

# **TRANSCRIPT OF PROCEEDINGS SECRETARY SERIES WITH MIKE MRDAK AO**

**MIKE MRDAK AO  
SECRETARY, DEPARTMENT OF THE INFRASTRUCTURE AND REGIONAL  
DEVELOPMENT**

**NATIONAL PORTRAIT GALLERY  
PARKES, CANBERRA  
WEDNESDAY, 23 AUGUST 2017**

Mike Mrdak AO:

I'd like to talk about a public sector success story, which is often something that we don't hear enough about; about the successful things that we do as a profession. In my view, how we, as a profession, are actually leading the world in how we manage something which is really complex, something uniquely Australian, but something that I think ultimately does work, and something you don't hear a lot about in the context of working. That's the Federation. I'm always of the view that you get improvements in performance in every profession by talking about the actual problems you're dealing with and what works, rather than simply saying something is broken and calling for change without explaining why and how to people. The success story I'm going to talk about is the Federation and how it works. Something you don't traditionally hear a lot of positive commentary about. Actually, in my view, it does work, but only, only, if it's carefully managed by people who recognise its importance and how you make it work.

Let me talk a bit about infrastructure in that context. It's been a very exciting time in the last 10 or so years to be working in infrastructure and transport in this country. Infrastructure and transport has gone through a significant mobilisation in this country, and as you see around us, a large number of projects happening right across the country. That reflects the fact, it's been driven by our strong economic performance, our population growth and demographic change, and the need to invest in the next generation of productivity-building infrastructure. Australia has an enviable growth problem. We've had successive years of economic growth, population growth, and that's all forecast to continue, so we've got an enviable problem to deal with. We can only deal with that infrastructure and transport issue, in this country, if we achieve good working relationships through the Federation. That's why it's a really critical role for us, as Australian public servants, to make the Federation work.

Infrastructure's now at the heart of government's agendas, right across the country. Investment in infrastructure is seen as vital economic policy to boost productivity and economic efficiency and also, importantly at the moment, to drive growth in a sluggish private investment environment post the mining boom. It's also critical to overcome many of the social and economic costs that's arising from our rapid population growth, especially in our major urban areas. Over the last decade or so, in infrastructure across this country, we've mobilised unprecedented investment in transport infrastructure. But actually, while a lot of ministers and governments want to talk about the dollars spent on new projects, the really big story, the untold story, is actually the reform agenda sitting behind it in planning and investment reform.

That's what I'd like to talk a little about because, over the last 10 years, what we've achieved is a massive change in how planning is done, particularly by state and territory governments, around long-term economic infrastructure provision, where today we have most states having 10 to 20 year plans for economic infrastructure. That's something that wasn't there a decade ago, and that's been, really, the important underlying story of the Federation infrastructure. It's important because,

as you know, in my portfolio, most projects that you see under delivery are actually taking years, if not a decade, to come to fruition. Some issues I've been dealing with, like the second Sydney airport, have actually taken many decades to get to this stage, but that's another story. But essentially, that's why it's important that we look at long-term planning reform for this country, because the infrastructure cycles generally outlast individual elected governments.

Investing in infrastructure only adds value and helps drive productivity, if it's in the right projects. That's why we've put a really strong focus on our reform agenda on long-term planning and business case development, effective project selection, and a pipeline of the right projects. Success is not so much just about the dollars, but actually selecting the right projects. The federal government is investing over 70 billion dollars from 2013 to 2021, on transport infrastructure, using a combination of grant funding, loans, and equity investments. Importantly, we've also set up a 10-year roll-in programme under the federal government's programme, which actually, each year, adds new dollars into the programme, and funds new projects across the Federation. That's enabling quite a lift in public investment across the country, combined with state governments, but as I said, the big reform agenda has been around planning and how do we get long-term views of how we invest for the future.

In taking this long-term view, it's really important to recognise that, sometimes, you've got to actually take some really forward-leaning steps to invest often ahead of what the critical public policy issues of the day might be. This is some really hard issues. If you at examples like the Western Sydney Airport, which is now under construction, or the Melbourne to Brisbane inland rail project, which are two very large projects in my portfolio at the moment, they have taken many years to get through to this stage. They'll be a decade or more in construction, but they're actually catering for a demand, which is actually looking beyond the 2030s and 2040s.

That's really the long-term stuff that we, as public servants, are uniquely placed ... In fact, it is one of our core responsibilities is to take that long-term focus forward. It really is one of the things that underpins working in the public sector, as opposed to other vocations and professions. These projects, these long-term projects, usually have long-term pay-offs, if they're well thought-out and are actually thinking about what the future demand might be.

