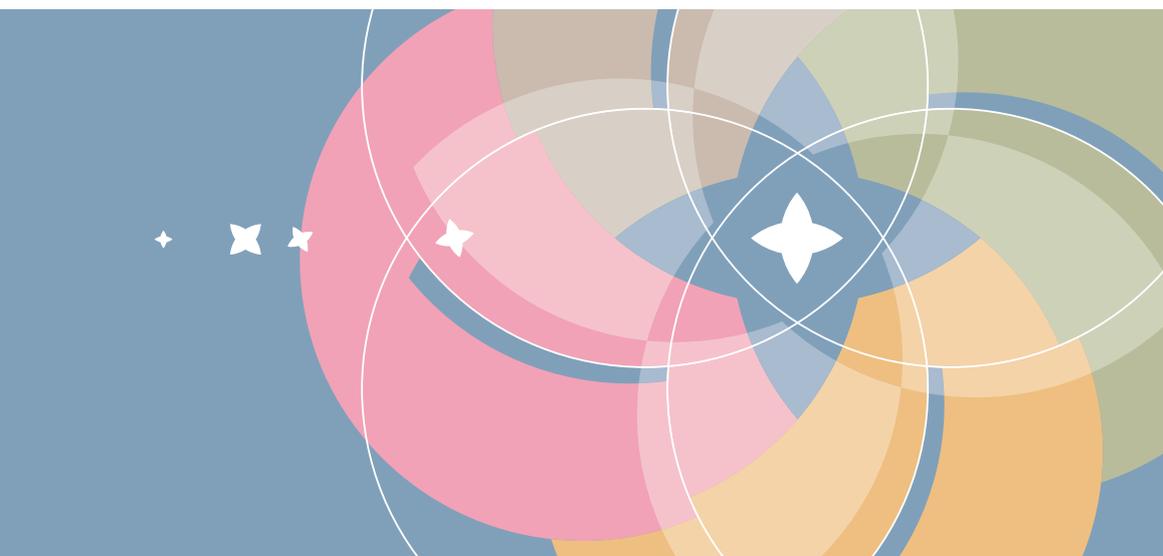




# Innovation in the Public Sector:

Enabling Better Performance,  
Driving New Directions



Better Practice Guide

December 2009

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Questions or comments on the Guide may be referred to the ANAO at the address below.

The Publications Manager  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Email: [webmaster@anao.gov.au](mailto:webmaster@anao.gov.au)

Website: <http://www.anao.gov.au>

The preparation of the draft material for the Better Practice Guide was undertaken by Mr Grahame Cook PSM, Director, Grahame Cook Consulting Pty Ltd in collaboration with Dr Mark Matthews and Mr Stephen Irwin in close consultation with the ANAO.

## Foreword

Enhancing public sector performance is a key goal of governments around the world. Innovation in the public sector, particularly in policy development, program design and service delivery is a necessary element in public services becoming better targeted, more responsive to community needs and more efficient.

Innovation, although not always celebrated, has been central to many initiatives undertaken by Australian government public sector entities. Indeed, as illustrated in the case studies selected for this Better Practice Guide (Guide), the public sector can draw on many examples where innovative approaches have been used to identify new ideas and put them into practice. While the Australian government public sector has much to be proud of, we will need to build on this experience and drive new directions if the changing needs and expectations of government and the community are to be met. In an environment that presents both challenges and opportunities, the Prime Minister has set high aspirations for the public sector in this regard.

The purpose of this Guide is to provide a framework for understanding the processes that underpin innovation in the public sector and to provide practical insights and a resource for practitioners. In this way the Guide is designed to further encourage and facilitate an innovative culture in the Australian Public Service (APS) and the public sector more generally.

As the successful translation of ideas into practice, innovation encompasses, but is broader than, creativity. There is a range of factors, tangible and intangible, that set the scene for, and support, innovation. Innovation requires a permissive and supportive environment in which to flourish. A consistent message from the APS leaders interviewed for this Guide was that innovation needs to be fostered, recognised and rewarded throughout the organisation, both 'top-down' and 'bottom-up'. Many departments and agencies already identify innovation as a value or behaviour to be encouraged, and such statements are given real meaning through executive leadership.

While the influence of committed and talented individuals cannot be underestimated in identifying a new idea, public sector innovation will rarely be translated into on-the-ground outcomes without effective planning and implementation. Without such efficient and effective processes, inspirational and forward-looking ideas will not be transformed into new policies, services or methods of operation. To be successful, innovation requires structured processes and resources to examine, trial, support and disseminate new ideas.

Innovation inevitably involves a degree of risk because it changes the *status quo* or contributes towards an alternative future. As such, an appetite for risk and risk management is essential; and risk avoidance is an impediment to innovation. In this context, a theme in this Guide is that engaging with clients and key stakeholders is central to managing innovation risks. Collaborative relationships that provide a broad range of experience across portfolios and jurisdictions are especially valuable when dealing with the increasingly complex and interconnected issues that influence the well-being of Australian citizens in an unpredictable world.

Innovation is inherently 'forward-looking'. Clarity of purpose and a forward-looking approach, including some over-the-horizon thinking facilitates innovation. Increasing expectations about deliverables and shorter response times, can lead to urgent tasks 'crowding out' the strategic issues. In this regard, a number of agencies have given increased priority to building and maintaining the capability, including the human capital, necessary to take a long-term perspective and to better anticipate and respond to the needs of government, clients and stakeholders.

The Guide has been developed through a review of relevant literature, including overseas literature, discussions with a cross-section of leaders, predominantly APS leaders, information obtained through case studies and other published material. The Australian National Audit Office would like to express its thanks and appreciation to all those who have contributed to the development of the Guide, assisting the public sector to use innovation to achieve better performance and to drive new directions.

A handwritten signature in black ink, appearing to read 'Ian McPhee', with a long horizontal flourish extending to the left.

Ian McPhee  
Auditor-General  
December 2009

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# 1. Introduction

## 1.1 Innovation in the public sector context

Innovation in a public sector context has been defined as the ‘creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in the efficiency, effectiveness or quality of outcomes’.<sup>1</sup> In short, innovation is the application of new ideas to produce better outcomes.

Innovation occurs across the spectrum of Australian government public sector entities, from policy development to program delivery, from regulatory approaches to use of technology, from organisational innovation to provision of new or enhanced services. Importantly, innovation is a means to an end, not an end in itself. An appreciation of the importance and diversity of innovation, and how to achieve it, should be part of the knowledge, skills and behaviours of every public servant.

Innovation goes beyond creativity or the generation of new ideas. It is a process that can be replicated. Innovation can take any number of forms. Some innovation will be ground-breaking or transformational in the sense that it represents a substantial departure from the past. Other innovation will be more incremental in nature. Innovations can range from organisational improvements to use of new or emergent technologies. Innovation can occur as a result of top-down, sideways and bottom-up approaches. It can be instigated by anyone within an organisation or by external influences.

Innovation has many forms and dimensions ✦

<sup>1</sup> Having defined public sector innovation, Mulgan and Albury outline an innovation model involving four steps: generating possibilities; incubating and prototyping; replicating and scaling up and analysing and learning. See Mulgan, G, and Albury, D, *Innovation in the Public Sector*, Cabinet Office Strategy Unit, United Kingdom Cabinet Office, 2003.

## 1.2 Types of innovation and the benefits

Innovative activity in the public sector can be considered in various ways. Three common streams are:

- shaping policy directions — where the role of the public sector is to provide objective and reasoned advice, and options, to assist the Government's decision-making in relation to policies and programs;
- implementing policies and programs — that is, delivering services to the Australian community efficiently and effectively; and
- administrative innovations — introducing new internal processes and practices to improve productivity/ reduce costs.

The benefits of innovation are diverse. It is widely recognised that innovation is crucial to enhanced economic performance, social welfare and environmental sustainability. Innovations can also improve organisational efficiency; provide higher quality and more timely services to citizens; reduce business transaction costs; and provide new methods of operation. Innovation can enable better performance and drive new directions.

## 1.3 Drivers for innovation

Innovation is motivated and driven by a variety of short, medium and long-term factors. In the public service the driving imperative for innovation is the need to respond effectively to new and changing government and community expectations in an increasingly complex environment. Examples include the consequences of an ageing population, addressing intractable social problems such as drug abuse, Indigenous disadvantage, supporting communities in rural and remote Australia, national security and counter-terrorism, increasing concerns about climate change, the appropriate regulation of global financial markets and sustainable, effective and fair international development assistance.

New and changing  
government  
and community  
expectations ✦

Although cross-departmental initiatives are not new, there has been an observable increase in coordinated approaches to deal with these challenges, and an increasing awareness of the interrelationships between departmental policy responsibilities. Today, many substantial issues dealt with by departments transcend traditional boundaries and, in order to encourage collaboration rather than a silo mentality, a 'horizontal-axis' orientation is being adopted. Such coordination involves consultation, negotiation, cooperation and agreement across and within Federal departments as well as State departments and the private sector.

Need for  
coordinated  
approaches ✦

To illustrate the issues in a more practical way, innovations in health policy may respond to long-term factors such as the ageing of the population, the growing cost of new medical technologies, and identifiable issues such as increasing obesity. Innovations in health care may be driven by government policy commitments in response to community concerns, medical research and technology breakthroughs or local responses to local issues. Other innovations may respond to more immediate issues such as increased waiting lists for elective surgery or an influenza pandemic.

The time frames in which the public sector is required to respond are tending to shorten to meet government imperatives, and citizen and stakeholder demands. At the same time government is looking for, and citizens are demanding, a more holistic or citizen-focussed approach to service delivery.

Shorter time frames and calls for improved service delivery ✦

There is also constant pressure to do more with less with mechanisms such as the efficiency dividend designed to drive productivity improvements in the public sector. While the challenges are great, technological developments, including the use of enhanced web-based technologies, infrastructure improvements such as enhanced broadband capacity, and enhanced organisational and staff capabilities provide opportunities for innovation that were not previously available.

Demands for efficiencies ✦

The onus on the public sector to anticipate community needs and to respond positively to government and/or the Australian Parliament will continue to grow. Because of its professionalism and a wide base of experience with innovative approaches to policy and program design and delivery, including a capacity to learn from and adapt initiatives in other jurisdictions, the public sector is well positioned to meet this challenge.

## 1.4 Private and public sector innovation

There are commonalities, differences and synergies between private and public sector innovation. Some aspects of public sector innovation are comparable with, indeed might be almost identical to, aspects of private sector innovation (examples include business process improvements and many aspects of information and communication technologies). However, there are other aspects of public sector innovation, particularly those associated with policy innovation, for which governments must bear responsibilities that greatly outweigh those borne by the private sector (examples are national security, counter-terrorism and pandemic preparedness). This is why, in comparison with the private sector, public sector decision-making processes can appear cumbersome, risk averse and time consuming.<sup>2</sup>

As a result of the context in which governments and public servants work, sound judgement, based on a good understanding and weighing of all relevant factors, is highly valued. In policy development, judgments about what is in the national interest are inherently complex. Innovation in this context is challenging, and subject to a high degree of parliamentary scrutiny and accountability but with potentially large, national pay-offs. In considering how to innovate effectively in this context, attention should be paid as to where, when and how the public sector might best engage the private sector to use their particular skills and expertise.

## 1.5 Public sector legislative and accountability framework

The Australian government public sector operates within an extensive legislative framework designed to ensure appropriate behaviours, accountability and transparency. This framework includes the *Public Service Act 1999* (PS Act), the *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997*, the *Auditor-General Act 1997* and certain administrative laws such as the *Administrative Decisions (Judicial Review) Act 1977*, the *Freedom of Information Act 1982*, the *Administrative Appeals Tribunal Act 1975*,

<sup>2</sup> Mathews, M, 'Fostering creativity and innovation in cooperative federalism — the uncertainty and risk dimension', in *Critical Reflections on Australian Public Policy*, Selected Essays, The Australian National University, Canberra, 2009.

the *Ombudsman Act 1976* and the *Privacy Act 1988*. The activities of the public sector are scrutinised through a number of mechanisms and statutory bodies, including the Parliament, especially Senate Committees, the Ombudsman and the Australian National Audit Office (ANAO).

A fundamental requirement of the public sector accountability framework is its responsibility to provide services equitably and to a high standard of ethical behaviour. The PS Act requires that Australian Public Service (APS) employees at all times behave in a way that upholds the APS Values and the integrity and good reputation of the APS. The APS Values require APS officers to: have the highest ethical standards; be openly accountable; and deliver services fairly, impartially and courteously. The Values provide the philosophical underpinning of the APS and articulate its culture and ethos.

It is sometimes argued that the public sector legislative and accountability framework results in inappropriate, risk averse behaviour. Understandably, public sector agencies should have arrangements in place to provide confidence that they are operating within the requirements of legislation and government policy. However, history shows that innovation is possible within an appropriate risk management framework. Examples of innovation are reflected in a range of policy measures presented in the annual budget statements. They also include the reform of the employment services delivery mechanism through the Job Network, and more recently Job Services Australia, and the use of advanced web-based technologies such as the Australian Taxation Office's tax portal and e-tax initiatives. These initiatives have, in turn, led to further innovation at the public-private sector interface and in the private sector itself.

The Australian government public sector legislative and accountability framework provide flexibility ✦

To facilitate public sector innovation, various advisory groups within the APS, such as the Cabinet Implementation Unit, the Office of Best Practice Regulation, the Australian Government Information Management Office and the Australian Public Service Commission, have roles to assist departments and agencies adopt best practice and develop innovative approaches.

## 1.6 Innovation and risk management

Risk management is a fundamental feature of the innovation process. Risk is measured in terms of a combination of the 'consequences' of an event and their 'likelihood'. Risk is characterised by 'uncertainty', in that the 'consequences' and/or 'likelihood' may not be known. Elimination of risk is generally not a practical goal but risk can be managed and mitigated by various treatments. Good risk management is therefore fundamental to innovation.

There are various risks associated with any form of innovation, with the degree of risk and 'uncertainty' generally being higher the greater the level of difficulty faced in quantifying the 'consequences' or 'likelihood' of a particular initiative. These circumstances occur in the public sector both in classic areas of government activity where the 'likelihood' of an event may be difficult to ascertain and the consequences can be 'severe', and also in the case of radical innovation where all the possible 'outcomes/consequences' and the 'likelihood' of each 'outcome/consequence' is unknown.<sup>3</sup> An example of classic government activity of this nature is that of long-term defence capabilities. An example of radical public sector innovation is fundamental change to social

Innovation involves risk taking ✦

<sup>3</sup> An explanation of terminology, including 'likelihood' and 'consequence' is available at Standards Australia/Standards New Zealand, *Risk Management Guidelines Companion to AS/ NZS 4360:2004 Handbook*, HB436:2004.

welfare arrangements. The risks associated with these public sector innovations differ from those associated with public sector incremental innovation in that the risks associated with the latter are more easily identified and managed.

The accountability framework and political environment in which the public sector works, including community expectations and the difficulties of quantifying risks in monetary terms in the absence of a market, means that the manifestation of risks can be quite different from similar types of risks faced in private sector commercial activities. For example, legislative risk for the private sector can be quite significant but normally translates to compliance risk and the associated compliance costs. For a public service department there is a series of risks around assessing whether legislation is required, the best legislative solution, consistency with other domestic and international laws, parliamentary and political risks, implementation risks, unintended consequences and unanticipated behavioural responses, legal challenges and so on.

Another example is reputational risk which in the private sector can have substantial personal, organisational, financial and broader commercial implications. A public sector department will face similar risks but with the added complexity of ministerial, Cabinet, broader political and community reactions. The imperatives that motivate the Chief Executive Officer and senior management of a publicly listed company to protect the reputation of the company, are different from the duty of a departmental secretary and senior executive to their minister and the government of the day.

The risk–reward relationship is also more complex in the public than the private sector. The cultural paradigm in Australia tends to be one where departmental mistakes or perceived failures are closely examined in various parliamentary forums, in the media and by stakeholders, while good performance can go unrecognised. Moreover there is an asymmetrical relationship between those bearing the risks and those garnering the rewards. In the private sector the relationship between risk and reward is more clear-cut.

Good risk identification, management, policy and procedures and prudent risk taking based on sound judgement and the best available information are crucial to facilitate innovation and hence provision of better processes, products and services. Risk avoidance is an impediment to innovation and to moving from the present to the future. Consideration of a range of options beyond a default or safe approach may increase the scope and range of risks but also increases the potential beneficial outcomes.

