

The Australian Public Service:

What of the Sovereign's own Capability?

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With the geopolitical and economic certainties of the late twentieth century unravelling, Australia must reconsider what constitutes genuine sovereign capability. We cannot simply rely on fickle multinational industries or the best intentions of elected governments; vast amounts of our national capability resides in the Australian Public Service (APS) as the enduring institutional apparatus through which the state's choices are formulated, implemented, reported, and revised over time.

Over the past three decades, reforms associated with New Public Management (NPM) have sought to improve public administration by replicating the incentives and structures of corporate management. NPM meant to disrupt perverse incentives of the 'old' public service, that might lead, for example, to waste or inertia.

More than 30 years on it is over time for a clear-eyed assessment of whether the 'new' institutional arrangements have generated their own distortions. We argue any early benefits of NPM are long exhausted, their mechanisms instead weakening APS independence, narrowing policy horizons and reducing transparency.

IMAGE: © George Becker – Pexels

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those choices effectively over time. We conclude by outlining three reforms aimed at restoring institutional integrity and rebalancing incentives toward stewardship, accountability, and responsiveness.

A brief history of the APS

For much of the 20th century the APS was led by 'permanent

heads' appointed by a central public service authority, which also centrally employed other officials.¹ While remuneration was generally lower than in the private sector, public service careers offered security, status, and a powerful sense of vocation.

At the apogee of the public service was the 'Mandarin', a Chinese term meaning scholar-bureaucrat. APS Mandarins were expected to provide ministers with 'frank and fearless advice', maintaining a degree of institutional independence from politics to counterbalance the transient decisional authority of elected governments. While it provided continuity and coherence, it was also criticised for rigidity and, at times, limited external accountability.

NPM has failed because reforms lack *integrity*, understood here not in a moral sense but as a structural condition in which a system is internally coherent, complete, and capable of recognising and correcting its own errors over time.

The emergence of long-term, costly policy failures in infrastructure, energy security, and fiscal policy suggest the APS is not well incentivised to identify and correct errors, or provide course correction. As one example, Snowy 2.0 has risen from cost estimates of \$2 billion to some \$42 billion, seemingly without serious or timely reconsideration of the project's merit. That money could otherwise have funded liquid fuel reserves and onshore fuel refineries, or been saved from contributing to Australia's more than \$1 trillion-dollar sovereign debt.

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In this context, a central question is not only *which* sovereign capabilities the Commonwealth should develop, but whether it retains the institutional capacity to assess, manage, and revise

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New flexibility demanded by the sequential floating of the dollar, reducing tariffs, and the implementation of National Competition Policy in the 1990s exposed an inflexible, and sometimes unaccountable, public service. NPM sought to realign public service incentives in recognition that government:

"...does not act directly, [it] relies upon agents, who handle public sector management for it... government is the principal and the [department heads], the agents."²

Seeking a modern APS, the Keating Government abolished the tenure of 'permanent heads';³ the Howard Government legislating a new *Public Service Act 1999* (Cth) (PSA) in which the Prime Minister became the effective employer of APS Secretaries⁴ on executive contracts capped at five years.⁵ While job security reduced, the financial compensation of APS secretaries has doubled in real terms, from half a million dollars in 1999, to one million dollars now.⁶

Former Australian Public Service Commissioner Andrew Podger AO has argued repeatedly that executive Remuneration Tribunal reviews have

emphasised the 'prestige' of high public service, but not the values of public service, instead aligning remuneration with private sector expectations rather than "a culture that inevitably emphasises service, public goods, and equity."^{7,8}

THE HOWARD GOVERNMENT LEGISLATING A NEW PUBLIC SERVICE ACT 1999 IN WHICH THE PRIME MINISTER BECAME THE EFFECTIVE EMPLOYER OF APS SECRETARIES

With such generous pay on offer, the APS secretaries' more obvious motivation is to extend their time on it and avoid termination. Therefore, the career security of the departmental secretaries became dependent on political patronage.

