



Australian Government
The Treasury

STRATEGIC REVIEW OF THE TREASURY

DECEMBER 2011

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EXECUTIVE SUMMARY

Treasury is engaged in providing advice in an increasingly complex policy environment. In particular, the re-emergence of Asia involves profound economic, trade and broader geopolitical challenges for Australia, while the domestic policy agenda encompasses a range of pressing economic, social and environmental issues.

The purpose of the Strategic Review (the Review) is to consider, given the changing operating environment, how Treasury can continue to deliver on its mission over the short to medium term.

A dual approach was used by the Review to assess Treasury's strategic capability requirements: scanning the external environment that Treasury will face going forward, as well as considering Treasury's existing performance. The Review sought feedback from staff, ministers and their offices, as well as a range of public, private and community sector stakeholders.

THE TREASURY OPERATING ENVIRONMENT

In recent years Treasury's operating environment has moved at a rapid pace and this is likely to continue as global and domestic trends present new challenges for policy makers. In a changing world characterised by greater connectivity Treasury can expect that it will continue to provide advice across a broad range of policy issues.

Over the next few years Treasury will operate in an environment where the increasing economic and geopolitical weight of Asia will have significant implications for the domestic economy, and for Australia's international engagement more generally. Australia's economy will also continue to be impacted by global policy responses to economic volatility, particularly in world financial markets and the effects of large economic imbalances in key developed economies. Domestically, Australia will need to continue to respond to the ageing of the population and the challenge of lifting productivity performance. Responding to policy challenges on diverse social and sustainability policy issues will continue to be challenging, particularly in the context of fiscal constraints. Along with the public sector as a whole, Treasury is facing tight resourcing constraints combined with increasing expectations from the public, business and government for more open and innovative approaches to communication and engagement.

DELIVERING THE TREASURY MISSION

The confidence of our ministers is the critical factor in determining our effectiveness and influence and Treasury has a critical role in supporting them which is reflected in our mission statement:

'to improve the wellbeing of the Australian people by providing sound and timely advice to the government, based on objective and thorough analysis of options, and by assisting the Treasury ministers in the administration of their responsibilities.'

Ministers and stakeholders commented favourably on Treasury's skills and capabilities, noting in particular that the department consistently produces accurate and thorough policy advice.

Consultations also revealed that there are a number of areas that the organisation needs to address to remain influential and sustain high levels of service.

The Review has grouped these change priorities under four themes:

- building key strengths to better support our ministers;

- enhancing our engagement skills;
- greater innovation and use of information technology tools; and
- allocating resources and managing priorities.

BUILDING KEY STRENGTHS TO BETTER SUPPORT OUR MINISTERS

Stakeholders generally consider that Treasury is a leader in applying rigorous economic and analytic frameworks to a variety of public and policy issues. A broad understanding of the Wellbeing Framework is an important part of Treasury culture and identity. In their responses to a survey conducted during the Review, SES considered that although the Wellbeing Framework is valued by staff, it may not be consistently applied across the department. Treasury leadership needs to give increased attention to reinforcing the department's policy and analytical frameworks and building common understanding of key economic challenges. To reinforce shared policy frameworks in Treasury and ensure that they are considered when framing Treasury advice, the Treasury seminar series will enhance [all-staff and cross-group discussion of major policy challenges](#).

Treasury's traditional skills in economic and policy analysis are important given the challenges presented by the external policy environment outlined above. To remain influential, Treasury needs to maintain and build the skills and capabilities of our people.

The expectations of Treasury stakeholders vary - many value our breadth and flexibility, but also note that our strengths are our conceptual and analytic framework and our quantitative, economic and modelling skills. Our taxation and market regulation subject matter expertise is valued and critical to our external credibility. This suggests that there are clear trade-offs within the organisation that need to be managed. To achieve this, it is important to [develop a comprehensive Workforce Planning Framework, including specific attention to particular capabilities](#). Attention needs to be focussed on skills in quantitative analysis, modelling and tax legislation development (much of which will need to be developed internally). Another workforce planning challenge is to ensure Treasury nurtures a deep and diverse leadership pool. This underlines the importance of the 'Progressing Women' initiative as a strategic business priority for Treasury.

The Review proposes a number ways to enhance Treasury support for ministers. The creation of [senior contact points](#) will improve our responsiveness and assist two-way communication of emerging priorities and needs. This mechanism will also improve our communication with ministers by ensuring that ministerial feedback on Treasury support and advice is communicated at the departmental and group level.

At a more practical level, the maintenance of the [dedicated speech writing capability](#) and enhanced [training for staff in written communication](#) of policy will ensure that Treasury is more effective at conveying policy decisions and analysis.

Ministers, and more generally stakeholders and staff, considered that Treasury needs to enhance its project and program management capabilities. This involves being more proactive in identifying and responding to emerging issues, ensuring sufficient expertise in areas considered high priority by ministers and improving processes for developing key products. Other APS agencies and staff noted that the Treasury approach to program implementation is often less developed than in other agencies and that Treasury could benefit from enhancing its project management capabilities, including through greater support and tools for new projects and tasks. The establishment of a [project planning 'centre of expertise'](#) will assist staff with high impact policy implementation projects.

The external context facing Australia, together with stakeholder feedback, suggest that Treasury has a key role in advising on policy responses to Australia's international economic and geopolitical circumstances. This suggests a program of idea development, and better integration of our existing international work to [enhance Treasury's contribution to international and national security policy](#).

ENHANCING OUR ENGAGEMENT SKILLS

A strong theme that emerged from consultations was that Treasury needs to have a greater understanding of stakeholders outside government, in particular how business operates and makes decisions. Both stakeholders and staff thought that a better understanding of commercial decisions (and also how decisions are made in other spheres of policy where our ministers are engaged) would significantly improve the quality of our policy advice.

Improved engagement, outside normal 'transactional' consultation processes which are based around particular policy issues, will assist in gathering this information, and will enable us to tap into new policy perspectives, build support for reform by communicating Treasury analysis, and enable us to provide more comprehensive advice to our ministers.

There is a clear expectation from business and the broader community that they should have greater and more meaningful input to policy development and implementation, and access to information about decisions. Reflecting this trend, our ministers also have an expectation that we will engage in meaningful and substantive consultation with our public, private and community sector stakeholders early in the policy process. So a key outcome of the Review will be an enhanced [program of engagement with business and other stakeholders, including more 'non-transactional' engagement](#) between the senior leadership of the department and the business community, and the creation of a dedicated SES role to conduct a program of engagement and assist in embedding engagement in Treasury's policy processes. To support engagement throughout the department, [new consultation tools and training](#) will be developed, in addition to [greater exchange of people and ideas](#).

Another strong message from consultations was that at times a perception of arrogance in our behaviours can limit our external effectiveness. Treasury needs to bring authority and confidence to the table to do its job effectively, and its analytic framework is regarded as one of its key strategic strengths. Nevertheless, a better recognition of the limits of our knowledge/frameworks will improve engagement with stakeholders and assist us to obtain relevant skills, knowledge and data from others. Better collaboration with other organisations to deliver outcomes would improve our effectiveness and influence. Leaders and managers, in particular, need to model and be accountable for appropriate behaviours. A range of actions are proposed including regular external feedback, with the aim of [ensuring that Treasury's people values are embedded in both our internal and external interactions](#).

GREATER INNOVATION AND USE OF INFORMATION TECHNOLOGY TOOLS

Ongoing rapid changes in information technology, social media and communication have both risks and opportunities for Treasury. However, because these trends are likely to continue, we should seek to utilise the opportunities while managing the risks.

Treasury's information technology systems are solid, but offer limited space for innovation and trialling new approaches. Many stakeholders are increasingly using new information technology, social media and communication techniques and comment that Treasury does not, which makes engagement with Treasury more resource intensive than it needs to be.

Many staff, particularly younger staff, consider that Treasury information technology systems are not up to date and that, if available, they could make greater use of a range of tools to assist them in their work. As an organisation with a young workforce, Treasury needs to provide an innovative and up to date working environment to attract and retain staff.

Greater use of new information technology, social media and communication techniques has the potential to improve Treasury's productivity and effectiveness.

The newly formed Information Management and Technology Committee will [implement a work program over the next 18 months](#) with clear milestones set early in 2012, which will include a more user friendly electronic record keeping system, the development of more interactive tools for engaging stakeholders and developing better project management tools, including project management templates as part of project and team sites.

ALLOCATING RESOURCES AND MANAGING PRIORITIES

The increased expectations and demands placed on Treasury are unlikely to diminish and the constraints imposed by the forward estimates reflect a tight fiscal environment that is unlikely to change in the medium term. So given the implications for work/life balance and sustaining the skills and capabilities of our people, Treasury needs to better manage priorities and allocate resources flexibly. If decisions on prioritisation are not able to be made, trade-offs will still occur, particularly in terms of the quality and sustainability of our products and services.

While the effective allocation of resources between competing priorities is seen by SES staff as one of the most important capabilities for the organisation, they regard it as currently one of our weakest capabilities. There is an opportunity for the [Executive Board to provide a greater focus on setting priorities](#) through regular discussion at Board level and with portfolio Ministers as appropriate.

The Board also needs to ensure that accountabilities for emerging projects are clearly allocated. To manage risks and resource pressures surrounding emerging priorities, the [Executive Director, Policy Coordination and Governance \(ED PCG\) will provide additional targeted attention to the set up and ongoing operation of high risk/high impact projects](#). The role will be complementary to, and supportive of, existing group accountability structures. These approaches need to be complemented by active management of priorities and accountabilities at the Group and Division level.

During consultations, staff indicated that the current mechanisms for Executive Board communication with staff are not effective in ensuring that key organisational decisions are well understood. The Board will undertake a range of actions to ensure [better and more transparent communications about Executive Board discussions and decisions](#) and sharing of relevant policy knowledge and information.

Staff identify the lack of a balanced approach in the department to work and family life as a significant area of concern and this is supported by internal and public service survey results. The 'stretch' on resources is also apparent to stakeholders. However, given the high pace of work and the commitment to excellence by Treasury officers, solutions in this space are difficult. [Strategies to optimise Treasury resources](#) will be critical in the period ahead, including collaboration with other agencies, the use of external expertise where possible, and an enhanced program to harness business process improvements that can alleviate duplication of effort and improve efficiency.

Flexible resource allocation is a key to Treasury operating effectively in the context of a changing and wide ranging policy agenda. As Treasury has grown in size and breadth, traditional 'people to people' techniques have become less effective as knowledge transfer tools. Treasury needs to take specific steps to [improve knowledge transfer](#) so people have the information needed to effectively

do their jobs. Staff also consider that improved knowledge retention and transfer systems will make it easier for units to continually acquire and maintain specialist expertise, alleviating resource costs arising from staff movement.

IMPLEMENTATION

Overall responsibility for the implementation of the recommendations will lie with the Executive Board with the ED PCG to report regularly on the progress. A more detailed plan and set of accountabilities for each individual recommendation will be fully developed early in 2012, including for the new SES business engagement position. The Corporate Services Group will be renamed Corporate Strategies and Services Group, and it will have a mandate to both operate corporate services and provide advice on organisational strategy. It will underline the importance of delivering all corporate and governance functions in a way that supports broader organisational strategy. The organisational strategy unit will be combined with the Human Resources Division to create a new People and Organisational Strategy Division within that group, which will assist the Board in coordinating and facilitating implementation of this Review and Progressing Women.

It will also be important that Treasury's Performance Management System (PMS) provides appropriate support for the recommendations of this Review as well as Progressing Women. This will involve refreshing the communication criterion of the work value matrix of the PMS to ensure that it fully supports external engagement and the leadership criterion to ensure it fully supports the Progressing Women outcomes. This refresh will also involve an update the role accountabilities for senior, principal and chief advisers to give greater emphasis to knowledge transfer and leading external engagement. This work will be done in consultation with staff through the Workplace Relations Committee.

RECOMMENDATIONS TO THE EXECUTIVE BOARD

THEME 1: BUILDING KEY STRENGTHS TO BETTER SUPPORT OUR MINISTERS

1. Embedding and strengthening understanding of Treasury's Wellbeing Framework and shared policy approaches

Enhance the program of regular internal all-staff and cross group discussion of major policy challenges, including the economic and fiscal context, and the application of the Wellbeing Framework to emerging issues.

2. Maintaining and building core capabilities and skills as a key economic institution

Develop a comprehensive Workforce Planning Framework, overseen by the Staffing Committee, to deliver the diverse range of skills and capabilities that Treasury requires, paying particular attention to those skills that are difficult to acquire and/or develop internally, and the need to develop a wide and deep leadership pool.

3. Senior 'focal points' to coordinate overall working relationship with portfolio ministers

Enhance our service to our portfolio ministers by identifying senior contact points for engagement with them and their offices on priorities and workflow issues.

4. Enhancing skills and support for policy communication

Improve our capability to communicate policy decisions and analysis, including effective use of the department's professional communications expertise, training for policy officers in effective written communication of public policy, and maintaining a dedicated speech writing capability.

5. Improving implementation and project planning capabilities.

Better support ministers in the implementation of government decisions by establishing a project planning 'centre of expertise' and better governance of high impact policy implementation projects.

6. Enhancing Treasury's contribution to Australia's international and national security policy

Enhance the focus of the department's current international economic and national security work by contributing an economic/strategic analysis of the broader international developments impacting on Australia, supported by enhanced external input and a high level internal international policy network.

Theme 2: Enhancing our engagement skills

7. Improving strategic engagement with stakeholders

Improve our policy advice through a program of 'non-transactional' engagement' by the Board and groups, the development of a stakeholder framework and plans, and the appointment of an SES officer to lead this work.

8. Building engagement and consultation skills and systems

Support stakeholder engagement and consultation through an enhanced training program to improve skills.

9. Trialling new online consultation approaches

Trial new online consultation approaches, and develop and maintain a data base of key contacts.

10. Greater exchange of people and ideas

Improve our policy advice through the exchange of people and ideas through: a program of two-way secondments with the private sector and relevant portfolio agencies; targeted recruitment from the private sector; and relevant seminars.

11. Embedding positive behaviours and values to support external engagement

Support engagement and consultation through managers and SES promulgating and modelling appropriate behaviour including ensuring respectful and productive approaches to external stakeholders, with particular attention to reducing 'them and us' attitudes internally, and exploring opportunities to incorporate external perspectives into performance assessment.

