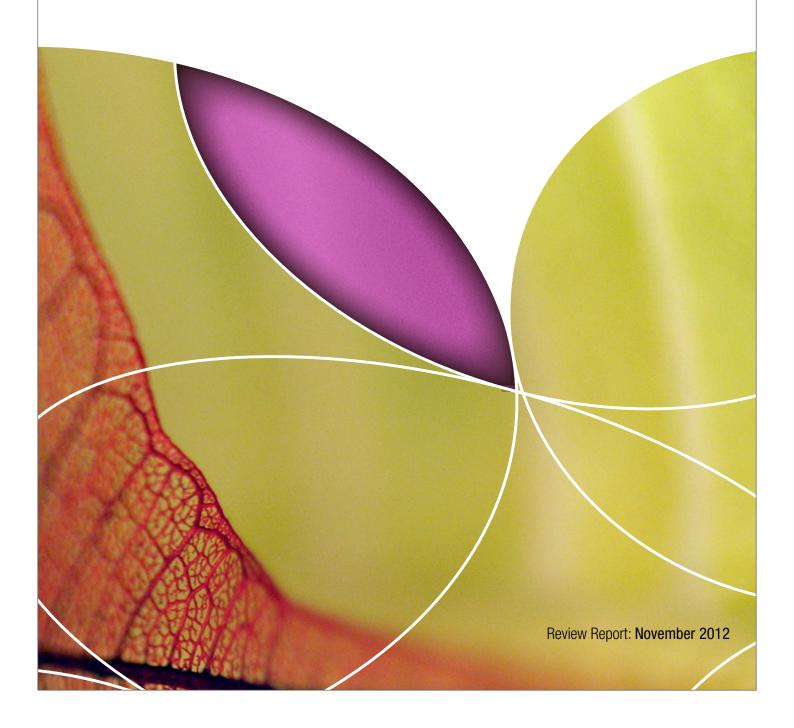


CAPABILITY REVIEW

Department of Infrastructure and Transport

Effective leadership Diverse workforce Capable organisations and workforce Employee conditions APS Values





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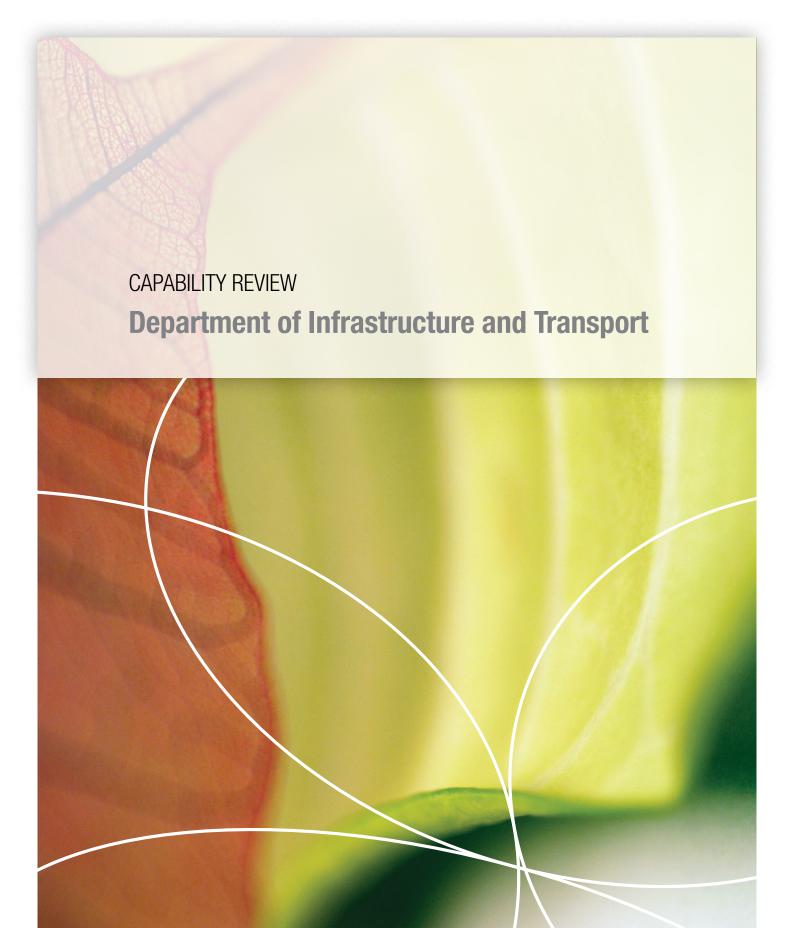
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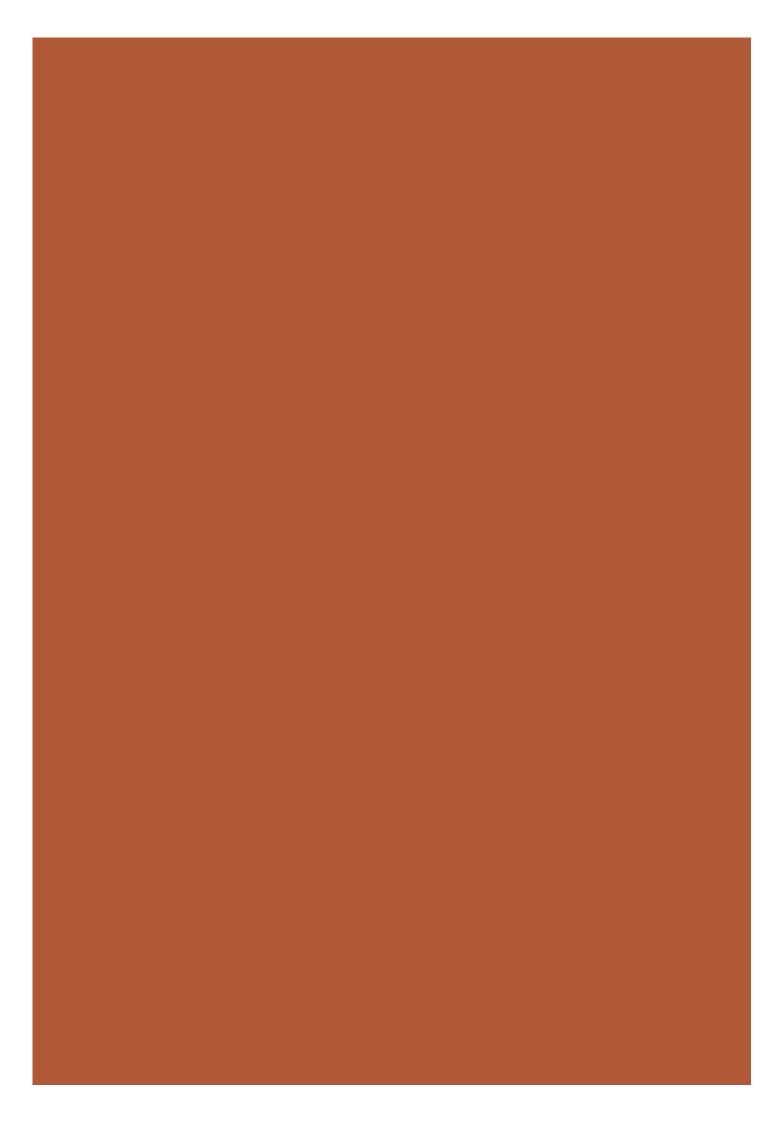
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Foreword

The 2010 report *Ahead of the game: Blueprint for the reform of Australian Government administration* recommended that the Australian Public Service Commission (APSC) undertake regular and systemic reviews to promote improved capability in the key agencies and to assess the institutional capability of the service as a whole.