To support our role in getting good long-term investments for our community, the public sector has to have two critical things constantly at the forefront. Firstly, we do have to have that long-term focus. Electoral cycles are very short. The focus of government tends to be very short. We are the continuity and the people who have to understand what the future needs are to provide that long-term advice to government. Importantly, one of the critical things that the public sector must have is a view. We must have a view on the right outcome; that is a core responsibility of the public service. Often, governments don't want to hear our view. A view is not an opinion. As I say to people: I have lots of opinions. They're not worth a lot. But

my agency and my portfolio has a view about the right outcome for the future. It's informed by evidence, it's informed by good long-term research, and it is all about what is the right outcome for the challenges facing the country.

However, to do a lot of what we do in my portfolio, constitutionally, we actually have a very limited role in respect to land transport networks, which are predominantly built and owned by states and territories. So the challenge in my portfolio has always been, how do we invest in areas, in getting the right investment in areas, that we think meet the national need, when these areas are largely under the preserve of states and territories who control matters as diverse as land use planning, land development, and often, run the transport networks of the nation.

This interface of tension between the national outcome and the state and local outcome being sought is really coming to a head over one of our critical national issues. That's the shape of our cities. As people know, we are in now a period of the fastest population growth that we've had since the gold rushes in the 1850s. It's an unprecedented period of population growth and demographic change, and it's largely focused on our three east coast cities and, to a lesser degree, Perth.

The challenges are huge, because the performance of our cities, both in terms of liveability and economic productivity, are actually going to be one of the major determiners of the success of our community and our economy going forward, in a way that our shape of our cities probably hasn't been for much of our history. The reality is, working in a services economy, that globally-traded economy, the economic and social performance of our cities is actually going to be one of the key determinants of our nation's success. If you think about it, what we're facing at the moment with some of the issues in our major cities is actually quite a major [breaker 00:08:16], at the moment, on our economic performance. You only have to look at the levels of congestion in our major cities ... The Bureau of Transport Economics in my portfolio has estimated that this year alone, congestion in our five major cities is costing the economy about 6 billion dollars, moving to about 30 billion dollars by 2030 in direct economic cost to the community.

At the same time, we've got the social costs of the way in which our cities have been planned and developed, the spatial development of our cities, the way the transport networks operate, is actually a major social cost. The best way to illustrate that is commuting times. Again, a terrific piece of research published by the bureau in my department shows the average commuting time at the moment in Australia is around 29 to 30 minutes each way. That's the national average. But in a city like Sydney, the average commuting time for over 2 million people is over 45 minutes each way. If you're living in outer Western Sydney and you're travelling by public transport, your average commute time is 79 minutes each way, on public transport. We have, literally, millions of people who are becoming increasingly dislocated from work, and the social costs of that spatial development of our cities is now both an economic and a social barrier to our development.

How do we sit? How do we influence that as a federal government in the current context? It comes back to that that ... It's the [vibe 00:09:43]. It's the constitution. It really does matter in the space in which my portfolio operates. There's been much discussion about the constitution in recent weeks, as we've seen up on the hill, as we've all had the opportunity over the last few days to become very familiar with the potential implications of Section 44, which is seeing a growing number of our members of parliament having to refer themselves to the judiciary to determine their eligibility to hold office. "The drafters of the constitution would never have envisaged this scenario," say some of our commentators. Well, perhaps some would have. Some drafters of the constitution certainly saw the rigidity of the constitution at the time and did actually argue for it to remain a rigid document, because for many, it was seen as a protector of conservatism and a protector against radical reform. Rigidity was argued for by many drafters of the constitution to prevent radical reform and to protect state's rights, and it's certainly done that.

It's stating the obvious to say the Australian constitution was drafted in a very different world. Prior to the Federation, each colony competed heavily with others for trade and commerce and development. Colonial governments of the time made decisions for the benefit of their colonies and its constituents, just as states do today, but the imperative to join the Federation from the attraction of the removal of tariffs through creating national markets and through creating a national government that could defend the Federation when the state was threatened, remained a powerful force to get us to Federation. Those issues still remain today.

It was these fledgling states by the Federation that linked the colonies ... What linked the colonies through the Federation at the time was rail, apart from Western Australia initially. It was interesting that one of the things that they left out of the powers of the Commonwealth was rail. Even though it was very much the lifeblood of the transport systems of the late 19th century, the early 20th century, it was expressly excluded from a Commonwealth responsibility by the constitutional founders because it was seen as potentially the national government shouldn't be interfering in the powers of the states and their ability to still compete with each other. It's a problem that still haunts us because, not only have we had to deal with the spectre of three rail gauges, which is a unique phenomenon globally that we've done that, but for much of the last 116 years, we've also dealt with something even more difficult, which is state-based regulation of transport operations.

It's interesting, H. B. Higgins, who later went on to become the famous Head of the Arbitration Court, actually commented in 1898 that to federate the Commonwealth without rail being included was like playing Hamlet with Hamlet left out, for rail is the great arteries of the government, and he opposed the exclusion of rail and also from water from being Commonwealth responsibilities, for that very reason. He's been proven right. But viewed from the perspective of a newly-formed Federation, the short-sightedness of individual decisions of that time for the colonies was glaring. What we've discovered over the last century is that it makes the need for a government that takes responsibilities for the nation, for matters affecting the nation as a whole, really important.