THEME 3: GREATER INNOVATION AND USE OF INFORMATION TECHNOLOGY TOOLS

12. Improving information technology program and tools

Significantly enhance use of information technology to promote innovation and stakeholder engagement, through development of a work program with clear milestones set in early 2012 outlining implementation over the next 18 months.

THEME 4: ALLOCATING RESOURCES AND MANAGING PRIORITIES

13. Better Executive Board focus on priority setting

Ensure clear allocation of leadership accountability and resourcing (particularly on emerging complex or cross-cutting policy issues) by holding quarterly Executive Board discussions on emerging pressures, risks and high impact projects, supported by discussions with portfolio Ministers as necessary.

14. Enhancing governance of high risk projects

Provide enhanced governance of high risk projects through ED PCG oversight of project and risk planning, and regular monitoring of a targeted set of projects by the Board.

15. Improving internal communication from the Board

Improve the quality and timeliness of Board communication with staff through a timely all-staff email reporting the broad coverage of weekly Board discussions and better communication of major organisational decisions.

16. Optimising Treasury resources and input

Ensure that Treasury resources are put to best use through: regular evaluation of business as usual activities and emerging issues; ongoing review of overlap with other central agencies' products and capabilities; and a structured program to drive greater efficiencies in common business processes.

17. Improving knowledge transfer

Strengthen organisational efficiency and flexibility by improving knowledge transfer and succession planning in the corporate planning cycle supported by more user-friendly information technology systems and training (see also Recommendation 12), and reviewing the role accountabilities of senior advisors to allocate greater responsibility for technical subject-matter training and knowledge transfer.

18. Integrating the strategy function into Corporate Services Group

To ensure an integrated and strategic approach to corporate services and planning, Corporate Services Group will be renamed Corporate Strategies and Services Group, and will have a mandate to both operate corporate services, and provide advice on organisational strategy, including significant implementation responsibility for this Review.

19. Refreshing the Performance Management System

Ensure that Treasury's PMS provides appropriate support for the recommendations of the Strategic Review as well as Progressing Women. This will involve refreshing the oral communication criterion of the work value matrix of the PMS to ensure that it fully supports external engagement and the leadership criterion to ensure it fully supports the Progressing Women outcomes. This refresh will also involve an update the role accountabilities for senior, principal and chief advisers to give greater emphasis to knowledge transfer and leading external engagement. This work will be done in consultation with staff through the Workplace Relations Committee.

1. OVERVIEW OF REVIEW

BACKGROUND

- 1.1 The Strategic Review (the Review) was initiated by the Secretary and announced in Staff Notice 083/2011 (see Appendix A).

OBJECTIVES

- 1.2 The main objectives of the Review are to:
- develop a shared understanding of the forces likely to shape the environment within which the department will operate in the next five years;
 - identify the organisational elements required to operate in this environment and deliver on the Treasury mission;
 - provide a baseline assessment of current Treasury skills, systems and structures; and
 - develop an action plan to build on areas of organisational capacity and address any identified gaps.

PROCESSES

- 1.3 Barry Sterland, Executive Director, Policy Coordination and Governance (ED PCG), oversaw the Review and was assisted by a Secretariat consisting of Hector Thompson, Kate Preston, Nicole Elsmore and Lisa Knight. An external reference group, consisting of Roger Beale AO, Chris Jordan AO, Rhondda Dickson and Paul Schreier also provided assistance and input to the Strategic Review (see [Appendix B](#)).
- 1.4 The Secretariat consulted widely across the Treasury, with ministers and their offices, with other government agencies, as well as with business groups, commentators and academics. A full list of stakeholders consulted in the course of the review is provided at [Appendix C](#). A summary of stakeholder views is at [Appendix D](#).
- 1.5 To inform consultations, the Secretariat produced a discussion paper outlining its thoughts on the international and domestic environments that Treasury is and will be operating in, and the range of capabilities that should be examined in this context. The discussion paper is at [Appendix E](#).
- 1.6 A series of SES events were held as part of the review, including a number of seminars to set the context for a review, a presentation on the role of the media and a planning day to discuss the external environment and its implications for Treasury. The discussions at the planning day were informed by the results of a survey that asked SES to rate the Treasury's performance in a range of areas, including our skills, organisational capabilities and qualities, effectiveness, and structures and systems.

2. EXTERNAL ENVIRONMENT

CONTEXT

- 2.1 One of the goals of the Strategic Review is to develop a shared understanding within Treasury of the external context that shapes our operating environment. The environment will be affected by both international and domestic drivers, which will be strongly interrelated. This chapter outlines the main drivers that will form the context for Treasury's work over the next five years, and some of the specific implications of these drivers. It is not intended to be an exhaustive list, nor is it intended to arrive at a 'Treasury' view about them, but rather it is to help draw out some of the implications that are likely to emerge for the organisation.

THE DRIVERS

- 2.2 There are a number of ways to discuss and present the strategic context within which Treasury operates. This chapter largely draws on structures of previous Treasury analysis, including the Secretary's Shann Memorial Lecture and the 2010 Treasury Red Book Briefing, as well as the APS blueprint for reform, to suggest four key themes that will remain central to Treasury's external environment:
- globalisation, the development of emerging market economies, and changes in global economic and political influence;
 - the domestic economic policy agenda: growth, productivity and stability;
 - the broader domestic policy agenda: demographic change and sustainability; and
 - advances in technology and communication, and higher expectations of government.

Globalisation, the development of emerging market economies, and changes in global economic and political influence

- 2.3 The international economic and political outlook over the medium term will be characterised by two key elements: a volatile international economic environment; and the increasing economic and political importance of emerging economies.
- 2.4 The economic centre of gravity is shifting with the re-emergence of Asia and the integration of one third of the world's population into global markets. This economic shift has profound implications for international geopolitical relationships, driven by a more multi-polar distribution of influence. As a medium sized, open economy located in the Asian region, the changing global economic and political environment will bring significant policy opportunities and challenges for Australia.
- 2.5 In particular, Australia will operate in a global and regional environment where leading powers have very different political systems and operating assumptions, with few current signs of convergence, and differing views on the provision of public goods (such as economic stability and environmental commons). Moreover, Australia is operating in the historically unique environment where its primary economic and security relationships do not coincide.

- 2.6 Treasury will be asked to play a role in understanding these implications and responding to these challenges through: its direct involvement in international economic diplomacy; its input into Australia's broader strategic policy; and also by ensuring that domestic policy is appropriately framed against broader international trends.
- 2.7 The re-emergence of Asia in the global economy, in particular China and India, is expected to continue to have significant impacts on Australia. Since 2003 the Australian economy has experienced the impacts of robust demand for commodities as a result of rapid industrialisation and urbanisation in China, with India now also beginning to be a significant source of demand. Yet China and India remain at the early stages of their economic development - their potential for strong growth over the coming decades, as their standards of living move toward those of the developed world, will continue to have far reaching implications for Australia.
- 2.8 At the same time, rapid growth is producing policy and political pressures within emerging economies which pose risks to growth. At the least we should expect that these risks are likely to result in uneven growth and progress and that this will have direct implications for the Australian economy – higher levels of macroeconomic volatility than experienced in the last three decades look set to become the norm.
- 2.9 While the growth of China, India and other emerging economies will continue the diffusion of global influence, the major developed economies, including the US, Japan and parts of Europe, will continue to have a strong influence on the global economy through their technological leadership, contribution to world growth, accumulated wealth and prominence in world financial markets. However, structural weakness in these economies, in the form of significant financial and fiscal imbalances and, in parts of Europe, weak international competitiveness, will take many years to play out. The next five years are therefore likely to be characterised by slow rates of growth in the key developed economies, with additional macroeconomic volatility arising from what has traditionally been thought of as a more stable part of the world economy.
- 2.10 Many of Australia's South-East Asian neighbours are in the midst of an economic transition that is similar to that of China and India. Strong growth has become more established in Vietnam and Indonesia, with Indonesia having an economy larger than Australia's in purchasing power parity terms and particular relevance for Australia as one of our nearest neighbours. In addition, many of Australia's neighbours in the Pacific will continue to face deep economic, political and social challenges as a result of uneven integration into the world economy.
- 2.11 These economic trends mean that the following features are likely to form part of the medium term operating context for Treasury :
- Relatively strong demand for mineral and energy commodities in emerging Asia, leading to the maintenance of historically high terms of trade and exchange rate.
 - This will drive structural changes in the Australian economy as a result of the demand for resources in those sectors and consequent pressure on some other traded sectors. However, a growing Asian middle class will also contribute to demand for other goods and services, including agriculture, specialist manufacturing, education and tourism. Australia's share of that growth will depend in part on policy settings and industry responses – our capacity to innovate, to improve productivity and competitiveness, will determine the growth in Australian living standards going forward.
 - An international environment of increased macroeconomic and financial market volatility.

- Australia’s growth will be increasingly linked to that of emerging Asia and particularly China, though it will still be affected by developments in the advanced economies.
- Continued high levels of foreign direct investment (FDI) in Australia and its diversification.
 - FDI will remain a significant issue due to Australia’s significant investment opportunities and capital needs. Globalisation of growth suggests sources of FDI are likely to continue to diversify both by country (including emerging economies) and entity type (including sovereign wealth funds and state owned entities).
- Improvements in IT and reductions in transport costs are driving further growth in complexity of corporate structures, creating challenges for domestic taxation and market regulation due to extensive business operations across borders. Financial regulation will also continue to be affected by international policy developments due to regulatory trends in key developed economies.

2.12 Treasury’s international economic policy involvement takes place in the context of Australia’s geopolitical relationships. Australia will remain in close security alliance with the US, supported by a range of economic, cultural and political linkages. Australia is also building deep and multifaceted relationships with key emerging economies. At the same time, Australia faces a range of security challenges, which themselves have economic and fiscal dimensions. The following geopolitical features are likely to form part of the medium term operating context for Treasury:

- Close inter-relationships between Australia’s economic and strategic policy settings.
 - Australia will need to manage the opportunities and challenges associated with the historic situation whereby Australia’s primary strategic and economic relationships are with different major countries (the US and China respectively).
- Managing shifts in global power, including changing governance dynamics within international institutions.
 - Existing multilateral institutions such as the International Monetary Fund and newer plurilateral ones such as the G20, will increasingly need to adjust to the growing economic and geopolitical weight of emerging economies. This will pose challenges in terms of their objectives, assumptions and political approaches to decision-making, which may well differ from those of advanced economies.
- The importance of plurilateral groupings such as the G20, the East Asian Summit (EAS) and the Asia-Pacific Economic Cooperation (APEC) forum for the pursuit of Australia’s interests.
 - The G20 has emerged as an important international institution, given the need for a global grouping that can capture systemically significant countries. Groupings such as the EAS and APEC provide important opportunities to help manage the range of regional challenges. Australia will continue to have a key stake in the ability of these groupings to deliver and remain relevant.
- An evolving security posture to protect Australia’s national interests.
 - These economic and geopolitical trends raise a variety of opportunities and threats from a security perspective, including cyber-developments, the importance of ‘soft power’ in an information age, and the rise of ‘non state’ actors.

- Uneven global growth with poor outcomes focussed in countries where citizens are not connected into the global economy.
 - Australia will be expected to maintain a strong contribution, along with New Zealand, to efforts to improve regional peace, stability and economic development in the Pacific. Australia is also committed to significant growth in Official Development Assistance funding.
- Varying and evolving views in the community around the consequences of globalisation.
 - There are several dimensions to note: the potential impact of international economic and financial volatility; historical nervousness about economic dependence on a particular export sectors or dominant markets; the impact of increasingly integrated global supply chains centred around Asia; and potential reactions to the consequences of globalisation – for example, forced changes to Australia’s industrial structure and heavier reliance on foreign ownership.

Treasury needs to maintain and nurture:

- strong relationships with, and a sophisticated understanding of, China, India and Indonesia, including their respective growth dynamics;
- similarly, a strong understanding of, and networks in, key developed economies, given their ongoing importance to the world economy;
- skills in engagement in international fora, including ensuring a good understanding of developing views and positions of government here and abroad;
- our understanding of, and ability to communicate, the implications of the re emergence of Asia for the Australian economy, including potential opportunities and supporting policy settings;
- our ability to analyse global macroeconomic and financial developments, and develop sound policy responses to emerging scenarios; and
- engagement in the Pacific and on development policy more generally.

Treasury needs to improve its capacity to:

- understand sources of macroeconomic volatility and potential transmission mechanisms to Australian economic performance;
- analyse and forecast Chinese macroeconomic trends, continuing the capacity development of recent times (for example the work of the China unit) – we need to: understand Chinese economic developments with the degree of sophistication historically applied to key developed economies; and over time, build the capacity for the same understanding of India;
- integrate understanding of strategic global economic trends into our tax, regulatory, and foreign investment advice;

Treasury needs to improve its capacity to (continued):

- understand emerging policy and thought trends within emerging economies, including non government players – for example, civil society and think tanks; and
- work closely with other agencies, within a whole of government approach, to monitor and understand developments and to frame suitable policy responses that integrate both economic and geopolitical trends to inform Australia’s strategic policy development.

The domestic economic policy agenda: growth, productivity and stability

2.13 The domestic economic environment will be strongly influenced by the international factors outlined above, in particular, risks of macroeconomic and financial volatility over the next several years. In addition, reversing Australia’s extended period of poor productivity performance is likely to be a key policy imperative and focus in coming years. The following features are likely to form part of Treasury’s operating environment with respect to the domestic economy:

- The need for a continuing medium-term fiscal framework capable of delivering consolidation and reprioritisation.
 - International economic conditions will maintain a premium on stable and credible domestic economic policy settings. This will require a continuation of responsible approaches to fiscal policy including the maintenance of a strong and well run Commonwealth balance sheet. Moreover, significant social policy pressures will require ongoing attention to fiscal prioritisation to ensure appropriate new policies can be met in a way consistent with this constraint. Fiscal restraint is likely to lead to increased attention on using the Commonwealth balance sheet for policy intervention (either explicitly or implicitly through guarantees).
- Ongoing and close attention to financial and macroeconomic policy settings, including in response to potential economic shocks.
 - Shocks from international sources as a result of global economic and financial market volatility can have a significant effect on the performance of the Australian economy. Domestic shocks are also possible given the structural changes occurring in the Australian economy – for example, arising from transitional issues associated with resource shifts between industries, or the consolidation of household balance sheets.
- A focus on improving workforce participation and productivity.
 - This will involve a broad range of policies encompassing: education; the tax and transfer system; skilled migration and labour mobility; infrastructure; competition policy; and ensuring an efficient approach to economic and social regulation, including in the labour market. As always, policy reform will often have differential impacts on community and industry sectors.
- Ongoing efforts to ensure a robust and efficient tax base and market regulation.
 - Both areas are critical inputs to the productivity agenda, and in contributing to a stable economic framework. Policy in this area will require factoring in global drivers of innovation and change such as information technology, communication and the internationalisation of markets and supply chains.

