

Government

Matters

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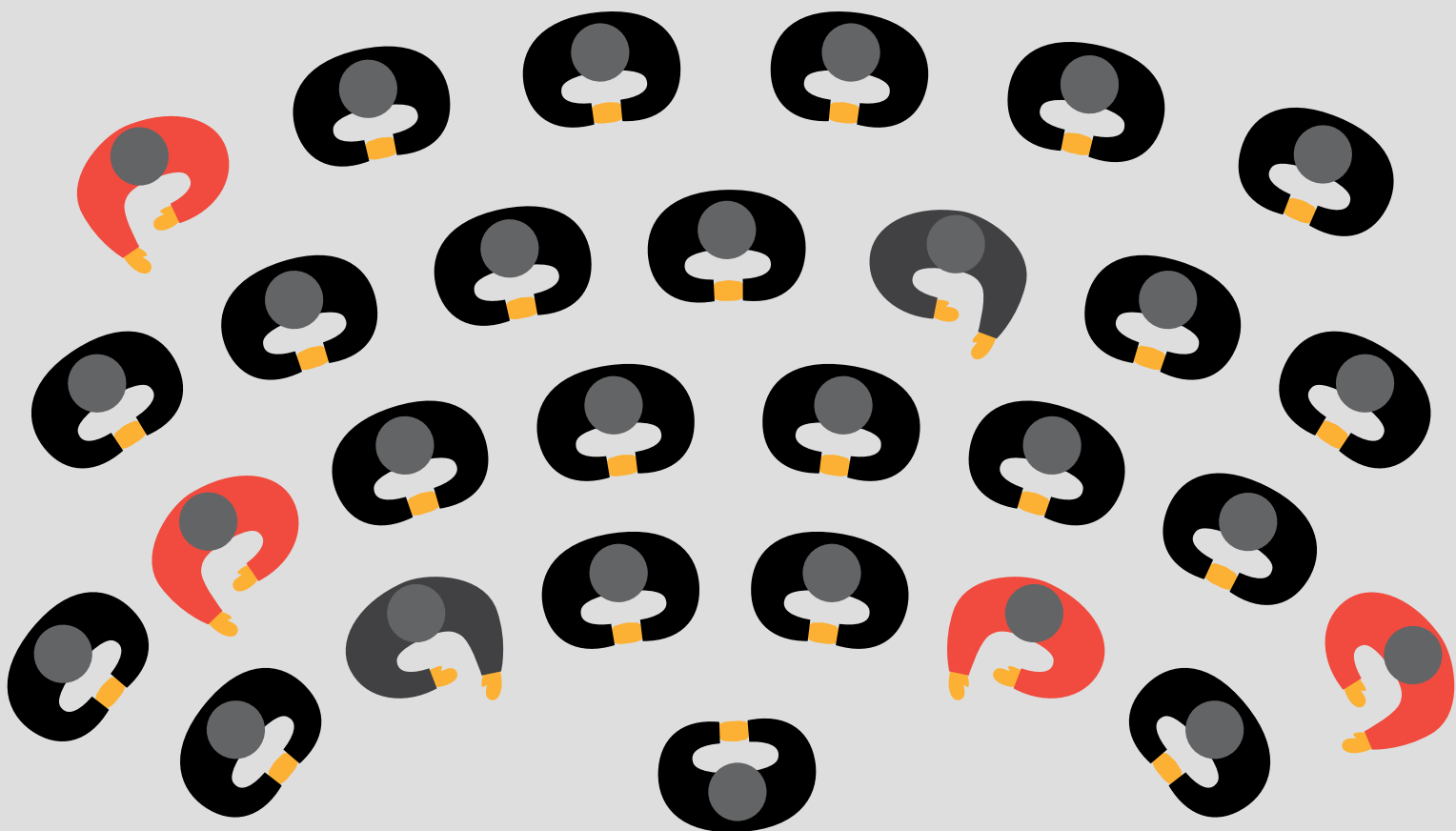




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Foreword

Welcome to the second edition of Government Matters.

There has been a great deal of interest in government and politics in the last 12 months with a number of State elections and more recently the unexpected result in the Federal Election. The outcomes of these elections aside, consistent messages from citizens to our elected officials are clear - we need more focus on making Australia an easier and better place to live.

In this edition we have looked at some of the most pressing social problems Australia is dealing with in homelessness, youth unemployment and early childhood. These big complex issues require multiple agency and sector involvement if we hope to find solutions, so while a simple answer is not possible, we present some thoughts on alternative ways that policy, collaboration and research could make a difference.

In addition to this information our Chief Economist, Jeremy Thorpe, analyses the economic impetus behind the new stimulus package recently implemented by the Morrison government.

Once again we hope you find this interesting and useful, any feedback is welcome as well as your thoughts on areas to focus on in future editions.

Thomas Bowden
PwC Government Lead Partner

1. Getting the stimulus right

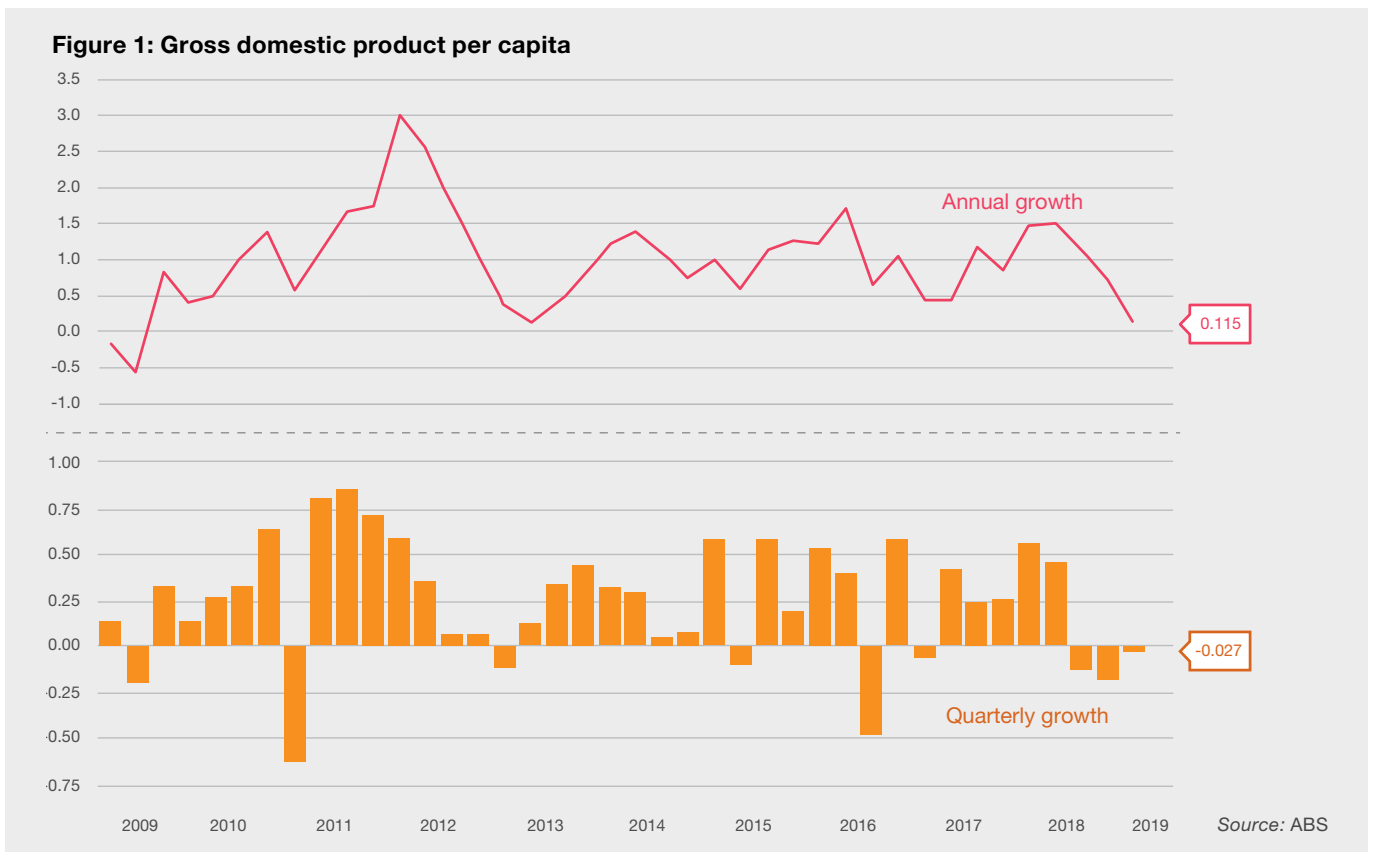
by Jeremy Thorpe



Introduction

As the first wave of the government’s tax rebates make their way into the pockets of Australian workers, the imperative for additional stimulation of the economy remains. Notwithstanding government priority with protecting the projected surplus, and the expectation that cuts in interest rates and taxes will provide a modest injection into household spending, a broader package of measures is required.

Investment in infrastructure is likely to be the most effective option for galvanising the economy. The challenge here becomes one of bringing forward this investment – not to build infrastructure for its own sake or gain political favour. Now, more than ever, we need to invest in and augment the productive capacity of the economy. In the last six months, public discourse about the state of the Australian economy has shifted significantly as house prices fall, wage growth crawls and economic growth remains sluggish with three consecutive quarters of negative per capita economic growth (Figure 1).



The newly provided stimulus

The initial stimulus was the RBA’s 50 basis point rate cut. With the total outstanding value of bank loans at \$2,639 billion¹ – assuming the 45 basis points were passed on as a rate reduction – we expect \$11.9 billion in savings for households and businesses for the financial year 2019–20. This expectation assumes that businesses will also receive the benefit of the rate cuts: previous reports of the relative impact of the rate cuts focused solely on relative savings for mortgagees.²

Conventional wisdom is that the RBA’s rate cut will increase economic growth in the order of 0.30 percentage points, with a corresponding improvement in the labour market as unemployment falls by approximately 0.15 percentage points.

Clearly, this alone is insufficient to jump-start the economy. Indeed, the RBA Governor publicly reiterated that reliance on monetary policy alone will not accelerate the pace of Australia’s economic activity to the desired level.

The more recent tax cuts passed by the Federal Parliament will provide additional fiscal stimulus for about 10 million taxpayers when they lodge their tax returns and receive an offset of up to \$1,080. The Parliamentary Budget Office estimates this first round of tax cuts to return \$7.7 billion to household budgets in 2019–20.³ On this basis, while households will benefit relatively more from the tax cuts, the total fiscal shift from the rate cut is larger.



Limited scope for monetary policy

There has long been a consensus that monetary policy – the manipulation of interest rates by central banks – is the primary tool for stabilising demand in economies. During the global financial crisis (GFC) this belief drove many central banks worldwide to drop interest rates to near zero per cent (and beyond) to revive stalling economies.

With the RBA cash rate sitting at one per cent, the scope for further reductions is limited.

However, even with the cash rate at close to zero, there is still the option of quantitative easing (QE). QE occurs when a central bank purchases government securities or other securities from the market to increase money

supply and so lower borrowing costs and put downward pressure on the Australian dollar. While this is a policy option for Australia, its effectiveness is unclear for a number of identified reasons; namely, while there are fewer government bonds in Australia, borrowing rates are at the short rather than the long end of the yield curve.⁴

Additionally, the RBA can expand its balance sheet to reduce upward pressure on funding.