Risk management  
is a means to  
an end ✦

Overarching guidance on risk management is provided by the Australia–New Zealand Risk Management Standard. In simple terms the standard provides a framework against which the probability and consequences of an action can be mapped to derive a risk rating both before and after mitigation measures are put in place. Where there are high levels of uncertainty, professional judgement is required as to how to apply the framework.

Public sector departments and agencies generally have well-established risk management frameworks, which are applied from the enterprise to project level. The implementation of risk management procedures is a necessary part of decision-making processes and should be ‘fit for purpose’. That is, the degree of oversight and specific mitigation activities should be commensurate with the value, complexity and sensitivity associated with a particular innovation cycle.

## 1.7 The Australian National Audit Office and innovation in the public sector

The ANAO assists the Auditor-General to carry out his/her duties and responsibilities under the *Auditor-General Act 1997* and other relevant legislation. Through the conduct of financial statement and performance audits the ANAO provides a source of independent, objective assurance to the Parliament on the activities of the public sector and, as such, fulfils a key role in the accountability framework of Australia's democratic system of government.

As public sector entities find new methods to deal with emerging issues, including how to encourage and implement innovative practices, the ANAO has an important role to play in helping to promote appropriate governance frameworks and highlighting administrative arrangements that contribute to the cost-effective delivery of outcomes.

Public sector innovation can be expansive (for example implementing a significant government policy initiative) or relatively narrow (for example introducing new internal practices to improve productivity and reduce costs). In the context of innovation, a risk assessment can be used to make an overall judgement of the risks associated with an initiative and the appropriate approach and level of risk mitigation required in the circumstances. The degree of oversight and specific risk mitigation treatments should be fit for purpose, that is, commensurate with the value, complexity, and sensitivity associated with a particular initiative.

The ANAO commonly considers agencies' governance and risk management arrangements in the context of its audit coverage. In reviewing agencies' innovations, the ANAO would expect agencies to have appropriately considered the risks and opportunities offered by such initiatives and to have taken measures to secure the planned benefits without undue costs and untoward effects on clients and other stakeholder groups.

This Better Practice Guide (Guide) provides a decision-support framework designed to assist agencies to manage innovation and to encourage an innovation culture across the Australian government public sector. Calculated risk taking is a necessary feature of most types of innovation and this framework is intended to provide a 'risk-aware' approach to innovation that counters 'risk-averse' behaviour.



ANAO support  
for innovation in  
the Australian  
government  
public sector

## 1.8 The Guide's focus, methodology and logic

This Guide has been developed in the context of the legislative, regulatory, monitoring and reporting framework that currently applies in the Australian government public sector. The Guide's focus is on the culture and practices that can be adopted within the current framework to encourage and facilitate innovation in the public sector.

There are other Government review processes underway dealing with the development of options and longer term issues for the public service. The Management Advisory Committee's examination of public sector innovation will explore how innovation can be further facilitated on an ongoing basis and the need for possible reforms. The Prime Minister has also established an Advisory Group to develop a blueprint for reform of the public service. These exercises will, among other things, consider the adequacy of the current framework and where changes may be required.

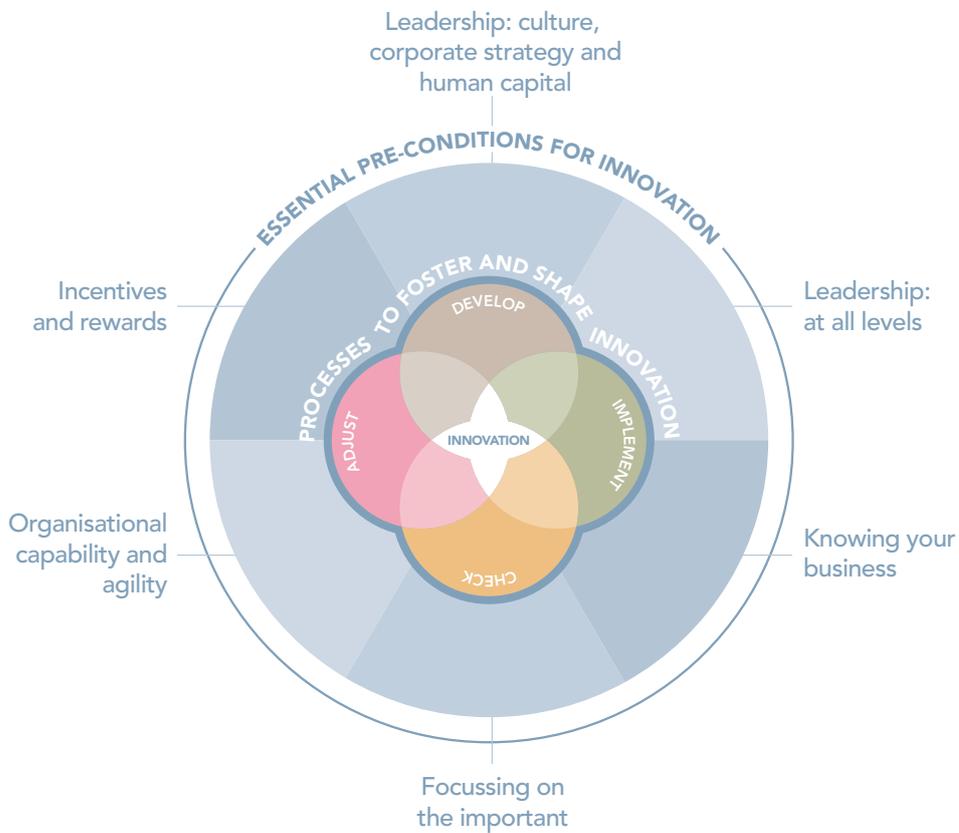
The Guide has been developed through a review of relevant academic, professional and government literature (including international experience), discussions with a cross-section of leaders, predominantly from the public

sector, information obtained through case studies and professional experience. The interviews and case studies were important sources for better understanding the tacit knowledge held by experienced practitioners within the APS. Summaries of the agency case studies, key themes from the interviews with leaders and a summary of the literature review are set out in the Guide's appendices. This material is intended to be a resource for readers, while also setting out the Guide's foundations.

In addition to the Guide, the ANAO has also prepared two supplements providing details on the innovation case studies and the full report of the literature review. The literature review supplement contains extensive material on overseas perspectives on innovation and overseas practice.

The two supplements to the Guide, entitled *Detailed Case Study Material from Agencies* and *Public Sector Innovation: A Review of the Literature* are available through the ANAO website: [www.anao.gov.au](http://www.anao.gov.au).

A high-level, visual model of the Guide's logic is depicted in the following diagram.





## 2. Essential pre-conditions for innovation

Innovation in the public sector is driven by various factors outside and inside the organisation. The factors range from changes in government policy, stakeholder demands, and developments in technology to agencies and individuals seeing opportunities to improve the way they work. There will always be internal and external pressures on the public sector to innovate. The level of innovation is most likely to increase and be sustained if it is actively encouraged, recognised and rewarded by, and within, organisations. Pro-active executive leadership, a supportive culture, a focussed corporate strategy and investment in staff training and development are essential pre-conditions for innovation.

### 2.1 Leadership: culture, corporate strategy and human capital

Portfolio secretaries and agency heads have an important role in articulating the aspirations and strategic directions of the organisations they lead. Together with other leaders in the organisation they can ensure that appropriate attention and resources are directed to medium and longer-term issues where innovation is likely to be critical to success. As key advisers to ministers, they are well placed to anticipate government needs and new and emerging issues.

Authority to innovate and a supportive culture are critical ✦

Innovation can only flourish and be sustained in the context of a culture that encourages, recognises and rewards new ideas and gives authority to translate those ideas into practice. The executive leadership team has primary responsibility for setting the philosophy and culture of an organisation and putting in place the policies and procedures to facilitate innovation. Experience shows that a leadership team that 'walks the talk' can be highly motivational; discrepancies between words and action are quickly discerned by staff. This action includes ensuring that a culture of trust, respect and good communication is embedded in an organisation.

Leaders also have the role of ensuring the carriage of innovative ideas including, where appropriate, the formulation and acceptance of new policy proposals relevant to competing proposals, a delivery strategy and a performance management regime. This role often includes working across portfolios and jurisdictions to ensure that: the broader policy implications are identified and understood; estimates of the costs and benefits are sound; and the financial and human resources that are secured are commensurate with the implementation challenges.

Take carriage of innovative ideas ✦

Where innovations do not reach their objectives or mistakes are made, it is crucial to learn from the experience in a positive way and avoid the 'blame game'. Learning from mistakes is as important as celebrating success in reinforcing an innovation culture.

Accept, and learn from, mistakes ✦

While an innovative idea can result from serendipitous events, embedding a systematic approach as an explicit and integral component of an organisation's corporate strategy will drive the development and promulgation of appropriate policies and procedures, the allocation of necessary resources, the assessment of results and the dissemination of knowledge. An innovation strategy that is clearly articulated, readily understandable and relevant to all levels within an organisation is likely to have more impact in raising innovation performance than not having such a strategy. The appropriate innovation strategy will depend on the organisation. The possible strategy may on one hand tend towards approaches focussing on generating innovation inside the organisation or on the other hand, towards approaches focussing outside the organisation.<sup>4</sup> For some organisations, innovation policies are also supported by policies dealing with intellectual property.

Have a systematic approach ✦

A key element of corporate strategy is the recruitment, retention, training and development of staff. Training and development opportunities which enhance innovation capacity within an organisation can be quite diverse as it encompasses a broad range of skills. An analysis of future skills needs against the existing skills base can identify where resources might be best directed. Initiatives can range from formal training to participation in networks and communities of practice through to on-the-job exposure and mentoring. Staff exchanges at the highest levels, including across jurisdictions and internationally, can be highly valuable.

### Embedding a culture of innovation

In seeking to embed a culture of innovation and continuous improvement the Australian Taxation Office (ATO) has developed a business innovation strategy with the assistance of strong executive leadership and support, a recognised innovation expert, a Masters degree student and a number of bottom-up processes. This included organising an 'Innovation Week' with a wide range of activities throughout the organisation, including a video DVD, discussion boards, networks, team meetings and wikis.

<sup>4</sup> Eggers and Singh identify strategies that can encourage innovation in government such as 'cultivate', 'replicate', 'partner', 'network' and 'open source'. See Egger, W.D, and Singh, S.K, *The Public Innovator's Playbook: Nurturing bold ideas in government*, Deloitte Research, 2009.

## 2.2 Leadership: at all levels

A key function of Executive leadership teams is to facilitate intra and extra-organisational learning and to foster leadership and innovation at all levels within an organisation. This is because good leadership and innovation has top-down, horizontal and bottom-up dimensions. Achieving strategic alignment across an organisation, clarity around role boundaries, empowerment of staff to take initiatives, collaboration across work units and dissemination of corporate knowledge will enhance the innovation dynamic.

Innovation can occur at all levels ♦

Successful innovation is likely to be enhanced by drawing on the knowledge and experience of staff closest to the work face who best understand their jobs and the opportunities for improvement. Incremental innovation, in particular, can readily be driven by bottom-up processes while dissemination of ideas can occur very effectively through horizontal as well as vertical networks. Technological innovations such as use of internal IT shared spaces and wikis are powerful means of generating and spreading knowledge.

The Australian Customs and Border Protection Service (Customs and Border Protection) detector dogs initiative and the Centrelink place based initiatives demonstrate that quite radical innovation can emerge from innovation champions and bottom-up processes as well being driven down through the formal leadership hierarchy. The challenge is for organisations to effectively encourage, capture, assess and implement such innovations.

### An innovation champion

In 1992, John Vandeloo, National Breeding Manager for the Customs Detector Dog Unit, saw an opportunity to adopt a more scientific approach to the breeding and development of detector dogs and initiated discussions with the Royal Guide Dog Association (RGDA) and the University of Melbourne. Customs and Border Protection and RGDA funded a Postgraduate Studentship for a PhD student to undertake a research program based on the labrador breed. The PhD thesis was completed in mid-1996 and showed that a reliable and high quality supply of detector dogs could be produced through a selective breeding program and further enhanced by a suitable rearing environment. As a result, a full breeding program was initiated together with a puppy foster care scheme, now an internationally-recognised program. John Vandeloo, as the driving force behind this initiative, was awarded a Public Service Medal in 1998. [See Appendix A.1 for more detail.]

## 2.3 Knowing your business

Successful innovation requires a good understanding of the focus and core business of an organisation, the internal dynamics of the organisation and its external environment, including clients and other stakeholders. In the public sector, the core functions of an organisation are clearly established in Administrative Arrangements Orders, legislation and/or regulations, government policies and priorities and portfolio ministers' agendas. Within that framework, organisations establish their strategic directions and determine how best to allocate the resources available to meet their objectives.

The environment in which the public sector works is constantly changing and organisations need to be able to read, understand and respond to those changes. A clear understanding of government policies and aspirations, and a strong working relationship with ministers and their offices is of central importance.

Understand the environment ✦

High quality, comprehensive and timely advice is highly valued even when ministers may come to a different position. Ministers are open to new ideas to meet their objectives and suggestions for innovative ways of dealing with issues of interest or concern.<sup>5</sup> It is incumbent upon the public sector to enhance the skills and expertise on which such ministerial advice is built.

Collecting, analysing and distilling qualitative and quantitative data and information to provide a robust evidence base is critical. Part of this process is knowing and understanding other work in the field by other organisations, other governments, academics, think-tanks, industry and community groups. Formal and informal stakeholder consultation and engagement is fundamental to understanding the issues and dynamics around possible initiatives. This does not necessarily require large, dedicated structures to be put in place but rather developing a proactive, outward and forward looking culture (supported by internal processes to capture and disseminate corporate knowledge) and developing the necessary staff capabilities.

Capture the evidence ✦

## 2.4 Focussing on the important

Certain changes may be expected of the public sector through the democratic process of changes of government, machinery of government changes, government responses to changing circumstances, international events and any number of factors outside public service control. The responses to many of these external factors will be influenced by public service analysis and advice, including in relation to policy development, program implementation, regulatory responses, service delivery or organisational changes. There is substantial scope, even need, for innovation in these circumstances. The challenge then is to identify, assess and implement innovations which are likely to represent the best return for the resources invested. This may often require looking beyond the confines of one portfolio to see whether joint initiatives with others can yield more effective results.

At the more prosaic level, and within the scope of government policy and priorities and available resources, departments and agencies have considerable scope for innovation at the organisational level. This can range from a commitment to continuous process and service improvement to more substantive innovations. The importance of organisational innovation, which often takes the form of adaptation or adoption of innovations undertaken elsewhere, including in the private sector, should not be overlooked.

Making time to think ✦

Public sector leaders need to ensure that time and resources are set aside to deal with the important but not urgent issues where innovative approaches can have multi-dimensional benefits. While developed in a different context, Stephen Covey's time management matrix can be a useful way of thinking about this issue.<sup>6</sup>

<sup>5</sup> Behm, A, Bennington, L and Cummane, J, *A value-creating model for effective policy services*, Journal of Management Development, Vol.19, No 3, 2000, pp162–178.

<sup>6</sup> Covey, S.R., *The 7 Habits of Highly Effective People*, Free Press, 2004.

## 2.5 Organisational capability and agility

Substantive innovation is unlikely to occur by chance and must be explicitly planned for, and resourced, at the organisational level. This involves building organisational capability to support innovation which may involve both direct costs (for example on training, equipment and information support systems) and opportunity costs (such as in making time available). Building organisational innovative capacity is broader than having a set of human resource development, information technology, policy development and program implementation strategies. It is about facilitating innovation pathways in a synergistic way to bring the broad capabilities of the organisation to bear on a need or opportunity. It is also about empowering and supporting the staff responsible to bring innovative solutions to fruition. This requires leadership, investment and commitment.

Build innovative capacity ✦

Radical or transformational innovation, in particular, require organisational flexibility and agility in being able to shift and obtain the necessary skills and resources to meet new or emerging needs and opportunities. There are well-established processes for doing this such as drawing on experienced staff, the establishment of taskforces, working groups, steering committees and networks utilising internal and external contributors. Thinking through appropriate governance arrangements consistent with the nature of the challenge and risks involved, to oversight pilots, trials or experimentation is time well spent.

A major challenge in developing adequate organisational agility is the need in most cases to maintain key business-as-usual functions and reset priorities within existing resources. Relatively few initiatives are deemed to be of such significance that total, new resourcing is provided and new resourcing normally only occurs after considerable investment in prior development work. Naturally, substantial reallocation of resources will have implications that need to be discussed with ministers and communicated to clients and key stakeholders to avoid mismatched expectations.

