

Introduction

Capability reviews are a new phenomenon in the Australian public service. Notwithstanding claims that Australia can make about its high quality professional and trusted public service, until recently the Australian Public Service has not embarked on a systematic review of individual departments' capabilities.

The public service has been the subject of many broad ranging reviews of its efficiency, structure and purpose over the years (such as the Coombs and Reid Reports, Efficiency Scrutiny Reviews, Commission of Audit reports, and performance audits) but it was not until after the release of the reform of the Australian Public Service by Terry Moran in May 2010, titled *Ahead of the game: Blueprint for Reform of Australian Government Administration* (RAGA 2010), that the government adopted a review framework to test the capability of individual departments. The *Blueprint* recommended that the APS undertake a series of regular reviews of individual agencies to assess the capability of agencies to meet current and future challenges.

Australia adopted the Blair model for capability reviews

The model chosen and the review methodology agreed for the capability reviews was that which had been adopted in Britain under the Blair government. The Moran review recommended that policy capability in the Australian public service be strengthened by focusing more on research and the analysis of data (enhancing its evidence-based policy credentials). This would be supported by stronger partnerships with academic and research institutions. The review also made recommendations to improve the way agencies meet the needs of citizens, to build a highly capable workforce and to improve efficiency and strengthen governance of the APS. In line with these recommendations, the review recommended that the government 'conduct periodic external reviews of agencies' institutional capability covering strategy, leadership, workforce capability, delivery and organisational effectiveness'. This reflected one of the key themes in the review of 'stewardship'.

The British review methodology which was available was pilot-tested on three federal departments. They were the departments of Environment; Climate Change; and Employment, Education and Workplace Relations – all both policy and operational departments. These capability reviews were conducted during 2011. Following this testing, a report was prepared for the government by the Australian Public Service Commission recommending that the methodology be adopted for all departments.

The APSC's recommendation was accepted and the process of reviewing departments has been underway over the past two years. There are now only about four of the major departments that have not completed a review, but they are scheduled for review in early 2014. At the time of writing this paper, four reviews had been completed and made public in addition to the three pilots (which were not made public); another ten were scheduled for release in November 2013.

The objectives of the capability reviews

¹ Jeff Harmer was formerly the Secretary of the Commonwealth Department of Families and Community and Housing Services and Indigenous Affairs (FaCHSIA) and has since led two Capability Reviews for the Australian Public Service Commission.

² Andrew Podger is Professor of Public Policy at ANU and a former Public Service Commissioner

The objectives of the capability reviews were to provide agencies with:

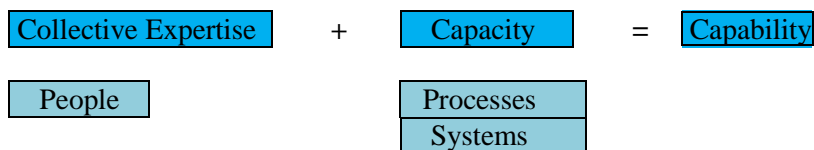
- An impartial assessment of capability, focusing on leadership, strategy and delivery;
- Identified areas of capability strengths and weaknesses; and,
- An opportunity to validate existing capability development strategies.

The reviews are relatively short in duration and sharp in focus. They are high-level, focusing on the strategic operations on the agency, and rely upon a combination of data and document analysis, and interviews and workshops with internal and external stakeholders. The reviews have a considerable degree of independence with the external and internal senior reviewers having ownership of the final report and not taking instructions from the APSC or the organisation being reviewed.

It was not intended, however, that the reviews would be a threatening exercise for agencies, but rather the reviews were intended as a learning process, providing valuable feedback to agencies on their capabilities. Conducting reviews in this style was important to the initial acceptance of the review process while the involvement of an independent reviewer ensured its credibility.

Defining capability

The capability reviews in the APS investigate *organisational capability* gauging the effectiveness of inputs into agency decision-making and operations (a bottom-up assessment). Organisational capability is defined as the sum of the expertise of the people (staff) in the organisation combined with the capacity of the organisation to apply that expertise. An organisation's capability thus relies on systems, frameworks, processes, and tools used to achieve results. Departments should be attempting to combine their capacities and expertise to enhance their capabilities. This translates into a simple diagnostic model.



Collective expertise is the combined abilities of staff and comprises organisational knowledge, skills and human capital. The various dimensions of *capacity* relate to how the organisation applies its expertise through its internal systems and processes. The assessment of *capability* captures an organisation's potential to achieve outcomes, the effectiveness with which outcomes are achieved, and the quality of outputs and outcomes.

