PUBLIC PERSPECTIVE
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Measure PS Productivity?

Each time a new conservative government is elected in Australia, they immediately establish a commission to investigate government spending.

The findings are uniform. It's becoming a pattern.

Waste, we are told, runs rampant. Public services are bloated. The conclusion - the taxpayer is not getting value for money. The answer, we are told, is productivity. Public services must learn to do more with less.

Yet public sector productivity is a vexed question.

Defining public sector output, however, is far trickier than defining its private sector equivalent.

There are a number of difficult myths and conventions surrounding public sector productivity. The first is that government's contribution to national income can be simply measured by its spending.

It simply assumes that government dollars are transformed into services of equal value, no matter what the service or process used to deliver it. For these reasons most economists argue that outputs of public services should be used for evaluation, rather than inputs.

This brings us to the second challenge of public sector productivity.

The adoption of direct output measures has been embraced by politicians because it allows them to make tangible electoral promises against which they

It's critical that public sector staff are involved in these design considerations as the discussion around the idea unfolds

can be judged – reductions in hospital waiting lists, smaller class sizes, better on-time performance in public transport.

The problem is that these promised targets, while outputs, are still only a narrow and interim measure of the desired final outcome.

The final convention is the assumed 'efficiency dividend' that serves as a blanket justification for expenditure cuts.

Too often, governments use it as a blunt instrument whose goal is not to generate innovation in service delivery but to cut costs without improving either service levels or service quality. Reductions in nurse-to-patient ratios are but one example of the effect of the efficiency dividend.

Is this a Vexed Question?

So are there less crude approaches to public sector productivity? One good starting point to answer this question is 'social return on investment' (SROI) in which the social benefits generated by an activity are measured against the cost of that activity.

To date, SROI has been largely confined to the philanthropic, non-profit and social enterprise sectors. Yet governments have watched SROI with growing interest, and have recently begun to undertake this kind of social investment themselves.

Governments have introduced social impact bonds, under which government raises funds from investors which are repaid with a return only if certain social outcomes are achieved.

Britain has been the frontrunner in the evolution of social impact bonds: the first of its 14 bonds funded a project in Peterborough seeking to reduce prisoner recidivism, while others have targeted homelessness and provided therapy for disadvantaged children.

The NSW Government recently signed the country's first social impact bond, seeking to raise money from investors for a program which seeks to return children in out-of-home care to their families.

To date, social impact bonds have been undertaken with partners outside government.

Yet there is no reason why the public sector could not partner with Treasury in a similar arrangement.

Structured thoughtfully, it could enable risk-sharing between Treasury and public sector staff, with financial benefits flowing to staff if agreed targets are achieved.

On the flip side, staff would face some financial loss if the targets in question are not met. These targets might be based on outputs, outcomes or productivity.

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The basic approach is that a group of public service workers, possibly a departmental division or the staff at a particular worksite, would enter into an agreement with a 'social investor', i.e. Treasury, to work towards a negotiated set of targets, within a specified budget and timeframe.

This approach could include several points that differ from standard public sector incentive structures.

Firstly, the venture should be structured so that all participants feel they can genuinely influence progress towards the targets. Secondly, the targets should be sufficiently granular that they can be accurately tracked and attributed directly to the venture. Thirdly, where appropriate, the targets should include some form of user feedback to ensure that quality is not compromised as a means to achieving the project goal.

Each of these points offers its own challenges and will require careful consideration in design.

Yet the social impact bond concept in these terms offer real promise for public sector productivity gains shared between staff and the state.

This concept should not only be restricted to private corporations.

It's critical that public sector staff are involved in these design considerations as the discussion around the idea unfolds.

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Can PS Mutuals Deliver?

The push is on in earnest for Public Sector Mutuals to deliver public services but as the case studies from the UK and NZ highlight, along with the recent announcements in NSW, the privateers are just back and have re-badged their old agenda which will transfer public resources to private corporations under a new friendly sounding model.

Remember reading the media reports about teenagers turning up outside the Crown Casino complex after secure residential care facilities for abused and vulnerable kids collapsed from lack of funding, and the over reliance on volunteer staff, and the trouble plagued womens prison at Deer Park, privatised in the 90's under Kennett, turning into a modern day pay channel version of prisoner.