Putting an end to centralised hiring of public servants furthered government managerial control. APS officials became employees of their department, making them accountable to the department secretary and management.⁹ The



career of senior department executives became dependent on the confidence of the secretary.¹⁰ These arrangements tend to institutionalise the modern culture of a public service more accountable to the government of the day, than to the public.



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There is consequently more disincentive than incentive to provide strictly objective advice or any contradictory evidence. Instead, the political and bureaucratic incentives become one and converge on the political.

Gary Banks AO warned almost a decade ago of the failures of NPM and damage to the capability and confidence of the APS, arguing:

*"Systemic changes to enhance the 'responsiveness' of the bureaucracy... have succeeded all too well... politically aligned appointments and tenuous tenure... have taken their toll on the 'free and frank' advice that governments (and the public) need, as opposed to the advice that a particular Minister or Leader may want."*¹¹

NPM's incentives intended to prompt effort and efficiency are built around a pairing of carrot and stick. For APS executives, salaries are enticingly large, but tenure is 'subject to performance' as judged by politicians. Neither fits well with traditional APS concepts of stewardship, long-term public interest, or the overall propriety and fairness of the public policy mechanism as a whole.

Decision-based evidence making?

A central promise of New Public Management is that public decisions are evaluated *ex ante* by quantitative

analysis and *ex post* by 'true and fair' financial reports, constraining bias

and discretion, exposing trade-offs and improving long-term accountability.

Public servants are bound by corporate-like statutory duties to exercise "care and diligence"¹² of a "reasonable person"¹³ in "the proper use and management of public resources"¹⁴. These duties are systemised such that "every policy decision... must be accompanied by... Impact Analysis."¹⁵

The APS code of conduct requires officials "use Commonwealth resources... for a proper purpose", prohibiting conflicts of interest and the



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use of inside information or positional status to gain "a benefit or advantage" for an official or another person. The *Public Governance, Performance and Accountability Act 2013* obliges officials to be 'efficient', 'effective', 'economical', and 'ethical' when procuring assets or services.

In practice, '*evidence-based decision-making*' has been inverted to '*decision-based evidence making*', seeing numbers constructed to justify decisions already made. This inversion is not primarily a matter of bad faith. It is a rational response to the incentive structures created.

Public servants quickly become aware that policy delay, dissent, or the surfacing of inconvenient analysis carries asymmetric career risk, while facilitating ministerial decisions that are already politically settled or in mind is the foundation of reappointment and a generous 'performance review'.

It is in this most welcoming context that the major accounting and consulting firms have assumed a central role, even reflected in APS guidance advising that "external consultants can be used to help you write your Impact Analysis...for example it may be appropriate to...prepare complex economic modelling."¹⁶

The prevalence of major consultants should not be understood as a failure of capability alone, nor as evidence of individual impropriety.

Consultants function as institutional risk management devices by providing formally-compliant analyses, models, and reports purporting to demonstrate care, diligence, independence, and professional judgement.

For an APS executive, commissioning a Big Four accounting firm is a rational strategy. If decisions later fail or costs escalate, responsibility can be deflected to a process that was externally validated, procedurally orthodox, and apparently, objective. The consultant's value is not about discovering truth, but about producing defensible evidence supporting a preordained and politically preferred decision.

The statutory framework reinforces this dynamic. Executive duties of care, diligence, and the proper use of public resources are framed in terms of reasonableness of process, rather than substantive public value. Major policy and expenditure decisions must be accompanied by 'business cases', impact

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analyses, and gateway pro forma documentation. These requirements assess not whether a decision is sound on a full and open analysis, but whether it can

be shown to have followed accepted decision-making processes.

A further constraint on public decision-making historically lay in the internal structure of the Commonwealth's central agencies. Prior to the budget process, major funding proposals were subject to scrutiny through what was effectively a tripartite





arrangement involving the Department of the Prime Minister and Cabinet (PM&C), the Department of Finance, and the Treasury.

