

Submission No. 16

SENATE FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE

INQUIRY ON AUSTRALIAN PUBLIC SERVICE EMPLOYMENT MATTERS

Submission by the Public Service and Merit Protection Commission

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PUBLIC SERVICE AND MERIT PROTECTION COMMISSION SUBMISSION TO THE SENATE INQUIRY ON APS EMPLOYMENT MATTERS

INTRODUCTION

This section provides an overview of the size and composition of the Australian Public Service (APS), public sector reforms in both Australia and overseas, and the role and functions of the Public Service and Merit Protection Commission (PSMPC).

Size and composition of the Australian Public Service

At June 1999, the APS had 113,268 permanent and temporary staff, of whom 49.5% were women. The size of the APS reduced by almost 30% since June 1990 when there were 161,612 permanent and temporary staff. In part, this decrease resulted from functions being privatised, outsourced to the private sector or transferred to Commonwealth agencies outside the APS. After adjusting for such coverage changes, there was a reduction of 23.6%.

In addition to coverage changes, the size of the APS has been affected by a decline in the number of temporary staff, a decline in appointments of permanent staff and an increase in separations of permanent staff, particularly towards the end of the period. Figure 1 shows that appointments as a proportion of permanent staff have decreased from 11.3% in 1989–90 to 5.8% in 1998–99, while separations have ranged from 5.1% to almost 15% of permanent staff over the same period.

Figure 1: Separations, appointments and number of temporary staff as a proportion of total staff, 1989–90 to 1998–99

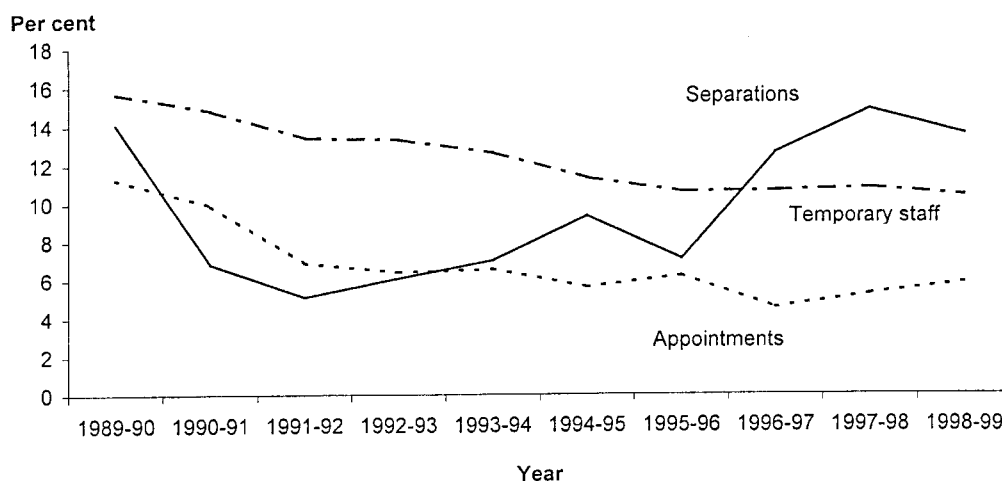
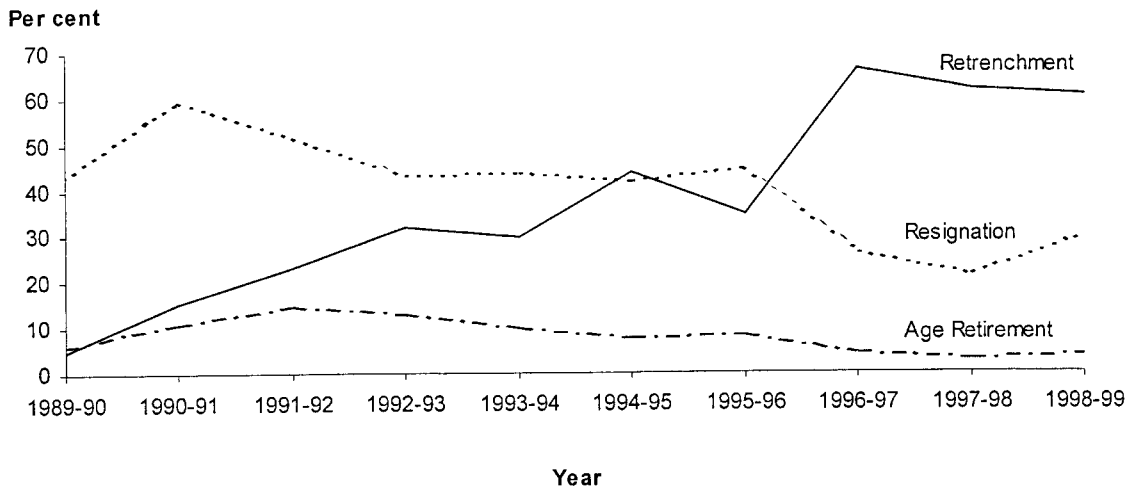


