Australian National University

HC Coombs Policy Forum

Background paper Organisational structures and service delivery reform

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Background

> To improve service delivery the Commonwealth government is grappling simultaneously with three separate but inter-related dimensions :

1. Citizen-centric delivery – designing services around citizens

2. Customising organisational structures to produce better results

3. Clarifying accountabilities of managers and organisations to ensure effective delivery.

These three dimensions (and the interrelations between them) will be the subject of this roundtable.

> For a number of years now a key element of the Commonwealth's public service reform agenda has been to provide more 'citizens-centred' public services, services which are more responsive to the needs and preferences of individuals or communities and which are more integrated allowing 'bottom-up' tailoring and prioritising. As yet, much of this is dialogue is rhetorical or in terms of principles only – notwithstanding the Moran Report on Australian Government Administration, a coherent approach to organisational structures that might facilitate these reforms has not been established.

> Second, there is a growing recognition that different organisational structures may display different benefits/ disbenefits in public policy terms; different balances can be created between competing principles to optimise effort, including:

  - the extent to which policy and administration needs to be integrated

  - the extent to which generic or composite organisational entities are preferred to more specialist and niche agencies

  - the extent to which citizens or communities should be able to influence service design and priorities (ie the importance of 'downwards' or 'outwards' accountability)

  - the extent to which democratic, political (ministerial) oversight of administration is desirable (ie upwards accountability)

  - the extent to which administration should be independent of politics eg to ensure impartiality or expert judgement or the application of commercial principles.

Some of these competing principles and 'fit for purpose' arguments and examples were canvassed in the 2004 MAC Report Connecting Government (chapter 2)

> Thirdly, the Minister for Finance and Deregulation recently announced a review of the financial management legislation that underpins current formal accountability structures through ministers to the Parliament. This legislation, developed in the era of New Public Management, classifies government organisations into two categories: those directly responsible to ministers and largely funded by government general revenue (which come under the Financial Management and Accountability Act 1997) and those with a considerable degree of independence from government and usually with substantial own-revenue sources (which come under the

Commonwealth Authorities and Corporations Act 1997). Within these two categories there are many different legal entities. Following the Uhrig Review of Statutory Authorities and Office-holders, the Howard Government moved to a more consistent approach to agency structures still applying this basic classification, and the Department of Finance and Administration issued guidance on agencies structures.

> Hence, the Government's interest in more citizens-centred services, the increasing capacity of modern technology and the case for re-assessing the frameworks which were developed over the period of New Public Management, all point to the potential benefit of re-visiting the issue of organisational structures.

'Sign-posting the zoo'

> 'Sign-posting the zoo' was a phrase used in New Zealand about the challenge involved in identifying which organisational structure best suits what functions, especially when there are so many different types of organisation and mixes of functions. 'Form follows function' is a useful principle, but sometimes the reverse actually occurs. Each organisational form has its strengths and weaknesses, and the appropriate form for any particular function may not always be obvious.

> New Public Management reforms over the 1980s and 1990s involved a degree of 'customer-focus' flowing from its primary emphasis on 'management for results' and the development of measures of performance including efficiency and effectiveness (client-oriented).

> NPM tended to be associated with particular specialist or instrumental structures – principal-agent separations, purchaser-provider splits, dedicated 'executive agencies' for delivery, and other market-type mechanisms to promote more focused and efficient service delivery – that were largely dependent upon high-level specification of desired outcomes and outputs and accountability 'upwards'. These structures mostly involved considerable devolution of administrative authority combined with firmer accountability for results, reflected in both public service (PS Act 1999) and financial management legislation (FMA Act 1997, CAC Act 1997).

> The Uhrig Report on statutory authorities and statutory office-holders took NPM's more business-like approach a little further proposing two model 'templates' for the governance structure of government agencies. One was based directly upon private sector business arrangements with an executive board fully responsible for the agency's administration including the appointment of the CEO (to apply to agencies substantially independent of government, including financially and politically – ministers were not in control and only selected appointments and approved broad strategies). The other was based on more traditional arrangements for agencies dependent on government funding and political control, with an agency head directly responsible to a minister and with any board to be advisory only. The templates were not to be applied rigidly, but to guide the design of organisational structures. Uhrig also proposed clearer roles for portfolio secretaries in supporting ministerial oversight of agencies on how they should exercise their responsibilities. In accepting most of the Uhrig recommendations, the Howard Government also began a process of applying more consistently coverage of public service and financial management legislation to agencies across all portfolios. Finance also issued guidance on when and how to establish agencies separate from government departments.