Each agency brought a distinct institutional perspective: PM&C advanced the government's policy agenda; Finance assessed whether proposed expenditures met requirements of efficiency, effectiveness, and propriety; and Treasury evaluated macroeconomic implications, including fiscal sustainability and debt discipline.

While PM&C continues to play a coordinating role between the political executive and the public service, the capacity of central agencies to impose independent constraint has diminished. Finance no longer performs a comprehensive compliance and enforcement role across procurement, and Treasury

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operates without a binding debt constraint of the kind that once structured fiscal decision-making. As a consequence, the internal checks that once mediated major spending decisions have been weakened.

The erosion of this tripartite scrutiny reduces the system's capacity for internal challenge and iterative correction. Without robust, independent points of review, the procedural requirements introduced under contemporary public management – such as business cases and impact analyses – are more likely to function as instruments of justification, rather than mechanisms of evaluation. In this sense, the decline of central agency contestability reinforces the broader shift toward decision-based evidence making and represents a further weakening of the institutional integrity of the APS.

The appearance of rigour is more important than rigour itself; the need for evidence is a procedural requirement, a 'hurdle' to be cleared, used not to guide the decision but instead to document and 'explain' it.

It is accrual world...

The adoption of the accrual accounting used by corporations also promised to enhance accountability by making the whole financial picture transparent. Until the 1990s, Australia's governments accounted on a cash basis, the headline

fiscal outcome being the net 'surplus' or 'deficit' at year's end.

Cash accounting was criticised for its limited treatment of non-current assets and liabilities, allowing long-term service and debt obligations and inter-generational burdens to be neglected.¹⁷ Accrual accounting was adopted to address these limitations, recognising assets, liabilities, and reporting revenues and expenses in the periods to which they relate, rather than when cash is received or paid.

The Australian Accounting Standards Board (AASB) adopts International Financial Reporting Standards (IFRS) for corporations, but adds several unique standards applying only to Australia's governments and which materially alter ordinary practice.

Notably, AASB standard 1049 overrides normal consolidation standards, instead forcing the government to produce dual financial statements, one fully consolidated across the whole Public Sector, the other sectorised.

This sectorisation presents the politically-controlled, tax-funded core departments and agencies (hereafter, called the 'Budget sector') separately to publicly-owned, professionally-managed trading and financing businesses, such as AusPost, NBN Co, and the Reserve Bank (hereafter, the 'Off-budget sectors').

The effect of AASB standard 1049 is



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that taxpayer funds are 'invested' in off-budget sector vehicles and not expensed to

the Budget. In providing forward valuations, AASB 1049 again overrides normal accounting standards to preference the valuation model called 'fair value',¹⁸ or 'contributed equity' and then, only if the value of taxpayer equity is more than zero.¹⁹

Selecting the 'fair value' model enlarges scope for judgement, estimation, and professional mediation in fiscal reporting. While appearing unquestionably scientific to the outsider, 'fair value' is easily manipulable to produce valuations that can be whatever a client wants.

In practice the move to accrual accounting has shifted accountability

away from cash-based measures immediately intelligible to voters, toward technical valuations intelligible only by a specialist; and then,

only by those few specialists with the vocational and personal independence to do so.

This treatment materially insulates the Budget's deficit/surplus calculation from the financial performance of government-owned commercial entities, even where those entities are wholly reliant on taxpayer capital support. In other words, it avoids reporting taxpayer operating losses, asset impairments, loans, and negative net asset positions incurred in the Off-budget sectors.²⁰

The National Broadband Network provides a real-world example of this dynamic. In its own financial

statements, prepared under IFRS, NBN Co Limited reports negative owners' equity of \$4.3 billion at 30 June 2025.²¹

Yet in the Commonwealth's financial statements, prepared under AASB 1049, NBN Co is reported with a positive valuation of \$21.8 billion, derived from a consultant's 'fair value' assessment estimating a range of \$19.8 billion to \$24.1 billion.²²

At the enterprise level, NBN Co's financial failure is visible and explicit, but within the sovereign's financial statements that loss is obscured by optimistic, or at least highly discretionary, fair value asset valuation models. Assets apparently persist, and AASB 1049 allows their paper valuations to persist with them.