Despite these options, it is clear that monetary policy has reached a limit; increasingly, fiscal policy will be relied upon.

Capacity for further fiscal stimulus

Clearly, the achievement of a surplus is an overriding political imperative going forward.

Political constraints aside, a challenge for national policymakers has been assessing the scope for increasing spending or cutting taxes in the face of a weakened economy.

When a government looks to temporarily increase spending or reduce taxes, it needs to gauge whether it can fund the resulting gap in budget without risking an unfavourable reaction from financial markets or undermining the longer term health of public finances. The more confident it is about its funding capacity, the more ‘fiscal space’ it has.

Fiscal space is the amount of leeway countries have to temporarily increase their budget deficit without jeopardising their access to markets or the sustainability of their debt:

Fiscal space is substantial when financing, fiscal sustainability and credibility considerations suggest no significant constraint to undertaking temporary fiscal measures, if there is an economic case for them. While the extent of relaxation and type of measures still require calibration, fiscal policy can generally be looser for longer when space is substantial.⁵

Conversely, the riskier a country’s market and fiscal outlook, the more limited the government’s ability to use fiscal policy measures.

To better understand the fiscal space available to countries, the International Monetary Fund (IMF) has developed a multivariate framework to assess the composition and trajectory of public debt, financing needs and ease of borrowing, assets that can be drawn upon, future spending commitments, the effectiveness of fiscal policy and the strength of fiscal institutions.⁶

Based on this framework, a recent IMF report has identified Australia as having ‘substantial’ fiscal space due to our access to stable and cheap funding from financial markets, healthy public finances and strong institutions.⁷ Ironically, reflecting on how quickly the narrative of the Australian economy has shifted, the IMF in June 2018 recommended that Australia – along with other similarly positioned countries – use this substantial fiscal space for gradual fiscal consolidation rather than expansion:

Having fiscal space does not necessarily mean it is optimal to use it, and teams took many other considerations into account, including the state of the economy and the expected quality of fiscal measures. Overall, the advice tended to be fairly cautious, reflecting a general need to replenish buffers and rebuild fiscal space amid generally strong cyclical conditions ...

In the Australian context, the IMF also recommended that infrastructure spending be increased.⁸

Australia’s fiscal space is currently being repurposed to address a weak economy rather than paying down debt.



The risk of not getting it right

The potential benefit at stake here is significant. Recently, the IMF modelled two temporary fiscal expansion scenarios for 13 advanced economies and 21 emerging markets, using:

- an 'upside' scenario of a credible, high-impact stimulus combining a good policy package and benevolent market reactions
- a 'downside' scenario with diametrically opposed conditions to that of the 'upside' scenario.

The modelled results are shown in Figure 2.



With respect to Australia, the models demonstrate that if we can undertake effective expansion, we can expect to see:

- a small increase in government debt that is manageable given our current debt levels
- a nontrivial increase in nominal GDP.

Equally, if we get it wrong, like all other countries modelled, we will see an increase in debt without any real GDP benefit. This is both an opportunity cost to the current population and a burden on future generations who will have to manage the additional debt.

Recommended form of additional fiscal stimulus

Given these considerations, what is an effective fiscal expansion for Australia? A well-designed discretionary fiscal stimulus should embody ‘the three Ts’:

- timely
- targeted
- temporary.

While there remains debate over the need, scope and timing of the fiscal stimulus implemented during the GFC,¹⁰ the almost \$100 billion fiscal package was clearly directed at the economy’s weak sectors. At that time, these sectors were consumption and housing, which together represented over 60 per cent of the economy. It was considered important that these sectors were supported, and quickly. Government support came in a number of forms (e.g. cash cheques, pension boosts, first-home buyer incentives, local council grants, school halls,

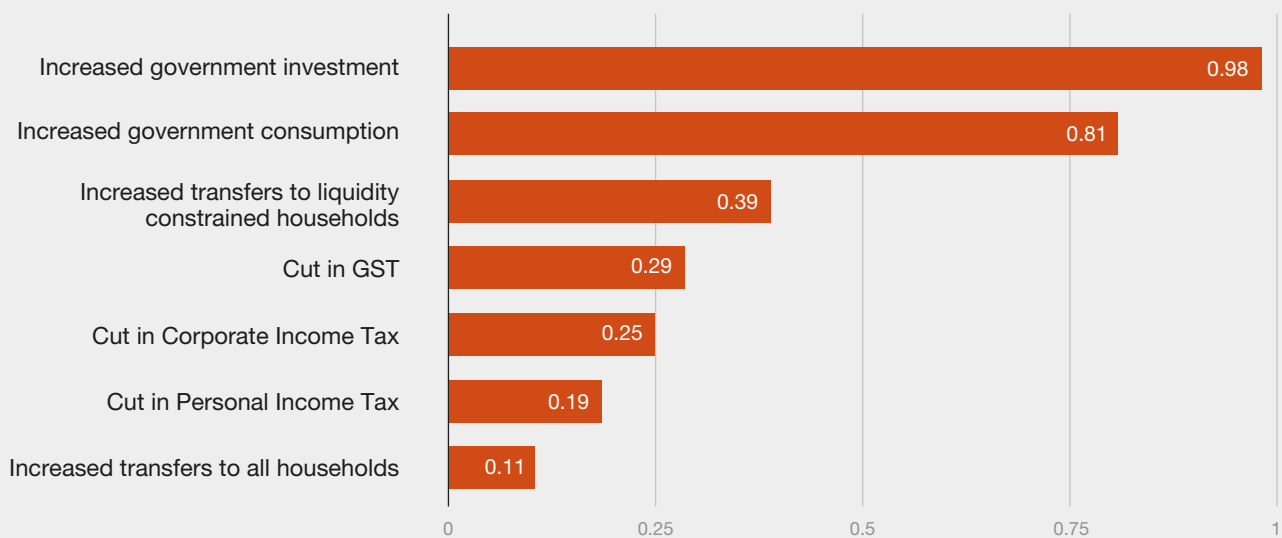
pink batts),¹¹ with an emphasis, as the then Secretary of Treasury noted, to ‘go hard, go early, go to households’.

Views about the effectiveness of the fiscal stimulus hinge on relative estimates of the size of what economists call ‘fiscal multipliers’: how much return governments can expect in terms of increased economic output for money spent.

As the IMF discovered, these multipliers are not static. When interest rates are very low and debt in the private sector – households and businesses – is considerable, the return from government spending is higher.

Figure 3 shows the most recent IMF estimates of fiscal multipliers in Australia. The multipliers reflect the impact of a two-year one per cent GDP change in the relevant fiscal instrument in terms of the average change in real GDP over the same two years.

Figure 3: Relative impact of fiscal multipliers on Australian GDP



Source: International Monetary Fund (2019)¹²

These IMF estimates suggest that, relative to a range of other measures, cuts to personal income tax have, at best, modest effects on the Australian economy. Indeed, Figure 3 shows that the most cost-effective multiplier is federal investment in productive assets (i.e. infrastructure).

However, enthusiasm for an infrastructure-focused response needs to be tempered by three considerations:

- Infrastructure investments take some time to come on-stream. The sight of school COLAs (covered outdoor learning areas) being built years after the GFC, funded through the Building the Education Revolution, highlights the challenge of converting government investment projects into purpose-built functional services.
- If invested infrastructure is not employed strategically to enhance productivity, the investment will encumber

future generations with the debt of a non-productive investment. There is a real risk that productivity enhancement will be less than optimal if a product framework is not adopted to guide decision making.¹³

- We currently have a skills shortage for major infrastructure works: there are insufficient workers with the appropriate skills to cope with the demand generated by accelerated infrastructure projects.


Given the current political environment and short election cycles, the above considerations require a federal government with sufficient political fortitude and a long-term vision for a prosperous Australia.

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A person in a dark coat is standing on a dark road at night, looking at a smartphone. The sky is filled with many stars, creating a starry night background. The person is in the lower right corner of the frame, and the road leads towards the horizon. The overall mood is quiet and contemplative.

2. Making digital services 'human' to serve vulnerable Australians

by Diane Rutter, Victoria Yates, Natalie Kyriacou and Natasha Ballantyne

Stories of homelessness, incarceration, under-employment and persistent poverty point to an urgent need for new approaches to bridge Australia’s wealth divide. With advances in analytics, human design and technology, governments have an unprecedented opportunity to reimagine the service ecosystem in order to identify vulnerability earlier, tailor servicing to individual needs and ultimately avoid long-term hardship and dependence.

As social security and welfare supports continue to lag behind cost-of-living pressures, governments must put human needs first in service delivery – bringing together data analytics and technology to deliver on these needs in new ways. With advances in analytics, governments have an unprecedented opportunity to boldly harness and embed human experiences and capabilities – such as empathy, innovation and creativity – into a reimagined service ecosystem. This new approach can put the ‘human’ back into technology and rebuild public trust – while delivering a more personalised, cost-effective experience for vulnerable customers.

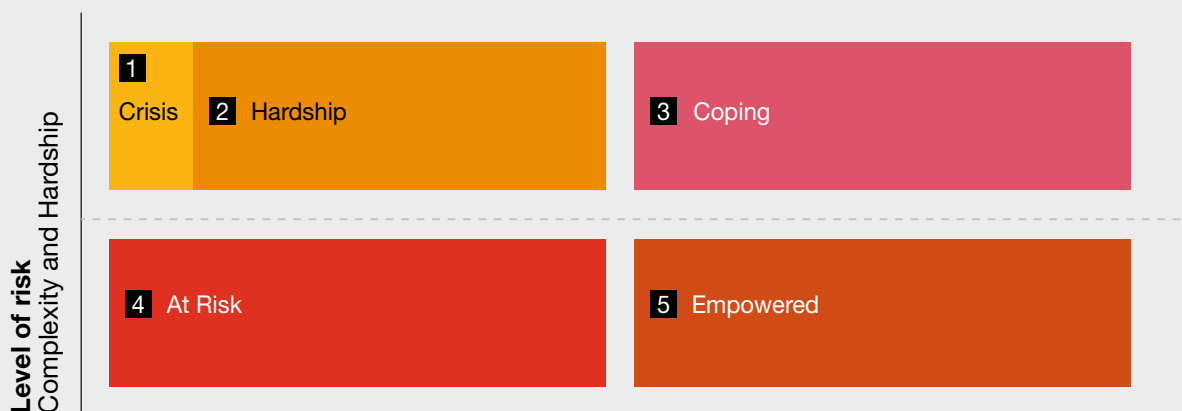
A ‘human first’ approach will clearly deliver benefits. Organisations that are actively rebuilding ethical and transparent services and putting customers first – such as Qantas, Bunnings, American Express, Apple and Australia Post – have shown that they are not only able to build trust and promote their customers’ wellbeing, but gain tangible benefits; customers will pay up to 16 per cent more for a positive experience, according to the 2018 PwC Future of Customer Experience Survey.¹

PwC has recently partnered with multiple government agencies to rethink service delivery for customers experiencing vulnerable circumstances, in a way that emphasises safety and positive service experiences. This approach goes ‘beyond the numbers’ to better identify and understand customers and their needs, with a view to improving support for customers who are at greater risk of social, physical or emotional harm. It combines advanced analytics with user-focused design and expert input to predict future needs and deliver more tailored, effective and inclusive services. This serves to strengthen trust, or a ‘social contract’, between governments and customers.

This article summarises the key lessons we learned from taking this new approach. It is our hope that policy and service designers who are looking to innovate their approaches to customer service delivery will be able to use this as a source of inspiration to pave the way for more enriched and ‘human’ digital experiences.