Treasury needs to maintain and nurture:

- a good strategic overview of both the tax system and regulatory frameworks, a clear vision for the future, and the capacity to develop and implement reform options that can deliver on this vision;
- strong skills in fiscal and balance sheet management and the capability to give good advice on the costs of policy interactions involving the Commonwealth balance sheet;
- an understanding of financial markets and debt management;
- the capacity to undertake timely and accurate analysis and forecasting of global and domestic economies;
- sound and reliable financial coordination mechanisms, including good information flows between financial institutions, regulators and policy makers; and
- the capacity to develop sound policy responses to emerging macroeconomic and financial scenarios.

Treasury needs to improve its capacity to:

- contribute to ongoing development of the productivity agenda, in collaboration with other portfolios;
- have non-transactional engagement with business and other sectors to ensure awareness of economic developments and to tap into relevant expertise and knowledge in the development of policy;
- analyse economic dynamics at the sectoral and industry level in response to policy reform and exogenous structural change; and
- communicate economic and policy analysis to assist in achieving the necessary economic adjustments.

The broader domestic policy agenda: demographic change and sustainability

- 2.14 Like many developed economies, Australia is in the process of managing an ageing population, rising dependency ratios, and slower potential economic growth that will reduce Australia's capacity to fund future spending commitments. Australia is also managing several social policy issues arising from both demographic trends and growing community expectations, for example: the provision of aged care; mental health; disability; and growth in health costs more generally.
- 2.15 Sustainability also emerges as a key feature of the domestic policy economic environment that is likely to require ongoing policy attention over the medium term.
- 2.16 In all these areas the fiscal constraints faced by governments are likely to maintain focus on fundamental reform solutions, rather than more ad hoc interventions. Moreover, for many of these issues Commonwealth-State issues loom large, requiring close consideration of aspects of our Federal arrangements.
- 2.17 Understanding these challenges is part of Treasury's mission. The Treasury portfolio has responsibility for several elements of this broad agenda, including regulation of

superannuation and the treatment of retirement incomes in the tax system. While broader policy responsibility for many aspects of these issues including the transfer system does not sit within the Treasury portfolio, Treasury will inevitably play a key role given the overall significance of these policy areas, the relevance of economic frameworks to their successful resolution, and their impact on community wellbeing.

2.18 The following elements are likely to be features of the domestic policy context over the medium term:

- An overarching focus on achieving enhanced productivity through a broad range of domestic policies, including through capital deepening and increased growth in multi factor productivity. This will mean increased attention to the provision of Government services, and ensuring these contribute to better outcomes and overall productivity performance.
 - The microeconomic reform agenda has been focussed in recent decades on increasing competitiveness and flexibility in the market economy. While ongoing attention to these areas remain critical, further reforms are likely to be increasingly focussed on administered areas of the economy, including education, skills, infrastructure and health, responsibility for which currently falls across levels of government, and between government and the private and not-for-profit sectors.
- Continued focus on achieving sustainable reforms in major areas of social policy, such as health, will remain high priority given both community demands and the significant cost implications for governments.
 - This will include ongoing attention to the implications of new technologies, the relationship between the Commonwealth and the state provision, proposals around a disability insurance scheme, higher demand for labour and resources from the aged care sector and mental health policy issues.
- Continued focus on retirement income policy and labour market incentives.
 - The tax/transfer system will continue to receive considerable attention as a means of achieving a range of objectives, including the adequacy of retirement incomes, encouraging workforce participation where appropriate, and providing an efficient safety net. Issues around social inclusion, disability and intergenerational disadvantage in parts of the Australian community, including close linkages to the need to enhance economic participation.
 - In Indigenous communities in particular, but also more broadly, policy will need to respond to complex issues such as multigenerational disadvantage and social stratification.
- Continued focus in the community on social inequality.
 - These issues will remain prominent given demographic and social drivers and structural changes in the economy, and global trends with regard to returns on capital and labour. A key challenge will be addressing these issues while ensuring a strong policy focus remains on fostering overall economic growth and prosperity.
- An increasing focus on resource and land use trade-off issues.
 - Strong demand for commodities is likely to lead to a range of perceived or potential conflict in areas such as biodiversity, food production, resource development and energy production. This may place pressure on regulatory approval arrangements,

and involve conflict between competing policy objectives, such as environmental and growth concerns. Economic policy frameworks will be critical to managing these issues sustainably.

- Ongoing focus on the inter-relationship between population growth and urban and natural environments.
 - In particular, the implications for Australia's regions and cities as well as infrastructure, transport, housing, water resources and the environment.
- Continued focus on climate change policy both domestically and internationally.
 - Both mitigation and adaptation policies will remain under consideration in the medium term, given the science base to climate issues and the likelihood of ongoing climate events and findings. Ongoing development of international carbon markets will remain on the agenda, given the importance of access to international abatement for affordable national emission reduction efforts.
- A focus on inter-relationships between the Commonwealth and state, territory and local government.
 - Federal issues inevitably take a prominent role given current policy responsibilities for many of the areas outlined above. However, recent decades suggest this can produce a variety of outcomes, including non-cooperative and cooperative approaches. Recent reforms to Federal financial relations are still being bedded down. However the combination of fiscal constraints on all levels of government, and increasing importance of improving productivity in administered areas of the economy, highlight the importance of ongoing cooperation. There is likely to be pressures toward greater efficiency in service delivery and role allocation.

Treasury needs to maintain and nurture:

- our key strengths (particularly our analytical framework and quantitative, economic and modelling skills) and an ability to apply these to a broader set of policy challenges;
- strategic policy capacity in relation to federal financial and policy relationships, including improving the management of financial dimensions, such as our payments systems; and
- a good understanding of climate change issues, particularly economic relationships and linkages such as the development of international carbon markets.

Treasury needs to improve its capacity to:

- work with external views and alternative policy frameworks;
- develop and communicate strategic policy approaches that make best use of Australia's Federal arrangements;
- work collaboratively with other agencies to deliver effective outcomes and maximise the effectiveness and influence of our advice. In particular, by supporting economic frameworks within the range of portfolios with policy responsibility for these issues.

Advances in technology and communication, and higher expectations of government

- 2.19 Advances in information technology and communication have resulted in the rapid flow of ideas, goods and, increasingly services, across borders, and have revolutionised the way Australians live and work. These advances have profound implications for how global markets work and for economic and community life.
- 2.20 While Treasury can be expected to be asked to play a role in providing policy advice on these changes, advances in information technology and communication will also have direct impacts on the public sector and Treasury. These trends offer the potential to improve Treasury's productivity and effectiveness, and can also be expected to create new social and cultural challenges, as a result of increased community expectations of government and the APS.
- 2.21 Fiscal consolidation – in particular, pressure to restrain spending – will also directly impact on the APS, resulting in a continuing strong emphasis on increasing public sector efficiency and innovation. Trends arising from advances in technology and communication, higher expectations of government and a focus on efficiency include:
- New and innovative modes of service delivery.
 - Changing community needs and the emergence of new technologies have resulted in increased expectations about the timeliness and efficiency of the provision of government services and programs.
 - An increased demand for access to information from a variety of platforms, and an expectation of greater transparency.
 - The acceptance of rapidly moving news cycles and improved real-time access to detailed information and news, including increasing use of social media, are increasingly being applied to government. Demands for access to government information are likely to continue to grow.
 - Difficulty in progressing fundamental reforms, given strong community and stakeholder focus on precise measures of potential impacts, and the contested need for change on many issues.
 - This will place a bigger emphasis on communications and an awareness of communication issues in the policy development process. It will also increase the need for evaluation. At the same time, there are greater expectations on the part of community and business expectations regarding engagement and consultation through all stages of policy development and implementation.
 - In an environment where policy is increasingly contested and challenged, and where there are a range of informed sources of alternative policy advice, there is an expectation of earlier and greater consultation by government, including early 'non-transactional' engagement on the policy agenda.
 - More complex and inter-related policy.
 - The flow of ideas, goods and services across borders challenges the traditional policy tools of governments. Greater global integration can render some traditional policy approaches ineffective, while increasing complexity can make policy outcomes more difficult to predict.

- Pressures for government intervention, including varying and contested views about the role and size of government.
 - Some in the community have a strong expectation that governments will act quickly to solve emerging issues. The media cycle and social media can reinforce this expectation.
 - However, there is also a concern, particularly from business and others, about regulatory creep at all levels of government, as well as concerns about unrealistic expectations and insufficient focus on trade-offs associated with government intervention and impacts on productivity and efficiency.
 - Given our wide span of policy responsibilities, it is likely that Treasury will continue to be called on to directly implement government measures in response to emerging pressures.
- Changing public expectations regarding the role of the Commonwealth, state and local governments.
 - In particular, the Commonwealth is increasingly seen as accountable for progressing policies that are currently the domain of the states, and the community expects 'joined up' services from government, irrespective of where policy responsibility sits or who delivers a service.
- Evolution of the role of the APS.
 - Within the framework of a non-partisan Westminster system of government an increasing expectation that the APS will be involved in all stages of the policy cycle, across policy development and communication. This has resulted in some blurring of previously sharper role definition, and sometimes brings public servants into contested policy spaces.

Treasury needs to maintain and nurture:

- its capacity to support appropriate transparency, including FOI, while also retaining the capacity for confidential strategic policy development;
- a good sense of APS frameworks, APS values and ethics, and the role of key Westminster institutions and conventions, along with an awareness of the political environment;
- its commitment to implementing and supporting good regulatory processes that provide evidence based assessment of new government regulation.

Treasury needs to improve its capacity to:

- use new innovative information tools to assist with knowledge management, implement and communicate policy, and improve engagement (particularly to meet the expectations of a relatively young workforce within Treasury)

Treasury needs the capacity to (continued):

- improve engagement, particularly outside government and more 'non-transactional' engagement with stakeholders, so as to be able to better understand views and objectives, incorporate a wide range of relevant expertise and knowledge, and better anticipate likely responses;
- further develop communication skills to support policy reform and convey policy changes;
- advise on appropriate responses from government, including the best means of policy delivery/implementation where a policy response is justified;
- the ability to operate in a tight fiscal environment, which places a premium on efficient, innovative and lean approaches to the operation of the Treasury as an organisation;
- assist Governments build the case for policy change, including building compelling analysis, along with a good understanding of communication issues and stakeholder views early in the policy development process; and
- support its staff in managing the ambiguities associated with policy making in this environment.

3. TREASURY CAPABILITIES (SKILLS, SYSTEMS AND STRUCTURES)

CONTEXT

- 3.1 As an organisation, Treasury has significant strength in terms of its skills base, systems and structures. Clearly articulated statements of its mission, values and broad objectives are encapsulated in the Wellbeing Framework (see [Appendix F](#)). Its governance structures are well developed, including a key role for the Executive Board in assisting the Secretary with his responsibilities, and effective group management structures. The department's workforce includes a diverse range of disciplines, with economics and law most common. The department also has a wide range of skills in the provision of corporate systems and pockets of expertise in accounting/auditing, commerce and finance.
- 3.2 One of the tasks for the Review is to provide a baseline assessment of Treasury skills, systems and structures to ensure that they are sufficiently robust to meet the demands on the organisation identified in Chapter 2. This assessment necessarily takes place in an environment of limited resources, driven both by the Government's commitment to hold growth in real spending to no more than two per cent until the budget return to surplus and the broader pressures on the budget associated with an aging population and a range of competing priorities for spending.
- 3.3 This will require Treasury to continue to find efficiencies in its operations, consistent with a broader trend around public sector efficiency and innovation, and ensure that proposed actions to strengthen and improve our skills and capabilities are able to be achieved despite the reduction in resources contained on our forward estimates.
- 3.4 The confidence of our ministers is the critical factor in determining our effectiveness and influence and Treasury has a critical role in supporting them which is reflected in our mission statement:
- 'to improve the wellbeing of the Australian people by providing sound and timely advice to the government, based on objective and thorough analysis of options, and by assisting the Treasury ministers in the administration of their responsibilities.'*
- 3.5 Ministers commented favourably on Treasury's skills and capabilities, noting in particular that the department consistently produces accurate and thorough policy advice. Ministers also identified some key aspects of service delivery that are important components of the Treasury mission. Given the challenging and rapidly changing nature of the external context that will shape Treasury's operating environment going forward, maintaining core skills and competencies will be essential for Treasury to deliver on its mission. The organisation will need to build and maintain these traditional strengths, including fiscal and macroeconomic management, tax and market regulation, and analysis of macroeconomic trends in emerging economies. Treasury will also need broad knowledge to contribute to a wide variety of policy agendas, from extending microeconomic reform to new areas of the economy, contributing to the social policy agenda, through to shaping Australia's international posture.
- 3.6 The actions that Treasury needs to take to ensure it is well positioned to meet the challenges of our operating environment over the short to medium term need to be supportive of its mission and cognisant of the budgetary restraints imposed by the forward estimates. A number of areas in which the department can enhance its performance and

provide better service delivery have been identified in consultations with staff, ministers and stakeholders. The Review has grouped these actions under four main themes.