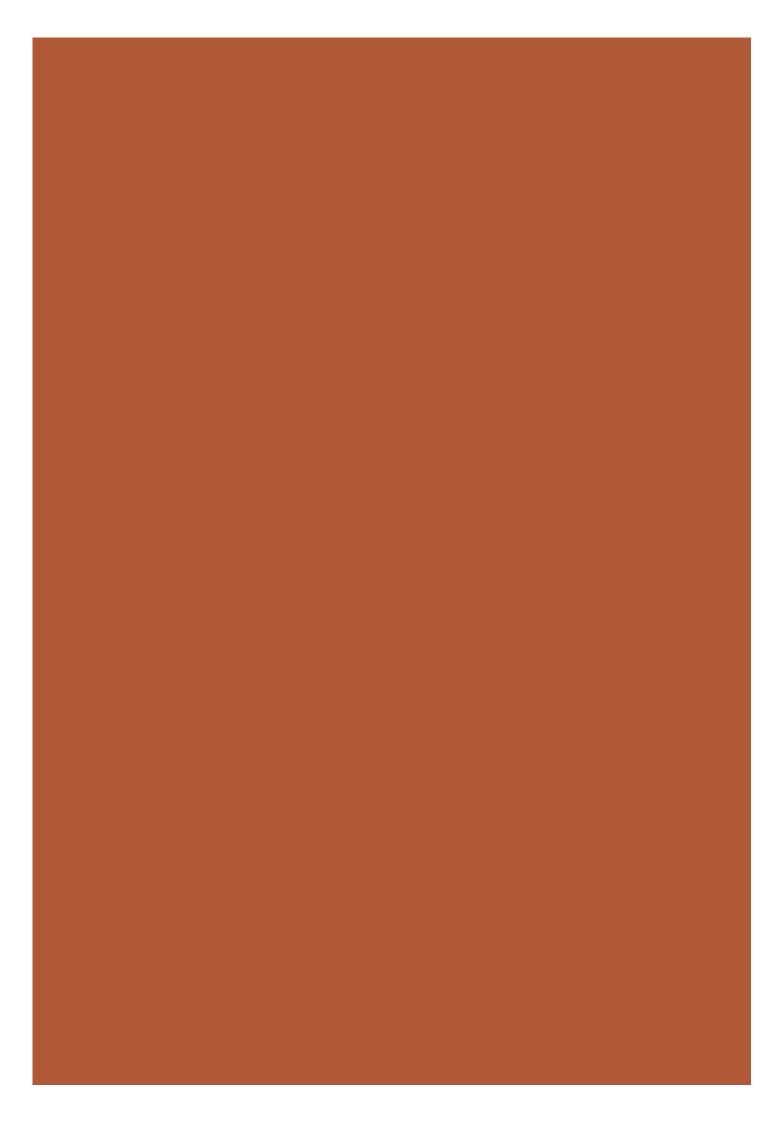
The methodology used by the APSC to conduct these reviews drew significantly on the United Kingdom Capability Review Programme. Through the knowledge gained from the first tranche of reviews (the three pilots), the United Kingdom methodology has been gradually refined to more closely reflect the Australian context in which the review program is being conducted.

My thanks to the Department of Infrastructure and Transport for participating in the capability review. The willingness of all levels to engage with the review team has made for a particularly constructive, collaborative and open process. From Secretary Mrdak down, individual officers have seen the review as a chance to capitalise on the department's strengths and to talk frankly about areas for development. This 'mindset for improvement' sits well with the ethos of the capability reviews and bodes well for change initiatives coming out of this report.

I would like to thank Bill Farmer, the chair of the review team, and the other senior members of the team, Gary Sturgess and Susan Page. Once again, this review has demonstrated the advantages of bringing together a team of this calibre.

Stephen Sedgwick AO

Australian Public Service Commissioner



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1. About the review

A capability review is a forward-looking, whole-of-agency review that assesses an agency's ability to meet future objectives and challenges.

This review focuses on leadership, strategy and delivery capabilities in the Department of Infrastructure and Transport. It highlights the department's internal management strengths and weaknesses using the model set out in Figure 1. A set of 39 questions is used to guide the assessment of each of the 10 elements of the model. Those assessments are included in Section 4 of this report.

Capability reviews are designed to be relatively short and sharp and to take a high-level view of the strategic operations. They focus primarily on its senior leadership, but are informed by the views of its middle management, who attend a series of workshops.

External stakeholders are also interviewed, including relevant ministers, private sector companies, state delivery organisations, peak bodies, interest groups, citizens, clients and central agencies.

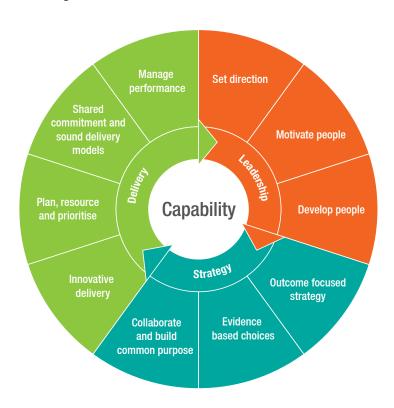


Figure 1 - Model of capability



2. About the department

In its self assessment for this review, the Department of Infrastructure and Transport advises that it aims to contribute to the wellbeing of all Australians by assisting government to promote, evaluate, plan and invest in infrastructure and by fostering an efficient, sustainable, competitive, safe and secure transport system.

The department provides policy advice to the Minister and the Parliamentary Secretary for Infrastructure and Transport, undertakes a number of statutory regulatory functions and delivers a variety of investment and service delivery programs on behalf of the Australian Government. In 2011–12 the department oversaw more than \$8 billion in administered programs with an operating budget of approximately \$223 million.

The department aims to play a key role in:

- planning and investing in Australia's transport infrastructure
- promoting safe and secure transport solutions
- providing a framework for competition between and within transport modes
- promoting a transport system that is accessible, sustainable and environmentally responsible.

To achieve its outcomes, the department works with and through a complex network of portfolio and other Australian government agencies, state and territory governments, industry representative groups and other key stakeholders to deliver policy and program initiatives. As illustrated in Figure 2 "The archipelago", the department's contacts touch on a range of relationships with independent organisations involved in policy development, regulation, research, service provision and investigation. Some of these organisations have been established by the Commonwealth, some are national organisations and some are international and because of the different governance and corporate structures of each, influence needs to be exercised in different ways.

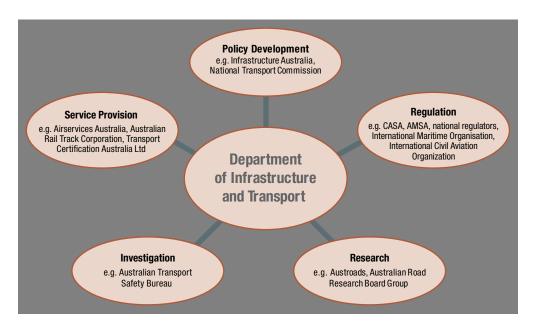


Figure 2—The archipelago

The department employs approximately 1000 staff across six business divisions and one corporate services division:

- Nation Building—Infrastructure Investment: responsible for the development and implementation of the Australian Government's policy, planning and funding arrangements for land transport infrastructure.
- Surface Transport Policy: responsible for development and implementation of national reforms in surface transport policy and regulation (maritime, shipping, rail and road transport reforms).
- Policy and Research: helps strengthen the department's strategic policy capabilities. This
 division includes a small policy development unit and the Bureau of Infrastructure,
 Transport and Regional Economics (BITRE) which provides economic and statistical
 analysis.
- Major Cities Unit: provides advice on issues of policy, planning and infrastructure that have an impact on cities and suburbs.
- Office of Transport Security: provides policy advice on transport security matters and has
 responsibility for aviation, maritime and offshore oil and gas security regulation, as well as
 transport security-focused programmes and services.
- Aviation and Airports: provides policy advice as well as administers legislation and regulations relating to the aviation and airports industry.
- Corporate Services: provides support and enabling services across the department as well
 as selected services to the Department of Regional Australia, Local Government, Arts and
 Sport.

