian administrations in developing plans to address the related challenges of climate change, coastal planning and water supply – the last of which I shall touch on shortly.

For these reasons, I hope and believe that my remarks about the Australian Public Service will also be relevant to the public service in this state.

In my view, for too many public servants, policy has become an all-embracing concept – and thus a source of confusion.

Public servants are not policy advisers simply because they write correspondence for the minister, regular reports or even long briefs.

Or because they write business plans, manage policy implementation or oversee delivery.

There is clear difference in my mind between ‘policy advice’ – thinking hard about the directions required to achieve better outcomes for citizens – and all the associated work required to ensure that these directions are actually followed.

Let me be absolutely clear that this associated management work is critical in running an effective public sector, and in getting things done.

I am not disparaging this work – indeed, many times I have publicly called for a more rigorous approach to public sector management.

But we need to be clear that most of this management work is not ‘policy advice’.

It is usually closely informed by policy directions – but it generally takes the overall policy directions as given.

It is rarely underpinned by thinking to challenge or to improve the policy directions themselves.

For the purposes of clarity in these remarks, let’s call this thinking about the overall policy directions, ‘strategic policy advice’.

Although, I must say, I think the word ‘strategic’ is redundant here.

It is only high-quality policy advice if it is indeed ‘strategic’.

I define strategic policy advice as using the most robust analysis of data and evidence in order to form judgements on how to address the major economic, social, environmental and international problems of the day.

Then, it seeks to provide ministers with the best options, within the bounds of possibility, for addressing these problems.

Of course, whether ministers and government accept and act on our strategic policy advice is their decision and prerogative.

Our professional and ethical duty is to produce the best advice we can, and to communicate it to ministers in a way that is impartial, candid and compelling.

This is the role that, to a degree, we have lost sight of.

I would contend that it occupies the time of only a small fraction of the 16,000 people who identify themselves as ‘working in policy’.

An analogy from the private sector

I’d like to explore this distinction between strategic thinking and operational management in the public sector by first reflecting on how a similar distinction has been set out in the private sector.

I’ll draw on the work of **Professor Michael Porter** – from the Harvard Business School – who explored the distinction in a highly influential 1996 article on business practice, entitled, ‘*What is Strategy?*’.

Porter argued that successful organisations had to learn to distinguish between two fundamental concepts, which were often muddled by managers: operational effectiveness and strategy.

Operational effectiveness describes the search for efficiency and excellence in a set of core functions.

They include how to motivate employees and make the most of their skills; how to plan; how to implement plans; and how to review their implementation.

Strategy, by contrast, emerges from an organisation having a clear understanding of what it is and what it does well – and a vision for how to do even better at what it does well.

While operational effectiveness is about constant change in pursuit of best practice, strategy is about having a vision "*over a horizon of a decade or more, not of a single planning cycle*".

Porter explains that excellence in operational effectiveness is necessary for high-quality performance – but it is not enough.

Firms that become obsessed with operational effectiveness alone can become trapped in what Porter calls "*racetrack paths that no-one can win*".

While an organisation may start out with a focused strategy, "*encrustations are added incrementally over time*".

And so they can lose sight of what they are trying to achieve, and why it is distinctive.

To escape this fate, firms need to think carefully about their strategy.

This is the only way to build a sustainable competitive position for the long-term flourishing of the firm.

However, Porter notes, effective thinking about strategy is hard.

He sets a rigorous test: firms need to think about what makes them unique in the broader market environment.

In doing so, he emphasises the role of trade-offs.

His view is that "*a strategic position is not sustainable unless there are trade-offs with other positions*".

He notes that "*trade-offs are frightening, and making no choice is sometimes preferred to risking blame for a bad choice*".

But he is unflinching in his view that trade-offs are not only necessary but form the core of a sustainable strategic position.

At the time it was published, I was struck by the relevance of Porter's article to the public sector – which increased focus on operational effectiveness must not be allowed to displace rigorous thinking about strategy.

Public officials have a duty to ensure that the functions of government are carried out as effectively as possible.

That taxpayers' dollars are carefully managed and spent, and that the machine of government is managed to achieve high performance.

But beyond necessary operational effectiveness, the public sector also needs to have a clear understanding of where it is trying to go, and what it is trying to achieve.

And it needs to sustain this vision over the medium to longer term – consistent with, and responsive to, the overarching policy direction set by democratically elected governments.

