INNOVATION FOR BETTER GOVERNMENT PERFORMANCE

Thank you once again for the opportunity to talk today. It is not quite as late as last night and so I should be a bit more awake.

Right at the outset I want to say that I am not an ICT expert. I am a user of ICT and I have seen the evolution of technology in the public sector, as well as the wider community, over the past 20 odd years. And I have been involved in looking at a number of projects that have involved significant ICT investments over the years. But I am definitely not an ICT expert.

My presentation today is therefore more from the perspective of a policy adviser dealing with a range of policy proposals – including innovative proposals using ICT investments.

I want to cover three particular points about the innovation and performance. These are:

1. Innovation must have a purpose;
2. Don’t overestimate the benefits or underestimate the difficulties; and
3. Budgeting for innovation.

Innovation must have a purpose

There is no doubt that innovation is a good thing. The innovation I have witnessed in the public sector, not to mention the economy more widely, have significantly improved government performance. A key area of that innovation is through the use of Information and Communications Technology or ICT as it is more commonly known.

Innovation through the use of ICT is having a major impact on the development and delivery of Government programs. In particular, ICT is:

- creating new opportunities to improve service delivery efficiency and effectiveness;
- meeting community expectations of Government service delivery and the modes by which individuals and businesses can engage with government;
- providing more powerful tools for capturing and processing information on which to manage and assess programs;
- enabling the publishing of accessible, user-friendly, meaningful performance information so as to increase public accountability; and
- encouraging and enabling citizen-centric, citizen-driven policy development, in line with the aims of Open Government.

Let me give you an example of some transformational innovation in Australia. In 2009 the Australian Government announced a Service Delivery Reform initiative, transforming the way services are delivered to the Australian Public, by:

- fully utilising technological advances in line with the Government’s ICT Strategy (e-government); and
• responding to trends towards greater integration and shared services and infrastructure to provide more efficient and less costly services.

This involved the amalgamation of Centrelink and Medicare Australia into the Department of Human Services from 1 July 2011. This means that subsidies for medical care, welfare support payments and child support payments between separated parents are now provided from a single service delivery agency.

This was an ambitious undertaking and one that could not have been achieved without innovation and investment in ICT. And at the same time it opened up further opportunities for innovation.

The innovations allowed the Government to simplify and automate services by allowing customers to increase self-management when they deal with the department.

Through one portal, Australia.gov.au, customers are able to access DHS information and services, including receiving online mail, update personal information, and making certain online claims.

In 2011-12, 624,000 people accessed online services through this website. On particular use of the website has enabled customers was to lodge Medicare claims online, reducing the need for customers to visit a service centre. In 2011-12, 132,000 Medicare claims were made and paid online.

In addition, there are benefits for DHS and government more broadly. For example, the ICT system allows for better exchange of data within the organization and with relevant third parties. This makes it easier to check eligibility for payments and concessions. This is estimated to have eliminated some 36,000 manual processes per annum.

It also provides for a workflow management system that enables work to be done by officers across Australia irrespective of where the request comes from. For example Customer service staff at DHS service centers when not-engaged in face-to-face customer interactions, can also provide call-centre services or process payment claims received online. A more flexible and agile work management system has the potential for more expedient and improved customer service, and improved organizational productivity.

The integration of Centrelink and Medicare into Departmental of Human Service has also enabled the simplification and consolidation of key corporate processes and systems, including ICT infrastructure platforms and systems. This has improved departmental efficiency and freeing up resources for frontline services.

And there is room for greater efficiencies over time.

The innovation and use of ICT in this example, has several clear purposes. The first is that it allows greater access by individuals at times, and from locations, that they choose. At the same time by channeling more customers onto online and automated interactions with the department, the expectation is that this will improve efficiencies and so reduce staffing/resourcing requirements.

It is important to note that in the case of the DHS reforms that the ICT solutions are not the focus of the reforms for their own sake. While the Department of Human Services does have a key performance indicator that relates to increasing the proportion of self managed transactions and electronic interactions, this is embedded among KPIs that focus on delivering services at a high
standard and meeting budget requirements. In other words the purpose of the ICT innovations is actually to help achieve these broader objectives.