Offices are maintained across Australia and in key overseas locations, with the majority of the workforce situated in Canberra. The workforce has a reasonably even gender distribution (54% male, 46% female), but at more senior levels this ratio decreases. Staff are well educated, with 67% (2010–11) of employees holding a bachelor's degree or higher. The separation rate of 12.05% (2011–12) is higher than the Australian Public Service (APS) average (9.0% for 2011–12). A relatively high proportion of staff (54%) indicated in the State of the Service Survey 2010–11 that they intended to seek employment elsewhere in the next two years.

The department has undergone a number of significant transformations following machinery of government changes in the last five years. This includes a major shift in focus brought about by gaining responsibility for infrastructure policy and programs and losing responsibility for territories and natural disasters in 2007, as well as handing over responsibility for local government and regional development in 2010 to the new Regional Australia portfolio.



3. Summary Assessment

The department has developed a strong reputation for delivery but since the machinery of government changes in 2007 it has been required to take on more explicit and strategic responsibility for advising on national transport reforms and elements of national infrastructure planning and investment.

The Minister regards the department as responsive and considers it to be performing well; industry stakeholders appreciate the effort over recent years to improve consultation and build relationships; and state and territory authorities talk of a trusted partner and productive working relationships.

Recent achievements include facilitating the creation of the national transport safety regulators, developing the first National Urban Policy and delivering the Nation Building Program.

The Secretary is an important part of this story of change and improvement. He is well regarded and external feedback on his contribution to the department's agenda is positive. He has firmly established his leadership of the organisation since his appointment in 2009. The Secretary brought to the role a deep background in the department's business and has shown a strong sense of personal leadership, an engaging style and activist approach—which have impressed stakeholders—and a disposition to review the department's performance which has seen development on a number of fronts.

In 2009, the Secretary commissioned an external review of the department's capabilities which identified a number of areas needing attention. In the past three years action has been taken on many of these. These have included the promulgation and reinforcement of a set of aspirations for the department, development of a stronger research and policy capacity, and an increasingly proactive approach to consultation with stakeholders. In a number of other areas identified by that review, including the development of a strong team culture that does not overly rely on the Secretary, the pursuit of a policy leadership role within government and the development of stakeholder engagement strategy, there is still some way to go, and in some cases a long way.

The departmental aspirations (the 'five directions' vision) promulgated by the Secretary include to:

- be a leading Australian agency for investment strategy and planning
- be a leading Commonwealth program and project delivery agency
- be a respected policy reform driving agency
- have a view on the right outcome
- be an effective and leading regulatory agency.

Evident progress has been made in each of these five directions but the results are uneven. The department has made a commitment to becoming an informed investor rather than simply administering grants, and has begun to develop the capabilities necessary to provide better assurance to government that it is obtaining value for money from its investments in national infrastructure. It has enhanced its strategic policy capability through the establishment of a dedicated policy unit and is making more effective use of the analytical capability of BITRE. A cultural shift has taken place, with staff showing greater confidence

in advancing policy positions, though more needs to be done to extend the department's external influence. It has recognised the need for a whole-of-department approach to the management of its regulatory responsibilities, though more can be done to ensure that there is a strategic and department-wide approach to best practice.



In some areas, follow-up to the recommendations from the 2009 review has fallen away and this review makes suggestions about revivifying the process. Overall, the process of review and action since 2009 has positioned the department well and in a number of instances the review found that desirable change was already being contemplated or initiated from within.

The Secretary's deep knowledge of the department's business positions him well to anticipate issues that require his attention and to identify emerging problems. This may not always serve to develop future capability, and it carries some risk. In some areas, including internal audit and reporting, the department's practices could be sharpened to better serve the current Secretary and any successor.

The department has come a long way in the past five or six years. It has serviced effectively a demanding agenda from its Minister; has made significant progress in strengthening its policy capacity; is regarded by most stakeholders as having markedly improved its consultative processes; and has been an effective participant in moves towards national approaches to infrastructure and regulatory issues.

However, the reform process rests heavily on the Secretary's advocacy skills and personal commitment. It has not been fully articulated or communicated across government and fundamental changes in the external environment could compromise its fulfilment.

A strongly led department

The Secretary is an inspirational leader who has put his stamp on the department. He has a forward vision. He is a forceful advocate, is effective in building alliances and has initiated very significant change processes in the department. Though, as the 2009 strategic audit noted, 'high performing organisations have a strong team-based culture' and responsibility for the leadership of the department necessarily extends beyond the Secretary and his deputies. Leadership qualities of other senior officers are reflected in the department's strong record of achievement, though leadership capability is not evenly spread. More could be done to strengthen the wider leadership team.

As already noted, the Secretary has been proactive in reviewing departmental operations and practices. In addition to the changes made as a result of the 2009 review, the department has undertaken its own internal reviews and initiated remedial action. A recent review of the processes and procedures under the *Motor Vehicles Standards Act 1989* is one such example.

The five directions vision is explicitly linked to capability building and is, in essence, a statement of the Secretary's aspirations. The five directions are recognised throughout the department and are included in business plans. Senior staff understand and embrace these new directions and are driving an effective delivery culture. This is reflected in the Minister's positive view of the department's work in delivering the government's agenda.

The leadership's demonstrated capacity in allocating resources prudently and reviewing its operations on an ongoing basis could be tested in a more resource-constrained environment.

Continuous change in government policy priorities, in industry structures and in available resources suggests the need for more structured thinking about the appropriateness of current resource allocation and the capabilities required to cope in a different environment.

The executive works closely in managing the department and jointly explores emerging issues and develops appropriate responses. Responsibility for delivery has been effectively delegated to the executive directors; however, it would appear that they are not always actively engaged in development of issues at a strategic level. Consideration might be given to engaging the executive directors more actively.

Strategic vision and clarity of roles

Responding to the government's broadened remit for the department—in particular the superimposition of the responsibility for infrastructure—the Secretary has articulated a new direction for the organisation. This involves the development of a national agenda in regulation and infrastructure.

To build the trust necessary to work effectively in close collaboration with the states and territories, the department has need of sophisticated relationship skills and the flexibility to work with innovative new organisational forms. These skills are also vital in working with industry and other external stakeholders.

The Secretary has placed significant weight on these relational capabilities, and there are numerous examples of good practice in some parts of the department. More needs to be done to develop these capabilities to a consistently high level across the department.

The Secretary's new direction for the organisation demands a policy capability that is strategic in nature rather than just responsive. The department has always had a strong analytical and research base; this is now being integrated into the policy process and there are several examples where it has been deployed strategically to reframe the policy debate, including with the National Urban Policy.

Some aspects of this new agenda have been communicated through emphasis and reemphasis of the five directions. However, the department's role has not been well articulated, and there is uncertainty among external stakeholders (industry representatives as well as state and territory officials) and even among senior executives within the department, as to the shape of its infrastructure remit beyond the transport sector. This is most evident in the confusion that exists around the respective roles of the department and Infrastructure Australia. External stakeholders are unable to understand, for example, why the development of the freight and port strategies was allocated to Infrastructure Australia rather than to the department. To many stakeholders, these appear to be close to the core business of the department.