It's proven, as we know ... Has proven very difficult to change the constitution, so we have to make it work as it is. The document's drafters could not have foreseen the nation, the world-changing events and developments of the 20th century, never mind the 21st. Nevertheless, over the last 116 years, it has been the framework and will remain the framework of the relationship between the Commonwealth and the states, as to how we interact with each other as a cohort for good or ill.

I want to discuss a little about the strengths of the Federation, but also, in my view, its fragility and what we need to do to make sure that fragility is best managed. I would argue that, in many ways, the Federation still works well, 116 years on. Whatever the people who wrote the constitution at that time thought, it actually has stood the passing of time well. We do get diversity and we do get innovation across jurisdictions, and that's lead to some very good outcomes, which would not have been possible from a single level of government. But that success and innovation and diversity and providing for local needs is not a given. While the constitution is set out in black and white, this does not, of itself, ensure the Federation's success.

So, what does underpin a successful Federation in my view? Firstly, I think, my experience would be, the Commonwealth must lead and manage the Federation. How well the Federation serves us as a nation rests on the commitment of the governments, but also, particularly, the Commonwealth government, to maintain strong Commonwealth state relationships, particularly for the things that we want to achieve as a national outcome. This requires recognition of what each level of government brings to the relationship, and the fact that each level of government has a role to play and brings important perspectives, expertise, and experience to the table. This is exactly how it was designed. However, governments of all persuasions sometimes overlook or, unfortunately, deliberately avoid the need to invest in the relationships that are the Federation. Particularly in the policy reform space where there are shared responsibilities for outcomes, too often governments look for the quick fix, place too much faith on financial incentives to deliver policy outcomes, or neglect the big picture in favour of local outcomes. In my view, these short-sighted approaches are not investing in the Federation; actually, erode the Federation and the nation. They leave the Federation fragile and open to criticism that is a model that does not serve Australians well.

It's the Commonwealth's responsibility, in my view, to nurture the Federation for the national interest. Australian governments ultimately will be judged on how effectively they manage the Federation, and we've seen that. When we reflect, many of us in this room, on what we regard as good Australian governments over the last 116 years, they are predominantly governments that have a record of well-managing the Federation, of delivering national results through managing the relationships with the jurisdictions, and having nine jurisdictions working together well to deliver an outcome for the community. I think that remains the test of every Australian government.

Most of us in this room and across the APS, at the end of the day, work within the framework of the Federation, but how do we manage to make the workings of it happen, given the fragility in my view, and also, how do we make some of the working relationships work? My view, there's a number of things we need to be cognizant of. Firstly, it's critical we have a shared view of the problem with the jurisdictions. The Federation only works well when governments work together to deliver outcomes, with a clear and common understanding of the problem and a pragmatic approach to delivering solutions.

The experience is, the Commonwealth is the level of government that has to facilitate this meeting of the minds. We should always understand that, while the states and territories have their own local interests, it's not to say that they don't want the national interest reforms taking place. My experience is that the majority of the state officials that I've ever dealt with, state and territory officials and state and territory governments, do all want to be a part of a national reform and do want to be part of progressing the nation. But state governments do, naturally, come at an issue from a perspective of how it impacts their jurisdiction, and the national interest may not necessarily be their starting point, but that's not to say they aren't interested in the national interest.

We certainly saw the value of a collaborative approach in the Hawk and Keating era and the Howard years, where we had a period, which some minds now look back with some nostalgia and a large degree of envy. But the reality is, it was made to work, a lot of those national reforms in that period, because the Federation was made to work. I think, recent governments have sought with much more limited success to establish reformed agenda with similar social-economic impact, but haven't been as successful because they haven't managed the Federation as well.

In my view, what's the difference between good, successful federal governments managing the Federation, and those who've been less successful? First, we make the mistake if we under-invest in COAG institutions. In a Federation, rarely does one government have the authority or influence to drive national reform alone. The Commonwealth government has, historically, struggled to get reform and change over the line if they haven't brought the Federation with them, and importantly, through the Federation, engage the community; a dialogue on the rational for and the benefits of reform. It always strikes me that we have such limited COAG combined entities; we don't have any combined research forums, and apart from ANZSOG, we have relatively few collaborative mechanisms with our state public services about how do we develop as a profession.

Thinking about those institutions of the COAG and the Federation is really one of the things we do need to think further about because, while people often talk in the media and in public policy terms about the Golden Age of Reform in the '80s and '90s, the reality is, it wasn't a golden era for all of us who lived through it; it was hard work. It shouldn't be overlooked, the success was very much underpinned by a great deal of work behind-the-scenes by public servants across all of the jurisdictions. Policy makers work long and hard on the evidence base for reforms.

Sometimes for decades, as in the case of tariffs or tax reform or competition policy.