The capability reviews are intended to focus on each agency's capability to deliver against possible future objectives as well as current policy aims, thus complementing the regular performance management processes that operate across all Australian Government agencies linked to the annual budget process. They provide the basis for the development of a detailed action plan by the department, detailing how capability gaps or weaknesses will be addressed. They are forward-looking and try to analyse anticipated shortcomings.

Components of capability focused upon by the reviews

The reviews focus on three main areas of departmental capabilities: **Leadership, Strategy and Delivery**, which are in turn sub-divided into further core capacities. The model (see Figure 1) is designed to reflect the areas of capability that are relevant to most public sector organisations. It also highlights capabilities that are particularly important to the government – for example, innovation and the quality and reliability of client services. The model guides reviewers in determining the areas of focus of each review, ensuring reviews are comprehensive and that there is a consistent approach to all reviews.

Figure 1: The Capability Wheel
(Source: APSC 2013)



The capabilities of leadership, strategy and delivery are colour-coded within a single Capability Wheel to indicate their integration. They are also sub-divided into three or four sub-components – giving a total of ten sub-elements to organisational capability. In the review process, ratings are assigned to each of the ten elements of the model as part of the final report (according to whether the element of capability is assessed as strong or weak or in need of developmental action).

Assessment Ratings

Assessment of departmental capability is conducted under the Leadership-Strategy-Delivery framework of the Capability Wheel described above, and leads to assessment using the standards set out below.

Strong or outstanding capabilities

- Outstanding capability for future delivery in line with the model of capability;
- Clear approach to monitoring and sustaining future capability with supporting evidence and metrics; and,
- Evidence of learning and benchmarking against peers and other comparators.

Well placed capabilities but not yet strong

- Capability gaps are identified and defined;
- Is already making improvements in capability for current and future delivery, and is well placed to do so;
- Is expected to improve further in the short term through practical actions that are planned or already underway.

Areas in need of further development

- Has weaknesses in capability for current and future delivery and/or has not identified all weaknesses and has no clear mechanism for doing so; and,
- More action is required to close current capability gaps and deliver improvement over the medium term.

Areas where the Review has identified serious concerns

- Significant weaknesses in capability for current and future delivery that require urgent action; and,

- Not well placed to address weaknesses in the short or medium term and needs additional action and support to secure effective delivery.

Key Questions for Reviewers

Each element of each of the three capabilities is explored systematically by the review team with a set of main questions.

The *Leadership* element is divided into three sub-components: whether the leadership sets directions, motivates people, and develops people. The key questions for reviewers under each of these headings are as follows.

Sets direction

- Is there a clear, compelling and coherent vision for the future of the organisation? Is this communicated to the whole organisation on a regular basis?
- Does the leadership work effectively in a culture of teamwork, including working across internal boundaries, seeking out internal expertise, skill and experience?
- Does the leadership take tough decisions, see these through and show commitment to continuous improvement of delivery outcomes?
- Does the leadership lead and manage change effectively, addressing and overcoming resistance when it occurs?

Motivates people

- Does the leadership create and sustain a unifying culture and set of values and behaviours which promote energy, enthusiasm and pride in the organisation and its vision?
- Are the leadership visible, outward-looking role models communicating effectively and inspiring the respect, trust, loyalty and confidence of staff and stakeholders?
- Does the leadership display integrity, confidence and self-awareness in their engagement with staff and stakeholders, actively encouraging, listening to and acting on feedback?
- Does the leadership display a desire for achieving ambitious results for customers, focusing on impact and outcomes, celebrating achievement and challenging the organisation to improve?

Develops people

- Are there people with the right skills and leaderships across the organisation to deliver its vision and strategy? Does the organisation demonstrate commitment to diversity and equality?
- Is individual performance managed transparently and consistently, rewarding good performance and tackling poor performance? Are individual performance objectives aligned with the strategic priorities of the organisation?
- Does the organisation identify and nurture leadership and management talent in individuals and teams to get the best from everyone? How does the organisation plan effectively for succession in key positions?
- How does the organisation plan to fill key capability gaps in the organisation and in the delivery system?

Strategy is similarly divided into three sub-components and the key questions for reviewers under this element are:

Is there an outcome focused strategy?

- Does the organisation have a clear, coherent and achievable strategy with a single, overarching set of challenging outcomes, aims, objectives and measures of success?
- Is the strategy clear about what success looks like and focused on improving the overall quality of life for customers and benefiting the nation?
- Is the strategy kept up to date, seizing opportunities when circumstances change?
- Does the organisation work with political leadership to develop strategy and ensure appropriate trade-offs between priority outcomes?

Is the organisation making evidence-based choices?