These are just a couple of immediate Victorian examples but recent UK and NZ experience should cast a cloud over any proposal to contract out community services.

It's the 2B2F phenomena for a government, or in these situations, too important to fail, and the State steps in and pays for the private failure.

Costly taxpayer clean-ups where losses are socialised while corporations clear out with profits privatised.

John Howard with Dr Peter Shergold, Secretary PM&C in 2005-2008

These mutualisation style programme models just conceal the true objective which is transferring public services to the private sector.

PSM proponents conveniently overlook that the State is already our Mutual.

Franchising this franchise further to deliver public services always throws up questions of motives and questions about service quality and responsibility.

Particularly when governments are concurrently shedding state employees and imposing austerity cuts and efficiency dividends on their own service delivery agencies.

This new model is not so new and began in Chile under Pinochet, then under Reagan in the USA, under Thatcher and now Cameron in the UK.

It's across the ditch under Key and even in Canada under Harper. It's now reached our shores.

Public Services' being delivered by shifting the government workforce to a lower wage non-government or faith based service provider has been the model embraced by conservative governments across the globe yet their proponents are struggling to point to one success.

Why should the State pay high returns to have a privateer or so called mutual run a service when it can do so in house without paying this profit dividend.

Governments tease struggling NGO's with dreams of streams of gold now. This concept is rhetorical cover for a massive programme of privatisation.

It runs concurrently as the public sector faces massive cutbacks.

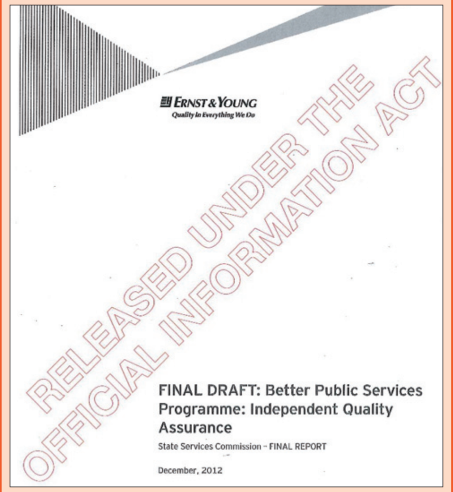
There is no mutual interest or consent.

Former Greiner Cabinet Secretary Gary Sturgess has arrived back in Australia after ten years in the UK at the Serco Institute and a short stint across the ditch, to advise the NSW, Victorian and Queensland conservative government's about his free market philosophies on front-line service delivery.

His radical ideas recently made the AFR's comment page and he was a guest at IPAA's Victoria's State Summit last month.

He was the author of the recent NSW Business Council discussion paper titled 'Diversity and Contestability in the Public Service Economy' which sets out their goal to drive down the wages of service

❖ Ashfield private youth jail in UK condemned over 'unacceptable levels of violence' A report by the UK's chief inspector of prisons, confirmed a high level of violence at the Serco-run Ashfield young offender institution, near Bristol, with 43 serious fights recorded last year. Report finds two boys suffered broken bones as staff forcibly restrained them at the young offender institution.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FINAL DRAFT: Better Public Services Programme: Independent Quality Assurance

State Services Commission – FINAL REPORT

December, 2012

E&Y report damns NZ flagship public-sector programme

Big Society Proponents Push Small Government Agenda

deliverers by transferring employment to organisations other than Government.

"Far too little attention has been given to the productivity of the public service sector, which accounts for about 20% of the national economy and employs about a quarter of the nation's workforce. What little evidence is available suggests that there is the potential for productivity improvements in the order of 20-25% where services have not previously been exposed to competition."

Sturgess argued back in 2003 in a speech to the right wing Institute of Public Affairs audience that, *'as it turns out, the notion that self-interest can be made to serve the public interest is not such an unfamiliar concept after all. This was Adam Smith's great insight — that when markets work well, self-interested individuals will serve the good of the wider community without ever intending to do so. The checks and balances of the Westminster system do not depend on a wide dissemination of the higher virtues, but merely on the self-interest of competing ministries, competing political parties and, in federal systems, competing governments. Out of this contest and challenge comes greater transparency and a greater responsiveness to the rich variety of interests in society. One of the many reasons why governments have turned to the private sector over the years was 'plausible deniability' government could take the credit if things went well, but if anything went wrong then the private sector would wear the blame.'*

Iain Rennie, NZ State Services Commissioner, commissioned E&Y report. Rennie sits on the Victorian Government's Better Services Taskforce.