How do we define vulnerability

The combination of risk and resilience factors determine the level of complexity/vulnerability of customers’ circumstances.



Level of resilience - resilience to cope with unforeseen life events

Five ways to ‘humanise’ your technology

01. Put your data to work

By applying advanced analytics, organisations can optimise their data to target services to the individuals who need them most. The challenge of having imperfect customer information is universal and limits effective service delivery. However, smarter use of data and analytics, combined with predictive modelling methods, can provide a more comprehensive and accurate picture of customer needs, vulnerabilities and expectations. It can also identify customers with ‘exceptional needs’ that organisations would otherwise be unaware of – and tailor an approach to ensure these customers are included and supported.

According to the Australian Institute of Health and Welfare, one in 23 Australians will experience deep and persistent vulnerability in their lifetimes. However, the reality is that closer to one in six of us will experience some form of

vulnerability in our lifetime². And at the same time, trust in many services catering to the vulnerable is decreasing leading people to seek help later, when they have reached a crisis point. This means, when people in vulnerable circumstances receive help, it takes much longer for them to rebuild their resilience - impacting them personally and also increasing the cost for government and community.

Enhanced data capability can provide clearer insights into customers’ current circumstances and needs, and allow governments to continually understand the vulnerable points across a person’s life. By better understanding and addressing customers’ circumstances and their underlying causes, governments can plan, design and target services more effectively on the ground, and contribute to the development of proactive social service policies.

02. ‘Humanise’ the digital experience

Intelligent, simple, thoughtful digital experiences will persuade more customers in vulnerable or complex circumstances to embrace digital transactions. These customers can benefit from a hybrid mix of digital and human-to-human communication services across more tailored channels. By focusing more on the individual, the use of technology can thus be ‘humanised’.

The case for a human-centric approach is echoed in the PwC Consumer Intelligence Series report, which found that 65 per cent of Australian consumers believe that many companies have lost touch with ‘the human experience’ by focusing and relying too much on technology.³

Our research reveals widespread concern that digital experiences risk making communications between

customers and service providers more ‘sterile’. This might prevent customers from understanding and adopting the digital resources available.

Despite this, technology adoption rates are inevitably continuing to rise; just seven per cent of people globally say they have never made an online purchase.⁴ To avoid sterile digital interactions, organisations should focus on what their digital services look and feel like, based on data analysis and customer interaction, which will ensure their experiences are tailored, suitable and appealing. Government organisations could, for example, deliver specialist case management through a digital channel like Facetime, which would maintain many of the personal elements that customers are accustomed to.

03. Create a bridge to digital channels

Some customers are less resilient than others and can be daunted by digital service delivery. When public service providers ‘go digital’, they should consider including traditional human-to-human communication channels in the mix as part of a ‘humanised’ technology platform. The human touch is a key ingredient in creating connections by making technology feel more real⁵ – giving employees what they need to create better customer experiences. Technology should always enhance the customer relationship with digital services, rather than defining it.

Most customers’ levels of vulnerability or complexity are determined not just by their situation but by their ability

to cope. Many customers in vulnerable situations are unfamiliar with digital functions, and still believe they can only adequately receive services via traditional human-to-human communication channels.

To ensure a seamless transition, it is important that traditional channels run parallel with digital ones when designing a ‘humanised’ technology platform. As staff members transition customers in vulnerable circumstances to digital solutions, they will need to carefully support them so they can self-manage more of their services. If done successfully, this will benefit customers and ultimately save staff time.

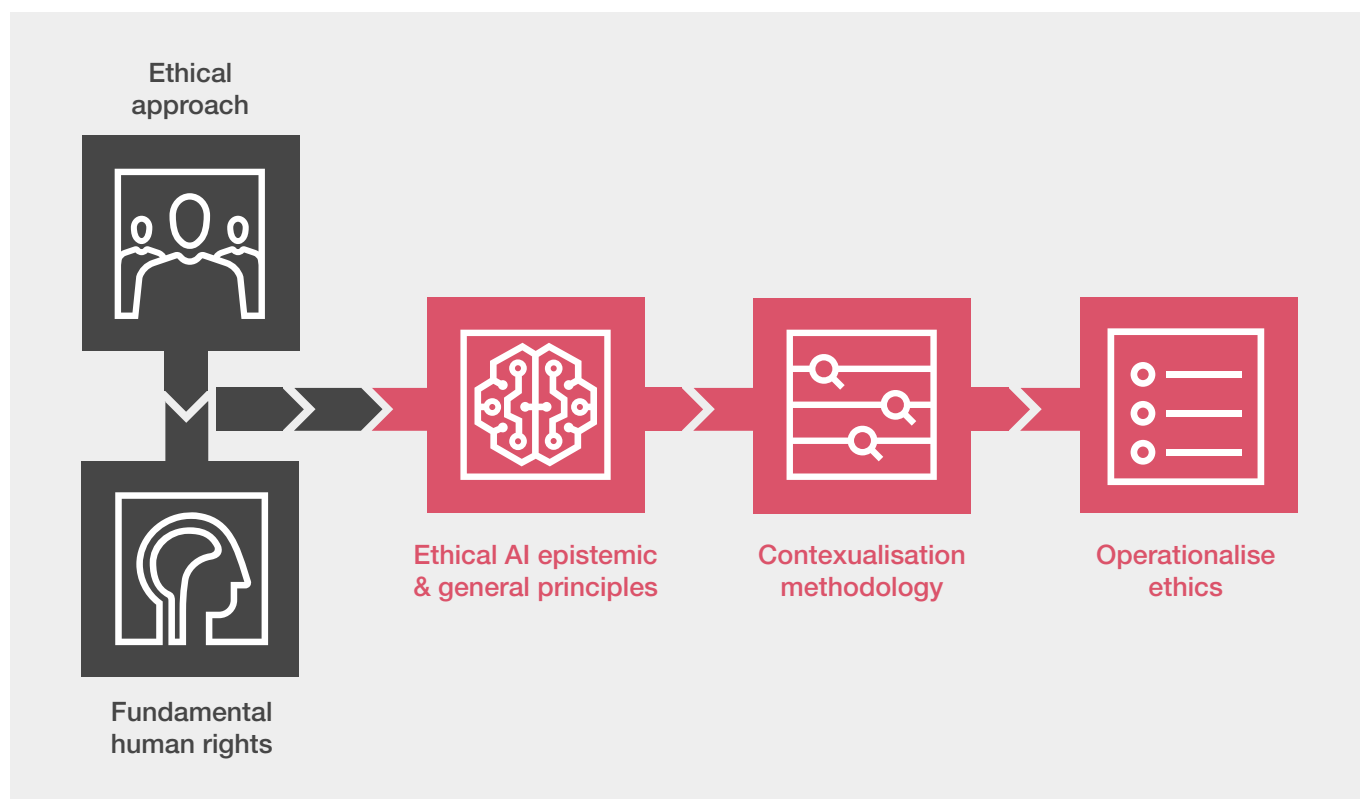
04. Adopt an ethics-by-design philosophy

Australian customers love the speed and capability that data-driven technologies give them, but they are also naturally cautious and protective of their personal data. The ethical use of customers' details must therefore be a strong pillar of any service delivery model.

For governments that want to demonstrate that they place human concerns and moral standards front and centre in

their services, we have developed a framework that sets out the principles and foundations to ethically design, secure and protect the data they hold about customers. This framework ensures those customers will be able to understand – and see – how their information is used, secured and protected.

Figure 1: A framework for prioritising the security and protection of customer data in digital service design



05. Constantly evaluate and improve the service

Better data and data analysis can help identify, predict and pre-empt customer vulnerability and complexity. This can help generate a continuous improvement model that will make service delivery more effective and efficient in targeting the right service to the right person at the right time.

Our research revealed that customers in vulnerable or complex circumstances often seek help only after they experience hardship. Early intervention is therefore critical to establish resilience while avoiding long-term hardship and dependence on staff assistance. A robust data and analysis capability can help governments intervene early and, in some cases, prevent a deterioration in customer circumstances, such as predicting increased financial

hardship in a customer experiencing complex family or domestic circumstances.

Comprehensive and usable insights from data can also drive improvements in service delivery. By aligning service delivery and long-term policy more closely – and embedding continuous feedback loops – governments can ensure ongoing improvements for individual customers.

This is a positive shift in focus from reactive support to proactive, early intervention, prevention and crisis relief. By applying this theory, we believe that governments can deliver more responsive services by frequently evaluating, adapting and scaling new services that continuously improve how they meet the needs of those customers experiencing vulnerable or complex circumstances.

Summary

People don't want their interactions with technology to fully replace those precious human connections that provide a sense of belonging and comfort. In fact, according to PwC's Customer Intelligence Series, 59 per cent of people believe that companies have lost touch with the human element by focusing too much on technology.⁶

With thoughtful data analytics and ethical design, however, digital service providers can offer customers something they feel technology often lacks – the human touch. Human-centred digital programs, in which social inclusion is consciously designed into the experience, can provide service providers with a profound tool of empowerment – elevating the unique and varied needs of individuals while collectively expanding the digital capability of all customers, including those experiencing vulnerability.

Government programs that want to achieve this synergy between human and digital capabilities require a strong implementation plan. This should be built from a powerful strategic narrative and a high-level roadmap that takes a balanced, considered and agile approach, engaging stakeholders at every level. Such an approach must establish effective governance for the program, undertake a detailed scoping and cost-benefit analysis, build an evidence base to support transformation, consider the external environment and interdependencies, and test the approach to show benefits early on. Above all, such programs must not only focus on delivery, but also embrace a commitment to establishing a culture of continuous improvement.





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3. Youth unemployment: The forgotten labour force

by Jasminah Woodhouse and Jeremy Thorpe



Introduction

Around the world, young people (between 15 and 24 years of age) are more likely to be unemployed compared to the rest of the labour force. The disparity between younger and older workers varies considerably from country to country – in Japan youth unemployment is 1.6 times that of the adult labour force, while in Australia they are 2.5 times more likely to be unemployed compared with adults.¹

Although Australia's youth unemployment rate has fallen in recent years to the current level of 11.8 percent², the figure still represents a significant underutilisation of this cohort. Additionally, this figure does not take into account the growing rate of underemployment, a trend that also disproportionately affects young people who often work in sectors with the highest rates of workforce casualisation such as service industries.

Perhaps most concerning, however, is the estimated nine per cent (or 270,000) of all youths in Australia who are 'not in employment, education or training' (NEET). This

phenomenon is a concern for many developed countries given its potential to entrench disadvantage.

