

Submission by the Department of Defence to the Senate Finance and Public Administration References Committee – Inquiry on APS Employment Matters

Background

1. The Department of Defence is one of the largest agencies within the Australian Public Service with a 1999-2000 budgeted civilian staff of 16 471. The Department is the most occupationally diverse and one of the most geographically dispersed organisations in the Public Service.
2. The staffing structure and composition of the Department has changed dramatically over the last 15 years. In that time the number of civilian staff has reduced from around 40 000 to its present level and the proportion employed in trades and trades support areas has declined substantially.
3. In part these changes have been a consequence of the transfer of some defence factories and dockyards to Australian Defence Industries and the sale or closure of others. These changes also reflect on-going, large scale functional rationalisations and an extensive program of market testing under the Commercial Support Program. To date that Program has addressed over 9 500 military and civilian positions in some 90 separate activities. Savings achieved have exceeded 30% on average. The Program has been conducted in a relatively harmonious industrial climate and its overall approach is regarded as best practice of its kind.
4. The reductions in Defence civilian staff numbers over the last decade have involved more than 10 000 redundancies – a program that has been achieved again without any significant industrial relations problems involving strikes or work bans.
5. The Defence Reform Program, introduced by the Government in 1997, is a long term agenda for organisational and cultural change within the Defence Organisation. It is making an important contribution to the delivery of Defence outputs to government by delivering increased resources to combat capabilities and contributing to an ADF that is able to undertake military operations effectively, efficiently and successfully.
6. Under the Defence Reform Program, many of Defence's outputs are being enhanced through the re-investment of efficiency dividends. Key deliverables include:
 - a) more resources, personnel and enhanced logistic support for combat units
 - b) improvements in future capabilities through increased resources for new capital equipment

- c) enhanced national support through increased use of the skills and abilities of Australian industry to support the defence effort
- d) improved skills and knowledge by streamlining the provision of education and training, and
- e) improved management through streamlined processes and improved structures.

7. The Department of Defence is integrated with the Australian Defence Force in a single Defence Organisation. While combat and combat related functions are the responsibility of the military, in many other areas – acquisition, logistics, defence policy and intelligence, science and technology, property and estate management, personnel management and in a range of support functions, military and civilian organisations and staffing are integrated or very closely related. Military staff supervise civilians and vice versa in an environment where personnel management responsibilities, including for such critical matters as civilian recruitment and promotion, are now highly devolved, including to military supervisors of civilian staff.

8. A key element of the Defence Reform Program has been the establishment of a single personnel agency within the Defence Organisation responsible for the full range of personnel policy and administrative structures for both military and civilian staff. This agency – the Defence Personnel Executive - is functionally organised for military and civilian staff for such things as remuneration, conditions of employment and workplace relations, merit based recruitment and staffing, equity and diversity and so on. While the administrative expression of these policies, the way in which they are given effect and particular elements of pay and conditions may differ, the underlying policies are broadly common.

9. Against this general background, this submission will now address the main elements in the terms of reference for the inquiry.

The Senior Executive Service

10. The Senior Executive Service established in 1984 was in many ways a “re-badging” of the former Second Division of the Public Service as it was developed through the 1960s. (Arrangements for the Senior Executive Service are, of course, separate and distinct from those for Secretaries and the comments in this submission do not address issues relevant to Secretaries).

11. The basic role of the Second Division as a Service-wide top management, policy advising and professional group was maintained. Essentially the 1984 changes sought to strengthen the role and ethos of the senior management group by underpinning it with distinct, Service-wide personnel management policies and practices including:

- a) a generally consistent classification structure

- b) specific recruitment and promotion arrangements with responsibilities shared between the then Public Service Board (later the Public Service and Merit Protection Commission) and departmental Secretaries
- c) particular redeployment and retirement provisions, and
- d) a range of training and development opportunities through the central personnel authority.