How do UK citizens describe 'Big Society'?

- *"It's like Cameron has declared war on the public sector."*
- *"The biggest shakeup of what the state provides in half a century."*
- *People "taking over the state" (Phillip Blond)*
- *"The big cop-out", "The Big Con", "DIY Britain", 'Big Spiff society'*
- *"The Government washing its hands of providing decent public services and using volunteers as a cut- price alternative."*
- *"A route to massive privatisation."*

Big Society' refers to a set of public policiesthat seek to shrink the state while expanding the private and community sectorschampioned by British Prime Minister David Cameron's adviser Phillip Blond in his 2010 book 'Red Tory'. Phillip Blond visited Australia in 2011 to speak at a conference convened by the Menzies Research Institute and OL Tony Abbott introduced Blond as a "friend of Australia", and drew parallels between his Party's support for small govt and '**Big Society'**.

What's the Australian connection? The UK government is making many large changes very rapidly. Some of these, like outsourcing government functions, are changes that have already been made here in Australia over the last two decades. Others, like the promotion of Mutuals, commissioning such a wide range of services, and significantly reducing government investment and oversight, are happening much faster in the UK and potentially offer insights into the potential impacts if similar changes are enacted here.

How Do PSM's fit with 'Big Society'? Small government ideologies such as **'Big Society'** rely on the rhetoric of 'private sector primacy' the conviction that the private sector is always to be preferred to government, regardless of evidence or argument. Garry Sturgess at the IPAA State Summit spoke of the 'Monopoly of the Public Sector, keeping 24% of Victoria's economy tied up, and spoke of the "inertia" of the public service central philosophy. 'Externalised", 'Contestability', "Mobility" and "Flexibility" were terms much used as was the notion of the Public Service 'brokering services' rather than providing them. Since Cameron's election in May 2010, his government's **'Big Society'** changes have been described as the "biggest shakeup of what the state provides in half a century."NSW under the O'Farrell conservative government have commenced down this path.**`Big Society'** means smaller government. The UK has reduced public sector spending by £81 billion and will retrench 710,000 government employees over six years.

How is 'Big Society' influencing the private sector?`Big Society' promises to: (i) empower communities; (2) encourage a diversity of service providers, and (3) foster volunteerism and mutualism.Rather than 'opening up' service provision, commissioning in the UK has resulted in companies like Serco, Deloitte and A4e developing or expanding monopolies. Almost 90% of the Work Program contracts were awarded to large corporations. One of these corporations, Serco, operates in Australia and runs our immigration detention centers, immigration residential housing and immigration transit accommodation. Internationally, Serco runs a large and diverse range of services including: traffic management systems; Britain's entire nuclear arsenal from creation to decommission; education authorities; defence support services; hospitals; prisons; and detention centers. The company buys up smaller outsourcing corporations and makes unmaterialised promises to work with charities and voluntary organisations.

How have these changes influenced the community sector? Volunteers already play a huge role in their communities in the UK as in Australia. **'Big Society'** proposes a much more active role for volunteers, based on arguments about citizens' moral and civic responsibility. Surveys indicate that few UK citizens are ready and willing to voluntarily deliver community services such as post offices and police stations. The ***'Big Society'*** changes have widened the gap between rich and poor. Volunteering and other forms of social capital are strongest in wealthy areas. Cameron's funding cuts have hit charities based in deprived areas the hardest, making it harder for them to mobilise and support volunteers.**Are other countries interested in Big Society or adopting Cameron's approach?** David Cameron addressed the Canadian Parliament in late 2011 and Canada's Minister responsible for Human Resources and Skills Development visited Great Britain where she was "inspired" by **'Big Society'**. Canadian Prime Minister Stephen Harper is espousing the same rhetoric to deflect criticism of his sudden withdrawal of public sector funding. He has been accused of seeking to, "create the appearance of an increasingly volunteer society as it systematically guts the social and cultural role of government... justifying massive cuts to programs... by shifting responsibility to charities and foundations."**'Big Society'** is also attracting interest in France and New Zealand.

