

RESPONSE TO APS REVIEW 'PRIORITIES FOR CHANGE'

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INTRODUCTION

We welcome the opportunity to respond to the more specific suggestions for change that the APS Review Panel has identified in its interim report. We are pleased also that the Review has released some of the research it has commissioned from ANZSOG.

We remain disappointed, nonetheless, about the lack of data and analysis in the interim report and the limited material that has so far been provided by APS agencies. It could be argued that this in itself demonstrates some of the weaknesses in APS capability and independence that need to be addressed.

As always, the devil will be in the detail, and many of the initiatives being considered by the Review are described only in broad terms at this point. Moreover, there are some significant omissions we hope the Review will address in its final report.

Set out below are, firstly, our comments on the Review's general assessment of the APS and the challenges it is facing, then more detailed responses to some of the specific initiatives and matters still being explored under each of the four priority areas identified in the interim report. In doing so, we refer to Andrew Podger's earlier submissions¹ where relevant, and attach some other relevant documents we consider the Review needs to take into account.

REVIEW'S GENERAL ASSESSMENT OF THE APS AND THE CHALLENGES IT IS FACING

Like some other recent reviews, this interim report is suggesting the APS is 'not broken'. While it is not entirely clear what that suggestion means, it could be read as understating current and emerging problems and challenges. The Review's suggestion of an aspiration statement, 'a trusted APS, united in serving all Australians', is also inadequate as a meaningful response to the problems that exist.

Certainly Australia, like some other Western democracies, is facing a loss of public trust in government, and measures to enhance trust in the APS may well be part of the solution. A significant component of the current distrust in government, however, must be shared by politicians including Ministers and their political advisers. As indicated later in the interim report, clarifying the distinctive roles and responsibilities of the political and administrative arms of government could do much both to re-build public trust in politicians and to enhance public trust in the APS. It could also help to repair the trust of politicians in the APS. This is a first priority issue, and the measures suggested in the report do not do it justice. In particular, firm action is needed to strengthen the degree of professional independence of the APS, and its self-confidence as an institution.

The suggested aspiration about being 'united', while important, is not, of course, new and has partly been addressed already. Coordination and collaboration is always an issue in public administration and has been a particular theme for the APS now over the last 15 years (specifically highlighted in the 2003 MAC report, *Connected Government*). More recently it has been reflected in amendments

¹ Andrew Podger's original submission was provided on 6 July 2018. His response to Mr Thodey's IPAA speech in November was provided on 16 November 2018. His response to a subsequent request from Mr Thodey was provided on 6 December 2018. All three documents are publicly available on the Review's website.

to the Public Service Act and in the new Public Governance, Performance and Accountability (PGPA) Act. Indeed, on an international scale, Australia would rank highly on coordination given its Cabinet processes and supportive financial management and administrative infrastructure. The APS is also far less heterogeneous today than at the time of the Coombs Report when it included the PMG, Defence factories, construction services, veterans' hospitals, civil aviation functions and so on.

So far as an 'aspiration' statement is concerned, there is already a common purpose in the PS Act ('an apolitical public service that is efficient and effective in serving the Government, the Parliament and the Australian public'). The APS's two main roles (advising government and implementing its policies and programs) are widely understood if not formally legislated. The APS Values define the institution that is the APS and establish its organisational integrity, though they could do so much more clearly. Revisiting the way the Values are now articulated to give them more meaning would seem to be more important than introducing a new and insufficiently purposeful aspiration statement that many staff may struggle to relate to.

Missing from the interim report is any analysis of developments since the Coombs Report and what may be learnt from Australia's experience with New Public Management reforms in the 1980s and 1990s, and from subsequent New Public Governance reforms. What was successful and what was not? What unintended consequences resulted, and what needs to be done to address them? Such analysis is essential to any assessment of what needs to be done to make the APS 'fit for purpose' into the future.

Nonetheless, given how broadly they are described, it is hard to disagree with the four priorities for change the Review has identified. Some refinement of the priorities in the Review's final report, however, should be considered. The remainder of this submission explores the four priorities in some detail, the key points being as follows:

1. There is a strong case for strengthening the culture, governance and leadership of the APS. Central to this is the relationship between the APS and Ministers and the Parliament. It would seem, however, that stress is being wrongly placed on legislating for a stronger role for the Secretaries Board, whereas the emphasis should be on clarifying the appropriate degree of independence of the APS, strengthening the role of the Australian Public Service Commission, ensuring top appointments are based on merit and revisiting the APS Values (including restoring 'merit' as a core Value).
2. The case for more flexibility in operations is not convincing. While there is certainly room for more use of project teams to address urgent cross-portfolio issues, there is also a strong case for more stability in government structures and more continuity in many areas to deepen expertise and strengthen relationships with communities and external stakeholders. The Review should clarify the principles behind ongoing MoG arrangements and the use of different governance structures. It should also clarify its view on how the APS should be funded and how remuneration should be set.
3. Capability is certainly a high priority, but the report gives insufficient attention to the apparent loss of capability in the APS, to the importance of subject matter expertise and to the expertise needed to be an informed purchaser, in addition to emerging new capability requirements.
4. Stronger partnerships are also essential. The relationship of the APS with Ministers and the Parliament is of critical importance and should be included within the first priority regarding APS governance. The other partnership issues (with other jurisdictions, and with individuals and communities) deserve separate priority. It is clear much work still needs to be done by the Review in this area.

The interim report says that ‘implementation is the key’ but gives very little attention either to the implementation of specific proposals or to how implementation in general might be managed. The final report will not be handed over to the public service to implement, but must first be subject to a careful process of ministerial (and possibly parliamentary) examination and decision-making. The Review should examine the experience gained in responding to the Coombs Royal Commission under the Fraser Government, and the finalisation of outstanding matters in that Report and the Reid Report by the Hawke Government in 1983 and 1984.

PRIORITIES FOR CHANGE

A. Strengthen culture, governance and leadership

Central to this priority area is the importance of clarifying ‘independence’ with regard to the APS. The principle of democratic governance requires the APS to be loyal to the elected government and subject to the lawful directions of ministers. At the same time, the APS is required to be professional, apolitical and impartial, attributes that all imply independence. There is considerable evidence of a shift, particularly over the last 25 years, towards political control and loss of professional independence. The Review should acknowledge this explicitly and clarify how appropriate independence should be recognised and ensured. Andrew Podger provided quite detailed suggestions about how to achieve an appropriate balance in his December response to questions from the Review panel chair, David Thodey.

Common purpose and vision. The APS will always encompass a wide range of functions and many staff, particularly those outside Canberra, will understandably identify more with their agency than the APS as a whole. Indeed, agencies’ performance depends critically on their staff focusing on what they can contribute to that performance. It is of course important that the SES identify with the APS as a whole given their role as the APS’s leadership cadre, but even amongst the SES many will have specialist expertise related to a particular agency’s functions.

The Review says it is still exploring whether the APS Values should be amended. There are strong arguments to do so thus making them more meaningful in defining the APS as an institution and setting out the principles behind its institutional integrity. The simplification of the Values made in the 2014 amendments to the Act did not help in this regard, particularly by removing ‘merit’, a foundation of civil service professionalism since the Northcote-Trevelyan Report in 1854.

The APS Values should also help to clarify the distinctive role of the APS from that of other parts of the public sector, particularly the Parliamentary Service, Ministers, ministerial staff and Members of Parliament. One way of doing this is to articulate the respective values that shape the relationships of each of these groups. The APS Commission did this for the APS in the early 2000s by grouping the then legislated Values according to key relationships in its *APS Values and Code of Conduct in Practice: Guide to Official Conduct for APS Employees and Agency Heads*. The current articulation of the Values does not lend itself to such a clarification of the distinctive role of the APS. A more meaningful articulation of its core values might be as follows:

- With regard to relations with government and the parliament:
 - Non-partisanship
 - Loyalty to the elected government
 - Accountability through the system of ministerial responsibility
- With regard to relations with the public:
 - Impartiality
 - Committed to service (inclusive, responsive, courteous)

- Efficient, effective, economical
- With regard to workplace relations
 - Merit
 - Professional
- Personal behaviour
 - Lawful
 - Ethical, having regard to the responsibility of exercising public power.

Ethical conduct is critical to the exercise of public power by the APS, and the value to be ethical should not be downgraded to being 'trustworthy' as the relevant ANZSOG paper suggests. 'Ethical' is also the term used in the PGPA Act.

The interim report suggests including 'stewardship' amongst the APS Values. While this quality is of great importance as a responsibility of secretaries (as now required under the PS Act) and perhaps of senior leadership across the APS, it is not clear it should be part of the core Values of the APS as a whole. Indeed, stewardship of the APS as an institution is a responsibility of Ministers and the Parliament as well as the APS leadership.

As illustrated at **Attachment A**, the above framework could be used to highlight both differences and commonalities of values across both the APS and other parts of the Commonwealth public sector (including Ministers and ministerial advisers as well as the Parliamentary Service, GBEs etc.). It may also be possible to use the umbrella of the PGPA Act (which requires all entities to use public resources 'efficiently, effectively, economically and ethically') to press the different groups to articulate the particular behaviours and relationships which reflect their institutional roles. Appreciation of distinctive roles and responsibilities is essential for the partnerships the APS needs to have within the Commonwealth, as well as with external groups as discussed under the Review's fourth priority area.

Secretaries Board. The proposed more formal role for the Secretaries Board, with decision-making rights, is not supported. It is Ministers who exercise Constitutional authority over administration, and Cabinet by convention is the mechanism for collective responsibility and overall direction.

This is not to deny the important role Secretaries collectively can and should play in support of Cabinet decisions and priorities, a role strengthened by the requirement to collaborate now in the PS Act (and the PGPA Act). Secretaries should meet regularly, led by the Secretary of PM&C, to respond, inter alia, to cross-portfolio requirements arising from decisions of the Cabinet or the PM. This may include establishing IDCs reflecting Cabinet committee agendas or more ad hoc requirements. But it is questionable whether this requires the Secretaries Board to have some sort of ongoing executive authority.

The extent of the Secretaries Board role depends to a large extent upon the agenda set by the PM or Cabinet. Should the Cabinet choose to take advantage of s34 of the PGPA Act (setting out key whole-of-government priorities and objectives that would need to be referred to in agencies' corporate plans), that may well require a more active Secretaries Board to ensure the priorities are properly addressed and managed. This has been done successfully in some other Australian jurisdictions in recent years, and by some overseas governments, but to date Commonwealth governments have not chosen to do so.

Where the APS does need to have its own collective decision-making arrangement is in regard to its own management responsibilities. This is not just a matter for Secretaries but also for other APS agency heads, particularly those with large numbers of staff such as the ATO. Probably the most

successful model in this regard over the last 30 years was the MAB-MIAC model of the early 1990s. Drawing on this model, consideration should be given to establishing a steering committee of the Public Service Commissioner (as chair), the Secretary of PM&C and three or four other heads of major departments or agencies, separate from the Secretaries Board. This Management Committee could regularly establish project teams of selected senior SES officers to examine particular across-APS management priorities and challenges.

Respective roles of the PM&C Secretary and the APS Commissioner. It is pleasing that the Review is exploring how best to define the respective roles of these two APS leaders with a view to including the roles in legislation.

The suggested titles, however, do not sufficiently capture the two roles. Referring to the PM&C Secretary as 'head of service' would be interpreted widely as 'head of *the* Service' (i.e. head of the APS). A more appropriate title may be 'operational head of the APS' as Podger suggested in his original submission, with the legislation clarifying the Secretary's role of coordinating the APS to meet the requirements of the Cabinet and PM.

The APS Commissioner on the other hand is not just 'head of people' but the main steward of the APS as an institution, interpreting and promoting the Values, addressing overall capability, ensuring proper leadership and monitoring the state of the service. The term 'professional head of the APS', which is consistent with the first statutory responsibility of the Commissioner (s41(1)(a) of the PS Act), would seem more appropriate.

The proposal for the independent Public Service Commissioner to have a formal advisory board is unsound in principle and practice. It would be more appropriate to strengthen the capacity now provided in the PS Act to appoint 'consultants' to assist the Commissioner. Instead of 'consultants', it would be preferable for the legislation to allow for one or two ongoing part-time Associate Commissioners to whom the Commissioner could delegate specific powers (this may be particularly useful in assisting on APS remuneration issues).

Appointments and expectations of secretaries. The interim report refers to the New Zealand model for the appointment and oversight of secretaries (and other agency heads). That involves the Commissioner being the employer of secretaries, recommending the appointments directly to the Governor-General in Council, managing performance and deciding on terminations when required. This may seem radically different from the Australian approach where appointments are made by the Governor-General in Council on advice from the PM (which the Review suggests retaining) and in legal terms it is very different. As a former NZ Commissioner has made clear, however, the success of his appointments depended crucially on the relationship the appointee was able to forge with the relevant minister and PM, and the Commissioner had very careful regard for the views of the relevant minister and PM before making any appointment. The advantage of the NZ approach is that it helps to ensure top appointments are based on merit and it is rightly seen, therefore, as the international benchmark model for an independent merit-based civil service.

If this is seen as a bridge too far for Australia, it is strongly recommended that the Review look to other ways to strengthen the emphasis on merit and to constrain the risk of politicisation. The Review's suggestion of a panel comprising the PM&C Secretary, the APS Commissioner and a ministerial appointee would be a step backwards in this regard. The existing system already requires consultation with the Minister, and already involves both the PM&C Secretary and APS Commissioner. Having a ministerial appointee on the panel could only dilute the emphasis on merit.

Instead, to strengthen merit while retaining a central role for the PM:

- the positions should generally be advertised;
- the panel should be chaired by the APS Commissioner and include up to two other secretaries selected by the Commissioner (generally but not necessarily including the PM&C Secretary);
- in the event the PM does not accept the panel's recommendation, the PM should be required to table in the Parliament the reasons, based upon merit, for appointing the person recommended to the Governor-General in Council;
- the APS Commissioner should each year include in the State of the Service Report a statement on the operation of the system of secretary appointments.

A continuing central role for the PM would also require careful consideration of the tenure of Secretaries. There has been considerable concern, not just with politically determined terminations, but also with back-door politicisation as Secretaries come up for contract renewal: currently, no reason needs to be given at all for non-renewal of appointments. (This is not a significant issue under the NZ model as terminations and re-appointments are not as a rule determined politically but by the Commissioner.) Options in regard to tenure include replacing term contracts with ongoing employment (i.e. retain tenure but also with the general expectation that individuals would not be in particular positions for more than five years, as operated before 1994), or some firmer understanding that appointments will be renewed (in the current or another equivalent position) so long as performance as assessed by the APS Commissioner is maintained at an acceptable level. In addition, the Review should recommend a role for the Public Service Commissioner in advising on any terminations.

