

## **A Treasury for the Future: Organisational Change and Treasury's Capability**

Institute of Public Administration Australia, Canberra

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### **Introduction**

Thank you all for coming tonight. It's a pleasure to have the opportunity to talk about the organisational challenges facing Treasury and the actions we have been taking in response.

The Treasury has a long history, beginning in 1901 with five bookkeepers. Over the past century, we have grown to a peak of just over 1000 staff in March 2011, but now have to shed one in three positions by 2016-17. Our role has also evolved to be one of three central policy agencies and the only agency responsible for anticipating and analysing policy issues from a whole-of-economy perspective. Our advice is based on the premise that we have no objective apart from improving the wellbeing of Australians.

For us to be able to do that, we have to be an organisation that values diversity of thought and willingly engages with people outside the Treasury.

That's really why I'm here – we want to be open to sharing what we've learned and what we've experienced. I am here because we want people – stakeholders and others – to understand that we want to engage and hear your perspectives and to learn from your experiences.

### **The world is changing and Treasury is responding**

The fact that the global landscape – economic, geo-strategic and demographic – is changing is not news.

The domestic economic, social and political landscape is also undergoing historic structural change, which is partly reflective of broader global changes, and partly unique to our national context.

From an organisational perspective, one of the changes pressing on us is the rising expectation the public has of government and, in turn, the Government has of the public sector. There's a growing gap between what the community

expects from government, and what government can sustainably provide. That, of course, impacts on what is expected of the public service.

Across the public service, we are being asked to do more with less. There are expectations on us to engage differently with business and the broader community – to better understand and incorporate their perspectives into our policy analysis and development. There are pressures to which the public service in general – and the Treasury specifically – must respond.

This obviously isn't new to the Treasury. Thinking about our operating environment and the necessity of change is something we have been doing for some time now. Indeed, any organisation – whether public or private – must do so in order to survive.

Soon after becoming Secretary to the Treasury, I thought it appropriate for us to step back and ask ourselves how well-equipped we were for this changing environment. The Treasury had been through an incredibly intense period during the GFC and was still feeling the effects. A close look at Treasury was required to help us refresh and renew. As a result, we undertook the Strategic Review and *Women in the Treasury* projects.

The Strategic Review assessed our capabilities vis-a-vis the external environment, and asked whether our frameworks and skills should be augmented.

The *Women in the Treasury* review was motivated by the concern that, while at least half of our APS-level employees are women, Treasury has long had a low proportion of women in our leadership group. We wanted to get to the bottom of this imbalance, trying to understand the barriers to the recruitment, retention and progression of women.

The results were confronting but, in general, pointed to the fact that there was not one single problem with an obvious solution but, rather, a range of subtle cultural, attitudinal and behavioural issues that require time and persistence to change.

In response, we implemented the *Progressing Women* initiative, comprising a holistic and systematic suite of strategies, which included:

- Setting a target for female representation in the SES of around 35 per cent by 2016, and over 40 per cent in the longer term;
- Establishing the Inclusive Workplace Committee, with internal and external members, which I chair. I have delegated all my decision-making powers regarding diversity issues to this group;
- Mainstreaming flexible working arrangements within the Treasury – we have committed to an “if not, why not?” approach, whereby staff may change their working arrangements unless there is a clear business reason why that would not be suitable.
- Providing unrecognised bias awareness training to staff; and
- Making the measurement and reporting of gender diversity a regular practice, including as part of our reporting to staff on recruitment, promotion and performance assessment.

### **The Capability Review**

Moving forward to mid-2013, the Australian Public Service Commission sponsored a Capability Review of the Treasury, led by Dr Michael Vertigan. As many of you would be aware, these reviews are designed to be relatively short and sharp, and take a high-level view of capability across all operations of the agency, capturing an organisation’s potential to achieve outcomes, the effectiveness with which outcomes are achieved and the quality of outputs and outcomes.

For us, this was an opportunity to draw together and assess what we’d already started doing in response to our previous reviews – a kind of ‘in-flight course check’.