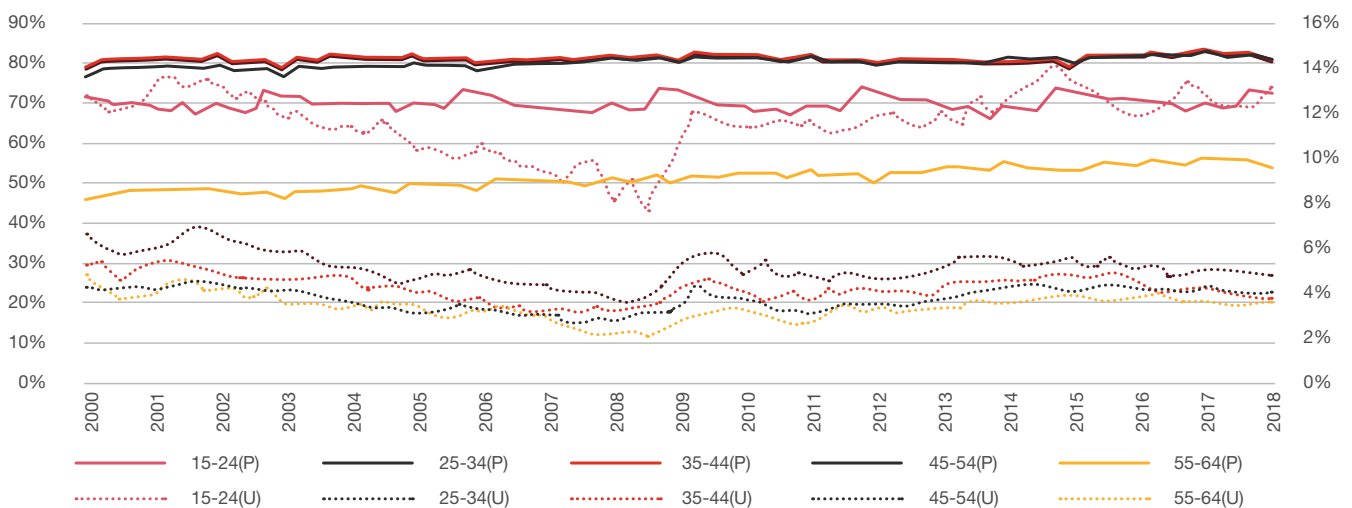
Time spent as a NEET can have negative consequences for physical and mental health and increase the likelihood of long-term unemployment, low wages or low quality of work later in life. It also has an immediate economic cost: according to the OECD, Australia's NEET levels cost the nation around \$16 billion every year, or around one per cent of GDP.

Flexibility by necessity rather than choice

The overall participation of young people in the workforce is prone to fluctuations within a given year. Those engaged in study often oscillate between full and part-time employment as they scale their workload up and down around periods of study.

While this reflects a level of flexibility enjoyed by some young people in the labour market, their age group is also more vulnerable to shocks in employment opportunities: they experienced the biggest increase in unemployment over the two years following the global financial crisis, even after a period of improvement (see Figure 1).

Figure 1: Labour force participation (LHS) and underemployment (RHS), by age



Source: ABS 2018

Of the
15 to 24
year-old
age group:

28% are still attending school

24% have entered tertiary education full time

39% are either working or in part-time study

9% are NEET³

The majority are looking for some type of employment, regardless of whether they are engaged in education.



The overall unemployment rate in Australia has been falling in recent years (12.2 per cent at the end of 2018, down from the 20-year peak of over 14 per cent in 2014), putting us roughly in the middle of the pack among OECD nations. However, we have the fourth highest incidence of part-time employment in the OECD.

Although part-time work may at times benefit younger workers who are looking for flexibility, increasingly this is becoming less of a choice. Young people are more likely to work in retail, food service and accommodation: sectors where the prevalence of roles are increasingly either casual or part-time.⁴ This rise in part-time and casual work is the most significant factor driving up the youth unemployment rate, and it is far more pronounced than in any other age group (see Figure 2 and Figure 3).

Figure 2: Labour force employed part-time, by age (ratio of employed)

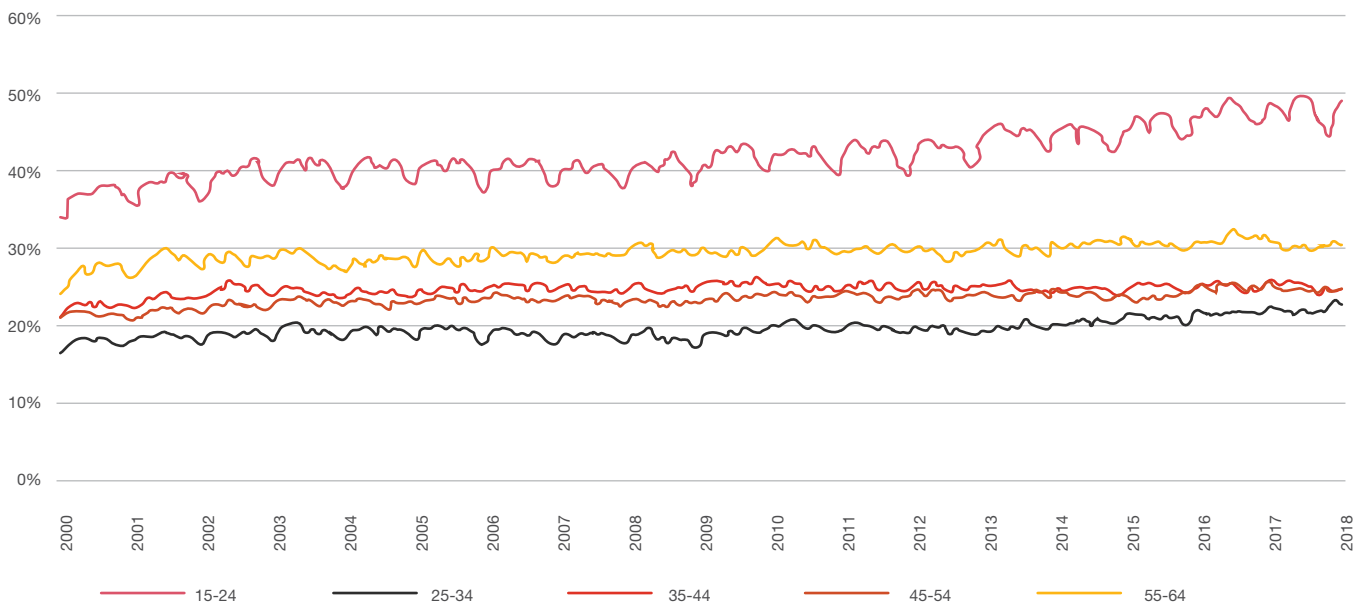
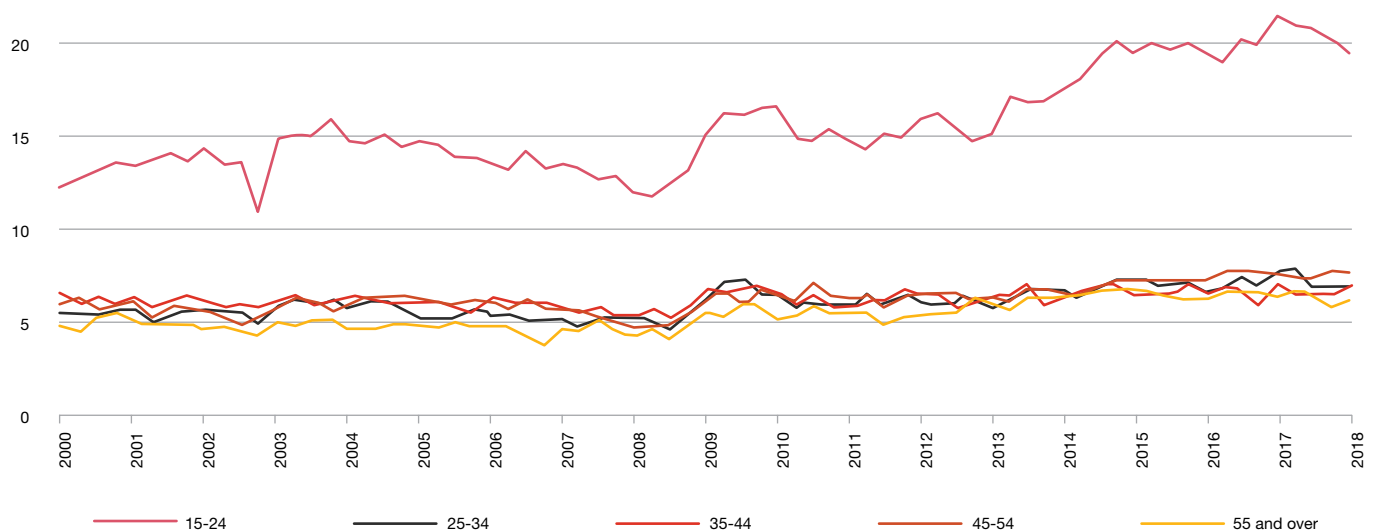


Figure 3: Underemployment, by age (ratio of employed)





Young lives on the fringe

At 11.5 per cent, Australia's NEET rate for the 20–24 age bracket might be lower than the OECD average of 16.2 per cent⁵, but it still represents a significant problem given the high social and economic costs associated with NEETs.

This group is at greater risk of remaining a NEET for long periods, with one out of five spending more than 12 months as such. NEETs also show high levels of discontent with their personal circumstances: they tend to exhibit higher rates of psychological stress and lower levels of life satisfaction than non-NEET youth and have a more pessimistic view on the economy and political system.⁶

According to the OECD, there are a number of factors closely associated with longer-term NEET status:

Low educational attainment

NEETs are more likely to have lower educational attainment and a significant proportion have low literacy and numeracy skills.

Gender

In Australia, having a young child is a main driver of gender differences in NEET rates. Inactivity rates are significantly higher for women than men, in large part due to childcare responsibilities.

Indigenous Australians

NEET rates are more than three times higher for the Indigenous population, with further disparities between those who live in remote or urban areas.

PwC UK's 2018 Youth Employment Index – a comparison of labour market performance across all OECD countries – provides a number of lessons Australia can draw on.⁷ Common features of top performing countries were high educational attainment, high quality vocational training opportunities and a high level of support for young disadvantaged people.

Countries with good provision for the disadvantaged in their societies also scored highly, as this lowers the unemployment rate and prevents a significant minority of young disadvantaged people from being 'left behind'. Japan was a standout performer when it came to education: Japan's under 25-year-old secondary attainment rate is an impressive 98 per cent. And both Switzerland and Germany have large-scale public vocational education and training (VET) programs which are well integrated into schooling so that students can move easily from upper secondary education into work.

The OECD recommends that an area where government can make the greatest impact is in the NEET gender gap. Greater investment in affordable childcare is one way to tackle this gap, particularly given Australia's relatively high

childcare costs and that almost half of NEET women report that they would like to work, but that the lack of childcare solutions is one of the reasons preventing them.

Australia's education system is generally considered to perform well, but there is still work to be done to address inequities in educational attainment. Students from rural areas, as well as those within the Aboriginal and Torres Strait Islander population, tend to have lower academic performance and less access to tertiary education than the national average. This is clearly reflected in the lower employment outcomes for these groups.

VET can be an attractive option for young people and has the potential to develop workforce skills that are well-matched to those required by employers. In Australia, the VET sector already provides services to 4.2 million students.⁸ However, scandals and issues with some training providers have triggered concerns about the quality of the training provided and alignment between qualifications and employer needs.



Turning it around: The role for government

Australians on the whole enjoy good life course mobility. Although unemployment rates are higher during youth, this situation generally improves into adulthood, with most young people successfully transitioning to fuller employment.

However, it is a critical time in one's life; and many young people experience setbacks which can mean that existing disadvantage becomes entrenched in their life as an adult.

The issue presents a number of challenges for policy makers, none of which are easily solved. However, when we look at the common factors between top OECD performers, it's possible to identify areas for improvement and new approaches that can be implemented at various levels of government.

Firstly, there is room for educational attainment to be improved, particularly for young people who are already socially and/or economically disadvantaged. Schools are also in a position to act as a conduit to support services that students and their families may need.

