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So what’s new? Innovation versus novelty in human services delivery

Monica Pfeffer
Department of Human Services
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Contact us at:
State Services Authority
Email: info@ssa.vic.gov.au
Phone: +61 3 9651 1321
Fax: +61 3 9651 0747

Postal Address: 3 Treasury Place
Melbourne
Victoria 3002
Australia

Web address: www.ssa.vic.gov.au
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Series foreword

The Australia and New Zealand School of Government and the State Services Authority are collaborating on a partnership that draws together a broad network of policy-makers, practitioners and leading academics.

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The views represented in this paper are those of the author and do not represent the views of the Australia and New Zealand School of Government or the State Services Authority.

About the author

Monica Pfeffer is Director Social Policy at the Department of Human Services. The Branch has responsibility for advice to Ministers and leadership on broad social and distributional issues including social ex/inclusion, health inequalities and the intersections of gender, sexuality, diversity and disadvantage.

Monica is leading a number of initiatives to improve policy and writing skills across DHS, is an active speaker for and member of IPAA, a graduate of the ANZSOG Executive Fellows Program, a busy mentor to graduates across the VPS and potential leaders in DHS, teaches into public policy courses at a number of universities and is a member of the Advisory Committees for the Swinburne Institute of Social Research and the Key Centre for Women’s Health in Society at the University of Melbourne.

All opinions expressed in this paper are the author’s and not the views of the Department of Human Services.

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Distinguishing innovation from novelty

‘Innovation’ has recently become a highly fashionable concept in public sector discourse. The modern metric for relevance, Google, yields 15,600,000 hits for ‘public sector innovation’; even filtering through Google Scholar results in 980,000.

Both internationally and in Australia, there has been a proliferation of innovation publications, journals such as *The Innovation Journal*, academic research networks, and specialist government units. In Victoria, the Department of Innovation, Industry and Regional Development has an Innovation and Technology Division, while the Department of Justice has recently established an Innovation and Strategy Unit. The State Services Authority is researching innovation, and has published Valerie Hannon’s paper on the topic (Hannon, 2009) as the first in this Occasional Paper series.

Mulgan and Albury (2003) define successful innovation as ‘the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in outcomes efficiency, effectiveness or quality’ and more simply as ‘new ideas that work’.

‘Public sector novelty’ by contrast, results in a mere 158,000 Google hits. Although they share the same Latin root, the definition of novelty lacks innovation’s sense of valuable newness. It also has the secondary meaning of a small, cheap toy or trinket.

It is hardly surprising, therefore, that we find no journals promoting novelty, and no novelty units in Australian government departments.

Yet this paper seeks to interrogate the conundrum that, if innovation is what we seek in contemporary public services, why do our budget processes and culture seem more disposed to support novelty at the margins, rather than risky, significant and lasting improvements?

Why innovate and to what purpose?

The private sector has long been interested in innovation for the compelling reason that, in a volatile global market, failure to innovate can easily lead to the demise of an organisation. The public sector, however, is not driven by the bottom line of profit, and many of its services and activities are monopolies enforced by legislation. Why then should the public sector innovate?

In the literature, drivers for change in the public sector are usually considered more complex and less immediately compelling than those in the private sector. They are generally identified as the growing diversity of the population; rising citizen expectations (paradoxically coupled with declining levels of trust in government); new public policy issues such as climate change and old, intractable ones such as inequality; the transformative power of new technologies; and increasing fiscal constraints and demands for more effective and efficient government (Commonwealth of Australia 2009; Hannon, 2009; Moore & Hartley, 2008).

Useful though these lists may be in identifying the dilemmas of contemporary government, they are not necessarily internally consistent. The innovations most likely to appeal to central government and Treasury are those promoting efficiency and value for public money. They will almost certainly differ from those contemplated by line departments seeking to respond to growing areas of inequality, rising middle class expectations about the speed and quality of public service provision, or the devastating impact of drought and fire.

Whose innovation?