THE THEMES

THEME 1: BUILDING KEY STRENGTHS TO BETTER SUPPORT OUR MINISTERS

Embedding and strengthening understanding of Treasury Wellbeing Framework and shared policy approaches

- 3.7 Treasury is considered a leader in bringing to bear rigorous economic and analytic frameworks to a range of public and policy issues. As a central policy agency Treasury is expected to anticipate and analyse issues with a whole-of-economy approach which represents its comparative advantage in the provision of policy analysis and advice to Government. The Wellbeing Framework (the Framework) is a key part of Treasury culture and identity. At the same time, Treasury work is conducted with shared policy approaches, for example: a preference for market and price based policy responses to be fully explored; an approach which assesses proposals for government intervention cautiously against both sound principles and evidence; and consistent advocacy of conducting macroeconomic policy within sound medium term frameworks. Such principles have served Australia well in recent decades.
- 3.8 Feedback from staff during consultations for the Framework review was that a broad understanding of wellbeing is an important part of Treasury's culture and identity – that it assists in providing context and high level direction for policy advice; and facilitates internal and external engagement and communication.¹
- 3.9 SES noted in their responses to a survey conducted as part of this Review, that although the Framework is valued, it is not consistently applied throughout the organisation.
- 3.10 Notwithstanding the long tradition in Treasury of having a well-developed understanding of what wellbeing entails, and it being reflected in group plans and other key documents, Treasury needs to ensure that staff can draw on it appropriately to inform their policy work. This will be incorporated in the Treasury seminar series, including via case studies.
- 3.11 Staff also indicated the need to improve communication and understanding of key economic issues and challenges facing Australia. This will assist officers to place their work in a wider context and ensure that all Treasury advice includes whole-of-economy considerations. This suggests that there would be value in Executive Directors and others presenting regularly on issues such as fiscal and macroeconomic narratives, and for open cross-Group processes that build policy understanding such as that being conducted by Revenue Group on developing a vision for the tax system. Existing measures such as the introduction of graduate rotation will also contribute over time to developing shared policy frameworks and strengthening cross-Group policy networks.

¹ Treasury Staff Notice 085/2011

Recommendation 1

Enhance the program of regular internal all-staff and cross-group discussion of major policy challenges, including the economic and fiscal context, and the application of the Wellbeing Framework to emerging issues.

Maintaining and building core capabilities and skills as a key economic institution

- 3.12 Stakeholders have come to expect reliable and rigorous products from Treasury and all participants in consultations expected Treasury to be a strong advocate for sound economic policy within government, and, when appropriate, in public fora. This suggests an ongoing need to ensure that Treasury's core skills are developed more generally and that it has the depth of knowledge and leadership capability required to maintain its reputation and position as a central agency. The need for a strong leadership pool is one basis of the business case for action to strengthen the representation of women in the Treasury leadership – to ensure that Treasury remains an employer of choice for all staff by better harnessing the talents of women at all levels of the department.
- 3.13 Within the organisation there is a general concern about the ability of Treasury to continue to attract, develop and retain people with some particular skills that are integral to our mission and valued by stakeholders. Ministers and stakeholders place high value on the organisation's quantitative and modelling analysis to assist in understanding economic trends and to provide additional perspectives on key public policy issues. Together with skills in legislative development, these are areas of expertise that are difficult to acquire through recruitment and must be developed internally.
- 3.14 Whilst the organisation's breadth and flexibility is recognised and valued, some stakeholders note the trade-offs this involves around developing subject matter expertise. Portfolio agencies and other stakeholders identified rapid movement of staff between areas as a significant obstacle in developing this expertise, particularly in the areas of market regulation and taxation policy where it is challenging to develop and maintain in-depth technical knowledge. Deep expertise in tax law was singled out as a skill set for particular specialist focus given the breadth and complexity of our tax system.
- 3.15 Staff also raise limitations to the depth of knowledge in some subject areas as a cause of concern and expressed the view that they sometimes feel disadvantaged in negotiations or discussions with expert stakeholders as a result, noting that this can often make it difficult to judge the relevance of issues that are raised by industry.
- 3.16 To retain its influence and effectiveness, Treasury needs to maintain and build the skills and capabilities of our people. The complexity and demands of the external environment also suggests that Treasury requires a deep and diverse leadership pool. A more strategic approach to human resources is required, including mechanisms to enhance talent and leadership development, training, recruitment and skills identification, to ensure that Treasury can continue to attract, develop and retain people with these skills and capabilities. This process has already commenced with the Staffing Committee working on a comprehensive human resources plan that will be considered by the Executive Board progressively over the next six months. The Progressing Women program is aimed at building on this approach by specifically addressing the barriers to the progression of women into the leadership group in Treasury, and the development of the Workforce Planning Framework will be undertaken with this in mind.

Recommendation 2

Develop a comprehensive Workforce Planning Framework, overseen by the Staffing Committee to deliver the diverse range of skills and capabilities that Treasury requires, paying particular attention to those skills that are difficult to acquire and/or develop internally, and the need to develop a wide and deep leadership pool.

Senior 'focal points' to coordinate overall working relationship with portfolio ministers

- 3.17 The satisfaction of our portfolio ministers is the critical factor in determining our effectiveness and ability to influence the policy agenda. Ministers spoke highly of Treasury and indicated that they consistently receive accurate and well considered policy advice from the department. In particular, ministers considered that Treasury's advice during the policy development stage was generally excellent.
- 3.18 However, some challenges were identified in discussions. While some parts of Treasury were highly service oriented and responsive to ministerial priorities, performance was inconsistent. In particular, there is a sense that Treasury is often too inwardly focussed and not always sufficiently aware of ministerial agendas and needs. Treasury has a high cultural reliance on the written word, and sometimes needs to complement its written advice with face-to-face or follow up contact. More attention to two way communication with portfolio Ministers would assist in the overall working relationship.
- 3.19 The Secretary meets regularly with the Deputy Prime Minister and Treasurer, and this is an effective communication channel for progressing critical policy issues. It is also important that there be a regular two way flow of information between the Assistant Treasurer and senior Treasury leadership, and to this end the Secretary will meet periodically with the Assistant Treasurer to discuss broad portfolio issues, while the Executive Director Policy Coordination and Governance (ED PCG) will provide a regular conduit for policy interchange across the Assistant Treasurer's portfolio responsibilities.
- 3.20 The Parliamentary Secretary has regular primary contact with senior staff in Markets Group. The process of the Review suggests there is also value in regular (at least quarterly) meetings with the offices of portfolio ministers to ensure separate attention to the day to day workflow between the department and portfolio Ministers. ED PCG will be the focal point for these meetings, to ensure any issues have direct input into the Board. This will not only assist the flow of business between the department and ministers, but also create an enhanced awareness in the department of ministerial priorities, agendas and needs.

Recommendation 3

Enhance our service to our portfolio ministers by identifying senior contact points for engagement with them and their offices on priorities and workflow issues.

Enhancing skills and support for policy communication

- 3.21 Treasury, like all departments, has long had an important role in assisting ministers with communications relating to their portfolio responsibilities. During consultations, Treasury Ministers noted that they regard the delivery of speeches as a key function in the policy development and implementation process and are looking for effective support from Treasury in public communication of policy. This is consistent with feedback to Treasury

over several years and from a range of ministers and governments. In addition to continuing to provide practical assistance with drafting of speeches and other written communications, improvement will also involve more senior engagement on communication strategies and approaches, including regular engagement with portfolio Ministers and their offices to ensure communication priorities are well understood and resources and attention aligned within the department. This will be a part of the regular meetings with Ministers' offices outlined in the previous section.

- 3.22 Treasury also undertakes direct communication of its own, as appropriate and consistent with its role as a Department of State. Examples include speeches and Economic Roundup articles outlining relevant analytical perspectives. These are valued by stakeholders and are considered to assist government communications and, more generally the broader economic debate with analytical and technical perspectives.
- 3.23 Staff will need access to enhanced skills to write effectively for public communication of policy, and the department will also need to maintain a specialist speech writing capability. While Treasury's own communications are generally more technical, attention also needs to be paid to communicating these perspectives clearly to achieve the goal of informing public understanding. The department's professional communications expertise (largely within the Ministerial and Communications Division) could also be better utilised by policy areas in developing policy communications products.

Recommendation 4

Improve our capability to communicate policy decisions and analysis, including effective use of the department's professional communications expertise, training for policy officers in effective written communication of public policy, and maintaining a dedicated speech writing capability.

Improving implementation and project planning capabilities

- 3.24 Effective implementation of government decisions is central to our mission statement. Ministers see this as embracing both improved communication and better practical implementation of programs within Treasury's administrative responsibility.
- 3.25 Stakeholders within government note that Treasury approaches for program implementation are less integrated and comprehensive than they are in line agencies (largely due to implementation not having been part of our core business historically). SES staff rated Treasury's project planning capabilities as low in comparison to other skills; and non-SES staff expressed frustration at the lack of resources to support a strategic approach to project management at the commencement of a discrete project.
- 3.26 The establishment of a project planning centre of expertise will provide assistance to staff at the commencement of a project and training in project planning methodology. Practical support for project planning will also be provided with IT tools and templates to assist the process becoming more widely available. In addition, this will be supported by the expanded responsibilities of the Chief Risk Officer (see Recommendation 14).

Recommendation 5

Better support ministers in the implementation of government decisions by establishing a project planning 'centre of expertise' and better governance of high impact policy implementation projects.

Enhancing Treasury's contribution to Australia's international and national security policy

- 3.27 Treasury has significant strengths in the area of international economic analysis and policy development. Stakeholders, particularly within the APS, also consider that Treasury has a significant role to play in helping shape Australia's broader international posture. The drivers for this view include the rise of Asia, the volatile macroeconomic environment and the strong interconnections between international economic and political/strategic factors in shaping Australia's international posture. Treasury needs to understand these drivers better through increasing support for, and expanding our, international networks and developing a greater focus on the geopolitical context and its implications for Treasury's work.
- 3.28 Treasury already has a broad range of interactions with Australia's international policy community, including direct engagement through the Executive Director, Macroeconomic Group (International), the Chief Adviser (International), the posts and across many individual policy areas. These interactions are largely facilitated by a focus on particular tasks or issues, and will continue to play a key role in informing international perspectives and ensuring that our domestic policy settings are attuned to developments in the international sphere. The challenges emanating from shifts in sources of global influence will require Treasury to strengthen our existing avenues of engagement and also develop strong relationships outside of our traditional focus areas to enable us to understand emerging policy and thought trends within emerging economies.
- 3.29 Stakeholders in the national security community, and in non-government think tanks, are looking for Treasury to play a more active role in contributing economic perspectives on national security policy issues. More broadly, the challenges arising from Australia's strategic and economic interests suggests the need for Treasury to contribute more strongly to the development of Australia's international policy stance.
- 3.30 This suggests that Treasury will need to develop a whole-of-government approach to understanding and monitoring developments in the international space to ensure that we are aware of emerging views, and that our policy responses are appropriately framed. Aligning the department's ability to provide input to international analysis and perspectives with maintaining its capacity to advise on national security expenditure issues will facilitate a more efficient use of resources and provide a coordinating point for these interactions.
- 3.31 In addition to a program of Treasury seminars and presentations on emerging geopolitical policy issues and trends, it is anticipated that the Policy Strategy Meetings (PSM) program in the lead up to the 2014 G20 hosting will include an increased focus on the implications of international issues and trends for Treasury work. The Chief Adviser (International) will lead an international strategic policy network comprised of officers across the department who are engaged in international policy or analysis. This network will coordinate input to key international processes, and develop and support the PSM work program. It will look to ways to better engage our international posts in this policy development.

Recommendation 6

Enhance the focus of the department's current international economic and national security work to contributing an economic/strategic analysis of the broader international developments impacting on Australia, supported by enhanced external input and a high level internal international policy network.

THEME 2: ENHANCING OUR ENGAGEMENT SKILLS

- 3.32 The challenging nature of the policy and economic environment in the period ahead suggests the need for good engagement between government at all levels and stakeholders. In this environment, it is critical that Treasury has strong direct engagement with the private sector. Moreover, the most consistent, and strongest, theme emerging from the consultation is that Treasury needs to improve its engagement, particularly with the business community. In particular, Treasury needs to complement its 'transactional' engagement on specific issues (consultation on policy measures, business liaison on economic conditions) with the development of more ongoing relationships through non-transactional engagement.
- 3.33 There are several reasons why better engagement with business is an important strategic priority for Treasury. Treasury has a central role in building understanding of emerging trends and it is evident from consultations that stakeholders want engagement to be approached from a two-way perspective of sharing information, ideas and experience. Such an approach will also help Treasury to tap into new policy perspectives and build understanding of economic developments.
- 3.34 Non-government stakeholders consistently indicated that they trust Treasury analysis and would welcome more information on Treasury perspectives. The information age has given stakeholders unprecedented access to views and opinions on economic issues both domestically and overseas; however, Treasury perspectives are regarded as authoritative. Industry groups in particular indicated that the Treasury analysis can help shape the formulation of industry views, and they would welcome additional information sharing. Business indicated that it is particularly valuable when they are able to engage with Treasury officers in person, and considered that geography was a significant barrier in improving the relationship with the department.
- 3.35 A key reason for improving engagement, though, is to improve the quality of our policy advice. A consistent concern expressed in consultations with non-government stakeholders is that Treasury needs to better understand the practical implications of policy on their activities. In particular, ministers and business stakeholders are seeking greater understanding from policy advisors of the interactions of policy and decision making processes at firm level. There is also a strong view from ministers and Treasury staff that improving our understanding in these areas will improve Treasury's policy advice through better insights into impacts and benefits of policy.
- 3.36 In particular, it was suggested that a better understanding of commercial operations and decisions was important. Some of our key portfolio agencies thought that acquiring this type of knowledge is particularly important, given the increasing complexity of company operations and the inter-linkages between international and domestic operators, which have significant implications for taxation and competition policy.
- 3.37 Measures to improve our engagement with stakeholders and the community more broadly (including through measures to improve our technology systems discussed below) accord with the reform trajectory of governments worldwide to greater transparency, wider public engagement, and multi-level collaboration to deliver commitments, and are reflected in the *Blueprint for Reform of Australian Government Administration*. It is also an area where some public agencies in Australia are already making significant progress in strategies toward more active, ongoing and intensified engagement.

