

The KiS report - Bureaucracy

By Peter Senior, May 2011

Bureaucratic Government Management

Most Government Departments become increasingly bureaucratic over time. The Sir Humphrey Appleby mindset – named after the head of the Civil Service in the brilliant British comedy, *Yes Minister* – becomes entrenched in many influential government leaders. Many factors cause this creeping disease that often results in additional and unnecessary costs, delays, poor decisions, excessive intrusion into people's lives, manipulation of data and generally sub-optimal results. This section considers just a few indicative examples.

Most government department staff are competent and diligent. But working within a culture of bureaucracy where leaders regularly demand bureaucratic complexity is enough to defeat even the most sincere staff member trying to promote a better approach – pity these staff.

Administrative costs of 15 home loans: \$10 million

An editorial in *The Australian* provided an insight into the world of bureaucrats: 'In the real world, \$10 million builds forty large, family homes or 100 comfortable, three-bedroom bungalows. In the world of Canberra bureaucracy, it merely covers the administrative costs of fifteen home loans'. An allied example was noted:

The funds set aside to construct and renovate houses in the remote Aboriginal community of Wadeye are going towards administration and company costs. A leaked draft budget, prepared by the company contracted under the federal government's Strategic Indigenous Housing and Infrastructure Program to perform the work at Wadeye, allocates \$20.642 million for administrative and establishment costs. According to the government's published budget for SIHIP, the Wadeye package, which consists of 105 new dwellings, 167 refurbishments and 28 rebuilds, would cost \$65.375m, putting the administration and establishment costs at 31.6% of the total budget. The Coalition's indigenous affairs spokesman, Nigel Scullion, said this was before the guaranteed profit for the company of up to 20% that was written into the contract and the project management fees of 8% were deducted from the program budget.

National Audit Office report

An Australian National Audit Office report tabled in the federal parliament noted most of the \$178 million pledged for 106 projects through the Better Regions program was promised to marginal seats in rural areas. Only thirty-five projects had been completed by 30 September 2010, nearly three years after approval. Administration of the scheme had serious shortfalls: one South Australian council was promised \$275,000 for a business centre that had already won a similar grant from the former Howard government. The Department of Infrastructure, Transport, Regional Development and Local Government took 10 months to notice that two business centres in Adelaide Hills, each approved for \$275,000 in funding, were one and the same. In four cases, the department did not even know which politician had promised the projects it was funding. Eight projects were approved even though the department had rejected

them from a similar Howard government scheme in 2007, on the grounds they failed a value-for-money test. The audit report found the incoming Rudd government drew up funding guidelines for the *Better Regions* program six weeks after it had announced the successful projects, during the election campaign.

Taxation

The objectives of taxation have become confused and opaque

Consider part of a July 2002 address by Michael Carmody, Commissioner of Taxation:

On the subject of complexity of law [...] I would love to have simple law to administer. But I do not believe there is such a silver bullet. This is because the objective of simple laws has a history of running up against the objective of achieving equity, often reflecting demands for recognition of special cases legitimately raised by industry and others. The law also necessarily reflects the complexity of the commercial and social environment it operates within. Let me illustrate. When the GST was introduced in Australia, it was necessary for the Government to weigh up these competing factors. We now have in excess of 540 pages of GST legislation but only 95 pages covers the basic rules of the GST. That is 95 pages cover the basic rules as to when and how GST arises and who is liable to pay it; when and how input tax credits arise and who is entitled to them; how to work out payments and refunds of GST; and when and how the payments and refunds are made. Most of the remaining pages deal with equity issues (such as food and charities), rules to deal with complex arrangements in certain industries (such as financial services and insurance) and rules to deal with other special circumstances. The increased use of the tax law as a vehicle to deliver social benefits also adds to the length and complexity of the law. However, I can't see too many people prepared to give up entitlements to these benefits in the interests of shortening the *Tax Act*.

The points made by Carmody represent a very small fraction of a tax system that has evolved into some 16,000 pages of federal tax legislation. One key problem is that very few, if any, people involved in creating and applying tax law have an incentive to simplify the law: it is arguable that most have more incentive to make tax law even more complex. A simple tax system would reduce or remove the incomes of an army of people involved in each step of the convoluted process. Another basic question is: does Australia still want to apply socialist principles of 'achieving equity' through its tax system as well as pandering to special interest groups, often associated with political 'pork barrelling'?