Of critical importance, particularly if the APS Commissioner is to be given a stronger role in Secretaries appointments and terminations, is the process of appointing the Commissioner. As with the Auditor-General, the appointment should be subject to the approval of the Parliament or a Parliamentary committee, though the process for both should be strengthened. There should be a prior process involving a panel of Secretaries to advise the Prime Minister. Should the PM not accept the panel's advice, that fact should be revealed to the relevant Parliamentary Committee with the reasons, based on merit, for appointing the PM's preferred candidate. The Committee should also be advised, *in camera*, of the name of the person recommended by the panel. The Committee should have the power of veto over the Prime Minister's preferred candidate if that candidate is considered unacceptable on merit grounds.

The suggestion about public transparency regarding performance expectations and management of Secretaries should be treated with caution. There may be some benefit in articulating some broad criteria such as those used when Secretaries were eligible for performance bonuses (contribution to whole-of-government priorities; support of the minister; management of the department; leadership; upholding and promoting the APS Values; implementation of government policy decisions). More detailed performance indicators, however, could be misunderstood or even misrepresented publically.

The Review should also recommend merit-based appointments for the heads of other APS agencies. The APS Commissioner again should have the lead role in recommending such appointments, chairing a panel in each case that includes the relevant portfolio secretary and at least one other person familiar with the work of the relevant agency. If the relevant minister retains authority to make the appointment (or to make the recommendation to the Governor-General in Council), he or she should be required to explain to the Parliament how any appointment not consistent with the Commissioner's advice still satisfies the merit principle. In the case of the heads of 'integrity

organisations' such as the Electoral Commissioner and the Ombudsman, the appointment should be subject to approval by the relevant parliamentary committee (along the lines recommended above for the APS Commissioner and Auditor-General).

Genuine transparency and accountability. The recommendations of last year's Review of the PGPA Act particularly about improving performance reporting were generally good. Indeed, it could be argued (as Podger advised the JCPAA late last year) that the report did not go far enough in promoting the systematic evaluation of government programs and initiatives. The ANZSOG paper prepared for the APS Review on this subject also presses for a more systemic approach towards such evaluation, and is welcomed. In line with the discussion above, however, there is a danger in expecting too much of the Secretaries Board and the APS Review's suggestions in this regard should be treated with caution.

Reinstating the capability reviews is welcomed. As the PGPA Act Review found, departments and agencies have paid insufficient attention in recent years to capability, and to the corporate planning that might help address weaknesses and take advantage of opportunities. There is also room for more systematic use of employee census data and 'employee engagement indexes' to identify organisational units (within agencies as well as whole agencies) where there is a high risk of poor performance and where a more bottom-up review of circumstances might be warranted, complementing the broader top-down approach of capability reviews. This is currently being explored in the US.

The establishment of advisory boards in departments is questionable. Feedback is that such boards have not been very successful in the UK but have in some instances caused difficulties with regard to accountability and the appropriate relationship between Ministers and Secretaries. Alternative options for drawing on some external expertise include having an external person (nominated by the Secretary and agreed with the Minister) to advise the Secretary on management issues, or ensuring that the Internal Audit Committee (or Audit and Risk Committee as recommended by the PGPA Act Review) with its independent chair and members plays a significant role in encouraging quality risk management and corporate planning by the department. It should also be noted that many departments already have a range of advisory committees of one sort or another focused on specific areas where external involvement is important.

B. Build a flexible APS operating model

The emphasis on flexibility and 'agility' in the report seems to be based more on generalisations about ability to respond more quickly to changing priorities and circumstances than on sound analysis of appropriate structures and processes which balance the need for continuity, stability and depth with the need to adapt, respond and interact.

Ways of working and structures. The measures suggested in the report provide no specifics, and fail to clarify the balance desired. As the 2003 MAC Report, *Connected Government*, highlighted, there is little benefit in trying to connect everything to everything else all of the time, and a real risk of blurred accountability. There is a range of structures and processes appropriate for different 'connected' problems, and there remains considerable benefit in having stable organisational structures for ongoing functions that can be drawn upon as needed.

The report seeks more flexibility but rightly expresses concern about the frequency of Machinery of Government (MoG) changes. To help find an appropriate balance, the Review should explore and recommend the principles that might guide ongoing MoG arrangements. While the final decision on MoG arrangements will always be one for the elected government, such principles might lead to a

more stable framework for portfolios, still allowing governments to shift priorities particularly through varying the identified roles of ministers assisting portfolio ministers but less frequently through major MoG changes.

The Review should also explore the principles that might guide when to use departments, statutory authorities and executive agencies within the APS (Podger's earlier submissions go to some length to explore this issue including the relationship of structures to the varying degree of independence appropriate to different functions).

The Review might then explore good practice in project management and ongoing collaboration across portfolios and agencies to ensure adaptability and responsiveness to joined-up problems.

There are significant potential benefits in having supportive cross-APS infrastructure to facilitate collaboration and drive greater efficiency such as in IT, HRM and procurement. The devil, however, will be in the detailed implementation.

Strategic allocation of funds. Again, the suggestions in the report lack substance and key issues are not explored.

One major omission is discussion about how departmental expenses should be funded. The removal of efficiency dividends is long overdue and funding should be more closely linked to outputs and output prices. The most obvious indicator of output price movements in the absence of specific output price data is the CPI. The CPI includes an economy-wide productivity component and its use to adjust running cost allocations each year would seem appropriate (unless a more specific output price is available for the outputs of the agency concerned). As a rule CPI indexation should then be sufficient for agencies to fund any wage increases etc. Indexation of running costs on the basis of the CPI, as well as removal of efficiency dividends, would also give agencies much more certainty about future resources and allow them to undertake more careful forward planning and to develop and retain workforce capability. Where the quantity of outputs can be measured, that should also be used to adjust running costs in addition to the CPI (as the indicator of output price movements).

If running costs are properly controlled, there is no need for any cap on APS staffing. Indeed, such a cap only distorts the allocation of running costs with the risk of reducing overall value-for-money.

The 'investment perspective' to fund activities and assess outcomes may provide useful insights in some cases, but is unlikely to provide a framework for regular budgeting in Australia. In part this relates to this country's federal arrangements where 'investments' might be at one level of government and 'returns' at another. It would seem more likely that such a perspective may guide the way evaluation is conducted rather than affect the funding arrangements directly.

While a 'sustainable approach to capital funding' might sound sensible, most assets now owned or used by the Commonwealth are held by its GBEs or by contracted providers who take responsibility for investment and management. More recent financial management reviews, such as the Commonwealth Financial Accountability Review, have recommended watering down aspects of accrual accounting and budgeting by Commonwealth agencies other than GBEs.

Networked enabling systems and common processes. The suggestion of a 'stable spine of common digital platforms and policy frameworks' may well have merit in principle, but there is a long history of proposals in this regard matched by a long history of failed achievement. Perhaps a more modest agenda should be considered based on steady incremental changes to upgrade and link existing platforms where the linkages would deliver the most significant early gains. A particular challenge is to achieve the appropriate and sustainable balance between in-house capability and the expertise

available externally. It seems very likely that some major agencies should invest significantly in their in-house capability and require contractors to transfer IP over time.

The suggested 'move towards common pay and conditions' is strongly supported in principle. The issue then is to provide details about how pay and conditions should be set in the future and how a transition to common arrangements is to be managed. The central methodology should be to use appropriate market comparisons on an occupational basis with the 'enterprise' being regarded as the whole of the APS. The current system of enterprise bargaining, with each agency identified as an 'enterprise' and required to identify enterprise-based productivity offsets, has been a major reason for the current variations in pay and conditions. It has no theoretical justification in the APS (where agencies' revenues are set by the political process, not by markets) and involves high transaction costs. (A submission by Podger to a Parliamentary Committee inquiring into Commonwealth workplace bargaining in the public sector in 2016 is at **Attachment B**).

A market-based approach in itself should facilitate a move towards common arrangements. It would need to take into account APS superannuation in any comparison of total remuneration, and encompass careful examination of agency practice with regard to classification standards and profiles. There is reason to suspect significant 'classification creep' in the APS over the last two decades. This is particularly the case with regard to the SES whose pay has increased significantly even while the numbers have increased significantly (including as a proportion of the APS).

The remuneration of Secretaries and other office holders set by the Remuneration Tribunal also merits reconsideration. This would best be done after a change in the membership of the Tribunal to ensure greater public sector experience and understanding. There is reason to suspect that more recent increases in remuneration, based upon inappropriate market comparisons (primarily with practice amongst major firms in the private sector despite infrequent moves between the two sectors), have been too great. If, as suggested earlier, more security of tenure is provided to secretaries, a case would exist to review the 20% loading introduced in 1994. (More material on executive remuneration in the APS is set out in Podger's 2018 submission to a Senate Inquiry, copy at **Attachment C**).

C. Capability and talent development

The analysis in the report is disappointingly superficial with, inter alia, no data on current skills and qualifications, trends in APS careers, trends in diversity or comparisons with other jurisdictions. (An indication of the sort of information readily available from the APSC is set out at **Attachment D**, an article by Podger with assistance from the APSC published in 2016.)

The McKinsey assessment of workforce skills needed is unclear and unconvincing: will the need for 'basic cognitive skills' really fall by 15%? The trend in Australia and elsewhere to a graduate-based civil service, with increasing expectation of post-graduate study and continuing education and training, seems likely to continue, both for reasons of labour market supply and because of the nature of skills in demand into the future. The interim report is right therefore, not only to draw attention to evidence of capability loss, but also to give emphasis to specific expertise, not just service-wide generalist skills.

Professionalised functions across the service. The suggested 'professions model' drawn from UK experience may help to give greater priority to expertise, at least in terms of reinforcing the importance of professions and continuing education through professional networks. It may be more important, however, for departments and agencies to build or re-instate dedicated policy research

and analysis units, and to pursue a more professional approach to corporate management and workforce planning and development.

The case for an APS Academy is not convincing. It is not clear what its relationship would be with ANZSOG, with relevant professional associations or with universities. A better approach may be for the APSC, whether using ANZSOG or working directly with universities, to explore with relevant departments appropriately designed post-graduate courses (short and long) that would deepen expertise in relevant fields (both professional and functional). The APS has some experience in this regard not only from the establishment of ANZSOG but also from the MPA and MPP programs some agencies negotiated with selected universities (particularly ANU) in the 1990s and early 2000s.

Workforce planning seems still to be in its infancy in some departments, and a more systematic assessment of current and future requirements for skills and knowledge to provide advice and manage programs across the diverse areas of APS responsibilities is essential.

Empowered managers accountable for developing people and teams. The report identifies the relevant issues here, but is light on how to achieve the desired ends. Most of its suggestions have been identified before, including in the 2001 MAC report on performance management. The PGPA Act also offers the opportunity to link performance management more closely to organisational capability.

The impression from the PGPA Act Review is that performance management and corporate planning is often falling short of what the Act requires, and may be weaker than in the early 2000s. It also seems that managers devote less time and effort today to mentoring and coaching their staff. More integrated performance management and personal development systems may well help but structural changes may also be needed, for example to give EL staff greater responsibility including for the development of their staff.

Strategic recruitment, development and mobility. The report does not make clear what 'strategically targeted recruitment based on an APS-wide workforce strategy and informed by the new professions model' would involve, or what problems it would be aimed to address. There may at times be gaps in particular professional skills that warrant APS-wide recruitment responses and/or targeted remuneration arrangements (e.g. skills allowances), but the report seems to be arguing that insufficient mobility from outside the APS, particularly at the SES and EL levels, is a major concern that should be addressed centrally. It would seem more likely that particular agencies will need to develop specific strategies to recruit and develop subject matter experts. Agencies most likely to face such problems are those, like health, education and infrastructure, managing programs that interact most closely with those of the States, and which need to recruit laterally including through secondments and staff interchanges.

There is no supporting evidence that the APS is lacking potential leaders or that more recruitment from outside is required to find them. Lateral recruitment into the APS, is perhaps greater than in most other Western civil services with almost all APS vacancies advertised to allow external as well as internal applicants.

The main focus for APS-wide recruitment should remain for graduates. Competition for the highest quality graduates has increased over recent decades and, while the APS seems to be recruiting graduates with better than average academic records, consideration may need to be given to re-introducing cadetship schemes in particular skilled areas or other measures to recruit and retain the very best graduates. On-the-job and post-recruitment education and training can then be used to build the expertise APS agencies need.

Another priority is the recruitment, and retention, of minority group members. The APS has learned a lot in recent years about how to do this reasonably successfully, at least in terms of recruitment (although retention continues to be more of a problem). It has found that recruitment of non-graduates through traineeships is critical, as is providing appropriate support and programs with sufficient critical mass. Employment of people with a disability, however, remains a major challenge but one that should not be insurmountable.

Delivery, regulation and policy capabilities. While the report rightly identifies the gap in research, evaluation and data analysis capability, it does not offer substantial suggestions for how to address the gap other than to suggest additional resourcing. Part of the required response is structural, re-establishing research and statistics capabilities in departments as some have been doing recently. These might be in the form of semi-independent bureaux as existed in a number of departments in the past, or dedicated 'chief evaluation officers' as are being mandated now in the US, with associated divisions or branches. Such bodies should be encouraged to work in cooperation with external experts and to publish their research and statistics.

Also essential is re-introducing more systematic requirements for evaluations, such as:

- Requiring all new policy proposals in Cabinet submissions to include evaluation evidence that supports the proposal;
- Requiring identification of the processes by which the measure is to be evaluated if agreed upon; and
- Requiring all portfolios to have evaluation plans agreed with Finance that cover all portfolio programs and policies.

Policy advice that integrates economic, security and international perspectives. It is hard to disagree with such a general suggestion, but it is surprising that the report does not refer to the role of Cabinet in demanding cross-portfolio policy advice. The APS certainly needs to respond to such demand but it is not clear that the suggested 'new frameworks and structures' are needed.

The Secretaries Board should take responsibility for this area under the leadership of the PM&C Secretary, but the need for a new Strategy Office in PM&C has not been argued convincingly as policy coordination is one of the Department's existing core responsibilities.

D. Develop stronger internal and external partnerships

It is suggested that the relationship between the APS, Ministers and the Parliament be included within the first priority area as this is not just a 'partnership' but an issue of governance. Nonetheless, comments on the Review's analysis and suggestions about this critical relationship are included here before turning to the other partnerships the APS needs to foster.