12. The overall arrangements for senior management in the Service have been remarkably durable. The fundamental role and function have been constant for almost 40 years and the personnel management systems introduced by legislation in 1984, together with much of the supporting administrative machinery, are also largely unchanged. There are no doubt many reasons for this, but it would seem that the overall management and organisation structures have provided:

- a) a rational and sound basis for the distribution and discharge of work and responsibilities, including the provision of frank and comprehensive advice to Ministers and Governments
- b) a framework within which the activities of government agencies can be adequately coordinated and accountability defined and secured, and
- c) a personnel system that is able, by and large, to attract, retain, motivate and develop staff of the calibre required for the senior levels, that facilitates the mobility of staff between agencies and that promotes the notion of a top management group with a broadly common ethos and outlook.

13. Some changes, however, have been made and others are in prospect for the SES, for example:

- a) Pay and conditions of employment are now almost universally regulated by individual Australian Workplace Agreements (AWAs), as is the case in Defence. This approach has differentiated levels of remuneration and conditions across and sometimes within agencies. While significant variation is yet to occur in Defence, options for further change are being considered for the next round of AWAs.
- b) In some agencies the traditional and more or less uniform Branch and Divisional structures have been replaced with different kinds of arrangements. To date this has happened to a limited extent in Defence, although there has been a significant flattening of higher management structures with the overall size of the Defence SES being reduced by 20% over 9 years.

- c) The Public Service Bill now before the Parliament would do so, for example, the unfair dismissal provisions of the Workplace Relations Act would not apply to the SES and it would remove the role of the Public Service Commissioner in appointments, promotion, transfer and termination of SES staff.
- d) In the Department of Defence, senior professional officers, notably the Chiefs of Division in the Defence Science and Technology Organisation, are regarded as an integral part of the top management group, although technically they are not members of the SES.

14. Many of the changes that have been made or foreshadowed are motivated by a desire to:

- a) give agencies greater flexibility to have senior management arrangements that best suit their individual needs rather than be restricted by provisions designed to meet all circumstances in the Public Service, and
- b) enable them to develop employment relationships more closely aligned to those in other organisations in the wider Australian community.

15. These flexibilities have obviously been welcomed by agencies, including Defence, and many have sought to make the most of them.

16. It is likely, however, that some current trends will have longer term effects on the nature of senior management in the Service. Different sets of pay and conditions of employment, including in some instances payments for retention, could affect the mobility of staff between agencies. Further, different personnel management systems could promote a more agency specific, rather than a Public Service-wide, management ethos. While manageable in the Defence context, this trend may create difficulties for and place greater relative pressure on costs for smaller agencies.

17. These developments highlight what is always an issue within a Public Service composed of a range of agencies with different functions, operating imperatives and client groups. That is to say, they reflect a continuing debate about the appropriate balance between the interests of the Service as a whole and its component parts. At the moment, that balance is moving in the direction of greater flexibility for agencies to tailor top management structures to their particular circumstances as the benefits of that are seen to outweigh its costs and other considerations.

18. In these circumstances, there is much to be said for the Public Service and Merit Protection Commission continuing to promote ideas about what it sees as important in senior staffing decisions and to underpin that with centrally sponsored training and development opportunities.

19. So far as tenure and independence are concerned, no changes have yet been made to affect tenure and Ministers do not make decisions about who gets appointed, promoted or separated. This is a matter for the Commission and agency heads. In a broader sense, the Public Service role is not independent of government and it has never been required to be. It exists to serve Ministers and the Government and it is subordinate to these elected, parliamentary and executive authorities in terms of policy direction. The Public Service must be prepared and able to implement Government policies as fully, effectively and efficiently as it can.

20. A critical issue, however, is the capacity of senior management to provide frank, honest and comprehensive advice to Governments and Ministers. This should be inherent in the professional relationship between senior public servants and Ministers. The nature of employment tenure, real and perceived, is one factor that can affect this capacity.

21. Finally, there may be a particular workforce planning issue affecting senior staff that will require attention over the short to medium term. This is, in part, a product of a tendency for staff at all levels, including senior levels, to retire or leave the Public Service well short of the maximum retiring age. For example, the average age of SES leaving the Department of Defence over the last ten years has been around 55. At the moment half of staff in the SES (including the Chiefs of Division in the Defence Science and Technology Organisation) are over the age of 50 and around half of those are over 55. On current trends, most of these staff will have left the Department within the next five years. These demographics in the Department of Defence are most likely not markedly different from those to be found in many other agencies. They emphasise the importance of continuing to ensure an adequate supply of staff from within the Service who can take the place of those who leave, while also recruiting externally where merit and availability allow.