This position seems almost self-evident – without a clear destination in mind, it doesn't matter which road you choose or how well-tuned your car is, you will not get there.

But as Porter shows, thinking through an effective strategy is hard work.

Unlike a private firm, we in the public service do not need to think through what makes us unique.

As the principal advisor to government on policy, we are, by definition, in a unique position.

Nevertheless, to establish a clear strategy requires us to think rigorously about the broader policy environment – and to take a whole-of-government and whole-of-society view.

We then need to have a clear view about our capabilities to deliver on the public sector objectives that we are setting out.

In the day-to-day hurly-burly of government business, it is far too easy for this fundamental strategic policy thinking to be crowded out.

Yet having a sense of Australia's long-term direction is essential if the Australian Public Service is to provide well-targeted policy advice, as well as to better align its activities to support that direction.

We should closely examine all policy processes and programs and ask if they help us advance this cause, or if they are things we continue to do because that's how we did them yesterday.

In particular, we need to be vigilant against reflexively moving to more programmatic solutions – when real reform may require consolidation of programs, or different systemic designs.

It is always hard in government to cut back on the proliferation of programs – but as Porter says, we need to face trade-offs if we are to be serious about strategic policy

As Porter also says, "*the essence of strategy is choosing what not to do*".

Let me be clear that I do not think of this strategic policy role as belonging only to a privileged few, cloistered in the central agencies of government.

The 2007-08 *State of the Service Report* revealed that senior executives across the public service believe that "*a culture that supports better prioritisation of work and focuses on these priorities*": was one of the top five ways to increase the efficiency and effectiveness of their agency.

All departments of state must have a clear and compelling vision to underpin their policy advice.

And to ensure they have the professional capability to produce such advice.

The Australian public service's performance regarding provision of high-quality policy advice.

The Australian Public Service has a proud record of providing policy advice that has supported longer-term decision-making by governments.

At points in the past century we have provided such advice in such a way as to change the shape of the nation.

After World War Two, a generation of new, young and well-educated public servants provided policy advice on housing, education, employment, immigration and infrastructure that helped to lay the foundations of modern Australia.

In the 1980s and 1990s, public servants in a range of departments and agencies worked for successive governments on the historic and profoundly successful opening of the Australian economy to address the challenges of globalisation.

This sort of work continues today.

For example, public servants in a number of jurisdictions have contributed to the design of the government's Carbon Pollution Reduction Scheme.

This is a game-changing economic reform - the biggest since the trade and financial deregulation of the 1980s – to address one of the most complex and difficult policy challenges in our history.

However, to maintain and build upon that record, we must ensure that we continue to pay attention to strategic policy thinking.

The discussion paper produced by the Advisory Group on Reform of Australian Government Administration – which I mentioned earlier – has a chapter on 'High quality, forward looking and creative policy advice'.

The Advisory Group will be looking for ways to strengthen the Australian public service's capacity to deliver such policy advice.

Without pre-empting the Group's report, let me make a few preliminary remarks on some areas for potential reform.

There is a clear opportunity to improve our policy formulation and integration through being more open, outward looking and collaborative.

We need to work better across the different functions of government – in particular, across the divide that exists between policy design and delivery.

We also need to develop mechanisms to bring together a wide range of people from state, territory and local governments, academia, the private and third sectors, as well as experts from overseas.

Collaborating in this way on many of our most challenging policy problems may provide the public service with a powerful policy tool sharpened by a rich array of skills, perspectives and experiences.

Let me be clear that this is not about 'outsourcing' strategic thinking – not to academics, not to interest groups and no, not even to 'strategy consultants'.

But we should be willing to learn from different perspectives and skill sets – and to draw the best from them to further improve our own work.

We also need to make sure that we measure our performance in these strategic policy functions – while recognising that it is often hard to do so.

We need to be clear what our expectations are, how we resource this work, and how we regard good performance – as part of a broader cultural change to generate more transformational thinking.

An example of high-quality 'policy advice': responding to the challenge of the Murray-Darling Basin.

To provide a concrete example of the kind of transformational thinking that I classify as having a profound impact on the nation, I want to draw on the example of water policy in the Murray-Darling Basin.

It is such a difficult policy challenge for many reasons.

One, the size of the problem is unknown.

We are only now learning precisely how much water river systems need to survive.