Improving strategic engagement with stakeholders

- 3.38 Improving Treasury's engagement will involve a range of measures to ensure improvement across the organisation. However, a key set of actions involve development of a strategic approach to engagement, commencing with senior leadership. Senior leadership support of, and accountability for, engagement is fundamental to ensuring that engagement is embedded in policy development, rather than becoming a supplementary or 'tick the box' exercise. With that approach in mind, there will be a regular program of non-transactional engagement by the Secretary and the Board with business, portfolio agencies and other stakeholders such as NGOs. This will complement programs implemented by the leadership of groups and divisions in relation to particular policy areas.
- 3.39 Treasury will need to develop an overall stakeholder engagement framework to ensure common perspectives and approaches are well understood. Agencies that engage well have robust frameworks for engagement that specify principles for engagement, clearly define how the outputs from engagement feed into decision-making processes, and create authority for officers to abide by the protocols. A framework is necessary to clarify terms, and ensure common understanding of the objectives of engagement in various contexts. This is underlined by stakeholder feedback that suggested there can be a lack of business understanding of the way that government and the public sector operates - for example, the role of Treasury as an adviser and Ministers as decision makers. A common framework will assist staff with communicating to our stakeholders about our processes and the boundaries of the relationship.
- 3.40 Given the broad ranging nature of the strategy, there is a need to have a central focal point within the department to drive the engagement strategy in the period ahead. The Board has decided to create a time-limited SES role to lead this task.
- 3.41 To complement engagement by senior leadership, a more structured consideration of stakeholder relations will be introduced as part of the annual corporate planning cycle. This will involve the SES in association with Executive Officers developing stakeholder relations strategies and identifying gaps in our knowledge about stakeholders and mechanisms to address those gaps.

Recommendation 7

Improve our policy advice through a program of 'non-transactional engagement' by the Board and groups, the development of a stakeholder framework and plans and the appointment of an SES officer to lead this work.

Building engagement and consultation skills and systems

- 3.42 Consultations suggest that there is some unevenness in listening and influencing skills across the department, so a comprehensive engagement strategy will also involve building staff skills in these areas.
- 3.43 Skills training needs to focus first on ensuring a good understanding of the overall objectives of different interactions. For example, it is often the case that the complexity of an issue is better understood by a particular portfolio agency and the main motivation for engagement is for Treasury to better leverage this expertise. It is also important that staff can clearly conceptualise and explain the scope of consultation and the process by which the consultation will feed into the Government's decision-making.

- 3.44 Some stakeholders felt that building relationships with Treasury can be difficult because officers can be reticent to volunteer information which can of itself reduce the quality of engagement. Staff expressed the view that Treasury officers can be reluctant to consider the views of others, particularly in areas considered to be within the department's areas of expertise, which can be perceived as obstructive and is detrimental to fostering good stakeholder relationships. More generally, a widely perceived characteristic of Treasury is that it sometimes 'does not know what it doesn't know', and a better identification of knowledge gaps, and a targeted approach to seeking out expertise, would improve policy outcomes. All this suggests there is much to be gained from focussed training on engagement and consultation techniques and skills.
- 3.45 Non-government stakeholders considered that Treasury's formal consultation process could be more streamlined. There is a significant volume of consultation occurring simultaneously and stakeholders find it difficult to give considered views in all process that may affect their operations. Any tools that Treasury could use to better coordinate timing of consultations and the provision of more user friendly means for making contributions would be welcomed by stakeholders. Given the expansion of social media and electronic communication tools in the last 10 years, it also seems appropriate that Treasury considers how it can better utilise these tools to engage more efficiently with stakeholders.

Recommendation 8

Support stakeholder engagement and consultation through an enhanced training program to improve skills.

Recommendation 9

Trial new online consultation approaches, and develop and maintain a data base of key contacts.

Greater exchange of people and ideas

- 3.46 People networks are a key way of improving the quality of engagement. While networks can be developed by a program of formal and informal meetings, a common work history can be important in building trust and shared understanding. Indeed the high level of exchange and shared work experience between Treasury and public sector agencies has greatly improved Treasury's working relationships within government over the past decade. Moreover, while formal training and presentations can assist in understanding business and other stakeholder perspectives, there is little substitute for ensuring in-house access to staff with direct experience in these fields. This suggests that a program of temporary staff exchange and targeted recruitment could lift Treasury's effectiveness in understanding business perspectives and facilitating further engagement. There is strong evidence that diversity in leadership is important for well functioning organisations, and Treasury would benefit from greater exposure to other organisations and their leadership practices.
- 3.47 Stakeholders believe that Treasury's relationships within government could be enhanced through improved information sharing processes and greater cross-agency collaboration. In particular, keeping portfolio agencies informed of decision making processes as well as outcomes. Stakeholders highly value Treasury collaboration when there is genuine commitment from Treasury to share knowledge and ideas, and would collaborate more often if this was practiced consistently. It was noted that greater people and knowledge sharing across departments through a targeted (rather than ad hoc) program of secondments would help to break down silos and foster a more inclusive culture.

- 3.48 There is a widespread perception that geography is a significant barrier to recruiting specific expertise in commercial decision making and financial market operation. This suggests Treasury needs to consider specifically offering capital city based positions in some of its recruitment. This will only be effective if supported by high quality IT links to ensure integration with Canberra based teams. Budget constraints will always mean that this recruitment will be limited, though the department can make use of existing capital based accommodation, as well as looking at options for cooperation with Sydney and Melbourne based portfolio agencies.

Recommendation 10

Improve our policy advice through the exchange of people and ideas through: a program of two-way secondments with the private sector and relevant portfolio agencies; targeted recruitment from the private sector; and relevant seminars.

Embedding positive behaviours and values to support external engagement

- 3.49 Research shows that modelling of desired behaviour by leaders is essential to embedding values within an organisation. Better engagement starts with a heightened degree of commitment from senior management, cascading down through each level of the organisation. During consultations, stakeholders noted that this kind of embedding in the Treasury context cannot be achieved by the Executive Board alone – it requires commitment from leaders at all levels within the organisation.
- 3.50 Treasury people values already incorporate the essential elements of good engagement such as treating everyone with respect and fairness and valuing diversity, and these are reinforced in the Performance Management System (PMS). However, stakeholders suggest that Treasury people can appear at times to be arrogant and dismissive of other views, and that this can act as a counter to productive engagement. This does not suggest that Treasury shouldn't bring authority and confidence to the table but that it should complement these approaches with better recognition of the limits of our knowledge/frameworks – as one stakeholder put it, 'humility in the face of what Treasury doesn't know'. This mindset will improve engagement with stakeholders and assist us to obtain relevant skills, knowledge and data from others.
- 3.51 Staff and outside stakeholders particularly noted that 'them and us' attitudes, both reinforced internally and demonstrated externally, are inconsistent with the respectful engagement suggested by Treasury people values. It is clear that we need a range of actions to ensure that our people values are embedded and constantly reinforced in the organisation. Hence, it would be appropriate for the values, as they inform the foundation of good engagement, to receive increased focus throughout the organisation via the PMS and in staff induction training.
- 3.52 Introducing structured 360 degree feedback for SES appraisals, including from external stakeholders, could help ensure that enhanced standards for engagement are embedded at senior levels of the organisation and seen to be so. Such feedback approaches will be piloted with some SES in the August 2012 appraisal round. Consistent with the current PMS approaches to feedback for non-SES appraisals, managers should ensure that feedback is collected outside the immediate work area and include where appropriate the views of external stakeholders. To complement this stronger focus on reinforcing the importance of positive behaviours in engagement, the PMS role accountabilities for chief, principal and senior advisors should be reviewed to embed a stronger role for these positions around leading external engagement.

Recommendation 11

Support engagement and consultation through managers and SES promulgating and modelling appropriate behaviour including ensuring respectful and productive approaches to external stakeholders, with particular attention to reducing 'them and us' attitudes internally, and incorporation of external perspectives in performance assessment.

THEME 3: GREATER INNOVATION AND USE OF INFORMATION TECHNOLOGY TOOLS

Improving information technology programs and tools

- 3.53 Advances in IT and communications along with higher expectations of availability in regard to government information will remain central to Treasury's operating environment going forward. Understanding these trends is important, but so is applying them.
- 3.54 Treasury's IT systems are solid, but need to be more flexible to allow for greater innovation, to take advantage of the rapid movements in information technology, social media and communication tools in recent years. These tools provide organisations like Treasury with opportunities to better connect with staff and stakeholders and be more proactive in identifying, responding and managing emerging issues.
- 3.55 A more targeted approach to developing Treasury's information and technology needs will not only deliver internal productivity and efficiency benefits, but also help to better meet the expectations that others have of the Treasury. The newly formed Information Management and Technology Committee (IMTC) is well-placed to drive change and oversee progress in this area. The Committee will have a critical role in ensuring Treasury's information technology systems support staff to meet greater external expectations around the timeliness, efficiency and openness of services and products commencing with the development of an information and technology communications framework for consideration by the Board early in 2012. This framework will encompass mechanisms to address and support recommendations coming from this Review.
- 3.56 Many staff consider that Treasury's internal information technology systems are not up to date and can inhibit the efficient management of issues and information. In particular, TRIM is not a user-friendly system for record keeping and it impedes effective knowledge transfer. Moving to a user friendly electronic record keeping system will be a high priority, though good knowledge transfer involves much more than IT solutions (see Recommendation 17). Staff consider that this may alleviate some resource pressure and lessen the tendency to have to 'reinvent the wheel'. Information Management and Technology Services Division has already commenced the scoping for such a system and the development of a program for the roll out of improved systems in this area will be an early priority for the IMTC
- 3.57 It was also noted that Treasury's IT systems could offer greater capacity for team based work, including from remote locations. Such work practices are common in other organisations and could assist Treasury in a number of ways, for example recruiting and retaining staff with specialist skills in financial markets or taxation expertise, or in terms of closer collaboration with the Treasury overseas posts.
- 3.58 There is also considerable enthusiasm amongst staff for developing better methods for consultation and communicating with stakeholders than Treasury's current information technology platforms allow. The development of more interactive tools including piloting

online collaboration for external engagement will improve Treasury's ability to engage with stakeholders (see Recommendation 9).

- 3.59 Many of our stakeholders and partners are increasingly using new information technology platforms and social media, while managing the associated risks, to engage with stakeholders in new and innovative ways. If Treasury is to maintain influence in an environment where the expectations of others are increasingly framed by the adoption of new technologies, then Treasury will also need to use these tools. The use of social media sites, an official Treasury 'twitter' stream and the establishment of a Treasury 'facebook' site might assist with departmental processes such as recruiting and communication.

Recommendation 12

Significantly enhance use of information technology to promote innovation and stakeholder engagement, through development of a work program with clear milestones set in early 2012 outlining implementation over the next 18 months.

THEME 4: ALLOCATING RESOURCES AND MANAGING PRIORITIES

Better Executive Board focus on priority setting

- 3.60 The overwhelming expectation amongst stakeholders is that Treasury will continue to be involved in a wide range of policy issues over the short to medium term and this clearly has implications for the sustainability of our capabilities, services and products.
- 3.61 In general, staff identified the need to improve our mechanisms for work prioritisation and the timely allocation of resources, noting that Treasury handles emerging complex issues fairly well when the dimensions are known, but less well when new issues emerge that cut across groups.
- 3.62 SES staff considered that resource allocation across priorities is one of the most important organisational capabilities, but note that it is an area where significant improvements could be made. Staff also noted the challenges with resource allocation given that our priorities are largely determined by our ministers, agreeing that measures to more strategically manage priority setting would be welcome. Staff also expressed concern that the current ad hoc model for resource allocation involves implicit trade-offs and that these have the potential to impact on sustainability and hence may lessen Treasury's policy influence in the future. The feedback from the Progressing Women project also identifies resource allocation (along with better project planning) as an area for improvement, particularly in relation to assisting staff to manage flexible hours and personal responsibilities.
- 3.63 This suggests the need for more regular, formal, focus by the Executive Board to emerging pressure points in the department. The Board has recently increased its focus on risk and priorities with half yearly discussions of priorities and risks, tied to the internal budget cycle. This complements regular (sometimes weekly) discussion on emerging issues. The above concerns, however, suggests a need to focus on more regularly on resource allocation and accountability for issues from a whole-of-department point of view, looking at both emerging issues and those areas of potential declining focus and resourcing. Attention needs to be paid to communicating the outcomes of these discussions to ensure wider understanding of the decisions and trade-offs involved (see below). Quarterly discussion could also provide the opportunity, where appropriate, for the Secretary and senior officials to discuss prioritisation with ministers.

- 3.64 High impact policy processes and program implementation are also sources of risk and resource pressures for the organisation. Treasury is often given responsibility for program implementation at relatively short notice, and has in recent years taken on a number of responsibilities outside the parameters of traditional Treasury business.
- 3.65 Feedback from staff and experience suggests many departmental risks and ‘pinch points’ are concentrated on particular projects. Often these projects also bring together other themes from this Review, for example, stakeholder engagement, project planning and communication.
- 3.66 This suggests stronger governance arrangements need to be considered to manage overall departmental resource pressures and risk exposure. The ED PCG, including in his role as Chief Risk Officer, is already playing a role in monitoring departmental risks and ensuring processes are in place to manage high risk activities. This role also coordinates the development of the internal budget. It is proposed that this approach be built on in the following way.
- Identification of high risk projects for additional oversight by the ED PCG to assure the quality of project and risk planning. These projects will often be new activities outside the normal run of Treasury business, though sometimes business as usual tasks can also be sources of high level risks.
 - Responsibility for the project and risk remains within group structures (unless otherwise identified). The purpose of this scrutiny is to ensure the process of project planning and risk identification is rigorous. ED PCG may make recommendations to the area concerned or the Board, though decisions remain with responsible areas, as does risk mitigation.
 - Additional assistance in project planning from the ‘centre of excellence’ outlined in Recommendation 5.
 - Quarterly monitoring of these high risk projects by the Board (and more regularly as necessary by the ED PCG), including identification of any actions to mitigate risks.
 - It is anticipated that this approach will be highly targeted to ensure intensive Board focus on a limited set of activities with implications for the risk and profile of the department as a whole.

Recommendation 13

Ensure clear allocation of leadership accountability and resourcing (particularly on emerging complex or cross-cutting policy issues) by holding quarterly Executive Board discussions on emerging pressures, risks and high impact projects, supporting discussions with portfolio Ministers as necessary.

Recommendation 14

Provide enhanced governance of high risk projects through ED PCG oversight of project and risk planning, and regular monitoring of a targeted set of projects by the Board.

Improving internal communication from the Board

- 3.67 During consultations, staff indicated that they are looking for better communication of Board decisions and discussions, not only as a way of raising levels of trust and confidence throughout the organisation, but also because a heightened sense of awareness about the Board’s thinking can inform better policy advice. Staff noted an improvement in

communication through the Secretary's fortnightly message, however, they would appreciate further coverage of Board discussions to complement word of mouth delivery by managers, recognising the constraints imposed by Cabinet confidentiality. In particular, staff say that they want a better understanding of key corporate decisions (especially 'on balance' judgements), and better sharing of policy relevant knowledge and information within and across groups. This suggests that, for major decisions, the need to complement current communication approaches, mainly involving all staff written announcements, with a variety of strategies including face to face briefings with Board members.