Health reform

.....is bogged down in squabbles over who will pay

Rohan Mead, Chairman, Business Council Australia stated research conducted by the BCA underlines that health is critical to the prosperity of individuals and for the economy. Poor health and disability prevent both sufferers and carers from participating fully in education and the workforce. It drives earlier retirements and leads to more absenteeism and lower productivity. People are living longer, but with more illness. Chronic disease costs about \$30 billion a year (3% of GDP) in direct costs and lost productivity. Yet up to one third of this is

preventable. The healthcare sector costs are growing, currently over \$113 billion annually, or 9% of GDP, employing some 1.3 million people.

Ensuring efficient allocation of resources within our increasingly capacity-challenged economy, the health sector's efficiency and effectiveness is vital. Considerations of efficiency, effectiveness, productivity and achieving value for money are largely lost in political debate about who will pay for health. Experts estimate that up to 20% of resources used in the health sector are wasted, either through treatment in inappropriate settings, duplication, errors or administrative inefficiency. This is reinforced by research showing relatively low rates of productivity improvement and claims of innovation being stifled by bureaucratic processes. Poor morale ensures that too many highly trained health professionals, such as nurses, leave the profession.

Another example reported in February, 2011: the Australian Health Practitioner Registration Agency was failing to complete registrations on time. Some of the 290,000 health practitioners and some physiotherapists and doctors had been forced to stop working. Dozens of nurse graduates were arriving for their first jobs, but could not start because their registrations were not available.

Australian Defence

..... challenges Gosplan and Yes Minister

Henry Ergas, a regulatory economist, wrote in *The Australian*:

[Defence] is a world of central planning without a central planner, as endless committees blur responsibility, ensure there are few penalties for being wrong or rewards for being right, and entrench a culture in which to get along is to go along. This week's saga, revolving around the navy's inability to provide a single amphibious ship, highlights the resulting pathologies. How can it be that there were 'insufficient resources to address shortcomings' in the ships' maintenance when the department's 2009-10 annual report says cost reduction targets in maintenance were 'over-achieved', that is, exceeded by \$200 million? How is that it has taken since 2006, when "competence in the System Program Office had fallen well below an acceptable level", to rebuild that competence, especially given the 60% increase in the number of senior Defence staff over the past decade? Defence spends about \$26.8 billion a year, close to 2% of national income, and directly or indirectly employs 1% of our labour force. The aim of this spending is to be able to defend Australia from attack. The reality is of frequent bungles. Baseline defence funding, excluding supplementation for operations, increased by more than 50% in real terms in the decade from 2000/01. The 2007 Defence Management Review concluded that the 'comparative wealth' that growing funding has provided Defence 'undermines respect for cost and efficiency' With no sensible mechanism for setting spending priorities, it will not take long for the force structure to become unviable. Averting that outcome requires dramatically better processes for taking defence decisions.

System or systemic failure?

The Queensland Health payroll fiasco is an example of exceptionally poor management even by normal government standards. An inspection of how this major IT project was undertaken reveals that many of the normal checks and balances for a project of this type were ignored or over-ridden. For instance, failing to run the new system in parallel with the old system several times until the new system produced correct results, identical to the existing system – the first full ‘test’ was in fact a live run which failed dismally. By then it was deemed impossible to revert to the old system. Months later there were still numerous errors with many staff underpaid or not paid at all. And, to cap it all, the accountable senior managers and politicians (in particular, the Minister) neither resigned nor were sacked. Another example is the appalling Roof Insulation program managed by government that resulted in massive expense, rorts and several deaths before it was cancelled.

Every government group, project or program involves purchasing, or supply management to use its modern extended name that takes account of the full ‘end-to-end’ process. The annual total of government purchases of services and products in Australia is over one trillion dollars, depending on exactly what is included as a ‘purchase’. Stating the blindingly obvious, Australians expect the very best levels of competence and processes to ensure all purchases are optimal. A review of recent Defence Department purchasing reveals massive waste, the Building the Education Revolution (BER) was riddled with disgraceful management and purchasing, as was the roof insulation program.

Supply-management

Problems in supply-management can include corruption, but fortunately this is quite rare in Australia, although it is a major issue when purchasing from overseas where expectations of kick-backs are often the norm.

