The Centrelink Experiment

Innovation in service delivery

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(with Jules Wills)

Cover design by John Butcher

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Preface

Two images of Centrelink capture the essence of its foundation years of innovation and change. The first is the spirit of Centrelink—in its creation and in its operation in these formative years. This spirit is captured in the observation about

> organisations that want to shape the future…The leaders of these companies encourage their people to challenge conventional thinking, to change the business dramatically, and to create continuous renewal and progress. These companies don't just want to survive—they want to lead. They want to write the rules that others will follow. (Pfeiffer 1998 quoted in Hamilton 2007:94)

The atmosphere in Cosmo,[1] the headquarters of Centrelink in the ACT suburb of Woden, was often charged with excitement and energy unlike anything encountered in conventional departments of state. Here one was struck by a concern with ideas and experiments, with seeking to push the frontiers of public management in the public interest and with doing the best for customers.

A second image was that of the guiding coalition, a regular two-day meeting of senior executives who would consider an issue and how to respond to it. Originally 55, later 80 or more, staff would wrestle with the dimensions of the problem, reach a consensual position and develop a means of proceeding.

This study concentrates on the first decade of Centrelink—the years in which Sue Vardon was chief executive officer (CEO)—which extended from 1996 to the end of 2004. Consideration is also given to the transition to the new governance arrangements in 2005–06 and a comparison is offered between the formative and restructured Centrelink by Margaret Hamilton, a former senior executive of the agency.

Centrelink was established in 1997 as the main service delivery agency for the Australian Government in the field of social policy and administration. It was to be a one-stop, multipurpose delivery agency providing services on behalf of several purchasing departments. The new agency took on the responsibility of delivering government services to some 7.8 million recipients of social welfare benefits and services, accounting for almost one-third of Commonwealth expenditure and employing well more than 20 000 staff spread across service delivery sites across Australia.

The Centrelink experiment has arguably generated more research attention than any other agency during this time, with doctoral dissertations (Hamilton 2007; Rowlands 2003; Wills 1999) and numerous publications (for example, Halligan 2004; Husock and Scott 1999a). Centrelink continues in 2008 to be an exemplar that engages international attention.

ENDNOTES

[1] The executive area of the Cosmopolitan Building in Canberra.

Acknowledgments

This book originated from a conversation with Sue Vardon, chief executive of Centrelink, in which she expressed interest in seeing a good Australian study of the agency. The study results from a partnership between Centrelink and staff of the Centre for Research in Public Sector Management at the University of Canberra. The CEO of Centrelink provided full support for the study, which covered funding for a research officer, access to staff and records and included opportunities for the researchers to attend senior management meetings. She also read the draft manuscript.

Numerous interviews were conducted with national and area office staff of Centrelink and with other stakeholders including portfolio ministers, members of the board, client departments and central agencies. We appreciate the time given and the willingness to assist with our study.

A major study of a complex organisation requires a team. A major debt is owed to three academically oriented public servants. Jules Wills was an original participant in the project and his doctoral thesis on strategic planning featuring Centrelink influenced several chapters. David Rowlands, now with the Australian National Audit Office, made a significant contribution by encouraging us to draw on his thesis on 'agencification' and Centrelink and by commenting on the manuscript. Jill Adams, formerly of the Australia Public Service Commission, undertook major drafting and strengthening of several chapters while on the staff of the Centre for Research in Public Sector Management, and subsequently reviewed the manuscript.

Margaret Hamilton, formerly with Centrelink, provided a post-Vardon consideration of Centrelink in the chapter under her name. Thanks are due also to Michael O'Donnell (now at The Australian National University) for letting us draw on a paper that presented a preliminary examination of human resource management in Centrelink.

The Centre for Research into Public Sector Management at the University of Canberra was the project's 'home', and research staff associated with the centre provided much help with research tasks, notably Zoe Gardner, Lisa Skelly and Suzanne Vaisutis-White. Paddy Onton, Kate Ransley and Lisa Strickland provided support during the project and with the preparation of the manuscript. Centre colleagues Chris Aulich and Roger Wettenhall commented on chapters and asked questions about Centrelink as an agency.

John Wanna, Australia New Zealand School of Government (ANZSOG) Professor at The Australian National University (ANU), provided consistent encouragement to produce the book for the ANU series that he edits, and financial support for Margaret Hamilton's contribution. John Butcher, ANZSOG member of the ANU

E Press Advisory/Editorial Board handled the publishing with patience and sound advice.

The careful reading and incisive editorial comments of Penelope St Clair substantially enhanced the manuscript.

We have sought to provide a balanced analysis and evaluation of this organisational experiment, recognising what is innovative, but having to be selective in our coverage of a complex case.[1]

ENDNOTES

[1] The original questions and the list of senior executives who were interviewed are provided in Appendix 1.

Introduction: Centrelink as a field of study

Centrelink has attracted more sustained public attention and scrutiny (including international attention, for example, Husock and Scott 1999a; Smullen 2007)[1] than most other public organisations in recent Australian history. For the customer, it dispenses a wide range of welfare services and payments. For the government and taxpayer, it reflects a new style of organisation that emerged in the 1990s in Australia and overseas. At the same time, it differs from traditional bureaucracy and 'new-style agencies' that have become fashionable overseas because of its multifunctionality and the breadth of its role within the public sector.

The relevance of this experiment, nationally and internationally, arises from many of the core questions of contemporary public management. These include integrated service delivery, special agency and governance arrangements, measuring performance and the capacity for businesslike operations despite being close to the heart of government.

This study examines Centrelink as it emerged and underwent extensive change, seeking to build a management capacity by positioning itself and interacting with organisations in its complex environment, and aligning management systems in support of its objectives. This introduction locates Centrelink within the context of major questions[2] in comparative public management, the challenges of an organisation driven by several imperatives and the type of analysis proposed for studying a service delivery agency.

Four themes stand out in this study of public management change. The first is the departure from the conventional bureaucracy as expressed through the agency approach and more generally the organisational distinctiveness of Centrelink. The second is the relationship between the external demands and constraints on Centrelink and its claims as an entrepreneurial organisation. The public governance and policy environment shapes agency operations but questions arise as to what scope there is for the organisation to address positioning and advocacy within this external environment. The third theme concerns the development of a service delivery model and the implementation and alignment of the management systems within the agency to support this model. Fourth is the nature of transformation in a large and complex organisation that has sought extensive change under its first CEO as the means to improve service delivery in response to the imperatives outlined in the models that underlie the Centrelink concept.

The reform context in which Centrelink emerged and evolved allowed an innovative new agency to emerge, but the changing agenda of government ultimately dictated that a more conventional type of agency was wanted.

Why Centrelink? Organisational distinctiveness and challenges

Three questions arise out of the first theme—departures from conventional bureaucracy and organisational distinctiveness. The first question involves the implications of this fundamental shift from the traditional Australian model—in particular, the agency concept, separation of policy and delivery and the particular use of the agency form. The second question asks how distinctive Centrelink is and whether a new model is emerging here. The third question relates to the implications for how the organisation operates.

The traditional public service was characterised by a public administration paradigm, based on bureaucracy, hierarchy and process and centred on the multipurpose ministerial department. The focus was on vertical arrangements within monolithic departments operating their own delivery networks and subject directly to ministers (for an elaboration, see Hughes 2003; O'Faircheallaigh et al. 1999).[3]

Institutional economics and public choice gave rise to alternative conceptions, which addressed, inter alia, the questions of agency and transaction costs. From principal/agency theory comes a focus on the relationship between the purchaser and the provider. The separation of responsibilities should occur when there are conflicts (for example, commercial and non-commercial) and when different functions are involved (for example, purchaser and provider).

The separation of policy and operations raises an old question that has taken a variety of forms. One argument is about the need for separating roles organisationally in order to provide a functional focus. The concept of identifying a single function with one organisation became the orthodoxy in some countries (Pollitt and Talbot 2004; Pollitt and Talbot et al. 2004). According to this view, policy development, implementation and regulation should be the responsibilities of different organisations. There is also a long tradition of using special organisational forms for achieving different operating environments for specific activities (for example, statutory corporations and public enterprises). This principle has been revived and extended as a means of exacting demands on public organisations—to focus them on results and performance and to cultivate a business style.