Ministers supported through easier access to APS expertise and formal recognition of distinct role of ministerial advisers. The Review's assessment of the current relationship seems ambivalent. On the one hand it notes concerns about the APS's 'misplaced sense of primacy' while on the other it argues for the relationship with Ministers and their offices to be strengthened 'reflecting the APS's important role as a trusted adviser to successive governments'. While it is true, as the ANZSOG paper argues, that governments can utilise a range of external advisers outside as well as inside the APS, the paper is too complacent in claiming that other sources of advice may be equally disinterested and implying that ministers should not feel obliged to turn to the APS for policy advice. It is highly important that the Review Panel set out the benefits that an impartial APS can bring to

the policy process alongside any external advice, and the advantages of Ministers testing outside advice by seeking comments on it from the Public Service. There are several reasons for this:

- The APS is more clearly disinterested, but also is required to have an appreciation of the broad direction and philosophy of the elected government;
- It is able to draw on its experience in administering policies and understanding practical implementation issues; and
- It has the capacity to see policies in one area in the context of the framework of related policies across government.

As noted by the Review, a productive partnership would be facilitated by having some senior public servants working in ministerial offices. These could include, as the Review suggests, APS employees on secondment to MoPS Act positions which has often worked well in the past. The choice of such secondees should be a matter for the Minister, though the Secretary could make suggestions. It would be wise, however, if a time limit were placed on such secondments to avoid the APS employees being identified as partisan either while on secondment or on return to the Service. Some overseas jurisdictions have rules on the time allowed and processes for return.

Whether or not Ministers choose to second public servants to MoPS Act positions, Secretaries should appoint a relatively senior person with considerable potential to be the lead departmental liaison officer (DLO). DLOs remain APS employees and subject to the APS Values and direction by the Secretary, but should be encouraged to work very closely with the Minister's own staff. Having such a relatively senior person as the lead DLO has a number of benefits: demonstrating the quality of people in the department; knowing who in the department to refer the Minister and office to for relevant expertise and information; and having the 'clout' to contact the Secretary directly in the event of serious sensitive issues arising. Such a role would also give the individual invaluable experience for career development.

The usefulness of induction training for Ministers, MPs generally and ministerial advisers is supported in principle. Ministers themselves, however, may not wish to devote time to this on taking up their appointments, preferring to learn on the job. But relevant training could be offered to shadow Cabinet ministers and to prominent government backbenchers, and include more about government administration than might be included in the induction training for new MPs. ANZSOG might be well placed to assist the Parliamentary Service in this regard.

The recommendation to give more formal recognition to the distinct and important role of ministerial advisers is supported. This might be achieved through amendment to the MoPS Act. Consideration could also be given to articulating the values of ministerial advisers, drawing perhaps on the suggestions at Attachment A. Advisers should be held accountable for their actions, recognising the reality today that ministers do not and cannot accept personal responsibility for all their advisers' behaviour. Advisers should appear before parliamentary committees when requested, but with a clear understanding of those matters that should rightly remain confidential.

Seamless services and local solutions, designed and delivered with states, territories and other partners. The Review clearly has much work to do to clarify its preferred direction regarding the architecture of service delivery including through partnerships.

The 'ambition to ensure people can access seamless and personalised services and support irrespective of which agency, portfolio and ultimately government is responsible' requires a practical agenda of incremental measures.

As indicated in the ANZSOG paper, strengthening collaboration with the states and territories requires the APS to strengthen its own subject matter expertise, engage more closely within each portfolio area and provide forums where the states and territories can contribute to national policies. The Review also needs to examine carefully the lessons to be drawn from the long experience, both before and after the Coombs Report in 1976 and at both Commonwealth and state levels, in place-based management including through regional coordination of service delivery.

More generally, significant care needs to be taken in deciding whether services should be delivered by APS employees or by contracted non-government providers (whether for-profit or not-for-profit). The public needs to be confident not only in the efficiency and effectiveness of service delivery but also that delivery is consistent with public sector values including fairness and inclusiveness, and that services are delivered equitably to all Australians.

An open APS, accountable for sharing information and engaging widely. The Review's view that there is room to increase transparency around data, analysis, research and evaluations is supported. There is evidence that APS agencies, other than statutory authorities, have become more risk averse about the release of research etc., quite likely in response to actual or perceived pressure from Ministers and their staff. While the APS must not enter into partisan public debates, there is often considerable public interest in the provision of background information.

The Review's intention to explore the extent to which FOI is helping the APS balance openness with the importance of providing frank and fearless advice is supported. Some claims about the negative impact of FOI seem to be exaggerated. The Review should examine carefully the record including in terms of judicial decisions, and whether the evident risk averse attitude within the APS towards release of information is due more to pressures from Ministers and advisers than to concerns about the FOI Act.

Strategic service-wide approaches to procurement. While there may be room for shared services to support more efficient procurement, there are risks if procurement is not linked firmly to each agency's business requirements. The history of shared services demonstrates how often these risks have proved to be significant.

The Review's plan to examine more carefully the use of consultants and contract labour etc. is welcomed. There are legitimate concerns not only about the possible impact on APS capability but also whether contract labour undermines APS Values. It is important that APS employees appreciate the boundaries between their role and that of contract staff if the risk of fraud and corruption is to be properly managed. The Review is right also to explore how best to ensure the ethical dimension of relations with contracted organisations, including protocols for former public servants. There is concern that the guidelines introduced some decades ago are not being systematically applied and may need to be strengthened.

26 April 2019

ATTACHMENT A

**AN ILLUSTRATION OF POSSIBLE CORE VALUES AND RELATIONSHIPS FOR DIFFERENT PARTS OF THE
COMMONWEALTH PUBLIC SECTOR**

	RELATIONS WITH GOVERNMENT AND PARLIAMENT	RELATIONS WITH PUBLIC	RELATIONS IN WORKPLACE	PERSONAL ETHICS AND LEADERSHIP
PUBLIC SERVICE	<p>Non-partisan</p> <p>Loyal to elected government</p> <p>Accountable through system of ministerial responsibility</p>	<p>Impartial</p> <p>Committed to service (inclusive, responsive, courteous)</p> <p>Efficient, effective, economical</p>	<p>Professional</p> <p>Merit principle</p>	<p>Lawful</p> <p>Highly ethical: recognise responsibilities of exercising public power</p>
PARLIAMENTARY SERVICE	<p>Non-partisan</p> <p>Responsive to needs of MPs</p> <p>Accountable through Speaker and/or President</p>	<p>Impartial</p> <p>Committed to service (inclusive, responsive, courteous)</p> <p>Efficient, effective, economical</p>	<p>Professional</p> <p>Merit principle</p>	<p>Lawful</p> <p>Ethical: recognise responsibilities of advising public representatives</p>
MINISTERS	<p>Individually accountable to Parliament</p> <p>Collectively responsible via Cabinet</p>	<p>Committed to service (inclusive, responsive, courteous)</p> <p>Efficient, effective, economical</p> <p>Concern for national public interest</p>	<p>Collegiality within Cabinet, party (?)</p> <p>Respectful oversight of public service</p>	<p>Lawful</p> <p>Highly ethical: recognise responsibilities of exercising public power</p>
Ministerial advisers	<p>Personal loyalty to MP</p> <p>Accountable to MP who accepts</p>	<p>Efficient, effective, economical</p> <p>Inclusive, responsive, courteous</p>	<p>Professional</p> <p>Respectful relationship with public service</p>	<p>Lawful</p> <p>Ethical: recognise responsibilities of supporting MP's</p>

	responsibility for adviser (?)			representative role
MEMBERS OF PARLIAMENT	Representative of constituency Accountable via elections	Committed to service (inclusive, responsive, courteous) Efficient, effective, economical Concern for constituents, and national public interest	Collegiality within party, Parliament (?)	Lawful Ethical: recognise responsibilities of exercising public power
Personal staff of MPs	Personal loyalty to MP Accountable to MP who accepts responsibility for adviser (?)	Efficient, effective, economical Inclusive, responsive, courteous	Professional (?)	Lawful Ethical (?): recognise responsibilities of supporting MP's representative role
Government Business Enterprises	Board members' accountable to ministers for GBE performance Employees have no relationship to Govt or Parlt	Values set by board, possibly required by ministers Efficient, effective, economical (?) Inclusive, responsive, courteous (?)	Values set by board	Values set by board, possibly required by ministers Lawful Ethical
Military, police	Non-partisan Accountable through system of ministerial responsibility	Efficient, effective, economical Inclusive, responsive, courteous	Merit principle Line of command	Lawful Highly ethical: recognise responsibilities of exercising force Courageous

ATTACHMENT B

**SUBMISSION TO SENATE STANDING COMMITTEE ON EDUCATION AND
EMPLOYMENT REFERENCES: INQUIRY INTO THE IMPACT OF THE
GOVERNMENT'S WORKPLACE BARGAINING POLICY AND ITS APPROACH TO
COMMONWEALTH PUBLIC SECTOR BARGAINING**

**Andrew Podger AO
Honorary Professor of Public Policy
Australian National University**

INTRODUCTION

I am making this submission in my personal capacity. I am not an expert in public sector remuneration but have followed government policies in this area over many years with considerable dismay. When I was Public Service Commissioner (2002-2004) responsibility for APS remuneration was not with the APSC but with the Employment Department. The transfer of this responsibility to the APSC, now clarified in the Public Service Act, was an important initiative that now offers the opportunity for a more coherent approach that focuses on the requirements of the APS.

This submission focuses on the importance of any remuneration policy focusing on the attraction and retention of the skills the public sector requires, and also on promoting efficiency, high performance and continuous learning and development.

It suggests the current policy framework pays insufficient attention to these fundamentals and applies an overly narrow approach to promoting productivity which is not consistent with the way labour markets operate and is likely to exacerbate existing problems of inconsistent remuneration across the APS.

The submission does not address the likely remuneration outcomes of a more coherent policy approach, nor the budgetary implications involved, other than to suggest there is good reason to expect significant restraint in average increases in the public sector at present and in agencies' running cost budgets. There is nonetheless a strong case for further review of the way running cost budgets are set and adjusted each year to take into account reasonable expectations of ongoing productivity improvements.

REMUNERATION POLICY FOCUS

The central objective of remuneration policy should be to attract and retain the skills organisations need. There is little evidence that the current policy has regard to any evidence of the quantity or quality of applicants to join the APS, or to staff turnover. While it seems the APS is still attracting large numbers of applicants for base level graduate positions, it is likely that there are variations in attraction and retention across different skills-in-demand. Nonetheless, the overall state of the Australian labour market suggests the APS is not facing critical difficulties overall in attracting and retaining the skills it needs and, given the slow growth in wages generally, a very modest average pay outcome is to be expected in the current environment.

The approach to maintaining reasonable levels of attraction and retention recommended by the Coombs Royal Commission in 1976, and generally used by both public and private sector employers

over many years, is to set remuneration levels comparable to those in the market place for similar work and skills and experience. As a rule, the public sector does not need to be a pace-setter, but it should choose a position in the market comparison taking account of the period of any pay agreement (ie choosing a slightly higher position in the market profile if the pay outcome is to apply for a lengthy period). Public sector employers should also, like private sector ones, make adjustments taking into account internal relativities that suit them, both vertical and horizontal, bearing in mind any specific attraction or retention issues they face with respect to particular occupation groups.

The public sector may be able to rely in part on 'public service motivation' and the interesting work often involved, as well as perceptions of greater security of tenure. But these factors are easily exaggerated particularly in an environment where the public sector is often competing directly with the private and NGO sectors to deliver public services. (Arguably, however, these factors have been underplayed in recent years for senior executives and agency heads, where market comparisons may have more limited bearing on actual labour market behaviour in the APS, and where internal relativities – and relativities with the remuneration of politicians – may be important considerations.)

Remuneration policy can also be complemented by other management strategies to attract and retain skilled staff. The APS generally does quite well in attracting applications for base grade graduate positions, but it is not clear it is attracting the 'best and the brightest' for future leadership roles. Cadetship schemes, and prestigious training programs for those with particularly strong potential can help in this regard. But these will not be successful if the basic remuneration is not competitive in the market.

The main consideration in the current policy framework seems to be the need to promote productivity improvements, pursued through the requirement for remuneration increases to be fully offset by productivity gains within each agency. This has been a feature of Commonwealth workplace bargaining in the early 1990s. Initially, it may have had some validity, as the idea of enterprise bargaining in the private sector was pursued in place of the previous collective bargaining approach under 'comparative wage justice' in order to facilitate labour market flexibility and to shift capital and labour to more highly productive enterprises and industries. The public sector was also seen to be overly inflexible and not paying sufficient attention to productivity and, as so-called New Public Management's emphasis on competition in the delivery of public services took effect, this approach was seen to have some benefits in the public sector.

The problem is that remuneration is not set solely by productivity within enterprises and that, in contrast with the private sector, public sector agencies' capacity to pay is not set by the market but by the public policy (political) process. Even in the private sector, productivity gains in one set of enterprises, or one industry, eventually flow on to employees elsewhere with similar skills, subject of course to those other enterprises being profitable (eventually, productivity gains in the economy flow on more widely again). In the public sector, treating each agency as a separate enterprise and limiting pay increases to productivity within each one, is doubly inappropriate if pursued other than on an occasional or short-term basis. Thirty years on, the case for this approach has long disappeared.

The consequences for continuing to press this approach have already proven to be very damaging, and are extremely difficult to reverse. Pay for the same work and the same skills and experience now varies very considerably across the APS as the APSC's annual surveys reveal. This has been the case now for a decade, and was identified as a serious concern in the 2008 Moran Report that contributed to the subsequent transfer of overall remuneration policy to the APSC and the expectation of a firmer APS-wide approach. The problem is most acute for agencies affected by Machinery of Government changes bringing together employees from different agencies with different remuneration legacies.

The pay differences do not reflect in any way genuine productivity differences and lead to significant discontent with the risk of poorer organisational performance. Even where the differences are only between agencies, not within them, there can be negative consequences, for example making it harder for poorer agencies to attract and retain the skills they need, exacerbating any poor organisational performance.

Far from promoting productivity, these outcomes run the risk of damaging morale and teamwork, and building resentment. Pay differences are not seen to reflect genuine merit, or genuine differences in skill sets or experience, but favouritism. This is not to suggest pursuing 'fairness' at all costs, but to promote differentiation more firmly based on skills, experience and work value, and performance, that public servants will recognise and accept.

All this suggests the need for a firmer whole-of-APS approach to setting remuneration, reversing 30 years of devolution in this area that has caused many more problems than the benefits promised, of flexibility and improved organisational and program performance, including through improved productivity. This does not mean reversal of other moves to devolve management authority or to use market competition to improve performance and results. But Australia is almost the only country that devolved pay and classification, and the evidence is clear that we went too far on this. In addition to the damaging variations in remuneration for the same work, the system has involved a very high transaction cost across the APS, requiring enormous effort by management in every agency, most of whom lack the specialist knowledge needed to get the best remuneration outcomes.

There is merit, however, in having some degree of flexibility for remuneration for some specific positions, such as specialist jobs requiring skills in high demand and short supply (the selective use of AWAs in the late 1990s and early 2000s had considerable advantages, but these were lost when wider use of individual contracts in the APS was pursued on ideological grounds against the advice of most agency heads at the time).