Innovation has further complicated the historical tension between central and line agencies over the adequacy of the latter’s budget.
Victoria has seen extensive interest in recent years in ‘Demand Management Strategies’ for the portfolios offering high cost tertiary services, principally the Departments of Human Services (DHS) and Justice. This paper concentrates on DHS, Victoria’s largest department with responsibility for health, mental health and drugs, public and social housing, aged care, children, disability, state concessions and emergency recovery.

These strategies have been developed in areas as diverse as corrections, hospitals, sexual assault, mental health, disability, and child protection (DHS, 2002, 2003 and 2008). They generally involve projecting future demand for these services on an unchanged policy basis; concluding that this is fiscally unsustainable from a Treasury perspective as well as undesirable from the standpoint of human outcomes; and proposing innovation in the way services are designed and delivered to lower the trajectory of costs and risks over the medium to long term.

Treasuries and line agencies can readily reach consensus on why reform is needed; neither want to build more prisons, contain more involuntary mental health patients, or take more children into state care. They also share an increased commitment to prevention and early intervention in resource allocation, although not necessarily for the same reasons.

However, they can easily descend into conflict, sometimes fierce, over the scope, cost, duration, and objectives of the innovative reforms that are to replace the current outmoded, ineffective and unaffordable system.

One dimension of this conflict is that the parties may come to the table with different views of their public value (Moore, 1995). The Department of Treasury and Finance describes its principal function as advising on how resources are distributed within a ‘framework of financial responsibility’ (DTF, 2009). DHS, however, sees itself as the vehicle for delivering the government’s vision of Victoria as a ‘stronger, more caring and innovative state’ (DHS 2009).

In addition to their different conceptualisations of basic purpose, however, there is also an ongoing mismatch between the whole of government orientation of the central agency, and the narrow-but-deep outlook of the program manager

Thus, whilst the idea of public value most likely to drive DHS’ innovations is unlocking the human capability of a program’s client group, the department’s Treasury counterparts have a different orientation. Their roles as ‘keeper of the fiscal aggregates’ and as preliminary adjudicator across competing economic, environmental and social objectives mean they are most likely to be engaged by proposals that not only promise significant efficiency or effectiveness gains, but also have multiple policy resonance. These tensions between how different groups of officials see their purpose and authorising environment complicate calls for ‘joined up government’ to address ‘wicked problems’ (Moore, 1995). Mismatched senses of purpose and orientation can only reduce the likelihood of achieving the interdepartmental consensus necessary for bringing many innovative proposals to fruition.

In one of the few studies of how people working in government understand innovation in a public sector context, Considine, Lewis and Alexander (2009) identified five normative positions on innovation. These are:

- An institutional view (it is based on organisational factors)
- A structural view (it is about large external change)
- A sceptical view (it is not something governments do)
- An incremental view (small planned improvements)
- An adaptive view (adapting things from elsewhere).
Unsurprisingly, agreement with these views of innovation varied between politicians and public servants, across levels in the hierarchy, and across government. The study also examined which of a series of activities were seen to either help or hinder innovation. Budget processes were seen as helpful to innovation by politicians and those further up the hierarchy, and as a hindrance by those further down the public service hierarchy.

Are state budget processes fit for (innovation) purpose?
The State Services Authority’s research identifies a number of barriers to innovation. Four of these are particularly relevant to the current discussion:

- The political climate may create perverse and irrational incentives and disincentives.
- Embedded business processes are often difficult to change.
- Short-term objectives may loom as a priority.
- Insufficient resources exist to try (and fail) doing new things.

Allen Schick (2004) of the Brookings Institution offers four reasons why traditional annual budgeting is a poor means of allocating resources for major social issues:

- Budgeting is incremental; each year’s allocations differ only marginally from the previous year’s.
- The budget looks backwards; governments must look forward to build a more robust future.
- The budget focuses on short-term issues; it lacks a long-term perspective.
- The budget is driven by fiscal pressures, not by social needs.