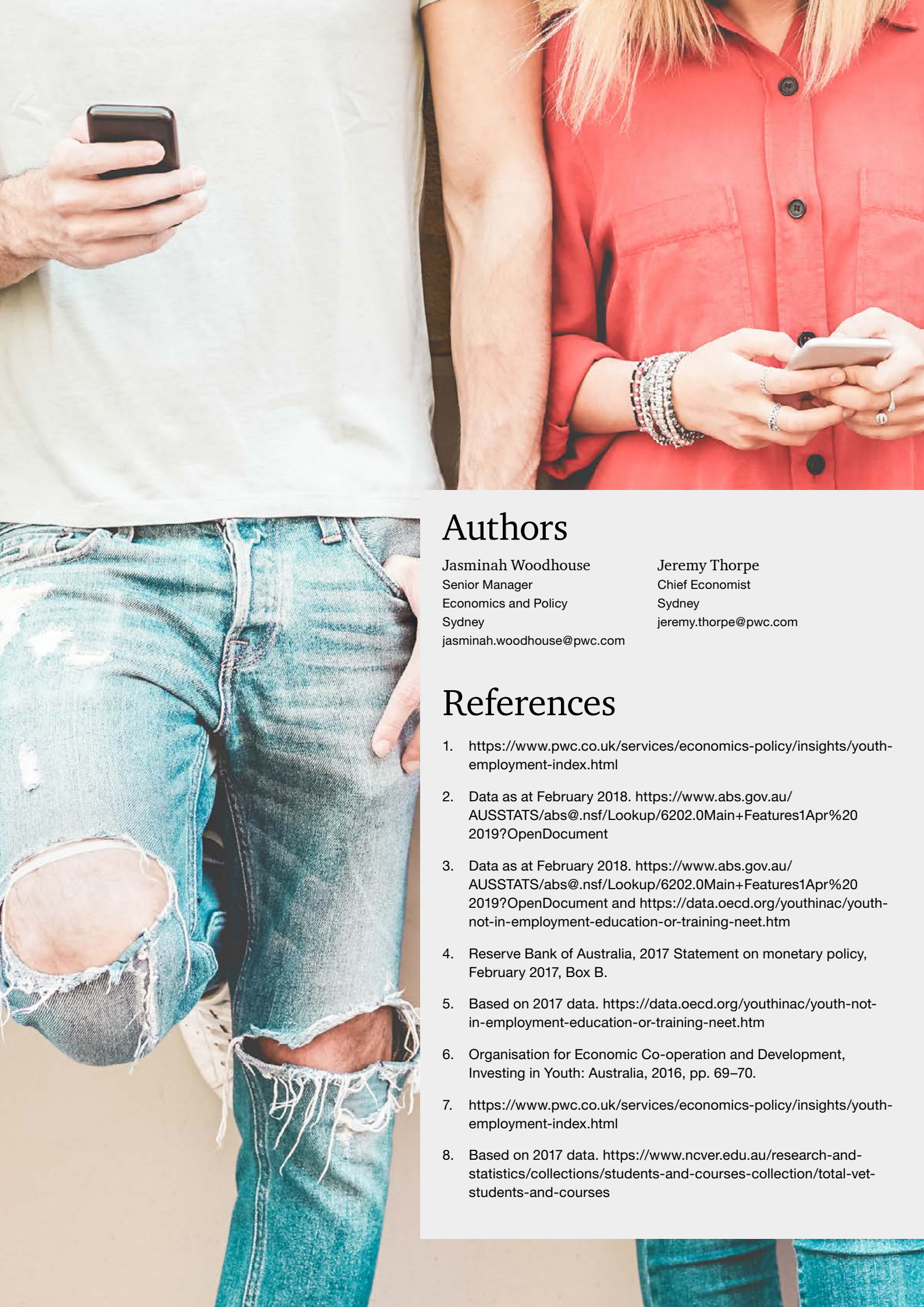
During post-secondary schooling, students need greater support to make the right career decisions considering their passions, capabilities and the future opportunities in the economy, whether that sees them first enter university, TAFE or into an apprenticeship. Training packages need to respond to the skills required by industry, but there must

also be enough individuals who are effectively trained in those skills. Providers also need to be flexible to adapt to the changing needs of the industries they serve, requiring a shift away from the traditional rigidity of qualifications.

Young NEETs need particular targeting, which can be difficult given their inactivity or disengagement from education and work. One of the greatest areas of impact for government to consider is the accessibility of childcare services, given that young mothers are at greater risk. Providing these people with accessible, affordable childcare is crucial if they are to re-enter the workforce or further develop their skills through training.

Finally, young people across the board are those most impacted by changes in the labour market, as they contend with shorter and more irregular working hours. This is a particularly challenging policy issue given that these changes reflect, to some extent at least, business imperatives and broader social issues. It is also a phenomenon that appears to be benefiting many older people and enticing them back into the workforce.

There is still an important role for government here, one which ensures that wage levels and working conditions (particularly for casual workers) are maintained, even if there is less scope to influence the quantity of work that is available.



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4. First 1000 days:

A case for investment

by Zac Hatzantonis and Nicholas Robinson

Bringing evidence and economics together to solve problems faced by young Australians

There are many challenges faced by Australians of all ages, including our children. Some, for example, those with disability, those living in jobless homes and Aboriginal and Torres Strait Islander children, face additional, deep and persistent challenges. Our research tells us many of these obstacles will negatively impact the child for the rest of their lives and that investment is needed now to address this.

As such, there are many urgent calls upon government and the taxpayer. There are also many solutions being put forward as to how to help ensure more young Australians get the opportunities they need to reach their potential and live happy, productive lives.

On behalf of every community, government must therefore constantly struggle with the age-old problem of applying limited resources to unlimited problems and doing so via the most effective means.

Although this article reviews just two factors influencing childhood wellbeing, it will be the template for further work by our partnership and we hope, help inform the work of other organisations seeking to better the lives and prospects of Australia's children.

Strong Foundations collaboration

The Strong Foundations: Getting it Right in the First Thousand Days Strong Foundations initiative is a collaboration between:



While early years experts have long been aware that this is an important developmental period, new research has started to uncover some of the mysteries surrounding the processes by which genes, experiences and environments interact to influence development at this time. These discoveries have increased experts' views of the significance of this earliest period of development, and the need to reform policies, practices and systems in response to the evidence.

The Strong Foundations collaboration brings together extensive research, policy and practice expertise with each organisation providing unique skills and resources.

The report builds on the evidence base by presenting an economic analysis of improved early childhood outcomes for two scenarios which illustrate the potential benefits to society of investing in this crucial developmental period.

The first thousand days refers to the earliest stage of human development, from conception to the end of a child's second year. This is a period of maximum developmental plasticity, when the foundations of optimum health, growth, and neurodevelopment across the lifespan are established.

While people have recognised the importance of childhood experiences on adult life for a long time, it is only recently that research has revealed the significance of this very early period. New research is rapidly advancing our understanding of the biological processes and environmental characteristics that shape development during this time and

the significance of this period for future health, wellbeing, learning and development outcomes.

Despite this growing focus, the Australian public's understanding of the significance of the first thousand days is limited, and the policy response to date has not been in line with the weight of the evidence.

1 in 5 Australian children are considered developmentally vulnerable when they enter kindergarten

While there are many examples of policies, programs and initiatives focusing on early childhood, with more than one in five Australian children considered developmentally vulnerable when they enter kindergarten, it is clear there is still work to be done to give all Australian children the best possible start in life¹. Targeting this earlier period of development the first thousand days, may be more effective in influencing not only child development but lifelong outcomes.

The aim is to draw attention to the need to shift the dial in policies, programs and initiatives to target this earlier developmental phase. This report highlights that the timing of interventions is key to improving child outcomes. Two scenarios are presented that illustrate the impact that experiences during the first thousand days can have over a life-span and use economic modelling to illustrate the potential benefits to society of improving these outcomes.



The research

Using the evidence presented in the report *The First Thousand Days – An Evidence Paper* (see full report for more details), we identified approximately 50 outcomes to explore.

Through discussions with the Strong Foundations working group, supplemented by discussions with subject matter experts where appropriate, each outcome was assessed against key criteria to narrow the focus. Areas were concentrated on for which there is enough data to conduct analysis and create a credible model based on quantitative estimates, where new evidence can be provided to enhance our appreciation of the impact of this early period, and where changes in policies, programs and interventions could have a significant impact on improving life outcomes.²

Using these selection criteria, antenatal care and housing stability were chosen as outcomes for modelling. The goal of modelling these outcomes is to demonstrate that improving access, quality, integration, and targeting of the service system for families and children could yield great benefits to individuals, families, communities, and the economy more broadly.

Antenatal care was chosen because it occurs during the very early period of development pre-birth and has the capacity to influence a wide range of highly influential factors at this time. Within this, the scenario of reducing the prevalence of smoking amongst pregnant women was modelled as a tangible example of the potential benefits of targeting this early period to affect change and the significant positive outcomes this could have for individuals and society.

Housing stability was investigated because it has an influence throughout the first thousand days and into early childhood.

It should be noted that there is a connection between parental stress caused by financial and housing instability and the benefits of access to quality services and a strong sense of community that stable, quality housing affords.

Importantly however, this is not to advocate for home ownership as the solution to improve outcomes but as a proxy to highlight the opportunity to provide greater stability for children within their first thousand days. Whether home ownership is beneficial over and above stable housing in the form of long term leasing, for example, merits further investigation.

As the government has not yet developed programs that could improve these outcomes, the economic modelling does not consider their costs as part of a cost benefit analysis. However, the results of the economic analysis are important to guide potential funding for these programs.

Key findings

These specific scenarios relate to broader themes and research about the impact of experiences in the first thousand days and highlight the potential impact that policies, programs and initiatives targeting this very early developmental stage could have. In particular, they underscore the important role antenatal care and strong community networks play in screening for risk factors and improving outcomes.

We explored the connections between the impact of antenatal smoking and housing instability on life outcomes through the flow on effects on health, education, criminality and economic participation.

A detailed explanation of how we arrived at the figures below and a breakdown of the costs is provided in the full report which you can find here: <http://bit.ly/first1000daysreport>

Scenario 1:

Reducing the prevalence of smoking amongst pregnant women

In Australia, around **10%** of mothers smoke while pregnant, meaning that smoking affects **31,110** children in the antenatal period per year.

The annual potential benefit of all pregnant mothers ceasing smoking is close to **\$1billion.***

* Nominal lifetime value

For each woman who stops smoking during pregnancy, an estimated saving of **\$29,000** is projected over her child's lifetime.*

- 50% of this total is due to a reduction in obesity costs.
- 35% is as a result of increased earnings.
- 15% accounts for a reduced likelihood of smoking as an adult.

The clinical guidelines for antenatal care published by the UK National Collaborating Centre for Women's and Children's Health state that ten antenatal care visits should be adequate for most first-time mothers, and fewer are required on subsequent births.³

Systematic reviews of trials have found that a moderate reduction in the number of visits did not lead to any worsening of biological outcomes. Uptake of antenatal care is generally high already in Australia with over 99 per cent of women having at least one visit, and 57 per cent having 10 or more. However, 31 per cent of mothers did not have an antenatal visit in the first trimester, and families that experience adversity and live in disadvantaged or remote areas are less likely to access antenatal care, particularly in that period.^{4, 5}

Potential gains could be made by providing a more seamless, connected experience of antenatal care that focuses on the relationship between expectant parents and care providers, as well as combating barriers that prevent more marginalised families from accessing available services.