> The Uhrig recommendations attracted some criticism as being too rigid and too reliant on business models with insufficient regard for the unique requirements of the public sector. Nonetheless, the Howard Government's broad acceptance of Uhrig's approach may be explained in part by its consistency (largely) with the Walsh guidelines developed and initiated in the 1980s that contributed to the FMA and CAC Acts in the 1990s. Those guidelines discouraged the establishment of statutory authorities separate from departments, and attempted to distinguish between agencies largely dependent on government and those requiring greater financial independence, with different accountability regimes. Both, however, emphasise accountability 'upwards' to ministers and the Parliament.

> There remain a very wide range of agency types and some uncertainty about when to use which structure and when to apply the PS Act and either the FMA Act or CAC Act.

> The PS Act itself recognises variations in the extent of ministerial control desirable even amongst government-dependent agencies with its provision for executive agencies separate from departments but not having their own statutory base. Following Uhrig, this provision has been more rarely applied. Moreover, when applied, the relevant portfolio secretary has assisted the Minister's oversight responsibilities more extensively than in respect of statutory authorities within the portfolio (eg in advising on appointments and performance).

> Even within departments, a degree of independence may be provided by internal structures and by supporting legislation. Organisations such as the Therapeutic Goods Administration are legally part of their departments exercising statutory powers on behalf of the secretary; organisations such as ABARE are also part of their departments but carrying out expert work which, by convention, has considerable independence. In the past, the former DAS included a number of separate businesses which, while under the secretary's responsibility, had their own business managers (cf CEOs) and advisory boards, were expected to operate commercially without budget support, and reported to the secretary in a similar way to GBEs reporting to ministers. A not dissimilar approach applies now to certain cultural and environmental agencies (eg NMA, Parks Australia).

> There is also a wide range of organisational structures separate from departments, some totally dependent upon government revenues, others not (or less so). Some are companies of various types, others are statutory authorities, and there is a range of governance arrangements including executive boards (some based on representing stakeholders, others being independent experts), advisory boards and sole-operating chief executives. Uhrig recommended executive boards only for financially independent organisations and that such boards have full responsibility including for appointing CEOs; he recommended financially-dependent agencies not have executive boards and that their agency heads be responsible directly to ministers.

> A possible alternative to the template approach taken by Uhrig to help determine the most appropriate organisational structure is to use a matrix of structural options against competing principles (as suggested earlier), indicating for each option the extent to which it supports each of those principles eg strongly, moderately, weakly (see MAC 2004).

> Another dimension, highlighted by Uhrig, is the extent to which, and the way in which, ministers might wish to influence the style of management of authorities which formally have considerable independence. An increasingly important option here is the role of portfolio secretaries in advising on agencies' performance and on agency heads' appointments etc Uhrig recommended the use of 'Statements of Expectations' etc to set out more formally ministers' expectations about the style of management of a statutory authority, without undermining the authority's statutory independence. In a similar, but reverse, fashion, ministers take different approaches to the extent to which they involve themselves in administrative issues within departments and other agencies that are more directly under their control. Thus, within any particular organisational structure, it is possible to address perceived weaknesses against particular principles by other administrative or political processes.

> The Moran Report also identified the possibility of 'shared outcomes' across organisational boundaries, even across portfolios, to marshal resources for particular purposes in the most efficient and effective way. This idea was also mentioned in the 2004 MAC Report on Connected Government which also identified a range of structures and processes suitable for different types of 'whole-of-government' problems at the jurisdictional level (but less on inter-governmental integration).

> There is thus a wide range of approaches possible to give weight to the principle of increased citizens involvement. Nonetheless the question remains as to whether there is a particular organisational structure, or set of structures, likely to support more citizens-centred services without excessive trade-offs against other considerations.