## 2.6 Incentives and rewards

Innovation will be encouraged if innovators and innovative initiatives are appropriately recognised and rewarded. As public servants are usually motivated by, and committed to, making a difference by way of better policies and programs, recognition and reward schemes need not involve monetary rewards. Indeed there are many examples of successful recognition and reward schemes that may simply involve workplace (for example informal recognition and celebration events) and organisational level acknowledgment (such as Secretaries' awards). Service-wide awards include, for example Information Technology Awards and annual Prime Minister's Awards for Excellence in Public Sector Management administered by the Institute of Public Administration Australia, Australia Day Medallions and awards under the Australian Honours System (including the Public Service Medal). There are also various international awards such as those sponsored by the Commonwealth Association for Public Administration and Management.

Apart from the obvious motivational dimensions, recognition and award schemes are powerful mechanisms for maintaining a culture of innovation through peer recognition, disseminating knowledge of new initiatives and fostering adaptation, adoption or simply fresh thinking. For example the nomination and citation processes for the Prime Minister's Awards for Public Sector Excellence gather and disseminate valuable information across the public service. It is therefore important that departments and agencies participate actively in such schemes. A reputation for innovation and excellence as demonstrated by awards can be an important factor in attracting and retaining high performing staff, thus creating a virtuous circle of innovation.

Recognise and disseminate innovation ✦

## 2.7 Key lessons

Continued innovation is vital for the public sector to meet the challenges and opportunities of the future. Innovation is most likely to emerge and be sustained if:

- public sector leaders are committed to achieving a supportive culture where innovation is encouraged and lessons disseminated;
- innovation is embedded in corporate strategy and adequately resourced;
- staff have the requisite skills, training and development opportunities;
- departments and agencies encourage internally-generated innovation and actively engage with citizens, clients and stakeholders to garner external ideas and innovations;
- there is a deep understanding of core business, government policy and aspirations, the broader external environment and internal and external sources of data and information;
- there are mechanisms in place to assess and respond to new and emerging issues;
- departments and agencies build organisational capabilities and agility; and
- innovation is appropriately recognised and rewarded.

## 3. An innovation process model

### 3.1 A model for managing innovation

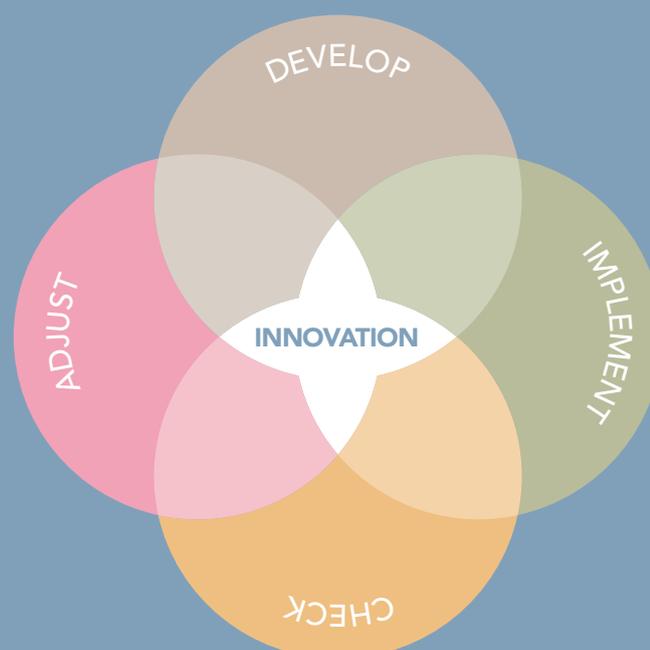
In the public sector context, and regardless of their specific area of activity, public servants generally follow a broadly similar process in developing, implementing, monitoring and refining what they do. This process can be described as a 'develop, implement, check and adjust model'.

Innovation goes beyond the creation of 'good ideas'. It also necessarily involves the successful application of good ideas. All the steps in the innovation process model are important in realising the benefits of innovation. For the purposes of this Guide the generic 'develop, implement, check and

adjust model' is used to provide a basis for explaining the innovation process in the public sector. The develop, implement, check and adjust model is depicted below.

Innovation is not just the generation of new ideas ✦

The develop, implement, check and adjust model



## 3.2 'Fit for purpose' — applying the model

The implementation of risk management procedures is a necessary part of decision-making processes adopted by agencies to enable them to maximise opportunities for innovative solutions. However, the key accountability features and related risk management processes adopted during an innovation cycle should be 'fit for purpose'. That is, the degree of oversight and specific mitigation activities should be commensurate with the value, complexity and sensitivity associated with a particular initiative.

Innovation in the public sector can be categorised in various ways. A risk-based classification<sup>7</sup> embodies a spectrum of risk tolerances and includes:

- refining existing processes (regular innovation);
- using existing ideas, processes or products in new areas (niche-creation innovation); and
- radical change of both the product/service and the market (transformative innovation).

Other risk tolerance considerations include<sup>8</sup> whether:

- the problem that the innovation is designed to address is well formulated;
- similar innovations have been successful elsewhere;
- there is a clear plan for how the idea can be further developed; and
- the potential benefits have been estimated and are commensurate with the development cost.

If an initiative is judged to be of low risk, an agency's internal instructions could specify a relatively straightforward process that complies with minimal requirements. As innovation risks increase, internal instructions could provide additional guidance such as the need to:

- engage with the community;
- use models, pilots and prototypes;
- engage ministers in the decision-making processes surrounding risks, innovations and experimentations;
- test ideas on a small sample of the population; and
- where possible, link the use of innovative approaches to choice rather than compulsion in the first instance.

The Innovation Risk Matrix shown below lists a number of features and expectations related to the innovation. Attention to these aspects will assist an entity to assess the relative risk level of an innovation, and determine a response that is 'fit for purpose' or proportionate to that level of risk. The Matrix poses a number of threshold questions related to an innovation to assist decision-makers to make these judgements.

<sup>7</sup> See Osborne S.P, and Brown, K, *Managing Change and Innovation in Public Service Organisations*, 2005.

<sup>8</sup> See Mulgan, G, and Albury, D, *Innovation in the Public Sector*, Cabinet Office Strategy Unit, United Kingdom Cabinet Office, 2003.

### Innovation Risk Matrix (in order to inform a proportionate response)

Features of the innovation	Low	Medium	High
1. Is the nature of the innovation incremental or transformative?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Is the entity's experience with this type or scale of innovation limited or extensive?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Is the innovation within the entity's control or will it require the involvement of other entities?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Expectations regarding the innovation</b>			
4. Are there sensitivities, as identified by stakeholders, around the impact of the innovation or the target population?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. Are there sensitivities, as identified by stakeholders, around the means being used to apply the innovation (for example by compulsion or choice)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. Are there expectations, as identified by stakeholders, about the scope of the innovation, its resourcing and the time available to implement it?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### 3.3 'Fit for purpose' — governance arrangements

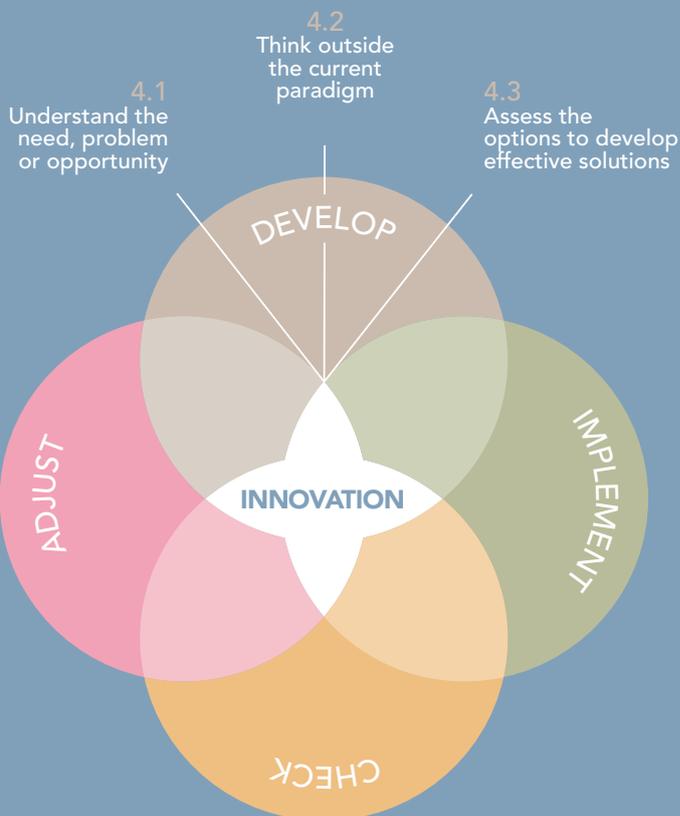
In determining a 'fit for purpose' approach to manage an innovation, entities should also consider the governance arrangements it establishes to oversight the innovation process and identify, mitigate and manage risks. Governance arrangements should be structured and proportionate to the risk profile of the initiative (as indicated by, for example, the value, scope, scale, complexity, timeframe and sensitivity of the particular initiative) and the phase of the innovation cycle. That is, where major consequences and significant uncertainties are apparent, the more rigorous the governance arrangements should be. Major reform proposals may warrant oversight by an interdepartmental committee, portfolio specific reforms by a departmental risk committee and straightforward program initiatives by line management.

Governance arrangements may need to be tailored to suit the phases of the innovation cycle, including governance structures, responsibilities and information requirements. As such, specific matters of governance are further discussed during the 'develop', 'implement', 'check' and 'adjust' phases of this Guide as relevant.



## 4. Develop options and solutions

Within the context of government aspirations, policies and priorities, developing new approaches to old problems and solutions to new and emerging issues is a core function of a dynamic and forward-looking public service.



Elements of the 'develop options and solutions' phase of the innovation process are outlined in this section of the Guide.

Typically, the practical risks to successful innovation at the develop phase are: gaps in the evidence base; taking too narrow a perspective; and choosing the wrong option(s). Effective management practices that reduce the likelihood or consequence of these risks include: clearly identifying assumptions and their sensitivity to change; engaging with citizens, clients and other stakeholders; and obtaining proof of concept through trials or pilots.

## 4.1 Understand the need, problem or opportunity

The first step towards innovation is to understand the need, problem or opportunity. It is important to avoid over simplification as that may disguise the real issues that need to be addressed. If the specification or framing of the need or problem is incorrect then development of possible solutions will be misdirected. For example, low compliance with a regulation may suggest the need for greater compliance effort when the root problem may be with the nature or complexity of the regulation itself.

Understanding the broader context in which an issue arises or is emerging is critical to being able to frame the need, problem or opportunity appropriately and to understand its full implications. Taking a broader view of an issue from several perspectives (for example government policies, portfolio ministers' agendas, citizen expectations, client needs, stakeholder views), will inevitably lead to better solutions.

Multi-dimensional  
consideration of  
issues ✦

The significance and urgency of an issue will drive the timing of the development of a response. For example the timeframes and processes around responding to an immediate, localised natural disaster will be quite different from those for developing appropriate policy responses to a medium-term issue such as improving national child care facilities and a long-term, intergenerational national issue such as the implications of an ageing population.

### A long-term perspective

The Intergenerational Reports produced by the Treasury in 2002 and 2007 under the *Charter of Budget Honesty Act 1998* represent a major departure from previously available analyses in that they provide an overall assessment of government policies over a forty year period. These reports have provided an overall framework for policy development across most government portfolios. [See Appendix A.10 for more detail.]

### Manage innovation risks: clearly identify assumptions and their sensitivity to change

An evidence-based approach clearly provides the best foundation for innovation. However, in some cases development and implementation timeframes may be very tight and the evidence base less robust than may be ideal. As well, forecasts or predictions of future trends or behaviour may be based on less than perfect information.

For these reasons it is important to consider the degree to which, and in what ways, limits to information can affect implementation. In particular, gaps in information may mean that contingency measures will need to be considered when the initiative is rolled out. For example, uptake that is much higher or lower than expected may have implications for staff numbers or funding of the initiative.

Use the best  
evidence  
available ✦

Where imperatives are such that initiatives need to proceed on the basis of preliminary or incomplete evidence, implementation plans should build in the contemporaneous collection of the necessary quantitative and qualitative data to allow monitoring and analysis of performance against objectives.

Qualitative and anecdotal information is naturally more difficult to weigh and assess but can be very powerful in driving perceptions of problems and possible solutions. In such cases the experience and judgement of experts in the field, both within and outside government, are very valuable inputs to decision-making.

An awareness of uncertainties increases the chance of successful implementation. If the assumptions made about an initiative are clearly identified, along with their sensitivity to change, then ministers and those implementing the initiative can be better informed of the possible likelihood and their consequences.

### Evidence driven innovation

The Standard Business Reporting (SBR) program was initiated by the Australian Government in 2006 in response to the Report of the Taskforce on Reducing Regulatory Burdens on Business, 'Rethinking Regulation', which identified excessive reporting and recording burdens on business as one of five priority areas for reform. Australia is also building on the lessons learnt from the Netherlands SBR program, which is also aimed at reducing the regulatory reporting burden. Given its cross-jurisdictional mandate, SBR has been endorsed by the Council of Australian Governments and incorporated into its regulatory reform program. [See Appendix A.9 for more detail.]

## 4.2 Think outside the current paradigm

Generating new ideas and revisiting existing and previous ideas from new perspectives and in light of changing circumstances is key to identifying possible solutions, one of which may be to 'do nothing'. Strategic insights frameworks can be an effective approach to harnessing/facilitating creative thinking. Such a framework encompasses an analysis of where things are now, what are the desired end-points and what might be the pathways to get there.

There are those who look at things the way they are, and ask why...I dream of things that never were and ask why not?

Robert Kennedy



There are various well-established techniques to facilitate fresh insights and lateral thinking. These range from informal processes such as brainstorming, through more structured processes such as De Bono's six thinking hats<sup>9</sup>, SWOT (Strengths Weaknesses Opportunities Threats) analysis, force field analysis (pros and cons) through to more complex techniques such as scenario analysis and planning and econometric modelling.<sup>10</sup> However, there is no one-size-fits-all approach.

It is not uncommon for ideas to cycle through various iterations over time, for certain approaches to become fashionable or for people to be sceptical about proposals based on past experience. Changed circumstances may mean that an idea that failed to gain traction in the past is now attractive, or an initiative that fell short of expectations, to be adapted 'to work' or 'work better'.

<sup>9</sup> De Bono, E. *Six Thinking Hats*, (revised ed) Penguin, 2000.

<sup>10</sup> These techniques are briefly outlined in Appendix B.

In such an environment it is important to capture the ideas and perspectives of clients and other stakeholders, and to garner the expertise of groups external to the organisation, including international experience, to ensure a rounded understanding of the issues. Generally speaking there is no shortage of ideas and proposals that might be considered. Ideas will generally be readily forthcoming from staff, other organisations, clients, academics, industry groups and other stakeholders. The challenge is to determine from the options available which ones should be further explored and the best approaches or methods for doing that.

In this context, building and maintaining adequate in-house capability and expertise to assess and develop options is important to successful innovation. Having such capabilities ensures that both internally and externally generated and sourced proposals, including consultancies, can be confidently evaluated.

### Trialling a new paradigm

In moving towards a more customer-driven approach rather than the traditional linear service delivery paradigm, Centrelink converted its Tuggeranong ACT Customer Service Centre to a 'concept office' in 2006 to trial and evaluate potential service delivery improvements. The innovations trialled have been associated with improved customer satisfaction, fewer incidents of aggressive client behaviour and lower levels of staff absenteeism. [See Appendix A.4 for more detail.]

### Manage innovation risks: engage with citizens

As public policy issues become increasingly complex, governments have realised that the resolution of many of the challenges facing Australian society require more active participation from citizens in order to achieve desired outcomes. This trend has led to an increased focus on the active engagement with, and input from, Australian citizens to help ensure that government initiatives have a positive impact on people's lives. This 'citizen-centred' focus links citizens more directly to the decision-making process in such a way that they are better placed to influence and appreciate the design and direction of public policies, programs and services.

The desired result is programs and services primarily focussed on the needs of citizens, rather than just largely reflecting the organisational structure of public sector departments and agencies delivering them.

The best results are likely to flow from a process of strategic and frequent engagement. Such engagement goes beyond what might be thought of as more traditional forms of consultation to establishing a positive, proactive relationship. Traditional consultation processes such as discussion papers, submissions and public hearings still play an important role and are readily enhanced through use of web-based technologies.

Engagement  
helps to  
manage risks ✦

Much of the momentum for increased engagement with citizens is being assisted by innovations in information and communication technologies (ICT). ICT has already enhanced productivity by providing new and more efficient ways of delivering public services. As part of appropriate communication strategies, ICT also offers a vehicle to engage more actively with citizens in order to obtain 'citizen inspired' approaches to delivering better quality services that are more responsive to community needs.