Most people involved in government purchasing in Australia are both competent and diligent. Problems of unsatisfactory purchases usually concern the purchasing processes that have invariably evolved over many decades. Current purchasing systems such as the commonly used German SAP have become extremely complex; operating the system often becomes an end in itself rather than optimising a particular purchase. Horror stories abound, such as *NASA* spending \$4,382.50 to purchase thirty-four pencils, and before Federal Reinvention, government processes and red tape were so costly that buying a \$6.00 hammer cost the government about \$400.00.

Focus on the rear-view mirror

Probably the two areas that create the most complex, bureaucratic and unproductive effort are current historic accounting requirements and accounting for the Goods and Service Tax (GST). Accounting has become so complex that compliance work is the largest part of most accounting effort. The great majority of the detail is totally and utterly useless from a productivity and planning viewpoint, except in the occasional case where fraud is detected. Even with fraud, were it not for the horrendous complexity of accounting systems it is likely that fraud would have been noticed much sooner. Supply management suffers from similar problems, and in any case accounting for purchases has to obey accounting rules. The really useful part of accounting (understanding the financial aspects of a business, organisation or government and quantifying strategies and plans) becomes confused with the complexities

of historical accounting and the mass (or should that be ‘mess’?) of associated regulations. These regulations have evolved since double-entry book-keeping was invented (the first written description of double-entry book-keeping seems to be a 1458 manuscript by an Italian, Benedetto Cotrugli).

Accountants’ work mostly historic

Most accountants’ work relates to the past, providing historical records and financial measurement of past performance. In most cases accountants operate up to sixteen months behind. Much of their work is compliance for which they really are servants of the tax office. Many of the more capable accountants find compliance work is very tedious and long to branch out into various challenging aspects of planning: cost/benefit analyses, financial modelling, scenario development and more – the really interesting stuff that requires different skills plus more advanced and broader levels of thinking.

Many corporations have fallen into the same trap as government departments and allowed their information technology (IT or computer) departments to introduce ever more complex supply management systems. Rarely do the additional complexities result in overall savings; the opposite is often revealed if a full audit is carried out. Government departments rarely carry out full post-project audits, knowing these often reveal failure to produce the savings promised in the proposal preceding the system or system change purchase.

Talking to private company staff who are involved in supplying government departments can elicit comments, often including expletives, about their frustration and annoyance at delays, waste and bureaucracy. Again, pity the government department staff on the receiving end when they have no choice but to follow official procedures.

The Australian Public Service

.....are the Australian Public Service Code of Conduct and Values ignored?

Many issues noted in this report raise questions about the *Australian Public Service (APS) Code of Conduct and Values*: ‘APS employees are required, under the Code of Conduct, to behave at all times in a way that upholds the APS Values.’ The APS Values include: ‘The Australian Public Service: has the highest ethical standards; is openly accountable for its actions, within the framework of Ministerial responsibility to the Government, the Parliament and the Australian public; is responsive to the Government in providing frank, honest, comprehensive, accurate and timely advice and in implementing the Government’s policies and programs.’

Thou shalt support thy Minister

Staff in one government department made no secret of the fact that their key driver was ‘thou shalt support thy Minister at all times’. Their Minister, a typical career politician with few qualifications and no business or management experience whatsoever, reacted immediately to any media comment about his department. The Minister simply told his staff to ‘fix’ the

problem. He usually rubber-stamped his department's budgets (which had already been agreed with Treasury) and had little interest in the department's plans or performance criteria.

What sort of staff behaviour would you expect in this situation? It's difficult to think of any positives, but easy to list numerous negatives. If a member of staff spots a major problem, they could report it to their manager who is unlikely to want to 'rock the boat'. Or he or she could become a 'whistle blower'? Most countries' laws, including Australia's, provide little protection for 'whistle blowers'; support often relies on media publicity, but that can be a mixed blessing – recall Dr Patel's disgrace, at Bundaberg Hospital: the staggering incompetence and the agonies the courageous nurse, Toni Hoffman, was put through for years after 'blowing the whistle'.

'Make-work'

Typically bureaucracy involves 'make-work', ensuring rules are not broken, step-by-step processes are followed exactly and an almost total lack of opportunity for innovation. But as one civil servant commented: 'The pay is OK, the only time things get rushed is when the Minister demands a fix for the latest media leak, superannuation is great and job security is even better. Can't be bad, eh?' Perhaps this last point explains why most staff at government call-centers are invariably pleasant, polite and helpful within the limitations of the processes and regulations they are asked about.