There are many reasons mothers continue to smoke during pregnancy, and it is important to note that raising

awareness of the risks is only one element in reducing the rates of antenatal smoking. Some mothers think smoking will help them control their weight during pregnancy or mean their baby is smaller and delivery is easier. While explaining that low birthweight carries risks for their child's development may go some way towards countering those myths, for many smoking is heavily influenced by environmental factors.

The good news is that antenatal smoking is one of the few preventable factors associated with low birthweight and other adverse pregnancy outcomes, and the message is getting across. A higher proportion of women stop smoking during pregnancy than at any other time in their lives.

While reducing the prevalence of smoking amongst pregnant women has been modelled in this instance to show how a modifiable change that affects this very early period could benefit individuals, and society as a whole, we could have chosen a number of factors. They all link to broader themes about the role of antenatal care to identify risks and address them, and the importance of environmental factors and community support to ensure the optimal development in the first thousand days to support lifelong health, wellbeing and opportunity.



Scenario 2:

Improving housing stability

In Australia, an estimated **27%** of families with dependent children rent their home. Based on this, an estimated **84,000** children are born into a rented home each year.

Based on the available evidence, we modelled the economic gains that result from home ownership and used these to consider the potential benefits that stability, housing security and community relationships could provide:

■ Growing up in a home owned by his or her parents or primary caregiver leads to societal benefits of approximately **\$36,000** over the lifetime of that child.*

■ **94%** is due to an increase in earnings as an adult.

■ If every Australian child grew up in a home that his or her parent owned, the annual potential economic benefit would be nearly **\$3 billion**.*

*Nominal lifetime value

Stable housing enables expectant parents to experience better, connected antenatal care as well as a stronger sense of community overall. Experiencing social support during pregnancy reduces the likelihood of maternal stress, depression and risk taking behaviours during and after pregnancy.⁶

Supports that provide stability for families during pregnancy and the early years could alleviate stress, offer the stability needed to build strong social support networks, and enable parents to benefit from a more connected experience of antenatal care.

Although this report focuses on home ownership for the purposes of the modelling, there are a number of issues relating to housing that have an impact on child development during the first thousand days and lifelong outcomes.

Housing instability and financial instability can be a big cause of parental stress, which is known to have a negative

impact on foetal development and young children, and the impact is often greater for young children than for older children. Unstable housing arrangements can often be linked to poor housing conditions, which are also known to have an impact on the health and wellbeing of the mother and child.

On the other hand, supporting housing stability for expectant parents and families with young children brings a number of benefits, including alleviating parental stress, helping to build a stronger sense of community and belonging, supporting a more connected experience of antenatal care, and the development of stronger relationships with care providers.

We acknowledge that governments are currently working to improve early childhood outcomes; therefore, we present suggestions for how we can improve on policies, programs and initiatives to do what we are doing now, but better.

Conclusion

How to improve antenatal care and housing stability in the future

These findings provide an opportunity to think differently about how policymakers approach the first thousand days. As the report shows, there are a number of highly influential factors in a child's development out of sight of government and community services. Nonetheless, our understanding of these is improving rapidly thanks to new research focusing on the first thousand days.

Nutrition and education factors are prominent in parents' minds, but other elements such as the environment, and levels of parental stress (particularly for the mother) can also have notable impacts. These can result from housing and financial insecurity, job strain and relationship difficulties.

There are a number of steps that can be taken to improve outcomes by targeting the first thousand days. In terms of policies, programs and initiatives, the focus could be on improving information and education, improving services and supports provided to families during this period, and improving the environment families and children live in.

The purpose of this report is not to advocate for a specific area for intervention but to provide economic analysis as a guide for potential future funding for programs.

While this report focuses on only two aspects of the first 1000 days, there are many other factors that impact early childhood outcomes.

Suggestions for key areas where changes could be made include:

- 1.** Better identification of important risk factors to enable earlier intervention to give children the best possible start in life. This is particularly relevant for those most vulnerable.
- 2.** In addition to the current focus on education and communicating health messages, better guidance and support to address challenges caused by the circumstances and environment the parents are living in.
- 3.** A more connected pathway for parents through the antenatal, perinatal and postnatal periods, providing seamless support.

These are the top 10 factors that were scored by the consortium. There are therefore some other key factors that should be considered for research in future:

- | | | | | |
|-------------------|-----------------|----------------|--------------------------------------|---------------------------------|
| 1. | 2. | 3. | 4. | 5. |
| Antenatal support | Young pregnancy | Housing tenure | Low levels of educational attainment | Low family socioeconomic status |
| 6. | 7. | 8. | 9. | 10. |
| Smoking | Obesity | Prematurity | Birth weight | APGAR score |

For more detailed information on the findings and the specific recommendations see the full report here <http://bit.ly/first1000daysreport>

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PwC Consulting is part of Australia's largest professional services firm, PricewaterhouseCoopers Australia. We bring the power of a global network of firms to help Australian businesses, not-for-profit organisations and governments assess their performance and improve the way they work.

Australian Research Alliance for Children and Youth (ARACY)

The Australian Research Alliance for Children and Youth (ARACY) is a research and results focused, apolitical organisation. It works with government, researchers and those providing services to children and their families. ARACY's aim is to help children achieve a better life by focusing on heading off problems before they arise.

Bupa Australia

Bupa in Australia and New Zealand are part of the Bupa Group, a leading international healthcare organisation that draws upon our international knowledge and expertise to provide health and care services.

Bupa Health Foundation

The Bupa Health Foundation is one of the leading charitable foundations dedicated to health in Australia. It is committed to improving the health of the Australian community and ensuring the sustainability of affordable healthcare.

Centre for Community Child Health at the Murdoch Children's Research Institute (MCRI)

The Centre for Community Child Health at the Murdoch Children's Research Institute (MCRI) is an international leader in early childhood development. The Centre works with families, communities and governments to advance equitable health and developmental outcomes for all children, using evidence to understand and address the myriad of factors that influence children's development. The Centre develops innovative solutions that make a measurable difference to children and families.

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5. Policy in the lab.

The Constellation Project: The urgent issue of homelessness

by Martin Stewart-Weeks, Lisa Main, Jacqui Jones, Rosalie Wilkie

Introduction

On any given night in Australia, 1 in every 200 people is homeless. For those aged 19 to 24, that number doubles. Aboriginal and Torres Strait Islander people are ten times more likely to be homeless than non-Indigenous Australians. They account for 20 per cent of the 116,000 people who are homeless across Australia. These are sobering statistics for a wealthy nation that prides itself on a 'fair go'.

The drivers of homelessness are known. They include the high costs of housing, financial stress, domestic violence along with a lack of access to appropriate dwellings.

A more recent trend is that older Australians, particularly women, are increasingly finding themselves without a home. While their overall numbers are smaller, they are experiencing the fastest-growing rate of homelessness. Many of them are couch-surfing or sleeping in their cars.

Homelessness is not just rooflessness. The greatest increase in Australia's homeless figures is in people living in severely overcrowded houses and apartments where occupants might share bedrooms with many others. They have no quiet space and little privacy. This 'overcrowding' trend is hiding the true extent of homelessness.

Despite many great individuals and organisations working on potential solutions to this problem, Australia's homelessness

rates continue to rise. The Constellation Project believes that coordinated, cross-sector collaboration is required to work towards ending homelessness. However, this will take time. That said, it will likely lead to more impact by channelling diverse skills, resources and networks in a coordinated way.

Homelessness is now an urgent issue. That's why the founding members of The Constellation Project: Australian Red Cross, Centre for Social Impact, Mission Australia and PwC Australia, decided it was time to try a new approach. Their ambitious vision is to be part of a concerted effort to end homelessness in Australia within a generation.

The Constellation Project will not duplicate work already underway. Rather, it aims to connect, amplify and grow the impact of existing efforts to address homelessness as well as develop practical solutions.

The Project's work is structured around three levers of change:



More homes

increasing the supply of safe, affordable, accessible, appropriate and secure homes



Better journeys

protecting people at risk of homelessness and improving journeys out of homelessness



Leading together

cross-sector leadership

Over the past six months The Constellation Project has been cultivating a network of people across states, sectors and organisations who are committed to sharing insights, learning, leading and acting together. This all comes together in The Constellation Project's 'social lab' process.



The Constellation Project: Social Lab

An innovative approach

Initiatives like the Policy Lab in the UK Cabinet Office¹ and the early work of Mindlab in Denmark² have resulted in a proliferation of 'lab' structures within governments.

One recent EU study³ listed over 70 lab-style ventures whose work was described in these terms: *'Policy labs are dedicated teams, structures, or entities focused on designing public policy through innovative methods that involve all stakeholders in the design process.'*

In the lab setting, proven modes and methods of convening and collaborating are used across complex, disparate groups of stakeholders and interests to shape policy.

After proposals are formulated, they are tested and validated with the market.

In addition to co-creating and re-imagining policies and public programs, policy labs undertake a wide range of activities such as preparing prospective studies, organising creativity workshops, and instilling a sense of empowerment in civil servants through training and other learning activities.

The process

The Constellation Project has adopted the social labs⁴ methodology, which has been widely used to bring a social and systemic approach to complex social problems. The work is done by bringing together a diverse group of 30–40 people across sectors into a lab team that dedicates at least 20 per cent of its time to solving a specific ‘lab challenge question’. The challenge question is designed to focus people on delivering practical outcomes – prototypes and/or economic models – ready to test in the market.

The first lab challenge question for The Constellation Project Social Lab was: **‘By 2022, how might we make more 100,000 homes available to Australians that need them most?’**

In this context, ‘homes’ are safe, affordable, appropriate, accessible and secure, and those who ‘need them most’ are Australians on low-to-moderate incomes.

Delivering practical outcomes in this case means, among other things, finding ways to increase the flow of capital from governments, corporates and philanthropy. It means understanding and influencing the way the current system helps or hinders that objective. It means understanding the planning and development system, and it means listening carefully to people with lived experience of homelessness to ensure solutions are designed with them, valuing their experience and knowledge.

The social lab cycle runs for nearly four months and the work is broken down into five separate teams. These five lab teams will each address one of the following aspects of the challenge question:

- | | | | | |
|--|---|---------------------|---|--|
| 1. | 2. | 3. | 4. | 5. |
| Unlocking capital for affordable housing | Housing solutions for Aboriginal and Torres Strait Islander peoples | Inclusionary zoning | A new model for layered/joint Commonwealth, state and territory funding | Connecting supply and demand using underused existing housing. |

To get the work done, each team is assigned a coach and utilise agile methodology over a series of three ‘sprints’ – 4–6 weeks of intense, collaborative work – with regular review sessions in between. The reviews provide an opportunity for continual feedback and iteration so the teams can refine their prototypes until they are ready for delivery at the end of the Social Lab cycle.

Lived experience at the centre

There is a growing interest in user-centred approaches to service design. These put the end users at the centre of each stage of the policymaking process. People who have experienced homelessness are embedded at every level of The Constellation Project’s approach and process.

The Project has mapped many homelessness-related services and advisory groups so that it can connect with existing and diverse networks. From this, a toolkit was developed to help those working within The Constellation Project to determine how best to engage people with lived experience on homelessness.

The voices of Aboriginal and Torres Strait Islander peoples are also represented across all dimensions of The Constellation Project. Their unique and urgent housing needs are a priority of The Constellation Project and are informed by National Congress of Australia’s First Peoples⁵ which provides leadership and oversight to the work.