These are matters for government, but this confusion over roles and responsibilities and the lack of a clear narrative have implications for organisational capability. There is no departmental corporate plan, and the reference to infrastructure in the Portfolio Budget Statements (PBS) does not address this issue strategically. Clarification of these roles would facilitate a focus on core capabilities in the years ahead.

The diversity of the infrastructure and transport portfolio, and the wide range of models through which policy is implemented, mean that a traditional corporate plan may not be appropriate for this organisation. Nevertheless, the necessity of working with the archipelago of independent agencies makes the development of a departmental strategy even more important.

The PBS is not the place for a statement of strategic intent, and the 'Strategic Direction Statement' published at the front of that document is functional rather than aspirational in nature. The departmental outcomes laid down in the PBS and its annual report serve to frame the various programs. They have a 12-month horizon and are not intended to provide a mid-term direction for the organisation.



It is not that the department lacks strategic capability. It undertakes long-range environmental scanning, has developed strategic frameworks for aviation and national transport regulators, has developed the Nation Building 2 Program and transport corridors on the east coast, and there are business plans for each division.

The five directions set out a number of aspirations for the department, but they do not constitute a strategy. The absence of a formal strategic plan and a supporting narrative to explain the vision and translate it into the departmental objectives and programs, means that implementation is somewhat patchy. Outside of the department—in central agencies, state and territory governments, and industry—the role of the department and its strategic agenda is not well understood.

As discussed later in this report, there might also be benefit in a strategic approach to consultation and stakeholder engagement, and to the department's regulatory responsibilities.

A joined-up department

The department has a diverse agenda. In addition to infrastructure policy it has functional responsibilities across all transport sectors, most of which require strong technical capability. Its functions include grant management, regulation and policy oversight. In some areas it faces complexity in delivery as many of the Australian Government's infrastructure and transport interests are delivered through external bodies, such as airports, safety regulators and state and territory governments.

While there are strong pressures encouraging specialisation, the Secretary actively promotes a set of common aspirations. However, high awareness of the five directions is not consistently matched by a clear understanding by all staff about how these should be implemented in their daily work.

A number of external stakeholders reported that the department does not present a unified front. This is particularly the case with the aviation sector, although it is not confined to that area. Staff also acknowledge that more could be done to engage with industry in a joined-up way.

Around half the department's staff is involved in regulating aspects of the transport industry. Not all these staff consider themselves to be regulators, perhaps because some also have responsibility for the relevant policy settings. There is a need for a whole-of-department approach to regulation (Box 1).

A leading regulatory agency

In June 2012 a Senior Executive Services (SES) management team meeting explored the question of what it means to be a leading regulatory agency and subsequently developed a set of questions to examine outcomes of current regulatory models, models of best practice and what they might look like in specific areas of the department. A Regulatory Context Statement is in the preliminary stages of drafting. This will seek to lay the foundation for a departmental approach.

A department that aspires to be an 'effective and leading regulatory agency' should ensure that it has a whole-of-department approach to the way in which it manages its multiple regulatory responsibilities. There is a case for a department-wide regulatory strategy. This does not mean that the department should seek to standardise its approach to regulation—given the variety of regulatory responsibilities the approaches adopted in different regulatory contexts are likely to differ. However, it should seek to develop a consistent regulatory philosophy, including: developing attitudes and approaches to risk; building capacity to benchmark regulators against international best practice; strengthening agency-wide capability in the evaluation and simplification of processes; exploring and disseminating new approaches to regulation; developing a central capacity to prepare rigorous Regulation Impact Statements; and ensuring there are systematic processes for consulting with affected stakeholders, particularly in the development of new and amended regulation.

Regulatory Lessons Learned seminars—a positive step—have been well received by staff, but there is a strong cultural bias in favour of the status quo. In a period of resource constraint and growing demand for services, the department must actively explore more cost-effective ways of meeting its regulatory obligations. Some work has begun which could form the basis of a new approach.

Consideration might be given to establishing a small centre of regulatory excellence, similar to the Major Infrastructure Projects Office or the Major Cities Unit, from within existing resources.

The department could do more to present a coherent approach in the way in which it engages with stakeholders. A draft stakeholder engagement strategy was developed in 2010 but it has not been given effect, perhaps because, as the document observes: 'Many senior managers in this Department and others express considerable ambivalence about the merits of stakeholder engagement.' While industry representatives were often complimentary about the department's efforts to improve consultation, others noted more could be done, for example, to coordinate multiple departmental approaches to industry and to ensure that staff are adequately trained to respond promptly to reasonable queries. Some stakeholders reported that staff turnover was not always accompanied by adequate knowledge transfer. Consultation appears to be conducted along modal lines. While this may be appropriate in day-to-day matters, in other cases a department-wide view is required.

The department could usefully pay more attention to the needs of stakeholders in other parts of the Australian Government. While there are good examples of consultation which the department has managed across government (such as the Sydney region aviation capacity study and shipping reform), central agencies cited late notice of new proposals and lack of

regular engagement by senior SES. More could be done to ensure that the department uses all the opportunities available to it as part of 'one APS'.

A departmental strategy might assist in articulating the leadership's expectations about engagement, proactive industry consultation, approaches to communication, and relationships with central agencies to develop their knowledge of the department's perspectives and to enlist their support. Among other things, such an approach could increase the department's influence and its capacity to contribute to debate about policy priorities.

A high-performing department

The department is a prudent financial manager. It has the capacity to move resources internally to fund new priorities. It has demonstrated this capacity in the establishment of the Policy and Research Division, the Major Infrastructure Projects Office and taskforces for major projects.

Departmental performance is supported by business planning which features a clear line of sight from government priorities through to section-level activities and individual performance plans. Governance structures are strong.

Some elements of departmental culture reinforce a high-performance mindset. The department prides itself on a 'can do' mentality. It has a record of delivery, review and innovation and a reward and recognition scheme that is reinforced by ministerial engagement.

In other areas, however, departmental cultures do not sit easily with the concept of a high-performing organisation. The narrative, including the Secretary's five directions, contains no guidance concerning expectations of performance. There are no references to excellence or aspirations to high performance and some executives expressed discomfort with such language.

Numbers of officers identified underperforming staff as a serious issue throughout the department. This is of real concern, not least in a resource-constrained environment.

Some staff expressed the view that commitment to excellence and high performance could conflict with the department's family-friendly approach, referred to by some as a gentle culture. There is limited evidence that the two concepts could not co-exist as they do in other agencies.

Other staff, particularly more recent arrivals, consider that more needs to be done to encourage managers to address underperformance. Those managers who have chosen to do so acknowledge good support from the department's People and Performance Branch. However, there does not appear to be a consistent indication of senior level expectation on all managers to manage staff performance, and aggregated performance ratings of staff are not considered or examined centrally by the executive.

The departmental narrative might include a clearer articulation of the desire for high performance to empower managers to get the best from the workforce by managing individual performance in a more consistent way.

The department's approach to managing risk relies significantly on key people who have developed specialist expertise. In some respects this has served the department well. Current systems and processes are seen as reliable and alert to potential transport risks. They seem less effective in encouraging innovation, high performance and succession planning. The principal responsibility for risk management rests on the shoulders of key personnel in



the department, often at senior levels. Relying on the tacit knowledge of key personnel is unsustainable. It may not enable systemic risk to be identified and takes responsibility for risk management away from those best placed to manage it. The department's reporting systems and the work of its internal Audit Committee could be further developed to place a sharper focus on risk.