- Are policies and programmes customer focused and developed with customer involvement and insight from the earliest stages? Does the organisation understand and respond to customers' needs and opinions?
- Does the organisation ensure that vision and strategy are informed by sound use of timely evidence and analysis?
- Does the organisation identify future trends, plan for them and choose among the range of options available?
- Does the organisation evaluate and measure outcomes and ensure that lessons learned are fed back through the strategy process?

Does the organisation collaborate and build common purpose?

- Does the organisation work with others in government and beyond to develop strategy and policy collectively to address cross-cutting issues?
- Does the organisation involve partners and stakeholders from the earliest stages of policy development and learn from their experience?
- Does the organisation ensure the agency's strategies and policies are consistent with those of other agencies?
- Does the organisation develop and generate common ownership of the strategy with political leadership, delivery partners and citizens?

Delivery is the final area of capability investigated. Under this heading there are four sub-components and the key questions are as follows.

Demonstrable innovative delivery

- Does the organisation have the structures, people capacity and enabling systems required to support appropriate innovation and manage it effectively?
- Does the leadership empower and incentivise the organisation and its partners to innovate and learn from each other, and the front line, to improve delivery?
- Is innovation explicitly linked to core business, underpinned by a coherent innovation strategy and an effective approach towards risk management?
- Does the organisation evaluate the success and added value of innovation, using the results to make resource prioritisation decisions and inform future innovation?

Does the organisation plan, resource and prioritise

- Do business planning processes effectively prioritise and sequence deliverables to focus on delivery of strategic outcomes? Are tough decisions made on trade-offs between priority outcomes when appropriate?
- Are delivery plans robust, consistent and aligned with the strategy? Taken together will they effectively deliver all of the strategic outcomes?
- Is effective control of the organisation's resources maintained? Do delivery plans indicate key drivers of cost, with financial implications clearly considered and suitable levels of financial flexibility within the organisation?
- Are delivery plans and programmes effectively managed and regularly reviewed?

Is there evidence of shared commitment and sound delivery models

- Does the organisation have clear and well understood delivery models which will deliver the agency's strategic outcomes across boundaries?
- Does the organisation identify and agree on roles, responsibilities and accountabilities for delivery within those models, including with third parties? Are these well understood and supported by appropriate rewards, incentives and governance arrangements?
- Does the organisation engage, align and enthuse partners in other agencies and across the delivery model to work together to deliver? Is there shared commitment among them to remove obstacles to effective joint working?
- Does the organisation ensure the effectiveness of delivery agents?

Evidence of managing performance

- Is the organisation delivering against performance targets to ensure achievement of outcomes set out in the strategy and business plans?
- Does the organisation drive performance and strive for excellence across the organisation and delivery system in pursuit of strategic outcomes?
- Does the organisation have high quality, timely and well understood performance information, supported by analytical capability, which allows for tracking and managing performance and risk across the delivery system? Does the organisation take action when not meeting (or not on target to meet) all of its key delivery objectives?

The Review Methodology

Who is involved?

Three teams and groups are involved in the review process. The Review Team conducts the review and comprises the main assessors of capability. The Agency Liaison Team (ALT) provides support and assistance to the Review Team in the lead-up to and during the review. The APSC Capability Program Administration Team works with the agency to setup the review, and provides support and assistance to the other two teams during the review.

The Senior Review Team

Each review team comprises six to eight participants, including senior members (chairperson, external senior reviewer, and a serving SES Band 3 APS senior reviewer) and APSC members (three or four APSC staff members, and a secondee from another agency). Senior review team member engagement commences with a kick-off day. During the review, the senior review team meets an average of three days per week.

The Chairperson (chair) leads the capability review team and acts as the key point of contact for the APS Commissioner, agency head, and executive board members. The chair provides the review with the benefit of their experience running comparably complex organisations, including independent and high-level expert insights gained through this involvement. In leading the review team, the chair is supported by a senior external reviewer and a serving senior executive from the APS but outside the organisation being reviewed. The senior members of the review team work collaboratively to reach a consensus position regarding the findings and recommendations and the chair promotes joint ownership amongst the senior members of the review team for the outcomes of the review.

The senior reviewers provide support to the chair throughout the review and during the development of the recommendations and final assessment. They provide the review with the benefit of their experience running comparably complex organisations, including independent and high-level expert insights gained through this involvement. Throughout the review, the senior reviewers work closely with the chair and with each other. In this role, the senior reviewers conduct interviews with key stakeholders to the review and also assist in providing progress reports and updates to the agency head and the APS Commissioner. The senior members of the review team work collaboratively to reach a consensus position regarding the final findings and recommendations and have joint ownership of the outcomes of the review.