These new-style agencies—leaving aside questions about how new they are (Talbot 2004; Wettenhall 2003)—encompass structural disaggregation, performance contracting and deregulation of management controls (Halligan 1998; Rowlands 2003; Talbot 2004). Centrelink has reflected these elements as

a specialised delivery agency constituted on the basis of purchaser–provider principles, performance expectations and scope for operating outside conventional bureaucratic practice.

The Centrelink experiment departed significantly from the agency model in three respects. First, there was the combination of scale and the multi-jurisdictional basis of its operation. In addition to distributing close to one-third of the Commonwealth budget outlays, it has delivered services for a range of departments and all states and territories. Second, it has been an important deliverer of integrated public services. Centrelink was created as a 'one-stop shop' or 'first-stop shop' for government services with the raison d'être of linking services for the citizen. Third, there was the capacity to operate entrepreneurially. As well, Centrelink has shared features with agencies internationally—for example, in operating as a government agency under special governance principles.

There is also the question of its operation (as opposed to its conception). The organisation evolved rapidly, seeking to define and reinvent its approach during its first eight years. Centrelink was also under pressure to adjust constantly to a changing environment. Originally envisaged as an organisation that was on notice to perform,[4] Centrelink had to address how to ensure that it was a sustainable enterprise (Vardon 1998a).

Organisational imperatives for a new agency

In contrast with the past approach that often combined several functions, modern public organisations have tended to be established to achieve one distinctive purpose such as policy, delivery or regulation. Centrelink's principal task is service delivery, but in its conception and execution as a public organisation, several different organisational imperatives have been apparent. Four models underpin Centrelink and each provides a different lens for viewing the organisation's functioning and thus a basis for considering the potential conflicts identified between them (Halligan 2004).

The first model, the political, derives from being directly or indirectly subject to ministerial direction, despite operating under special governance arrangements. Centrelink must adhere to the top-down authority relationship with ministers and government agendas and function as a public service organisation subject to public service legislation as a statutory agency. This model is ultimately grounded in traditional, but still central, ideas about responsible government (Aucoin et al. 2004).

The second model is of Centrelink as an agent and service provider in a purchaser–provider relationship in which it is expected to behave in specified quasi-contractual ways. Its operations are grounded in relationships with client departments: the purchasers of its services. The link to new public management

is strong (for example, disaggregation and contractualism), but it is influenced specifically by principal-agent theory and particularly the concept of executive agencies (James 2003; Pollitt and Talbot 2004; Pollitt et al. 2004).

The third model is that of an entrepreneurial organisation, which must compete in the market to secure existing core work as well as seeking new work. Under this conception, Centrelink is concerned with market share and with competition in the public and voluntary sectors, and even with extending its operations to the private marketplace. This imperative derived from the government's injunction to the Australian Public Service (APS) to operate more like the private sector and reflected new public management and entrepreneurial government dictums in vogue in the mid-1990s (Halligan 2003).

The final model conceives of Centrelink as a customer-driven organisation that is responsive to recipients of its services and thus driven by customer relationships and satisfaction. Feedback is gathered through surveying and benchmarking with the aim of stimulating continuous improvement and realignment within the organisation.

Each model captures an organisational imperative that is externally grounded and usually has a basis in the agency's empowering legislation. Each has a different external driver: politicians, clients, competitors or customers. They reflect top-down authority and contractual relationships and environmentally determined pressures from quasi-markets in which choice operates.

A further imperative can also be distinguished. A public sector agency that operates within the core public service is subject to the budgetary and administrative requirements of central agencies such as the Department of Finance and Administration (DOFA) as well as the strictures of external accountability from, in particular, the Auditor-General, the Ombudsman and parliament. An agency this large with extensive dealings with the public invariably attracts continual scrutiny from external organisations.

Changing management and policy environments

In examining the implementation of major change, the Public Service environment needs to be considered—in particular, changing agendas and how organisational capacity absorbs new policy and management priorities. There are also the routine policymaking and political preferences and the difficulties that agencies could have in the sphere of social security, in adjusting to changing requirements with time (Derthick 1990; McNulty and Ferlie 2003).

Public sector reform: new public management and beyond

Centrelink's creation reflected the mood of the mid-1990s. The past 25 years have been remarkable for the level of public sector change in Australia, which has been a foremost exponent of the new public management in the reform era

that emerged in the 1980s (Halligan 1997). The wave of reform was characterised by its magnitude, experimentation with new organisational forms and attention to system design. Reform was rapid, systemic and comprehensive as a range of specific measures was applied across the public sector (Halligan and Power 1992).

These reforms arose from societal pressures on governments to improve public services. There were demands for more cost-effective and high-quality services, increased consumer awareness and higher expectations of services tailored to individual needs and distrust of command structures and hierarchies with overheads that were administratively obstructive compared with devolved arrangements in which decisions could be made at the point of delivery. Further factors included advances in information technology (IT), which automated or facilitated many clerical tasks, and a changing international environment. In the search for solutions, governments turned to the private sector in the belief that a more businesslike public sector would rectify past difficulties and improve performance (Wills 1999).

The reforms can be seen through the changing agendas covering political control, management, markets and reorganisation. The Hawke–Keating Labor Government (1983–96) favoured the public sector while pushing it heavily towards the private sector. The conservative Coalition government that followed favoured the private sector but recognised the need to maintain a strong core public service. Later directions that emerged in the 1990s were fundamentally different from those in the initial decade of reform, in particular the shift from management reform to market-based change. The election of the Coalition Government in 1996 accelerated the emerging trends, initially focusing on cutting the budget deficit and the level of public sector staffing, and then on other fundamental changes.

The four terms of the Howard Government can be viewed as coinciding with different reform phases. The first term supported a neo-liberal agenda that emphasised cost cutting, markets and the private sector. The second and third terms provided opportunities for the reforms to be tested through implementation and then refined. In the process, the hard-edged focus of the 1990s emerged as less appropriate in the 2000s. In the fourth term, new agendas emerged such as reviewing corporate governance, a whole-of-government agenda and a strengthening of central processes (Halligan and Adams 2004; Halligan 2005, 2006a, 2008; Hamburger 2007).

What was significant was that the reform environment surrounding the formative years of Centrelink was characterised by devolution, privatisation, contracting, consumer choice and an intensification of cutbacks and the promotion of the private sector over the public sector. The second half of the period under consideration was dominated by different government agendas that favoured reintegration and reviews of non-departmental organisations.

Policy environment of social welfare developments

The refocusing of policy agendas for social security has also been important. Since the creation of Centrelink in 1997, there has been a number of changes to income support and welfare programs. For the first few years, these were limited in scope, but in 1999 another rethink of the welfare system was announced (details in Appendix 2), which had a significant impact.

The first strand of this round of welfare reform focused on working-aged people who were unemployed and receiving support. 'Work for the Dole' programs began in 1997 and involved local communities in activities of value to them that provided work experience for the unemployed. 'Youth Allowance' was introduced in 1998 and represented the rationalisation of income-support arrangements for the young unemployed and students.

The Job Network introduced from 1998—a result of the dissolution of the Commonwealth Employment Service (CES) as part of the Centrelink solution—completely changed employment placement assistance arrangements for the unemployed. After clients registered with Centrelink for benefits, they were referred to the Job Network—mostly voluntary agencies outside the Public Service that were contracted to assist the unemployed to find work or undertake training. Selected job seekers aged between 18 and 34 were required to meet mutual-obligation activity requirements.

A second major strand of reform involved reviewing welfare policy. The government launched a welfare review based on a set of principles that included establishing better incentives for people receiving payments, creating greater opportunities to increase self-reliance and capacity building and expecting people on income support to help themselves and society through participation in a mutual-obligation framework. The government response, 'Australians Working Together' (AWT), was intended to strike a new balance between incentives, obligations and assistance in welfare. AWT implementation occurred in stages through budgetary decisions and legislation that allowed a package of incentives, assistance and extra requirements to be introduced, and which impacted on Centrelink's service delivery.