The department has some serious workforce issues including overreliance on key persons, difficulty in attracting and retaining quality staff and management of underperformance. Some of these issues emerge quite strongly from employee surveys and the new workforce plan focuses on a number of them. To become a high-performing organisation the executive should take a strong lead, involving all managers in driving solutions to the department's personnel issues.

4. More detailed assessment of departmental capability

This section provides an assessment framed by the leadership-strategy-delivery structure of the capability review model.

Assessments were made according to the assessment criteria set out in Figure 3.



Figure 3 - Rating descriptions



The review team's assessment of the Department of Infrastructure and Transport's capability is outlined below.

Leadership

Set direction	Well placed
Motivate people	Well placed
Develop people	Development area

Strategy

Outcome-focused strategy	Development area
Evidence-based choices	Strong
Collaborate and build common purpose	Well placed

Delivery

Innovative delivery	Well placed
Plan, resource and prioritise	Strong
Shared commitment and sound delivery models	Well placed
Manage performance	Well placed

4.1 Leadership summary

Set direction

- While the Secretary in particular is recognised as a skilful leader of change, leadership qualities across the broader SES cohort vary.
- The department has a clear sense of the Secretary's aspirations —the five directions vision. These directions are not, however, supported by a clear and simple articulation of the department's strategic purpose. This results in confused expectations internally and externally.
- The department can demonstrate progress towards achieving the five directions, but application is uneven and results are mixed.
- The departmental executive could usefully involve the executive directors more directly in making strategic resourcing decisions and in assisting to better articulate departmental strategies to staff and stakeholders.
- Many of the SES cohort are rightly respected for their technical expertise and ability to deliver. The executive management team could place more emphasis on the SES cohort's management responsibilities.

Motivate people

- The Secretary and executive have created a collegiate culture with a commitment to delivery. Senior staff embrace the new directions and strive to follow the Secretary's lead.
- Internal and external stakeholders acknowledge that the department has undertaken a
 positive cultural shift in recent years. Some feel that more could be done to ensure it
 operates in a coordinated and consistent way. This would include promoting unifying
 cultures, values and behaviours.
- There is a tension between the concept of a high-performing department and elements of the current departmental culture.
- Issues affecting employee motivation and engagement have been recognised by
 the department for some time and are articulated in its workforce plan and career
 management strategy. To maximise available resources, it will be important for all
 managers to engage more strongly in managing underperformance.

Develop people

- The department's technical expertise in regulatory and analytical areas is respected and significant improvement has been made in the development of new capabilities, including strategic policy development, 'informed investment' and collaboration/stakeholder engagement. Internal and external stakeholders recognise that this remains a work in progress.
- Clear articulation of the department's future strategy is needed to inform more effective workforce planning and thereby to fill future capability gaps.
- Performance expectations are not always clear. The departmental narrative might include
 a clearer articulation of the desire for high performance to empower managers to get the
 best from the workforce by managing individual performance in a more consistent way.



There is a significant risk in reliance on key individuals and the department has rightly
identified the need for succession planning. This needs to be addressed in a formal and
ongoing way.

Comments and ratings against the components of the 'leadership' dimension follow.

Set direction

Guidance Questions	1	Is there a clear, compelling and coherent vision for the future of the organisation? Is this communicated to the whole organisation on a regular basis?
	2	Does the leadership work effectively in a culture of teamwork, including working across internal boundaries, seeking out internal expertise, skills and experience?
	3	Does the leadership take tough decisions, see these through and show commitment to continuous improvement of delivery outcomes?
	4	Does the leadership lead and manage change effectively, addressing and overcoming resistance when it occurs?
Rating		Well placed

The Secretary has set out his aspirations for the department in the form of his five directions vision. Feedback suggests that the SES cohort clearly articulates these directions and they have been consistently quoted and described by staff.

Overwhelmingly there is a feeling the department is moving in the right direction. A number of stakeholders have pointed to ways in which the department has clearly advanced in terms of policy development and regulation. However there is general agreement that the department still has some way to go to achieve the vision.

Feedback from staff below the SES suggests that although they are aware of the vision, some are not sure what it means for their day-to-day work. More effort is needed by all levels of management to explain in practical terms how it can be achieved.

The Secretary, Deputy Secretaries and others in the SES cohort are trusted, engaged and approachable to both staff and external stakeholders. However, some question the leadership qualities demonstrated by some of the SES group and below.

External stakeholders generally spoke very positively about the Secretary's carriage of his significant leadership responsibilities. This is a testament to his personality, experience and expertise in the portfolio. A reliance on the Secretary's capability also presents potential future risk for the organisation in terms of corporate knowledge and stakeholder relationships.

The Secretary in particular has been credited with initiating significant positive change over recent years. Many of these changes were in response to the strategic audit of the department commissioned by him in 2009. The department's successes over recent years have demonstrated its significant capacity for introducing change to the infrastructure sector. The Secretary has adopted an incremental approach to change; improvements have been realised in many of the areas recommended by the strategic audit without evidence of change fatigue.

If future departmental and administered resourcing were to become further constrained, the SES cohort would need to consider how it would prioritise in a more concerted and methodical manner.

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Motivate people

Guidance Questions	1	Does the leadership create and sustain a unifying culture and set of values and behaviours which promote energy, enthusiasm and pride in the organisation and its vision?
	2	Are the leadership visible, outward-looking role models communicating effectively and inspiring the respect, trust, loyalty and confidence of staff and stakeholders?
	3	Does the leadership display integrity, confidence and self-awareness in its engagement with staff and stakeholders, actively encouraging, listening to and acting on feedback?
	4	Does the leadership display a desire for achieving ambitious results for customers, focusing on impact and outcomes, celebrating achievement and challenging the organisation to improve?
Rating		Well placed

Internal and external stakeholders point to the Secretary's abilities in bringing about a positive cultural shift in recent years. Many internal interviewees reported their efforts to 'follow the Secretary's lead' and many staff feel confident in the department's abilities and are committed to the work they do. The Secretary has been closely involved in a period of change and reform in the infrastructure sector and has taken a leadership role in articulating a national approach. He has motivated and mobilised many staff who have risen strongly to the challenge. However, there is a sense that this is not consistent and a 'gentle culture', valued in some parts of the department, can militate against a concerted push on underperformance issues.

Diversity of divisional cultures and practices is being felt externally. The grouping of technical expertise within divisions is important and valued by external stakeholders. At the same time, more could be done by all levels of management to promote unifying cultures, values and behaviours. Taking a more coordinated approach to policy advice, stakeholder engagement and regulation would increase the department's effectiveness and improve its influence with external stakeholders.

Results of the most recent staff survey suggest that staff are concerned about a number of issues, including limited opportunities for career progression and internal mobility, as well as insufficiently competitive remuneration. The new workforce plan recognises these concerns and has introduced measures to increase staff mobility within the department to support retention. However, this presents a challenge. External stakeholders indicated that they would like to see more stability in key positions, so mobility needs to be supported by measures which make staff changes seamless to stakeholders. There are good examples of where this has been done but succession planning and knowledge transfer need a more consistent effort on a department-wide basis.

Develop people

Guidance Questions	1	Are there people with the right skills and leadership across the organisation to deliver your vision and strategy? Does the organisation demonstrate commitment to diversity and equality?
	2	Is individuals' performance managed transparently and consistently, rewarding good performance and tackling poor performance? Are individuals' performance objectives aligned with the strategic priorities of the organisation?
	3	Does the organisation identify and nurture leadership and management talent in individuals and teams to get the best from everyone? How do you plan effectively for succession in key positions?
	4	How do you plan to fill key capability gaps in the organisation and in the delivery system?
Rating		Development area

The department has a number of personnel strengths; it has a well articulated workforce plan and a focus on workforce development in its business planning process. It also has a number of identified personnel issues, which the review team considers need to be driven very actively from the top.