Apart from enriching the development process, at the very minimum proactive engagement with clients and external stakeholders will confirm assumptions, identify unexpected issues and help build understanding and support for change.

### Meeting the needs of citizens

In 2002 the ATO undertook a 'Listening to the Community' consultation process which identified provision of similar information to multiple agencies as a source of irritation. The subsequent enhancement of the e-tax facility by the ATO, which enables pre-filling of e-tax returns, provides a better service to clients and also efficiencies for the organisation. First piloted in 2004–05, the pre-filling functionality in e-tax was used by around 1.6 million people in 2008, with a further 6.6 million pre-filling reports downloaded by tax agents. [See Appendix A.2 for more detail.]

### Manage innovation risks: engage with clients

Establishment of partnerships with private sector, not-for-profit and community-based organisations can promote innovation as well as offer innovative solutions in their own right. There is a broad range of models that can be explored, ranging from public-private partnerships for large infrastructure projects, to social service delivery arrangements through both for-profit and not-for-profit organisations, to policy and program development through research alliances.

Partnerships and alliances can be powerful ✦

Appropriate identification and sharing of risks are fundamental to the success of such arrangements recognising that some risks cannot be priced or effectively transferred from government.

### Working with business

The VANguard electronic authentication service developed within the Department of Industry, Innovation, Science and Research and first piloted in 2007 enables business to government online transactions to be conducted securely. By offering authentication services across government, VANguard responds to business needs, reducing costs and facilitating further innovation in the private sector. [See Appendix A.8 for more detail.]

## 4.3 Assess the options to develop effective solutions

As there is likely to be more than one way of addressing issues, options need to be carefully evaluated. The scope and scale of the assessment needed will vary according to the complexity of the proposal, the timeframe in which the issues need to be addressed and the outcomes being sought.

The assessment should consider data availability and measurement, the appropriateness of the proposed alternatives, their feasibility, their sustainability and accountability but also their level of complexity — that is 'can the option be readily explained to, and understood by, the community at large'?

Assessment of feasibility includes early consideration of key implementation issues and risks. Even the best initiatives may fail to reach, or at least fall short of reaching, their full potential if implementation issues are not considered as part of options assessment and a broad implementation strategy is not developed.

Assessment and good judgment are required ✦

There are many readily-available tools for assessing options to ensure they are evaluated on a consistent basis. The need for, and costs and benefits of, any particular regulatory proposal can, for example, be tested using the regulatory impact assessment process and the Business Cost Calculator available from the Office of Best Practice Regulation. For proposals requiring Cabinet policy or funding approvals, guidance is available through Guides produced by the Department of the Prime Minister and Cabinet.

Inevitably more complex options will require the exercise of professional judgment in determining which options are most viable in providing effective solutions. This includes consultation with ministers and their offices to ensure their perspectives are fully understood and taken into account.

### Options for the future

In considering its future research options and strategic directions through 2001–02, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) undertook an extensive process of reviewing its research strengths and future opportunities in consultation with ministers, government departments, other research organisations, clients and stakeholders. This resulted in the government agreeing in 2002–03 to provide additional funding for the development of large-scale, multidisciplinary strategic research partnerships focussed on major national issues. These 'National Research Flagships' have transformed the focus and operation of a large proportion of CSIRO's research activities with beneficial outcomes. [See Appendix A.6 for more detail.]

### Manage innovation risks: proof of concept

Where the evidence base is thin, risk probabilities are high, consequences uncertain, potential unforeseen consequences considerable, and the best approach unclear, valuable experience can be gathered through an experimental approach involving trials and or pilots. Running trials of alternatives can produce information about what works best. Pilots can test approaches on a small scale to gain experience before scaling up. Active engagement and user testing with clients and stakeholders will provide information on user acceptability. The Centrelink concept office is a good example of trialling initiatives with clients in an actual workplace environment.

In cases involving experimentation, trials or pilots, the indicators of success, assessment methodology, data and information requirements, milestones, timeframes and resources need to be part of the initial design and development brief. Governance arrangements should ensure that any decision to vary design, timing or resource parameters is subject to appropriate scrutiny. Similarly early lessons should be ascertained and taken into account.

Identify what works ✦

By incubating and prototyping concepts in this way, innovations can be tested and refined, risks can be reduced and approaches confirmed or discarded. It is important to approach this early development work from the point of view of what can be learnt from the investment made rather than seeking to avoid the risk of perceived 'failure'.

Clear communication and engagement with clients and stakeholders will facilitate their participation in trials and pilots, provide sources of feedback and ensure that expectations are not unduly raised about ultimate outcomes. For example, trials and pilots may legitimately be used for demonstration purposes in order to encourage wider adoption by other jurisdictions, the private and community sectors.

Once successful proof of concept is established, trials and pilots may need to be replicated and scaled up to ensure the initiative is sufficiently robust and well-proven to warrant full scale roll-out. This step is important for assessing the practicability of an initiative. For example, the proof of concept may identify: practical constraints that need to be overcome in order for the initiative to deliver required results on-the-ground; as well as more accurate projections of uptake and, therefore, more reliable cost estimates.

In the legislative and regulatory area, it is not practicable to trial legislation as such but proof of concept can still be tested in analogous ways. For example, legislative frameworks can be tested through discussion papers, exposure drafts, and consultations before being introduced to Parliament. The parliamentary processes themselves, including committee inquiries, are designed to establish that legislation and regulations are fit for purpose.

### Trying new approaches

In response to the Government's social inclusion agenda and recognising that new partnership approaches were required to meet the needs of particular groups of people, Centrelink has recently initiated a series of discrete, self-managing local initiatives developed through local level problem definition and responses. These Centrelink place based initiatives share a common strategy of placing the customer at the centre of service delivery and trialling different approaches to address the specific needs of different client groups. [See Appendix A.5 for more detail.]

## 4.4 Key lessons

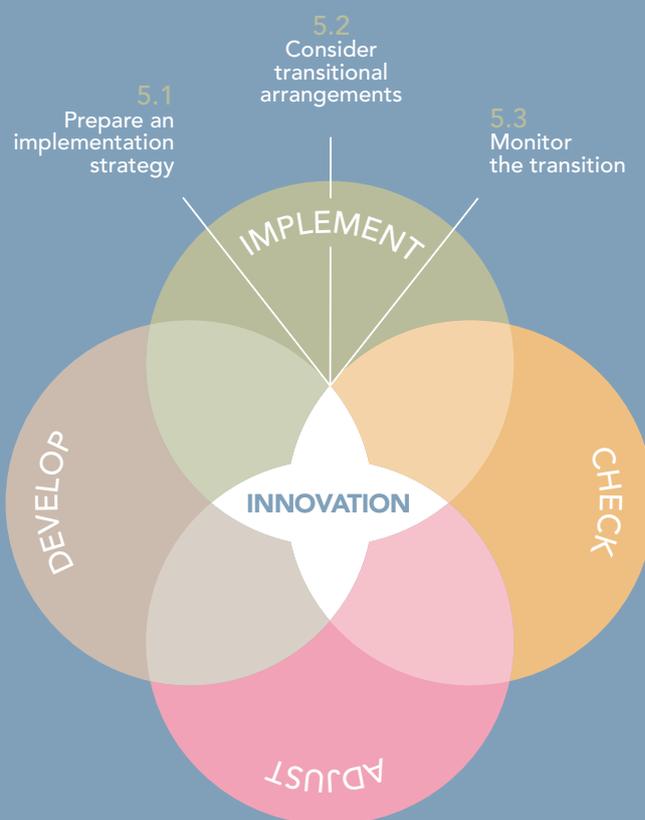
Innovation can be initiated and facilitated through good processes and active engagement of citizens, clients and stakeholders. In developing options and solutions the key steps to consider, depending on the circumstances are to:

- understand the need, problem and opportunity and the broader context so the issues are appropriately framed;
- bring together the best available evidence base so that options development is well-informed and risks are identified early and can be appropriately managed;
- think outside the current paradigm to develop innovative solutions based around a strategic insight framework — where are we now? what is the desired end-point? how do we get there?;
- undertake early and active engagement with citizens, clients and stakeholders, including through establishing alliances and partnerships, to provide new ideas and insights, help identify and mitigate risk and build support;
- assess options as rigorously as possible when seeking to develop effective solutions recognising both the costs and benefits from a government and client/stakeholder perspective; and
- use experimentation, trials and pilots, to learn lessons, build an evidence base, identify and reduce risks and demonstrate proof of concept.



## 5. Implement

Effective implementation is an essential component of innovation. Without efficient, effective and timely implementation, inspirational and forward looking ideas will not be transformed into new processes, products, services or methods of delivery.



Elements of the implement phase of the innovation process are outlined in this section of the Guide.

Successful implementation requires sufficient consideration of major implementation risks such as: an overly optimistic view about practical aspects of a roll-out, especially timing; loss of service delivery continuity during the transition; and an inability to correct unforeseen problems that arise. Approaches to managing these risks include: phased implementation; access to appropriate resources and skills; and the timely escalation of problems and solutions.

## 5.1 Prepare an implementation strategy

Implementation strategies describe the practical steps needed to translate new ideas and approaches into on-the-ground outcomes. The elements covered in an implementation strategy should reflect the features and expectations associated with the initiative. For example, where implementation risks are seen as low, careful attention to the practical constraints to effective implementation and the use of appropriate project management tools will normally suffice.

However, as an initiative increases in complexity it will be necessary to consider implementation risks and mitigation treatments along with more formal timetables and milestones. For large and high risk projects, stage gate review processes can help ensure that the initiative remains on track, is going to meet its objectives, and that additional expenditure is not incurred unless satisfactory progress is achieved. Implementation strategies and associated plans for major innovations may require clearance by the Cabinet Implementation Unit (CIU) in the Department of the Prime Minister and Cabinet. Quarterly reporting to the CIU on implementation progress and achievement of outputs and outcomes is likely to be required until a high level of success is achieved.

An innovative idea is only as good as its implementation ✦

Implementation strategies are likely to work best when informed by expert and practitioner experience and expertise and client/stakeholder consultation. Implementation will also be facilitated by communication strategies which are designed to achieve broad understanding of, feedback on, and support for, the initiative. Such strategies are best developed through early consultation and agreement with client/stakeholders, including ministers where appropriate, to obtain a clear understanding of roles, responsibilities, mechanisms and timing.

It is important to delineate between the objectives of an initiative, and the means, activities and processes required to deliver it. Once a clear distinction has been made between desired outcomes and processes, it will be easier to focus on those characteristics concerning effectiveness (outcomes) and those concerning efficiency (processes). Where the initiative is one program of several programs aggregating to serve a common high level objective, a key question for effectiveness will be ‘what are the relationships with other, similar or complementary, programs both within the department, other agencies and other jurisdictions’? In some cases, streamlining similar programs may allow for greater flexibility in determining how the program(s) are delivered. This may also assist citizens in accessing services that best meet their perceived needs.

Ensuring appropriate data collection and monitoring arrangements are put in place at the implementation stage will mean that later review and evaluation processes are informed by actual experience.

### Manage innovation risks: phased implementation

When planning for implementation, the timelines for achieving critical milestones need to be based on the best possible understanding of the time it is likely to take for inputs/resources to be put in place, new processes to become operational, and intermediate and longer-run outcomes to be demonstrated. If the innovation is breaking new ground, it may be appropriate to divide the implementation phase into manageable stages: the stage including a transition period; the stage at which intermediate results may be available and can provide an early indication of effectiveness; and the more mature stage when longer-run outcomes will be clearer.

A phased approach may be required ✦

### Phased implementation

On assuming a new regulatory role under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*, the Australian Transaction Reports and Analysis Centre (AUSTRAC) developed a phased implementation strategy based on 34 identified projects covering customer facing, supervisory, workload and organisational growth and capacity building issues. This approach underpinned the full implementation of the legislation over a two year period. Development of close working relationships with industry and public interest groups has been a fundamental element of AUSTRAC's activity. [See Appendix A.3 for more detail.]

## 5.2 Consider transitional arrangements

In some cases implementation may need to include a strategy to facilitate the transition from the *status quo* to new or changed arrangements.

Depending upon the nature, scale and complexity of the innovation, implementation could have short-term negative, as well as positive, effects on customers. To ensure continuity of service delivery during a period of change, transitional objectives that could be monitored include: minimal downturn in performance; minimal disruption to customers; minimal complaints; and the achievement of early results. During transition it may be appropriate to provide two-way feedback mechanisms for customers and stakeholders to quickly address transitional issues requiring attention.

Be ready for  
bumps in  
the road



Where circumstances require the very quick implementation of a sensitive initiative, an implementation plan should be worked through closely with ministers and their offices as this is the period when risks may be greatest and parliamentary, media and community interest highest.

### Manage innovation risks: access to appropriate resources and skills

The successful implementation of a new process, product, service or method of delivery will often involve internal organisational change. In particular, it is important to consider the skills required by those staff implementing the initiative. Where required, transition planning should identify, consider, and have solutions for the requirements relating to changes in structures, skills and systems in the implementing organisation.

### Change management

The Child Support Agency (CSA) managed significant changes in functions across teams and sites to meet changing resource requirements resulting from the progressive introduction over two years of the new Child Support Scheme from 1 July 2006. The CSA approach involved using transition teams for registration and for information about the new scheme and business-as-usual teams for dealing with existing customers. Changes to administrative processes were also required to meet the needs of customers.

## 5.3 Monitor the transition

It is good practice to set out implementation objectives in advance as this allows stakeholders to judge whether performance meets expectations. Monitoring and reporting arrangements should be commensurate with the risks and allow agency managers and external stakeholders to understand whether implementation milestones, targets, and objectives are being achieved. Where monitoring indicates that progress is not on target or unexpected issues have arisen, early corrective action can bring projects back on track or lead to changes that may more effectively achieve objectives. In extreme cases, monitoring may suggest that an entirely new direction may be more appropriate. It is important that in all cases implementation issues be followed up so as to minimise any misallocation of resources and maximise achievement of objectives.

Take corrective  
action when  
needed



### Manage innovation risks: timely escalation of problems and solutions

Monitoring and reporting arrangements may need to be more extensive and regular in the early stages of implementation and through the transition period when risks are likely to be higher. As an innovation proceeds through the implementation path and experience is gained, monitoring and reporting arrangements can be refined.

Where significant implementation problems arise, it is important that analysis of the issues and possible solutions are promptly escalated through the agency's governance arrangements for higher level consideration and action. Where appropriate, the responsible minister should be informed and involved. This process is captured in the often-quoted 'no surprises rule' and is illustrative of a supportive culture that wants to hear the bad news as well as the good news, and to hear it sooner rather than later.

#### Responding to implementation difficulties

The roll-out of the imports module of the Customs and Border Protection Integrated Cargo System (ICS) in October 2005 resulted in unexpected, severe short-term disruption to the movement of sea cargo as many customs brokers and freight forwarders had difficulties interacting with the new system. The issue quickly escalated to Ministerial level with a roundtable group established to discuss implementation issues, and an industry action group to focus on release of cargo. The Chief Executive Officer subsequently commissioned an independent review of the ICS, which found that there had been a number of deficiencies in implementation but the ICS provided a sound base for the future. The review made several recommendations for how the ICS could be leveraged to make improvements in the imports supply chain, which were all accepted and implemented.