The Constellation Project’s first social lab is already prototyping a First Nations housing model, based on community context that will be led and managed by Aboriginal and Torres Strait Islander people.

The best available data about causes of and trends in homelessness will inform cycles of learning and improvement. The Constellation Project is also investing in collaboration infrastructure: funding a dedicated backbone team to enable the joint effort. This team convenes face-to-face events and uses digital platforms to enable collaboration across geographies, sectors and organisations.



Where to from here? The role of government

We cannot solve homelessness with the same thinking and systems that helped create it. A new cross-sector approach that focuses on practical solutions with an all-in mindset is what we believe will help. The Constellation Project is founded on the principle that we all have a role to play and that when we combine our knowledge, intelligence and experience, and leverage our networks, systems can change.

Early ideas emerging from The Constellation Project's social lab include the development of models that will enable private capital to create more affordable homes,

inclusionary zoning measures that are sustainable for developers and new approaches to state/federal funding to reinvigorate investment in social and affordable housing.

Our social lab is proving that there is tremendous power in the connectivity of ideas. When you bring people together, those who differ – often greatly – in how they approach the problem, new pathways are forged. There is a particular alchemy produced in the social lab that unlocks the potential for new ideas to emerge. The challenge is to refine and test them quickly, because one more night for people experiencing homelessness is one too many.

Ensuring social lab success

- 1.**

A clear strategic frame is essential

Working with a core group to define a shared vision, target outcomes and the scope of the challenge is critical. This provides clear parameters, attracts other organisations to participate, and helps diverse groups to prioritise and make decisions along the way.
- 2.**

Diversity matters

To tackle old problems in new ways, we need fresh perspectives. Strong social lab teams include a diversity of culture, life experience, skills, disciplines and levels of influence. Invest time in recruiting the right people to the social lab team (this can take months). Your solutions will be stronger as a result.
- 3.**

Put the right support structures at the core

Collaborative problem solving requires discipline, careful design and facilitation. A dedicated team at the core can bring this disciplined approach, helping a diverse group of people find their path through a complex web of possibilities. The scaffolding includes core functions like facilitation, project management, technology infrastructure, communications, knowledge management, and responsibility for attracting additional people and resources to amplify the impact of the network.
- 4.**

Amplification

The untapped potential in this new approach lies in the possibility for scale. The lab provides a safe space to test the viability of models and policy options put forward by the lab teams. Ideas generated in the lab are tested and strengthened with a diverse group of stakeholders including people who have lived experience of homelessness, housing service providers, investors and developers. Early involvement of Government in social labs may help inform policy decisions and could offer a powerful enabler of change.



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6. Staying ahead of the threat: Capabilities-driven strategy for law enforcement

by James Ogg, Robert Ewin, Tim Jackson and Michael Thompson

The law enforcement environment is complex and rapidly evolving

Agencies are facing capacity and capability shortfalls as a result of expanding mandates and compressed budgets. There is a need to respond to emerging and shifting threats, including cybercrime, terrorism and foreign interference. Community expectations and scrutiny are higher than ever.

In the face of this challenging situation, law enforcement agencies must clearly and objectively understand how well their existing capabilities address the threat landscape. They need to identify how new ways of working could better achieve their purpose, and they need to clearly articulate the trade-offs faced by government when determining investment in a financially constrained environment.

To do this, agencies need to align three critical elements – strategy, capability and funding – to provide a sustainable framework that can adapt to changes in both the internal and external environments. If a capabilities-driven strategy is not adopted, the best case is that siloed ways of working around crime types will persist, operational prioritisation

will be challenged and capability development will be ad hoc. In the worst case, law enforcement won't keep up with the threat and, ultimately, greater harm will be felt in communities.

The development of clear strategic priorities and direction for capabilities allows more efficient development and deployment of resources and engagement with partners both domestically and overseas. By implementing a capabilities-driven strategy, law enforcement agencies can improve their ability to respond with agility to the complexity and uncertainty of the modern operational environment.

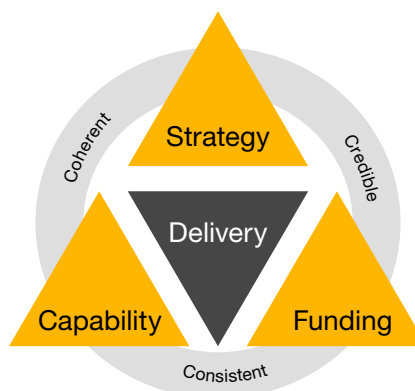
How to catch up, keep up and stay ahead

Staying ahead of the threat requires agencies to break the cycle of ineffective capability investment and misaligned operational outcomes – to develop a strategy that works.

Reactive operational responses and ad hoc capability investment is stopping agencies from keeping up with the demands of the public, the government, and most importantly global criminal networks.

Law enforcement agencies can improve their responsiveness to emerging threats by developing a capabilities-driven strategy that aligns strategic priorities with capability investment and a sustainable funding model.

Figure 1: Capabilities-driven strategy in the public sector



Source: Strategy & Capabilities-Driven Strategy Framework

Strategy

Build a strategy driven by a clear set of strategic priorities that link to government direction and operational outcomes. This will guide effective capability investment, operational prioritisation, and tasking and coordination.

Capability

Identify an enduring capability set, and then select the critical few capabilities and any gaps for investment. This will ensure investment is directed to areas expected to have heightened operational outcomes.

Funding

Implement a sustainable funding model that improves the way that money is allocated and outcomes are tracked, to maximise value to the public purse and ensure consistent funding for priority initiatives.

Delivery

Deliver on purpose by actioning the trade-offs and priorities articulated in the strategy; cutting back in some areas and reinvesting in essential capabilities; reorganising structures, processes and systems; and driving culture and behaviours to enable change.

This framework is designed to assist law enforcement agencies to make deliberate choices, from the front line to the back office. The alignment of these elements will lead to a law enforcement agency that is coherent in how it achieves its purpose and in its alignment with government priorities, consistent in how it prioritises investment and allocates resources over time, and credible with a track record of delivering outcomes to government and the public.

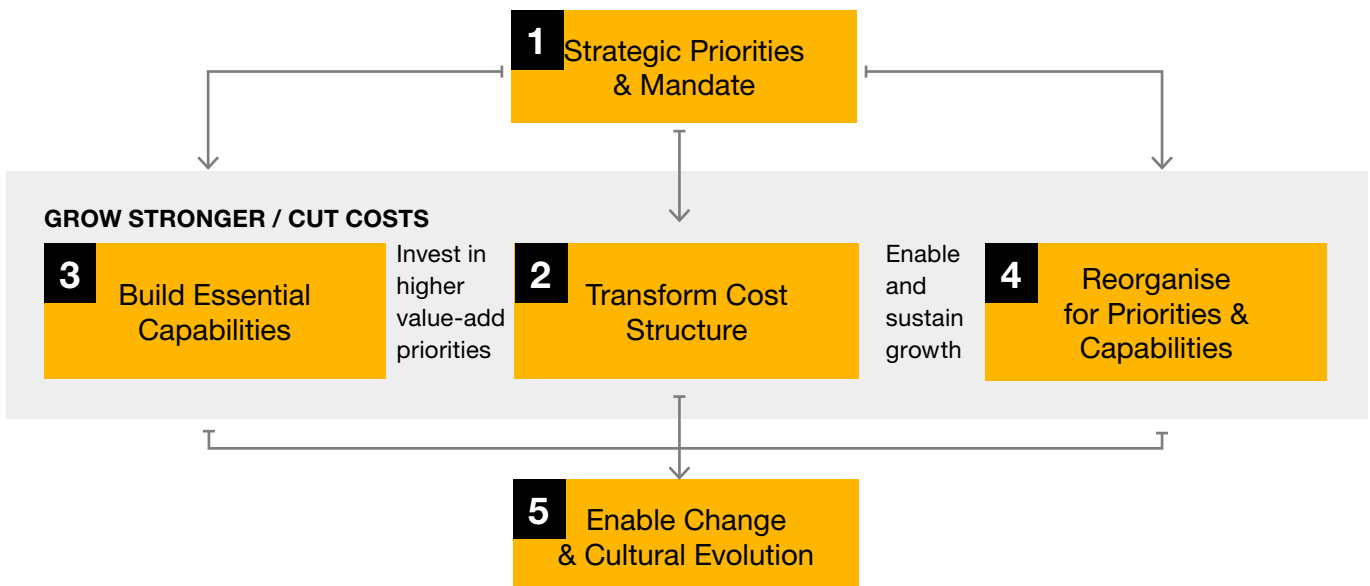
Strategy and delivering on purpose

Any good strategy has delivery at its core. Strategy and delivery must be viewed together – otherwise, strategies will become mere glossy shelfware, and delivery activities will end in (often expensive) places that have to be retreated from.

Five elements form a robust and executable strategy:

1.	2.	3.	4.	5.
Set strategic priorities and mandate:	Transform cost structure:	Build essential capabilities:	Reorganise for priorities and capabilities:	Enable change and cultural evolution:
clearly articulate the priorities that really matter to achieving the agency’s mandate and to delivering target outcomes.	develop a clear cross-organisational cost agenda, making deliberate choices – where to invest and where to cut back.	invest in critical and sustainable capabilities funded by improvements in the cost structure.	implement an organisational model, processes and systems that unlock potential and enable agility.	create an environment and culture that embed change in the organisation DNA and enable a sustainable future.

Unlike many other organisations and departments, law enforcement agencies must contend with a complex array of threats, risk and harm, as well as the demands of the public and government. The threat, risk and harm landscape is continually evolving and challenging operational requirements, making it more complex to develop a sustainable strategy.



Source: Strategy & Capabilities-Driven Strategy Framework

A group of police officers in uniform standing in a line outdoors. The officers are wearing light blue shirts, dark blue trousers, and dark blue peaked caps. They are standing on a grassy area with trees in the background. The image is partially obscured by a white text box on the right side.

Case Study

Strategy ‘made real’ for law enforcement

A policing agency was struggling to manage a number of competing priorities after the government increased its mandate and reduced its funding. The link between the agency’s operational outcomes and government priorities was not documented or easily articulated by the executive. Several hundred objectives existed across the agency, which meant its focus and priorities were ambiguous to operators and staff.

Organisationally, this caused siloed functional areas to compete internally for resources and funding. Operationally, this muddled the waters for ‘tasking and coordination processes’, which are the central prioritisation and risk management mechanism for law enforcement. Strategically, this hindered the agency’s ability to respond to emerging threats and generated highly reactive ways of developing capabilities.

First, we worked with the agency to develop a new ‘threat, demand and supply’ framework – and accompanying tools and processes to drive strategic and tactical prioritisation. Importantly, this framework connected the agency priorities to government direction. Management information was collected against these priorities, reported quarterly, which allowed the agency to better understand its progression, inform investment decisions and explain key measures of success to government to meet their expectations. A strategic narrative was developed for the executive to align all communications internally and externally.

In parallel, we conducted a detailed baseline for the agency’s capability set, which captured all aspects of their current operating model. We assessed the baseline against the board’s strategic priorities to identify key gaps and opportunities, both in terms of capabilities and interactions with partner agencies. As a result, the agency was able to successfully generate a series of target state capability blueprints, which enabled them to not only better allocate resources (making the most of what they already had in the organisation), but also uplift capabilities to meet the modern threat environment.