And because we do not yet know the degree to which climate change will reduce rainfall in parts of this country, the scale of the problem and the required solution may shift over time.

Two, the many parties in water policy – including farmers, environmentalists, scientists, state governments, and country and city communities – often have diametrically opposed views of the problem and the solution.

Three, the problem cuts across state boundaries but involves vital state interests.

Failure, therefore, would challenge the very functioning of our Federation.

And four, the Commonwealth Government can do many things but it can't make it rain.

Living here, in the driest state on the driest inhabited continent, you understand the size of the challenge.

You have seen the effects of more than 50 years of over-allocation of water across the Murray-Darling Basin.

You see the Lower Lakes and the Coorong at risk of permanent damage – even, if we do not act, a slow and irretrievable death.

You see Adelaide and other areas uncertain whether they will have enough water in a year's time – and so on.

Don Dunstan also understood the challenge.

In 1970 he won office on the back of voter unhappiness at South Australia's decision to accept construction of a major dam at Dartmouth in Victoria and not at Chowilla in the Riverland, 250 kilometres north-east of here.

At the time South Australians feared that if they did not have their own major dam, the upriver states could deny them the water they needed.

It turned out that from an environmental and economic perspective Dartmouth was the right decision – a point Don Dunstan conceded when his government formally backed Dartmouth soon after coming to power.

But Dunstan was implicitly right about this: a system of management of the Basin built solely on states rights was bound to fail.

And it has failed.

Through the Council of Australian Governments, all Governments have determined that only an approach that considers the needs of the Basin as a whole has any prospect of success.

Accordingly, the partnership of the Commonwealth, the four Basin states and the Australian Capital Territory provides a historic opportunity to manage the Basin in the interests of the environment, of Basin communities and of the nation.

I believe that in its current form, the direction we have taken is a successful exercise in the kind of strategic policy thinking that I have discussed in this lecture.

Let me give three reasons why I say that.

One, the COAG strategy contains both a long-term vision for the Basin and a sophisticated understanding that success will not happen overnight.

It balances the urgency of the task – the fact that some river systems and environments are facing collapse unless we act quickly – with the need to win farmer and community support over the long term.

In other words, in returning water to the Basin environment now while giving farmers time to adjust to less water in the future, it is both radical and moderate.

Secondly, it provides a powerful and practical mechanism – the market – through which change can take place with the least disruption and the greatest benefit to farmers and communities.

Thirdly, it offers a way to break an impasse that has dogged river management since Federation – which is the natural tendency of states to put their own interests above those of the river system as a whole.

There are several policy initiatives that are designed to achieve this high-level strategy.

For the first time, an independent, national authority – the Murray Darling Basin Authority – has been handed substantial powers to plan and advise on water management across the Basin.

The Authority will develop and implement a Basin Plan that will employ the best scientific and socio-economic analysis to set sustainable limits on water extraction across the Basin from 2011.

An essential task of the Basin Plan is to help farmers and communities adjust to a future with less water – in some areas, substantially less water.

Secondly, the Commonwealth is investing nearly \$10 billion to support the Basin Plan and ease the transition for irrigators and communities to a future with less water.

Over 10 years it will spend more than \$3 billion on buying water rights from willing sellers in the Basin and returning the water to the environment – the first large-scale water buyback scheme in Australia's history.

It will invest nearly double that amount – \$5.8 billion – on upgrading irrigation infrastructure.

This will produce large water savings, and jobs in Basin communities.

Thirdly, the Commonwealth is committed to strengthening water markets, which are critical in helping agriculture adapt to water scarcity.

Farmers are using the markets to buy extra water when they need it and to sell it when they do not.

Although water markets need to develop further, their impact on farming is already so great that the National Water Commission calls them the "centrepiece of national water reform."

South Australia is a prime illustration of the benefits of a national approach and a strong partnership with the Commonwealth in water policy.

The Commonwealth is providing significant funds to address the environmental problems of the Lower Lakes and Coorong.

It is investing substantially in Adelaide's desalination plant, and in projects that will more than triple the amount of stormwater harvested in Adelaide.

And this year, the first water recovered through Commonwealth water purchases has been returned to places on or near the River Murray that sorely need that water.

In South Australia they include the Chowilla and Katarapko Floodplains, the Paiwalla Wetland, Murbpook Lagoon.