What's an alternative? The 'Good Society' requires policies that recognise and harness the inherent strengths of all three sectors. Some work is best done by government and some work is best done by the community and private sectors. A strong state is necessary to uphold democracy and equip societies for tough and changing times. A strong state does not preclude strong private and community sectors. Volunteerism and philanthropy should be valued, but it is a mistake to expect them to 'fill the gap' - Centre for Policy Development.

'Small government' myths:

Myth 1 - Australia over-invests in our public sector.

We spend just 35% of our GDP on the public sector compared the EU average of 47%.

Myth 2 - Current levels of public sector spending require high levels of taxation.

The average Australian worker pays 26% of their tax in wages compared to the EU average of 35%. Our taxes are as low as they have been in 20 years.

Myth 3 - Cutting public sector spending makes good sense economically.

The UK implemented 'austerity' and 'emergency' budgets in the context of net debt levels at 69% of GDP, Australia's net debt will peak at just 9.6%.

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Sturgess overlooks a fundamental about social services delivery and that is that disadvantaged individuals and families get hurt when a private deliverer of services falls over.

Former Secretary of the Department of the Prime Minister and Cabinet, Professor Peter Shergold AC recently presented his

Gary Sturgess was guest speaker at IPAA State Summit in June

views on transforming the public service to a room full of public, private and community sector delegates at IPAA's Western Australia conference back in May on the topic of 'public service transformed'.

Shergold touched on the key elements required to transform the public service and deliver public services innovatively, including the concept of performance-based contracts or 'pay for results'.

He's currently steering the 'Service Sector Reform' project with partners VCOSS and the Department of Human Services aiming to

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Pros and Cons of Public Sector Mutuals

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improve how government and the community sector work together to deliver services to disadvantaged Victorians.

Unfortunately the social services council website describes his role in the project as being independently led by Professor Peter Shergold.

A career overview may draw a different conclusion.

The Minister however is clearly pursuing a different approach agenda saying that the project "will generate new thinking about how to ensure we have a vibrant, effective and efficient sector that continues to make a real difference in the lives of many thousands of Victorians."

Shergold's interim consultation report released recently makes it quite clear where that new thinking is heading.

"Alternative private sector funding sources were identified as being particularly appropriate for capital investment programs, such as the purchase of premises that are often not funded sufficiently funded by programmatic funding or the trials of new approaches. Philanthropic funding, low interest finance and new forms of social investment were highlighted as potential funding mechanisms for such investment. A number of social enterprises who already trade in support of their mission and/or collaborate with the corporate sector, felt that such innovative approaches were insufficiently supported – indeed often actively discouraged – by public sector funding agencies." And not without good public policy reasons as it is not a model that will improve the delivery of Australia's public services.

Claimed benefits of mutuals	Concerns about mutuals
Smaller organisations are often considered better at preserving creativity and innovation while larger organisations are considered more likely to adopt processes that control their staff.	Will they have the culture, expertise and resources necessary to make a real difference to public services?
A small team can keep hold of the reins by simply shouting over the desk to one another, making decisions very quickly and then acting rapidly.	Will mutuals be genuinely different to the organisations they are replacing?
Services tend to be more personalised and bespoke which brings with it an increased ability to manage demand.	Profit taking and organisational culture that contradicts the 'public service ethos'.
Deliver better services and increased savings.	The public service reform framework may not deliver maximum value.

E&Y review dams NZ reforms

The New Zealand's government's program to transform its public sector has come unstuck says the review commissioned by the NZ State Services Commission. Prime Minister John Key proudly heralded a change in culture that would cut costs and dramatically improve service results. The Better Public Services (BPS) program would change the whole way government interacts with New Zealanders but the scathing report concludes the program lacks leadership, an agreed strategy, and insufficient resources. The review, released under FOI, concludes no burning platform for change as many public sector leaders interviewed believed NZ's public service management system was already high performing or world class and the report criticises government's central agencies for not being united and sending confusing signals about the work agencies should conduct. The report also acknowledges the insufficient resources allocated 'to achieve the degree of change' sought. Contact enquiry@cpsuvic.org for your copy of E&Y's report into New Zealand's BPS. Sound familiar, then it is as our State Government BST's is copied from NZ and the UK's 'Big Society' mantra.