Introduction

The public sector should be built around the needs and aspirations of society. The public environment is constantly changing. So too should the public sector change.

Governance is an often-contentious matter. After the management reforms of the eighties and nineties, the debate has returned to governments working together.

Specifically, the governance debate has focused on how to improve service delivery at the local level in the context of the confused patchwork quilt of our federation.

Today I want to then talk to you about innovation, as I see this as a key to encouraging new ideas, new efficiencies and overall, a better public sector.

Improvement will not come about through revisiting the same old debates with the same old ideas. We need to revitalise by talking about new ideas with new partners.

No matter what forces face us, public sector employees, managers and Ministers must be prepared to react, adapt and change. Similarly public
service structures must evolve to incorporate processes that promote innovation. We must be prepared to challenge old models to develop their best attributes and add new ideas better suited to our current and future environments.

**National reform: collaborative federalism**

The public sector should be built around the needs and aspirations of society. In the past few days, you may have seen a strong view on this expressed by the Victorian Premier through his *New National Reform Initiative*.

The *New National Reform Initiative* argues that while governments don’t have all the answers, they can make a difference.

**Why we need collaborative reform at the federal level**

Australia faces big economic challenges over the coming decade. With the right policies we can not only meet those challenges, but seize the opportunity to become one of the world’s top economies.

The two major waves of reforms in the 80s and 90s – the National Competition Policy - have built our prosperity. But we can’t stop there. We must keep moving forward.

A third wave of reform can add an extra $60 billion to annual GDP – or around $2600 per person. A third wave of reform can secure higher incomes for
Australians, ensure that more of our children are ready for success at work, and allow all of us to expect healthier lives.

**What collaborative reform comprises**

The Premier’s National Reform Initiative paper has two simple, but powerful, elements.

The first is to unleash the talents and energies of our businesses. The second, to build the skills and capabilities of our people.

We need to unlock the potential of Australian business, by stripping away unnecessary rules and regulations, and by building world-class infrastructure.

Such goals can only be achieved if the Commonwealth, States and Territories all work towards shared objectives.

In the decade ahead, nothing will be more important to the potential of our nation than the potential of our people, our “human capital”.

This means doing more to give our young people the opportunities they need to get a flying start in life.

It means helping all workers to upgrade their skills throughout their working lives.
It means getting more people into better paying, more rewarding jobs, so that we all share in the benefits of a strong economy.

It means delivering better health services, and preventing the diseases that impose a huge toll on our people and our economy. Like cancer and diabetes.

This is how, by working together, all governments can build a healthy, skilled and motivated society, and an even stronger economy.

**How we will deliver collaborative reform**

Governments have to take the lead on national reform. COAG took a first step in June, but now we have to develop a clear plan.

The Prime Minister has indicated a willingness to discuss these ideas. This is a welcome and positive sign of leadership.

The States and Territories also have much to contribute. The Victorian Government will discuss these ideas with them to increase the opportunities for further innovation.

Governments must work together to build new opportunities for our businesses and our people.

As was the case with past reforms, we again need to look beyond the issues of the day to meet the challenges of the decade.
The success of reform depends on more than governments – it also depends on the willingness of the broader community to understand the need for reform and embrace it.

Governments can be better partners for businesses – which is important if they are to succeed in the global economy and create the well-paying and rewarding jobs that people want. And governments can be better partners for people – which is important if our citizens are to have the capabilities to shape their own future.

**Governments and knowledge**

At the heart of the Premier’s *New National Reform Initiative* is the concept of ‘human capital’. The human capital perspective is, as the term implies, about people. More specifically, it is about the capabilities of people.

The human capital agenda is closely related to a debate that has been raging within the economics profession for the past two decades.

The centrepiece of this debate is ‘new growth theory’ – which was popularised by a Ph.D. thesis in the early 1980s by U.S. economist Paul Romer.

‘New growth theory’ argues that capabilities affect not only economic growth, but also the capacity to keep growing. Put another way, it argues that learning begets learning.
It is a theory that is supported by a wide range of economic research, including the OECD’s most recent study of policies supporting economic growth.

But the broader application of the theory is what is really interesting. At the heart of new growth theory is the distinction between objects and ideas. There is a limit to how much you can squeeze out of a lemon (an object). And once I’ve squeezed the lemon, there is not much more that you will get out of it.

Knowledge is different. My use of an idea does not diminish the potential for you to benefit from it.

The point is that an economy fuelled by the use of objects has a limited capacity. But an economy fuelled by the use of knowledge has a potential that is almost boundless.

Ideas – the creativity and ingenuity of people – shapes what Joseph Schumpeter described as ‘creative destruction’ – the ongoing displacement of old ideas by better ones.

The idea behind new growth theory may be simple, but the implications are profound. And the implications go well beyond the economy.
**Joined-up initiatives**

One of the challenges issued by the *New National Reform Initiative* is the imperative for joined-up government at the federal level. We must encourage the development of new ideas by setting aside entrenched traditions of conflict through the pursuit of a bigger vision. The same is true at the local level.

‘Whole of Government’ approaches are limited – in this we are guilty of only looking as far as our own organisational boundaries.

We must stretch ourselves further to have a ‘Whole of Community’ vision that encourages community policy innovations more attuned to local needs and idiosyncrasies.