Citizens-centred services

> The establishment of Centrelink was a milestone in the long-desired move to a 'one-stop-shop' for welfare-related benefits (a specialist solely delivery-focused agency). Advances in IT were exploited to ensure individuals and families could access advice and decisions on their eligibility for a range of Commonwealth and State cash payments and subsidies. Integrated IT was complemented by a nation-wide system of shop-front offices together with call centres and mobile services.

> Centrelink's organisational structure involved separation from its then parent department as an independent statutory agency originally with an executive board (comprising its main 'purchasers' of services) and a government-appointed CEO. In effect, both the board and the CEO were accountable to the minister, but also - via purchasing agreements – they were responsible to the Commonwealth and State departments with relevant policy responsibility. As such it was an NPM hybrid: based upon purchaser-provider separation but without provider competition, and with the agency retaining direct accountability to a minister, albeit the same minister as its main purchasing department (Social Security).

> A series of refinements, particularly post-Uhrig (and influenced by other political and policy factors), has led to abolition of the board and removal of formal purchaser-provider agreements through service standards agreements remain.

> While most of the programs managed by Centrelink involve statutory entitlements which allow little discretion, there has been some shift towards a case-management approach involving more active management of individual clients in response to their needs in line with Government policies to promote employment.

> Medicare Australia has experienced its own evolution. Long a separate agency, firstly administering the taxpayer-funded Medibank, then a mostly private insurance fund (Medibank Private) and subsequently both Medicare and Medibank Private, it was split in 1997 with Medibank Private becoming a government-owned enterprise and the then Health Insurance Commission being responsible only for Medicare. While the HIC at the time still had its own executive board, remained outside the PS Act and came under the CAC Act, it was brought much closer to the Health Department including through a purchaser-provider agreement. Following Uhrig, the board was abolished, the agency came under both the FMA Act and the PS Act and its purchaser/provider relationship with the Health Department was dropped. In 2004, with Centrelink and some other service delivery agencies, it was transferred to the new Human Services portfolio and renamed Medicare Australia.

> Like Centrelink, Medicare Australia has also been exploiting IT developments to offer more convenient and efficient services, in its case allowing individuals increasingly to obtain their Medicare insurance entitlements directly at the point-of-service (doctors' surgeries and pharmacies etc) and reducing the need to make face-to-face contact with a Medicare office. Legislation a decade ago also allowed MBS and PBS to be linked thus improving services and enhancing administrative efficiency and reducing fraud. Plans for an electronic health record linked to Medicare Australia's information base offers the prospect of greatly improved healthcare services and increased allocational efficiency across the whole of Australia's health system. Medicare offices continue to allow the minority who prefer to receive their Medicare insurance entitlements in cash the opportunity to do so; Medicare offices also have become outlets for people to access certain welfare payments, effectively operating as agents for Centrelink.

> The bringing together of Centrelink and Medicare Australia into the same portfolio offers opportunities for further synergies (subject to legislative changes). This could also speed up the merger of Centrelink and Medicare Offices to offer the full range of welfare and health insurance benefits at lower administrative cost, complementing the continued advance in providing Medicare benefits in most cases at the point-of-service. The future role of the merged shopfronts has yet to be articulated, including in case management beyond the delivery of specific entitlements.

> The ATO's business is not dissimilar to that of Centrelink and Medicare Australia, collecting moneys but also distributing refunds and tax concessions, based upon legislative obligations and entitlements. It has sophisticated IT links direct to businesses making most tax collections seamless without the need for face-to-face contact, and with the vast majority of tax returns now being made electronically. It has IT linkages with Centrelink and with the Child Support Agency (already part of the Human Services Department) though no organisational structural connection.

> The main client benefits so far in this area of transfers and subsidies have come from improved use of IT, including closer linkages and common platforms. Structural changes and new linkages such as being in the same portfolio, or the same department, may provide added impetus to the integration agenda, but the main driver in the future is still likely to be ICT advances assisted by whole-of-government approaches to standards and connectedness. The next round of developments seems likely to entail greater integration with non-government systems as is now being pursued by ATO, Medicare Australia and the Health portfolio, allowing seamless access without dedicated offices. Whatever the overall structure, to the extent that face-to-face contact is required, a common service delivery agent could be responsible with Centrelink being the obvious candidate. Call centre services and on-line connections could also be through common (or multiply-linked channels), referring citizens if they need help quickly and conveniently to informed and named public servants.

