

Chapter 5

Wage increases must be completely offset by productivity gains

5.1 As noted in Chapter 2, enterprise bargaining was initially introduced in the 1990s as a way to increase labour market flexibility and improve labour productivity. Under the Howard government and subsequent Labor governments, there has been a link between remuneration and increases to productivity.

5.2 The bargaining policies introduced under the Abbott and Turnbull governments have taken a much more dogmatic approach by insisting that any remuneration increase be completely offset by productivity gains. These productivity gains are very narrowly based on reform of work practices or conditions.¹

5.3 Yet the committee heard evidence from Professor Andrew Podger, a former APS Commissioner, about the impracticality of firmly linking supposed productivity gains to pay rises. Professor Podger explained that the rationale for productivity-based bargaining used in the private sector did not translate effectively to the public sector. For example, under-performing businesses in the private sector either increase their efficiency or go out of business, while businesses that achieve productivity gains can afford to pay higher wages. In essence, the funds to pay wages in the private sector are determined by the market and the demand for relevant skills.²

5.4 By contrast, agency budgets in the public sector are determined by the political process. While acknowledging that productivity improvements are important, Professor Podger argued that:

...the requirement for pay increases to be fully offset by so-called 'productivity improvements' within each agency is not consistent with the way productivity translates into labour market outcomes, including rates of pay, whether in the public sector or the private sector.³

5.5 Professor Podger elaborated further, saying that the link between productivity and wage increase was not appropriate in the longer-term:

Perhaps there was a case for pressing hard some productivity offsets within each agency in the 1990s as a short-term tactic to drive needed reforms, but it was never a sensible long-term strategy...

There is no doubt that the public sector, no less than the private sector, can find productivity gains over time, and this is not a process that happens once and does not happen again; it is a continuing expectation that productivity gains will be made, though they tend to come in fits and starts,

1 Australian Public Service Commission, *Australian Government Public Sector Workplace Bargaining Policy*, subsection 3.1.3, p. 16.

2 Professor Andrew Podger, private capacity, *Committee Hansard*, 11 November 2016, pp. 1–2.

3 Professor Andrew Podger, private capacity, *Committee Hansard*, 11 November 2016, p. 1.

depending on your agency opportunities such as new technology investments, changed patterns of work and so on.⁴

5.6 Ultimately, Professor Podger explained that the imperative for agencies and employees to identify productivity gains was counterproductive and 'will only exacerbate the problem':

I think now everybody is scrambling round to try and find something which passes the test, even if it is not actually a genuine productivity gain. So I do not think people are holding off productivity for this; I think what is really happening is that we have got extraordinary ongoing running around by management and staff in every agency over very long periods of time—frankly, wasting an awful lot of the services' resources—which could be better handled.⁵

5.7 The committee also heard evidence that agency management has flatly turned down innovative staff solutions to improve productivity. Mr Leo Vukosa, a CPSU delegate who has worked 35 years for the Department of Parliamentary Services, told the committee:

The government says that the bargaining policy is about productivity. Our experience says it is not. In the initial phases employees actually begged to be able to provide innovative solutions that would result in true productivity savings that could feed into an agreement. We were told that they were not allowed, and there are a number of workplace changes that have not been recognised as productivity for bargaining. The bargaining policy has actively inhibited innovation across the department.⁶

5.8 Mr Michael Tull, Assistant National Secretary of the CPSU, argued that perversely, the interpretation of the bargaining policy is denying the opportunity for genuine productivity gains:

One of the things that is very disappointing for us is that in this round of bargaining the bargaining policy and the way that it has been interpreted and implemented means that there is no space for genuine productivity discussions. I have made any number of public sector and private sector agreements over many years where, at the end of the process, everybody involved could say, 'This has made a material change, a material improvement, to the operation of this organisation,' and we just do not get the opportunity to do that now. To come back to the start point, one of our responses to fiscal constraints is to try to work through better ways of working—free up money, free up funding and so on—and produce genuine

4 Professor Andrew Podger, private capacity, *Committee Hansard*, 11 November 2016, p. 2.

5 Professor Andrew Podger, private capacity, *Committee Hansard*, 11 November 2016, pp. 4–5.

6 Mr Leo Vukosa, CPSU, Department of Parliamentary Services, *Committee Hansard*, 11 November 2016, p. 23.

productivity improvements that create the space for productivity-based pay increases. We do not have that opportunity now.⁷

5.9 Professionals Australia pointed out the flaws in the concept of linking productivity with wage increases:

Measuring public sector productivity is a challenge particularly as the business of policy and program development and implementation often requires qualitative rather than quantitative assessment. Also, to properly understand whether changes to approaches to work processes have delivered more "productive" outcomes can only be done in review. Yet in terms of this bargaining process "productivity offsets" had to be measurable to the last dollar from day one of an agreement and relate to employment costs in each agency. This meant that prospective approaches to productivity such as retention and attraction initiatives that would build capability and reduce staff turnover in critical roles would not be considered. Instead, the bargaining policy drives agencies to consider inputs only, ignoring outputs, which is against any sensible notion of productivity. The need to quantify such offsets meant that the most common changes ended up being reductions in leave, pay progression or allowances.⁸

5.10 Professionals Australia provided a number of examples of what have been deemed to be 'productivity offsets' but which essentially are reductions in employee conditions:

For example in the Australian Communications and Media Authority "productivity" was to be achieved through reducing additional leave provided to Executive Level 1 staff, which had been provided through the previous agreement negotiation in recognition of the value and effort of their work; in Defence it was through reducing leave days and reducing the rate of progression through pay structures; in CASA by reducing some remote localities allowances; and in DAWR by taking an axe to the existing veterinary officer structure.⁹

5.11 It was argued that 'in no sense could any of these initiatives be described as changes to processes that were likely to deliver improved outcomes for Government or broader stakeholder groups'.¹⁰

5.12 According to Professionals Australia, the government's approach to bargaining has led to impasses in agreement negotiations across the public sector.¹¹

7 Mr Michael Tull, Assistant National Secretary, CPSU, *Committee Hansard*, 11 November 2016, pp. 28–29.

8 Professionals Australia, *Submission 205*, p. 5.

9 Professionals Australia, *Submission 205*, p. 6.

10 Professionals Australia, *Submission 205*, p. 6.

11 Professionals Australia, *Submission 205*, p. 6.

5.13 Despite Mr Lloyd's claim that the policy encourages flexibility initiatives,¹² Professionals Australia stated that the insistence on productivity offsets 'has provided no flexibility to agencies to truly engage in enterprise or workplace bargaining'.¹³

Committee view

5.14 On the evidence before the committee it is clear that the government's ongoing insistence that agencies identify so-called productivity offsets to justify reasonable wage increases has been a significant contributor to the three year industrial dispute within the public sector.

5.15 The committee notes the evidence presented by several inquiry participants that the government's fixated drive for productivity offsets based on such a narrow definition of productivity is having a counterproductive impact. The committee further notes that the interpretation of the bargaining policy by the APSC in this regard is having a detrimental impact on those employees and agencies that are genuinely seeking to advance enterprise agreement negotiations.

5.16 The committee believes that as long as the government and the APSC continue to interpret productivity improvements as requiring reduced employment conditions and increased working hours, the current protracted negotiations will continue.

5.17 Accordingly, the committee urges the government to take a more constructive and modern approach to productivity within the public sector with a view to resolving the impasse in the current bargaining round.

12 The Hon John Lloyd, Australian Public Service Commissioner, Australian Public Service Commission, *Committee Hansard*, 11 November 2016, p. 40.

13 Professionals Australia, *Submission 205*, p. 6.