Schick is particularly critical of the disproportionate time devoted to budgeting processes. He cites approvingly the private sector’s ‘beyond budgeting’ movement, which is based on the argument that traditional annual budgeting constrains adaptation to changing conditions, consumes vast managerial resources for marginal change, and takes on an importance of its own, often at variance with broader objectives (Schick, 2005; Hope & Fraser, 2003).

The public finance literature alludes delicately to the problems of ‘the political climate’: that is, the role of politics in the budget process. But it is apparent, even to the most casual observer, that the political incentives operating in an annual budget process are much more strongly oriented to the immediate than the medium term, and to the novel rather than the systemically innovative. Contemporary budget processes are characterised by:

- The political necessity for all ministers to have ‘wins’ every year
  Ministers are well aware that their stakeholders have a keen interest in budget outcomes and the resource gains for the portfolio. How the public evaluates a minister’s success can often be linked directly and solely to this one metric. With only a relatively low proportion of a government’s budget available for discretionary spending, this promotes the distribution of small amounts of funding across many initiatives. At the level of the individual portfolio, particularly the less powerful ones, the need to attract annual attention may result in skewing towards proposals for new niche programs with catchy titles.

- Favouring the new
  State budgets are largely allocated to their existing core programs, but media reports of annual budgets are rarely interested in continuity. To gain media attention, initiatives either need to be of a significant scale, or demonstrate novelty.

Preference for novelty is also apparent throughout the budgetary process, demonstrated by the difficulty of maintaining momentum for longstanding issues year after year. For a department such as DHS, the budgetary landscape will always be dominated by core service delivery including hospitals, disability and mental health services, child protection, aged community care, and state concessions. Not even the change in terminology from ‘spending’ to ‘output investment’ can mask the reality of budgetary incrementalism on the one hand, and the necessarily slow and complicated nature of major system reform in these areas on the other (the latter issue is discussed at greater length below).

This does not sit comfortably with the growing emphasis in public sector discourse, management training, and performance reward systems on leading change processes, variously branded as ‘innovation’, ‘reform’ and ‘agility’ (Barber, 2008; Mulgan, 2009). The paradox of some public sector management systems is that, whilst purporting to reward innovation, micro-management of front line staff and onerous reporting requirements against performance plans may in fact stifle innovation’s essential prerequisites: risk-taking and new thinking.

**Human services innovation in practice – the case of the child protection reforms**

Successful innovation in large human services systems needs to overcome the obstacles created by the mismatched remits of central and line agency officials, and the politics of the current annual budget process. A useful test of this notion is to be found in the significant child protection reforms implemented by DHS over the last eight years.

The starting point for the reforms was a substantial budget bid in 2001 for more child protection funding. In response, Treasury required a Demand Management Strategy be developed between central agency and DHS officials.

This process was characterised by the classic foundation for such strategies: large increases both in current and projected child protection system expenditure (the DTF crisis) and in child protection notifications, renotifications and duration in out of home care (the DHS crisis).

Detailed interrogation of the child protection data indicated a significant shift in the characteristics of the families implicated in child abuse. A much higher proportion experienced more than one of psychiatric disability, intellectual disability, physical disability, family violence, alcohol abuse, and substance abuse.

Indigenous children were significantly over-represented in the system, and the underlying incidence of child abuse and neglect in the Indigenous community was increasing. A gap was growing between the characteristics and needs of the client population, and the legislative scheme underpinning the child protection system (DHS, 2002).