Extraordinary names for places – I understand – of extraordinary beauty.

Places that contain river red gums, water birds, frogs and other animals – some of them endangered.

Places that we have a duty to protect because they are part of the bounty and heritage of this nation.

But we also have a duty to support those farmers and communities who for a century and more have lived by the river and made their livelihoods from it.

Since the Basin supplies nearly 40 per cent of the gross value of Australia's agriculture, they make a huge contribution to our national economy and to the food we eat.

The task of policy makers in water – as in all areas of great national significance – is to recognise and to hold in balance this range of competing interests.

It is to understand the necessity for trade-offs, and to make high-end judgements about the nature and shape of these trade-offs.

It is to be exhaustive and rigorous in the study of the data and evidence.

It is to be unsentimental and free of wishful thinking about the policy directions that the data and evidence lead to.

But equally, it is to maintain an underlying passion to achieve the central and long-term goals of the policy.

This is how the best public servants get the opportunity to influence the future of the nation.

The long journey to reform of the Murray-Darling Basin is far from ended.

From now to the end it is about two things.

It is about all governments involved delivering on a strategic policy and various initiatives under it.

And secondly, it is about understanding that even with the best reforms, we are constrained by how much or how little it will rain.

It would be a tragedy if the journey to reform based on good policy work is not achieved.

Equally it would be a disaster for the federation – which needs successes flowing from governments working together.

The Basin states have a policy framework that has been laboriously negotiated with the Commonwealth and settled.

Yet the progress of some state governments in meeting the commitments they made to water reform remains slow.

It is time for the states to deliver in full – in water policy and in other vital areas.

Last November COAG agreed to a huge body of reform – partly in the area of human capital and business regulation but also in the fiscal architecture of the federation.

The lead up to this was long and painful. I played a role in Victoria and then at the Commonwealth level.

Hear me when I say that the states and territories got what they had campaigned for.

That includes a new basis for financial relations – 96 specific purpose payments reduced to six, saving the states and territories from much micro-management.

It includes a new basis for accountability – agreed objectives, strategic outcomes, outputs and measures to guide these new streams of money and free the states to innovate in health, schools, vocational education and training, housing, indigenous matters and other areas.

It includes more than \$15 billion extra dollars for the states and territories.

And it includes a new independent umpire – the COAG Reform Council – to assess the performance of governments against the goals of the COAG reform agenda.

Having agreed to these reforms with the Commonwealth, it is time for the states to produce good strategic policy.

Policy that will deliver the greatest good for the greatest number.

Policy that will always bring forth – in response – thoughtful and capable implementation.

It is time for the states to take the lead in how to increase completion to year 12 or equivalent, reduce the incidence of chronic disease and improve the lives of their citizens in many other important ways.

If this does not happen then the future direction of the federation will change.

States and territories will find a more insistent and less amenable Commonwealth, as a bold experiment is put aside.

Fortunately some states are grabbing this opportunity.

South Australia is one of them and I am convinced Don Dunstan would be happy with the approach taken here.

Conclusion

Don Dunstan would also recognise that we face a distinctive moment in the history of our federation.

I say this because the reforms of the November 2008 COAG meeting hold the promise of an eventual improvement to the lives of millions of Australians.

Tonight I have sought to outline the role of public servants in delivering this long-term national agenda.

I have focussed on the Australian Public Service, but the role of state public servants is also critical, particularly when so much of the national agenda requires a dynamic and fruitful partnership of Commonwealth, state and territory governments.

All public services need to assess how they can best contribute to transformational thinking and strategic policy advice.

In recent decades there has been much talk of policy contestability – the idea that governments have access to a crowded marketplace of advice.

Policy contestability is real and it is good for democracy.

But policy contestability cannot replace the work of public servants for whom the highest-quality policy advice is their fundamental professional and ethical duty.

As my colleague, Treasury Secretary Ken Henry, has said:

"No other actors in public life – academics, private sector analysts and consultants, journalists and commentators – can be expected to perform this role."

The knowledge that such a body of public servants exists and fully assumes its responsibility to offer such policy advice is fundamental to the health of our democracy.

These are the policy makers that we intend to develop inside the Australian Public Service through the reform process that we have begun.

With such policy-makers, I have every confidence that the Australian Public Service can achieve its legitimate aspiration to be the best public service in the world.

Thank you.