

Fostering creativity and innovation in cooperative federalism - the uncertainty and risk dimensions

Dr Mark Matthews

Research School of Social
Sciences

The Australian National University

Summary of what I have to say

- Cooperative Federalism must engage effectively with the *uncertainty and risk* dimensions to governance
- This requires ‘risk-aware’ creativity and innovation in governance
- Achieving the required capability is difficult given existing *modus operandi*
- Illustrate with UK experience:
 - the “Invest to Save Budget” (ISB) – “venture capital for oiling the wheels of government” & whole-of-govt. risk management framework
- I recommend
 - a greater emphasis on countering risk-aversion within the machinery government via promulgating an appropriate (non neo-classical economic) conceptual framework
 - strengthened inter-governmental mechanisms for handling uncertainty and risk via pragmatist/experimentalist approaches

The new policy narrative: creativity and innovation in government

- It is now trendy to emulate the emphasis in the private sector – “innovate or perish”
- Private sector experience demonstrates the importance of uncertainty and risk in achieving innovation
- **But experience also demonstrates how innovation objectives are themselves defined by the need to manage uncertainty and risk**
- Governments play a key role in driving this dimension of the innovation imperative
 - E.g. why we need lower emission technologies
- Implication: creativity and innovation in government must be articulated explicitly in relation to the management of uncertainty and risk – as objectives not just enablers

What do governments actually mean when they speak of public sector innovation?

- Covers both policy formulation and service delivery
- Tends to involve breaking down silo problems via better partnership working – more “joined up”
- Significant ICT emphasis (data integration + “open govt.”)
- Improved risk management
- “Venture capital”/risk funding model – e.g. UK Invest to Save Budget
- Aligned with evidence-based policy-making ethos
- Stronger engagement with external expertise
 - Business, academia and civil society
- Public sector innovation starting to play major role in overall innovation frameworks (recent Sainsbury Review)⁴

Cooperative Federalism must engage effectively with uncertainty and risk

- We have governments to handle the uncertainties and risks that market's can't cope with
- These uncertainties and risks characteristically cross jurisdictions
 - (e.g. water & climate change, organised crime)
- These uncertainties and risks provide an opportunity to avoid taking joint responsibility in a timely manner
- But, a 'risk-averse' *modus operandi* in the public sector?

Risk-aware and risk-averse government

- Paradox: if we have governments to handle the uncertainties and risks that market's can't cope with then why do governments put into place such risk-averse practices and procedures?
- Consider:
 - Reaction to probity and transparency aims
 - How output-outcome budgeting has been implemented
 - Experience with fostering creativity and innovation within government
- Tendency for governments to treat risk as a problem rather than an opportunity (as it is the private sector)
- If risk is seen as something to be eliminated in operations then it is hard to articulate good public policy formulation and delivery
- Problem exacerbated by the influx of risk-averse private sector accounting methods and expertise into the public sector

The neo-classical economic mind-set within governments can distort how we approach innovation

- Problems arise when central economic ministries frame policy issues in relation to “degraded” perfect information rather than overcoming substantive uncertainty/sheer ignorance
- Many aspects of creativity and innovation seek to translate *ignorance* into risk and then to obtain more compelling risk profiles
 - Reflects a basic preference for quantifiable risk over ignorance
- Markets should be viewed as inherently creative & exploratory *processes* (not reified as “things”)
- We look to governments to fund work that specifies the risks that markets *can* handle (up to limits)

Some implications

- Creativity and innovation in government can be viewed as exploratory processes for translating ignorance into risk
 - Risk is tractable but ignorance is not: risk will always be preferred to ignorance!
 - Translating ignorance into risk is core concern for government
- Similarly, much of what governments fund to be done *externally* is concerned with translating ignorance into risk
 - E.g. Public science as a whole!
- If markets are inherently creative & exploratory processes then intervention rationales can differ from those in the neo-classical mind-set
- The fallacy that you need the profit motive as the incentive to innovate is made clear

UK experience – the “Invest to Save Budget” (ISB)

- Major Blair regime initiative in 1998 following the first Comprehensive Spending Review: “venture capital for oiling the wheels of government”
- Significant funding for innovative approaches requiring partnership working – overarching objective to achieve major service delivery cost savings
- Wide range of well-funded innovative projects
 - By 2007, 487 partnerships funded for a total of £460m
- More recently extended to involve NGOs – reflecting serious “experimentalist”/evolutionary approach to performance reviews
- Critical pathway for public sector innovators to put their ideas into practice
- But, persistent problems with rolling out concepts of demonstrated benefit – need for “innovation adoption champions” under-rated by the Treasury due to the neo-classical economic mindset

The Prime Minister's Strategy Unit work on uncertainty & risk management

- Interesting whole-of-government approach to uncertainty & risk management (central to what governments do)
- Developed a useful framework subsequently put into place via a unit in the HM Treasury
- But, in the view of the private sector failed to address impediments caused by the risk-averse manner in which output-outcome budgeting has been implemented within the public sector
 - Emphasis on non-ambiguous targets etc restricts scope for “experimentalist” approaches

Lessons from ISB & risk management framework

- Worthy aims let down by clash with established 'risk-averse' norms
 - Neo-classical assumption that demonstrated innovative concepts will be adopted without needing powerful champions
 - Failure to address (severe) constraints imposed by 'risk-averse' output-outcome budgeting (public sector innovation impediment)
- Indicates the perpetuation of a risk-averse paradigm despite efforts to become more risk-aware in order to innovate

Fostering creativity and innovation from this perspective

- Avoid *perfect information* assumptions in underlying mind-sets
 - Engage with the central economic ministry functions over this paradigm shift
- Recognise that creativity and innovation are required to move from ignorance to risk
- Stress that this creativity is “core business” for governments
 - Frame first order outcomes as the generation/identification of risks that the public sector needs to handle
 - NOT as simply a game of avoiding and/or minimising risk
 - In the broad sweep of history many key innovations have been public sector innovations (as stressed by Geoff Mulgan)

Fostering creativity and innovation from this perspective (continued)

- Treat public policy as an open ended experiment (“pragmatist” governance a la Charles Sabel – as advocated by Ian Marsh & the Cutler Review)
 - “Learning-by-doing” in policy formulation and delivery
 - The policy process as an exploratory/creative processes
 - There need be no well-defined objectives to meet – only a clear case for trying to do something under conditions of substantive ignorance and uncertainty
 - Use of flat organisational structures to foster creativity
- Reward those who push for the identification of new risks to be managed rather than just those who seek meet well-defined targets
- Track effectiveness in the identification of new risks (additions to the “inventory of potential worries” for governments)

An Innovative Australian Federation Scheme?

- Learning from the UK's Invest to Save Budget (ISB) plus other experience with experimentalist public policy
- Support partnerships with at least two state/territory and one federal govt. agency/department
- Allow for NGO participation
- Develop and demonstrate innovative/high-risk approaches to major cross-jurisdiction challenges
- A particular focus on challenges over which there is high uncertainty and risk as regards possible responses/options to pursue
- Treat as “experimentalist” approach – let aims and objectives evolve through learning-by-doing
- Don't require firm technical objectives to be specified in the proposal – only the approach to be adopted in response to the challenge
- Encourage option development and selection as integral to the project
- Attractive and feasible approaches to be rolled out/further developed via strong champions at the centre of federal and state/territory governments