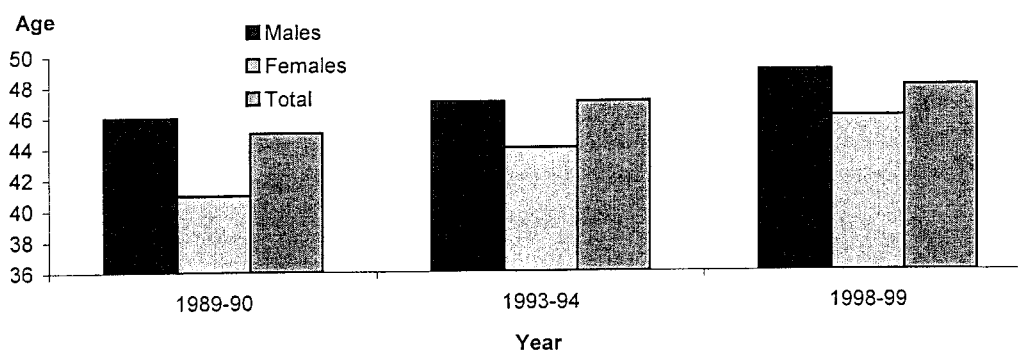
Figure 2 below compares the main types of separations over the past ten years to June 1999. It shows that the proportion of retrenchments has increased over this period, while the proportion of resignations has decreased.

Figure 2: Selected types of separations, 1989–90 to 1998–99



The median length of service of all staff before leaving the Service has increased from seven to ten years over the period from 1990 to 1999. The median age of the APS has also risen, from 36 years at June 1990 to 40 years in 1999. As shown in Figure 3, the median age for men continues to be higher for men than for women: in 1990 men were on average five years older than women, however by 1999 this gap had reduced to four years.

Figure 3: Median age of APS employees by gender, 1990, 1994 and 1999



Comprehensive data on APS employment is available in the annual APS Statistical Bulletin published by the PSMPC and in the Public Service Commissioner’s annual State of the Service Report. Copies of the publications for 1998–99 are at Attachments A and B respectively.

Public service reforms

The Australian Public Service has experienced major and sustained reform for over two decades.

The major reforms of the early part of this period were set out in the then Government's White Paper of 1983, *Reforming the Australian Public Service*. Underlying the reforms was the Government's desire to give Ministers greater control in decision-making and to achieve greater flexibility in the allocation of financial and staffing resources. Specific measures included the creation of the Senior Executive Service (SES), provision for Ministers to engage staff to work in their offices, the introduction of Equal Employment Opportunity requirements, and the establishment of the Merit Protection and Review Agency.

Other reforms that were implemented during the 1980s included the abolition of the Public Service Board (PSB) in 1987 and the devolution or delegation of many of its powers to Secretaries of departments; the amalgamation of departments into larger portfolio departments and the creation of flatter structures; the introduction of performance appraisal (and pay) for SES and senior officers; and planning and reporting reforms such as corporate planning and performance evaluation.

In the budgetary and financial management area, the Financial Management Improvement Program was introduced in 1994. The program was designed to give managers greater ability and incentive to manage their resources more effectively. Key elements included the introduction of program budgeting, three-year forward estimates, user charging and a Service-wide efficiency dividend.¹

An evaluation of the reforms was undertaken in 1991–92 by the Task Force on Management Improvement, established by the Management Advisory Board (MAB). The evaluation concluded that the reforms as a whole had had a positive impact and, generally speaking, had been well directed and cost effective. There were, however, a number of areas in which improvements could be made. These included:

- managers making better use of the flexibilities that had been made available;
- further devolving authority within agencies;
- improving performance, including the implementation of better performance measures;
- benchmarking against best practices in other public and private sector organisations;
- and
- sharpening the focus on clients.

MAB noted that the biggest potential gains in productivity were likely to be achieved through better people management.

¹ A summary of the reforms is provided in the report of the Task Force on Management Improvement, *The Australian Public Service Reformed: An evaluation of a decade of management reform*, 1992, chs. 1 and 2.