Agency based bargaining

22. Agency based bargaining was first introduced into the Public Service in the early 1990s. Indeed, the Department of Defence was the first agency in the history of the Australian Public Service to reach such an agreement. In more recent years the scope for agency bargaining has increased and the Department has sought to take advantage of the flexibility it has offered.

23. From the Department's point of view, agency bargaining has:

- a) enabled it to develop and negotiate changes to the pre-existing, monolithic personnel and industrial arrangements that applied to the Service as a whole, in ways that have better suited its particular needs
- b) provided a means of securing agreement to the cooperation of staff and their elected representatives in widespread change and providing them with rewards and incentives, including in relation to

the large numbers of redundancies and substantial market testing program that have been mentioned previously, and

- c) established a clearer sense of responsibility and accountability for workplace relations and personnel management and helped to minimise blame shifting that often characterised the more centralised arrangements prior to the early 1990s.

24. There are, however, a number of issues that will affect the future of agency bargaining in the Service:

- a) The first is funding. Budget dependent public sector agencies whose levels of output are determined by governments will have difficulties in generating sufficient internal savings to fund improvements in remuneration and remain competitive in the market, especially as most of these savings are derived from reductions in staff numbers. Future funding arrangements will need to recognise this limitation.
- b) The incentives of agency based productivity bargaining are not always clear cut. While in some ways their effects are positive, a productivity based system can advantage organisations with inefficiencies to trade-off and make it difficult for those who are more efficient. It can also lead to the temptation to store up inefficiencies or even to manufacture them, or for staff and their elected representatives to believe that all change should be "paid for" by improvements in conditions of employment. This underlines the need to instil habits of continuous improvement in agencies rather than concentrating on specific, one-off changes.
- c) The development of different personnel management arrangements through agency bargaining can diminish the notion of a Service-wide career service and may affect such things as the mobility of staff between agencies.
- d) Agency bargaining can be administratively more costly than centralised systems and these consequences are probably more marked in smaller than larger agencies.

Performance based pay

25. The Department's experience with performance based pay in the early to mid 1990s was not successful and the schemes were abandoned. A number of factors affected that experiment:

- a) Performance pay, in a sense, came before the development of an acceptable assessment system.
- b) For most of the senior officer group, the amounts of money at stake were relatively small.

- c) The moderation of assessments across different parts of the organisation in order to accommodate, among other things, the effects of "hard and soft markers" was seen as arbitrary and unfair.
- d) There was very little flexibility for agencies. They were required to adopt a more or less uniform Public Service scheme regardless of their individual circumstances.
- e) Cultural obstacles to such a major change were under-estimated.

26. At the moment the Department does not have a performance pay system. It has, however, recently introduced a performance management scheme for all staff and this scheme will be used to regulate a performance pay scheme, the shape of which will be set out in the Department's next agency agreement which is to be negotiated later this year.

27. As with the connections between tenure and the ability to provide frank and fearless advice, there are many opinions about the prospects of performance pay in the Service. Many of these have been canvassed in earlier reports of the Finance and Public Administration Committee. There are a number of observations that can be made about this issue:

- a) The capacity to reward individual staff for superior work is presently limited and the abstract logic of a remuneration system that rewards all staff at a given level equally (or with very limited differentiation) can be questioned.
- b) The current circumstances in which performance pay is being considered are more propitious than the last time, for example, staff in Defence have a year or more to become familiar and confident about an assessment system.
- c) There is to be no moderation of assessments under the Department's performance management scheme.
- d) The Department will be able to settle upon arrangements that match its circumstances and needs as opposed to the earlier Service-wide scheme in which it had virtually no say.
- e) The performance management system itself should do much to clarify individuals' responsibilities. It should link them to the work of their areas and the Department and provide them with a means of participating in assessments that are inevitably made of their performance and so improve the openness, transparency and fairness of personnel management in the Department.