The Review taskforce interviewed a large range of people, both within Treasury and across a number of our key stakeholder groups.

It concluded that the Treasury is a high-performing department with a strong track record and capabilities in demand from the government of the day.

However, it also highlighted that the Treasury will need to continue to change if we are to be successful in the future given our changing environment.

The Review found that Treasury has strongly motivated and highly capable staff, with a commitment to rigorous analysis and quality outputs. It also found that Treasury has a strong record of policy innovation and implementation.

However, the Review identified four areas on which we need to focus as we go forward:

- We need to find better ways to manage and monitor Treasury's priorities and performance. Although we produce very high-calibre output and perform well, this can often be because of the dedication of our staff and strong culture of excellence, rather than due to having systematic processes that manage our organisational performance.
- As I noted, we are currently shrinking from over 1000 people by shedding around one in three positions. We have already shed about 15 per cent of staff, so we are half way there. Clearly, since we don't control the responsibilities given to us by Government, change of this magnitude means delivering similar outcomes in a very different manner. In the past, our response to increased demands was to increase our efforts: by working harder and longer. Needless to say, this is not sustainable, and it also crowds out any attempts to think differently – and smarter – about prioritising our resources.
- We also need to work more on collaborating and engaging with others. This is something we have been working on since the Strategic Review, with the Capability Review finding that we had made a significant investment in improving engagement with stakeholders. However, these skills still need to be developed more broadly across the Treasury, and embedded into everything we do.
- Finally, we need to get better at leading and managing change while adapting and innovating our way of working. Our Senior Executive Service, in particular, is going to have to concentrate more on leading organisational change and culture in the future, building on their pre-existing strengths as policy advisers.

In order to address these challenges, we have put together our 'Capability Action Plan'. This consists of four work streams, which broadly correspond to the four focus areas and are owned by various Senior Executive Service

sponsors throughout the Treasury. In large part, these work streams build on work we have already begun by way of the previous two reviews I outlined earlier. In fact, we've been able to build on a key lesson from *Progressing Women* that this is not just a collection of projects, but a systematic program looking to change our organisational culture.

### **Treasury's challenges and progress**

One of the key takeaways from these three reviews is that the Treasury faces a number of substantial challenges – related to both our internal culture and the external environment. And we are evolving to face these challenges.

However, if I have learned one thing during my time in senior leadership positions, and particularly as Secretary of the Department of Climate Change and now as Secretary to the Treasury, it is that the journey of cultural change is long and complex. As flagged in the Capability Review, we still have a lot to do regarding engaging better with our stakeholders, as well as resource allocation and prioritisation. Diversity and inclusivity, whether considered through a gender lens or more broadly, must continue to be a focus.

These are issues that are long-entrenched within the Treasury, with our history shaping our behaviours and attitudes – sometimes for the better, and sometimes to our detriment. But our challenges are not intractable, and we are bringing the same determination and commitment we give to formulating economic policy to enhancing our own organisational capabilities.

I would like now to spend a little time on the changes we have already seen – what we have been doing well and where we have been making progress.

We still have a long way to go regarding *Progressing Women* and furthering diversity in general. However, there are signs of progress. We have our first female Senior Executive Service Band 3 Executive Director... although it *only* took us 112 years.

While the Government's interim recruitment arrangements are going to make it harder to see women – or anyone, for that matter – progress through to leadership positions, we have seen some increase in female representation in our Senior Executive Service (SES) – with women currently accounting for around

30 per cent of our SES, up from 23 per cent in March 2011<sup>1</sup>. Women also account for almost 50 per cent of Executive Level 2 (EL2) staff (those in the feeder group to the SES), up from 38 per cent over same period.

Furthermore, the Department is thinking about diversity in a much more nuanced way than we did a few years ago – considering decisions from the perspective of inclusiveness is becoming a part of standard practice.

It was encouraging to see recently that a number of staff involved in the Financial System Inquiry chose to continue to work flexibly while on the secretariat. In the past, this sort of opportunity may not have been contemplated by staff who work flexible hours or with principal carer commitments. Indeed, participation would probably have been discouraged by managers and secretariat heads.