Three major implications for Centrelink emerged from these agendas: the commitment to welfare reform and major policy change, the overall momentum of environmental change and the regular policy adjustments to service delivery.

Engaging the external environment

The importance of the external environment is well understood but the form of interaction with external actors varies from conceptions that view the environment as the determinant of organisational behaviour (for example, conformity with the market produces the best results) to those that recognise that the environment can be influenced, managed and can be 'pliable and

responsive' (Light 1998:14). The capacity to influence the environment, or rather significant actors in the environment, recognises a more dynamic relationship that will vary across issues and actors.

All organisational imperatives for Centrelink can be regarded as external, but the two primary relationships are those with the political executive and its client departments. The interaction between Centrelink and its external environment is where institutional tensions are potentially strongest. Centrelink has the attributes of a department of state but is positioned within contractual relationships with a range of departments for which it provides fixed and variable services.

The need to 'position for opportunities' has been identified by studies of the US Social Security Administration and Air Force (Derthick 1979; Barzelay and Campbell 2003). Public organisations operating in potentially constraining environments can, through positioning themselves, implement their objectives. Centrelink originally emerged from a combination of personalities, agendas and opportunities after the election of a new government. The concept was shaped by a compromise reflecting political expectations and the interests of existing departments. This compromise had long-term consequences for operations and relationships between client departments and Centrelink (Halligan 2004).

The continuing constraints took the form of the general reform agenda under a neo-liberal government, specific agendas such as welfare reform and the various imperatives discussed earlier. These constraints imposed different types of discipline on Centrelink, in particular where potential conflicts arose among the different stakeholders. The basis for subsequent debates about the roles of purchasing departments and provider agencies was laid by the combination of models that could be discerned in Centrelink's organisational imperatives (such as different interpretations about the relative importance of purchaser–provider principles, partnerships and political direction).

These differences were also established by the bureaucratic politics attendant on the entrance of a new type of agency. Unlike the United Kingdom and New Zealand, where the separation of policy and implementation was applied systemically, in Australia, Centrelink was an exception as a new delivery agency.[5] Despite being the largest organisation in the APS and undertaking work for a number of departments, Centrelink was excluded from the departmental club.

Obstacles, however, need not preclude the creation of opportunities, if an agency can lever off other attributes. Centrelink was an innovation of a government that conformed to the neo-liberal agenda. The ambiguity and conflicting imperatives also provided scope for initiative. The mandate to seek new business was a spur for entrepreneurial initiatives and the language of 'positioning' featured in Centrelink documents. Through advocacy and smart practices, opportunities could be turned to advantage as long as organisational longevity

was ensured. The original mandate as a delivery agency designed to provide services to purchasing departments and its unconventional character provided bases for Centrelink to position itself within the Public Service. The positions advocated, in addition to the one-stop shop, were the 'provider of choice', premier broker of information and solutions and 'inclusive service delivery' (Vardon 2000c; Zanetti 1998).

The advocacy of an agency position was clear in various operational contexts involving different types of inter-agency interaction. One was about competing for policy and contributions to the process; another examined using entrepreneurial and advocacy skills to consolidate and expand the agency's role while evolving a distinctive service delivery focus. A more intriguing development was the way the agency addressed inter-agency conflict and moved towards a more integrated alliance with its main client. This ultimately meant building inter-agency capacity to bridge organisational divisions.

Implementing new service delivery models

Service delivery is the core rationale of Centrelink as a specialised agency. The original policy problem for the Federal Government was that two departments had developed an overlapping network of offices that provided similar types of service—primarily social welfare payments and unemployment benefits. This was seen as wasteful duplication and confusing to recipients, many of whom were customers of both departments. The solution was intended to reduce government costs, to remove confusion for service recipients and to increase efficiency. The new agency was to provide services for both original departments, which could establish purchasing agreements for the services delivered.

Redesigning and modernising a large organisation for service delivery is a complex task. It was to be a customer-focused agency operating in a contested environment. Insights into the response of an agency specialising in service delivery can be found in the concept and operation of its core responsibility—namely, how it engages the customer and the design of its service delivery structures. External and internal dimensions—specifically, the policy context of service delivery already discussed and the management support for this function—need to be examined.

How did Centrelink respond to these challenges? In short, it developed a clear and systematic approach to service delivery models. In time, this involved moving from the original diverse and individual government programs towards a more holistic, integrated customer service. As the organisation developed, the delivery model moved through several stages (Vardon 2000b).

Important issues faced by Centrelink included how to achieve organisational goals (which could be conflicting), such as customer responsiveness, improved service quality and the demands for cost efficiency. The achievement of goals

requires the building of management capacity. To transform an organisation from a traditional departmental and bureaucratic form, however, and to sustain performance, requires careful consideration of an appropriate process for change.

Leading and managing major change

Transforming a large organisation

The traditional literature on reform and change emphasises unsuccessful initiatives and resistance to change (Halligan and Power 1992). In the reform era, however, the success rate has been notably higher, and there has been a new emphasis on factors that stimulate and support change. These factors include strategic thinking, acting according to core values, customer focus and the development of human resources. Factors determining success in organisational change include the level of acceptance of the need for change, leadership communication, support from senior management and politicians, institutionalisation and alignment of management systems (Rainey and Fernandez 2004:36).

The scope of change ranges from a more limited focus on innovative practices to transformative or fundamental change. Is it in fact possible to produce transformation in organisational change in large public sector organisations and, if so, what is the result? According to McNulty and Ferlie (2003), the discussion of organisational transformation is vague because of the lack of empirical evidence to assess the impact of these planned transformations in the long term. The question of whether to view Centrelink as a transformative case derives in part from its own depiction of its development. After the set-up stages, Centrelink anticipated change at the level of transformation, particularly with the delivery of government services (Vardon 1998d, 1999b).

Vardon's conception of transformation was informed by Kotter's (1995) examination of why it failed and this influenced her thinking about organisational change. There was also a broader dimension that located Centrelink within international pressures on organisations delivering public services facing transformational change, which reflected thinking about the future 'transformation of the business landscape' (Vardon 1998a). The drivers of change were globalisation, consumer power and technology. The conclusion was that 'the public sector cannot escape the impact of such transformational change' particularly through the interface with customers: 'Centrelink's communication with our customers will be the first and most visible area of transformational change [of] the ways of doing business' (Vardon 1998a:1–3).

Two stages of transformation emerged: the original transition from the departments (Social Security and Employment, Education, Training and Youth Affairs) that focused on branding, customer service and cultural change; and

the re-engineering of service delivery and entrepreneurship to create a new organisation.

Leading change

Successful change requires leadership and its significance in organisational change and public agency performance is reaffirmed by a number of studies (Rainey 2003; Nutt 2004). In reports on large-scale public sector change—the cases of the US Air Force, Internal Revenue Service and the Social Security Administration—leaders played crucial roles in the change processes (Barzelay and Campbell 2003; Rainey and Fernandez 2004; Thompson and Rainey 2004).

A number of propositions about leadership are well understood. During the life cycle of an organisation, or at different stages of development or for specific processes, different types of leadership can be appropriate (Stace and Dunphy 2001). There is evidence to indicate the need to think beyond individual leadership to concepts such as the 'mutualist' (Nutt 2004), who draws on broader patterns of support, or the model of integrative leadership as a more comprehensive means of viewing these processes (Moynihan and Ingraham 2004). Transformational change also requires the attributes of transformational leadership involving interaction with the external environment and building management capacity through internal management systems.

Effective leadership is shown 'through actions that build and improve organisational abilities and…governmental capacity, represented by management systems' (Moynihan and Ingraham 2004:429). In the well-known distinction between management (planning, budgeting, organising, staffing, and so on) and leadership (establishing direction, aligning people, motivating, and so on), there is, however, advice about the need to fulfil multiple leadership roles. Successful transformation is argued to be mostly about leadership and secondarily about management (Kotter 1996:25–6).