If you think back to the work of the Industry Commission and others, right back in the '70s, reform takes a long time and has to be underpinned by a view by the public service and good analytical research. These difficult reforms of the 1980s and the 1990s, which people today lord, were not, of themselves, easy to deliver; they had to be delivered through really hard work through the Federation. As Professor Gary Banks noted in his recent work, acceptance that reform was needed did not come about overnight. There was a great deal of evidence and research on the deficiencies of existing policies, and deliberate efforts to communicate that information to the community. That's really what underpinned a lot of the micro-economic reform of the Hawk-Keating and Howard years and since then.

Of course, these micro-economic reforms, today, are seen as having broadly in the national interest, but for the community at large, arguing about the national interest doesn't always resonate. We've got to remember that reform doesn't always resonate well with people in the community who see that not all change is good reform. But when policy makers and governments really understand the right problem to deal with and can clearly see the need for reform and benefits that change will bring, it is much easier to communicate these to the community and gain, if not wholehearted support, then at least an understanding of the need for change.

Reforms that we need going forward to deal with the challenges we face as a nation require that good long-term policy and perspective and needs the public sector to have a clear view on what is the right objective we're trying to reach as a nation and how best we do that. As we've seen with good federal governments, that is a core part of their agenda. The public sector's role, as I said earlier, is to ensure the hard policy work is done, the evaluation, the research, the analysis, which enables the political champions to take reform and change forward. So, the APS and the state public services, in my view, have a critical role in providing both the continuity of the vision across the electoral cycles, but also providing the view and the analytical basis for governments to be able to drive things forward.

I'd just like to, in that context, talk about two more recent reform agendas in my portfolio, which demonstrates areas that have worked or are working. The first is some work we've been undertaking over the last decade: what's called National Transport Regulation Reform. As I mentioned earlier, when the Federation was put together, transport was largely retained as a state responsibility, apart from the new, emerging technology of post the First World War of aviation, the states largely controlled our land transport networks through their regulatory structures. That wasn't a problem so much, but as we opened our economy and opened that national markets, particularly in the latter half of the 20th century, what we find is state regulation was impeding inter-state trade and commerce and the growth of the economy.

So, from about the late 1990s, my department and other portfolio agencies started



to do a lot of work around the radical idea of having single national laws and single national transport regulators. Why is this important? Because up until three years ago, if you were driving a heavy vehicle between Melbourne and Sydney, you had to take six tonnes off the back in Wodonga before you could cross to Albury. Your trailers couldn't be the same width, crossing the border from Victoria to New South Wales; and, in fact, if you drove from Queensland to New South Wales onto Victoria, you had three separate fatigue regimes, three different weights and widths on your heavy vehicle, and a multitude of different regulations, which actually lead to some really adverse economic and also safety outcomes.

From 2009, the results of that work was a COAG decision to actually move to three single national regulators. We now have, in this country, for the first time, a single national law which applies to heavy vehicles, albeit Western Australian and Northern Territory haven't joined yet. But for the East Coast, we're there. People driving heavy vehicles now have a single regime of fatigue and operating laws, widths, and weights.

National rail. We now have a single piece of national rail safety legislation, which covers the country. Previously, if you were operating a train from Sydney to Perth, you operated under 43 separate pieces of legislation, you carried 3 communication systems, and you operated to a multitude of different industrial relations arrangements. In maritime, if you operated international voyages, you're regulated by the Commonwealth, but if you're operating on the coast, you were largely regulated by state. The discontinuity that came from those measures had to be overcome.

Those types of reforms worked because we spent a lot of time with the states and territories developing the business case for what it meant for them, how they could still retain control of the bits that they were worried about, how they would monitor their safety and operations on their roads, but at the same time, we developed national legislation for national operating systems, which have driven a big economic benefit as well as a much better safety outcome. These types of reforms can only be delivered when all levels of government are on the same page about what the problem is. A simple example is the way I've given them today, where we need to get to, and the steps needed to achieve that end goal. Really, that's the Federation in practise.

In the case of these types of reforms, the development of a shared vision with the states helped us gain momentum in the face of political change. Our short political cycles across this country, across all nine jurisdictions, means that long-suffering officials like all of you and myself, as we take through reform agenda, we have to deal with numerous changes of governments, changes of ministers, and we have to often start the argument all over again. It's a constant piece of work. Again, it's where the skill and the professionalism of the public service to achieve that national outcome is absolutely critical, because only the stewardship of the public service and the commitment to long-term agenda pays dividends through working through these processes.

The second one is just one that we're embarking on the last few years, which is an even more difficult agenda, which is to introduce road pricing into the Australian land transport network. Over the last 30 years, we've seen a radical change in Australian transport. We've moved all of our transport markets, bar one, into a market-based structure. We now operate an aviation sector and a maritime sector, which is all private sector investment, with public sector protection regulation. The one unreformed sector of our economy in transport is roads, where we still operate a model which is not too dissimilar to how it was in the early part of the 20th century. The Commonwealth collects excise, states charge registration fees, and somehow we come together and find a way to fund roads. But it's disconnected from the revenue collection, and the investment decisions are often taken for widely varying reasons. Ultimately, moving to a system that actually prices our roads and provides a road pricing system has two advantages.