In effect, policy failure is disguised by purposive and supposedly audited balance-sheet values and not brought to light. Here lies one of the attractions of accrual accounting.



The current structure overturns centuries of accounting conservatism... replaced by outsourced 'independent' accounting

Cash accounting was criticised for its lack of sophistication, but its simplicity linked fiscal decisions directly to taxpayer impacts, making losses and trade-offs visible within the electoral cycle.

The current structure overturns centuries of accounting conservatism, the principle that eggs cannot count as chickens until they hatch, replaced by outsourced 'independent' accounting and valuation services that allow governments to treat all their eggs, and a few other things as well, as chickens.

Together, these changes have arguably weakened the sovereign's capacity to record and confront failure directly, in fiscal terms. Political and bureaucratic accountability are removed by way of opportunistic accounting technique and artifice. That erosion of fiscal honesty bears

directly on Australia's capability to choose, assess, and revise major national investments and social and environmental commitments over time.

Doesn't the NACC deal with integrity?

Recent high-profile failures including Robodebt, close relationships between officials and external consultants, and the movement of senior personnel between the APS and private sector roles have highlighted risks to both probity and institutional integrity.

While formal rules and obligations exist, including the APS Code of Conduct and the PGPA Act, the effectiveness of these frameworks depends on institutions capable of enforcing them.

The establishment

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of the National Anti-Corruption Commission (NACC) in 2022 was intended to provide this enforcement mechanism; but from inception legitimate questions have been raised about whether its institutional design equips it to fulfil this role effectively. The NACC's limited powers to conduct public hearings, low public visibility and high investigatory thresholds are overlaid by questions of the judgement and integrity of some of its key personnel.

These concerns are significant considering the APS institutional environment described in this article. The NACC is embedded within the same system of incentives and administrative structures that characterise contemporary public administration. As argued above, these arrangements tend to prioritise procedural compliance, hierarchical alignment, and risk minimisation. In such a context, misconduct may be less visible and more difficult to contest internally, particularly where questionable decisions can be justified as procedurally compliant.

In such circumstances, actions that produce poor or even harmful outcomes may nonetheless fall within the bounds of what is legally

and procedurally defensible. For an integrity body such as the NACC, this significantly constrains the scope for intervention, as the threshold for establishing corrupt conduct may not be met, even where institutional performance is clearly deficient.

In this sense, the NACC can be understood not as a solution to declining institutional integrity, but as a partial and incomplete response to it. Without corresponding reforms to the incentive structures and internal processes of the public service, the Commission's capacity to restore confidence in public administration is inherently constrained.

At most, it can address individual instances of misconduct; it cannot itself reestablish a system of public administration that is internally coherent, contestable, and capable of recognising and correcting its own errors over time.

The APS and system integrity

The APS is not merely an apparatus for the government of the day, but a foundational sovereign capability through which the Commonwealth selects, assesses, and revises national choices over time. In a period of geopolitical uncertainty and fiscal constraint, the ability to identify, report, and correct policy error over time will be increasingly decisive to the public interest.

The problems facing the APS arise not



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out of the use of corporate mechanisms per se, but from their transplantation into public administration without institutional architecture to restrain and discipline their exercise. If systemic integrity denotes a condition of being 'complete or undivided',²³ then contemporary public administration lacks integrity because senior public servants exercise managerial discretion without personal liability, without market scrutiny of financial disclosures, and without the consolidation and loss-recognition standards ordinarily applied to corporations.

The result is an incomplete institutional environment in which incentives to surface inconvenient analysis, acknowledge policy failure, or recognise losses in fiscal terms are systematically muted.

If government financial statements mislead, it does not go bankrupt (it can't go bankrupt); there are no shareholder damage claims to be made against the departmental secretary, or auditor general. Yet these hidden liabilities do not disappear just because they are abstracted, resulting in fewer resources to go around.