In the case of Centrelink, the CEO was the pivot, with the governance oversight mechanisms of the board (including the chair) and the minister playing roles; but how was a large and complex organisation to approach a model of integrative leadership? Distinctive roles also needed to be adopted by the CEO and complemented by the different roles of members of the most senior management group (covering responsibilities for the key management functions).

Building management capacity is a core element based on internal management systems such as finance, human resources and IT. These provide the levers for leaders to produce the organisational capacity that drives and improves service delivery. For Centrelink, the focus was on the importance of strategic direction and planning in supporting the objectives of the organisation. Policy management and implementation were carefully crafted for service delivery. The development of human resource management and an organisational culture over time was

important. Performance improvement was to be achieved through focusing the management capacity to achieve service delivery results and to be facilitated through using the balanced scorecard for oversight of performance.

Articulating strategy and seeking internal alignments are important precepts for action (Spicer et al. 1996; Stace and Dunphy 2001). A crucial factor in successful change is 'the implementation of a set of mutually reinforcing changes' (Rainey and Fernandez 2004:36; Moynihan and Ingraham 2004). The connection between these elements can be handled through a standard management approach, starting with strategy and looking for conformity from management systems and organisational fit with the environment. For Centrelink, certain leverage points were significant for moving the agenda on, such as the relationships between strategy, delivery models, performance and human resource planning and implementation.

Overview of book

Balancing conflicting imperatives

The existence of four models based on politicians, clients, competitors and customers within one organisation creates challenges in satisfying a range of interests and values. The incorporation of conflicting models in a complex approach to institutional design is well recognised as potentially problematic (Aucoin 1990). In the case of Centrelink, several of these models had to be either reconciled or resolved in order to address the sharper conflicts and contradictions.

This balancing act also profoundly affected the governance and management of Centrelink, particularly its planning and internal capabilities. Moreover, these imperatives can lead the organisation in different ways, which makes the achievement of internal alignment particularly challenging for a public organisation. They can emphasise continuities and suggest path dependencies or departures and change. The fundamental question for Centrelink under these circumstances is how does it handle the multiple demands on it in practice, particularly when they are in conflict? Reconciling the models and the fit with internal capability provides a basis for analysing this question.

The main issues derive from Centrelink's origins as a reconstituted organisation, which was designed to be original, and the ways in which it can confound existing stereotypes about public organisations (cf. Kaufman 1985). The external relationships are complex, involving client departments, the board, the government, the minister and customers. The governance relationships encompass detailed contractual obligations, partnerships, direct authority relationships and public accountability. As a 'one-stop' organisation, Centrelink represents a complex experiment with integrated service delivery for a range of policy clients.

Within this overall concept there were potential conflicts. Centrelink was a public organisation subject to political demands and pressures, which sought to operate as a business within a competitive environment. It was a large and complex organisation at a time when disaggregation and single-function agencies were favoured. It was also a delivery agency accountable to client departments that had differing policy expectations, requirements and standards.

Chapter coverage

Chapter 1 examines the origins of Centrelink within the policy nexus of ideas and the management reform environment of the 1990s, and their influence on the design decisions for Centrelink. This leads into an overview of the organisation in Chapter 2 that provides a historical and descriptive context, including how Centrelink evolved.

The strategies and frameworks that have been developed to focus and integrate Centrelink's approach are addressed in Chapter 3. The next chapter, on leading and managing change, analyses and explains how change has been managed in Centrelink, focusing on the chief executive, Sue Vardon, and her leadership style.

Chapter 5 examines how delivery systems have been transformed in response to the changing policy environment and new conceptions of how to respond to customer needs.

The next two chapters focus on external relations with the political executive and clients. Chapter 6 addresses Centrelink's governing arrangements, and in particular the role of the political executive and the board of management. Chapter 7 explores the range of relationships between client departments and Centrelink and how they have evolved towards more collaborative arrangements. In Chapter 8, the agency's relationships with other significant stakeholders are viewed from its perspective, and in terms of the organisational imperative to be entrepreneurial and to constantly seek repositioning of the organisation within its environment.

Chapter 9 provides an overall evaluation of the formative years of Centrelink against the questions raised in this introduction. The impact of an organisational life cycle is considered as Centrelink continues to be subject to a changing environment. Centrelink is the product of the 'new public management' environment of the mid-1990s that provided opportunities for a new agency to be entrepreneurial and innovative. With the different public management agendas emerging by the mid-2000s, a more conventional departmental approach has replaced the initial Centrelink experiment. The final chapter, by Margaret Hamilton, a former Centrelink executive, provides a postscript to Centrelink's first eight years and the departure of Vardon, and addresses changes to the

organisation after its incorporation into a new, integrated Department of Human Services.

ENDNOTES

[1] For references to Centrelink as a case of integrated service delivery, see Kernaghan (2005) and WBI Leadership Development Program and IPAC (2007).

[2] The original questions are in Appendix 1.

[3] The pragmatism inherent in the British tradition encouraged statutory authorities to flourish at times as specific solutions to problems.

[4] Of course, no conventional department can expect to be immune from changes by the government, but in Centrelink's case it was advised of the need to perform in order to retain functions, and there was a sense that its very existence was not guaranteed.

[5] A few other cases existed, such as the Australian Taxation Office, which was not a product of the move towards new-style executive agencies, but simply a conventional pragmatic solution for implementation.

1. Designing a delivery agency

Explaining organisational innovation

The creation of a large public organisation is a significant event because such a major institutional commitment is rare.[1] Democratic governments normally have limited capability for radical design (Olsen 1998) as the conditions for major change occur infrequently, but a window of opportunity occurred in Australia in mid-1996.

Australia has had large public organisations before and the progenitor of Centrelink, the Department of Social Security (DSS), was large in the departmental pantheon. There was also the 'mega-department' experiment from 1987, which resulted in agencies of greater complexity but not necessarily of more substantial scale (Halligan 1987). In Centrelink's case, the concept that emerged after its inception was for a new type of Australian organisation: a generalised delivery agency that could handle several major functions. In moving towards the combination of elements, as discussed in the Introduction, a number of considerations were involved.

The interest in reform origins derives from the process of conceiving a distinctively different public organisation and the early decisions about the range of design features that came to be embodied in it. Why did the Commonwealth Services Delivery Agency (CSDA), the precursor of Centrelink, emerge at this time and why as a new type of organisation? These questions require interpretations of organisational origins and institutional change based on the historical evidence.

A perspective on management change within the rational instrumental tradition assumes that reform is the product of deliberate choices between distinctive organisational options. How much freedom of choice do reformers have, however, when they decide whether to reform or not and then when they determine reform content, implementation and consequences (Brunsson and Olsen 1993)? Existing solutions are often applied to problems when the conditions for change arise, but the results are shaped by institutional values.[2]

One study that has successfully integrated a set of elements for handling the complexity is Kingdon's (1984) depiction of three distinctive streams in agenda setting: problems, policies and politics. These streams operate independently: the recognition of problems that require attention, the policy ideas that eventually produce alternatives and the political arena covering, inter alia, changes in government. The confluence of the streams through the merging of politics, problems and solutions provides an opportunity for an item to be promoted to the decision agenda.

The second consideration was the process of deriving a set of design choices for a delivery agency that articulated and developed the concept that was launched in September 1996. The issues covered structural questions about the decoupling of policy and delivery, the integration of delivery roles and the choice of agency features at a time when the international reform movement was at its peak. More practical options involved the division of responsibilities between departments and agencies, governance arrangements and the delineation of relationships under purchaser–provider arrangements.

This chapter examines the confluence of trends, ideas and agendas that led to the establishment of a new type of service delivery agency and considers the design decisions that shaped the development of the organisation before its inauguration in 1997.

From traditional bureaucracy to new delivery options

The Department of Social Security and the two-network question

The DSS represented the traditional face of Australian departments of state. It was monolithic and multifunctional, covering policy and delivery responsibilities. It was a very large department by Australian standards that was slowly modernising.