This needs to be kept in mind in thinking about why we are innovating. We should not automatically apply a success story to another application and assume it will deliver benefits. We need to make sure the innovation fits the objectives rather than jumping at the technology.

A case in point is how we use ICT to provide information on public spending. Each budget in Australia we put around 20,000 adjustments through our budget management system. Often these adjustments are not single transactions but can be many dozens or hundreds of individual transactions. It is a complicated process where it is very easy to drown in a sea of data. At the end of it though we produce a set of budget documents that provide a summary of the government’s spending and taxation policies.

As in many countries there are some calls for further budget information to be released. We could respond to such calls by simply releasing the detail of these 20,000 odd adjustments. And there are ICT products that would allow us to do this. But this is unlikely to help anyone. It is simply too much information and it is not in a format that it allows it to be processed. In this case more information is not better.

There is more thinking to be done about what the purpose of the release of more detailed information would be and how to best achieve it. If the purpose is to encourage public debate and increase transparency then it is not the innovation that is important but the capacity of the public sector to transform the information into a useable format. And we shouldn’t let the fact that there is an ICT option available cloud the decision making.

**Don’t overpromise or underestimate**

Which leads me to my second point. Innovation can allow us to make significant gains in the efficiency of delivering government services. But it can also be alluring and can lead us to promise more than the innovation can deliver.

When I look back at ICT solution that have been touted as failing to deliver, a lot of that failure is against benchmarks which may have been unrealistic.

The nature of policy development in Australia, and I suspect everywhere else, is that the more you can show the benefits of a proposal the more likely the proposal is to be adopted. This is a sensible policy to spend our scarce resources where they get the biggest returns.

But the problem with innovation is that it can be inherently risky – both in terms of the costs and the returns. And to get innovative solutions accepted there can be a tendency to weight the benefits more highly than the costs. As a result, when the innovation is delivered stakeholders can often be underwhelmed because their expectations were set too high.

Let me give you an example, in 2005 the Australian Government implemented a new Central Budget Management System or CBMS. This is the system that manages the public finances at an aggregate level in Australia. It is the system that produces the budget.
CBMS was developed to replace an aging system that was not longer supported and not longer completely aligned with the budget framework. CBMS was developed with great fanfare and there was an expectation that this new system would do everything – well maybe not brew the coffee but that was about the only perceived limitation.

Unfortunately, realism kicked in as the development progressed. The system was a customised solution and the development took longer than planned. Several of the modules were more complicated to develop than envisaged and weren’t ready when the system went live (and in fact the last module was not released until 2010). The user interface was clunky and not liked by users. And the platform was unstable and prone to crashing at critical times when it was under peak load. In fact once CMBS was implemented all those who had hated the old system were suddenly yearning for a return to the old days.

The expectations around the new system, however, was one of the reasons why even when these limitations became evident in the development phase that we kept pushing ahead rather than stopping and regrouping. Expectations can be a powerful force and need to be managed and once created are difficult to change.

Over time many of these problems have been ironed out. CBMS still has its limitations – for example some significant functional gaps have not been able to be fixed - for example spreadsheets still dominate in the consolidation and analysis of financial information – largely because it is difficult to re-engineer 1.2 million lines of computer code after it has been written. But CBMS has still delivered 5 years of budgets on time and with a high degree of accuracy. But it is still perceived as a poor system in part because of the initial failings.

Much of the failures of the system, however, come back to how it was presented in the first place. The risks around an innovative and customised solution are large. They are often outweighed by the potential benefits – but they need to be acknowledged and managed. And we need to make sure we progress at a manageable pace. Rushing the take up of innovative solutions can create more problems than they solve. We may need to move quickly – but that is different to rushing.

We also need to remember that the benefits of new systems often take time to eventuate. On day one everything is new and there is limited expertise and understanding. The more we oversell the benefits of an innovation the harder it is to satisfy stakeholders when the innovation is first rolled out. When we look back and assess the ICT project it is little wonder then that initially they are perceived as costing more than planned and delivering less.