Unscrambling the egg will continue to be a difficult challenge, particularly in times of austerity and limited average wages growth: those being paid too little will have to wait longer for pay equity, and those being paid too much will have to wait longer for any pay increase while the others slowly catch up.

CONDITIONS

As the policy makes clear, the focus of the bargaining process should be on total remuneration, not just pay: the cost of any conditions need to be included. Australia has focused on total remuneration now since the running costs reforms of the 1980s which facilitated 'contracting out' and 'commercialisation' based upon an even playing field.

But offsetting pay increases by reducing conditions does not usually involve any productivity gain – it is merely trading off one part of remuneration for another. The exception is where the conditions involve more than a direct monetary cost in the remuneration package: this occurs where conditions constrain management prerogatives and limit productivity gains in the organisation. It is not unreasonable for the policy therefore to place some constraints on conditions.

That said, conditions have been on the table now for twenty five years and perhaps there are diminishing returns from further trying to curb them. Moreover, some conditions may provide a safe working environment or lend other support for attracting and retaining skills or enhancing organisational performance. At times the APS has set conditions that have later become the norm for

successful employers in the private sector wanting to get the most from their employees; in some cases the conditions have later been mandated by law.

Reference has been made in this connection to the relatively generous superannuation benefits available to APS employees. Several points need to be made about these:

First, they originated as a means of retaining staff in the context of the then view of the APS as a career for life;

Second, the value and costs have been included in total remuneration figures and agency running costs since the mid 1980s;

Third, reforms to public sector superannuation since that time has steadily shifted the system away from unfunded benefits-promise schemes rewarding most those (generally male) longer-term and senior employees at high cost towards fully-funded defined contributions schemes more attuned to the modern APS workforce at more modest cost;

Finally, while the employer contribution of 15.4% is above the private sector minimum of 9.5%, that minimum is legislated to increase to 12%, and most workers on median earnings and above will need to contribute of the order of 15% in total to achieve reasonable income replacement rates in retirement, even if retiring at age 67 i.e. the public sector figure is nearer the optimum that the private sector might consider moving towards for the sorts of employees that are in the APS today.

BUDGET IMPLICATIONS

Whatever remuneration levels might emerge from a more coherent approach, it is certainly true that agency budgets should be firmly based on reasonable expectations of continuing productivity gains, and not automatically adjusted for pay increases: 'output prices' should generally be expected to fall in real terms. There remain serious problems with the current methods of achieving this, including the continued use of 'efficiency dividends' and assumed productivity offsets for remuneration increases.

This is not to deny the case for occasional across-the-board cuts to running cost budgets in dire fiscal situations, but these should not be presented as 'efficiency' measures but as a requirement for re-prioritising activities and outputs, preferably with the explicit endorsement of ministers who should accept the responsibility. Unfortunately such across-the-board cuts have become the rule rather than the exception and continue to be presented as 'efficiency' or 'productivity' measures.

A more coherent approach would be to adjust running costs each year by the CPI (which includes a productivity element particularly when applied to services) and any workload shift, with the option of additional offsets for particular circumstances such as major capital investments (arguably there is also a case now from the capacity of many agencies to review their classification profiles, reducing numbers at high levels and increasing numbers at very low levels).

This issue was examined by a Senate Committee some years ago but has not been adequately or coherently addressed by this or the previous Labor Government (nor it seems by the relevant central agencies, though this might have been done in confidential advice).

November 2016

ATTACHMENT C

AUSTRALIAN GOVERNMENT EXECUTIVE REMUNERATION

SUBMISSION TO SENATE EDUCATION AND EMPLOYMENT COMMITTEE INQUIRY

Andrew Podger AO

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January 2018

Overview

The Public Governance, Performance and Accountability Amendment (Executive Remuneration) Bill 2017, introduced in the Senate in November 2017, proposes setting a 'remuneration cap' for 'senior executives' by both Commonwealth entities and Commonwealth companies. The remuneration cap would be equivalent to five times Average Weekly Earnings.

This submission opposes such a blunt instrument to constrain the distribution of remuneration paid by Commonwealth entities and companies. Nonetheless, it questions the way remuneration of executives is now set and whether the current approach may lead to the remuneration of some executives exceeding what is required to attract and retain the skills and experience the Australian Government needs.

The Remuneration Tribunal was established to de-politicise the fixing of remuneration for a range of senior executives and to get away from the appearance of politicians and senior officials helping themselves. In fact, political pressures had long unreasonably constrained senior executive remuneration within the Commonwealth public sector. The Tribunal was intended to ensure an independent and expert approach to assessing the remuneration appropriate to the work involved and the skills and experience needed. The report of the Priestley Royal Commission into the Civil Service in the UK in the 1950s provided a long accepted framework for setting remuneration in the public sector, with the primary principle being 'a fair comparison with the current remuneration of outside staff employed on broadly comparable work'. It also advised that account be taken of internal relativities, both horizontal and vertical, where outside comparisons could not readily be made. The Royal Commission's approach aimed to balance the interests of the community in general, those responsible for administering the civil service and individual civil servants.

The underlying objective should be the attraction and retention (and development) of people with the skills and experience required for a high performing public sector. This was a key point in my previous submission to a Senate inquiry into Australian Public Service enterprise bargaining.

Unfortunately, in its more recent determinations, the Remuneration Tribunal has given too much weight in my view to private market comparisons which are not particularly relevant or involve comparable work, and insufficient weight to remuneration in the State public sector which is more clearly relevant and with which the Commonwealth is increasingly linked including through executive movements. Given increasing community unease about the remuneration of some senior executives in the private sector, both in Australia and internationally, linking Commonwealth senior executive remuneration to that of senior executives in the top Australian companies also undermines the very purpose of the Tribunal to de-politicise the process as evidenced by this proposed legislation.

The Tribunal's approach has also led to pay differentiations that are not consistent with the way the public sector operates and how senior executives are allocated to their offices. In part, this is the result of successive governments inappropriately applying private sector practices to the appointment of secretaries.

Remuneration of SES officers in the Australian Public Service is outside the scope of the Remuneration Tribunal, but has rightly been the subject of Tribunal criticism. Much firmer action is required to control the way SES remuneration is set, and to ensure a consistent 'one-APS' approach.

While I have not included any recommendations regarding the remuneration of senior executives in Commonwealth companies, I note the responsibility of boards to ensure independent assessment of remuneration, and the capacity of the shareholder ministers to give some guidance to boards regarding the exercise of their responsibilities. This is consistent with the approach recommended by the Productivity Commission in its 2010 report on Executive Remuneration in Australia.

Recommendations

1. The Committee not support the PGPA Amendment (Executive Remuneration) Bill or its proposed 'remuneration cap' for senior executives in the Commonwealth public sector.
2. The Committee endorse the role of the Remuneration Tribunal to set remuneration for selected senior executive positions independently of the political process.
3. The Committee note the long-standing expert view that remuneration policy be based on a reasonable relationship with the relevant market comparable work, and proper and workable internal relativities; the key objective is the attraction, retention and development of people with the skills and experience needed for a high performing public sector.
4. The Government ask the Remuneration Tribunal to reconsider remuneration for secretaries based primarily on relevant comparisons with State public services, with much less weight given to private sector practice.
5. The Government also ask the Remuneration Tribunal to reconsider the differentiations it now makes between secretaries to ensure any such differentiation takes fully into account the way the Commonwealth administration actually works.
6. The composition of the Remuneration Tribunal include members with significant public sector management experience.
7. Further consideration be given to the processes for appointment and termination of secretaries to place more emphasis on merit and less on political considerations noting that this would reduce the risk of loss of tenure and the compensation required in recognition of that risk.
8. Control of SES remuneration in the Australian Public Service be strengthened, and a consistent whole-of-APS framework be re-established.

Secretaries Remuneration

It is more than 20 years since secretaries remuneration was at around the Bill's proposed cap of five times AWE. In 1994, a 20% loading was provided to secretaries in compensation for the loss of tenure resulting from the introduction of fixed term contracts. Since then, secretaries' total remuneration has generally exceeded six times AWE, with further increases with the introduction of performance bonuses in the late 1990s (later absorbed back into the basic remuneration) and, more significantly, following a major review by the Remuneration Tribunal in late 2010 (see Table 1).

Table 1: Secretaries' Total Remuneration relative to AWE

	Level 1 \$pa	Level 2 (\$pa)	Level 1 (times AWE)	Level 2 (times AWE)
1998	248,130	233,968	6.6	6.2
1999	276,000	258,000	7.1	6.6
2000	305,000	285,000	7.5	7.0
2010	503,220	470,790	7.7	7.2
2011	612,500-620,000	570,000-575,000	9.0-9.1	8.4-8.5
2014	698,880-802,820	649,280-691,200	9.2-10.6	8.6-9.1
2017	745,770-878,940	692,500-745,770	9.3-10.9	8.6-9.3

While both sides of politics continue to support fixed term appointments of secretaries determined by the Prime Minister (albeit after a report from the Secretary of the Department of Prime Minister and Cabinet in consultation with the Australian Public Service Commissioner), there is in fact a strong case for a less political process. The New Zealand practice is for appointments by the State Services Commissioner after consultation with the Prime Minister. Fixed term appointments are still used but terminations, like appointments, are the responsibility of the Commissioner, largely removing political factors from the assessments and providing greater security of tenure (subject still to performance as assessed by the Commissioner). Such an arrangement might well allow some curtailment of the 20% loading that has applied to secretaries' remuneration since 1994.

Alternatively, the fixed terms could be removed or a presumption of re-appointment at the end of a term introduced (similar to the sensible presumption of five years - rather than the more common three years under the Howard Government - that came in from 2008 and since set in legislation). All these options would give more emphasis to merit, reduce the risk of political chicanery, and provide greater security of tenure allowing the 20% loading to be reduced (but perhaps not entirely removed, given the remaining added employment risk over that faced by other APS employees).

As revealed in Table 1, the greatest increases have taken place since the major review by the Remuneration Tribunal in 2010. That review recommended the phasing in of new remuneration arrangements between 2011 and 2014, sharply increasing pay and differentiating much more firmly between different secretary positions. Special Level 1 rates were introduced for the Secretary of PM&C and the Treasury Secretary, and a number of secretaries were added to the Level 1 group. Differentiation within Levels 1 and 2 was also introduced based on assessments of work value.

The review drew heavily on a report commissioned from Egan and Associates (the Egan Report), that highlighted the much faster increase in private sector executive remuneration over the previous decade (around 360% in the top 20 firms) than experienced by secretaries (which at around 100% had broadly been in line with AWE as confirmed by Table 1 above). The Tribunal in its own report drew attention to its 'consistent view' that 'while movements in senior executive remuneration in the private sector are relevant, they are not the key determinants of the remuneration of public offices'. But it is hard not to see its recommendations as other than being strongly influenced by the Egan Report's comparisons with the private sector and its recommendation to peg secretaries remuneration at the second level in Australia's top companies. Yet the Egan Report notes that only three appointments to secretary offices in the previous fifteen years came from outside the government sector. While the Tribunal may be right that 'it would be to the disadvantage of

government were the remuneration of senior offices to lose touch with developments in remuneration more generally', this might have been more properly achieved by a much more focussed market comparison, concentrating on public sector and related executive remuneration.

Such a market comparison would include in particular State and Territory public sector remuneration given not only the similarity of much of the work but also the increasing mobility of senior executives across these public sectors. This market comparison may indirectly encompass influence from private sector practice to the extent that State and Territory practice takes into account more frequent movement of executives between public enterprises (where comparisons with the private sector may well be relevant) and the public service.

The Egan Report, and the Tribunal's own report, do canvass other more relevant comparators, including the remuneration of other Commonwealth entities within the portfolios managed by secretaries, and the remuneration of SES officers in the APS (secretaries' direct reports). In both cases, however, there are reasons for much caution given the weaknesses in the way those comparators' remuneration levels are set. The decision nearly thirty years ago to set the Reserve Bank Governor's remuneration more closely to that of private bank's CEOs disregarded the fact that no Governor had been appointed from outside the Bank itself or the Treasury; that remains the case. While subsequently some Treasury Secretaries and Governors have moved on to become bank CEOs, there is little evidence that this has affected attraction or retention of suitable people as Governors (though it is now impossible to determine the counterfactual had the Governor's remuneration not been so greatly increased). Understandably, however, remuneration of the Treasury Secretary must take into account the Governor's remuneration given the mobility between the two organisations and their close working relationship.

The Egan Report draws attention to some narrowing of the gap between SES Band 3 remuneration and Secretaries' remuneration. As shown further below, however, proper control of SES remuneration has been absent now for twenty years and SES Band 3 remuneration varies within the APS by more than 20%. The average, however, has not grown much faster than AWE. Moreover, the gap between the average Band 3 remuneration and the lowest of the Level 2 secretary remuneration is now over 60%, a gap that may apply at times in the private sector but is probably far greater than ever applied in the public sector.

More generally, remuneration of senior executives needs to take into account internal relativities and cultures as well as relevant market comparisons. Notwithstanding the Tribunal's effort to gain useful perspectives on the role of departmental secretaries from a former Secretary of the Department of Defence (Ric Smith), and factual background from the then Public Service Commissioner and Department of Finance, it does not seem to have given sufficient weight to the way the public service operates. It refers to the 'prestige' of high public service, but not to the much broader and widely researched notion of 'public service motivation' and a culture that inevitably emphasises service, public goods and equity. These all may moderate the need for remuneration to follow private sector practice, albeit that it is essential to attract and retain the best and the brightest.

More specifically, the attempt to distinguish work value amongst different secretary offices takes insufficient account of how those offices are structured and how appointments are made. Administrative Arrangements Orders are made by the Prime Minister frequently, at least once every term of government office, reflecting the Government's prevailing policy priorities and other political factors. Secretary positions are rarely filled in isolation, but mostly in some reshuffle, often linked to a new AAO and changes in ministerial appointments. Trying to apply through some

independent, expert assessment the 'value' of each position that emerges from these processes is essentially an artifice as most positions are effectively equal and the people involved regularly move from one to another. In any case, 'work value' in this context is a very difficult concept, and certainly not dependent on the departmental budget or staffing level. As Smith emphasises, policy advising responsibility can be very substantial. A highly competent secretary may also succeed in making an apparently lesser office more effective and influential across government and a less competent secretary may cause an apparently greater office to be less effective and influential.