Firstly, we're trying to improve the supply side. We're actually trying to improve the investment picture by being able to hopefully use that terrible word, which treasuries often hate, hypothecate revenue from road users back into the investment into the roads. We actually get a much better investment picture targeted at meeting people's needs better, but also, importantly, we also start to send price signals into our market for roads. Why is that important? Because it starts to deal with some of the unfairness of the current system, and this is becoming even more unfair as we start to see technology come into the market. The reality today, as we drove here, we all paid a certain amount of fuel excise, but the amount you paid is very dependent on how new your car is and how fuel efficient your car is, and if you were driving longer distances on poor roads, such as a lot of people in regional Australia, you're being overcharged for the contribution you make to the road system.

That problem will be exacerbated in the future as we move to electric and fuel cell technology for our vehicles. How do we price their access to the road system? How do we get those users to contribute to the road system? If you think about all of the implications of all that, there's a whole range of equity and fairness issues, as well as a long-term issue about how do we pay for our future road system. All of that has to be settled through a federal system.

We've been undertaking some work in the last couple of years with the states and territories, and it's really long-term stuff. Every Commonwealth minister and state minister I've discussed road pricing with over the last 20 years have all acknowledged it's absolutely critical reform and they look forward to how their successor's going to deal with it. Because it's hard. It really is hard. It's a really hard conversation with a community that's very sceptical about government pricing and access to what they see currently as a free system of roads, even though they're paying fuel excise, something they don't often appreciate.

But we've been doing some work, and one of my ministers, Minister Fletcher, has been a really passionate advocate for change, recognising this is a hard conversation. It's in its early days. Road pricing is not going to happen in a hurry,

but we're starting to build the building blocks of analysis, the empirical data, and we're starting to build the cases for where we know the community needs to understand better the issues of fairness, of equity, and how do you, in the long-term, provide the dollars we need for a modern transport system. To make all of that work, we've got to make the Federation work.

Contrast those two examples with what we've seen as features of other Commonwealth relationships with the states in other areas, which have been, in my view, not so successful. The not-so-successful approach is for the Federation on some [inaudible 00:28:46] issues, which plays out in both the political and officials levels, sees the headline reform agenda announced to the extent the press release can announce something. It's frequently been driven from the centre of government, and particularly from PMO or premiers' offices, during my time under various governments, but essentially, have not always been able to bring either the states or territories or the community with them. Perhaps, these days, driven by the need to always be in campaign mode and always seen to be doing something for the community electorates, elected officials at every level of government vie to be seen to be doing something, anything, even if it isn't achieving a great deal. That's where the crux of this comes. That you can announce a lot of reforms, but the only way you get reforms delivered is through the Federation working, right at the grassroots-level of the administrations across the country.

Unfortunately, the nature of today's political environment means that the pressures to do something, anything, means that governments focus on the quick win, the [inaudible 00:29:45], the press release, the media moment, or the soundbite, rather than the high quality, sustainable, well-targeted outcome our communities deserve. Also, the centralization of the management of a lot of issues, in my view, kills the issue very early. If you want to see a reform agenda killed early, hand it over to the PMO, PM&C, or Premiers' departments, and you'll not see it ever come to fruition. The only way that you get long-term change and reform is because it was driven by line agencies and the coordination is done at the centre, but the hard work is done in the line area. That's the reality in my experience in my career of dealing with states and territories.

Also, and I think what I've also seen is, often, the Commonwealth and also the state governments don't draw enough value for the expertise of their line agencies. Reform lead by central agencies usually flounders quite early because it doesn't have [inaudible 00:30:41] from line agencies across the jurisdictions, and often it's driven too much by the treasury focus on where the dollars go. Often, the central agency approach doesn't engage the states enough on agreeing the problems. It too quickly moves away from identifying the need for reform, and valuing the state contribution, to a discussion around dollars. If you want to move quickly to that debate, you find yourself pretty quickly disappointed about the pace of reform, because when you get to the dollars, it's often combative, not cooperative, and that's why we need to do much better in how we manage our reform agendas across the public services both federally and with the states. That's why I do say that line agencies have to be the ones, in having a policy view, because only they

have the relationships that make this work.

Having said that somewhat negative tone, I'm pretty optimistic about the way in which the Federation can continue to operate. Probably more so than some of my colleagues, but look, I think that the reality is if COAG is focused on long-term national interest reforms and on good long-term planning, then I think, we will achieve good reform, because only that sort of focus on long-term planning and utilising COAG in that framework will overcome the problem of short electoral cycles. Unfortunately, at the moment, COAG, for what people see of the COAG is really just the twice-yearly photos of ministers gathering together and the media coverage of whatever the particular scrum was that day, and often, that loses the hard work that often underpins a lot of those meetings, in the way it's presented politically. I think, it's really our job, in the public sector, to make sure that all of that hard work really does lead to change.