## 5.4 Key lessons

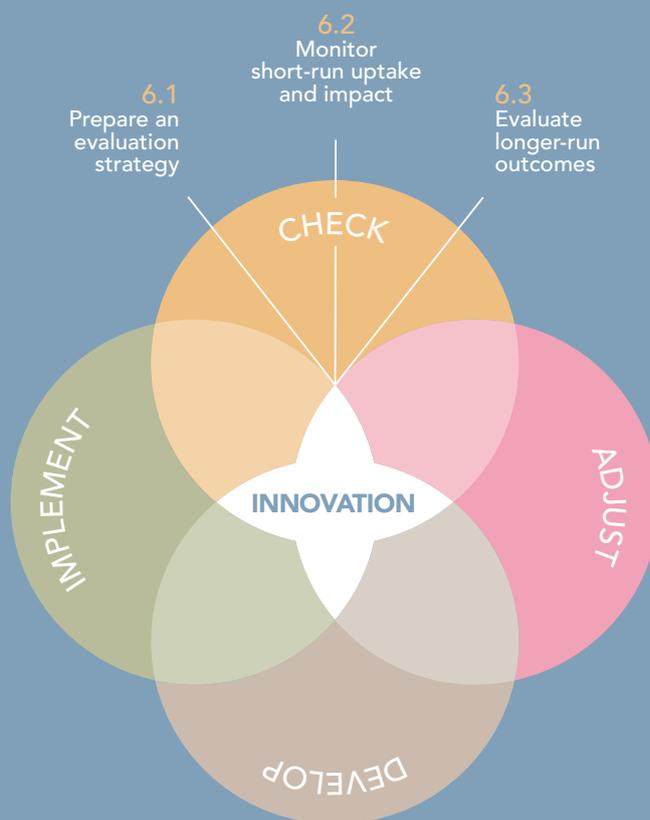
The key considerations in the implementation phase, depending on the circumstances, are:

- ensure that sufficient attention is given to the practical constraints to effective implementation, including the resources required to meet timeliness expectations. For complex cases, this may require an implementation strategy;
- ensure ministers' views and needs are well-understood and ministers are kept informed of progress and any difficulties that may arise;
- consider the need for a transition plan, particularly where there is likely to be a significant impact on policy settings, service delivery or the regulatory environment; and
- monitor the transition process to ensure that the initiative is rolling out as planned and any unexpected issues are promptly dealt with.



## 6. Check and evaluate

Processes in the check and evaluate phase are valuable techniques to measure the success, or otherwise, of innovations. They provide the basis on which judgments can be made about efficiency, effectiveness and appropriateness of a new process, product, service or method of delivery.



Elements of the check and evaluate phase of the innovation process are outlined in this section of the Guide.

An assessment as to whether an innovation is meeting the objectives and expectations of government, citizens, clients and other stakeholders, requires relevant performance information. Stakeholder expectations can be high and risks include: a lack of data on progress to date; a lack of data on future uptake; and a lack of data on the on-going appropriateness of the initiative. Effective ways to mitigate these risks include: the use of appropriately targeted performance information; ongoing engagement with citizens, clients and other stakeholders; and where appropriate, longer-run evaluations.

## 6.1 Prepare an evaluation strategy

Performance information and its availability to agency managers, politicians and Australian citizens, contribute to learning, innovation and improvement. An appropriately tailored evaluation strategy includes the collection and analysis of performance information that provides:

- an early indication of policy/delivery effectiveness; and
- longer-term evaluation of outcomes.

Early indicators can be used to detect any significant problems and enable corrective action to be taken. Longer-term evaluation can be used to better understand the details of the impact of policy, service delivery and regulatory changes.

Know what to  
measure and how  
to do it ✦

### Manage innovation risks: appropriately targeted performance indicators

It is better to focus resources on fewer, well-specified and robust performance indicators than numerous partial indicators. In some cases where direct indicators may not be available, proxy indicators may need to be considered.

Most performance indicators describe performance for a previous period of time and, therefore, are lagging indicators. Lead indicators are valuable because they provide early information on likely future performance. Lead indicators are especially useful where there is a considerable time period between the implementation of a policy innovation and the outcome. From an internal management perspective, lead indicators assist agencies to determine whether new approaches are working and to modify them as required. From an external perspective, lead indicators enhance accountability and transparency as to whether an initiative is likely to produce the desired outcomes in the future.

#### Lead Indicators

Lead indicators provide information on likely future performance. For example, in relation to immunisation and cervical cancer, the number of women being vaccinated with GARDASIL® is a lead indicator of the expected beneficial outcome some years into the future.

## 6.2 Monitor short-run uptake and impact

Early reviews, which can be undertaken before the data is available to sustain a full evaluation, can be useful in providing confirmation or otherwise as to whether the initiative is being taken up by the target population. Used appropriately, lead indicators can provide useful information on early results and likely future performance. Such indicators can also identify areas that may require closer scrutiny.

Know how and  
where you  
are going ✦

Obtaining client and stakeholder feedback, including through web-based mechanisms, can provide valuable information and insights on the uptake and impact of initiatives and add credibility to any adjustments that may need to be made.

## Manage innovation risks: engage with stakeholders, clients and citizens

Maintaining engagement with the minister, program managers, clients, citizens and interest groups will ensure that early reviews and later evaluations are informed by the views and experience of a range of stakeholders. Not only are they able to offer practical insights and different perspectives but they can be sources of new ideas for improvement. A sound consultation strategy will add weight to the credibility of any review or evaluation process.

### Monitoring impact

The switchover from analogue to digital television broadcasting in Australia will be completed by December 2013, when all viewers will need digital receiving equipment to receive free-to-air broadcast television. The regulatory body, the Australian Communications and Media Authority, has undertaken a transmission and reception study and also using consulting firms, has undertaken a series of surveys of digital television uptake in Australian households and more in-depth research in 120 homes. This research is providing valuable information on digital television uptake overall and on issues consumers may face in switching to digital television.

## 6.3 Evaluate longer-run outcomes

Review and evaluation methodologies and timeframes need to be determined to best fit the circumstances of the particular initiative. There is no one-size-fits-all methodology as different considerations apply across the policy, program, service delivery and regulatory spectrum. Appropriate methodologies and timeframes also depend on the nature and scale of the innovation.

Full evaluations necessarily require a longer timeframe and more comprehensive data than do early reviews. Where considered appropriate, formalised evaluation processes can assist managers and other decision-makers to: assess the continued relevance and priority of an innovation in the light of current circumstances, including government policy changes; test whether the innovation is targeting the desired population; and ascertain whether there are more cost-effective ways of assisting the target group. Evaluations also have the capacity to establish causal links and to enable lessons to be learnt and appropriate adjustments made as early as practicable.

Evaluation shows whether, and to what extent, objectives are being met

The usefulness of an evaluation depends upon the quality of the evidence on which it is based. It is generally more expensive to gather necessary evidence after the event as part of an evaluation process than to build data collection into the initial initiative design.

## Manage innovation risks: involve external participants

Involving external participants in evaluations can provide valuable additional insights and add credibility to the outcomes. Establishment of a stakeholder reference group, bound by confidentiality agreements if needed, can be a useful mechanism to obtain external input. This can extend to sharing of draft findings and recommendations in order to road test future directions.

### External review

Within three years of establishing the initial six National Research Flagships in 2002–03, the CSIRO commissioned a review of the initiative, chaired by the former Chief Scientist, Dr Robin Batterham. The subsequent positive report not only endorsed and confirmed the value of Flagships but was influential in the Government's decision to fund a further three Flagships in 2007–08. [See Appendix A.6 for more detail.]

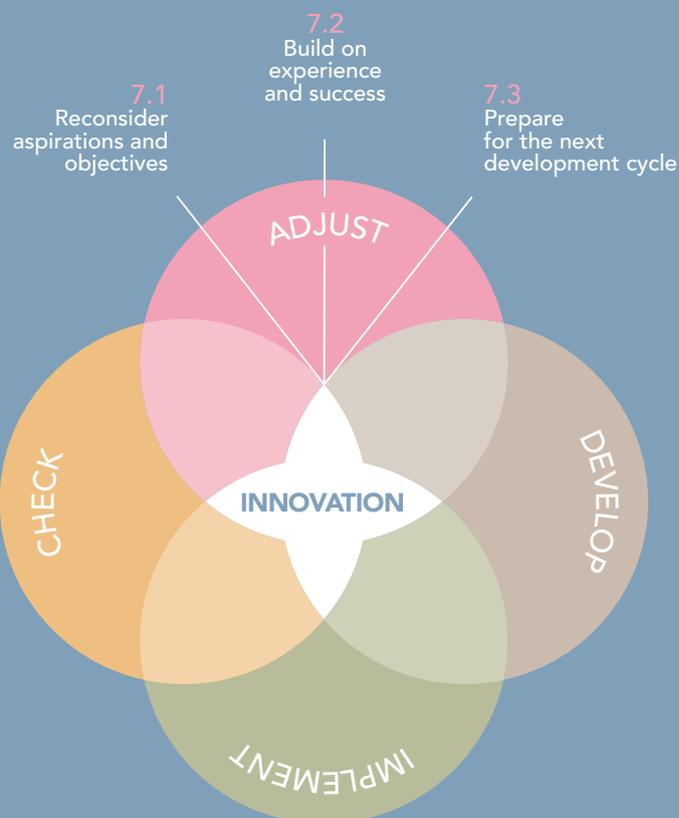
## 6.4 Key lessons

Checking and evaluating the efficiency, effectiveness and appropriateness of initiatives is fundamental to successful innovation and valuable lessons will still be learnt from 'failures' as well as 'successes'. Key steps to consider, depending on the circumstances, for the check and evaluate phase are:

- prepare a tailored evaluation strategy which includes the collection and analysis of appropriately-targeted information;
- monitor short-run uptake and impacts to obtain early indications of the effectiveness of the initiative and whether adjustments are required;
- ensure data and information are being collected and early trends analysed, including through citizen, client and stakeholder feedback; and
- evaluate longer-run outcomes based on a sound methodology.

## 7. Adjust and disseminate

Innovation is a dynamic process that involves people learning from experience, disseminating the lessons learnt and absorbing and anticipating new developments.



The key elements of the adjust and disseminate phase of the innovation process are outlined in this section of the Guide.

During an innovation cycle, lessons will be learned about the factors that contributed to both the success and failures associated with an initiative. The risks at this phase include: the inability of an organisation to 'stay ahead of the game'; the loss of the knowledge obtained by those with implementation experience; and the associated costs of rediscovery, duplication or error if this information is not shared. Effective ways to minimise these risks include: scanning the environment; disseminating the lessons learned; and considering future data needs.

## 7.1 Reconsider aspirations and objectives

Innovation requires that basic questions continue to be asked and underlying assumptions challenged. This includes periodically reconsidering whether the high-level aspirations and the objectives of an initiative are still appropriate and correctly framed.

Take a broad  
view ✦

Understanding actual and emerging changes in the environment in which an initiative is operating is essential for relevance and sustainability. These changes may be political, legislative, client issues, stakeholder concerns, general community views, international developments and technological advances. Unless these broad environmental factors are monitored, their possible relevance and implications understood and strategic responses developed, then an organisation's ability to stay ahead of the game through innovation will be severely constrained. Indeed there are cases where organisations have been found wanting due to becoming unduly internally focussed and failing to change.

### Manage innovation risks: scan the environment

To a greater or lesser extent environmental scanning will be an element of most officers' roles, particularly Senior Executive Service officers. However, systematic information sharing is likely to be more effective if supported by organisational processes. These can range from relatively simple and widely-used mechanisms such as conferences, seminars and strategic planning days, to electronic communications of various kinds.

Of overarching importance are the policies and priorities of the government of the day. Strategic, focussed discussions with ministers and their offices are important means of identifying possible new or changed directions, particularly when informed by prior agency analysis.

### Major reforms are sometimes required

Following a series of incidents the Department of Immigration and Citizenship embarked on a major reform program. Key lessons for the broader public sector from reforms over the past four years are the importance of integrating culture, planning and information technology; and the development of a leadership team to build a united department and draw out its collective strengths.

## 7.2 Build on experience and success

Building on success has several dimensions, ranging from the obvious value of confirming what works, to motivating the individuals and teams involved. It must be recognised that success is often hard-won and takes time and can often come from absorbing and adapting lessons from groups and organisations external to the team.

Learn lessons  
well ✦

Being alert to the views and experience of citizens, clients and stakeholders in a practical sense, or in other words being able to stand in the shoes of a client, is invaluable to inform innovation. Not only are they able to offer new and practical insights and different perspectives, but they will often ask searching questions that will both challenge and illuminate. An ongoing and meaningful client and stakeholder consultation and engagement strategy is not just good business practice but will pay huge dividends in terms of innovation.

## Manage innovation risks: disseminate the lessons learned

When breaking new or different ground, valuable lessons will be learnt from experience. Innovation will be enhanced if there are processes in place to capture and assess both informal and formal lessons.

Don't recreate the wheel ✦

It is useful for organisations to have explicit policies and procedures to support wide dissemination of knowledge so the responsibility is not only left with the organisational unit concerned. While a number of APS communities of practice have been established (for example the Department of Finance and Deregulation convenes regular Chief Finance Officer and Chief Information Officer Forums) and other specialised resources are provided (for example the Australian Public Service Commission's 'Connected Government' web site and publications), research for this Guide suggests that cross-organisational dissemination appears to be an area which deserves further attention in order to enhance innovation in the APS.

The outcomes of review and evaluation processes and reports produced can be very effective in disseminating valuable experience and lessons not just within organisational units but more broadly within and across organisations. Common techniques are to distribute executive summaries or key points, arrange roundtable discussions and seminars and publish documents on intra-nets and the Internet. Comprehensive, accessible and readily searchable web sites, and increasingly on-line forums and other networking mechanisms, are essential knowledge dissemination tools.

Tell the world ✦

Participation in high profile public awards such as the annual Prime Minister's Awards for Excellence in Public Sector Management, the Australian Government Information Management Office's Excellence in e-Government Awards, and the Safety, Rehabilitation and Compensation Commission's (Comcare) Safety Awards are valuable vehicles for identifying and promoting innovations within organisations, across portfolios and across jurisdictions.

### Stakeholder engagement

The CSIRO has established a Flagships Advisory Committee for each of its National Research Flagships to ensure their ongoing management and development is informed by the views and involvement of key stakeholders. [See Appendix A.6 for more detail.]

## 7.3 Prepare for the next development cycle

Consideration of future opportunities and challenges and their implications will help prepare for the next cycle of innovation and maintain innovation momentum. A proactive stance will be assisted by maintaining strategic, future-oriented capabilities and capacities, which could involve strategic research, analysis and fore-sighting type initiatives. While choices will need to be made about the extent to which resources are devoted to anticipating the future, and the need will vary between organisations, it is an important element of a comprehensive organisational innovation strategy.

Plan for the future ✦

The Productivity Commission has identified the importance of evaluations in providing an evidence base to underpin reform processes.<sup>11</sup> The Productivity Commission also suggests that the lack of evaluation activity makes it difficult to comment on the effectiveness or otherwise of government interventions. Clearly an evidence-based approach to policy, program and regulation development and design, based on the best practicable data, information and analysis, will provide a better understanding of the nature of the issues being addressed and the implications of possible responses.

### Manage innovation risks: consider future data requirements

It is important that new ideas and policy initiatives be informed from the earliest stages by evidence-based data. Considerations include: what data and information already exists; whether the data is of adequate quality; and what further data may be required and whether, and how, that data might be collected.

#### Taking the next step

Following the publication of the first Intergenerational Report, the Treasury undertook further refinement of the underpinning methodologies and analysis. Treasury used the 'population, participation and productivity' (3 Ps) framework for developing projections of real Gross Domestic Product and real Gross Domestic Product per person introduced in the second Intergenerational Report. [See Appendix A.10 for more detail.]

## 7.4 Key lessons

Even with smoothly functioning initiatives there is no room for complacency. Organisations must be continuously looking to adjust and improve what they do and how they do it. Key issues to consider, depending on the circumstances, in the adjust, improve and disseminate phase are:

- reconsider the initial aspirations and objectives to ascertain whether they are still current;
- understand the impact of the initiative since first implemented and subsequent developments in the internal and external environment;
- build on experience and success and take account of lessons learnt;
- engage citizens, clients and stakeholders in the consideration of possible adjustments and new directions;
- disseminate the results as widely as practicable; and
- look to the future and prepare for the next development cycle to improve processes or responsiveness.

<sup>11</sup> Banks, G, *Evidence-based policy making: What is it? How do we get it?*, Speech to the Australian and New Zealand School of Government/Australian National University Lecture Series, 4 February 2009.

# 8. Across-boundary innovation

## 8.1 Further challenges and opportunities

The discussion to date has largely been about innovation by and within a government organisation. However, in an increasingly complex environment and to meet government and community expectations many issues can only be effectively tackled in an across-boundary manner (for example across portfolios, jurisdictions, sectors and even national borders). The innovation

challenge is to draw on the combined experience and expertise of multiple departments and jurisdictions so as to take things forward to a higher level, thereby raising performance across government and across the nation. The same principles that facilitate innovation discussed earlier apply equally, although with more emphases on seeking common objectives, leveraging areas of influence, negotiating to achieve win-win outcomes and managing overlapping relationships within and across jurisdictions and stakeholder groups.

In 2002, the Management Advisory Committee published a report in response to Australia's priority challenges. The report emphasised:

*Often the real challenge of whole of government work is not the large scale, high-level multi-lateral exercise so much as the day-to-day realities of trying to work across boundaries to make sure that outcomes are achieved.<sup>12</sup>*

Applying the principles to foster innovation in work that crosses boundaries ✦

<sup>12</sup> Management Advisory Committee, MAC Report 4, *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*, 2004, pp. 2 and 9.