Restoring integrity to the APS is not a matter of reversing modernisation or rejecting quantitative tools. It requires institutional reform aimed at realigning professional responsibility with decision authority and restoring the capacity of the sovereign to learn from error. Three changes, at a minimum, follow from this analysis.

First, the independence and professionalism of APS executives should be strengthened. New Zealand's model

IMAGE: © Tiger Lily-Pexels

Reward[ing] professional independence and stewardship rather than political alignment is central to restoring the conditions for free and frank advice



sees the Public Service Commissioner appoint, performance manage, and decide the reappointment of departmental secretaries.²⁴ New Zealand law directs “when making decisions about individual chief executives the Commissioner is not responsible to the Minister and must act independently.”²⁵

Adopting a similar employment regime that rewards professional independence and stewardship rather than political alignment is central to restoring the conditions for free and frank advice in the APS, at all levels.

Second, the quantitative foundations of public decision-making should be simplified, standardised, and brought back within the public service. Economic and financial analyses that underpin major commitments should ordinarily be produced by APS

officials with relevant qualifications and skills, adhering to identifiable professional and ethical standards and accountable within the public service itself. Consultants will always have a role, but they should not function as routine institutional risk shields used in

substitute for professional judgement and responsibility.

Third, the Commonwealth’s financial reporting framework requires renewed scrutiny. An independent Commission of Audit should be tasked with critically examining the Commonwealth accounts, forcing recognition of losses and liabilities that are presently buffered by sectorisation and discretionary valuation. That review should also independently evaluate AASB 1049, particularly its effects on consolidation, asset valuation, and fiscal transparency.

In parallel, the Australian National Audit Office should be adequately resourced with in-house capability, ending the obvious conflict produced by outsourcing statutory audits to the ‘Big Four’ and others, who are currently allowed to act simultaneously as auditors of, and commercial consultants to, the APS.²⁶

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The Australian Public Service: What of the Sovereign's own Capability?

With the geopolitical and economic certainties of the late 20th century unravelling, Australia must reconsider what constitutes genuine sovereign capability. Over the past three decades, the vast amount of skills and resources of the Australian Public Service (APS) have been chipped away at. Reforms associated with New Public Management have sought to improve public administration by replicating the incentives and structures of corporate management. Yet have these changes improved the APS or have they only weakened APS independence, narrowed policy horizons, and reduced transparency?

BRENDAN LYON, DAVID JOHNSTONE, AND MATTHEW DARLING

Farrer Byelection Gives One Nation New Springboard

With regional Australia One Nation's natural hunting ground, the Farrer byelection was ripe to be the first federal test of whether the party was actually entrenching itself as a serious challenger on the right of politics. The result was seismic, and saw the Liberal party's vote collapse from 43% to 12% in less than a year, potentially reshaping Australian politics forever. So what happened in Farrer and what will it mean going forward?

MICHELLE GRATTAN AND JOHN HAWKINS

Unseen, not Absent: Girls & Young Women in the Justice System

Young women in Australia's youth justice system remain largely invisible – out of sight and, too often, out of mind. Many have lived through family violence, sexual assault, exploitation, neglect, and abuse – within families and in their personal relationships. Yet rather than receiving care or support as victim/survivors, young women are punished as offenders. Systems misinterpret trauma as criminality, asking 'What is wrong with her?' and failing to ask 'What happened to her?'

SIMONE DEEGAN AND BELINDA LOREK

Dressed Up With Nowhere To Go: Data, AI, and Better Policymaking

Data is increasingly treated as a foundational resource – essential for innovation and transformation across industries and central to modern governance. While the availability of data has grown, there still remains critical skill requirements in preparing and managing data before AI or policymakers and public institutions can make meaningful use of it. These tools and skills are what will be critical in closing the gap between data's potential and policy's reality. There is opportunity here to lead the way.

RENATA BOROVICA-GAJIC AND SHAANAN COHNEY



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