Additionally, the senior internal reviewer provides impartial and expert insight in relation to the APS and its challenges, culture and trends from their position as a current serving APS executive, and works closely with the Chair and APSC review team to interpret evidence and assist in shaping review activities.

The Agency Liaison Team

The agency liaison team helps complete a self-assessment exercise for the agency. They assist in the identification of relevant information sources, and in gathering information and data. They take part in communication and briefing activities for agency with the Review team. They also assist in identifying potential interviewees in the organisation and in scheduling workshops and other information exchanging sessions. This team can also assist in providing feedback to the agency (lessons learnt) from the exercise as it is occurring and in reporting review progress to the head of the reviewed agency.

APSC Review Team

The APSC Review Team members conduct interviews and workshops, conduct data collection and analysis, support the chair and senior reviewers with the administrative aspects of the review, support the chair and senior reviewers during the development of the review report, and provide the point of liaison for the agency liaison team.

At least one secondee from another agency acts as a member of the APSC review team and brings to the team extensive knowledge of the target agency, an objective third party viewpoint, additional assistance with administrative work, and on occasions prior review experience from their own agency.

Methodology and process

The Review Team is involved in various activities: the analysis of documents, workshops, interviews, assessment of processes and systems, validation, and the preparation of the report of conclusions and ratings.

The review phase includes the following stages:

- Engagement: initial preparation work for the review and agency agreements;
- Review Pre-fieldwork: information gathering and analysis;
- Review Fieldwork: interviews and report development;
- Review Post-fieldwork: report finalised; and,
- Monitoring and Reporting (ongoing): action plan and health check review.

Summary of key Outcomes of the Reviews Completed to Date

The following is based on the five reviews available at October 2013 (APSC 2012a, 2012b, 2012c and 2012d, and APSC 2013) plus some insights Jeff Harmer has gained from involvement in the reviews not made public at that time. They are not based on a careful study of all the reviews now completed and should be viewed as somewhat tentative and subjective.

Leadership

Under the Leadership dimension, the results from the reviews to date have been varied. Departments have not rated well in creating and communicating a unifying vision and connecting their business planning and individual performance agreements to a corporate or strategic plan. In a number of the departments motivation and morale has also been impacted by a lack of teamwork and cohesion at the Deputy and Division head levels, which has generated a strong 'silo' or 'stove-piped' culture. Similarly, departments have a varied record in terms of people development. Under this element of leadership capability, departments that rate highly have well developed succession plans, regularly review executive placements to ensure their senior leadership teams are getting varied experiences and development, and the funds available for training are spent according to departmental priorities for addressing skills and expertise deficiencies. They are also more creative in arranging external placements for key executives and in seconding people from other departments to work on key projects.

Strategy

The departments reviewed up to now have varied considerably in their strategic capability. Departments appear to struggle with defining what success looks like and do not generally put sufficient effort into linking a strategy to a single set of challenging outcomes. Departmental flexibility in adjusting strategic approaches to respond to opportunities is also judged to be relatively weak.

Departments do relatively well, however, in working effectively with Ministers and with the political leadership particularly in responding to crises and short term challenges.

Reviews have found that there is a high degree of variability in the availability and use of evidence to drive reform strategies. Those departments with longstanding programmes with a strong data collection and storage approach are much better placed in making evidence based choices. A major problem for many departments in making evidence based choices is the relative weakness in IT capacity around the

management and warehousing of data and accessing that information efficiently and consistently from the desktop.

Almost all departments rate relatively poorly in collaboration and building common purpose. Stove-piping within departments and high levels of risk aversion retard both internal and external collaboration.

Few departments work effectively with key external stakeholders to develop and implement solutions to emerging problems. Most see the stakeholders as outsiders that need to be managed at arm's length rather than agents to work with collaboratively.

Delivery

The Delivery dimension of departmental capability scored more positively than that of Strategy and Leadership. While risk aversion and a lack of effective guidelines or encouragement were seen to have retarded innovation in delivery models, there were some good examples where departments have introduced new and innovative delivery mechanisms.

However, departments did not rate well in their ability to plan and prioritise resourcing across the organisation, particularly across strong program boundaries and silos. Departments were also found to lack the ability to define best practice in delivery models and to replicate them in other parts of the department.

There is often a culture which appears to hold onto older, existing models of delivery rather than regularly explore new and more efficient ways to deliver programs.

Managing the performance of programs through the establishment of targets and monitoring results regularly through sensitive outcome and performance measures also varies greatly across departments and programs. Most are not doing this regularly or effectively.