A longstanding issue was the existence of separate networks of regional offices directly serving the public for the DSS and the Department of Education, Employment, Training and Youth Affairs (DEETYA). The maintenance of two networks by these departments—the DSS to claim benefits, DEETYA to register for employment—was regarded as duplication in some quarters (but not necessarily within the departments, as they perceived themselves as serving different customers: the DSS, the unemployed, who were the labour-intensive component of a broader benefits system; and DEETYA, the employers). In addition, there were client and customer problems including 'people falling between the systems', uneven liaison between agencies and other delivery problems,[3] hence the observation that 'there have been many plans to combine employment registration and employment benefit payments in Australia but they didn't happen—it seemed too hard' (Vardon 2000b).

The committee report of the House of Representatives (HR SCEET 1988) entitled *Getting to Work: Report of the Inquiry into Training or Return to the Workforce by Social Security Pensioners* concluded that '[c]loser liaison between CES and DSS is essential in ensuring that beneficiaries have access to counselling and/or employment advice even when they are unable to travel to the relevant office'.

There was a historical antecedent to the Centrelink arrangements: the series of attempts over the years to join DEETYA's unemployment, youth and student

assistance arrangements with the DSS's unemployment and youth payment arrangements. Acknowledgment of their related nature led to co-location of the Commonwealth Employment Service (CES) and the DSS offices in some areas. A series of meetings in the mid-1990s between departmental secretaries Tony Blunn and Derek Volker was aimed at improving coordination between the DSS and DEETYA, but a new service agency was never contemplated. Otherwise, the intentions to improve coordination failed (Briggs 1996). There had also been a long history of 'turf wars' between the two organisations, reflecting departmental territorial imperatives. That rivalry was to have a strong influence on the ultimate structure and governance of Centrelink.

Delivery modes

The 48-year monopoly the CES had on the provision of services to unemployed people had been challenged by an experiment begun under the previous government. The Labor Government had sought to contract out case management to a variety of private and community bodies (Donald 1996:24) and wanted greater freedom of choice and competition through extending the market share of the non-government sector.

At the time of the election, Coalition policy on employment and training focused on employment assistance and case management. It mentioned duplication in service delivery between the Commonwealth and state governments as an object for scrutiny by a commission of audit. It also accused the then case-management system of being overburdened because, inter alia, of functional duplication. There was no mention of a perceived overlap between the DSS and DEETYA or of possible restructuring. The document mentioned income support explicitly and committed a Coalition government to administering unemployment benefits through the Department of Social Security. It also promised that the CES would be asked to make public its standards of service in each office and its performance against targets in its immediate area (Liberal Party of Australia 1996).

A senior Commonwealth public servant, at a conference on competitive tendering and contracting, queried the CES's capacity to deliver services effectively and expressed surprise that there was 'still a belief that very large government bureaucracies can do a good job of delivering complex services to clients in Australia…the Commonwealth Employment Service is one body that will no doubt get some questioning in that regard' (Moran 1996:19). It was expected that the new government would scrutinise the CES, and this was understood by DEETYA's senior management (Rowlands 2003).

There was also a growing consciousness of the connections between the social policy departments (DEETYA, DSS, Health and Veterans' Affairs). These departments were developing policy that impacted on the same group of people.

Policy ideas and options

One-stop shops

The concept of the one-stop shop or 'retail government store', and specifically the one-stop welfare shop, had been discussed since the mid-1970s (Wettenhall and Kimber 1996:15–17). The idea of creating a one-stop shop appeared explicitly in the report of the Royal Commission on Australian Government Administration:

> The object of a 'one stop shop' is to provide as nearly as possible a complete service (including if possible the power to make decisions) in one place, at one visit, and with members of the public having to deal with not more than one or two different officers. (RCAGA 1976:161)

The commission sponsored an experiment with a one-stop shop, the Northwest One-stop Welfare (NOW) Centre in Coburg, Melbourne. It was unable to evaluate the experiment satisfactorily but it considered NOW to be an excellent example of intergovernmental cooperation (RCAGA 1976:163) and recommended that the experiment be continued for at least two years. It further recommended that the Commonwealth Government indicate its willingness to help establish other one-stop shop centres experimentally where local and regional organisations wished to sponsor them, and where the relevant state government was willing to participate.

There were also experiments at other levels: local government, the 'shopfronts' established in the Australian Capital Territory from 1987 and cases that crossed sectors and levels of government (Wettenhall and Kimber 1996).

One other echo of this interest was Prime Minister John Howard's address at the official launch of Centrelink, which traced the one-stop shop idea to the 1970s (Howard 1997):

> From the moment I entered Parliament in 1974…I began hearing complaints about the number of agencies you had to visit…And what focused my mind at the time was that so many people felt that if only they could go to one place and have all their business done in that one spot it would be a lot more efficient, it would be a lot more human and it would make a great deal more sense.

Politicians had already picked up the notion of a one-stop shop several years earlier. It emerged from Liberal Party proposals for public sector reform contained in the 1993 'Fightback' policy statements that promised to 'combine the Department of Social Security and the Commonwealth Employment Service and devolve responsibility for administering employment and training programs from government agencies to Local Employment Boards with an increased investment on [sic] the community' (Hewson and Fischer 1991a:39).

There was explicit reference to creating a one-stop shopfront and further discussion of amalgamating the delivery functions of the DSS and the CES, citing an Australian National Audit Office (ANAO) report on the merits of closer working relationships between them (Hewson and Fischer 1991b). The Fightback documents painted a picture that resembled Centrelink—that is, collapsing the CES into the DSS network to create a one-stop shop for the unemployed and contracting out the job-placement function.

Trends in service provision and diffusion

By the early 1990s, Australia's public administration reforms had been consolidated and the first decade officially evaluated (TFMI 1993). There were unfinished agendas. The first was the evolutionary acceptance of market principles that were assuming centrality by the mid-1990s as competition and contestability became the currency of reform. The second was the acceptance of more flexible approaches to delivery systems for public services and the need to move beyond the traditional monolithic departmental structure.

New trends were appearing that influenced the direction Centrelink would eventually take. These included:

• the concept of entrepreneurial government; although the underlying ideas were familiar to Australian reformers, they were given impetus by the 'reinventing government' movement that was stimulated by the popular US writers Osborne and Gaebler (1992)
• purchaser–provider—which was among the related options, such as contestability and new contractual relationships, being appraised by the Department of Finance (1995), which was producing reports on these subjects by the mid-1990s
• the development of specialised agencies—pioneered in New Zealand and the United Kingdom, the best known being the latter's executive agencies.

A pivotal influence on the DSS was exposure to the New Zealand system of decoupled policy (ministry) and implementation (agency), which occurred during the six-country (Australia, the United Kingdom, Canada, Ireland, New Zealand and the United States) annual meeting of social security departments in the mid-1990s. One view was that Centrelink was born on a visit to New Zealand, where Tony Blunn was exposed to delivery arrangements that went beyond the boundaries of what was thought possible. The experience produced a 'sea change' in terms of what was seen as operationally attainable.

Three ideas were now in circulation. The first was the growing realisation that service delivery could be a form of specialisation that went beyond arrangements internal to a department. The second was the acceptance of the focus on the 'customer' as a primary objective. The third was the movement away from the traditional DSS office layout by using open-planning principles in branch offices

that encouraged better access for customers. The confluence of these complementary (and contending) ideas provided the opportunity for an organisation design that envisaged some combination of service delivery, purchaser–provider and integrated services.

The agency trend internationally

One of the most interesting developments internationally at this time was the experiment with separating policy formulation from implementation, which included the creation of new executive agencies (Halligan 1998; Rowlands 2003). The diffusion of these ideas internationally was one of the strongest public sector trends of the 1990s, making the decade an age of 'agencification'. The cases from New Zealand and the United Kingdom were well known to senior staff of the DSS and the central agencies.[4]

In Australia, these ideas were not accepted either rapidly or enthusiastically. During the reform period, three positions were important: an attachment to traditional views regarding the handling of policy; the horizontal consolidation of departments; and the shift in attitudes in the 1990s towards separating policy and operations. Until the early 1990s, Australia was attached to combining policy and implementation roles within a department because it was thought essential to maintaining effective feedback from those delivering services. Of the anglophone countries, Australia remained closest to the tradition of maintaining integrated policy and administration. This tradition also reflected the firm belief that there must be close interaction between policy and execution and that integration within one department was the best means of securing this. Australia not only resisted moving in line with the United Kingdom and New Zealand, it followed a different approach in 1987, when it sought policy coordination and portfolio rationalisation through the horizontal consolidation of departments.