Technical expertise in regulatory and analytical areas is generally respected. Many stakeholders commented that significant improvement has been made in developing strategic policy, informed investment and stakeholder engagement capabilities.

The department's enterprise agreement has generous provisions for professional development. The organisation encourages employees to avail themselves of its extensive development opportunities, which include regulatory lessons, leadership seminars and community of practice seminars.

Stakeholders generally consider the department's technical skills to be strongest in its aviation and airports responsibilities. Technical and market expertise is seen as being less evident in the other modal divisions.

In developing the department's leadership capabilities, further consideration might be given to formal development opportunities for the SES cohort. Closer or more active engagement by the senior leadership with the wider leadership group would also be a way of developing this cohort.

The current workforce plan process would usefully benefit from a better articulation of the department's role in supporting regulation and infrastructure. Recognition of the need to manage key person risk will also have significant implications for the workforce plan. Tendency to rely on key individuals may be at the expense of retention, diversity and development opportunities for others.

The culture of the department presents some challenges in consistently managing employee performance. The People and Performance Branch has recently focused on providing support for and strengthening the capability of managers and this has been positively received by managers.

The templates for individual performance plans include statements around participating in the performance management process and deliverables such as 'I will establish an environment that encourages high performance demonstrated by ... facilitating a fair, honest and supportive approach to deal with ... unsatisfactory performance', as well as 'taking action when underperformance is apparent' and 'considering reward and recognition of good performance'. Nonetheless, a stronger commitment to high performance in the departmental narrative and consistent articulation of expectations at the highest levels are needed. This would include ensuring that the performance expectations of individuals are clear, that the appraisal process includes consideration of performance against capability standards as well as defined tasks, and that trends are examined centrally and more closely by the SES cohort.



4.2 Strategy summary

Outcome-focused strategy

- Significant progress has been made in supporting the development of national agendas, more informed investment management and building a strategic policy capability.
- The department would benefit from a clear articulation of an overarching strategy and a supporting narrative to make the agenda for transport and infrastructure clear internally and externally.
- While the department has clear aspirations as represented by the five directions, no concise statement of its role is widely available.
- The failure to articulate the department's role in infrastructure has resulted in confusion around the respective roles of the department and Infrastructure Australia, which has implications for future capabilities.
- The five directions would be well supported by introducing an articulated set of behaviours, measures of success or department-wide best practice strategies to achieve these aspirations.

Evidence-based choices

- The department has a respected analytical base which provides a critical capability in reframing policy issues to facilitate reform. This has been strengthened in a number of ways in recent years, most notably through closer linkages to policy development.
- The department has sought to articulate trends, future policy options and strategies.
 These views could be used to inform future strategic approaches and could also usefully be shared with other agencies to improve the perceptions of the department's policy work and to inform broader governmental policy considerations.
- Most external stakeholders say that the department's industry knowledge has improved
 and link this to increased credibility in policy development. Industry would like to see
 a better understanding of broader market-related issues, including consideration to the
 costs of regulation.

Collaborate and build common purpose

- Significant efforts have been made to improve consultation and build trust with external stakeholders. However, the strength of engagement and the capacity to collaborate appears to vary across the department.
- The department would benefit from a more strategic approach to stakeholder engagement, communication and regulation.
- The Minister regards the department to be responsive and much improved in its ability to provide strategic support.

Comments and ratings against the components of the 'strategy' dimension follow.

Outcome-focused strategy

Guidance Questions		1	Does the organisation have a clear, coherent and achievable strategy with a single, overarching set of challenging outcomes, aims, objectives and measures of success?
		2	Is the strategy clear about what success looks like and focused on improving the overall quality of life for customers and benefiting the nation?
		3	Is the strategy kept up to date, seizing opportunities when circumstances change?
		4	Does the organisation work with political leadership to develop strategy and ensure appropriate trade-offs between priority outcomes?
Rating	0		Development area

The department relies on its PBS to articulate its strategic approach. However, this document cannot be a substitute for a well articulated strategic framework. Such a framework is needed. In many instances during this review, departmental staff were unable to articulate a clear statement of the department's role and overall strategy, particularly in relation to infrastructure. This is particularly manifest in confusion expressed by some stakeholders about the respective roles of the department and Infrastructure Australia.

Over-the-horizon, strategic thinking is being done in the department and is progressively taking more of a national perspective. This is evident in the department's work on the Sydney region aviation capacity study, the High Speed Rail studies, the Nation Building Driving Australia's Productivity publication, the Commonwealth Infrastructure Investment Framework and the National Urban Policy, as well as other work in progress such as the east coast corridor network strategy and national regulators.

The department holds quarterly strategic planning meetings involving all SES officers. These could usefully be followed up in a more systematic way.

There is a strong appetite among external stakeholders for the department to take a role in leading the national debate in infrastructure and transport policy. They see this leadership role, including national collaboration and strengthening strategic policy, as being crucial in a climate of constrained resources.

The absence of a clear articulation of the department's role in infrastructure manifests in confusion among internal and external stakeholders about the respective roles of Infrastructure Australia and the department. The department is undertaking work in a series of generic infrastructure areas, including corridors, demographics, productivity, financing and pricing, which could form the basis of a more fully articulated infrastructure agenda.



There is a perception that the department, while being effective in responding well to government agendas, has not been as strong in its strategic capabilities. The department's investment in developing its strategic capabilities, particularly in relation to infrastructure issues, is not well understood externally and greater effort is needed to communicate and promote the results more broadly across government. This would have benefits for the perceptions of the department's policy work and also in informing broader government considerations.

Evidence-based choices

Guidance Questions	1	Are policies and programs customer focused and developed with customer involvement and insight from the earliest stages? Does the organisation understand and respond to customers' needs and opinions?
	2	Does the organisation ensure that vision and strategy are informed by sound use of timely evidence and analysis?
	3	Does the organisation identify future trends, plan for them and choose among the range of options available?
	4	Does the organisation evaluate and measure outcomes and ensure that lessons learned are fed back through the strategy process?
Rating		Strong

The department has a strong evidence base and credible analytical capability. The Secretary is focused on the need to maintain the department's policy and research functions.

The Policy and Research Division, including BITRE, is critical to informing the department's evidence-based choices and is respected internally and externally. It brings together research and policy development and contributes this across the department. BITRE's work with the Major Cities Unit on the State of Australian Cities report and with Aviation and Airports Division on the Sydney region aviation capacity study has showcased its ability to influence the policy debate through relevant and high-quality research and analysis.

In infrastructure investment, the department is working towards the development of a benchmarking framework. It is developing standards for the assessment of costs and benefits to support investment choices, as well as a business assurance framework to verify the effective delivery of programs.

External stakeholders generally acknowledge that the department's industry knowledge is strong in some areas and that overall it is improving, albeit varying from division to division. Many staff have skill, experience and credibility in developing policy in their relevant field. Some stakeholders commented that the department needs to develop a better understanding of market-related issues in some sectors.

Collaborate and build common purpose

Guidance Questions	1	Does the organisation work with others in government and beyond to develop strategy and policy collectively to address cross-cutting issues?
	2	Does the organisation involve partners and stakeholders from the earliest stages of policy development and learn from their experience?
	3	Does the organisation ensure the agency's strategies and policies are consistent with those of other agencies?
	4	Does the organisation develop and generate common ownership of the strategy with political leadership, delivery partners and citizens?
Rating		Well placed

The department is responsible for policy issues across the broad range of portfolio activities. Portfolio agencies reported productive relationships with the department and a good level of information sharing. While these agencies have statutory independence, the department has a responsibility to provide advice to the Minister about issues across the portfolio, including emerging risks.