Comments on the Capability Review Methodology and Process

This summary of the outcomes of the reviews to date is tentative not only because at time of writing few reviews were available in public for careful study, but also because it is apparent that each review reflects the interpretation of the methodology and standards by the chairman and senior team involved in each case, which varies. The ratings of 'strong', 'well-placed', 'needs further development' and 'serious concerns' do not appear to have been applied consistently across the reviews. To some extent this reflects the different functions of the different agencies, which is understandable as higher standards could be expected in those dimensions that are most core to each agency. But possibly the style and personality of the agency head (including their openness to criticism in public reports) as well as the style of the chair and senior review team have come into play.

This does not necessarily diminish the usefulness of each review but suggests caution by anyone, including the APSC, trying to rank agencies' capabilities from the reviews or to use the reviews to assess agency heads' relative performance.

The emphasis on learning reinforces such caution. This emphasis has significant advantages going well beyond ensuring acceptance of the process by agency heads and their staff; it is one of the approach's real strengths. Hopefully it will encourage improved strategic planning, better investment into HRM, closer links with academia and better use of evidence, more integrated service delivery and more innovation. There is nonetheless a risk that in focussing on learning, some reviews are less than frank in their assessments and conclusions in order to avoid public embarrassment (others may overstate criticism as the agency concerned is an easy target), despite the degree of independence involved in each review.

The methodology, taken directly from the UK, has some important limitations despite its positive elements in looking beyond immediate organisational performance. As described in this paper, there is no clear link between the basic definition of 'capability' and the 'capability wheel': for example, which parts of the wheel relate to 'expertise' and which to 'capacity'. Perhaps more importantly, the 'capability wheel' gives emphasis to concepts like 'leadership' which are important but not easily measured, and to concepts like

'innovation' which are too often ill-defined and suffer from overuse. This emphasis has possibly been at the expense of careful study of more measurable (and hence comparable) capability elements such as the skills and experience of staff now and into the future, ICT capacity and utilisation, financial management including budgeting and the purchasing of cost-effective outsourced services, and research and evaluation including use of data and networking with external experts. Also, the assessment of 'leadership' in the UK model, while bearing some similarity to the APSC's 'Senior Executive Leadership Capability Framework', does not take full advantage of the APSC's work over the last 15 years to identify the elements involved and to limit the degree of subjectivity in identifying leadership capacity and performance.

It may be noteworthy that the UK has ceased its program of capability reviews and that there has been criticism there about the reliability of the review assessments. While concluding that Capability Reviews were beginning to provide evidence of improvement in capability if not in actual delivery, the National Audit Office's *Assessment of the Capability Review programme* (NAO 2009) found a divergence between reported delivery performance and the review teams' assessments of each department's delivery capability. While improved capability may take time to be reflected in improved performance, the NAO noted it is unusual to examine leadership, strategy and processes in isolation from operational results and the lack of a link between Capability Review scores and reported performance will appear increasingly anomalous and could undermine the credibility of both. The NAO also noted that the reviews' coverage of complex delivery arrangements is limited, that there is no benchmarking against organisations outside the civil service (such as in regard to the effectiveness of the management board, business planning, customer satisfaction and management of performance) and the reviews do not directly assess the capabilities of department's middle management and frontline staff who occupy key positions in the delivery chain.

That said, it was apparent in the UK, as it seems to be the case in Australia, that senior departmental managers found the Capability Reviews valuable, giving useful insight into ways to improve strategic planning, leadership and service delivery. Some commentators in the UK were more sceptical (one referring to 'Mandarin-tinted glasses' (Talbot 2009)). The uncertainty in the UK about whether such improvements lead to improved performance suggests Australia's public service leaders should carefully reflect upon its own experience with capability reviews so far, and be open to adjusting the methodology and to re-thinking what is required for a well-performing APS in the next decade and more.

Conclusion

While this paper is based primarily on some early reviews, and the capability review program is still in its infancy, our assessment is that the process of capability reviews appears to offer Secretaries and CEOs a generally useful way of testing their organisations' capability strengths and weaknesses and to learn ways in which to improve capability. If the program is to continue, however, details of the methodology should be revisited to ensure it provides an adequate assessment of all the core elements of capability and one that will correlate with future organisational performance. The learning emphasis offers considerable advantages despite the risk of diluting criticism and reducing consistency, and the process also places some useful external pressure on the agency heads by requiring agencies to respond to the assessments with action plans which must be provided to the Australian Public Service Commission. The potential to link the agency head's response to these reviews to their own performance assessment may in the future provide a mechanism to reinforce the seriousness with which the agencies should take the assessments, but considerable caution should be exercised in any attempt to use the reviews themselves as a basis for assessing relative performance.

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