> While perhaps secondary to exploiting ICT, the structural arrangements in this field may still affect the extent to which service delivery administration is 'independently' managed, with the focus on impartiality and/or customer service (a 'downwards' or 'outwards' focus), and the extent to which political priorities might either inhibit or enhance such a focus. Another consideration (see further below) is the importance placed on linking service delivery administration to the relevant policy frameworks and authorities (eg FAHCSIA, DEEWR, Health, Treasury) and the extent to which the administrative arm has access to discretionary funding independent of the funds 'owned' by the policy departments.

> The emerging agenda, however, is not just about integration of tax and transfer entitlements/obligations and ensuring better access through ICT. The bigger challenge concerns personal services and place-based services (services delivered seamlessly at whatever place of delivery is selected – doctor's surgery, physio office, tax agent, childcare centre, community organisation, etc).

> In these cases the agenda goes well beyond integration to levels of discretion and choice, and even 'co-production' where policy as well as administration is open to direct influence by the citizens affected and by non-government service providers, not just through the traditional political process.

> In the case-management field, a key issue is the role of the case manager or service coordinator and the extent to which 'self-service' is enabled or even allowed/encouraged. Increasingly, governments are turning to non-government organisations to play this role because of their perceived client orientation and professional independence (and also because this allows some competition amongst potential providers). Different programs use procurement or grants arrangements to fund these organisations, the latter often allowing more discretion but not applying competition so firmly. The Job Network uses procurement, but encourages innovation by focussing on outcomes in its contracts and by encouraging longer-term partnerships; Health generally uses grants processes with service standards agreements. (Health also uses rewards through the MBS to encourage case management by GPs etc)

> As the case-management approach is extended to influence a wider range of services to address more complex needs, the role and accountability of the case managers, the funding arrangements for them and for the services which clients access at their referral, and the relationship between the different agencies under which services are funded or provided, all require careful consideration. Fundholding by the case manager, or by the organisation paying or funding the case manager, offers considerable capacity for bottom-up flexibility but equally constrains the authority of those departments or agencies with functional responsibility for the relevant services. More limited fundholding, sufficient only to fill gaps and 'oil the wheels' as necessary for coordination, is a possible compromise but still requires considerable relationship skills.

> The structure of the purchasers of the case managers, and of the services they may refer clients to, may also influence the degree of customer focus. More independent purchasers may allow greater emphasis on 'professional' factors such as social worker or clinical diagnosis; on the other hand departmental purchasers may allow ministers to better guide policy priorities, particularly where funds are capped.

> Place management raises broadly similar issues as case management, concerning the role and authority of those doing the planning and coordinating, and their direct access to discretionary funds. Coordination also requires coherence if not uniformity in program definitions of 'place' i.e. regions and localities, and some consistency across relevant service programs concerning local management authority ('clout on the ground' to use the 2004 MAC Report terminology). Complementary processes may be required to achieve the necessary coordination, such as Cabinet directives for adherence to approved regional/local plans, and engagement processes with the affected communities. Recent examples include trials in Indigenous Services coordination.

> Inter-government relations are almost always pertinent to both these means of supporting citizens-centred services. States are responsible for many of the services commonly relevant to case management (eg child protection, schools, police, community health) and local government as well as the States is highly relevant to many place management issues. Broadly speaking, the States are in a better position than the Commonwealth to define regions and localities, and States and Local Government are usually essential to any physical planning processes and most often important also to social planning processes. There are various means of engagement including inter-governmental agreements, integrated decision-making and regional consultative processes, depending on the balance of authority desired between the levels of government and between the affected community and governments.

Current reform directions

> At present it seems (perhaps illogically) that different approaches are being taken by different portfolios. The following illustrates some of the differences, and some of the issues and trade-offs involved.