The report was supplemented with 'Good Practice Guides' to assist in cross-agency activity. The ANAO has also published a Better Practice Guide on Cross-Agency Governance<sup>13</sup> and common themes include:

- agreed cross-agency approach;
- documented roles and responsibilities of government departments, along with reporting arrangements;
- coordination of organisational effort in developing national immigration health screening guidelines and procedures;
- risk management, protocols for prioritisation and defined timelines and targets for managing queries;
- timely and accurate technical/policy advice;
- cross-agency coordination activities with defined liaison contacts; and
- review and renewal.

The challenge is for such across-boundary arrangements to permit the people concerned to engage and to work together effectively and to understand the operating environment. Public sector leaders have a key role in influencing the behaviour and attitudes of staff towards collaboration and innovation across organisational boundaries. They are ideally placed to model collegiate behaviour and ensure that there is practical support for those involved in whole of government activities. This includes developing systems and procedures to support better information-sharing and the adoption of common information systems, standards and protocols across departments to improve interoperability, and assist in identifying information management needs early in the planning process for whole of government initiatives.<sup>14</sup>

## 8.2 Cross–portfolio coordination

The increasingly complex environment in which the public sector works and the nature of the problems that the government and community expect to be addressed, can only be effectively dealt with by utilising the combined experience and expertise of multiple departments and jurisdictions. Effective consultation and coordination across portfolios, including central agencies is not only essential to ensure all relevant considerations are identified and thought through but also as a means of stimulating debate, exploring other perspectives and avoiding unintended consequences. Cross-fertilisation of ideas will facilitate lateral thinking and innovative ideas.

Cross-portfolio and inter-jurisdictional work does of course require additional effort and more complex development and implementation processes but also offers the possibilities of streamlining roles and responsibilities. Obtaining early buy-in and commitment to high level aspirations, objectives, strategy and process is an effective way to avoid becoming distracted by detail or bogged down in lowest common denominator approaches.

Look for win-win solutions ✦

Cross-portfolio coordination is a key function of central agencies such as the Department of the Prime Minister and Cabinet but can just as effectively be lead by line departments and agencies drawing on their particular areas of expertise. Effective coordination can be enhanced at the working level between departments through formal mechanisms such as inter-departmental committees but also less formal and *ad hoc* arrangements developed to deal with particular issues. As part of organisation innovation strategies, officers at all levels should be encouraged to consider the broader implications of their work and the interests of other portfolios, readily exchange information and establish and review the effectiveness of consultation and coordination arrangements.

<sup>13</sup> Australian National Audit Office, *Better Practice Guide: Cross-Agency Governance, Guidance Paper No. 7*, 2003.

<sup>14</sup> Australian Public Service Commission, *Tackling Wicked Problems: A Public Policy Perspective*, November 2007.

### Cross-portfolio coordination

The establishment within the Department of the Prime Minister and Cabinet of a Strategic Policy and Implementation Group reflects the increased emphasis being given to whole-of-government, high level, forward looking policy development and program implementation.

It is crucial that portfolio ministers and their offices endorse and remain appropriately informed of cross-portfolio activities. Sensitivities can arise where portfolio priorities may need to be traded off to achieve a greater goal or unexpected issues arise which may have portfolio implications. At the highest level such issues may need consideration by Cabinet but ministers have considerable discretion to settle contested issues as work proceeds. It is incumbent on departments and agencies to minimise issues in contention and to provide well-rounded advice to ministers which is focussed on the national interest, reflects contested positions fairly and looks for win-win and innovative solutions.

Keep ministers in the loop ✦

### 8.3 Whole-of-government dimensions

Whole-of-government processes are often challenging but offer great opportunities for reform. In complex areas involving multiple portfolio interests a whole of government approach is the only realistic way forward. The dynamics are different from within portfolio work often because of the leadership roles usually taken by central agencies. A good example are the Intergenerational Reports prepared by the Treasury, which have had a very significant influence on policy thinking across Australia in considering how best to address the long-term impacts of fundamental issues such as our ageing population.

Due to the nature of Australia's federal system, much high level policy development occurs through Commonwealth, State and Territory Ministerial Councils and their various working parties and expert advisory groups. Major national issues are pursued through or under the auspices of the Council of Australian Governments (COAG). The processes around such work can be quite complex and demanding and require strong leadership, secretariat and policy support, determination and commitment.

Understand the dynamics ✦

Issues on the COAG agenda are by definition national in scope, complex and demanding. Innovative solutions that are acceptable to all jurisdictions require high level skills to negotiate. However substantial reforms have and can be achieved through COAG processes.

## COAG reforms

In 1992, the Council of Australian Governments (COAG) was established, *inter alia*, to improve efficiencies in the delivery of services between Commonwealth and State governments. Over time, COAG reforms have focussed on: roles and responsibilities; national competition policy and other aspects of micro-economic reform; and in 2008, steps to modernise Commonwealth–State financial relations.

See Appendix A.7 for more detail.

## Remote Service Delivery National Partnership

In order to ensure the citizen is at the centre of service delivery in remote priority locations, the COAG Remote Service Delivery National Partnership Agreement puts in place new coordination arrangements for the delivery of Commonwealth and State and Territory government services in those locations. This new governance model is designed to ensure that all governments are held to account for the delivery of agreed reforms. The governance arrangements involve the following elements.

In each community, an Indigenous Engagement Officer (IEO) supports the Government Business Manager, who oversees local business on behalf of the Commonwealth and the State/Northern Territory Governments. IEOs are recruited from within the Indigenous communities in the priority locations and assist in communicating information between their community and government workers. The IEO must be a member of the community (or acceptable to the community), and have an understanding of the key stakeholders and the broad physical, social, historical, cultural and political aspects that make up the community.

Government Business Managers report to the Regional Operations Centre (ROC) Manager in their region. The ROC Manager chairs a regular service delivery working group to oversee Remote Service Delivery National Partnership implementation at the regional level and to support Government Business Managers. The ROC Manager also reports to a jurisdictional Board of Management (a whole of government management group) on progress and issues within the priority communities in their regions.

Overall progress of implementation is overseen by the Coordinator General for Remote Indigenous Services who has direct links to national program coordinators within Commonwealth and State government agencies to ensure that any issues affecting the implementation of reforms can be addressed. In addition, the Coordinator General will report directly to the Minister for Families, Housing, Community Services and Indigenous Affairs and to COAG.

## 8.4 International collaboration and standards

In an increasingly globalised world, international engagement and collaboration are important to pursuing and safeguarding Australia's national interests and international standing. Participation in international organisations, such as the Organisation for Economic Cooperation and Development and the Asia Pacific Economic Cooperation forums, can be rich sources of information and ideas. While it is relatively rare for an overseas model to be directly applicable to Australia, there are many that can be productively adapted to Australian circumstances. For information on overseas models and practices, see the supplement to the Guide entitled *Public Sector Innovation: A Review of the Literature*, available at the ANAO website: [www.anao.gov.au](http://www.anao.gov.au).

At a different level, the negotiation of bilateral and multilateral international agreements provides opportunities for Australia to learn from other countries' experience and expertise as well as contribute its own. It is important to take a broad view of Australia's national interests, to understand the level of commitments that may be entered into (there is a substantial difference between entering into a memorandum of understanding with a counterpart agency and a binding, treaty level agreement) and to consult closely within and across jurisdictions and the stakeholder and community groups whose interests may be affected.

Engage with  
the world



### International cooperation

As one of 15 founding member nations of an international intergovernmental body, the Financial Action Task Force (FATF), established by the G-7 Summit in 1989 to coordinate action against money laundering, Australia is committed to adherence to international standards and collaboration. As a member of the FATF Australia introduced the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* and AUSTRAC's role was expanded in order to implement the FATF recommendations and demonstrate it was meeting international standards through the mutual evaluation process. [See Appendix A.3 for more detail.]

## 8.5 Non-government expertise

Clearly there is a depth of experience and expertise within the private sector, not-for-profit and community-based organisations, including those that operate in a multi-national environment, that can contribute to finding solutions to complex problems as well as offering innovative solutions in their own right. Working with

non-government organisations can help build a case for change and facilitate agreement across jurisdictions. For example, many business and not for profit organisations are active proponents of national and international reform ranging from technical issues such as accounting standards to moral causes such as human rights.

There are also opportunities for innovation across the public-private sector interface which can result in better outcomes for all sectors. Such innovations can be actively encouraged through appropriate policy and program initiatives and incentives.

Explore the  
opportunities



### Public-private synergies

The ATO's e-tax facility has facilitated considerable business process re-engineering among tax agents, through being able to access client information electronically. The Standard Business Reporting initiative offers streamlined processes and cost savings for business. Both these initiatives are underpinned by developments in information and communications technology developed largely through the private sector. [See Appendices A.2 and A.9 for more detail.]

Although it is often not easy to find the resources, careful seeding of innovations can encourage new initiatives both within and outside the public sector. This can include using procurement opportunities to elicit new innovations from the market, rather than overly-specifying the solutions sought.

### Facilitating provider innovation

As part of the recent Employment Services Tender for 2009–12, an Innovation Fund was established to provide funding for projects to overcome barriers to employment for the most disadvantaged job seekers, including Indigenous Australians, people with mental health conditions, the homeless or those at risk of homelessness, and people from jobless families or who are living in areas of entrenched disadvantage. Over three years \$41 million has been provided for Innovation Fund projects.

## 8.6 Key lessons

In an increasingly complex environment and to meet government and community expectations, many issues can only be effectively tackled in an across-boundary manner (across portfolios and jurisdictions, sectors and national borders). Key issues for innovation in this context are:

- understand agendas and look for mutually beneficial outcomes;
- ensure ministers endorse and are closely involved in cross-portfolio work as the broader agenda may raise sensitivities in relation to their portfolio policies, programs and stakeholders;
- develop a forward and outward looking and collaborative culture to ensure a holistic, national view is taken of challenges and opportunities;
- establish consultation and coordination mechanisms across portfolios and State and Territory jurisdictions to take advantage of other perspectives, skills and expertise;
- engage with other countries and international organisations;
- appreciate that significant cross-portfolio reforms can be driven by domestic imperatives or by international developments; and
- learn from other organisations in the private and community sectors, and form valuable partnerships.

# 9. A transition to a new era of innovation in the public sector

The Australian Public Service is widely regarded internationally as highly professional, efficient and innovative. Nevertheless, there are continuing and legitimate pressures from within and outside government for improved performance. Most in government and in the public sector would accept that there is scope for further improvement. Continuous innovation offers the best prospects of meeting these expectations.

In his John Paterson Oration on 3 September 2009, the Prime Minister articulated his aspirations for the APS. Having complimented the APS on its achievements, the Prime Minister said:

Aim to be  
the best ✦

*The larger challenges still lie ahead, and that is to move forward with a vision to make the APS the best public service anywhere in the world. I believe that is an entirely reasonable and achievable aspiration for the APS — if we take the right actions now. To achieve that goal, I believe the APS must perform five tasks:*

- 1. Provide high-quality, forward-looking and creative policy advice;*
- 2. Deliver high-quality programs and services that put the citizen first;*
- 3. Maintain a culture of honesty, impartiality and fairness, with a focus on retaining public trust;*
- 4. Provide flexible, agile responses to changing realities and government priorities; and*
- 5. Be effective and efficient in all its operations.*

*We have a strong APS, but much needs to be done to achieve these objectives.*

Enhancing innovation performance is central to the APS improving its current approaches. Among other things this will require further strengthening of an innovation culture, greater focus on learning and disseminating the lessons of innovation, exploiting the opportunities offered by technology developments, and seeking out and being receptive to ideas and innovations from outside government.

## 9.1 A stronger innovation culture

The encouragement to increase innovation for better policy, service delivery and cost reduction has been set at the highest levels of government. Survey results which show that there are marked differences of view within the APS between the senior leadership cadre and less senior staff about the extent to which innovation occurs and is encouraged and supported places a significant responsibility on APS leaders to address the underlying issues.<sup>15</sup>

These results suggest that more needs to be done to foster an innovation culture, promote innovative activity and change perceptions.

Innovation is more likely in circumstances where innovative initiatives are actively encouraged and supported. This will not happen by chance but requires active facilitation and recognition throughout an organisation with bottom-up, horizontal and top-down processes, recruitment, training and development of high quality staff and active learning from others. This means that innovation must be embedded, recognised and rewarded within organisations, the broader APS and the public sector more generally.

Seek forgiveness  
rather than ask  
permission ✦

## 9.2 An open innovation approach

There are various public sector coordination and advisory bodies which promote innovation and which are advocates for adoption of best practice within their areas of responsibility. However, research for this Guide demonstrated that although innovation is widespread throughout the public sector, it is often not recognised, and the lessons and enhanced approaches often not proactively and effectively shared across, and between, organisations.

All organisations could benefit from embedding innovation in the values and behaviours they promote and encouraging their staff to look above and beyond the normal boundaries of their jobs to reflect, to learn from others, to challenge the why, what and how of their responsibilities and to set out to make a positive difference. It is the opportunity to make a difference that is a powerful motivator for many public servants and if given the opportunity and encouragement, most will rise to the challenge.

Look outwards ✦

Similar to the private sector, there is further scope for the APS and the public sector more generally to promote and adopt 'open' innovation approaches. This involves the identification, adoption, adaptation or re-engineering of ideas, technologies, processes or services from a wide range of sources within and without the government sector. This can be supported by greater emphasis on networks and communities of practice.

<sup>15</sup> Australian Public Service Commission, *State of the Service Report 2007–08*, 2008, pp. 271–276.

### 9.3 Placing the citizen at the centre

Government and community desire for more citizen-focussed service delivery provide significant opportunities for innovation. While significant steps are being taken, including in the context of the social inclusion agenda, much remains to be done to provide comprehensive, joined up service delivery. The challenges involved are not trivial but can be solved through collaboration and partnerships across agencies to coordinate efforts across government and with other sectors. Initiatives could range from new and enhanced delivery mechanisms through redefining role responsibilities to redesigned back office processes and enhanced IT platforms.

Stand in their shoes



In the context of the possible dynamic between innovation and social inclusion, it is also necessary that public organisations are mindful as to whom, across society and industry, is gaining most and, more importantly, gaining least from public sector innovation.

#### New models for service delivery

The recently announced five year research alliance between the CSIRO and Centrelink, committing \$25 million to drive a significant program of improving Australian government service delivery, is an instructive example of how combining the strengths of two quite different organisations offers the potential to improve outcomes for Centrelink customers and citizens more broadly.

### 9.4 New opportunities through technology

Information and communications technological developments, together with globalisation and real time flows of information, citizen demands for more meaningful engagement, calls for greater transparency of decision making processes, and expectations of more citizen focussed delivery of services, all provide challenges and opportunities for significant and more rapid innovation across the public sector.

It is important that opportunities presented by new technological developments and community usage be proactively monitored and adopted or adapted for the purposes of government. For example, new forms of communication such as blogs and wikis had become relatively well established and utilised by the community before guidelines for their use by government were promulgated across the public sector. Blogs are now used at the highest levels of government.

The Internet is becoming the town square for the global village of tomorrow.  
Bill Gates



#### Web 2.0 taskforce

The establishment of a taskforce within the Australian Government Information Management Office on web 2.0 technologies illustrates the potential importance of these technologies in transforming the way in which government engages with the community at large. Importantly, the independent taskforce comprises experts and entrepreneurs from the private and public sectors and academia.

## 9.5 Aspirations for the future

Just as the public sector of today is very different from the public sector of yesteryear, the public sector of the future will be markedly different from what we have at present. However, if anything, the pace of change is likely to be faster.

A more highly performing public sector is achievable through leadership and innovation that not only drives productivity but also delivers better services to the government and citizens of Australia.

This Guide has been developed in the context of the legislative, regulatory, monitoring and reporting framework that currently applies to the public sector. The Management Advisory Committee's examination of public sector innovation will explore how innovation can be further facilitated on an ongoing basis and the need for possible reforms. The Prime Minister has also established an Advisory Group to develop a blueprint for reform of the public service.

It can be expected that the outcomes of these processes will strengthen the emphasis being given to enhanced innovation performance in the public sector. A concerted effort across the public sector will help enable better performance and drive new directions that benefit all Australians.

# Appendix A — Selected case studies

These case studies are designed to explore issues in public sector innovation across the spectrum of public sector activities, including policy development, program delivery, regulatory approaches, use of technology, organisational innovation and provision of new or enhanced services. The materials for the case studies were provided to the ANAO by the relevant agencies.