Reiterating, most government staff are competent and work hard. However, with rare exceptions, the overly complex processes that have evolved in government departments over many decades invariably prevent even the best, most capable and most innovative staff from making significant improvements. The natural order of government appears to be entropy; descending to the maximum degree of complexity.

Some government staff find they can live within such an environment and gain satisfaction from aspects of their work. Others depart out of utter frustration. Peter's Principle – everyone gets promoted to their level of incompetence – often prevails.

Bureaucratic flood damage

Jennifer Marohasy is a biologist and adjunct research fellow in the Centre for Plant and Water Science at Central Queensland University. The following is the beginning and end of a long story she wrote recently:

'While residents of Wagga Wagga scrambled to save their belongings from rising flood waters there was a rumour circulating that the crisis was exacerbated by bureaucratic incompetence, in particular that Snowy Hydro was releasing environmental flow water into the already flooded Murrumbidgee River. [...] So I sent some more queries back into internet world and all was finally revealed. A most reliable source and someone who recently attended a meeting with David Harris, the boss of Snowy Hydro, explained that somewhere in the range of 4,000 to 5,000 mega litres of water per day would continue to flow from the Snowy Hydro System, regardless of downstream impacts, because of environmental flow obligations in the Snowy Hydro operating licence. Yep! Blowering Dam may be out of control, the water belting out

of Burrunjuck, the Central Murray likely to go under again as early as Wednesday, but because of a formal agreement between NSW Office of Water and Snowy Hydro, involving an obligation to South Australia, approximately 500,000 mega litres, equivalent to one Sydney Harbour of water, must be released as soon as possible as environmental flow.

In short, senior bureaucrats have signed off on an agreement, which they are now honouring, which requires environmental flow releases into the already swollen Murray and Murrumbidgee Rivers. Of course these men in suits don't live in the Murray Darling Basin and they would continue to receive a salary, paid into their Sydney bank accounts, regardless of how many extra wheat fields flood and extra homes are destroyed.'

Derivative trading by Snowy Hydro

Subsequently Jennifer added:

What I didn't know back then, but I do now, is that the formal agreement facilitates derivative trading by Snowy Hydro on the electricity market with the profits flowing to the Commonwealth, NSW and Victorian governments. [...] Indeed it is the ultimate in hypocrisy for Minister Burke to be insisting farmers give back water allocations under the new planning scheme to save the environment, while his corporation wastes water in derivative trading on the electricity market.

The good old days

..... before complexity entangled all

A colleague was head of Works in Papua New Guinea whilst Australia was still involved in PNG's government (PNG became independent in 1975). He describes how he managed all Works for a huge and wild area with very basic infrastructure, few staff and no regulations. He had a small budget and minimal guidance except to provide the essentials (including escorting Queen Elizabeth during two visits). He asked, 'why can't governments do as good a job given their vastly greater resources?' The answer is simple: stupendously complex systems, excessive regulations and bureaucracy.

Fortunately, there are examples of government departments being managed well with capable staff delivering efficient services. These examples provide clues about how to overcome the malaise. A series of large departments were headed by a career bureaucrat whose natural instincts were to follow sound management practices, including leadership and excellent people-management. She resisted attempts to bring her into line with more normal government management approaches through sheer force of personality, intellect, delivering the requisite results within budget and stone-walling. Oh that there were more of her type either already working for government or prepared to shift from private industry.

'The Australian Government beat me to it.'

Appendix G is a joke distributed on the Internet. It tells the story of God directing Noah to build an ark within six months before he sends floods to Australia. When God called six

months later, Noah apologized abjectly, describing a long list of bureaucratic delays and complications that had prevented him even starting to build the ark. 'So, forgive me, Lord, but it will take at least ten years for me to finish this Ark.' Suddenly the skies cleared over Australia, the sun began to shine, and a rainbow stretched across the sky. Noah looked up in wonder and asked, 'You mean you're not going to destroy the world?' 'No,' said the Lord. 'The Australian Government beat me to it.' Biting humour is a trademark of writers and cartoonists used as a means of demonstrating important issues.

It would be unfair and wrong to imply that all government systems and results are failures. There are numerous examples of successes. However, examining these successes often uncovers the result of government staff and contractors working outside of the official systems and procedures, applying their own initiative and 'bending' rules to enable a better result. Other successes involve smaller, less complex and less interconnected systems.