Measures of the complexity and length of the reform process at both the policy and budgetary level can be seen in the table below.
<table>
<thead>
<tr>
<th>Year</th>
<th>Policy and practice reform (selected)</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>Public Parenting - A Review of Homebased Care in Victoria Pathways to partnership: the final report on Out of Home Care Partnership Case Study Review An Integrated Strategy for Child Protection and Placement Services</td>
<td>$65m over 4 years ‘in response to increasing notifications’. Included 6 Innovation projects</td>
</tr>
<tr>
<td>2003-2004</td>
<td>Protecting Children: The Child Protection Outcomes Project - Report The report of the panel to oversee the consultation on protecting children: the child protection outcomes project</td>
<td>$28m over 4 years inc funding to VACCA for implementation of the Aboriginal Protocol</td>
</tr>
<tr>
<td>2004-2005</td>
<td>Joining the Dots: A New Vision for Victoria’s Children Bracks government announces Legislative Reform for Child Protection Services Putting Children First…the next steps</td>
<td>$69.2m over 4 years ‘protecting and caring for children’, including Aboriginal Family Decision Making</td>
</tr>
<tr>
<td>2006-2007</td>
<td>The State of Victoria’s Children Report: every child every chance National Reform Agenda: Victoria’s Plan to Improve Outcomes in Early Childhood Children Youth and Families Act 2005 comes into effect</td>
<td>$150.7m over 4 years to support implementation of CYF Act. Plus $75.17m over 4.5 years (announced earlier)</td>
</tr>
<tr>
<td>2008-2009</td>
<td>Aboriginal Cultural Competence Framework</td>
<td>$39.4m including residential care for Indigenous child protection clients, strengthens ACCOs</td>
</tr>
<tr>
<td>2009-2010</td>
<td>Directions for Out of Home Care</td>
<td>$134.7m over 4 years to improve quality of support and care for children in out of home care, including $10m for upgrading and replacing residential care facilities</td>
</tr>
</tbody>
</table>

It is difficult to overstate the complexity of reforming child protection, a large statutory system with its own momentum, even under an ideal budgetary regime.
Research evidence is often equivocal, and interventions can be characterised by high cost for potentially uncertain and long-term returns. There is an array of vocal stakeholders including the child welfare sector, the legal profession, and the courts, and policy experimentation is inhibited by the ethical dilemmas surrounding the vulnerable target group. Media reporting is driven by moral panic, not measured reform, and there is a poor fit between the requirements of reform and the political cycle.

The question is whether the architecture and culture of the budget process, and the relationship between central and line agencies support or hinder reforms of this importance and magnitude. How are the essential elements of strong and persistent policy leadership, capacity for risk and continuous learning, being fostered? Or, more simply, do the budget processes and culture make success more or less likely? This question is explored in the table below.

<table>
<thead>
<tr>
<th>Success factors for major innovations in human services</th>
<th>Impact of budget processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong and committed leadership at ministerial and bureaucratic levels</td>
<td>The longer it takes to see through the reforms, the greater the risk that ministers and/or senior officials will change and reform momentum will be lost. The child protection reforms have been steered by 5 ministers and 3 deputy secretaries to date. Fortunately, all have demonstrated strong support, but this could not have been guaranteed.</td>
</tr>
<tr>
<td>Central agency support</td>
<td>The rapid turnover of central agency officials increases the difficulty of maintaining focus on reform. Central agency support is reliant on the proposition that investing more now will save money in the long run. This is not the same narrative that drives DHS staff, whose commitment is based on the proposition that reforms are the right thing for the welfare of the client population (i.e. clash between conceptions of public value).</td>
</tr>
<tr>
<td>Focused allocation of talented officers’ time and energies to see through reforms from the design through the implementation and evaluation stages</td>
<td>High opportunity cost. The Victorian budget process commences around October of the preceding year and runs until April. It is time consuming and often frustrating.</td>
</tr>
<tr>
<td>'Adequate dose’: quantum and duration of funding is in line with research evidence about what is required to achieve desired outcomes</td>
<td>Budget bids are invariably bargained down in the course of the budget process.</td>
</tr>
<tr>
<td>Consistency of vision and policy settings</td>
<td>The political imperative to have many new initiatives to announce each budget increases the difficulty of gaining resources consistently to match pace and scale of reform.</td>
</tr>
<tr>
<td>Iterative research and evaluation process</td>
<td>Helpful: requirement to return repeatedly to the budget process means there is time for program design to evolve in the light of experience. Not helpful: no room for honest acknowledgement of failures or wrong turns. There are always other claimants for funding if initiative does not appear to be succeeding</td>
</tr>
<tr>
<td>Build strong, ongoing coalition of support for reform with key stakeholders</td>
<td>Neutral</td>
</tr>
</tbody>
</table>

**Where to from here?**

Ideas about the complete overhaul of budgetary processes are beyond the scope of this paper. However, some modest proposals for improvement that might smooth the path for future major innovations in large service systems are canvassed below.