The department perceives itself as engaging more effectively across government. However central agencies suggest that more influence within government is needed and that the department should communicate more with them about strategy, priorities and forward agendas to build a common purpose. This includes doing more to define the department's role and objectives. The views of these central agencies suggest that the department needs to be more proactive in its engagement with them—advising them of, and seeking support for, its developing agenda and more overtly contributing to overall government objectives.

There has been a great deal of positive comment about the department's cooperation with state and territory governments to promote a national approach. Delivery of the national regulator reforms would not have been possible without the building of strong relationships. The department has been inventive and strategic in developing partnerships.

Most industry stakeholders commented that consultation has significantly improved in recent years and commend the department for involving them early in policy development. New collaborative approaches have been positively received, such as those undertaken for the shipping reform activities where key stakeholders were in the first instance invited to meet and share views before any detailed inquiry, research and decision-making occurred. This process is increasingly being adopted across the department, with similar approaches being employed in the urban planning and infrastructure investment areas.

Relationships with industry stakeholders are mostly, though not universally, constructive and stakeholders feel that staff are engaged, responsive and productive. The department has a high level of credibility as an interlocutor which is willing to lead and assist in resolving problems. However, both industry stakeholders and internal interviewees commented that there needs to be a more proactive and strategic approach to engagement, including limiting the scope for multiple contacts on related issues.



If the department's ability to influence by way of grant funding were to reduce, the strength of relationships, the ability to provide a compelling narrative and the capacity for sound evidence-based policy would become even more important. The department could usefully identify relationship building as a core capability.

A draft Stakeholder Engagement Handling Strategy and Strategic Communications Plan have been prepared but not yet finalised and implemented. This work could usefully be readdressed and followed up.

4.3 Delivery summary

Innovative delivery

- The department has adopted new delivery approaches in recent years and can point to substantial innovation. However this is patchy and there remains a strong focus on the status quo in some regulatory areas.
- The push to 'have a view' in the five directions vision statement provides licence for innovation. The review has received mixed messages concerning practices on the ground.
- The department has been an important catalyst for the adoption of new models of intergovernmental decision making, particularly with the establishment of the national regulators.

Plan, resource and prioritise

- The department's strength in business planning is commendable. There is clear line of site from government priorities to section-level activities and individual performance in annual plans.
- Financial management is prudent, and financial literacy across the agency is fit-for-purpose. Budgets and business activity align.
- The quarterly performance review process provides a framework for adjustment and reallocation of resources and provides a platform for decisions about prioritising in a more resource-constrained environment.

Shared commitment and sound delivery models

- The department supports a variety of delivery models.
- There is no overarching strategic framework that binds the department's various delivery models together and facilitates evaluation.
- There is a case for a more strategic and whole-of-department approach to the management of regulation and stakeholder engagement.

Manage performance

- Periodic reporting is well entrenched and discussion of divisional performance is collegiate and robust. Business, financial and human resources reporting are integrated. Conversations occur across key areas of corporate activity.
- There is variability in the quality of reports, including audit reports, and in some cases these do not sharply focus on emerging problems or on risk mitigation strategies. The knowledge of current senior executives may mitigate this risk, but if there were changes to senior personnel, 'red flags' might not get the attention required.
- The department has introduced a new evaluation strategy to incorporate evaluation into business processes for policy, program and regulatory activities.
- There is commitment to continuous improvement in the department's operations.
 However there is an overreliance on tacit knowledge, and a need for crisper identification and management of risk, particularly with regard to portfolio and systemic risk. The appointment of an external chair to the department's Audit Committee could enhance risk identification and management.



Innovative delivery

Guidance Questions	1	Does the organisation have the structures, people capacity and enabling systems required to support appropriate innovation and manage it effectively?
	2	Does the leadership empower and incentivise the organisation and its partners to innovate and learn from each other, and the front line, to improve delivery?
	3	Is innovation explicitly linked to core business, underpinned by a coherent innovation strategy and an effective approach towards risk management?
	4	Does the organisation evaluate the success and added value of innovation, using the results to make resource prioritisation decisions and inform future innovation?
Rating		Well placed

The department has proven its ability to innovate and it has undergone a period of significant change. More could be done to acknowledge the innovative nature of much of the department's work and to encourage more innovation in areas that have yet to undergo substantial reform, for example the regulatory areas.

Perceptions are changing. The most improved question from the 2008 to 2011 departmental employee survey was 'We are encouraged to be innovative in our thinking.' In 2008, 32% of respondents agreed with this comment, while in 2011, 54% agreed.

There is evidence to support this, particularly in the area of intergovernmental reform. Under the umbrella of the Council of Australian Governments, the development of joint Commonwealth–state boards and project offices has encouraged a more national approach and enabled the department to reposition itself as a facilitator in establishing the national transport safety regulators. The work done by the NBII division in reframing the department's program management skills to that of an informed investor provides another example of the department's innovation capability.

The department's Regulatory Lessons Learned and Infrastructure Leadership seminars are well attended and offer scope for the exchange and cross-fertilisation of ideas.

The establishment of the Policy and Research Division provides a vehicle for innovative policy development, including through rotation of business area staff through the division.

The push to 'have a view' in the five directions vision statement provides licence for innovation. This couples with a deliberate attempt to foster from the top a culture of boundary pushing and a willingness to try something new.

Plan, resource and prioritise

Guidance Questions	1	Do business planning processes effectively prioritise and sequence deliverables to focus on delivery of strategic outcomes? Are tough decisions made on trade-offs between priority outcomes when appropriate?
	2	Are delivery plans robust, consistent and aligned with the strategy? Taken together will they effectively deliver all of the strategic outcomes?
	3	Is effective control of the organisation's resources maintained? Do delivery plans include key drivers of cost, with financial implications clearly considered and suitable levels of financial flexibility within the organisation?
	4	Are delivery plans and programs effectively managed and regularly reviewed?
Rating		Strong

The department has produced divisional plans with line of sight upwards to government priorities and downwards to section-level activities and individual performance agreements. This planning is taken seriously—the Secretary makes a formal reply to the business plans with a charter letter-style response to executive directors. Some areas cascade the letters down to branch level and beyond, creating a series of quasi-contractual relationships from the top of the organisation to the bottom.

Overall there is a sense that the plans are not just a compliance exercise, and there is active reporting against them on a regular basis.

Periodic financial reporting to the senior executive is robust, informative, transparent and generally easy to understand. Financial literacy among managers is fit for purpose. The monthly Business Managers' Forum ensures consistency in financial operations and reporting.

If future departmental and administered resourcing were to become further constrained, there would be a need for the executive management team to consider how it would prioritise in a concerted and methodical manner.



Shared commitment and sound delivery models

Guidance Questions		1	loes the organisation have clear and well understood delivery nodels which will deliver the agency's strategic outcomes across oundaries?		
		2	Does the organisation identify and agree roles, responsibilities and accountabilities for delivery within those models including with third parties? Are they well understood and supported by appropriate rewards, incentives and governance arrangements?		
		3	Does the organisation engage, align and enthuse partners in other agencies and across the delivery model to work together to deliver? Is there shared commitment among them to remove obstacles to effective joint working?		
		4	Does the organisation ensure the effectiveness of delivery agents?		
Rating			Well placed		

The department supports a variety of delivery models. These cover a mixed portfolio of activities, including policy design and development, industry regulation, the provision and management of grants and investment for third party agents (for example state governments), and the provision of advice on project and program management.