We are currently in the process of redeveloping CBMS and these lessons have been taken to heart. There is a greater focus on the core requirements and there has been a more rigorous analysis of what is possible. In addition, the development phase is longer, there are more go/no go decision points, the design and testing phases are more involved and incorporate more system users and the contingencies in the budget are larger. And hopefully next year we will see the benefits of this approach.

I should add that this is not to say that this is the only reason that ICT investments fail to deliver. A report by the Victorian Ombudsman identified a whole range of factors that resulted in projects failing to deliver and running over budget. These include failure to clearly define roles and
responsibilities, senior officers being unwilling to make critical decisions, ignoring the costs and timelines of comparative projects, insufficient attention to mitigating risks, excessive customisation of off-the-shelf products, insufficient attention to probity issues and a shortage of skilled labour. The report also identified optimism bias led to costs and timelines being based upon hope, rather than evidence or comparisons with similar projects and despite advice from experts and vendors.

**Budgeting for the benefits of innovation**

And that brings me to my next point, accounting for the benefits of innovation. As I noted earlier, innovation has to be for a purpose – which typically means they are promoted as generating benefits. But there is often a question about how to account for these returns in both a reporting and a decision making context.

I will approach this issue from two perspectives. The first is that to recognise that the public sector will continue to innovate and as a result the public sector will continue to generate savings. In fact, I would go further to say we should be creating both incentives and an imperative for innovation through the budget framework. This can be done a number of ways including efficiency dividends, spending reviews, targeted savings exercises and implementing whole of government approaches to aspects of spending, for example travel and procurement.

The savings from innovations of this nature should be included in the budget in full and upfront. Not doing so is both misleading but also undermines the government’s commitment to generating efficiencies in the public sector. In the case of Australia, these savings are built into agency budgets which effectively requires them (or at least an equivalent saving elsewhere) to be realised.

The second perspective is in terms of specific innovations – such as the DHS innovations I spoke about earlier. Innovative policy solutions of this type will always have costs and benefits.

The direct financial costs are almost always front end weighted as ICT systems are developed. And these costs are recorded in almost every budget system around the globe in one way or another. And this is appropriate.

Measuring the benefits of such reforms is often more difficult. This is often because they are realised over longer timeframes – and in many cases may not be as visible as the costs because they need to be considered in the context of other factors (such as increasing demand for services). They may also be improvements in things such as accessibility, which while clearly a benefit to the community does not, in itself, generate a financial return for the Government.

Let me give you an example. The Australian Government is introducing Personally Controlled Electronic Health Records. The PCEHR system will enable better access to important health information held in dispersed records across the country. Using a secure web based service, all Australians who choose to participate will be able to see their important health information when and where they need it and they will be able to share this information with trusted healthcare providers.

It will allow for the immediate and accurate transfer of this information with benefits to the patient, in terms of better health outcomes, as well as to the government in terms of reduced treatment costs and less risk of inappropriate treatment (and the associated costs).
These benefits, however, are very difficult to quantify. Just looking at the government side of the equation, it requires us to make assumptions about how often inappropriate treatment would be avoided. And it then requires us to think about what the cost of that might be. These are not what we would call first round effects as there are too many linkages between creating the record and a making a different treatment decision on the basis of that information that the one they would otherwise have made.

That is not to say that the benefits will not arise. Just that they shouldn't be part of the budgeting process. This is because they are too uncertain and too reliant on flow on responses to the policy to be included in the budget. It may be appropriate for these issues to be part of the decision making process. Governments are much more likely to make good decisions if they have good evidence and information. But in these cases that should be considered as a separate issue – and the decision makers should be aware of the actual financial impact on the budget.

**Summary**

So pulling all that together – there are lots of good examples of innovation and use of ICT in Australia, and I have mentioned just a few. But we need to continue to approach innovative solutions with the same degree of consideration as we would any policy solution. We need to make sure we are delivering a real solution not something with bells and whistles that looks good. We need to make sure we are being realistic about the costs and benefits of the approach so we can make good decisions and not be disappointed in the end product. And we need to make sure we only count the costs of benefits where can be achieved and not look to second round effects to justify the investment.

Thank you again for your time. I am happy to take any questions you may have.