> As mentioned above, the Government has foreshadowed the merging of agencies in the Human Services portfolio into the department, under direct ministerial control. Cross portfolio administrative processes are intended to address risks from the separation of the policy responsibilities of other portfolios from the administrative

responsibilities of Human Services. Presumably, internal administrative processes will ensure managers within Human Services have sufficient authority to focus on customer service, while complying with ministerial policies on service delivery frameworks and quality. The services are, of course, bound by the relevant legislation but innovative use of ICT is intended to promote integration and to support broad-based government shop-fronts. The role of Human Services in case management, and in facilitating bottom-up initiatives for improved services (either in policy or in administration), may have implications for detailed structures, processes and funding.

> The health reform agenda is still emerging as the basic framework so far announced is being implemented. The framework is clearly aimed at promoting more patient-oriented healthcare, and is based on independent structures to coordinate and deliver health services, subject to national policies including on service prices, and various performance agreements. Local Hospital Networks will have executive boards which will be responsible for appointing CEOs and managing public hospital services; Primary HealthCare Organisations (or Medicare Locals) will also be independently managed with responsibility for planning and general oversight of regional health service performance and specific responsibility for coordinating primary healthcare services delivered mostly by non-government providers (the precise roles and governance arrangements may vary - proposals have been invited); aged care arrangements ('One-Stop Shops') are still to be fully defined also but are likely to involve some regional planning process linked to the Medicare Locals to guide the funding of aged care service providers under formal service agreements.

> While the way in which LHNs, Medicare Locals and Aged Care One-Stop Shops work together is still to evolve, the scale of the health reforms on regional service delivery is likely to influence other service delivery arrangements for both case management and place management.

> The implications of Health's more independent regional organisation framework for its higher level portfolio structures are under review. Currently, as well as having overall policy responsibility, the department is directly responsible for aged care funding and purchasing and for hospital funding (with foreshadowed direct funding to LHNs), as well as for various public health programs and primary healthcare infrastructure. The MBS and PBS are administered by Medicare Australia in the Human Services portfolio as a 'payments agency' while the Health Department retains responsibility for quite detailed aspects of administrative policy. There is a range of agencies and statutory committees and offices in the Health portfolio responsible for independent functions such as accreditation of service providers, complaints processes and also to provide expert advice on aspects of policy and administration (eg PBAC, MSAC). The major programs are closely defined by legislation or formal IGAs which constrain ministerial and departmental discretion.

> Approaches in other jurisdictions illustrate different ways in which the Commonwealth Health Department could be structured to complement the reforms now being implemented.

  - The UK approach involves separating policy from administration within the portfolio, but with very close linkages. The Health Department is represented on the NHS board and has overall policy responsibility and responsibility for advising on the performance of the national health system. The various trusts and other provider organisations are responsible to the NHS (some of these are currently being restructured by the new Government) but have considerable devolved authority ('earned autonomy'). There are various independent agencies, as in Australia, linked either to the NHS or to the Department.

  - Australian States have tended to have both policy and overall funding/purchasing administration within their health departments, but practice has varied re the degree of independence of regional hospital or health networks. Victoria uses independent corporations (with executive boards) to manage its hospital networks while NSW has units that are formally parts of the department to manage regional health networks and individual public hospitals.

> Other portfolios currently engaged in reviewing approaches to 'citizens-centred services' include Regional Australia, FAHCSIA (including re Indigenous service delivery), Immigration and Environment.

Conclusions

> The 'Citizens-centred' emphasis implies a considerable degree of organisational, operational and financial flexibility to respond to individual and community needs and preferences

- the degree may depend on the nature of the services and the extent to which the clients or citizens have responsibilities as well as rights

- there is also a related question of how much competition in the provision of services is permitted or encouraged (number of competing providers, allowing degrees of specialisation or customisation)

- accountability 'upwards' remains essential despite this desire for accountability 'downwards and outwards', but it could take different forms.

> There is a range of structural options offering different degrees of 'independence' from direct ministerial control

- each has its own impact on other principles of public administration

- that is, each has strengths and weaknesses.

> It may be possible to complement a structure by administrative processes within or across portfolios to address perceived weaknesses of the structure itself.

> ICT certainly offers opportunities for better integration and responsiveness but is by no means a panacea. It needs to be linked by appropriate structures and processes.

> While all this suggests caution about any assumption of clear guidance on when to adopt which structure, it is also clear that we have some way to go to 'signpost our zoo' with any measure of coherence.