Summaries of the 10 case studies are provided in the following sections. The full case studies are available through the ANAO web site: [www.anao.gov.au](http://www.anao.gov.au)



**Australian Government**  
**Australian Customs and  
Border Protection Service**

## **A.1 AUSTRALIAN CUSTOMS AND BORDER PROTECTION SERVICE — DETECTOR DOG PROGRAM**

The development and application of a scientifically based method of selective breeding for needed traits in detector dogs has enabled the Australian Customs and Border Protection Service (Customs and Border Protection) to overcome the severe limitations of the opportunistic method of obtaining detector dogs which had previously been used. The success of the program has not only enabled Customs and Border Protection to make more extensive use of detector dogs in its operations, with associated benefits in terms of drug seizures in particular, but also delivered further national benefits from the provision of dogs to other Australian agencies and the capacity to supply both animals and expertise to counterpart agencies in a number of other countries.

Customs and Border Protection began using detector dogs in 1969 and, in light of the support for use of detector dogs from the Australian Royal Commission of Inquiry into Drugs, Customs and Border Protection moved to establish a Detector Dog Training Centre in 1979, with dogs being recruited from a combination of commercial breeders, animal shelters and public donation. However, this approach did not provide a sound basis for supplying dogs suitable for training — the success rate being 1 in a 1000 from the general population.

In seeking to address this issue, the management of the Centre established that no breeding and development model existed anywhere in the world that would meet the key requirements of a guaranteed supply of dogs suited to detection work for known cost. The Centre therefore established a collaborative research partnership with the Royal Guide Dogs Association and the University of Melbourne under which a doctoral investigation of genetic and environmental influences upon key detector dog traits was undertaken. A pilot breeding and development program for 54 dogs was undertaken by Customs and Border Protection as part of this research.

Based on the outcome of the research program, notably the selection rates of 24 per cent for dogs involved in the pilot program, Customs and Border Protection built the National Breeding and Development Centre (NBDC) for production of 40 dogs per year. The NBDC has built on its initial success, with over 1800 dogs having now been bred and retention rates for breeding/detector placement have increased to around 75 per cent.

The NBDC was also able to refine its developmental training to produce multi-response dogs for searching both cargo and people, which has led to greater levels of productivity and flexibility in deployment as the one detector dog can operate across the full array of border environments. The program has also been expanded from narcotics detection to encompass chemical precursors/explosives and firearms.

The capability provided by the NBDC is not only utilised by Customs and Border Protection. It played an important role in providing dogs for explosives detection at the Sydney Olympics and now provides dogs to the Australian Army, Royal Australian Air Force, Australian Federal Police, Australian Quarantine and Inspection Service, and State and Territory Police and correctional services.

The innovative approach of the NBDC has also delivered foreign relations benefits to Australia. A recognised world class breeding and training program initially led to close cooperative links with a number of US Government agencies and the provision of both animals and genetic material. Similar cooperative links have since been developed with a range of other countries and detector dogs and puppies have now been supplied to China, Indonesia, Malaysia, Thailand, Japan and the Geneva International Centre for Humanitarian Demining. The NBDC continues to mentor the partner breeding colonies established abroad.



**Australian Government**  
**Australian Taxation Office**

## **A.2 AUSTRALIAN TAXATION OFFICE – E-TAX INITIATIVE**

The Australian Taxation Office's (ATO) development of its e-tax web based service platform and its subsequent integration with other electronic databases making the best use of data provisioning capabilities, has delivered substantial improvements in the service provided to clients (taxpayers and tax agents) and also lowered transaction and compliance costs for clients and the ATO.

The current e-tax arrangements represent a further major step in the broad ATO modernisation program initiated in 1987 which was aimed at more effectively exploiting emerging information technology capabilities. This multi-phased modernisation program began with development of an Electronic Lodgement Service (trials at pilot scale in 1987), moved on to the development of an electronic tax pack 'e-tax' (trials at pilot scale in 1998) and was then extended further to the development of systems in conjunction with other government and private sector organisations providing tax relevant information to enable pre-filing of e-tax returns. The pre-filing of e-tax returns was piloted with data from Medicare and Centrelink in 2004–05.

Uptake of e-tax has expanded rapidly and e-tax lodgements exceeded paper tax return lodgements for the first time in 2005–06. Around 2.3 million people lodged their 2008 returns via e-tax and, of these, approximately 1.6 million chose to use the pre-filing functionality. A further 6.6 million pre-filing reports were downloaded by tax agents.

Apart from the obvious benefits of pre-filing (for example easier access to information and identification of forgotten accounts), use of the service also helps to ensure the accuracy of information submitted as part of the return and results in far fewer post-assessment adjustments.

The development of the e-tax arrangements required a concerted organisational commitment led by successive Commissioners of Taxation over two decades and an associated commitment to major investments in new technology platforms and business re-engineering. While the ATO benefited from more general developments in information technologies, e-commerce and community broadband network penetration, harnessing of these opportunities to its particular business requirements still required the ATO to make a major strategic investment.

The e-tax initiative has also required the ATO to focus externally and invest considerable effort to develop relationships with organisations responsible for providing tax relevant information in order to get data provided in a timely manner for pre-filing of returns and more fully realise the functionality of the e-tax capability. The relevant organisations include government agencies, financial institutions and employers generally (for payment summaries). In 2008, the pre-filing system shifted from the 'expanding pilot' phase to full production, encompassing all electronically available financial institution data, payment summary data and a wide range of data held by the ATO.



## **Australian Government**

### **Australian Transaction Reports and Analysis Centre**

#### **A.3 AUSTRALIAN TRANSACTION REPORTS AND ANALYSIS CENTRE**

The enactment of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF), which was designed to update Australian arrangements to meet international standards established by the Financial Action Task Force, presented the Australian Transaction Reports and Analysis Centre (AUSTRAC) with a major challenge. It not only required AUSTRAC to assume a broader regulatory role in addition to its established financial intelligence unit activities but also imposed a legislative shift from dealing with specified entities to designated services encompassing an unknown number of providers across a broader range of activities.

AUSTRAC was required to oversee compliance by a wide range of financial services providers, bullion sellers, designated remittance service providers, the gambling industry and other specified reporting entities, and 'cash dealers' (as defined under the *Financial Transactions Reports Act*).

AUSTRAC therefore proceeded to put in place an implementation strategy to deal with the extremely diverse range of organisations and increased numbers of transactions covered by the new legislation. Mechanisms were developed to identify, engage, and assess the entities covered and implement appropriate risk treatment regimes, including providing assistance to small business to understand their obligations and how to meet them. At the same time, development of more sophisticated data mining and analysis techniques to deal with the range and scale of transactions being monitored was also initiated.

A combined top-down and bottom-up approach within AUSTRAC produced a phased implementation strategy based on 34 identified projects covering customer facing issues, supervisory issues, workload issues and organisational growth and capacity building.

As the first step in engaging its customer base, AUSTRAC researched, identified, and contacted 19 700 prospective reporting entities regarding their potential AML/CTF obligations. A range of support mechanisms including follow up contact, a substantial help desk operation (which handled 38 164 calls in 2007–08) and substantially expanded on-line services were then put in place.

In 2007, AUSTRAC launched its Internet-based portal AUSTRAC Online — a system to allow businesses to enrol as reporting entities, receive assistance with their regulatory and reporting obligations, and submit an annual AML/CTF compliance report. More than 13 000 Australian reporting entities are now enrolled with AUSTRAC through the system.

The development of close working relationships with industry and public interest groups has been a fundamental element of AUSTRAC's activities and the AUSTRAC Industry Consultative Forum (ICF) was established in 2007 to help meet the consultative requirements of the AML/CTF Act. The ICF, which meets twice a year and on an *ad hoc* basis as required, has two constituent forums — the Financial Consultative Forum and the Gambling Consultative Forum.



#### A.4 CENTRELINK – CONCEPT OFFICE

Since the establishment of Centrelink's Tuggeranong ACT Customer Service Centre as a 'concept office' in 2006, it has played a key role in carrying forward Centrelink's corporate strategy of refocussing its business processes on a more customer driven approach rather than the traditional service delivery paradigm.

The 'concept office' provides a standing capability to trial and fully evaluate potential service delivery improvements under actual workplace conditions prior to wider roll-out across the Customer Service Centre network.

Examples of innovations aimed at improving the customer experience that have been developed and which are now applied within the Centrelink Customer Service Centre network include:

- establishing a more welcoming environment via removal of counter barriers, with office layout being based on an open architecture;
- having customers met at the door by a 'Customer Liaison Officer' who can make initial inquiries concerning their business and either direct them to self-help facilities or, using an ultra mobile computer, log them into the queue for the relevant service;
- separating the office into red and green zones, with the red or 'active' zone providing self-help facilities for 'mutual obligation' customers seeking employment and the green or 'supportive' zone for people looking for other services; and
- providing access to relevant websites, photocopying and printing services for customers.

An important element in the 'concept office' approach is a preparedness to look beyond the linear service delivery approach previously applied. As part of this philosophy, a retail design consultancy was engaged by Centrelink to contribute ideas developed in the retail sector.

Similarly, the role that the Centrelink Customer Service Centres can play in meeting the overall needs of its client base is being reconsidered. Shared services arrangements with Housing ACT (officers available on site two days a week) and Medicare Australia (officers on site for four hours one day a week) have been instituted and a referral service for the Australian Taxation Office are being trialled. A truncated program was run in 2008 but a short lead-time and technical issues hampered the trial and it will be run again in 2009.

The 'concept office' innovations have been associated with tangible benefits. The overall result of innovations trialled during the first 12 months operation of the 'concept office' were improved customer satisfaction, reduced incidence of aggressive client behaviour and lower levels of staff absenteeism.

## A.5 CENTRELINK — PLACE BASED SERVICES INITIATIVE

The Centrelink Place Based Services Initiative was introduced in July 2008. It was introduced in response to the Government's commitment, outlined in its Social Inclusion Statement, to promoting social inclusion through a new approach to developing and implementing policy and programs requiring strong partnerships between all levels of government, business and community organisations.

The premise underlying the 'place based' approach is local level problem definition and response to address a set of circumstances endemic to a place or location for people most vulnerable to the impacts of social exclusion.

Accordingly, area level managers were invited to nominate projects to be operated as a series of discrete, self-managing local initiatives and six projects received funding for 2008–09:

- The Peachey Belt Community Service (northern Adelaide), to work with predominantly youth, single parents and Indigenous customers to increase their social and economic participation by providing place based integrated management;
- Morwell (Victoria), engaging with men aged 35–55 who have been unemployed for at least two years, to assist them by increasing the range of service options available and by addressing the personal issues that make it hard for them to secure and maintain a job;
- Shared Assessments in Logan (south-east Queensland), working with people experiencing domestic and family violence, young people leaving state care and/or people with unmet mental health needs services using a 'person-centred planning process' to increase their personal capacity and to connect them to appropriate services;
- Urban Indigenous Itinerants (NT), aimed at improving the connection of disengaged Indigenous urban homeless people with family, community, agencies and, where possible, assisting with accommodation options;
- Young Refugees (Broadmeadows and Fairfield), working with young refugee job seekers aged 16–24 who will work with a personal services coordinator to identify strengths and weaknesses and to develop goals that young refugees want to achieve via the initiative; and
- Cooma Young Carers (southern NSW), aimed at developing, in collaboration with local service delivery partners in the Cooma region, a referral program for young carers aged 16–25 to assist them to access support needed to remain connected to education, training and employment opportunities and to increase community awareness of their issues in the Cooma region.

The six initiatives are intended to test various practices of intervention that aim to improve customer outcomes through the development of collaborative models of service delivery within a community. They share a common strategy of placing the customer at the centre of the service delivery system and involve the collaborative design, delivery and review of a place based service response to address specific social inclusion challenges created by the place. The initiatives are informed by a participatory action research framework and underpinned by an outcomes-focused program logic approach, with regular review points to monitor and measure outcomes and recalibrate approaches.

Overall, the place based approach is premised on a reformulation of the Centrelink service delivery model to focus on customer-centric service responses. A key element in delivering this is to define and pursue an appropriate role for Centrelink within an integrated, sustainable service delivery system that meets the customer's holistic needs. Development of strategic partnerships between all levels of government and locally based business and community stakeholders is therefore integral to the place based approach.



## **A.6 COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION – NATIONAL RESEARCH FLAGSHIPS INITIATIVE**

The Commonwealth Scientific and Industrial Research Organisation's (CSIRO's) National Research Flagships Initiative encompasses 10 large scale multi-disciplinary research partnerships with other research institutions, industry and government agencies to address a range of major human, environmental and economic challenges and opportunities facing Australia. The Flagships have now become a central feature of CSIRO's corporate and research strategy. Estimated funding for Flagships in 2009–10 amounts to \$419 million, with CSIRO appropriation funding accounting for \$217 million and industry and other independent sources contributing a further \$202 million.

The Flagships Initiative commenced its development phase in 2002 through an extensive process of reviewing CSIRO's research strengths and developing potential research programs and partnerships that might be undertaken to address some of the nation's most important challenges and opportunities. The resultant National Flagships Program was formally launched by the then Prime Minister in April 2003. The initial six Flagship projects were Water for a Healthy Country, Wealth from Oceans, Light Metals, Energy Transformed, Food Futures and Preventative Health.

In 2006, a government-mandated review, chaired by the then Chief Scientist, Dr Robin Batterham, was highly supportive of the National Flagships initiative. The review found 'the Flagships offer the most promising mechanism yet to drive large-scale activity addressing Australia's National Research Priorities in a collaborative, cooperative and intensively managed manner'. Consequently, in 2007–08, a further three Flagships were established — Climate Adaptation, Future Manufacturing and Minerals Exploration. The tenth Flagship, Sustainable Agriculture, was established in 2009.

The Flagships Initiative's clearly articulated focus on national impacts, outcomes and partnerships with other organisations enabled CSIRO to put a radically different investment proposition to government. As a result, substantial additional government support has been provided to resource the Flagships program. Additional funding of \$20 million was provided in the 2003–04 budget, followed by \$305 million in the 2004–05 budget to enable full-scale implementation of the initial six Flagships and \$174 million in 2007–08 to fund the further three Flagships.

The key feature of the Flagships is a networked approach which brings together multi-disciplinary research teams from across CSIRO and other research institutions under a partnership arrangement which also engages industry and/or government stakeholders in the research programs. This engagement is reinforced by the operation of Flagship Advisory Committees for each Flagship. Comprising relevant stakeholders, these Committees ensure that the program of research and development for each Flagship is responsive to the strategic research needs of industry and society.

The Flagships initiative has been supported by a profound organisational and cultural transformation within CSIRO from structures and processes centred on the pre-existing divisions, which operated in a largely autonomous manner, to a coordinated matrix leadership and management structure capable of supporting the thematic research programs and cross-organisational management structures of the Flagships. The extent to which this significant cultural change has been accepted internally was demonstrated by CSIRO's most recent Staff Insight Poll, with the testing of Flagship importance and acceptance producing outcomes ranking in the top three positive responses across the survey.

The thematic approach adopted in developing the Flagships research programs has also now been applied across CSIRO, with its overall research portfolio being organised on the basis of research themes and reviewed annually via the Science Investment Process. The Science Investment Process is a two stage process involving the setting of broad research directions for the organisation, followed by the allocation of specific levels of investment to research themes.

Transformation of the way CSIRO does business, from largely autonomous Division-based research programs to an outcomes-focussed organisation-wide research strategy with the Flagships at its centre, continues to go together with a major organisational change strategy under a 'One CSIRO' banner. The transformation of the way CSIRO does business is integral to the successful implementation of the Flagships and associated organisational changes.

## **A.7 COUNCIL OF AUSTRALIAN GOVERNMENTS – COLLABORATIVE ARRANGEMENTS ACROSS JURISDICTIONS**

Since the 1920s, the goals of intergovernmental arrangements in Australia have been directed towards coordination, preventing overlap in the provision of services, uniformity in the administration of common functional areas, and the consideration of national priorities.

The use of Commonwealth–State ministerial councils commenced in 1923 when the Loan Council was established as an informal forum. Following the Second World War, ministerial councils became an important element of intergovernmental arrangements as governments were willing to engage in mutual exchange and, by the early 1990s, there were over 40 ministerial councils. A number of these ministerial councils focussed on arrangements which were the subject of Commonwealth Specific Purpose Payments to the States. By 2007, the number of these Specific Purpose Payments had reached 92.