What are, finally, my key observations on making the Federation work and moving away from what I think is a very difficult reform environment at the moment? Firstly, as I said earlier, the Commonwealth has to be clear on what its desired outcome is and what reform its leading. It means we have to work with the states to identify the right problem, do the work, and build as a national agenda. As you all know, reform has few big bang moments, despite the press releases. The reality is that most reform has a good long-term objective set for it, well-rationalized objective, but is delivered in incremental steps. That's really, as we know you, good policy change often does best incrementally with implementation via smaller pragmatic steps. Policy makers should always have a radical view on what's the right outcome to get to, but we've got to accept the progress towards an objective will often be incremental, and that's often a very difficult conversation with elected officials. But incremental progress also always government to control the scope and pace of change, and make adjustments when things aren't working well; we can go back and change them. We've got to be prepared to have that ... What is the national outcome we want, and how do we pragmatically get there?

It's all about how the Commonwealth must lead and control the Federation. Secondly, I think, it's about relationships. At the end of the day, the profession we work in, the public service, is all about people and how we manage relationships. That's what all of us do every day. A Federation has to be based on mutual respect and professional respect. We in the APS have to respect the states and territories. They have specific expertise. They actually work with the community on a day-to-day basis, which most of us at the federal level don't do. And they also, on the whole, all want the same public policy outcomes for our nation. In our Federation, we've got to stop treating the states and territories at times as the enemy. We've got to acknowledge and harness their expertise, particularly in delivering services to our communities.

Thirdly, the Commonwealth must lead and drive national reform, and we can't go it alone. Without coordination and leadership from the national level, long-term national reforms won't happen, but we can't deliver too much without the states

and territories. We have to, sometimes, acknowledge that money does not buy the right outcome. Sometimes, because of our vertical fiscal imbalance position, the Commonwealth can be inclined to try and buy the reform outcomes it wants. We usually have to pay, that's fine, but the states have become very expert at making us pay too much, often for too little. We've got to look at financial incentives not being the standard go-to, but actually, just one part of our tool kit. We've actually got to be much smarter than that.

The reality is, if we can't get governments to agree on the problem to be solved, funding only delivers what you pay for. We've all seen examples where money sometimes buys, at best, silence or reluctant non-cooperation from some jurisdictions. We've got to be even smarter than that. Funding, of itself, will not solve a lot of our national reform agendas because it won't drive a shared commitment to the outcome we want. States will generally sign onto something, in my experience, if it's important, they can see the national outcome, and there's something in it for them locally. While solving a national problem, it also deals with a problem they're dealing with, and helpfully, if it comes with money, that's nice. Also, sometimes, it's nice to be able to blame us at the federal level for having to make the change. We've got to use all of those incentive structures to get the right outcome. It's much more of a toolkit than it is just turning up with dollars.

Finally, we've got to nurture the federal institutions. As I said earlier, the Federation is a fragile thing. We've got to continually be thinking about how our ministerial councils operate, and importantly, how the senior officials committee operates. We've got to constantly be reviewing the work programmes, the terms of reference, to make sure they remain relevant and refreshed, and we've got to try and do that in a way that's cooperative; we can't simply try to bulldoze these through. As we said, it's about long-term planning and it's about trying to get the relationships right.

In finishing up, my analogy is, the Federation in this country is like the APS; it's fragile, we're almost worn out by the demands that are constantly being placed on us, like the Federation, and it needs a lot of care and attention to build its capacity and to continue its operation. The Federation, like the APS, often shines in times of crisis. The APS is, in my view, the world's best public service, as are many of our state services. The reality is, we often only see that in times of crisis. We're great responders. In fact, in many ways, governments values us only in crisis. But the reality is, we've got to shift away from that. We can't wait for the next crisis to deal with some of the big national reform issues that the Federation has to deal with. The APS and the state officials have to work together. We have to build the mechanisms underpinning that. As I said, I think, we need to look at, have we got enough cooperative research happening with the states and territories? Have we got enough collaborative mechanisms?

Most importantly, we've got to start seeing COAG and the Federation as an opportunity to do some of the long-term planning we need as a nation. Coming back to my infrastructure space, the way I categorise Australian infrastructure

industry is, we're pretty good at building things, we're world leaders at financing infrastructure, but what we're terrible at compared to a lot of our international compatriots is long-term planning and project selection. We, as a nation, too often pride ourselves on it'll be okay in the end. We don't do enough investment in the long-term planning, and it's the same in the way that governments often treat the APS and the public services. We don't invest enough in long-term capacity and strategic thinking, but yet, that's the differentiator, which will be one of the key determinants of our position in the world in the 21st century.

So, as I said, the Federation, like the APS, fragile, still there, enormous capacity to do great things in the future, and I'm much more optimistic about that than I probably would've been some time ago. I find the experience of our portfolio, I think, the Federation can work and work well to solve some good long-term issues.