In the following year, 1994, MAB issued a further report on the state of the Service under the title of *Ongoing Reform in the Australian Public Service*. The major theme of the report concerned the devolution of authority for management decisions to those who were charged with the responsibility for administering particular services. In such a devolved environment, MAB commented, it was important that public servants understood that the focus on service and results needed to be complemented by high standards of ethics and accountability.

In the same year, 1994, the Government set up a review of the Public Service Act (the McLeod Review) which reported in December. The review group recommended that a new, simplified and values-focused Public Service Act should be enacted with a stronger focus on efficiency, results and responsiveness and accountability to the government of the day, while maintaining a capacity to provide quality and impartial advice. No new legislation was introduced before the March 1996 election.

Reforms under the Coalition Government

Reform of the public sector has continued since the change of Government, with the priorities being:

- a clear focus on performance and outcomes;
- greater concentration on core business activities;
- greater flexibility for agencies to meet government and business outcomes;
- enhanced organisational and individual accountability;
- improved standards of service for clients; and
- an employment framework that is more in keeping with employment arrangements in the broader community and is results and values based rather than process oriented.

National Commission of Audit

These themes ran parallel to the recommendations of the National Commission of Audit, appointed by the Government to review and report on aspects of the management and financial activities of the Commonwealth. In its report, submitted to the Government in June 1996, the Commission argued that the existing highly centralised and inflexible public service employment provisions did not meet the diverse needs of a modern public sector and represented a significant impediment to efficient program delivery. Key recommendations relating to the public service included the following:

- public sector managers should re-engineer the way they do their business and contract out functions where it is cost effective to do so;
- remuneration, inefficiency and termination procedures, and other employment conditions should be left to the same industrial relations processes that apply in the community more generally;
- remuneration arrangements should be set by individual agencies and designed to attract and retain high quality staff;

- any legislation covering the public sector should be limited to the core fundamental principles and values under which the public service should operate; and
- agencies should be required to market test all activities within 3–5 years unless there was a good reason not to do so.

The Report referred extensively to a 1995 MAB Report on *Achieving Cost Effective Personnel Services* which found that the average cost of delivering HRM services in APS agencies was 2.5 times that of best practice in the private sector and that almost 60% of the costs of HRM in the APS were directed towards administrative and processing activities rather than strategic HRM activities. The Audit Report noted MAB's findings that best practice organisations had succeeded in reducing the amount of processing work by establishing a culture focusing on performance, simplifying entitlements such as leave and adopting a more risk management approach.

Key elements of current reforms

The specific elements of the reform program since 1996 can be summarised in terms of financial management and reporting, employment and workplace relations, a focus on core business, and client services.

Financial management and reporting

The *Audit Act 1901* was replaced on 1 January 1998 with the Financial Management and Accountability Act and two other pieces of legislation, designed to improve the quality and clarity of understanding of the Commonwealth's financial management framework and to sharpen accountability for financial management performance. The new legislation provides Chief Executives with greater flexibility in the way they manage their budget but also places greater emphasis on performance and results, requiring that they 'promote the efficient, effective and ethical use of Commonwealth resources'.

The Government has also implemented an accrual-based outcomes and outputs framework for managing financial resources. The 1999–2000 Budget was the first full Commonwealth budget presented on this basis. It represents a fundamental change in the way the Budget is prepared, from a cash-based method of budgeting, with an emphasis on input costs, to an accrual-based method, with an emphasis on results. The new framework links the full cost of its outputs to planned outcomes and thus permits greater scrutiny of expenditure.

Employment and Workplace Relations

The *Workplace Relations Act 1996* is the Government's principal means for achieving workplace reform. It represents a shift to determining employment arrangements between employers and employees at individual enterprises and workplaces. At the centre of this reform is the process of agreement making which allows employers and employees to develop working arrangements that are tailored to suit the specific needs of each workplace.

In applying the workplace relations reforms to the APS, the Government placed it on the same footing as the rest of the workforce. The Workplace Relations Act provides agencies with the flexibility to negotiate pay and conditions with their staff, tailored to the particular business needs of their organisation, either under collective certified agreements or individual Australian Workplace Agreements (AWAs). Negotiations must be undertaken within a broad set of parameters that require agreements to:

- link improvements in pay and conditions to productivity gains;
- maintain mobility across the APS in relation to portability of accrued leave entitlements;
- provide for flexible remuneration packaging on a salary sacrifice basis;
- introduce a new classification structure with advancement through the structure based on performance; and
- maintain standard redundancy arrangements.