- 3.68 Current pathways for the delivery of information from the Board to staff are also a source of concern, with staff believing that the way that information is often relayed through layers of management is not always an effective means of ensuring that key messages are transmitted throughout the department. To address this the Board will aim to provide a short all staff (unclassified) report of weekly Board meetings within one working day of the meeting. This will complement existing communications which will convey more detailed and classified information against normal 'need to know' criteria.

Recommendation 15

Improve the quality and timeliness of Board communication with staff through a timely all-staff email reporting the broad coverage of weekly Board discussions and better communication of major organisational decisions.

Optimising Treasury resources and input

- 3.69 Treasury will need to operate with constrained resources over the medium term, suggesting a strong focus on both tightly targeting Treasury efforts and outputs, and improving efficiency across the organisation.
- 3.70 Treasury people identify the difficulty in maintaining a balance between work and personal life as a significant issue and feedback from stakeholders is that this 'stretch' is noticed externally. Staff believe that the high levels of satisfaction with the quality of advice provided to the Government can come at the cost of personal time and that there is an expectation embedded in Treasury culture that long hours will be worked. Whilst this is accepted at certain times in the year as part of the Treasury business cycle in some areas, there are other areas of the department where staff are experiencing sustained periods of additional work. At the same time, staff report that resource pressures across the department can be uneven for extended periods.
- 3.71 More broadly, there is a need to put in place a more structured approach to business process improvement to improve organisational efficiency. For example, ensuring that tasks that are regular and consistent across the department as a whole, but relatively unfamiliar to individual officers. The recent changes in how FOI requests are handled was provided as a positive example. There is both the potential within the organisation and support in management literature² for similar approaches where better business processes, greater specialisation and centralisation can generate productivity gains.
- 3.72 Using resources efficiently is a key way to operating within constraints – managing the number and scope of our outputs is the other major task of management. As a central department of state, Treasury must be responsive to the Government of the day. It has

² Staats, BR and Upton, DM, Lean Knowledge Work, Harvard Business Review, October 2011, p 101.

limited capacity to choose the policy agenda. Treasury does, however, have more latitude in how we respond to emerging priorities, and particularly in targeting Treasury involvement at points of maximum leverage. This means being flexible and responsive in our group, divisional and work unit management, and both gearing up and reducing involvement in line with shifting priorities. This involves closely and regularly scrutinising work outputs against priorities to ensure they are still relevant.

- 3.73 Stakeholders thought that greater leverage of other agencies capabilities and the use of external expertise to deliver collaborative outcomes could help to alleviate pressures on Treasury resources. In particular, it was suggested that Treasury needs to monitor overlaps with other central agencies, particularly in light of changing capabilities and resourcing, and consider opportunities to share material and products. Portfolio agencies indicated a willingness to share both expertise and corporate resources to assist Treasury carry out its responsibilities.
- 3.74 Some staff considered that improvements in knowledge retention and transfer systems discussed below could also assist in achieving a more balanced approach to the work/life divide by reducing time spent locating relevant information and becoming familiar with new subject matter.

Recommendation 16

Ensure that Treasury resources are put to best use through: regular evaluation of business as usual activities and emerging issues; ongoing review of overlap with other central agencies' products and capabilities; and a structured program to drive greater efficiencies in common business processes.

Improving knowledge transfer

- 3.75 Some stakeholders observe that current knowledge transfer methods within the department expose us to 'key person' risk, especially in technical areas where the subject matter is complex and generally absorbed over a lengthy time span. Some staff identified poor approaches to knowledge transfer as one of the key resource drains at the operational level. In particular, they noted that the rapid movement of senior officers could be particularly disruptive when appropriate handover practices are not in place, and corporate knowledge is sometimes lost when key people move on to new projects.
- 3.76 Given the complex and rapidly shifting policy agenda, improvements in internal communications and knowledge transfer would assist people in accessing the information needed to do their jobs effectively. It is clear from consultations that, while staff still highly value traditional 'people to people' knowledge transfer techniques, the size of the organisation and pace of work mean that this method alone can't be solely relied on going forward. We need to improve our knowledge management and transfer, including at the base level through improving the ability to capture written documents more efficiently through a more user-friendly electronic record keeping system (discussed in Theme 3), and at a more sophisticated level, embedding training and knowledge transfer systems in our culture and planning at the group, division, and unit level.
- 3.77 In addition to ensuring that information is captured in a form that is easily accessible, enhanced knowledge transfer systems will also benefit the organisation more broadly as repositories of knowledge in particular areas are captured and built on over time. Documentation of standard processes and sources of specialist knowledge are critical

components of efficient and flexible knowledge-based organisations.³ This will facilitate Treasury's ability to engage quickly with an issue and improve relationships with stakeholders, by ensuring continuity of understanding of subject matter, and make the movement of staff between areas of the organisation less stressful and easier to manage.

- 3.78 Developing this ability to be able to engage quickly will ultimately mean that Treasury people can be more flexible in responding to priorities as they arise. Discussions at the SES planning day support the conclusion that not only will the organisation need to have mechanisms in place to be able to allocate resources more flexibly, but that Treasury people at all levels will need to be flexible about how and where their skills are used.
- 3.79 Whilst knowledge retention is the responsibility of all staff across the department, there is an opportunity for senior advisers to take on a formal role in leading initiatives to build knowledge repositories and to develop and conduct training in technical subject matter. This role will complement elements of the current role of senior advisers as deliverers of technical advice and contributors to the operational aspects of work areas and will enable knowledge building and transfer that captures linkages across units, divisions and groups.

Recommendation 17

Strengthen organisational efficiency and flexibility by improving knowledge transfer and succession planning in the corporate planning cycle supported by more user-friendly information technology systems and training (see also Recommendation 12), and reviewing the role and accountabilities of senior advisors to allocate greater responsibility for technical subject matter training and knowledge transfer.

3 Ibid

4. IMPLEMENTATION

BROAD TIMING

- 4.1 The recommendations above imply a broad range of activities across policy Groups, and enabling actions by way of corporate systems and structures. The Review has a longer term focus in building capability over the medium term – hence there will be a focus on implementing recommendations in a measured way over the next 18 months to two years.
- 4.2 The early focus will be on putting in place the senior focal point structure to ensure better support for Ministers’ portfolio responsibilities, and commencing the high level strategic engagement program. The management, training, systems and information technology approaches outlined will be progressively implemented during 2012. In some areas, for example the introduction of 360 degree feedback for SES, piloting will occur during 2012 with the intention of full roll out from 2013.
- 4.3 A more detailed plan for implementation of individual recommendations is currently being developed. The plan will give accountability to individual officers for particular recommendations and provide an indicative timeline for implementation. Budget implications are not expected to be major and will be considered as part of the annual budget cycle. Implementation details will be made available to staff following consideration by the Board in early 2012. Implementation of individual measures will involve consultation with Groups, the Workplace Relations Committee, and other groups as necessary.

STRUCTURES FOR IMPLEMENTATION

- 4.4 Overall responsibility for the implementation of the recommendations will lie with the Executive Board with the Executive Director Policy Coordination and Governance (ED PCG) to report regularly on the progress. A more detailed plan and set of accountabilities for each individual recommendation will be fully developed early in 2012, including for the new SES business engagement position.
- 4.5 The organisational strategy unit will be combined with the Human Resources Division to create a new People and Organisational Strategy Division within that Group, which will assist the ED PCG in coordinating the implementation of this Review and Progressing Women. Responsibilities for implementing most of the individual initiatives will rest with the relevant Divisions within an expanded Corporate Strategies and Services Group.

Recommendation 18

To ensure an integrated and strategic approach to corporate services and planning, Corporate Services Group will be renamed Corporate Strategies and Services Group, and will have a mandate to both operate corporate services, and provide advice on organisational strategy, including significant implementation responsibility for this Review.

ALIGNING PERFORMANCE AND ACCOUNTABILITY SYSTEMS

- 4.6 It is important that performance and accountability systems in the department support implementation of agreed strategic directions. In this light, the reinforcement of required

behaviours and attitudes through the Performance Management System (the PMS) will be particularly important. The PMS already gives prominence to many of the issues raised in this review, including external engagement, leadership and knowledge transfer. This suggests that while we have a robust system it may be applied inconsistently. Staff have noted that it is some time since the PMS was introduced, and there may be benefits in clarifying the application of the system.

- 4.7 It is essential for the PMS to appropriately support the recommendations of this Review and Progressing Women. This will require a refresh of the system including training for managers and staff.

Recommendation 19

Ensure that Treasury's [PMS provides appropriate support for the recommendations of the Strategic Review](#) as well as Progressing Women. This will involve refreshing the oral communication criterion of the work value matrix of the PMS to ensure that it fully supports external engagement and the leadership criterion to ensure it fully supports the Progressing Women outcomes. This refresh will also involve an update the role accountabilities for senior, principal and chief advisers to give greater emphasis to knowledge transfer and leading external engagement. This work will be done in consultation with staff through the Workplace Relations Committee.

MEASURES OF SUCCESS

- 4.8 The initial implementation of the Review will be evaluated in late 2013 to assess impact and effectiveness against the envisaged outcomes. An evaluation also provides an opportunity to identify areas that require further development and support or where recommendations are not progressing as intended.
- 4.9 It is envisaged that the evaluation would be led by ED PCG, and will involve consultation with stakeholders, including Treasury staff, ministers and portfolio agencies. There are a number of other possible sources of data for judging the effects of the Review on effectiveness of the Treasury. Particular indicators of improvements could include:

Theme 1: Building key strengths to better support our ministers

- Reported satisfaction from portfolio Ministers with Treasury responsiveness, and support for them in carrying out portfolio responsibilities
- Data shows recruitment and retention of staff with desired skills and experience over time.
- The SES survey, to be undertaken again in 12 months time, shows improvements in questions relating to Treasury's organisational capabilities, effectiveness, skills, structures, systems and environmental context.
- The Treasury staff survey, to be undertaken in 2013, shows improvements in questions relating to knowledge transfer and internal communications in Treasury.
- The State of the Service survey shows improvements in questions relating to workforce planning.

Theme 1: Build on our key strengths and support our ministers (continued)

- Relevant agencies consulted as part of the Review asked to provide feedback in 12 months time, and that feedback shows improvements in Treasury's contribution to Australia's broader strategic and international policy settings; and improvements in Treasury's implementation of initiatives.
- Greater satisfaction from DPM, DPMO and AT Office with Treasury speechwriting input, including through regular meetings with Secretary and ED PCG.

Theme 2: Enhancing our engagement skills

- The pilot program on 360° feedback for SES is positively received by stakeholders and, over time, shows improvements in SES engagement (using the pilot study as a benchmark).
- The ED PCG, will seek feedback in 2013 from stakeholders consulted as part of the Review on whether Treasury's approach to engagement has improved (this may involve face to face visits or a short survey).
- SES survey – improvements in questions relating to Treasury's effectiveness in engagement and communication.
- Reported improvement from Treasury ministers on Treasury's capacity to engage stakeholders and anticipate responses to policy decisions.

Theme 3: Greater innovation and use of information technology tools

- Staff survey shows greater satisfaction with IT tools and support (benchmark to be set with 2011 survey results).
- Positive feedback from stakeholders in pilots of new consultation tools.

Theme 4: Allocating resources and managing priorities

- The SES survey, to be undertaken again in 18 months time, shows improvements in questions relating to Treasury's organisational capabilities, effectiveness, structures and systems.
- The staff survey, to be undertaken in 2013 shows improvements in response to questions relating to resource allocation, and work life balance.
- Higher benchmarking score in annual Comcover Risk Management Benchmarking Survey, specifically in relation to accountability, responsibility, risk culture and risk profiling and reporting.

4.10 The APSC will undertake a program of independent Capability Reviews of major agencies in the next several years.⁴ These reviews use a standard framework that traverses some of the areas outlined in this Review, and of the Organisational Review conducted in 2010, and provides something of an audit of strategic, planning and delivery capabilities. The APSC capability review of Treasury will provide another opportunity to test progress against some of the themes highlighted by this Review. Treasury will seek a capability review in 2014 or 2015.

⁴ Blueprint for Reform of Australian Government Administration, March 2010.

APPENDICES

APPENDIX A. STAFF NOTICE 083/2011 ANNOUNCING STRATEGIC REVIEW

Treasury Strategic Review

27 July 2011

Colleagues,

After discussion with the Executive Board and other senior colleagues, I have decided to initiate a Strategic Review of the Treasury.

The Treasury is widely regarded as a high performing organisation, with considerable strengths in terms of people, organisational capacity and reputation. However, like all organisations, we will face a series of new challenges over the next five years as Australia adapts to a changing world.

The Strategic Review will commence with a high level strategic scan of the department's likely operating environment and the implications of this for the job we will be expected to do. It will involve an SES context setting day and staff consultations, as well as discussions with key external stakeholders and observers. This will provide an overarching context in which to consider organisational priorities, systems and capabilities.

In initiating the Review, I am conscious of the fact that we have recently conducted an organisational review (led by Richard Murray), have refreshed the Wellbeing Framework (the revised version to be circulated shortly), are examining our approach to graduate training and will shortly commence a consultation process around women in Treasury. The Strategic Review will not be revisiting these issues – rather the intent is to draw together the various threads that have prompted these initiatives in order to have a coherent discussion of the issues likely to confront us in the years ahead.

In essence, the Review will:

- develop a shared understanding of the forces likely to shape the environment within which the department will operate in the next five years;
- identify the organisational elements required to operate in this environment and deliver on the Treasury mission;
- provide a baseline assessment of current Treasury skills, systems and structures; and
- develop an action plan to build on areas of organisational capacity and address any identified gaps.

There will be a range of opportunities for staff to be involved in the Review, including through the SES context setting day and staff focus groups. Further details of how to access these opportunities will be provided as the Review progresses.

Structure of the review

The Executive Director, Policy Coordination and Governance, Barry Sterland, will oversee the Review, with the assistance of a reference group consisting of three external participants with a strong understanding of the APS and the Treasury's role.

A small Secretariat will be established for a period of 3 months to conduct the review, led by Hector Thompson. A call for expressions of interest will be issued shortly to fill positions on the Secretariat.

The Strategic Review will report to the Executive Board in November 2011.