Thanks very much.

Elizabeth Kelly:

Thanks, Mike. Mike's kindly agreed to take a few questions, and we have a few minutes for questions. If I could just start, and David Gruen and I have very broad shoulders, and we cannot fight back about your characterization of the relationship between central agencies and line agencies, but one of the things that is so impressive about you is your long-term focus, and that's one of things that's really hard for us as leaders.

From time to time, we put up an idea that founders and staff say, "What's the point?," but you're a shining example of not giving up. Things like second Sydney airport and road user charges. Can you just talk to us a bit about how you actually continue to foster an idea, even when we know it's not going to be progressed by the government of the day?

Mike Mrdak AO:

It is a tough conversation, as I said. Part of it is the work that people have done in the organisation and the evidence base. The evidence base really is important. Governments will come and go and ministers will have varying interests, but if the evidence base takes you to a conclusion, and you build enough support, on something like national regulators or road pricing, we've built a constituency now around state governments and industry, because everyone's got a shared acceptance of the problem.

Often I find that the way in which elected governments will respond is if you can explain what the problem means for them, why it has to be dealt with now, but not just dumping the problem, we've actually got a way forward. It might not be times right now, but let us get on and continue to do the works, so that when the times arrive we can bring this together.

I think all people who run for elected office generally do try and do the right thing in the long-term interest of the country. That's my experience working with parliamentarians and ministers throughout my career. I think they genuinely want to do something. They want to make a mark. I think providing that evidence base, but important as I said earlier, having a shared understanding of the problem is

really important. That it's not seen as something that we are only frolic about from the IPA, so that actually it's come from. Often what we've done in our portfolio is utilised really good relationships with the business community, and community groups who are actually bringing those ideas forward.

We've given them a lot of the information, we've shared the problem, we've worked out solutions, and it's them bringing those ideas back to government, and as all of this know often, our advice is valuable to a point to some ministers, but if it turns up on a letterhead from a private sector organisation or a community group, it takes on a different status. That's the reality. In many times, our work often reinforces ideas which they are getting from other sources, but we've built that. We've built that shared understanding.

That's been sort of my experience on some of the national reforms in the last decade or so. We've actually been able to get jurisdictions and business groups aligned behind, not just the problem but actually a way forward. That's what at the end of the day that will appeal to ministers.

Elizabeth Kelly: Thank you. And finally I have to ask you the question that we are all wondering. Which episode of Utopia makes you squirm in your seat the most?

Mike Mrdak AO: They all do. I think the episode on high speed rail. I've had those conversations.

Elizabeth Kelly: We've had all them.

Mike Mrdak AO: We've all had those conversations and it's still there.

Jenny Stewart: I'm Jenny Stewart from UNSW Canberra. I wanted to ask you a question about the second half of the title of your department, which mentions regional development. I'd be really grateful if you could say something how that agenda fits in with the programmes that you've been discussing.

Mike Mrdak AO: Very strongly. Regional development is a critical issue for the nation. The experience we know from the last two centuries is, regional development ultimately is going to depend on connectivity. We know what drives economic growth and jobs in this country. We've got long experience in it. And it's not too dissimilar to a lot of other countries around the world.

At the end of the day, the fundamental driver of how we are going to grow a lot of our regional communities is going to be better connectivity. It's about telcos, it's about roads, it's about rail, because at the end of the day, we actually ... Regional Australia in Australia is often mis-portrayed. Regional Australia, if you go and read the productivity commission review that's recently done, it really shows that regional Australia, for much of Regional Australia has had in the last 10 to 15 years are some of the best decades it's had for much of the last century for a variety of reasons.

A lot of Regional Australia is not struggling. A lot of Regional Australia is doing really

well, but it's based around large regional centres. The real difficulty for us as it is for a lot of developed western nations is how do we connect the smaller regional communities to the growth of jobs and services in those bigger regional centres? That's the real conundrum, particularly in a nation like us which has larger distances and small populations centres dispersed. The real issue is coming back to what we all know, it's about connectivity. We are not going to get the jobs back to a lot of the small towns, economic and demographics have driven past them.

What we've got to do is to get people connected from those small communities, back to where the jobs and opportunities are going to be for themselves and their kids. That's connecting them to the bigger regional centres. A lot of the regional centres in Australia, when I say regional centres, they are cities under 100,000 people, between say, 50, 100, or 200,000 people have got growth rates faster than most of the capital cities. That's a positive story. The issue is, if you are more than an hour's drive away from those big centres, it's hard to get to those opportunities. It's a bad connectivity, it's a bad provider.

One of the things we are doing with the states at the moment is starting to talk to them about what is the definition of public transport, and can we in the future go back into the divide of how we connect people to these large opportunities. If you are living in regional Australia today, if you've got a health condition, you can get subsidised transport to a large centre for your medical treatment. If you need to get there for a job interview or a training opportunity you can't. Such are the sorts of things we need go to back and think about. Jenny, to come to that, it sits well within a portfolio that's thinking long-term about spatial development and connectivity, which is what my department is about.