Perhaps this issue is best illustrated by my own career experience:

- I was first appointed as secretary to the then Department of Arts and Administrative Services in late 1993;
- Within two months, the Arts component of the portfolio moved to the Department of Communications (becoming the Department of Communications and the Arts);
- Early in 1994 I was transferred to the new Department of Housing and Regional Development, whose responsibilities had previously been within the Department of Health and Community Services: my new department had a fraction of the responsibilities of the previous department, but was held to be of such importance politically that the Deputy Prime Minister was my portfolio minister;
- In 1996, following the election of the Howard Government, the Department of Housing and Regional Development was abolished with its responsibilities scattered amongst no fewer than five other portfolios. I was appointed secretary of the new Department of Health and Family Services;
- In 1998, following an election, my department lost responsibility for children's services and services for people with a disability (including the Commonwealth Rehabilitation Service), and was renamed the Department of Health and Aged Care;
- In 2000, the department was renamed again, this time the Department of Health and Ageing, with the same program responsibilities but additional policy responsibilities including the impact of Australia's ageing population;
- In 2001 after another election, Prime Minister Howard issued substantial new Administrative Arrangements Orders with associated changes in appointments of many secretaries and equivalent positions. I was appointed Public Service Commissioner, taking that office in January 2002.

Over my twelve years as a secretary or equivalent, I had seven different sets of responsibilities, with each new set associated with some wider AAO change. That experience was by no means unique: indeed, it remains illustrative of common practice today.

It would have been totally impractical for the Tribunal to reassess the 'work value' of my responsibilities with each of these moves, and that of all the other changes taking place at each of these points. And it is hard to believe that any such assessment could have properly reflected the responsibilities as seen by the government-of-the-day.

Moreover, the Tribunal's approach of setting so many different levels of remuneration can only present a further challenge for the Prime Minister and his advisers (the Secretary of PM&C and the APS Commissioner) when making the relevant secretary appointments. The Tribunal's approach, rather than responding to the decisions of government and ensuring remuneration reflects secretary responsibilities, imposes an additional consideration: should this secretary be 'promoted' or should that one be 'demoted', when what they are simply trying to do is to appoint people (including by transfer) to the most appropriate positions. A recent column by experienced public service observer,

Verona Burgess, highlights the point in its reporting of a new ‘pecking order’ (*The Mandarin*, 19 December 2017). I should be very surprised if the Secretary of PM&C endorsed her ‘pecking order’ even though it is based directly on the Tribunal’s remuneration determinations.

Looking at the way the Commonwealth Government actually operates, far fewer distinctions than now made by the Tribunal can be made with any reliability. The added whole-of-government responsibilities of the Secretary of PM&C and the Treasury Secretary may be clearly evident and, in terms of long-term practice, it is rare that the Defence Secretary is not someone with prior secretary experience, signifying a seniority over most other secretaries. It is hard to be firm about differences in work value of other portfolio secretaries – all serve a Cabinet Minister (or two) and have portfolio-wide responsibilities as well as departmental responsibilities. There are dangers in emphasising those at the centre (such as Finance) over those implementing major programs, as demonstrated by the management reforms in the 1980s which removed the pay difference for SES in central and line agencies. In any case, mobility across departments can be important, and is in fact highly common practice amongst secretaries. There may be a case for a secretary who is not a portfolio secretary to receive lower remuneration (e.g. Secretary of the Department of Veterans Affairs), though even that distinction may not always be sufficient a difference to justify a difference in remuneration (e.g. Secretary of Human Services who now has direct management responsibility for Centrelink and Medicare Australia, each previously headed by a secretary-level officer). The Tribunal might take into account the Priestley Royal Commission’s view that no attempt should be made to mark minor differences in the content of work.

The Tribunal’s limited understanding of the public sector suggests the need for change in its membership. For many years now members have had an almost exclusively private sector background. Surely some public sector experience and expertise is required.

Senior Executive Service

Controls over the SES in the APS were phased out in the late 1990s, firstly by allowing agency heads to create positions and to make appointments (the latter subject to ‘certification’ by the Public Service Commissioner) and then by allowing agency heads to set pay and conditions (through Australian Workplace Agreements until these were abolished in 2008, and subject only to broad remuneration policies managed by the Department of Employment until the APSC took over responsibility in 2008).

In the 1980s and early 1990s there were tight controls over both numbers and pay, as well as over appointments. Indeed, for some time the Department of Finance used ‘SES budgets’ that required agencies to reduce SES numbers if they wished to increase SES pay to the levels then applying in central agencies. Since 2000, however, both numbers and pay have increased, and variations in remuneration have become wide.

Table 2: SES Numbers

	2000	2017
SES Band 1	1147	1982
SES Band 2	350	560
SES Band 3	103	124
Total	1600	2666
Total as % of APS	1.3%	1.8%

Table 3: SES Total Remuneration

	2000	2000	2016	2016	2016	2016
	(\$)	(times AWE)	P5(\$)	P95(\$)	Average (\$)	Average (times AWE)
Band 1	135,962	3.3	212,898	275,113	243,395	3.1
Band 2	166,043	4.1	274,072	353,399	311,803	4.0
Band 3	205,559	5.0	346,003	475,575	419,229	5.3

The increase in numbers shown in Table 2 arguably understate the longer-term shift in the upper levels of the APS structure over decades. The number of Band 3 equivalent staff in 1974 was 20, when the APS (then including the PMG) had 267,000 employees.

The Remuneration Tribunal has rightly been critical of the way SES remuneration has been set in the APS over the last two decades. While the APSC has been trying to impose more consistent discipline over classification standards and the setting of SES pay, it is evident that more action is still needed to regain proper control. While the average total remuneration levels have stayed reasonably steady relative to AWE, the numbers of SES have grown suggesting the average level of responsibility, or work value, has probably decreased, a point made implicitly in Ric Smith's contribution to the Remuneration Tribunal's review of secretaries remuneration.

The pressure on secretaries' remuneration referred to by the Tribunal is only clear if considering the pay levels above the average (some of which, of course, exceed those shown above for the 95th percentile), and/or by ignoring the implicit reduction in SES work value.

The pay variations run directly counter to the demands of various APS reviews for increased mobility in the APS (e.g. the 2010 Moran Report) and a stronger 'one-APS focus. Indeed, there is every reason to suspect that some of the variations are the result of agencies trying to coerce their SES to stay rather than move.

Principal Executive Officers

The proposed legislation includes some exemptions from the remuneration cap, including judges and the Governor General. The rationale for this is not clear. Leaving aside the unique position of the Governor General, the basic principle applying to all senior executive positions including principal executive offices should be the same – to use a fair comparison with others doing comparable work – with the objective of ensuring attraction and retention of the best people to the offices concerned. Central to meeting this principle is to offer remuneration consistent with the relevant market practice. In a number of areas, that market is a highly specialist one so that the remuneration required may vary significantly from that of offices with arguably equal or greater management or policy responsibilities. That may well be the case in the legal profession, and has been the case at times in other fields such as accounting and actuarial skills.

Comparisons with the private sector is also entirely appropriate in the case for the heads of the ACCC, ASIC and APRA, who are frequently appointed from the private sector.

Notwithstanding the portfolio responsibilities of most secretaries, however, it is not necessarily the case that they receive higher remuneration than any of the principal executive offices in their portfolio. That might be arguable if there was evidence of movements between the principal executive offices and the secretary positions, but that is not the case with the heads of the ACCC, ASIC or APRA.

Senior Executives of Commonwealth Companies

Since the Walsh reforms in the 1980s, Commonwealth Government Business Enterprises (GBEs, or companies) have had governance arrangements based on corporations law. Boards have been given considerable authority to oversee management of the GBEs including the setting of executive remuneration, subject to accountability for the GBEs' performance and the strategic direction agreed by the shareholder ministers. The commercial nature of the businesses requires boards to have regard for the relevant private market practice in setting the remuneration of senior executives, to ensure they can attract and retain the skills and experience required.

It is true, however, that some private practice has not only been out of keeping with public expectations but has also been the result of insufficiently careful assessments by the boards concerned including because of conflicts of interest and insufficient consideration of shareholder interests. This was the subject of a Productivity Commission inquiry in 2010. The Commission found that much of the relative increase in private sector executive remuneration was the result of legitimate market pressures including from globalisation, but that there were also other contributors including inadequate governance. The Commission recommended closer scrutiny by boards including through more independent assessments, more careful design of performance rewards and termination payments, and greater capacity for shareholders to have a say.

The public, as the real shareholders of Commonwealth companies, should also have some say over the remuneration of executives in Commonwealth companies, but not via such a crude instrument as a remuneration cap. That would only put at risk the shareholder value of the companies. More consistent with the Productivity Commission recommendations is to require boards to pursue careful and independent assessment through an appropriately formed remuneration committee using qualified expert advice, and to be guided by the shareholder ministers in some broad fashion (e.g that remuneration of executives not be pace-making and not be amongst the highest in the relevant private sector comparisons).

ATTACHMENT D

Enduring Challenges and New Developments in Public Human Resource Management: Australia as an Example of International Experience

Andrew Podger²

Abstract

Australia has its own unique institutional arrangements within which its civil services operate, yet its experience in public sector human resource management over the last forty years or so has much in common with that of many other Western democracies, including the U.S.

It faces enduring challenges such as the relationship between politics and administration while its approach to public management has evolved from traditional Weberian administration through new public management to a much more complex, open and networked system. While the role of government in society has not radically changed, the way in which that role has been exercised has changed significantly.

Government employees represent a smaller proportion of the workforce, what they do and their skills have changed dramatically, internal arrangements to foster ethics and to manage staff are different today, new approaches have been adopted to compensate and motivate employees, the diversity of employees has widened and the place of HRM in agencies' strategic management processes has ebbed and waned. In each of these areas, HR managers in Australia today face difficult questions about future directions. Most of these will be familiar to HR managers in other countries.

Key words

New Public Management, New Public Governance, workforce trends, public service values, devolution, diversity, strategic HRM

SECTION ONE: BACKGROUND, ENDURING CHALLENGES AND CHANGING CONTEXTS

Some Australian Background

The Commonwealth of Australia was established on 1 January 1901 by British law. The Constitution was developed over the previous twenty years through a series of conventions, and drew consciously from both the U.K. and the U.S., as well as Canada. It incorporates a broadly U.K.-style parliamentary system. Australia also adopted from the beginning the U.K. approach to separating politics from administration, with a merit-based civil service based on the 1854 Northcote-Trevelyan Report (Northcote and Trevelyan 1854). The Constitution provides for a federal structure with many similarities to U.S. arrangements, including an elected Senate based on state representatives. The powers of the national government are specified in the Constitution, the intention being to constrain its role; the six states have sovereignty in all other areas (there are now also two territories with broadly similar responsibilities).

In practice, over the next 100 years the role of government has widened and the power of the national government in Australia has increased very substantially. Nonetheless, over 75 per cent of

²The article was published in *Review of Public Personnel Administration*, a US-based journal, in March 2017, including references (not included here).

public sector employees are employed by state and territory governments which continue to manage most service delivery - schools, hospitals, public transport, and police. Local government plays a limited role in Australia, with about 10 per cent of all public sector employees, these being mostly involved in property services (local planning, roads, storm water, garbage collection etc.) and some community services (such as local libraries). The national government has about 15 per cent of public sector employees, but it also collects the vast majority (about 80 per cent) of government revenue and uses this to play a significant role in most sectors including health, education and welfare as well as in traditional areas of federal responsibilities such as the national economy, defence, trade and social security.

Enduring Challenges

While contexts change over the years, two of the enduring challenges in public administration in Australia, as elsewhere (e.g. Wilson 1886, Thompson 1988), are the relationship between politics and administration, and the balance between the respective roles of government, the market and civil society. Old debates on these get refreshed and reframed as new technologies and new ways of doing business are introduced. Concepts of merit, non-partisanship, impartiality, professionalism and anonymity in the public service are inevitably re-calibrated in the light of modern communications and the corresponding professionalization of politics, and the continuing obligations of the civil service to be responsive to the elected government and to be publicly accountable. Similarly, the classic concepts of the role of government in liberal market economies, such as allocation, (re)distribution and stability (Musgrave and Musgrave 1980), involving the delivery of public goods and addressing market failures as well as protecting the poor and dampening the impact of economic cycles on unemployment and inflation, all require rethinking with technological change, and social developments including globalisation and demographic change.

There are also enduring challenges in public sector HR management. Stephen Condrey's *Handbook of Human Resource Management in Government* (Condrey 2010) provides a comprehensive guide to public sector HRM in the United States. Five of the challenges he identifies are explored further below in the Australian context: the identification of the size and skills required in the public sector; the values, ethics and leadership needed to foster the workforce culture required; compensation and motivation arrangements that not only attract and retain the skilled people needed but encourage high level individual and organisational performance; the desired representativeness and diversity of the public sector workforce; and the place of HRM in top level public sector management. Each of these also requires continuing review as the context changes.

The Changing P.A. Context over the Last 40 Years

The broad approach to public administration is continually evolving as circumstances change. It is now possible to discern paradigm shifts over the last forty years, though it is not so easy to identify more recent patterns.

In Australia, the 1976 Royal Commission into Australian Government Administration (RCAGA 1976, also known as the Coombs Report) marks the beginning of a significant paradigm shift away from what might be termed 'traditional administration'. That approach relied heavily on detailed rules and processes, and involved firm hierarchies and central controls; public service was a lifetime career and the public sector was dominated by Anglo-Saxon men; and the public service had almost a monopoly in advising government and delivering government programs. It was a Weberian bureaucratic model.

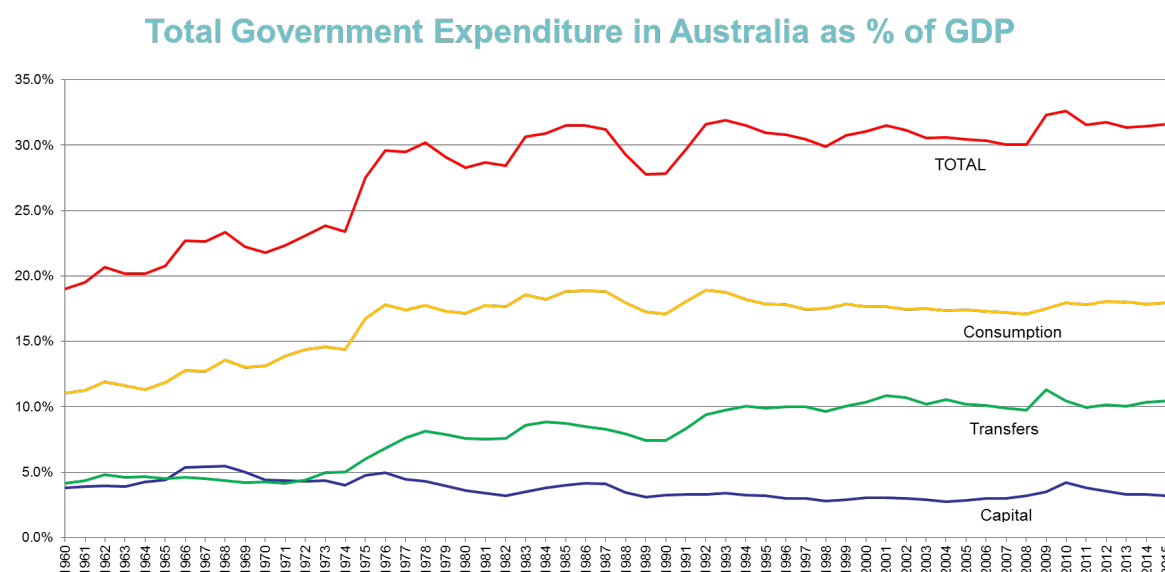
The Coombs Report questioned the appropriateness of this approach in the 1970s and proposed three key directions for reform: more responsiveness to the elected government, a stronger focus on efficiency and performance, and a better reflection of Australian society within the public service. The traditional public service was seen to be too reliant on its own expertise and experience and not sufficiently responsive to changes in society as reflected in the shifting policy views of society's elected representatives; the focus on rules and hierarchies was not conducive to efficient management and the achievement of program objectives; and the service itself was too isolated from society, offering limited opportunities for women, Indigenous Australians, people from non-English speaking backgrounds and people with a disability.