At the same time, however, the doctrinaire belief of the APS in the superiority of integrated policy and implementation was being eroded. The British executive agencies and New Zealand's decoupling now seemed less unpalatable. In 1994, the option of experimenting with new-style agencies was raised at a conference by the former head of the Department of the Prime Minister and Cabinet, Michael Codd (1996:179):[5]

> The extension of the principles of business enterprise reform into the delivery of programmes and services in core government functions, through the establishment of agencies for that purpose, has also attracted increased interest in recent years. The central part of the rationale is that, by drawing a boundary around a discrete administrative function (such as payment of pension cheques in accordance with entitlements) and giving the task to an agency, the responsibilities and expected performance can be clearly specified, and people with the appropriate

skills recruited or assigned and held accountable for achieving that performance.

Moreover, what Codd considered was a reasonable approximation to the arrangement was later instituted for the DSS and Centrelink (albeit in the context of questioning the merits of agencification, as befitted the ambivalence that still existed at that time). He argued that social security entitlements were defined clearly in the law and that the boundary between exercising administrative authority and policy work should be capable of being drawn with sufficient clarity without invoking an agency arrangement (Codd 1996:180). The benefits of agencification might therefore be realised without requiring a major organisational change.

There were other signs of change. Blunn, the head of the DSS, reflected on his conversion: '[W]e'd previously been trying to integrate service delivery into the policy structure so that it was sort of seamless because [the] view…was that if you separated service delivery from policy then you created the potential for failure. But in my view it wasn't working' (Interview).

Impetus from a new government

The emerging consensus on new and possibly more integrated solutions for delivery, which might employ purchaser–provider principles, needed an impetus. This was provided by the Howard Government's reform agenda for the public sector, which included a commitment to make the provision of government services open to competition (Vardon 1998a). This commitment conformed to the broader move towards the use of market-like mechanisms in the public sector (Rowlands 1999).

After the Coalition's victory in the 1996 election, APS attention was dominated by how best to respond to the expectations of the new government. In particular, this meant focusing on the government's intention to address a substantial budget deficit. The Treasurer, Peter Costello, announced that the government would review all measures agreed to by the previous government between the 1995/96 budget and the beginning of the caretaker period preceding the election.

The Minister of Finance, John Fahey, also proposed that action begin to reduce government costs, starting with an across-the-board 2 per cent running-costs reduction from 1996/97.[6] He also proposed that the National Commission of Audit (NCA), created by the new government shortly after taking office, undertake a major review of the management and financial activities of government and establish what additional efficiencies might be achievable in later years through, inter alia, the adoption of more cost-effective personnel practices; developing a framework and strategy for IT; greater use of competitive tendering and contracting out; benchmarking; and rationalisation of client

contact networks between and within agencies. The new government considered these proposals early in its first term.

It is also apparent that the impending changes had their origins not solely at a political level but among central agencies, especially Finance, which generally took a professionally conservative view of public spending.

Anticipating the new government's agenda

The specific idea of creating Centrelink and the associated arrangements flowed from the two departmental secretaries most involved, Sandy Hollway (of the newly formed DEETYA) and Blunn (DSS). The duplication of the DSS and DEETYA networks was an obvious target for savings options for the Department of Finance. Blunn and Hollway recognised what was coming and moved quickly to achieve at least some control over events.

Blunn approached Hollway with the idea of creating a combined 'shopfront'. According to Hollway, 'it took us approximately 15 minutes to agree in principle that we wanted to head in this direction' (Husock and Scott 1999a:3). In late March 1996, the secretaries arranged a meeting of their senior staff at which the third agenda item was '[c]o-operation in client service delivery, including property co-location and rationalisation; reciprocal placement of DEETYA and DSS information/desk officers in each department, and scope for [a] joint approach to realising savings' (Husock and Scott 1999a:3). One participant commented after this meeting that Blunn and Hollway appeared to be 'falling over one another in the struggle to appear to have the broader view and the grander vision' (Interview with senior Centrelink official).

Blunn and Hollway, having anticipated the issue, used the available intellectual concepts (in the form of the agency or purchaser–provider models of government activity) to shape events. Those models were not at the forefront of the thinking that inspired this change; its basis was a 'savings option'. As can be seen from the NCA report (1996), however, such thinking was not far away and was likely to have influenced the final reform.

The considerations that were influential included the following.

• The need for the two departments to consider better integration of service delivery and program design because the two would be forced to undertake something along these lines, in view of the budget deficit and the need to find savings in expenditure. If the two departments could not formulate an approach to achieving substantial savings in running costs, they could expect to face less palatable options, most likely proposed by the Department of Finance.

- For the same reason, the ideas of one-stop shops and the integration of service delivery had to be addressed even though they raised fundamental issues about the architecture of the system.
- The question of whether there should continue to be two separate networks of regional offices, each responsible for carrying out the work of its portfolio only.
- There were only two obstacles to having a single delivery agency: accountability arrangements and how these were 'policed', and the possible loss of the 'profound connection' between those who developed policy and those who designed and carried out its implementation (see Rowlands 2003).

Conceptually, the DSS and DEETYA could be thought of as two organisations, each with shared ownership of a delivery organisation. There was a range of possible variations and substantial potential savings. There were also concerns, in Blunn's view. First, he did not want to confuse or destroy roles. Second, he did not want to separate delivery and policy roles. There was, however, little choice. If the DSS and DEETYA did not take the initiative, others would. It was clear from subsequent events that the idea was then fed into the early decision-making processes of the new government, particularly its decisions focused on reducing expenditure.

One of the DSS division heads involved in the early process summarised it as follows:

> The recent change of government provided the Secretaries of DSS and DEETYA [with] the opportunity and climate for fundamental and innovative change. They agreed within a month of the election that it made good customer service sense to integrate the two networks under new purchaser–provider arrangements, thereby establishing an agency with a community side rather than [a] low income customer base. They presented their vision to Ministers and senior managers of both Departments and by 'merging' rather than 'taking over' functions and maintaining Departments they were able to take their managers and other Departments with them. (Briggs 1996)

It is generally accepted that had the DSS and DEETYA not come up with the proposal, the government would have taken action (as evidenced by the report of the NCA). Indeed, there was an element of satisfaction in Blunn's (1997b) later comment, as part of a reflection on life in the first year of the new government, that he felt comfortable with the NCA. The government

> zeroed in very quickly. It said: 'We can achieve big savings in the DEETYA and DSS area. We can crunch together the delivery mechanisms and make huge savings'. And it was great to be able to say, 'Ah! We are there before you'. We had actually started that process. (Blunn 1997b:35)

Interpretations: opportunities, events and personalities

An announcement was made in the 1996 budget of the decision to create the Commonwealth Services Delivery Agency (CSDA), later renamed Centrelink. The decision was consistent with the findings of the NCA, which reported to the government in June 1996. It recommended rationalising the delivery of income and employment services and raised the idea of opening the provision of those services to the private sector (NCA 1996:107).

A chapter in the NCA report entitled 'Best practice in government activities' (NCA 1996) listed a range of techniques that could be employed to improve the delivery of Commonwealth programs (a list similar to that proposed by Finance Minister Fahey in the new government's initial weeks in office)—in particular, the discussion of 'cross-program approaches' that focused directly on DEETYA and the DSS. AusIndustry was cited as an example of a 'cross-program approach to service delivery', and 'rationalising the delivery of income support and employment services' was mentioned as the only potential case. The report observed that two departments were the major agencies delivering income support services:

> DSS has a service delivery network of 19 area offices, 217 regional offices, 69 smaller outlets and 16 teleservice centres. DSS employs 20,850 staff. DEETYA has a network of 19 area offices, 186 large offices, 134 smaller offices and 88 CES agencies. DEETYA employs 11,500 staff. (NCA 1996)

There was seen to be significant scope to rationalise service delivery through developing a network of shopfront offices. There was also thought to 'be scope in the long term to contract out the delivery of these services to the private sector' (NCA 1996:107, 115).