There are multiple approaches to each delivery model. For example, some regulation administered by the agency is behaviourally codified and prescriptive, some is outcomes based, and some is the framework for self-regulation. There is a push in several areas of the department to streamline activity around best practice (for example, the 'regulatory compliance guides currently in draft form in several divisions), but a common, strategic framework has not yet been developed. There is evidence that the department is seeking to develop a regulatory framework but it may need to encourage a more aggressive culture of review so that its regulatory frameworks are appropriate to changing industry structures and market conditions, and operate to minimise unnecessary costs to business. Sharing occurs (for example, through the Regulatory Lessons Learned series), but what is required is an approach to regulation that is best practice, joined up and strategic.

The department faces a challenge in presenting a consistent external face. This is in part because it draws upon a variety of tools which are seen as alternatives rather than as part of a continuum. An area of concern among some external stakeholders is the relationship between the Office of Transport Security and other related areas of the department where the status of the office as a division is not well understood.

By contrast, the Policy and Research Division has been established in such a way that it does not stand apart from the rest of the department, but operates across divisions. Through secondments and taskforces it has integrated itself into the operations of the business areas.

The department has three high-level forums to assist the Secretary and senior management in decision-making: the Secretary's Business Meeting (held weekly and including the Secretary, deputies, Chief Operating Officer); the executive management team (held weekly and including the Secretary, deputies, Chief Operating Officer, executive directors, and corporate general managers as advisers); and the SES management team (held quarterly and as required,

and including all SES). The structure is sound but, as noted previously, consideration might be given to broadening the executive management group to involve the executive directors more directly to assist in developing their leadership qualities, in making strategic resourcing decisions and in assisting to better articulate departmental strategies to staff and stakeholders.



Information and knowledge management is critical in a department with key person risk and a significant staff turnover rate. Perceptions on this are mixed. Some SES officers worry about the robustness of the department's systems for information management and retrieval. There is scope for more sharing of lessons learned across the department and the Australian National Audit Office has commented that the department needs to explicitly set itself the goal of becoming a learning organisation.

Manage performance

Guidance Questions	1	Is the organisation delivering against performance targets to ensure achievement of outcomes set out in the strategy and business plans?
	2	Does the organisation drive performance and strive for excellence across the organisation and delivery system in pursuit of strategic outcomes?
	3	Does the organisation have high-quality, timely and well-understood performance information, supported by analytical capability, which allows you to track and manage performance and risk across the delivery system?
	4	Does the organisation take action when not meeting (or not on target to meet) all of its key delivery objectives?
Rating		Well placed

There is clear line of sight in periodic reporting against business planning, financial and human resources information. Reporting materials are integrated and conversations across key areas of corporate activity occur (for example, through the Business Managers' Forum, and Finance, Reporting and Program Committee meetings).

Generally, the Secretary and Deputy Secretaries have a good feel for how the agency is travelling, and do not seek heavy briefing. The quarterly performance reporting process is taken seriously. The reports have a number of strengths but rely heavily on the tacit knowledge of the Secretary and Deputy Secretaries. Performance reports are used as a prompt for discussing issues and some are clear in identifying actual or potential problems and risk. This pattern of reporting would be inadequate if there were a change of key personnel at the top of the organisation. Prudence dictates that reporting should be improved now, including through a sharper focus on risk.

The documentation of outcomes is not communicated consistently to those who prepare reporting materials. Junior staff reported a desire for feedback on the results of the report discussions to ensure agreed outcomes can be considered and fed back into planning and delivery activities.

The department believes in continuous improvement and is prepared to critically assess its effectiveness. It has recently developed an evaluation strategy which aims to incorporate evaluation into normal business processes. This is a welcome initiative.

The Risk Management Policy, Guidelines and Enterprise Register constitute the agency's risk framework. In general, risk is effectively managed, but a system which places significant emphasis on the tacit knowledge of senior leaders is not sustainable. It may not identify areas of systemic risk and would tend to take responsibility away from those best placed to manage it.

The issue of key person risk presents at all levels of the agency. This is partly a function of the wide but thin spread of activities under the department's mandate, where one or two people can be the technical expertise on a transport or infrastructure issue for the Australian Government. The executive keeps a watching brief but as noted this will not be sufficient to address the issue.

Historically, there has not been detailed engagement with risk in the Audit Committee, and the recent appointment of a new external auditor presents the opportunity to further focus the committee's work. The review believes that this committee needs to capture a broader range of risks, and develop a clearer enunciation of those risks. The department should also consider the appointment of an external chair.

5 The department's response

The Department would like to thank the Senior Review Team: Bill Farmer, Gary Sturgess and Susan Page for providing their considered analysis of the capability of the Department as part of the Australian Public Service Commission's Capability Review Program. The review reflects the significant progress made beyond the baseline set by a Strategic Audit commissioned in 2009, highlighting many areas of strong capability in the Department and some areas for improvement. The report makes a number of valuable observations about the work and culture of the Department as well as about the recognition and perception of the Department by the Minister, by Commonwealth and State/Territory government agencies and by the private sector.

The review confirms our strong commitment to making high quality, evidence based choices and our reputation as a responsible fiscal manager; it recognises we are well placed to address the majority of challenges likely to emerge in the short to medium term. The review also highlights two development areas around better articulating our strategic approach and addressing workforce issues including retention, performance management and risk around losing key personnel.

In the short term, it is clear we need to work towards developing a more cohesive narrative about our role in national infrastructure and as a key driver of economic reform. This is a continuation of work underway to develop, describe and deliver a strategic vision for national infrastructure planning, investment reform and development. We acknowledge that clarification of our role, and that of Infrastructure Australia, would enable the private sector to identify more easily the appropriate approach points when raising strategic infrastructure development issues.

It is also clear we need to maintain our strong focus on our people. We have a highly talented workforce with a wealth of specialist knowledge in areas as diverse as transport safety and security regulation, vehicle safety engineering, transport statistical analysis, strategic planning for cities and of Australia's domestic and international markets for aviation, surface transport and maritime transport. We have highly talented program and financial managers and regulatory specialists, and we have a strong leadership team. While our contemporary experience is that we attract large and quality fields for recruitment processes, we recognise that, as is the case for any large organisation, managing and maintaining specialised knowledge as people progress through their careers presents a challenge for the Department.

In the medium and longer term the Department will continue its work to build upon our reputation as a respected economic and policy reform agency, driving improved efficiency and safety in the transport sector and supporting growth through sensible and targeted infrastructure investment. We will continue to deliver on the Government's infrastructure agenda and on the broader productivity and economic reform agenda. Our activities in the short term will better position the Department to shape our relationships with government and the private sector to achieve these goals.

Like all agencies operating in a fiscally constrained environment we will continue to carefully consider and prioritise our allocation of resources and monitor the performance of our workforce to ensure we meet the expectations of us. We will place a particular focus in the next two years on regulatory reform – improving both our regulatory performance and the effectiveness of the statutory regulatory regimes as they impact on industry and the community.



The Department has viewed the review process as a welcome opportunity to gain an objective assessment of our capability on a number of fronts in a complex and challenging policy environment. We are pleased to have received such a strong assessment and, as a Department, we will address the issues outlined in the report.

Mike Mrdak

Secretary

Department of Infrastructure and Transport

6 Abbreviations and acronyms

Abbreviation or acronym	Description
AMSA	Australian Maritime Safety Authority
ANAO	Australian National Audit Office
APS	Australian Public Service
APSC	Australian Public Service Commission
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CASA	Civil Aviation Safety Authority
Executive	Secretary and deputy secretaries
OTS	Office of Transport Security
PBS	Portfolio Budget Statements
SES	Senior Executive Service



Capability Review: Department of Infrastructure and Transport