The Coombs Report was not suddenly adopted, but it did mark a shift already underway that accelerated over the following decade and more. The new paradigm of the 1980s and 1990s became known as New Public Management and its Australian version bears many similarities to, but also some important differences from, the reforms in other Anglo-American countries over this period. In Australia, NPM was often termed 'managerialism' (Nethercote 1989) or, less pejoratively, 'management for results' (Keating 1989). The key attributes were:

- devolution of management authority;
- stronger accountability for results;
- firmer direction by the elected government which set the policy and program objectives and the results to be achieved;
- wider use of private sector management approaches such as corporate planning, performance management and accrual accounting; and
- a gradual increase in the role of markets via outsourcing, commercialisation and privatisation.

NPM in Australia originally had little if any ideological content though it did reflect an emphasis on efficiency and the use of economic ideas and levers. It was strongly promoted from within the public service and it had bipartisan support, each side of politics seeing the developments as ways to better achieve their (often different) policy objectives (or 'results'). The overall size of government in Australia, as measured by government expenditure as a share of GDP, did not shrink over these decades (Figure 1) but the way government did its business shifted very significantly, from 'providing' to 'purchasing' and by new and very different forms of regulation.

Figure 1: Total Government Expenditure in Australia as % of GDP, 1980-2015



Source: ABS 2016

Notwithstanding evidence of significant improvements in efficiency and effectiveness resulting from NPM (Productivity Commission 2005), by the early 2000s serious limitations of the approach became evident. Despite the ostensible emphasis on devolution, NPM remained hierarchical, being dependent upon principal-agent arrangements and strict definitions of objectives and targets. Its focus on each agency and each program also constrained cooperation and joint effort, which was essential for many complex public policy issues ('wicked' problems). Despite improved 'customer focus', accountability remained primarily 'upwards' to management, ministers and the parliament rather than 'downwards' and 'outwards' to the community.

The subsequent adjustments are often now termed 'New Public Governance' (NPG) (Edwards 2002). They have not involved any wholesale rejection of NPM, but more a range of modifications – some softening NPM's hard edges, others extending NPM's shift away from public sector monopolies. The key attributes of NPG in Australia are:

- wider use of networks across and beyond government;
- partnerships involving collaboration and not just competition and strict purchaser/provider;
- horizontal rather than vertical management (the Australian term is 'whole-of-government');
- downwards and outwards accountability as well as upwards accountability; and
- increased interest in addressing complex problems such as social exclusion, environmental concerns, Indigenous well-being.

These have led both to some winding back of devolution in order to achieve more coordination and 'connected government' (MAC 2004), and to further increases in the use of non-government organisations to deliver public services particularly the use of NGOs for disability, employment and health-related services through partnership agreements.

While both NPM and NPG approaches remain extant, there are some signs of possible new developments. Australia is yet to see any significant reverse to what some Europeans (e.g. Pollitt and Bouckart 2011) call 'neo-Weberian' governance based on re-building the role and capability of the public sector. Nor is there yet any widespread appreciation of the limits to and dangers of the earlier

reforms, including to the career public service itself, which Kearney and Hays so well identified in the late 1990s (Kearney and Hays 1998). But there is new interest in Australia in the capability of the public service and of stewardship by its leaders. Public service and financial management legislation has been substantially re-written in the last five years (PoA 2013a and 2013b). In part this is in response to evidence of capability loss over the last 20 years (APSC 2011) in such areas as strategic policy advising and HRM professionalism, and of reduced application of some of the better management techniques developed under NPM such as corporate planning and program evaluation. But there is also renewed interest in investing in technology and skills to improve program delivery and efficiency.

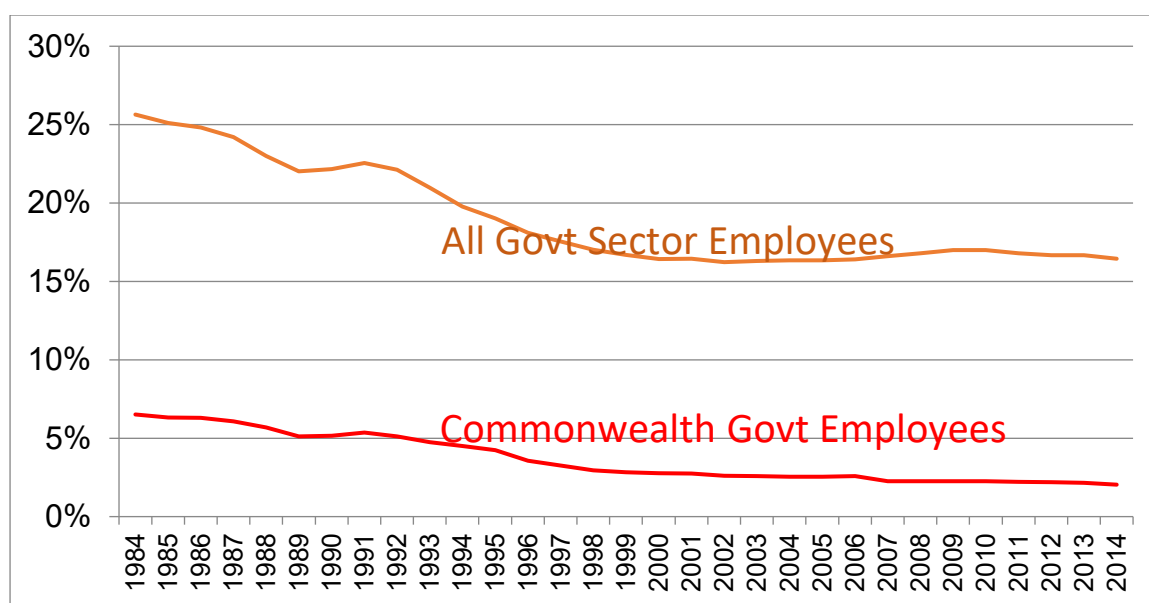
Another possible emerging development is in 'experimentalism' (Sabel and Simon 2011), involving more systematic approaches to the use of devolution and experimentation to identify and disseminate effective ways to address complex issues and to inform the decision-makers, including the legislature, so that policy can be suitably refined. This has yet to take hold, but there are signs of interest in such areas as disability services and Indigenous employment and welfare.

SECTION TWO: HRM IMPLICATIONS AND DEVELOPMENTS

A Workforce Implications and Developments

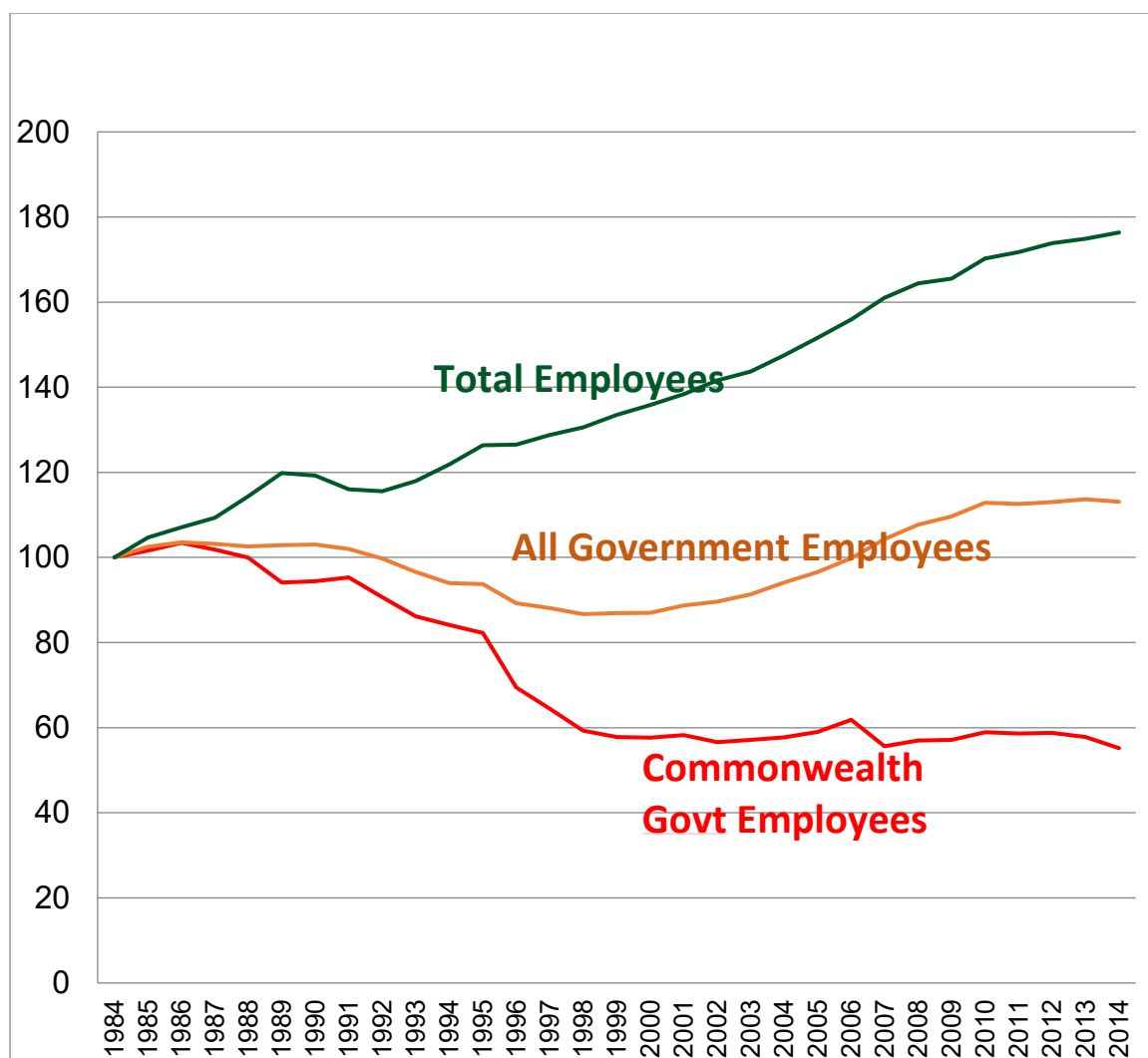
While Figure 1 shows government spending as a proportion of GDP is largely unchanged, the numbers of public sector workers as a proportion of the workforce has dropped significantly over the last 40 years (see Figures 2 and 3).

Figure 2: Public Sector Employment as % of Total Australian Employment



Source: ABS 2015

Figure 3: Index of Employment Growth in Australia - Public Sector and Total Employees



Source: ABS 2015

Much more starkly, the skills and qualifications of public sector workers have changed enormously. Table 1 sets out the classification profile of the Australian Public Service (the national government civil service), using the classification categories now in place (starting at APS1 and moving up to APS6 followed by middle managers (Executive Levels) and the Senior Executive Service).

Table 1: Australian Public Service Classification Profile 1980-2015

Classification level	1980 (approx.)	1994	2001	2015
APS 1-2 (or below)	68%	28%	12%	6%
APS 3-4	13%	30%	39%	34%
APS 5-6	10%	26%	29%	34%
Executive levels	8%	15%	18%	25%
Senior executives	1%	1%	1.4%	1.6%

Source: APSC 2015

In 1980, more than two thirds of all the APS were in the lowest classification levels that now apply – there were then many more classification categories at and below these levels such as for typists, data entry staff, administrative assistants and technical officers; these now make up only 6 per cent of the APS. The APS is now much more ‘multi-skilled’, technology having replaced a wide range of technically qualified support staff. The pattern is very similar in the other Australian jurisdictions. The shift reflects the enormous impact of technology on the workforce generally, the move towards a graduate-based public sector and, to a lesser degree, the shift under NPM and NPG to outsourcing, commercialisation and partnering.

There has also been a significant increase in public sector workforce mobility, with increased lateral recruitment into middle and senior management jobs and greater use of temporary (‘non-ongoing’) and part-time staff. The majority of senior executives, however, are still career public servants, and the level of turnover at lower classification levels has not increased all that much (it has always been quite substantial).

In reviewing these developments, a number of important questions come to mind for today’s HRM professionals and PA analysts and advisers:

- A (1) Should and will the preference for the private sector (including NGOs) to deliver public services continue?
 - Is competition delivering the claimed efficiencies and meeting desired outcomes or has the point of diminishing returns been passed?
 - What must the public sector do to regain public confidence in the quality and efficiency of the services it provides?
 - How should the public sector partner with the private sector to get the best results?
- A (2) Has the public service become too responsive to elected officials and their political appointees, and lost capacity and influence in strategic policy advising?
- A (3) Has multi-skilling and our emphasis on graduates gone too far?

- Have new obstacles been placed in the way of some groups' ability to gain public sector jobs?

A (4) Has there been too much 'classification creep'?

- Did the reduction in lower level jobs really justify the increase at the top end?
- Would efficiency be improved if senior staff had more junior staff to perform routine tasks?

A (5) Where will new technology next impact the skills profile required?

- Will employees at middle levels, including professionals, be affected by the next wave of ITC developments?
- What new skills are needed to take advantage of this technology?

B Ethics and Leadership

The PA shift under NPM, and continuing under NPG, from an emphasis on rules and processes to an emphasis on results, was accompanied by a parallel change of approach towards promoting ethical behaviour and towards leadership in the public sector.

The focus on 'ends' never meant ignoring 'means'. But it took some time before a satisfactory way of promoting ethical behaviour in the absence of detailed rules and processes was defined and articulated. This involved identifying core principles, or the 'values' that should shape public service behaviour. The reduced emphasis on rules and processes also demanded changes in management behaviour, from strict hierarchical command and obey to 'leadership' where authority is exercised by personal example and shared power, and by influence rather than control.