Translating the concept

In March 1996, the new Commonwealth Government was keen to address a substantial budget deficit. Some senior public servants believed that ministers thought that reducing APS staff numbers could generate a substantial proportion of the desired savings. An early decision (in April 1996) was made on strategies for securing a reduction in APS staffing.[7] About this time, the government agreed that the Minister for Social Security, Jocelyn Newman, and the Minister for Employment, Education, Training and Youth Affairs, Senator Amanda Vanstone, should develop options for a one-stop shop for beneficiaries. In conjunction with the Minister for Finance, the two ministers were to bring forward a proposal on this matter for consideration by the government. The government also decided that the Minister for Employment, Education, Training and Youth Affairs should examine the scope for further privatisation of employment-placement services and report back to the government.

There were therefore two processes operating simultaneously, but the outcomes were shaped by two stipulations: the general brief from the two key secretaries (Blunn and Hollway) and the government's expectation that initial savings of 10 per cent would be achieved. This required the merger of the employment side of the CES and the payment side of the DSS. The stage was set for the full development of proposals for a service delivery agency and associated changes to the CES and employment services.

Three models were initially offered: a super social security department, an independent statutory authority and a middle-ground service delivery agency. In terms of setting the agenda, the DSS preference was for social security to assume a broader delivery role that encompassed other departments. As this was unacceptable to DEETYA, the concept became one of policy coordination through a delivery agency. The third model was the preferred option, which derived from the original concept of a new agency emerging from the policy–delivery split.

The refining of the concept for implementation proceeded through two main stages: the initial approval by cabinet and the subsequent approval of the CSDA in the 1996 budget (before the public launch of the CSDA in September 1996). Again, two processes were operating: the first, influenced by considerations of rational design, was concerned with exploring the options for the development of a multipurpose CSDA. The basic concept was of an agency with two major clients but with the potential to serve others. There was also a 'blue-sky' dimension that reflected the open-ended potential of a large agency serving multiple policy departments. A range of possibilities could be envisaged for a multipurpose, one-stop shop. Ross Divett, the subsequent first deputy CEO of Centrelink, eventually incorporated the concept of an agency that could provide services in the draft legislation. In addition, there were the new governance arrangements under which it would operate. The other key element of the delivery agency refined at this time was a separate agency with a chief executive and an executive board of management (which would offer the government opportunities to appoint members with private sector experience).

The second process, paying heed to bureaucratic politics, addressed the question of pinning down the concept in a meaningful way for final approval by the government and laying the basis for the implementation of a viable organisation. This required recognition of the constraints on choices and the need to balance political expectations and the interests of departments.

The actors involved in these processes extended across the relevant departments and central agencies, with key secretaries and members of task groups most important. Of strategic importance were the head of the DSS, Tony Blunn, and a new leader of the task group, Carmen Zanetti, who was appointed fresh from exposure to the US environment during study at Harvard University.

The original concept envisaged a policy–delivery split that would produce a large agency with several small, high-level policy departments (each with perhaps 150 staff). The small policy department reflected organisational thinking at that time in New Zealand and the United Kingdom. Other models, such as the Treasury–Australian Taxation Office relationship had also been considered.

Blunn, however, had second thoughts about being left with a small department confined to policy and sought a clear demarcation of the interface between the two new organisations. Blunn's reformulation was to add a middle area between policy formation and delivery that essentially represented program management or operational policy. This meant that the DSS would keep product design of delivery and control of the program—retaining as much as three-quarters of the program area. Under this revised concept, Blunn envisaged that the department and the agency would compete in the middle ground and the challenge would therefore be to 'get the interface working properly' (Interview). The use of purchaser–provider relationships was to be a core element in this process.

This compromise over the distribution of responsibilities reflected the dogma of the Commonwealth system, but had long-term consequences for operations and relationships between client departments and Centrelink.

Conclusion

Centrelink was a product of the mid-1990s. A new organisation emerged from a combination of personalities, agendas and opportunities as the political stream became actively engaged through the election of a new government committed to rationalisation and cutbacks. Policy options became more concrete as a solution was sought for the problem of APS departments confronting a government with a cost-cutting agenda. Out of the convergence of the streams came an organisation that was quite different from the most prominent international experiments with new-style agencies.

The next step of the process was formulating options that would be accepted by the government and could be given organisational form. In explaining the changes, Blunn was pivotal and could claim as much responsibility as anyone for the concept of some form of agency, and then exercised decisive influence over policy options for the government and hence Centrelink's eventual form. Choice (Brunsson and Olsen 1993) was constrained by the government's agenda and by reformer preferences that reflected existing institutions, however, conditions were sufficiently propitious for significant organisational innovation to occur.

The rationale for Centrelink derived from cost factors and integrated service delivery (Rowlands 1999; Mulgan 2002). The source of later debates between departments and the agency was the structural features of Centrelink and how to define the roles of purchaser and provider.

ENDNOTES

[1] A US example was the creation of the Department of Education (Radin and Hawley 1988).

[2] As envisaged by the 'garbage-can' approach. Under the 'logic of appropriateness', rules and routines influence actions and produce conformity (March and Olsen 1989).

[3] A related but different idea was the removal of responsibility for social security operations from the DSS, which was referred to much earlier by Carlton (1986:202) in expressing concern about the large proportion of public employees engaged in 'major operations such as paying pensions' in a management environment 'not suited' for such purposes. The context for the remarks was the debate about privatisation (Rowlands 2002).

[4] Some DSS executives had participated in the design and implementation of the UK Benefits Agency, while on exchange with the British DSS.

[5] In its extreme application, Codd argued, all administrative tasks of government could be assigned to agencies. In these circumstances, core government functions would comprise only policy formulation, advice and determination.

[6] 'Running costs' was the term then used for the operating costs of departments, to be distinguished from the costs of benefits, grants and so on distributed by them—a much greater proportion of the Commonwealth budget. The terms 'running costs' and 'program costs' were replaced with the introduction of output-based budgeting by 'departmental' and 'administered' items.

[7] Minister Peter Reith's press release (1996) said that the government's approach had been settled earlier that week.

2. Centrelink's development

Centrelink was established in July 1997 as a statutory agency within the social security portfolio with a simple and quite original task. This was to enter into arrangements with department heads to carry out functions and to be responsible for delivering federal government services and benefits to Australia's unemployed and social welfare recipients. The Prime Minister, John Howard, called the establishment of the new CSDA 'probably the biggest administrative reform of recent times', with its combination of 'efficiency with sympathetic and responsible service' (Howard 1997:6).

This chapter examines how this administrative reform has been played out since its creation by providing an overview of the main dimensions—including the challenges and achievements—and serving as a bridge to the more specialised treatment in subsequent chapters. It expands on the ideas behind Centrelink's creation touched on in the previous chapter—an efficient organisation; a customer-centric one-stop shop separating policy from delivery; a modern public agency with purchaser–provider arrangements; an executive board with multi-portfolio accountability—and tracks how they developed in times of major change. It also examines how Centrelink has sought to integrate successfully staff from two departments, to re-engineer procedures and systems and to develop its own culture and business processes.

Concept and responsibilities

Presented as 'the human face of the Commonwealth government', Centrelink's mission was 'to provide easy and convenient access to high quality government and community services that improve the lives of Australians, their families and communities' (DFaCS 2003:249). Centrelink was to be the Howard Government's key administrative innovation of the 1990s. Jocelyn Newman (1997), the Minister for Social Security at the time, saw it as a new model:

> Service delivery agencies have been established overseas, notably in the [United Kingdom] and [New Zealand]…but the new agency takes the concept of single-point government service delivery further. Unlike overseas counterparts, the Agency will not operate solely as an administrative entity within a department of state or be limited to single portfolio responsibilities. In many ways the Agency represents a groundbreaking model for government service delivery at a federal level…customers will have a single point of contact—a one-stop shop—for a range of government services.