I encourage all staff to see this as an opportunity to strengthen our capacity to respond to the changing circumstances likely to confront government and the community over the decade ahead

Martin Parkinson

APPENDIX B. EXTERNAL REFERENCE GROUP

The external reference group provided advice and input to the project and was used as a sounding board for all aspects of the review. This included providing a critical appraisal of review methodology, as well as discussion papers, report content and recommendations prepared by the review team.

The membership of the reference group included:

Roger Beale AO

Roger is currently a Principal in Economics and Policy at PricewaterhouseCoopers. He served for twenty years at the department head level, including eight years as Secretary of the Department of Environment and Heritage. His recent major projects include a review of the Commonwealth Senior Executive Service, a review of national policing and a review of national biosecurity. He is a Commissioner of the Climate Commission, and also chair of the ACT Electoral Commission.

Rhondda Dickson

Rhondda is currently CEO of Murray Darling Basin Authority. She is a former Deputy Secretary of the Department of Agriculture, Fisheries and Forestry and has held senior roles in the Department of Prime Minister and Cabinet, and previously in Environment and Heritage for the past 15 years.

Chris Jordan AO

Chris is the current Chairman of the Board of Taxation and also Chairman of KPMG NSW. He has been a member of the Board since its inception in September 2000. He is the former Chairman of the New Tax System Advisory Board and was also the State Chairman of the New South Wales Division of the Taxation Institute of Australia.

Paul Schreier

Paul is an acting Deputy Secretary at the Department of the Prime Minister and Cabinet. He has previously worked in Defence, the Royal Navy in the United Kingdom and as a partner at McKinsey & Co and led the team working on the *Review of the Defence Accountability Framework* (the Black Review) in 2010.

APPENDIX C. LIST OF CONSULTATIONS

Treasury

- APS and EL focus groups
- Overseas posts
- SES planning day
- Treasury Executive Leadership Program participants for 2010 and 2011
- Workplace Relations Committee

Ministers and Ministers' offices

- Prime Minister's office
- Deputy Prime Minister and Treasurer
- Assistant Treasurer
- Parliamentary Secretary to the Treasurer
- Minister for Finance and Deregulation
- Minister for Climate Change and Energy Efficiency
- Minister for Energy and Resources
- Minister for Foreign Affairs

Government agencies

- Australian Competition and Consumer Commission
- Australian Securities and Investments Commission
- Australian Taxation Office
- Department of Climate Change and Energy Efficiency
- Department of Families, Housing, Community Services and Indigenous Affairs
- Department of Finance and Deregulation
- Department of Foreign Affairs and Trade
- Department of Infrastructure and Transport
- Department of the Prime Minister and Cabinet
- Department of Resources, Energy and Tourism
- Department of Sustainability, Environment, Water, Population and Communities
- Productivity Commission
- Reserve Bank of Australia

Other Government organisations

- COAG Reform Council

- Department of Treasury and Finance (Victoria)
- The New Zealand Treasury

Think tanks and consultants

- Grattan Institute
- Ipsos Australia
- Lowy Institute for International Policy
- Vantage Point Consulting

Business and industry groups

- Australian Bankers' Association Inc.
- Australian Council of Trade Unions
- Australian Industry Group
- Business Council of Australia
- Institute of Chartered Accountants in Australia
- Law Council of Australia
- Minerals Council of Australia
- National Farmers' Federation
- The Tax Institute

Speakers at SES day and other events

- Professor Glyn Davis (Vice-chancellor, University of Melbourne)
- Dr David Gruen (Executive Director, Macroeconomic Group, the Treasury)
- Ross Gittins (Economic Editor, Sydney Morning Herald)
- Allan Gyngell AO (Director-General, Office of National Assessments)
- Lyn Hatfield Dodds (National Director, UnitingCare Australia)
- Dr Rebecca Huntley (Ipsos Australia)
- Paul Kelly (Editor-at-large, the Australian)
- Professor Andrew MacIntyre (Dean, College of Asia and the Pacific, ANU)
- George Megalogenis (Journalist, the Australian)
- Professor Peter Shergold AC (Macquarie Group Foundation Professor, Centre for Social Impact)

APPENDIX D. SUMMARY OF STAKEHOLDER VIEWS

Staff

In general there is a perception from SES and non-SES staff that the organisation is producing high quality work. When surveyed, SES staff indicated that Treasury officers are highly capable, and rated staff skills and competencies as a key strength of the department.

Work/life balance and resourcing

Non-SES staff indicated that there are high levels of satisfaction with the quality of advice the department provides to government in terms of technical content, analytical rigour, frankness and honesty. However, key concerns surrounded the pressure on work/life balance. There is an expectation within the organisational culture that long hours will be worked, and staff thought that there was room for adjustment in both culture and expectations.

It was suggested that work/life balance issues could in part be attributed to Treasury's expanding responsibilities. Staff at all levels indicated that, given our expanding role and increasingly tight budget constraints, we need to improve our mechanisms for work prioritisation and the timely allocation of resources. In particular, the results of the SES survey indicated that, while the SES see flexible resource allocation as one of our most important organisational capabilities, they also consider it to be an area where we could do a lot better.

Discussions at the SES planning day concluded that not only will the organisation need to have mechanisms in place to be able to allocate resources more flexibly, but Treasury people at all levels will need to be more flexible about how and where their skills are used. It was also noted that the organisation should be aware of the trade-offs of having a flexible workforce; for example, there is tension around Treasury people having broad generalist experience as opposed to in-depth experience in particular policy areas.

Non-SES staff expressed frustration at the rapid movement of senior staff in some instances. Some non-SES staff reported that their units had been left understaffed for extended periods of time. It was also noted that transitions could be smoother if there were better handover practices in place.

Knowledge management

Some concerns were raised by both SES and non-SES staff about the sustainability of Treasury's knowledge management and transfer systems. It was noted that in Treasury, knowledge resides predominantly with people and is extracted by experience, and this may become unsustainable in an organisation of this size. There was also concerns that there are some people in the organisation that have a significant depth of knowledge in some technical areas and this knowledge needed to be captured and shared more broadly.

Staff considered that a more cohesive training program and an improved document management system are necessary to properly manage our corporate knowledge. In addition, staff indicated that a more comprehensive knowledge management system may also alleviate resource pressure lessening the tendency to reinvent the wheel.

Project planning

Staff reported that processes around project planning could be improved to further alleviate some resources pressures. Project planning was also identified in the SES survey as an area where Treasury's capabilities could be better. Project management was considered a weakness by non-SES staff.

Communication

Treasury's communication skills were rated as 'fair' in the SES survey, and both SES and non-SES staff noted that our formal consultation processes with stakeholders could be improved. These processes were described as reactive rather than proactive, and it was noted that while we make information publicly available, the onus is on the stakeholder to actively make a contribution.

Staff also noted the tensions arising from stakeholders having both necessary in-depth knowledge needed to develop policy, and potential competing interests in the outcome of the policy. Staff suggested that Treasury could investigate other ways to seek information from stakeholders.

Both SES and non-SES staff indicated that they are aware that Treasury officers can be seen as reluctant to accept others' views on subject matters that we consider to be within our domain. Staff considered that this perception could be unhelpful.

Non-SES staff indicated that communication within the organisation is not as effective as it could be, and that more information regarding decision making processes from the Executive Board would be positive. It was also noted that attitudes to information sharing between groups could be improved.

Technical skills

There is a perception from non-SES staff that Treasury officers lack in-depth technical knowledge in some areas. Financial markets and commercial decision making and some areas of tax law are of concern. It was noted that policy officers are required to be generalists and work in changing and often unfamiliar environments – while this keeps the work interesting, there is a concern that this can put Treasury at a disadvantage in some negotiations with industry experts.

It was suggested that better networking and more collaborative approaches may help to alleviate the need for Treasury staff to quickly become experts in many areas. Greater use of external experts could also be considered.

Ministers

Both portfolio and non-portfolio ministers indicated that they value the analytical rigour that is consistently present in Treasury work, and respect the department for its ability to drive new policy ideas as well as broker solutions amongst the wider APS. However, ministers identified some opportunities for improvement.

Portfolio administration

Feedback from ministers indicated that Treasury could improve its performance in helping to administer and implement policy. There can be a perception that Treasury thinks its role ends once the final Executive Minute is sent to the office.

Briefings and other products

Ministers indicated that they would benefit from more pro-active environmental scanning and associated briefing from Treasury. Ministers felt that they had to specifically request topical briefings too often.

Ministers also expressed that it can be useful to receive Treasury's initial views before a more considered briefing is provided at a later time.

Portfolio ministers and their offices placed high value on Treasury's input to speeches. Although there is no expectation that Treasury engage in partisan political argument, ministers expect the department to provide relevant factual analysis for them to use in communicating policy.

Engagement

Ministers thought that Treasury advice would be even more useful if it could incorporate community and stakeholder perspectives and insights on policy. Ministers suggested that this might require better engagement with the community and businesses, and that there needs to be more consultation in the policy development process to ensure that policy proposals can be practically implemented. There is a general consensus amongst ministers that Treasury would benefit from strengthened connections with business and the community.

Resourcing

Treasury's scope of responsibility has undoubtedly broadened. Ministers consider this to be a positive thing as Treasury can be relied upon to provide accurate and well considered analysis. Ministers thought that Treasury's expanded role will be permanent rather than transient. Ministers indicated that, in addition to obvious areas of strength, Treasury will need to ensure that areas dealing with contentious issues are well resourced.

Other APS agencies

All APS agencies consulted indicated that they value the analytical rigour in Treasury advice, which is consistently objective and thorough. Treasury has several strengths and we should be careful to maintain them, given the central role it plays in the policy process. These strengths include quantitative economic analysis and modelling skills. However, there are also areas where we could improve our capabilities.

Additional opportunities for Treasury to contribute

It was noted that Treasury could improve its capacity to scan our operating environment for 'sleeping issues' that will need attention in the future, as well as better monitor the impact of reform packages. It was suggested that this is particularly important in taxation policy and social policy.

Some key agencies indicated that there is an opportunity for Treasury to contribute to the national security debate and other geopolitical issues in a more strategic way, rather than focusing on financial and fiscal implications of security spending.

Resourcing

Other agencies have noticed the stretch on Treasury resources as our areas of responsibility have broadened. However, it was noted that Treasury could better leverage through the work of other agencies to manage the resource constraints. It was also suggested that Treasury could review work that overlaps with other central agencies and consider re-prioritising some functions. Portfolio agencies saw benefit in expanding secondments and also collaborating more, for example, stakeholder consultation and training.

Communication and engagement

In general, Treasury collaboration is highly valued by other agencies, and it was noted that there are many examples of effective engagement. However, it is perceived that the best results are achieved when Treasury is open and genuinely committed to knowledge sharing.

There is a perception that some difficulties arise due to Treasury's tendency to 'in-source' rather than draw on outside experience; and that at times, Treasury can be reluctant to share information. It was suggested that greater people movement between agencies would help to break down silos.

Portfolio agencies indicated that it would be helpful if Treasury could provide more information on ministerial decision making processes, at least at senior level. Currently there is a perception that portfolio agencies' input is often disregarded, and this may not in fact be the case.

Other agencies thought that Treasury could benefit from a greater interdisciplinary approach in our arguments and advice. For example, it was suggested Treasury's traditional economic framework may not be ideal for thinking about topical issues that are coming to the policy fore, such as 'family structures' or analysing other emerging social issues.

With regard to external consultation and engagement, there was a sense that Treasury should focus on quality rather than quantity - it was noted that broad engagement could weaken Treasury's credibility, and that these relationships with industry could be more appropriately

Technical skills

Portfolio agencies noted that, while Treasury staff are quick to get across what are often complex policy challenges, moving staff around internally can harm continuity. Portfolio agencies expressed concern that this doesn't allow for a sustained period of exposure to develop expertise. They also indicated that relationship building is made more difficult by the high movement of key personnel. This was reported to be most challenging in the area of tax legislation development, but also present in market regulation.

Project management

Other agencies also noted that a relative weakness for Treasury is implementation and management of programs (as compared to policy advice). They noted that Treasury did not appear to have the embedded project planning and management systems that are common in line agencies and are relevant when Treasury takes on a 'line' role. It was suggested that implementation does not fit well within Treasury structures and culture.

Business and community groups

Most external stakeholders reported that Treasury has a strong reputation and our work is highly valued by most groups. In many cases external groups expressed the view that they would like to see more Treasury analysis in the public arena. At the same time, some expressed the view that they looked for improvement from Treasury across a range of areas.

Consultation

A key theme emerging from consultations with business and community groups is that Treasury needs to improve its engagement skills. In particular, it was noted that Treasury's formal consultation processes could be improved on a range of fronts.

There is a perception that Treasury lacks a genuine commitment to consultation. It was noted that Treasury often appears reluctant to hand over all relevant facts to external advisory panels, and that this approach does not support reaching fully informed conclusions or recommendations. Stakeholders suggested that Treasury would benefit from more open engagement.

Industry groups noted that Treasury could improve its consultation processes by consulting earlier (at the policy development stage). They considered that in many cases problems are identified too late in the process because industry is not consulted until policy options have been determined.

Stakeholders thought that Treasury could better manage the volume of consultations and the timeframes allowed for each project. One industry group noted that they were involved in 30-40 consultations at one time in the Treasury portfolio (although not all consultations were actually run by Treasury).

It was suggested that Treasury consultations could be more effective if stakeholders felt that their advice had been listened to. Stakeholders indicated that, if there was scope to provide explanations of decisions, it would enhance the value of consultation processes

Non-transactional engagement

In addition to technical consultations, industry groups indicated that they would value long term, more 'non-transactional' relationships with Treasury. It was often noted that Treasury's work could be improved through increased understanding of how business operates or what issues are important to communities.

Business also valued the analytic perspectives that Treasury brings to these engagements, and were interested in a two-way dialogue. Business felt that the Wellbeing Framework was not well communicated and poorly understood by business people.

There is a perception that Treasury is 'Canberra-centric' and relationships could be enhanced if Treasury officers were more willing to travel to major cities. External stakeholders indicated that it could be useful to establish a presence in Sydney or Melbourne.

Technical skills

Business groups identified Treasury's knowledge of financial markets and company operations as particular areas for improvement. It was suggested that a more practical understanding of these disciplines would lead to a more well rounded approach to developing policy solutions.

Business stakeholders also thought that Treasury should ensure that where in-depth knowledge in the organisation rested with particular people, the risks should be managed appropriately. It was also note that Treasury needs to continue to develop people with a deep understanding of tax law.