As I mentioned earlier, one of the pleasing surprises of the Capability Review was its finding that we were not only strong in innovation in IT but also at policy innovation and implementation.

The Treasury is often innovative in our core areas of economic forecasting and developing the Budget. But forecasting is notoriously difficult! So, in last year's Pre-election Economic and Fiscal Outlook, we presented the confidence intervals around our headline economic growth forecasts – giving some indication of the uncertainty around our forecasts. This is something we had not done in the past, but thought it necessary to increase the transparency and public understanding of our forecasts and the economic environment.

While we have managed to deliver a Federal Budget every year without fail, there are other things we have managed to deliver that wouldn't normally be considered our core business.

For example, following the collapse in 2001 of HIH – Australia's second largest insurer at the time – the Treasury was instrumental in managing the initial fallout and creating the HIH Claims Support Scheme. Over the past twelve years we have essentially run an insurance company that has paid out assistance to almost 11,000 claims, with the last claim being settled in June 2013. This decade-long process has been recognised externally as a clear demonstration of

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<sup>1</sup> An increase from 20 to 27 female substantive SES (30 per cent), and from 21 to 31 if we include those in acting arrangements (33 per cent of all SES).

our ability to deal with an operational undertaking as comprehensively as any policy matter.

And, just last month, we successfully delivered the G20 Finance Ministers and Central Bank Governors meeting in Sydney. In addition to developing the policy agenda, activities undertaken also included sourcing appropriate meeting and accommodation venues, managing the event logistics and transport, building quality IT solutions and media management for over 300 media – not typically things one associates with a Treasury!

That said, there can often be a feeling that Treasury is insular, that we do not value the perspectives of those outside the organisation. And there has often been good reason for people to form this opinion – the Treasury was notoriously closed in the 1970s and early 1980s. It is common to see Treasury criticised even today, though, as ‘close-minded’ and ‘not understanding business’. While we can always be better and more active in engaging with business, I reject categorically the view that we simply don’t understand business.

The Treasury is a much more diverse organisation now in terms of work experience and subject matter expertise than we have been at any point in the past. Around a fifth of our current SES and EL2 staff have significant private sector experience – mainly in the finance and accounting sector, but also in consultancies, academic research, the legal sector, and as principals of their own businesses.

We are also developing our skill base and networks by actively seeking out opportunities to share staff with other organisations. We currently have 14 staff seconded into Treasury from other public sector organisations such as the ATO, Reserve Bank, Attorney-General’s, and even the New Zealand Treasury. Furthermore, we have ten private sector secondees from Boston Consulting Group, Deloitte, Ernst and Young, PWC, Oliver Wyman and Rio Tinto working within the Treasury to help us in tax design and implementation, at the Board of Taxation secretariat, on the Financial System Inquiry secretariat, as well as private sector staff working on the Competition Review.

We also currently have 18 staff seconded out to other parts of the public sector including to the Reserve Bank, the ATO, the ANU Tax and Transfer Policy Institute and the Departments of Social Services, Communications, Prime Minister and Cabinet, and Foreign Affairs and Trade. We also have Treasury

staff working at BHP Billiton and the Australian Bankers Association and we will shortly be renewing our secondment arrangement with the Business Council of Australia. We are in the process of organising secondments to the four major banks and have previously had secondees at Rio Tinto. I am very keen to encourage more two-way exchanges.

Further, since 2007, we have Australian Treasury officials seconded to Indonesia's Fiscal Policy Agency, reflecting innovative approaches we have taken to international engagement. We currently have three of our staff working closely with their Indonesian counterparts on a range of fiscal policy issues in Jakarta. As a sign of the maturity of this relationship, a reciprocal arrangement is currently being developed with the Fiscal Policy Agency to second one of their officers to Treasury. This engagement is reflective of broader relationships Treasury has in the region, including similar secondments of officials to ministries of finance in Papua New Guinea and the Solomon Islands.

