

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.