In 1992, the Council of Australian Governments (COAG) was established to improve efficiencies in the delivery of services between Commonwealth and State governments. Over time, COAG reforms have focussed on a wide range of matters, including roles and responsibilities, micro-economic reform, natural resource management and service delivery and in 2008, steps to modernise Commonwealth–State financial relations including:

- rationalising the 92 Commonwealth Specific Purpose Payments into five broad Specific Purpose Payments, subject to agreements outlining the objectives which clarify the roles and responsibilities of the Commonwealth and the States in each area and supported by performance indicators;
- a move away from the use of input controls for Specific Purpose Payments and a greater focussing on the achievement of outcomes and outputs in the delivery of services by the States and Territories without prescribing how this is to be achieved in areas such as health, schools, vocational education and training, affordable housing and disabilities; and
- the introduction of a new approach to assistance governed by National Partnership Agreements under which funding is provided for specific projects that facilitate reform. Some agreements involve incentive payments to reward performance.

The new model for Commonwealth–State financial relations in Australia is based on the principle that the States have the on-the-ground experience in how best to deliver services in their jurisdictions. With this in mind, the Commonwealth has put in place a framework aimed at providing the States with the flexibility to innovate and tailor solutions in a way that best fits the needs of their populations.

This model is a significant step in the journey and evolution of Australia's approach to managing Commonwealth–State financial relations. Many of the challenges facing Australia are issues that need to be addressed through the Commonwealth working in partnership with the States and the design of this new framework includes a reporting framework that will focus on the achievement of results, value for money and timely provision of publicly available and comparable performance information.



**Australian Government**

**Department of Innovation, Industry, Science and Research**

## **A.8 DEPARTMENT OF INNOVATION, INDUSTRY, SCIENCE AND RESEARCH – VANGUARD E-AUTHENTICATION SERVICE**

The 'VANguard' electronic authentication service, developed and administered by the Department of Innovation, Industry, Science and Research, enables business-to-government online transactions to be conducted securely.

VANguard provides the following services:

- The VANguard User Authentication Service provides agencies and business with assurance of the authenticity of each party. Agencies redirect their business users to VANguard for authentication before they can access secure agency web sites or applications.
- The VANguard Signature Verification Service enables agencies to have PDF forms or XML-based content signed by business users and verified by VANguard.
- VANguard's Timestamping Service provides independent, verifiable electronic evidence of the date and time of an electronic transaction.
- VANguard's Security Token Service enables agency systems and business systems to conduct secure online transactions. Agencies and businesses obtain security tokens from VANguard to enable authentication.

VANguard represents an important step forward in progressing the Government's online service delivery agenda by providing effective authentication mechanisms to enable secure business-to-government online transactions. Importantly, the development of VANguard as a dedicated service that can facilitate e-authentication on a whole-of-government basis offers reduced cost and complexity for business by avoiding the need to meet different authentication requirements imposed by individual agencies.

Avoiding costly duplication of authentication solutions across government agencies offers major benefits from a government perspective. The VANguard service serves to insulate agencies from the technology used to authenticate business users and eliminates the requirement for agencies to manage Public Key Infrastructure credentials.

Two major government business initiatives rely on VANguard providing key infrastructure elements and underpinning authentication services. These are the Standard Business Reporting program (a multi-agency program involving the Treasury, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Australian Taxation Office and state revenue offices, and the Australian Bureau of Statistics) and the Australian Business Number/Business Name project, specifically the Business Online Services project element.

More generally, VANguard has entered into working arrangements with Centrelink, the Department of Defence, the Australian Fisheries Management Authority, the Australian Government Online Services Project, the Victorian Office of Small Business and the South Australian Department for Transport, Energy and Infrastructure.

As VANguard usage is not mandated, successful expansion in the uptake of VANguard services has depended on effective dissemination of project information to other agencies and strategic involvement in government e-business initiatives such as Standard Business Reporting.



**Australian Government**

**The Treasury**

## **A.9 THE TREASURY — STANDARD BUSINESS REPORTING**

The Standard Business Reporting (SBR) program was initiated by the Australian Government in 2006 in response to the Report of the Taskforce on Reducing Regulatory Burdens on Business, 'Rethinking Regulation', which identified excessive reporting and recording burdens on business as one of five priority areas for reform by government. Given its cross-jurisdictional mandate, SBR was subsequently endorsed by the Council of Australian Governments and incorporated into its regulatory reform agenda.

SBR is expected to be available from July 2010, with the resultant envisaged reduction in the regulatory burden associated with financial reporting expected to generate savings to business of \$800 million per year. This is expected to be achieved by:

- removing unnecessary and duplicated information from government forms;
- using business software to automatically pre-fill government forms;
- adopting a common reporting language, based on international standards and best practice;
- making financial reporting to government a by-product of natural business processes;
- providing an electronic interface that will enable business to report to government agencies directly from their accounting software, which will provide validation and confirm receipt of reports; and
- providing business with a single secure online sign-on to the agencies involved.

The SBR program is being led by the Australian Treasury, with other participating agencies being the Australian Prudential Regulation Authority, Australian Securities and Investments Commission, the Australian Taxation Office, the Australian Bureau of Statistics and all State and Territory Government revenue offices. The SBR program has around 50 forms in scope, including Business Activity Statements (the Australian Taxation Office), financial statements (Australian Securities and Investments Commission) and payroll tax (state/territory revenue offices).

Strong partnership arrangements are a critical element of the SBR program. A governing board that includes the heads of all participating agencies oversees implementation of SBR, which has been co-designed by the participating agencies in partnership with software developers, business and business intermediaries.

The SBR design stage is now complete and the build of SBR's core services and single sign-on solution has commenced. Operational testing of SBR systems commenced in October 2009.

Apart from the direct benefit industry is expected to derive from easier business-to-government reporting, SBR is considered to offer other benefits to industry and government. As the XBRL financial reporting language being used for SBR is increasingly being adopted as the basis for sharing financial information in an electronic form by accounting and financial reporting industries globally, the establishment of SBR compatible systems is expected to promote streamlining of the movement and use of financial information in other business reporting chains.

While the reduction in regulatory compliance costs for business was the key driver in the SBR program, it was also expected to improve the quality of data submitted to government and deliver processing improvements, reducing ongoing administrative costs for the agencies involved.



**Australian Government**

**The Treasury**

## **A.10 THE TREASURY — INTERGENERATIONAL REPORT**

The preparation of an Intergenerational Report (IGR) every five years was mandated by the *Charter of Budget Honesty Act 1998*, with the first report being released in 2002 and the second in 2007. The IGR represents a major departure from previous analysis available to the Government and the wider community in that it provides an overall assessment of the sustainability of government policies over a forty year period.

Establishing the IGR as an 'authoritative' assessment required the development of methodologies extending beyond Treasury's established expertise in budget management and macro and micro economic modelling. The IGR was therefore developed on a whole of government basis.

Substantial input was sought from other key departments and academia to ensure the best available data and analysis on key drivers of the Government's fiscal position in areas such as population, labour force, payments to the unemployed, aged care, health care and education, was incorporated into the Reports.

In preparing the first IGR, Treasury was able to draw upon an established capacity in respect of retirement income modelling developed as a consequence of the establishment of an inter-agency taskforce to examine these issues in 1992. This expertise made possible effective analysis of the interaction of superannuation, demography, labour markets, social security and taxation over the 40 year period of the IGR, these issues being central to the overall outcomes.

Further innovation in the IGR methodology continues to be pursued, with more refined analysis such as the 'population, participation and productivity' framework for developing projections for real GDP and real GDP per person being introduced in the second Report.

By providing an authoritative perspective on major issues affecting Australia's longer term future, the Reports have been highly influential reference points for considering long-term issues and trends and possible policy responses within Government. In releasing the second IGR, the then Treasurer stated that 'In practically every portfolio area — health, education, family benefits, welfare, superannuation, pensions — the IGR now provides the overall architecture within which we operate.'

The Reports have also been significant in positioning and increasing the influence of the Treasury at the centre of government policy advising.

# Appendix B — Summary of the literature review

This appendix provides a summary of the literature review undertaken for the ANAO as part of the process of preparing the Guide.

The full literature review, including a review of overseas experience, entitled *Public Sector Innovation: A Review of the Literature*, is a supplement to the Guide. The full literature review is available through the ANAO web site: [www.anao.gov.au](http://www.anao.gov.au).

An extensive review of academic, professional, government and international organisation literature on public sector innovation was undertaken along with some bibliographic analysis. Key themes to emerge from the literature are:

- the academic literature is growing rapidly but is still in an immature state (just over 50 per cent of the total publications identified were produced in the period 2006 to 2008);
- the professional and government literature is better developed — but focusses largely on ‘aspirations’ as regards achieving public sector innovation — there is relatively little practical guidance at the level to which the Guide is pitched;
- these aspirations stress the central role that should be played by innovation in the public sector — particularly increasing efficiency and effectiveness;
- there is a tendency to draw on lessons from the study of private sector innovation with a less well-developed understanding of the distinctiveness of innovating in a public sector context;
- risk aversion is a common characteristic and concern, reflecting the common perception of the distinctive role of government but also restricting innovative potential;
- the UK government stands out in terms of the priority it has placed on achieving public sector innovation, and in the use of specialised risk-funding to promote innovation;
- innovation championing (and leadership in general) is recognised as a key success factor;
- greater use should be made of formalised experimental approaches, including trials and pilots and use of ‘off-line’ teams to support the development of these experimental approaches; and
- a stronger emphasis on evidence-based innovation cycles: plan-do-check-act/adjust is supported by the literature.

## Explaining some terms used in the Guide

Selected terms, mentioned in section 4.2 of this Guide, dealing with techniques to think outside the current paradigm are described below.

De Bono’s six thinking hats — is a conceptual tool to facilitate thinking and discussion. The six hats denote the six distinct ways the brain works (for example considering the facts, using intuition and thinking creatively). The tool is designed to offer a structured means to think about a topic comprehensively and collaboratively.

Econometrics — is a statistical method that draws on economic theory to analyse and test economic relationships. Econometric modelling posits relationships between variables to examine and explore economic situations and behaviours. The models allow users to see the possible effect of changes in the variables and therefore support the exploration of options and their possible consequences.

Force field analysis — is a technique to look at all the forces for and against a goal. In essence, it is a method for weighing the pros and cons of a situation. The analysis can assist in assessing the viability of an initiative and can guide planning by suggesting areas of focus to strengthen the forces supporting the decision and to reduce the impact of opposition to it.

Scenario analysis and planning — is a framework for exploring different possible future states and supporting planning and decision-making based on the most likely scenarios. Creating scenarios requires the exposure and assessment of assumptions about the future and this can help clarify thinking about options and solutions.

SWOT analysis — is a technique for understanding perceived strengths and weaknesses and looking for opportunities and threats. At an organisational level, it can help identify potential activities which are particularly suitable to the organisation's endowments, and help the organisation to understand weaknesses and thereby to direct its attention to ways to mitigate threats that might otherwise undermine performance.

# Appendix C — Key themes from interviews

A total of 18 interviews were undertaken on a not for attribution basis, predominately with departmental and agency heads. The discussions identified many common themes and provided numerous practical examples of innovative practices and initiatives. Key themes from the interviews are:

- the scope for innovation is enhanced where there is Government and ministerial support (i.e. a 'permissive environment'), including recognition of the need for change;
- the fundamental importance of good leadership (particularly 'from the top'), a supportive culture, positive values and developing human capital as a precondition for innovation;
- innovation needs to be fostered, recognised and rewarded throughout the organisation, both top-down and bottom-up ('embedded' in the organisation);
- innovation tends to occur in 'cycles'. This is because new initiatives must be bedded down and because various constraints make it difficult for an organisation to sustain continuous radical innovation for long periods of time;
- innovation requires acceptance of a higher level of risk and the likelihood of some failures within an appropriate risk management (not 'risk avoidance') framework;
- trials and pilots can significantly reduce risk and uncertainty and have been used with considerable success (in both social and industry policy);
- domestic and international networks and collaboration can provide valuable learning and support (recognising that adaptations will need to be made);
- the significance of organisational capability and agility to successful innovation (a number of organisations are seeking to build strategic capabilities);
- the difficulties created by increasing work pressures and shorter response times, with the urgent and important tasks crowding out the strategic issues;
- the challenges created (real and perceived) by the existing legislative, accountability and reporting framework, including the ANAO, resulting in risk aversion (adopting the 'default position') and inhibiting innovation;
- application of new technologies can provide opportunities for innovation, including lower costs, better services and improved client and stakeholder engagement;
- public sector innovation often drives further innovation at the public-private sector interface, including through e-government initiatives;
- innovation needs to be resourced to be successful and there can be particular challenges in a resource-constrained environment and in cross-portfolio work ('no-one wants to pay');
- public servants are generally committed, well-motivated and outcomes focussed (often achieve despite the odds); and
- the Australian Public Service is quite innovative and well-regarded internationally but performance is variable and there is always room for improvement.

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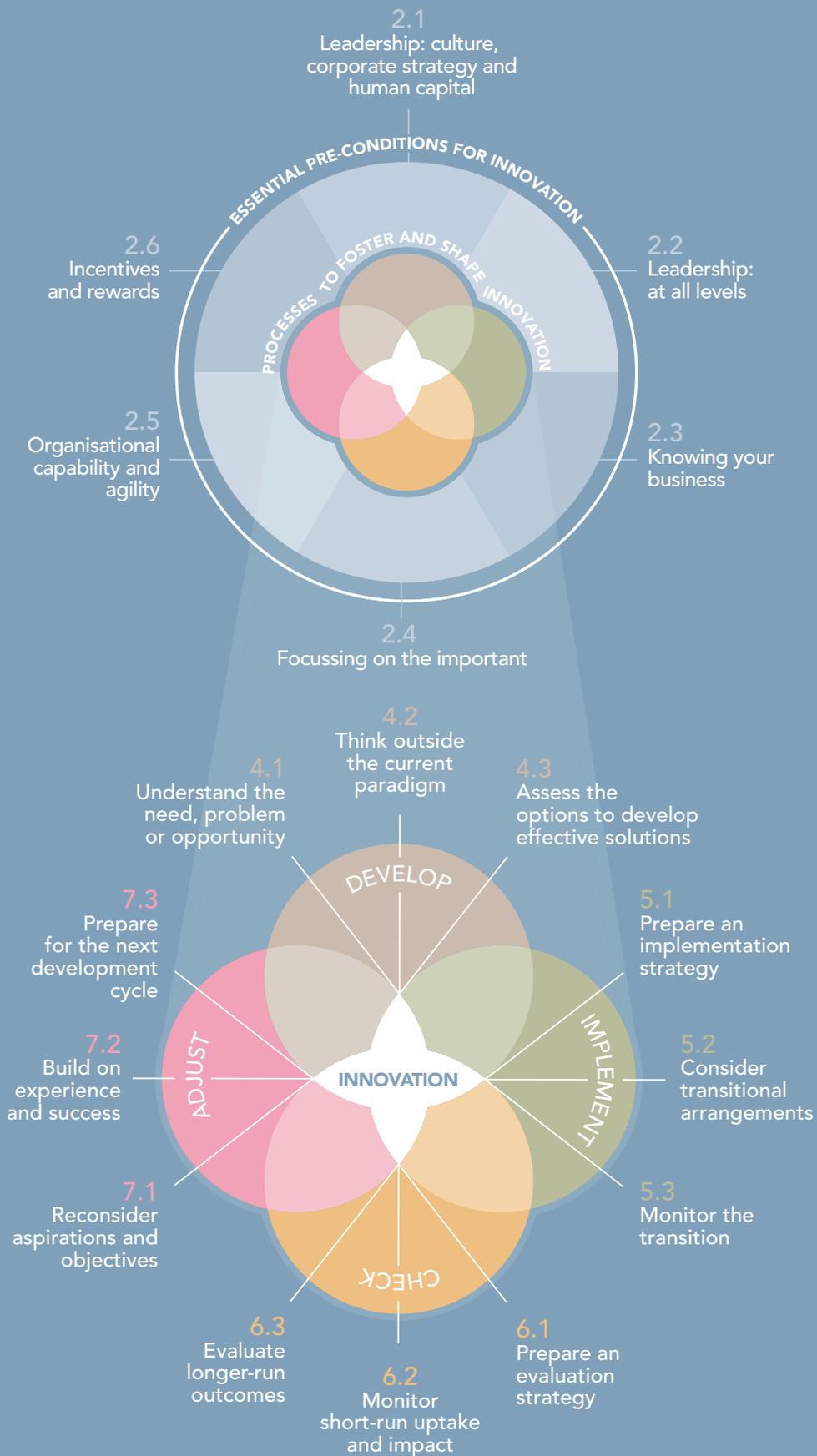
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