By building a clear picture of the link between government, organisational and operational priorities, law enforcement agencies are able to more effectively drive positive capability investment and achieve operational outcomes. Agencies need to use a structured approach to build enduring capabilities, to have greater assurance over resource and funding – and to reassure government of where investment is going.

Historical and leadership barriers to adopting a capabilities-driven strategy

So if capabilities-driven strategy is so crucial, why haven't more agencies moved down this path? There are two key answers to this question.

First, law enforcement agencies have historically structured themselves around different threat functions (e.g. 'petty crime', 'major crime', 'vice' or 'drug crime') to best manage the 'threat, risk and harm' facing individuals and society. Over time, in most agencies these functions have been consolidated (e.g. into overarching 'organised crime functions') and added to (e.g. 'cybercrime functions' or 'counter-terrorism functions'). However, capabilities have been seen as the poorer cousin – viewed as critical tools and tradecraft from operational experts, but not something that needs leadership and management attention.

Second, change and transformation used to be something that most organisations did in extraordinary circumstances. But today, transformation is something that leaders have to confront constantly. Law enforcement organisations are no different, and the rapid pace of change to the threat and tactical environment (discussed in the first section) means that, more than ever, law enforcement agencies need to become capability-based organisations to give greater agility and resource management across different threats. Adopting a robust, capabilities-driven approach will require strong leadership, and a departure from historical beliefs and culture.

Law enforcement leaders have a simple objective that is getting harder to execute

A repeatable model is needed that brings simplicity, breaks away from the traditionally siloed functions, and enables strategic direction and sustainable investment for capabilities.

The future law enforcement environment is complex and multifaceted. It will require constant self-reinvention, and new responses to threats outside of the traditional law enforcement mandate. Increasing use of digital technologies by criminals, the shift in terrorist threat, and an expanding mandate, will further challenge the capacity and capability of agencies around the world. Moreover, these challenges do not exist in a vacuum, with governments and the public placing increasing pressure and scrutiny on law enforcement agencies in areas ranging from operational responses to funding.

The implementation of a capabilities-driven framework allows law enforcement agencies to align strategy to capabilities and funding – and to build a coherent, consistent and credible organisation that is able to rapidly respond to new and emerging threats. This enables police and agencies to be confident that they are at their best and, ultimately, strengthens operational responsiveness and flexibility.

The alternative, functional planning by crime type, will only serve to reinforce historical silos – making structures and resource development more rigid and ring-fenced. Change is the only constant. Agencies can't afford large transformation exercises every 5 years to help them catch up with the threat – they have to stay ahead – as the political, societal and personal risks are too great. A good strategy

aligns government priorities, organisational objectives and operational outcomes as the foundation for operational tasking processes as well as investment decisions. This strategy, when combined with a well-defined taxonomy of current and target capabilities and an aligned funding model, becomes the mechanism for rapid identification of capability gaps and areas where investment is needed most to deliver on operational requirements.

In this way, leaders will be able to meet their mission objectives: to better prioritise multiple threats, know the good and bad aspects of their agency's capabilities, and have an ability to explain this to governments and the public to garner their funding and support. As law enforcement agencies move towards capability-based strategies, strong leaders and resilient cultures will also be paramount.

These aspects not only build momentum within an organisation, but they also assist in the development of a cooperative and collaborative approach within and between agencies and allow more effective responses to an increasingly complex environment.

By combining a sound, capability-based strategy with strong leadership and a resilient culture, law enforcement agencies should be able to more effectively deliver on expectations and stay ahead of the threat.



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For more information, and to read the full report, go to <http://bit.ly/stayingaheadofthreatsreport>

A photograph of a grand, ornate hallway with a central arched doorway. The hallway is lined with tall, classical columns on both sides. The floor is made of light-colored stone tiles with a repeating geometric pattern. A large, dark wooden double door with intricate carvings is set within the archway. A decorative lantern hangs from the top of the door. The lighting is bright and even, highlighting the architectural details.

7. Interview with Michael Brennan

Chair, Productivity Commission



Coaching, rigour, policy and economics: Head of Productivity Commission shares experiences

Chair of the Productivity Commission, Michael Brennan, describes the path to his current position as ‘meandering’, however, common threads that run through his career indicate that this latest move is more logical progression than serendipity.

Brennan was appointed Chair of the Commission in July 2018, a unanimous recommendation from the Selection Advisory Committee, and took up the position in September. With extensive experience in the public sector, his career has had a strong economic policy emphasis. After serving as Deputy Secretary for the Victorian Department of Treasury and Finance, he joined the Commonwealth Treasury as Deputy Secretary of the Fiscal Group, but has also held ministerial staffer roles, including senior adviser to former Finance Minister Nick Minchin.

He has also spent time in the private sector, spending three years as a consultant in the economics and policy practice at PricewaterhouseCoopers (PwC). Coinciding with the global financial crisis a decade ago, he remembers it as being a fascinating time, and despite the different setting, found the dynamic but collegial nature of PwC similar to his experiences in the public sector.



The Productivity Commission stands out to me as an entity with a strong culture of rigour, which is really about blending a strong theoretical, conceptual framework with real-world evidence. So you have a hypothesis furnished by a theoretical framework but then test it against the real-world evidence.

Role as Chair of the Productivity Commission

Brennan is a long-time admirer of the Productivity Commission and its forerunners and is excited to now be a part of Australia’s principal advisory body on microeconomic policy and regulation. “The Productivity Commission stands out to me as an entity with a strong culture of rigour, which is really about blending a strong theoretical, conceptual framework with real-world evidence. So you have a hypothesis furnished by a theoretical framework but then test it against the real-world evidence.”

He believes the Commission has a track record for reform advocacy and preparedness to advocate for longer term reform options. He also values the degree of independence that the Commission is granted – a necessary requirement to ensure it can “stand up to vested interests, and tell it how it is” – and a view that sits well with the Commission’s core principles of independence, transparency and a community-wide focus.



Public policy requires a different approach to corporate strategy or private sector advisory work



Australia's strong policy framework is necessary for a robust yet resilient economy

Strengths, skills and policy development

The Productivity Commission operates within the Treasury portfolio. It's core function is to respond to directions from the Treasurer, and this connection works with Brennan's strengths. Acknowledging his strong policy capabilities were developed from working in central government agencies, he recognises that public policy is a skill in itself. "It requires a different approach to corporate strategy or private sector advisory work."

However, Mr Brennan points out that you don't always realise what skills you're forming until they are called on in another environment or context, admitting that soft skills and other transferrable skills acquired in previous positions are now integral to his work.

"I would say that, particularly working in the Commonwealth and Victorian Treasury, you develop a strong policy capability because they're central agencies and they've got interest in policy that covers the full spectrum of policy areas. Learning the art of the succinct oral briefing is another great skill in public policy: the ability to talk pithily, succinctly, and convey meaning in a reasonably brief, concise but impactful way."

Common to PwC and the Treasury departments was a dynamic environment and a need for fast turnaround of projects or policy. Time and resources can be limited in this setting, which "forces you to think about the skill sets and capabilities that you'd need in order to approach a task". In addition to his expert knowledge and skills, Mr Brennan was described as having "high-level strategic, economic analysis and leadership qualities" by the Treasurer on his recent appointment to Productivity Commission Chair.

Mr Brennan notes the strong culture of coaching, mentoring and professional development at PwC which he has carried with him in subsequent roles. This approach to continuous improvement of self and others impressed him, and he identifies coaching and mentoring as a valuable transferrable skill.

He acknowledges that there is value in having deep experience in a particular subject matter or setting. However, he feels that his own diverse experience across different levels of government and different sectors has allowed him to "see the policy process from a variety of points in the supply chain".

Policy perspectives, State vs Federal

In the public sector, he explains, state and Commonwealth Treasury departments have different policy perspectives despite their central roles and shared economic interests. At the Commonwealth level, the focus is more demographic and targets the distributional impact of policy (e.g. entitlement programs such as Medicare, pensions, family support). At the state level, considerations are much more applied and closer to the ground – geography and locality are more influential; and delivery, including workforce, is a big consideration. Here Brennan returns to the theme of dynamic environments and quick turnaround noting that at the state level in particular, there is often a rapid transition from policy formulation to implementation.

In the private sector, he emphasises the importance of networking and interacting with people outside your immediate environment. Getting out and about enables 'intelligence gathering', picking up insights about what's happening in the economy from clients, making connections, and seeing the impact of policy in the context of business. Not that this is restricted to the private sector, as he notes that in his state and federal Treasury roles he met with people "from a variety of line agencies who were undertaking all sorts of remarkable and challenging tasks, in terms of service delivery on the ground".



“ We must create a policy environment that encourages business growth, including new business formation and a strong sense of entrepreneurship, to ensure ongoing dynamism in the Australian economy.

The future of policy and economic reform

Mr. Brennan is optimistic about the future of policy and economic reform in Australia, believing our strong policy framework is necessary for a robust yet resilient economy and that this has contributed to Australia’s ongoing economic growth. He feels that there’s scope for policy reform and also significant community appetite for mature policy debate. There has been discussion about the need for more data and rigour in policy-making and, while Brennan agrees that data is important, he believes in data for impact rather than for the sake of data. Significantly, the Commission’s reports on matters relating to Australia’s productivity and living standards contribute to public understanding of these issues and often form the basis of government policy.

Looking ahead, Brennan identifies some key policy challenges, including the need to address entrenched disadvantage, optimise service delivery in important areas such as health and education, and ensure ongoing dynamism in the Australian economy. Australia’s 27 years of uninterrupted growth is a substantial achievement by global standards. However, a recent research paper by the Commission demonstrates that, while this has helped to moderate inequality, the rate of entrenched disadvantage (i.e. poverty) remains a significant challenge.

“Our recent work on inequality showed that period of uninterrupted economic growth has helped to moderate potential inequality, because if you had a significant recession in Australia, as we did in the 1990s; that would harm people at the low end of the income distribution, if there was a significant labour market downturn. But there is nonetheless a significant cohort, up to a million Australians, who are in a position of what you might call ‘entrenched disadvantage’, and the kind of policy settings we have to deal with inequality haven’t really been enough to address the entrenched disadvantage of that cohort.”

Brennan suggests that in order to address entrenched disadvantage and effectively deliver government services, unconventional policy approaches and a willingness to experiment at the local level may be required.

Ensuring that government service delivery is fit for purpose is another challenge. In the context of health care, he offers chronic disease management as an area where “getting it right” will deliver significant social and wellbeing benefits, as well as economic dividends through increased participation and productivity in the workforce. Mental health is an area that would likely show similar benefits. Both have a significant effect on the economy through effects on businesses, the hospital system and social services. And in relation to this, the Government has just released the terms of reference for an inquiry into the role of mental health in the Australian economy and ways to improve mental health to support participation and economic growth.

Finally, a policy environment must be created that encourages business growth, including new business formation and a strong sense of entrepreneurship, to ensure ongoing dynamism in the Australian economy.

As only the third Chair in the Commission’s 20-year history, Brennan is now in the box seat to contribute to work that could address some of these challenging areas and have significant consequences for effective government. This seems like a natural fit and the true path for someone who says of public policy work: “It’s rewarding. It’s good fun. It’s great because you’re dealing with interesting issues and you’re dealing with issues with a public interest lens.” But he also recognises the flipside, when good ideas are adopted imperfectly or not at all. “You have to strike the right balance between the natural disappointment and resilience, but you can’t not be disappointed because you’ve got to care enough about the outcome to really want good policy to succeed.”





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