It's about those sorts of things. It's about, how do we, in an age where we are going to move to more autonomous vehicles and different types of vehicles. How do we get those opportunities to connect those communities together much better recognising the demographics and economics, increasingly provide a lot of the jobs and services opportunities in larger centres. That's the reality.

Elizabeth Kelly: David Gruen

David Gruen: Mike, I very much agree with you about the things you need to do to get long-term reform, but another thing that's often mentioned is having a burning platform. One of the benefits you've got with pricing is that everyone can see that the revenue base is just going to disappear, and you might as well get on that train before it disappears completely. I just wondered whether you would comment on your experience about whether having a convincing burning platform that this thing is going to, that something catastrophic is going to happen unless you do something, is another kind of powerful driver for getting reform.

Mike Mrdak AO: It's a driver, I don't think ... My experience is always the burning platform that mostly is not shared by the elected representatives, because the community says, if it's a revenue problem go and take someone else, not me. You've got to have the burning platform, which really excites central agencies and treasuries at state level



and federal. That's important. But you've also got to present the positive case, what's in it that's different to what I'm getting now, and how am I going to benefit? The argument about road pricing for instance is going to come I think, because we are going to see growing inequity between road uses, and also a growing inability to fund roads, unless we change the current settings.

I think that it's a combination of the burning platform on one end which matters to us. It's also providing what's the positive. It's that, I think which is really critical, to driving that agenda and others. If you can't sell a positive, the community is suspicious if you are doing something, because it's a negative problem. They made you think there has to be other things you could be doing rather than just asking me to pay.

Jared Henry: Jared Henry, treasury. Thanks very much for the presentation. I was very interested in your stats where you said congestion currently has an economic cost of \$16 billion dollars increasing to \$30 billion. Autonomous vehicles have often been raised as one of the potential solutions to congestion. How do we go about creating an autonomous future?

Mike Mrdak AO: It's happening around us very quickly. Look, I'm on probably of the more conservative end of how quickly we'll see full autonomous, but we are starting to see levels of autonomous coming into the vehicle fleet now, and it's moving very rapidly. It used to take about 10-15 years for a new innovation to rank its way through the vehicle fleet, from the very expensive top end, to the general access vehicle. That's now happening in three to five years. We'll start to see some of that technology that's happening, such as lane awareness, and all of that, and gradual autonomy of hands off, and that sort of thing. That's already happening.

The big change with autonomous vehicles, the engineers have a view, that that will enable, if we'll get to full autonomy or gradual autonomy, that will enable cars to basically second themselves better, and to remove some of the human elements of how we drive and space ourselves. We might be able to get more vehicles into a space. I actually ... There is an element of I think that's right to a point. The bit that's often overlooked by the engineers is, autonomous vehicles have an enormous capacity to change mobility, for categories of Australians who at the moment don't have access to mobility.

If you think what an autonomous, and currently in Sydney, in Perth, they are trialling an autonomous minibus, which would operate on demand to those homes. At the moment it's being trialled in closed circuits. If we move this technology, if you think about an aged person or someone who is living at the edges of the major cities for whom there is no transport apart from private, from taxis. Think about what an autonomous vehicle on demand that can actually get you from your door to your medical appointment, your social contact, your club, your community centre. Think of what that does to your mobility options if you are handicapped, aged, or as I said you are currently living in area which is a long way away from other transport options.

I think we are actually going to see a huge lift in induced amount for transport, coming out of gradual autonomy, because particularly if I get the price points down, if you take out ultimately. I think it's a long way away, but if you take out 90% of the cost of a taxi, which is the driver, you suddenly have a capacity to fundamentally change mobility options. It's a long way off, but I think that's a greater issue for us, which actually creates even more pressures on our infrastructure system potentially. It's not quite clear cut that autonomous will lead to a better utilisation of that system. It will do some of that, but we are more likely to get some of that through what we current know with hands on wheel through the way in which vehicles space themselves and prevent accidents and all sort of things.

We'll get some of that, but I think there is a really exciting future, and kind of back to Jenny's point, if you think about what autonomous vehicles could do for connecting smaller communities to larger communities, you suddenly have, and even if we move down the path of subsidising those sorts of smaller transport systems, we suddenly change those mobility options quite markedly. I think that's really the exciting bit of the future of technology for us. We can suddenly start to connect people who at the moment we don't have an answer for, or we can't find the money to pay for their mobility, that's the challenge.

Elizabeth Kelly: As you can see from the number of subjects, we've ranged across ... The extraordinary thing about Mike is that you are a systems thinker and a long-term thinker, which is something that is very inspiring for all of us, and something that we need to make sure that everyone in the APS knows is a key part of our role. Thank you so much for this morning.

Mike Mrdak AO: Thank you. Thanks a lot.

**END OF TRANSCRIPT**