Such an approach has a heavy reliance on partnerships and requires us to share intelligence across government agencies and with the non-government sector.

It is about more than just innovative, responsive government services – we must be prepared to seek innovation through conversations in a community setting.

One of the risks this imports is expectation building. However, without incentives for innovation, governments run the risk of reverting to familiar,
comfortable models of community engagement that do not capture the same potential.

My point is illustrated by an innovative approach to cooperative or “joined up” organisations at the local level currently occurring in Victorian. A community in the Hume region of Victoria is currently developing a new approach to school strategic planning, based primarily on the desire for greater community involvement, and the need to improve communication across silos. ¹

According to Leon Kildea, from the regional Department of Education office, attempts within Education and other organisations to establish a joined-up approach had often led to a dislocation of effort with “horizontal silos” emerging between organisations.

This is not an affliction unique to Hume Region, or indeed, Victoria or Australia. On more occasions than can be counted, Inter-Departmental Committees (deemed worthy of Sir Humphrey Appleby’s encouragement) have been established to counter ‘vertical’ silos – only to perpetuate the same structural problems ‘horizontally’.

What many governments still seem to misunderstand is that where these ‘horizontal’ groups are effective, it is due more to the establishment of networks, flexibility and reciprocal working relationships than to the structures themselves.

While such horizontal structures can be enabling in the first instance, they can quickly become limiting in the way they dictate the confines of the network and relationships.

That is, while various issues might have successfully crossed departmental boundaries, there may have been no communication between the different issues. Mostly, attempts at joined up government have been centred on “add on” structures and resources, but not outcomes.

A crucial hypothesis is that future development may not be practically achieved through common structures (“add on” or otherwise) but through an easily understood and joint approach to processes such as strategic planning, implementation and professional development.

These processes are seen as place-based, starting with school reviews. They are about a community of schools reviewing the type and quality of their educational services. To do this, significant planning “event” has been created by having all schools in a community complete reviews at the same time. This “event” will encourage the local government, tertiary education, welfare, police and other agencies to participate in decisions regarding the future of young people in the community. The outcome will be more holistic and pervasive educational and welfare planning for these young people.
This is only one example. Government by network (and indeed citizen-centred delivery) comes in many forms. This is one of its strengths.

It does, however, have significant implications for the way in which we develop and deliver policy. The achievement of policy goals increasingly depends less on what we as public officials produce, and more on how we engage and manage external partners.

This means that traditional demarcations between the government, community and private sectors are breaking down. The drive for outcomes – positive local change - becomes a shared responsibility.

There are many challenges in this approach to public policy: the alignment of goals, the provision of oversight, role clarification and accountability, averting communication meltdown, coordinating multiple partners, managing the tension between competition and collaboration, and overcoming data deficits and capacity shortages. ²

Network architects must be very clear about the public good they want to produce, the services and outputs they want to provide, and the goals the network should accomplish. They need to be absolutely clear about who should be held accountable for what and by whom.

We need to be very clear about what we’re talking about when we say network governance, as we move beyond debates about top-down and bottom-up to build new forms of partnership that work for communities.

Network governance is the best of both worlds. Using networks governance we would evolve to become more than the sum of our two most powerful public service predecessors – hierarchical Weberian rules and processes, and narrow market-centric public management.

Where local communities are strong, governments should empower them to drive their own future. Where local communities are weak, governments should be active in capacity building. Advanced network governance is about building the capacity of all communities by sharing the learnings of strong communities with weak communities.

These advances can only be achieved through a joined up whole of community approach.

**Learning and Innovation based on joined-up thinking**

In this context, the better use of knowledge and information also opens up new possibilities for governments.

Governments can *learn* how to become better partners for businesses, for people and for communities – and in the process, displace the old ideas that don’t work and spread the new ones that do.
Particularly with new technologies, the modern public sector enjoys unprecedented possibilities to combine a public sector mission with a more systematic approach to learning and innovation.

But what is it that we are learning?

- We are learning that governments are better partners when their public interest mission is well defined, clearly articulated and widely understood.
- We know that what’s hard to measure is hard to manage.
- We know that services are most effective when they are actively shaped by the needs and expectations of those who rely on them.
- We know that people and communities have more potential to manage their own capabilities and make their own informed choices, than we have previously given them credit for.
- And we know that the frameworks set up by governments create incentives that can either encourage or discourage people to act in the public interest.

Any sensible approach to knowledge and learning must also recognise that governments themselves do not have a monopoly on good ideas. We need to focus more on what works and less on who should take the credit for it.

For many hard-to-resolve issues facing policy makers, the innovative solutions will come from left field. Often they will come from a process of trial
and error, and as often as not they will come from businesses and communities rather than more formal (some could say constrained) processes of government.

A challenge for government is to be able to draw on knowledge and innovation from a range of sources, and to integrate it into the way we work. So that good ideas are widely shared, and can reach more people. The way governments organise themselves must also reflect this challenge.

It is often said that the average number of business failures per person can measure the innovative capacity of an economy. Wouldn’t it be a different environment in the public sector if failure were lauded in this way? Not because we want to reward failure, but because we want to encourage learning.

Imagine a public sector in which policy entrepreneurs were encouraged to learn from their failures and in which we could all draw on their experiences. Imagine a public sector that was seen as a trusted partner of citizens, communities and businesses, where progress was measured according to the outcomes achieved for people and communities.