These ideas, promoted internationally for the private sector as well as the public sector, were explored in some depth in Australia in the 1990s and reviewed further in the 2000s. Four key principles were included in new financial management legislation in 1997 (efficient, effective, economical and ethical) and 15 APS Values were enshrined in the new Public Service Act 1999 (PoA 1997; PoA 1999). The latter represented a compromise between the political parties and were widely acknowledged as somewhat cumbersome, but the APS Commission addressed this weakness by placing the values into four groups: relationship with government and the parliament (e.g. non-partisanship, responsiveness, accountability), relationship with the public (e.g. impartiality), workplace relationship (e.g. merit) and personal behaviour (e.g. highest ethical behaviour). This not only helped to explain the public service values but also emphasised their role in shaping relationships and behaviours through 'values-based management', and highlighted the unique public service approach in each area.

More recently, the legislation has been amended to simplify the values and make them more widely known and readily understood. Those relating to workplace relations, including merit, are now in separate 'Employment Principles'. The core APS Values are publicised by the mnemonic 'I CARE' (Table 2).

Table 2: APS Values in the Public Service Amendment Act 2013

Impartial

- The APS is apolitical and provides the Government with advice that is frank, honest, timely and based on the best available evidence

Committed to service

- The APS is professional, objective, innovative and efficient, and works cooperatively to achieve the best results for the Australian community and the Government

Accountable

- The APS is open and accountable to the Australian community under the law and within the framework of Ministerial responsibility

Respectful

- The APS respects all people, including their rights and their heritage

Ethical

- The APS demonstrates leadership, is trustworthy, and acts with integrity, in all that it does

Source: PoA 2013

While the legislation and directions under it spell out what each of these values entails, it is disappointing that the grouping previously developed has been lost as that had highlighted the unique roles and responsibilities of the civil service and included its historic emphasis on merit (which is now no longer a 'value' but included amongst separate 'employment principles').

Leadership has also been defined for the Australian public service through the development of the capabilities required. These have been used since the early 2000s as selection criteria for the SES and for development purposes. What is particularly significant is the verb are used to describe each of the capabilities (Table 3).

Table 3: Senior Executive Leadership Capability Framework

<i>Shaping</i> strategic thinking <i>Cultivating</i> productive working relationships <i>Communicating</i> with influence <i>Exemplifying</i> personal drive and integrity <i>Achieving</i> results

Source: APSC 2000

While no longer used systematically for selection purposes, this framework and the associated documentation is still widely used for career development purposes.

The articulation and promotion of values and leadership capabilities has raised a number of practical questions that are still being debated in Australia:

- C (1) How to address the problem of rhetoric disguising reality?
- What is the best way to embed the values into public service culture?

- How should leadership capabilities be married with hard-nosed management and technical skills?
- How should ethical competence be taught?
- C (2) How far can third parties (contractors etc.) be expected to reflect public sector values?
 - Are third parties used precisely because they are not subject to the processes that underpin public sector values?
 - What are the implications for contracts and agreements of the different values that are central to for-profit and not-for-profit private organisations?

C Compensation, classification and motivation

The demand for more management flexibility to achieve results more efficiently led to a series of changes in the way pay and conditions of government employees were funded and set in Australia.

Initially, steps were taken in the 1980s to aggregate appropriations for administrative expenses, allowing agency managers to shift resources between different administrative items, including between employee salaries and expenses such as travel and training and development. Then centrally funded and delivered services such as property, cars and publishing were subject to user charges, the funding being redirected through agencies which could then review the level and mix of resources they needed. They subsequently also demanded power to choose providers, which in time often led to commercialisation and privatisation (APSC 2003b).

In a broadly similar way, while superannuation continued to be based on defined benefit, pay-as-you-go arrangements, the assessed premiums were charged to agencies so that they were responsible for their employees' total remuneration. This also allowed agencies to assess directly the relative costs of in-house provision of services and contracting out. The high premiums for the defined benefit schemes led to increased pressure to reform public sector superannuation over the following twenty years, shifting it progressively to defined contribution schemes (there was already some pressure to move in this direction as the defined benefit schemes constrained mobility between the public service and other sectors and tended to penalise women).

In the late 1980s, first steps were taken towards devolution of pay and conditions in an attempt to drive greater productivity and performance. The steps were also consistent with the Labor Government's broader industrial relations reforms to replace collective bargaining with enterprise-based bargaining which required more careful consideration of productivity. Public service pay increases became subject to agency-level negotiations within tightly capped administrative budgets. Agencies could choose to trade off certain conditions for pay increases, and agencies were encouraged to experiment with private sector ideas such as performance pay, particularly for more senior staff. Devolution of pay and classification was extended very substantially in the late 1990s under the then Conservative Government, with the new Public Service Act confirming that agency heads had all the powers of an employer, including over pay and classification, subject only to budgets, centrally-determined classification principles and Government pay policy. There were some examples of genuine productivity-improving innovations, such as Centrelink's 'virtual vocational training college' and its formal approach to career management, but most agencies negotiated narrowly-defined productivity offsets with limited if any long-term advantages.

While most agencies retained the classification structure developed in the 1980s, some varied the structure, many applied new approaches to career progression within the structure (often effectively combining levels) and most ended up with their own unique pay levels and sets of conditions. In general, emphasis has been given to pay over conditions, and conditions have been reduced.

By 2010, a new Labor Government had accepted that such variations were not justified on efficiency grounds, they inhibited mobility and they made very difficult restructuring across agencies (Advisory Group on Reform of Australian Government Administration 2010). But unscrambling the egg has proven to be very hard; significant differences remain eight years after that Government came into office (Table 4).

Table 4: Base salary variations in the Australian Public Service 2015

Classification	Salary at P5 \$A	Median Salary \$A	Salary at P95 \$A	P5-P95 range % of median
Graduate	53,652	60,158	69,456	26.3
APS1	39,144	47,736	49,697	22.1
APS2	48,525	54,588	56,435	14.5
APS3	55,511	61,512	62,560	11.5
APS4	62,493	69,239	70,144	11.1
APS5	69,395	74,451	76,624	9.7
APS6	78,842	86,923	90,890	13.9
EL1	101,278	108,382	115,778	13.4
EL2	122,032	133,905	151,097	21.7
SES1	159,125	181,006	215,662	31.2
SES2	208,711	232,644	277,897	29.7
SES3	275,000	312,000	380,692	33.9

Source: APSC 2016

As in the labour market generally, the public sector industrial relations changes not only focused on increased labour market flexibility and productivity but, in doing so, reduced considerably the role and power of the unions. Agencies could negotiate directly with their staff, though most large agencies chose to work with the union(s) representatives amongst their staff. But agencies were very firmly constrained by their budgets and by Government policies to contain pay increases, leaving little room for union (or staff) negotiations. Over the last six years, these constraints have been tighter under both Labor and Conservative governments than previously, finally causing serious industrial unrest and reinvigorating the key public sector union. Nonetheless, there has not yet been serious disruption to public services (the most serious to date has caused only modest delays in getting through immigration and customs at international airports on a few days of industrial action).

There is widespread disillusion within the Australian public sector about the way pay and classification are set. Notwithstanding a degree of re-centralisation over the last decade, wide variations continue unrelated to any genuine difference in productivity. The centralised processes seem to be driven only by budget considerations and ideological disregard for public servants, not any genuine study of attraction, development and retention of required skills or of labour market demand and supply.

Given very limited increases in pay in the private sector recently, it is most unlikely that a more evidence-based approach would lead to pay increases across the public service, but it might well lead to more differentiation according to skills and experience, with some pay rates increasing, others reducing over time and with a considerable downward shift in the classification profile.

The experimentation with performance pay in Australia was largely a failure (as has been the US experience (Bowman 2009)). The experimentation in the late 1980s led to mandated arrangements for senior executives in the 1990s and widespread application at other levels, particularly amongst

middle managers. Staff surveys demonstrated wide dissatisfaction with the systems put into place, particularly about fairness and the impact on teamwork (APSC 2004). Agencies that invested heavily to address those concerns to ensure consistency and a reasonable degree of objectivity questioned whether the costs involved were worth the benefits gained in terms of genuine improvements in organisational performance. Some chose to continue the practice, but most have looked to remove performance pay. For agency heads themselves, concerns were expressed about the tendency for political factors to displace genuine performance factors in assessing performance bonuses (Podger 2007).

Legacy programs still involve performance bonuses in some agencies, and conservative ministers and their appointees still occasionally express the desire for the public sector to follow private sector practice in this and other respects, but most agencies now give more emphasis to performance feedback and individual personal development rather than manage formal performance pay regimes. A continuing challenge, however, is the management of under-performance. Particularly in the absence of formal performance appraisal systems, this is proving very hard to manage.

Despite more than thirty years of increased permeability between the public and private sectors, and of flirting with private sector ideas within the public sector (and continuing advocacy to do so by some), there are signs of interest in other ways of motivating public sector employees. 'Public service motivation' is not yet a widely used term in Australia (but see Taylor 2008), but the opportunity to contribute to society remains a selling point in advertising for new staff. Altruism, and the 'buzz' of involvement in public policy and public service delivery may also help to explain the degree of personal commitment and effort demonstrated by data on hours of work by public servants and evidence of increased strategic investment in training and development to improve career opportunities, and to put more effort into promoting improved work-life balance (APSC 2011) and embracing diversity (see further below). These may rely in part on keeping relevant public service conditions despite the long trend to reduce them.

The key questions now for future compensation, classification and motivation of public sector employees in Australia are:

- D (1) How far should pay and classification, and related matters, be devolved?
- D (2) How might compensation policy properly support attraction and retention requirements (and not political factors)?
- D (3) How important are public service conditions, and not just pay, to attraction, retention and performance?
- D (4) What role does, and can, public service motivation play in attraction, development and retention in a world of more permeability between the public and private sectors?
- D (5) What is the best way to reward performance and to manage under-performance? Can performance pay help, and under what conditions?

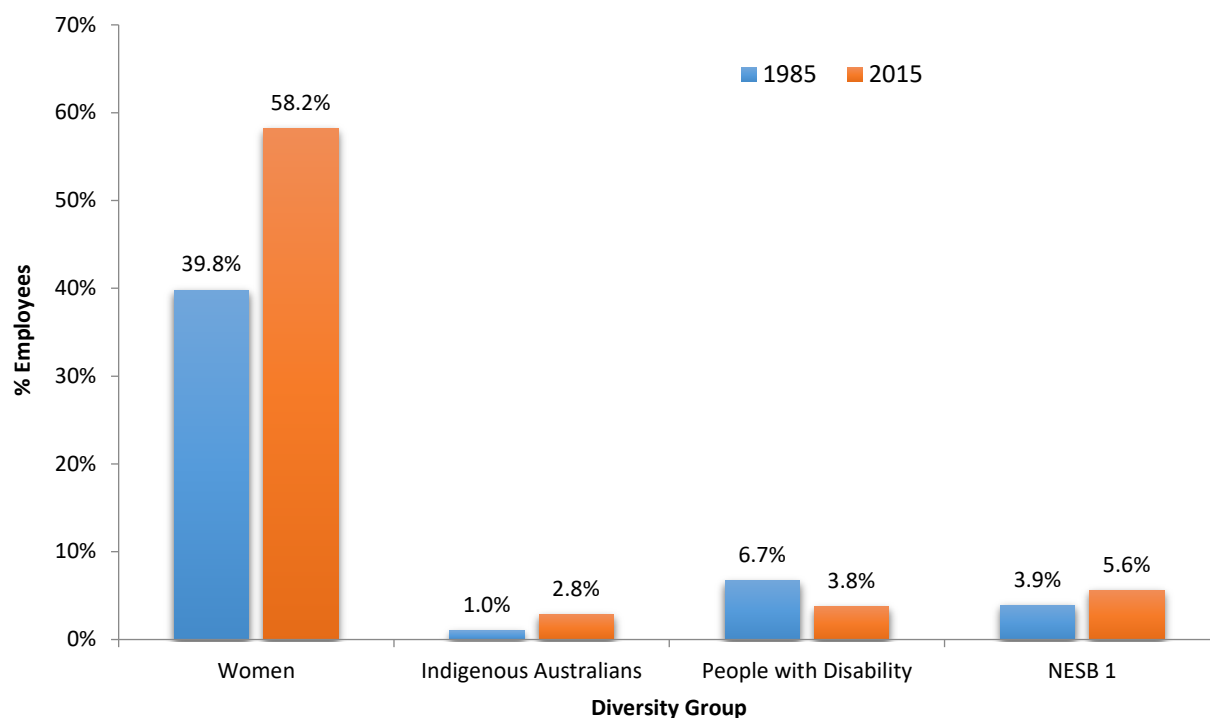
D Diversity

The emphasis in the 1978 Coombs Report on improving the representativeness of the public service reflected broader social debates and trends at the time, particularly about the role of women in society and the rights of Indigenous Australians.

There has in fact been significant progress in the representation of women and Indigenous people in the Australian Public Service though challenges remain. The story for the other priority diversity groups (people with a disability and those from a non-English speaking background) is far more

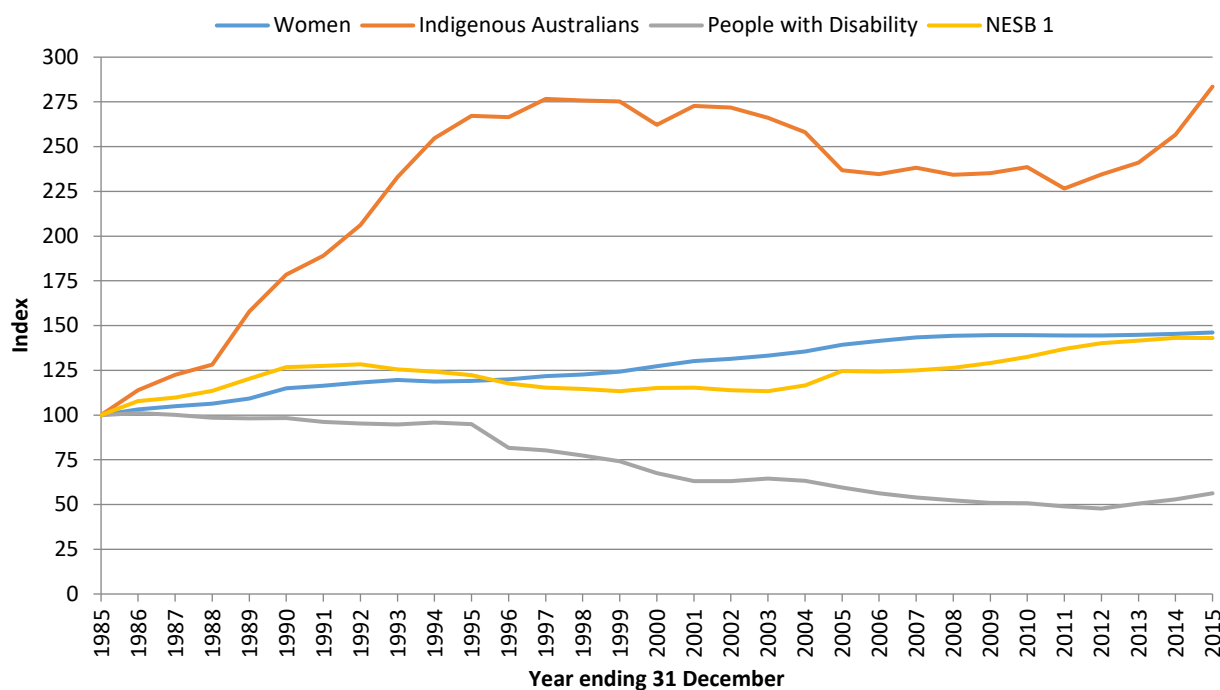
mixed. Figure 4 shows the proportion in 1985 and in 2015, while Figure 5 presents the change in population since 1985 as an index.