A large part of my job is being the external face of Treasury where I present and participate at a number of events – public speeches, presentations, boardroom lunches and dinners – and hear from a wide variety of stakeholders. In the past year, I have done around 36 of these sorts of events and this doesn't count the numerous one-on-one meetings I have with business people, academics and community representatives.

Moreover, many former Treasury staff have gone on to senior positions in business here and overseas – to cite just a few examples, former Secretaries Ted Evans and Tony Cole chaired Westpac and Mercer (a human resource consulting firm) respectively, while former Deputy Secretaries David Morgan and John Fraser became CEOs of Westpac and UBS AG. And there are many others, suggesting that the claim we're naïve about business is hard to justify. That said, it is no secret that I would like Treasury to be represented in Sydney and possibly other capitals to deepen further our links with business large and small, and with community groups and other stakeholders.

We talk to business and subject area experts outside Treasury on an almost daily basis in order to inform the development of policy. Often it is too late to start consulting once the Government of the day publicly announces a policy position, and so we need to be pro-active in our discussions with others.



A recent example of this proactive engagement was in the context of announced but un-enacted tax measures in late 2013. The backlog of taxation decisions that had been announced by Government but not passed through the Parliament had increased to almost 100 measures, some dating back to the Howard Government. Clearly, this was a problem in need of a prompt and effective solution.

Treasury, with significant assistance from the Board of Taxation, undertook targeted confidential consultation with key stakeholders across the country. These consultations gave us more clarity on how stakeholders viewed the relative importance of different measures and how best to provide greater tax policy certainty, which we then used to better inform the Government in our advice. While the decisions to not proceed with around two-thirds of the measures ultimately rested with Government, the value of stakeholder consultation to Treasury's advice and the subsequent decision-making processes should not be underestimated.

Despite this, the charge of not listening is probably an occupational hazard for all public servants. None of us can publicise what advice we have given, so what can appear to be our 'not listening' may, at times, be that the advice provided – advice influenced, both positively and negatively, by a range of external input – was not accepted by the ultimate decision-maker.

Overall, maybe *part* of the problem is not that the Treasury has not changed, but that we need to do a better job of communicating how we have evolved as an organisation, even while acknowledging that there is still a way for us to go.

As part of our plans to drive further organisational change, we have also just established an Australian Treasury Advisory Council. This group of respected leaders will make up a governance and advisory board for me that will help replicate the discipline provided by a private sector governance board. I am pleased to be able to announce that the inaugural members of the Council are:

- Ms Elizabeth Bryan – currently Chair of Caltex;
- Ms Tracey Horton – former Dean of University of Western Australia Business School and currently Non-Executive Director, Skilled Group and President of the WA Chamber of Commerce and Industry;

- Ms Belinda Hutchinson – currently Chair of QBE and Chancellor of Sydney University;
- Ms Akiko Jackson – a management consultant in the financial services industry;
- Mr Kevin McCann – currently Chair of Macquarie Group;
- Dr Michael Vertigan – who has had a long and illustrious career in the public sector and academia; and
- Mr Gabriel Makhoul – the New Zealand Treasury Secretary.

Short biographies on each member and the Council's Terms of Reference have been posted on the Treasury website.

I think this is an exciting innovation and one which other APS organisations may also find valuable. It is also an example of not needing to reinvent the wheel, as our approach is modelled on the experience of our New Zealand counterparts. Both the Australian and New Zealand Treasuries want to improve, hence the cross-membership of our ATAC and the New Zealand Treasury Advisory Board of Secretary Makhoul and me.

### **Conclusion**

I originally joined the Treasury in the early 1980s. I have stayed for 34 years because of the challenge and excitement of helping shape the Australian economic landscape and improving the wellbeing of all Australians.

That challenge and the excitement it brings have not lessened over that time. In fact, they have expanded to include improving the quality of our outputs and outcomes by affording the organisation a much greater focus. And developing an organisation means developing and empowering people.

But cultural change takes time and continued leadership at all levels of the organisation. Yet this is a non-negotiable journey if Treasury wants to maintain its reputation as one of the premier policy institutions in the country. Undergoing change always presents risks, but the risk of remaining static, untouched by time and change, is untenable.

Thank you.