Opportunities for greater Treasury involvement

Business groups also expressed concern about some specific issues where they see a greater role for Treasury. One area is a perceived trend toward greater regulation and the need for good regulation impact statements (including in Treasury areas of responsibility), and understanding of cumulative impacts on economic performance. Another area is the renewed focus on productivity and a role for Treasury in increasing public understanding of analytical and policy issues involved.

Think tanks

Think tanks reported that they have great respect for Treasury and its intellectual capacity.

Think tank stakeholders indicated that, while they would support increased engagement from Treasury, this engagement should be targeted at thought leaders and consider high level policy. Representational consultations on specific implementation issues are more appropriately handled by line agencies.

It was suggested that there is a need to ensure that Treasury is abreast of the latest intellectual developments within economics and related disciplines (for example, behavioural economics), and also focus on emerging intellectual currents in emerging economies.

These organisations also thought that Treasury would benefit from being more attuned to those areas of policy where its internal expertise were not adequate, and making better use of outside expertise. They suggested that this requires both a focus on gathering relevant evidence and a more open mindset.

It was also noted that Treasury is one of the few public institutions that is known in the community, and that this reputation will be maintained and built by good, impartial, well-presented analysis.

Some also expressed a view that Treasury needed to be closely involved in the development of Australia's strategic policy, given the importance of economic factors.

APPENDIX E. DISCUSSION PAPER

The Secretary to the Treasury has initiated a Strategic Review to identify the forces shaping and altering Treasury's medium term operating environment and the strategic capabilities it requires to operate effectively in this environment.

The Treasury has considerable strengths in terms of people, organisational capacity and reputation. However, like all organisations, we will face a series of new challenges over the next 5 years or so as Australia adapts to a changing world. And, like all organisations, there is always room for improvement.

The Review provides an opportunity to take stock of the changing global and domestic environment in order to develop a coherent view of our operating context. It also allows us to assess our capabilities and role as an organisation in light of both existing and new challenges.

This discussion paper provides some context and questions for the internal and external consultation taking place as part of this Review. Many of the challenges are not new and the Review is also an opportunity to reflect on how Treasury has handled these challenges to date.

In line with the objectives of the Review, this paper sets out questions in two parts:

- the external context – that is, the international and domestic environment that forms the context within which Treasury operates; and
- Treasury's strategic capabilities – that is, the skills, behaviours, systems and structures Treasury needs to operate effectively in a changing world.

The External Context

The Treasury operating environment will be affected by both international and domestic trends. Clearly these will be strongly inter-related. Nevertheless it is useful to focus on each of these broad areas in turn to draw out key elements. In conducting this external scan the intent is not come up with a 'Treasury view' on each of these elements as part of the Review; rather it is to identify broad elements in our operating environment so that we can draw out the implications for Treasury capabilities.

The International Environment

The changing global economic and strategic environment has significant implications and policy challenges for Australia. Treasury plays a role in understanding and responding to many of these challenges, both in an international context, and in developing domestic policy. A starting point for this Review is that Treasury's work will continue to be affected by a broad range of international influences – that is, international economic trends occur within, and interact in powerful ways with, geostrategic forces as well as trends in international thought. Accordingly participants are asked to reflect on, and discuss, the full range of international elements and what this means for Treasury's role and where we add value.

Some key features of the current international environment are listed below, to assist in prompting discussion:

- changing geostrategic and economic centre of gravity amongst the major powers and regions;
- the re-engagement of China with the world economy and the emergence of India and other middle income economies, all with considerable domestic challenges, and the implications of these developments for world economic activity and geopolitical dynamics;

- the existence of major economic imbalances and shifting competitiveness, that manifests as financial and fiscal fragility and sovereign debt in major developed economies and as inflationary pressures in emerging economies;
- the potential for volatility in financial markets, including resulting from the economic imbalances outlined above, and the need for ongoing strengthening of balance sheets in significant parts of the international financial system;
- the emergence of new groupings outside of existing multilateral institutions, such as the G20 and others, alongside changing dynamics in multilateral institutions arising from the above trends;
- a global focus on energy and commodity security, and ongoing international focus on climate change and other resource and sustainability issues;
- high levels of international mobility of capital and labour (legal and illegal), and significant reductions in the cost of transport and communications;
- the rapid flow of information and ideas across borders;
- a continued focus on the development agenda and increasing levels of development assistance; and
- continued significant economic and social challenges amongst many of Australia's pacific neighbours.

Questions for discussion

What are the key international trends and features and how will they impact on Australia? The above list is indicative and incomplete – what other trends are critical to understanding Treasury's external environment? And how quickly do we expect things to change? Where are the key uncertainties?

How are these forces affecting Australia's ability to pursue its interests globally, in the Asia Pacific region and in the South Pacific region? What expectations will other countries have about the role Australia should play?

Which trends and features will have the greatest impact on Treasury? How well does Treasury understand the relevant aspects of the international environment?

The Domestic Environment

Australia's economic performance and policy environment will continue to be affected by the international economy as well as political and strategic developments. In this section we wish to focus on the additional domestic factors and trends relevant for understanding Treasury's operating environment.

While economic forces and trends are clearly central to Treasury's operating environment, other social, technological and community trends and policy challenges are also directly relevant given the breadth of policy work Treasury is involved in. Again, the intent is to identify a limited number of key trends so that we can draw out the implications for Treasury, not specify paths in detail or put forward policy prescriptions.

The following aspects of the domestic environment warrant consideration:

- High demand for resources and other commodities flowing from the re-emergence of Asia in the global economy, and consequent implications for: terms of trade and the exchange rate; the conduct of macroeconomic policy; and for Australia's industrial structure;
- a broad domestic consensus on many elements of the economic policy framework especially the importance of independent monetary policy for achieving low inflation, more open markets for better resource allocation, pursuit of sound medium term fiscal policy and maintenance of low levels of government debt, and a well regulated financial sector;
- the need for medium term fiscal consolidation and prioritisation, including in the context of emerging demands and identified needs for increased social expenditures in some areas in the face of an ageing population and challenges around improving productivity performance following low productivity growth over a sustained period;
- community expectations and legal requirements regarding access to information, and the rise of the internet and social media;
- rapidly moving news cycles and communication requirements, and public expectations regarding engagement in public policy processes and implementation;
- changing public expectations regarding the role of Commonwealth, state and local governments;
- challenges facing the tax and transfer system stemming in part from the globalisation of capital, the existing complexity of the tax law and the need to encourage workforce participation;
- demographic trends including the implications of an ageing population for labour markets, retirement incomes, cost of living issues, the provision of public and private services, and population growth more broadly and its implications for Australia's regions and cities as well as infrastructure, transport, water and the environment;
- evolving expectations regarding the role of the APS in general, and the Treasury in particular, in the policy advising process;
- policy dynamics of climate change both in international fora and domestically;
- continued focus on domestic and international security issues in the Australian policy debate; and
- ongoing issues relating to social inclusion and intergenerational disadvantage in parts of the Australian community, and particularly indigenous communities.

Questions for discussion

What are the key trends in Australia's domestic environment? What do they imply for Treasury's role? The above list is indicative and incomplete – what other trends are important?

Where are the gaps in our understanding of the domestic policy environment?

Which trends and features will have the greatest impact on Treasury? And how quickly do we expect things to change?

What are the key links between domestic and international policy drivers?

Treasury's Strategic Capabilities

The second element of the Review involves a strategic assessment of Treasury's capabilities to continue to operate effectively given the environment we face.

Treasury as an organisation has many strengths including:

- articulated statements of its mission, values and its broad objectives as encapsulated in the Wellbeing Framework;
- a flexible management model that devolves responsibility and provides the capacity to use resources flexibly;
- a skilled workforce, with a range of disciplines including economics, law, quantitative skills and the full range of skills in provision of corporate systems, and ongoing strong investments in its people;
- well established governance structures, including a clear role for the Executive Board in assisting the Secretary in his responsibilities, and group management structures; and
- high levels of staff engagement and good levels of staff satisfaction on many dimensions.

Treasury has recently reviewed some elements of this framework, including the management model and the Wellbeing Framework, and this Review will not be revisiting these issues. However, the intent is to draw together the various threads that have prompted these initiatives. Key questions for this Review are whether the elements identified in sections above present challenges for Treasury capabilities; and indeed whether there are existing gaps to which the organisation needs to respond.

The main goal of the consultation phase is to correctly identify the strategic capability issues that the organisation needs to consider, rather than jumping to solutions or conclusions. That is, it is most helpful if participants put the key effort into identifying challenges rather than the specific means to meet them: there are often several ways to address identified issues, but the most important first step is to correctly diagnose the issue.

The following questions are broken into categories relevant for assessment of organisational capability. Clearly, many issues cross over these categories and these points should be drawn out in discussion.

Resources, risks and priorities

The combination of extremely challenging external economic policy circumstances and increased expectations has placed considerable pressure on our capabilities in recent years. Treasury has been asked to do more and our activities have been expanded across a range of functions. This has raised issues surrounding work/life balance of its staff, and the need for management focus on the sustainability of Treasury's services.

The Review recognises the constraints imposed by the forward estimates. These constraints necessarily will involve a reduction in staff numbers and activities in the coming years. It is important to bear this in mind in discussions over any new challenges and the prioritisation task facing the organisation. This also highlights the key related issue of managing risk – Treasury has recently strengthened its risk management framework, including identifying six high level strategic risks for management attention.

Questions for discussion

How well is the Treasury performing in identifying priorities and aligning resources and effort? How flexible is the department in allocating resources and managing risks in the light of unpredictable demands?

What changes in organisational priorities are suggested by the international and domestic policy environment? What are the key opportunities and risks facing the Treasury?

Treasury Products and Services

Treasury delivers a range of products and services including policy advice, program delivery, and preparation of legislation, publications and two way communication with stakeholders and the public. Policy advice includes:

- actual and potential policy analysis and advice developed to assist portfolio ministers and the Cabinet;
- inputs to publications and communications; and
- consultative materials and processes (for example on draft legislation).

In recent years Treasury has also had significant implementation responsibility including for drafting tax legislation and developing significant initiatives (including financial facilities). Treasury maintains a high tempo of delivery in terms of Government publications, including the annual Budget papers and many other special purpose publications.

Within the organisation, the Corporate Services Group and Organisational Strategy Unit provide a range of services, including services to portfolio ministers; information technology, financial and human services reports to the organisation; and decision making documents for the Executive Board.

Questions for discussion

What are the areas of strength in Treasury's policy advice; program delivery and administration; communication; other services to ministers? Where are the gaps and areas for improvement?

How have changes in the operating environment in recent years affected Treasury's products and services?

What are the department's strengths in terms of its corporate services? Are there significant gaps that affect its ability to deliver on its strategic priorities?

Skills, competencies, norms and behaviours

As outlined above, Treasury has established frameworks setting out organisational norms and behaviours. It also has an articulated management model outlining expected competencies and behaviours, within the context of a skilled workforce.

Treasury maintains a highly skilled workforce and has increasingly worked with other organisations across many dimensions. Examples include in the areas of climate change and tax reform. These partnerships can be key ways of achieving common objectives, ensuring Treasury capabilities are utilised fully, and allowing Treasury capabilities to be supplemented to achieve outcomes.

Questions for discussion

Where do Treasury's skills and core competencies lie? Do they line up with the requirements of the operating environment? Where are potential gaps?

What areas of subject matter knowledge are strong? Where are the gaps, including in light of any emerging trends?

What skill and knowledge sets are required to function effectively in the expected operating environment?

What do participants see as key norms, attitudes and behaviours that characterise Treasury as an organisation? To what extent are Treasury's articulated mission and values, and its policy framework, applied in practice? What are the strengths? Are there potential gaps?

Where are Treasury's strengths in collaborating with other agencies and organisations? Are there gaps? Are there areas that collaboration could be improved to increase capability?

Are there new features of the operating environment that suggest any changes are appropriate?

Systems and structures

Key systems of the Treasury include: provision of support to the Deputy Prime Minister and other portfolio ministers; human resources, information management and financial management systems; and broader governance systems surrounding decision making.

The Treasury group structure is organised around the key economic policy instruments and its corporate functions. Other elements of structure and systems that are important include mechanisms and approaches for coordinating and collaborating across groups and communication systems between groups and between management and staff.

Questions for discussion

What Treasury systems and structures are working well? Are there gaps that suggest the need for enhanced systems? (Some of these issues may have been raised in responses to the above questions).

How well do Treasury coordination processes perform in producing well integrated advice on issues?

What elements of the operating environment raise challenges for Treasury structures and systems?

APPENDIX F: THE TREASURY WELLBEING FRAMEWORK

In understanding its mission Treasury takes a broad view of wellbeing as primarily reflecting a person's substantive freedom to lead a life they have reason to value.

This view encompasses more than is directly captured by commonly used measures of economic activity. It gives prominence to respecting the informed preferences of individuals, while allowing scope for broader social actions and choices. It is open to both subjective and objective notions of wellbeing and to concerns for outcomes and consequences as well as for rights and liberties.

Treasury brings a whole-of economy approach to providing advice to government based on an objective and thorough analysis of options. To facilitate that analysis, we have identified five dimensions that directly or indirectly have important implications for wellbeing and are particularly relevant to Treasury. These dimensions are:

- the set of opportunities available to people. This includes not only the level of goods and services that can be consumed, but good health and environmental amenity, leisure and intangibles such as personal and social activities, community participation and political rights and freedoms;
- the distribution of those opportunities across the Australian people. In particular, that all Australians have the opportunity to lead a fulfilling life and participate meaningfully in society;
- the sustainability of those opportunities available over time. In particular, consideration of whether the productive base needed to generate opportunities (the total stock of capital, including human, physical, social and natural assets) is maintained or enhanced for current and future generations;
- the overall level and allocation of risk borne by individuals and the community. This includes a concern for the ability and inability, of individuals to manage the level and nature of the risks they face; and
- the complexity of choices facing individuals and the community. Our concerns include the costs of dealing with unwanted complexity, the transparency of government and the ability of individuals and the community to make choices and trade-offs that better match their preferences.

These dimensions reinforce our conviction that trade-offs matter deeply, both between and within dimensions. The dimensions do not provide a simple checklist: rather their consideration provides the broad context for the use of the best available economic and other analytical frameworks, evidence and measures.