According to the explanatory memorandum for the bill creating the new organisation, Centrelink would deliver various services that were provided by

a variety of departments. The second reading speech of the bill reiterated Centrelink's role as a cross-department delivery agency, and high expectations of service: 'The clear principle underlying the concept of the agency is the government's commitment to put the needs of people for high quality service delivery above the boundaries of Commonwealth departments and agencies' (Ruddock 1996:7623–4). This chapter considers how Centrelink went about responding to that responsibility in its first eight years.

The new agency immediately took over responsibility for delivering social welfare and employment-related services and income support to some 6.2 million members of the Australian community. The biggest two segments, in terms of customer numbers and payments made, were 'families and children' and 'retirement services'. Its recipients—or customers, to use Centrelink's preferred term—are set out in their main groups in Table 2.1

Table 2.1 Centrelink's customers

Customer segment	No. customers (million)
Families and children	1.80
Retirement services	2.00
Employment	1.10
Disability and carers	0.70
Youth and students	0.50
Rural and housing	0.02
Total	**6.2**

Source: Centrelink 1999a:2–3.

While the creation of Centrelink was partly about combining employment and welfare services in one organisation, providing employment services was always going to be a small part of the total and, because unemployment fell after Centrelink's inception, it came to make up just 5 per cent of its business. Nevertheless, the employment segment consumed a higher proportion of staff effort than other segments, primarily because each payment required more processing effort within the office. In colloquial terms, the unemployed were expected to 'jump through more hoops' to gain payments and the natural concomitant was a greater administrative effort.

A year after beginning, Centrelink estimated that it had made some 300 million contacts with more than six million customers, answered more than 20 million telephone calls in the year and processed more than 3.4 billion transactions. Information provided to customers was delivered by mail, telephone, the Internet, by personal contact at a Centrelink office and by off-site visits.

It was not just the size of this activity that made Centrelink significant in day-to-day Australian life; it was also the nature of its task. The wellbeing of most recipients of government income support has been dependent on Centrelink successfully continuing its daily operations. Many of its customers are the most vulnerable members of society and any confusion about support payments or

failure to pay pensions is immediately a major issue politically and in the media. A major disruption to its services is significant to those dependent on it and an embarrassment to the government of the day. The fact that the payments it delivered amounted to a major portion of the Commonwealth budget reinforced the attention Centrelink attracted from the government.

Organisation, staff and funding

At its inception, the new agency immediately became the biggest agency in the APS—totalling one-quarter of all the APS in staff numbers. Its establishment involved bringing together 21 000 staff from the former social welfare delivery department, the DSS, and 3000 from the department formerly responsible for delivering unemployment payments, DEETYA, and consolidating their two Australia-wide, overlapping, regional networks.

The new agency not only inherited large numbers of staff from the two departments, it was funded by them. Centrelink was set up, not as a budget-funded agency, but as one funded directly from the organisations for which it delivered services. Because Centrelink's funding came principally from these departments and agencies (with only a very small percentage—in 1997, just 5.17 per cent—as direct appropriations from the budget), each organisation negotiated a purchase price for the services Centrelink agreed to provide and, using resources appropriated to it in the budget, paid Centrelink for its work. Centrelink was responsible for using these funds to meet the negotiated outcomes when delivering each program.

These relationships with its clients—because they purchased its services through purchaser–provider arrangements—were governed by negotiated contractual agreements with each department. Initially known as Strategic Partnership Agreements, short documents containing comparatively little detail, they subsequently evolved into more comprehensive documents renamed Business Partnership Agreements (BPAs).

The BPAs gave details of the services, the funding arrangements, agreed performance outcomes and allied reporting mechanisms and outlined arrangements for the sharing of information and for dealing with unforeseen issues. The BPAs therefore established the scope and provided the detail for a formal purchaser–provider relationship between two organisations and were used to manage and review the operating and performance relationships between each organisation.

The use of BPAs was a fairly new experience for Commonwealth government agencies. They required all parties to understand fully what services were to be provided, when, how and at what cost, without making the relationships between the organisations too rigid in a politically and publicly sensitive environment. They took the form of a memorandum of understanding—as the Commonwealth

was unable to enter a contract with itself and the purchaser and provider organisations were, in the main, Commonwealth agencies. The requirement for Centrelink to report to its client departments on its performance against a series of detailed indicators in the BPAs became the centre of Centrelink's network of accountability for the money it received.

At its inception, Centrelink acquired a new governance model (see Chapter 6). Accountability was managed through a board of management, an executive board appointed by and reporting to the Minister for Family and Community Services.[1] This in itself was a rare occurrence as few public service agencies worked with a decision-making board rather than one with a purely advisory role. Moreover, the secretaries of the two client departments were members. The board established the overall objectives, gave strategic direction and set broad business rules for the organisation. Centrelink reported to the minister through the board on administrative issues relating to the minister's portfolio.

Administrative imperatives

The initial task required the new organisation to bring together the staff of two departments with different expectations and cultures into one organisation, and to rationalise the delivery services of these two departments that were now responsible for overseeing the delivery of their policy program outcomes by one new agency. These departments had a long history of rivalry and turf warfare so the potential for tension, conflict and dispute was considerable.

The different cultures and expectations of each parent department would gradually lead to different relationships developing: one more contractual, the other more of a partnership or strategic alliance. Within this structure, Centrelink was subject to more than one minister, with a decision-making board appointed by and responsible to the minister of its largest client portfolio department, yet without control of its budget or staffing numbers. These were the prerogative of its client departments, which determined its outputs and performance measures through purchaser–provider agreements. In time, Centrelink would extend service provision to other clients, federal and state.

There was a range of issues that could create tensions. Centrelink was established as a customer-focused agency, which offered new levels of integrated customer service and was promoted as the human face of government, but it was also required to save money through the amalgamation of the two service networks of its parent departments. It would, as Sue Vardon put it, need to adopt a businesslike approach that was 'harmonious with the aspirations of human service' (Vardon 1998d).

As the Prime Minister (Howard 1997:2, 3) said when he launched Centrelink in September 1997:

In the past we have encouraged people to go from one location to another and we have often confused them with a lot of administrative duplication. And in one very big stroke Centrelink cuts through that duplication. Centrelink consolidates in an efficient, modern fashion the major service delivery activities…The consolidation in Centrelink of so many of the services of the Government that interact with people will provide, of course, a more human face. It will provide a more efficient service. It will lead to far less public dissatisfaction…Because Centrelink is carving out a new horizon and a completely different horizon. And it is a demonstration that there is…a unique Australian way, of delivering service support to those in the community who deserve and need our help and assistance.

Improving services for customers became a high priority. The initial emphasis was placed on improving staff attitudes and shopfront offices, and later on developing clearer options for customers and broadening technological access.

An agency through which such a large proportion of funding was transmitted and with such a large, and often economically vulnerable, clientele was always going to be of interest to politicians. Any weaknesses, errors or failures would be noticed and reported in parliament and the media sooner and louder than failures in smaller organisations with less vulnerable customers. Centrelink became an agency whose every move was scrutinised.

There were also possible tensions in being a public service agency. Minister Philip Ruddock (1996:7624) indicated that Centrelink would be a statutory agency with public service responsibilities and subject to the mainstream legislation for agencies as well as the *Audit Act* and finance regulations and directions. As a statutory agency, like the Australian Public Service Commission, Centrelink has operated under the *Financial Management and Accountability (FMA) Act 1997*, which brings with it a high level of accountability. The chairman of its board of management was the chief executive for the purpose of the *FMA Act* and was given specific powers in the legislation establishing Centrelink. This included direct accountability to the portfolio minister.

These accountability and reporting mechanisms were quite complex, with the CEO, appointed by and reporting to the board, also reporting directly to the minister (or ministers) of the client departments while also being responsible for delivery of programs for which their departmental secretaries were funded and accountable. Ministers had the power under Centrelink's legislation to intervene directly in Centrelink's affairs. Attendance at Senate Estimate Committee hearings was therefore a joint activity with officials from Centrelink and the Department of Family and Community Services (DFaCS) in attendance to respond to questions. There were also potential tensions for Centrelink as a public service agency staffed by people transferred from its parent departments, but also expected to