Figure 4: Representation in APS by Diversity Groups, 1985 and 2015



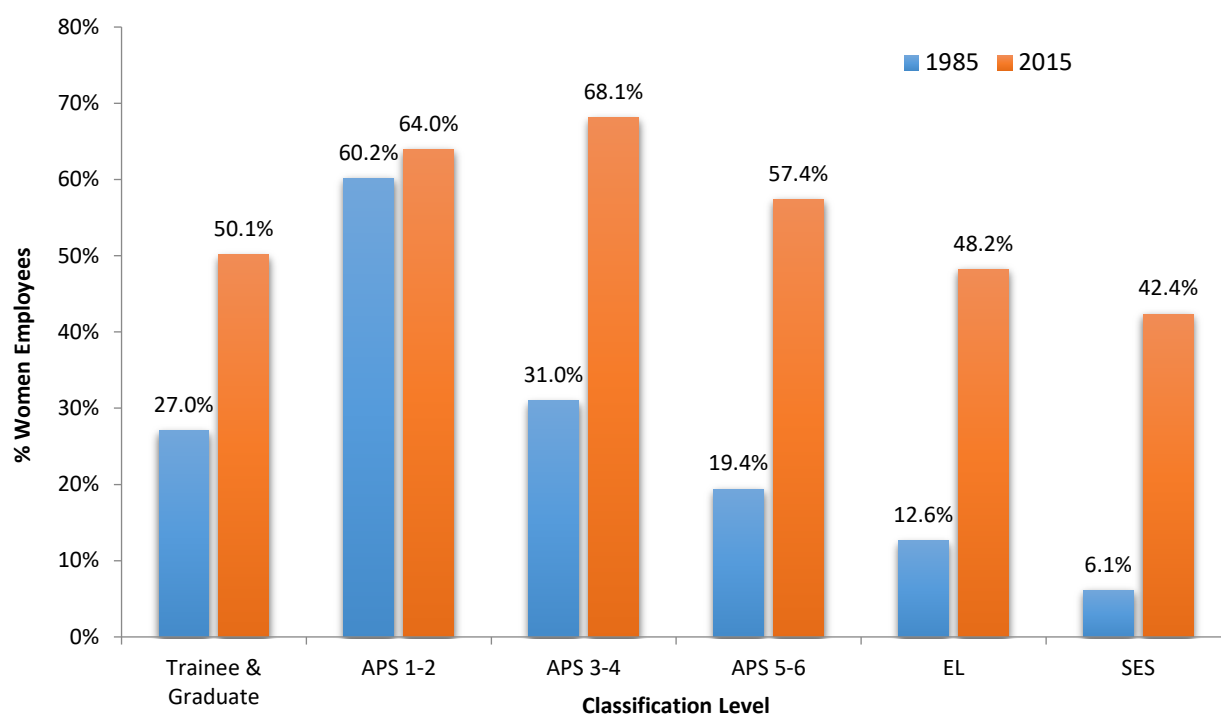
Source: APSC 2015

Figure 5: Change in population (weighted and indexed) for diversity groups, 1985 to 2015 (1985=100)



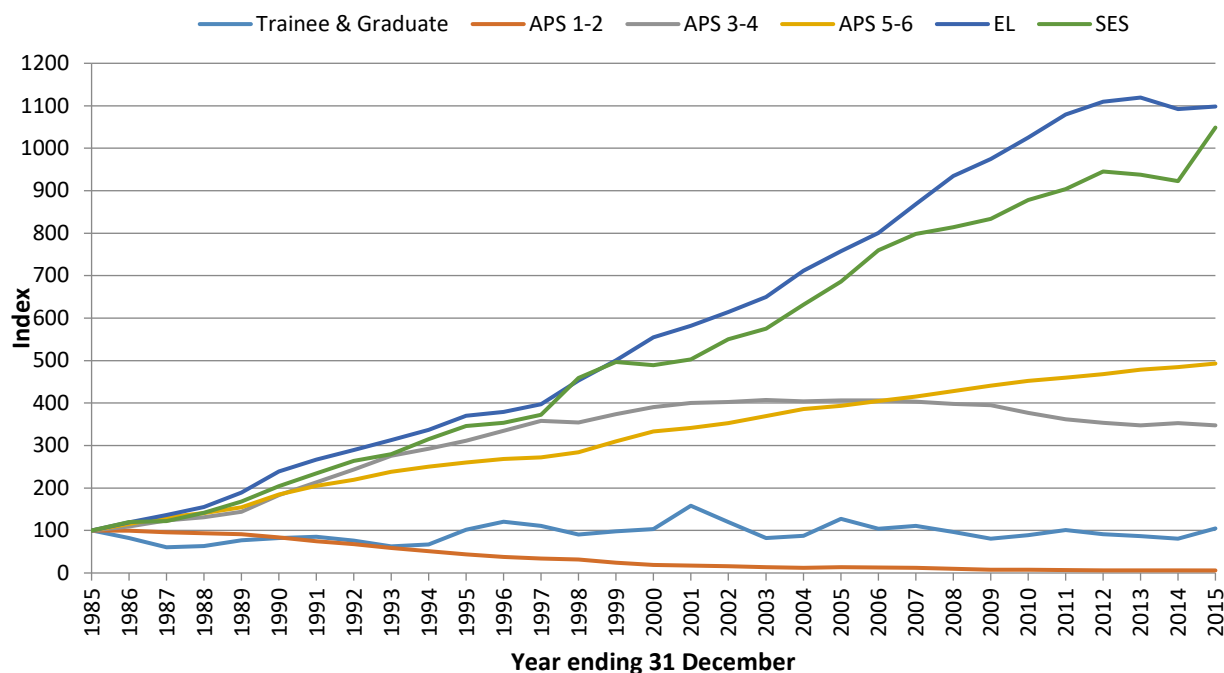
Women now represent 58% of the whole APS, compared to under 40% thirty years ago. In 1986, the vast majority of the women were in the lowest classification levels. While those in the SES are still well below 50% (see Figure 6), the improved representation of women is most marked in the more senior (EL and SES) classifications (see Figure 7).

Figure 6: Representation of women by classification level, 1985 and 2015



Source: APSC 2015

Figure 7: Change in representation (weighted and indexed) of women by classification level between 1985 and 2015 (1985=100)



These improvements have been achieved by concerted effort, not just changes in the supply of well-educated women seeking employment. Equal employment opportunity (EEO) programs were introduced in the 1980s aimed to invest in the training, development and mentoring of women and to address biases in recruitment and promotion processes. In the face of initial strong resistance from the union, part-time work opportunities were steadily increased across all classification levels. Conditions aimed at supporting female employees were also introduced, including paid and unpaid maternity leave, flexible working hours and access to child care.

EEO programs were also introduced to improve Indigenous employment. The expansion of programs to improve the health, education, employment and welfare of Aboriginal and Torres Strait Islander people also drove demand to employ Indigenous staff. This was also encouraged during the 1980s and early 1990s as those programs were aimed to support a degree of 'self-determination'.

By the early 2000s, the APS employed about the same proportion of Indigenous people as are represented in the Australian population, much higher than in other jurisdictions or in the private sector. Most, however, were employed in agencies, and program areas, devoted to delivering services to Indigenous people. Employment of Indigenous Australians outside these areas remained (and still remains) low.

Figure 5 also shows that, since 2003, Indigenous employment fell as a proportion of the APS for a few years, though there has been renewed improvement since 2012. Analysis by the APS Commission suggests that a significant contributor to the fall was the reduction in jobs at low classification levels which in the past have provided an effective bridge into the APS. Once employed in the APS, Indigenous people do gain promotions at a similar if not better rate than other employees, but the narrowing of the bridge into the APS, as it evolved into a graduate-dominated employer, did have unintended effects. The more recent improvements reflect new trainee programs and related support.

It is evident from Figures 4 and 5 that people with a disability have long had, and continue to have, very serious problems in gaining employment in the APS. It seems likely that a contributing factor

has been the shift in skills in demand during the 1980s as a result of technological change. As mentioned earlier, this removed many jobs with narrow technical skills requirements, and led to demand for multi-skilling in the vast majority of positions. A number of jobs suited to people with a disability, such as telephonists, disappeared, and agencies did not invest in the additional technology required for people with a disability to exercise multi-skilling. Nor was it common for agencies to re-design workplaces to facilitate opportunities for people with a disability to contribute effectively to a team's overall task. The slight improvement since 2012 shown in Figure 5 suggests some small reversal of the long decline, but it is clear there is a very long way to go.

Questions now for diversity of the public sector workforce include:

- E (1) How substantial is the remaining under-representation of women at senior levels? Will the improvements at feeder levels already underway suffice?
- E (2) Is the extent of overall feminisation becoming a problem now?
- E (3) Why is disability such a difficult obstacle to public sector employment?
- E (4) Have long-term solutions to improve Indigenous employment now been found and implemented, or is Indigenous employment still concentrated too far within Indigenous public service programs and too confined to junior levels?
- E (5) Does the shift to a graduate public service entail new problems for the representativeness of the public sector workforce?

E Strategic Role for HRM

While devolution of management responsibilities (both financial and HR) improved the links between management of resources and the achievement of program results, the primary focus of the reforms in the 1980s and 1990s was efficiency and financial management. The former Public Service Board was abolished in 1987 and replaced by a much smaller and less powerful Commission (now named the Australian Public Service Commission (APSC)), and this centre of HRM excellence lost much of its expertise and influence. The Finance Department, in contrast, became more powerful.

Agencies did strengthen their corporate management teams in response to devolution but in most cases the emphasis was on financial management and HRM responsibilities were often allocated to people with program experience but little if any HRM expertise. This emphasis on financial management continued in the 2000s and to the present day, with the widespread use of Chief Financial Officers whose role includes supporting agency heads in strategic planning and risk management. CFOs are usually members of agency executive management teams and are expected to have strong professional accounting skills (if not themselves, in their support teams). Few agencies have developed an equivalent role for HRM.

While outsourcing of various HR activities (e.g. payroll, training and development) in the 1990s has increased efficiency, the management of the outsourcing was mixed. In some cases, including the Department of Finance's case, the outsourcing went too far and removed capacity for any serious consideration of HR issues in agency strategic planning. In other cases, the outsourcing was managed competently but still reduced in-house expertise.

Nonetheless, in the 1980s and 1990s, there was marked improvement in agency strategic planning drawing from private sector experience spearheaded by the Financial Management Improvement Program in the 1980s and an active Management Advisory Board in the 1990s. Plans identifying 'key result areas' and 'critical success factors' for improving agency and program performance, often

included HR strategies as well as strategies to improve financial management, communications, stakeholder relations and so on. Such strategic or corporate planning was seen as an essential complement to the NPM focus on 'results', and part of agencies' overall performance management framework (MAC 2001). It ensured agencies considered 'how' as well as 'what' in their management for results.

More recent studies in Australia of the capability of public service agencies have identified a number of common weaknesses (APSC 2009). Amongst these is HRM expertise and the role of HRM in agencies' strategic management. Strategic policy advising is another area of concern, the evidence suggesting that agencies are focusing too much on short-term tactical advice in response to the immediate requirements of ministers. More generally, the strategic planning emphasis of the 1990s and early 2000s seems to have faded.

The identification of these weaknesses has contributed to important changes in both public service and financial management legislation over the last five years. The public service legislation (PoA 2013b) now gives more emphasis to 'stewardship' of the APS, both by agency heads individually and by the collective APS leadership (now called the Secretaries' Board, previously the Management Advisory Committee or Management Advisory Board). The financial management legislation now mandates the development and publication of corporate plans and sets out the minimum range of matters to be covered by the plans. In addition, there is currently renewed effort to strengthen expertise in HRM and to invest more heavily in such areas as talent management, recognising the central role of HR in agencies' capability.

Amongst the questions arising from this experience over 30 years are the following:

- E (1) What needs to be done to re-build HRM expertise across the public sector?
- E (2) Does this require a strong centre of excellence for the public service as a whole? Should HRM devolution be wound back?
- E (3) What HR functions need to remain in-house?
- E (4) Where should HRM sit in the agency hierarchy? Is there an equivalent to the CFO?

Conclusion

Australia's experience of public sector reform has many unique elements but also many that are common to other Western democracies. Many of the drivers – technology, globalisation, better informed public – are the same, and experiences in different countries are quickly exchanged.

Similarly, the impact on public sector HRM in Australia has some unique elements, but also many common elements. The challenges for the future may also be similar to those of the US and other developed democracies and some will also be relevant to other countries at an earlier stage of developing their public sector HRM capability.

This overview focuses on five priority areas of public sector HRM drawn from Steve Condrey's *magnum opus* (Condrey 2010), and presents for each a series of questions about the future.

First, Australia's public sector workforce has changed dramatically over the last thirty years. It is more professional and better educated and there is more mobility across jurisdictions and with the private sector, but has it moved too far from its traditional role in service delivery and policy advising, giving too much ground to the private sector and to political operatives, and losing capability as a result? What must it do to regain public confidence, and what will be the implications of future technological change?

Second, there has been considerable effort to articulate public service values and to promote leadership in parallel with the reforms that have been aimed at improving efficiency and effectiveness, but how real has been the impact compared to the rhetoric?

Compensation and classification have been devolved more in Australia than in most countries, and with serious consequences. Moreover, despite continuing calls for more private sector flexibility, the system actually pays little regard to the labour market or attraction and retention concerns, and seems constrained today by an ideological disregard for public servants. There are serious challenges not only to attract and retain the skills required but to do so in a way that also recognises and respects non-financial public service motivation.

The public service has achieved considerable diversity improvements, particularly with regard to women and Indigenous Australians. There remain serious problems with regard to people with a disability. Perhaps also it is time to reflect on whether feminisation is going too far and whether increased professionalism is causing new problems for the representativeness of the public sector workforce.

Finally, one of the capabilities that seems to have suffered most through the reform era is strategic HRM. While this is now recognised by the public service leadership in Australia, re-building HRM expertise in practice is proving to be enormously difficult.

REFERENCES

(See published paper)