**Multi-year rather than annual budget cycle where appropriate**

There are alternatives to appropriating public funding on an annual basis. In recent years, the United Kingdom, Sweden and Finland have introduced multi-year or unlimited duration appropriations, responding to the long-term planning horizons of major government investments (DTF, 2008).

This idea is now being considered in Victoria. In 2008, the Government released the *Public Finance in Victoria: Practices and Legislation* discussion paper seeking community input into the idea that appropriations could be annual or multi-year, or a mix of both depending on circumstances (DTF, 2008).

Under a three-year budget cycle for a reform of the child protection scale, for example, DHS would have needed to engage with the State budget process three times instead of nine. There would have been greater certainty and more capacity to experiment and evaluate. An even more radical idea would have been a rolling five or seven-year integrated planning and budgeting commitment, given the length of time required to bed down reforms of this magnitude in the overseas experience. An advantage of the overseas examples is that they more equitably share the risk and responsibility for making hard choices between central and line agencies.

**‘Mutual gains bargaining’ between Treasury and line agencies**

Standard governance mechanisms between central and line agencies for major projects, such as inter departmental committees and project boards can either build bridges across the cultural differences and mutual suspicion of the parties, or exacerbate them.

Agreement on an innovative and shared approach is made more difficult because membership of conventional committees and boards is just one part of usual duties, and the loyalties and culture of the team members remain firmly embedded in their home department.

In the future, however, a multi-year budget cycle could be complemented by a small number of multi-year project teams of central and line agency officials, and even non-government sector staff. These teams could work full time on reform projects under a new set of rules of engagement, located outside their home departments.

This idea would draw on the theory of ‘mutual gains bargaining’ (Ancona, Friedman & Kolb, 1991). With a focus on interests and not positions, and on inventing mutually beneficial options rather than haggling over resources, mutual gains bargaining judges options according to objective criteria instead of relying heavily on bargaining power to influence outcomes. Officials’ primary loyalties in the process would be diverted from their departmental or program agenda, towards achieving an outstanding result.

**Changing the dynamics between ministers, departments and stakeholders**

Good public policy, including comprehensive, long-term innovation, would be significantly assisted if external stakeholders accept that resources are finite: adequately supporting one major priority inevitably means not funding another. There is extensive evidence about new ways to broaden the public policy/expenditure conversation, including the second Occasional Paper in this series on civic engagement and the new citizenry (Rose, 2009). Ongoing
stakeholder roundtables to help set priorities could be a start. When setting these priorities, stakeholders would then need to accept that certain activities must consequently be off the current funding list. The sectoral maturity required for such an exercise will only develop if the opportunity is provided.

More could also be done politically to protect individual ministers from the relentless stakeholder pressure to spread funding annually over too many small initiatives. Major decisions not only need to be made collectively, but must also be seen to be so by the external audience. Ministers could attend each other’s meetings with key stakeholders, supporting them by reference to the already agreed and transparent key priorities of government. The capacity of such a process to convince the audience would be in direct proportion to how genuinely stakeholders engage in setting priorities in the first place.

Conclusion
Innovation in public services is growing in importance for the public sector reform agenda, but the architecture, timing and culture of contemporary budgetary processes are not necessarily fit for purpose. The same combination of creativity in developing new ideas and persistence in applying them that is needed to drive policy and service innovation could usefully be applied to the underpinning processes of government and resource allocation.
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