Public Service legislation

The *Public Service Act 1999* came into effect on 5 December 1999. Prior to this there had been several efforts to redraft the legislation, including the McLeod review, dating back to the 1980s. The Coalition Government identified a major overhaul of the legislation as a key priority for improving the performance of the APS. Following an extensive series of consultations, including two discussion papers, legislation was introduced into Parliament in June 1997. The legislation, with amendments, was passed with the support of the Opposition.

The main objectives of the new Public Service Act are to remove much of the detail and prescription from the legislation and to provide a legal framework for APS employment which achieves a balance between improved accountability and devolved responsibilities, so as to maximise the efficiency and effectiveness of the APS.

The new Act, supported by Public Service Regulations and Public Service Commissioner Directions, is a much simpler and more streamlined piece of legislation than the previous Act. It sets out:

- the important values and culture the Parliament expects in the APS;
- the role and powers of Agency Heads, and their relationship to Ministers;
- a clear statement of the conduct that is expected of public servants;
- significant new inquiry, evaluation and reporting powers for the Public Service Commissioner, including an annual State of the Service Report to the Parliament; and
- an independent mechanism for review of employment actions affecting the employment of an APS employee.

Core business focus

In response to the Industry Commission's 1996 report *Competitive Tendering and Contracting by Public Sector Agencies*, the Government required all agencies to systematically review their activities, to ensure that attention was focused on those activities that were the primary responsibility of the Commonwealth. Where an activity did not come within the

Commonwealth's primary responsibility, agencies were required to consider whether the activity should be devolved to a more appropriate level of government; should be privatised; or should be discontinued.

Where it was decided that activities should remain the responsibility of the Commonwealth, managers were required to consider ways in which performance improvement mechanisms, such as benchmarking, business process re-engineering, and competitive tendering and contracting, could be used to improve efficiency and effectiveness. Major competitive tendering and contracting initiatives have included the establishment of the Job Network; outsourcing of information technology infrastructure services; and the continuing Defence Commercial Support Program.

Client services

Government agencies that deal directly with the public are now required to develop service charters. The charters, which aim to improve the responsiveness and quality of service to the public, reinforce the emphasis on outcomes and outputs. The charters must specify standards of service delivery and set out arrangements for handling complaints and recording feedback, and must be developed through consultation with customers.

Agencies are required to report annually on their performance against the charter to the Department of Finance and Administration, which provides a whole of government report to Parliament through its Minister. A report on implementation of the charters, tabled in Parliament in October 1999, indicated that 88% of the planned 142 charters were in place, with the remaining 17 being developed.

In addition, the Government has announced that all appropriate government services will be delivered electronically by 2001. A review conducted by the Australian National Audit Office (ANAO) in 1999 found that more than 80% of agencies expected to meet the commitment.

Overseas developments

Many features of Australia's reform program have also been evident in public sector developments overseas.

A 1996 report by the Organisation for Economic Co-operation and Development (OECD) on *Integrating People Management into Public Service Reform* noted that while the pace and extent of reform varied from country to country, it was possible to identify some common threads. The report drew on the results of a survey of countries in 1993 and a number of case studies carried out in 1994–95. It found that decentralisation and devolution of responsibility for human resource management stood out as one of the key reforms of the recent period. While central agencies retained influence over policy setting, the emphasis in implementation was shifting away from detailed central controls towards policy frameworks, guidelines and definitions of basic standards. Within such frameworks, agencies had greater freedom to tailor human resource management practices to their own needs.

The report went on to state that countries that had implemented significant devolution of human resource management had generally been very positive about the outcomes. Devolution had, for example:

- facilitated organisational change;
- enabled agencies to recruit and retain staff more easily and manage people more efficiently;
- increased management responsibility and accountability; and
- improved service delivery.

The areas which were most likely to be subject to central control tended to be those relating to pay determination, senior public servants' employment and management arrangements, conduct and discipline, health and safety, and equal employment opportunity. Even within these areas there was a discerned trend towards looser central control, for example in seeking greater flexibility in pay and staffing systems.

Other common reform initiatives included new management development programs, classification and job redesign, and more flexible working time arrangements.

Another OECD report, published in 1997, reviewed recent management reforms in five countries (Australia, France, New Zealand, Sweden and the United Kingdom). This report also highlighted the trend away from a centralised model of public sector management. The reforms in the five countries had been centred around governments providing greater authority and flexibility to agencies to manage resources in return for holding them more accountable for results.

The mechanisms for enforcing accountability had generally followed two broad approaches; one using market/type mechanisms such as privatisation, accrual accounting, cost recovery and performance contracts, while the other was directed towards empowering and motivating managers to improve performance through performance targets and measures, program evaluation, financial inducements and sanctions. Each of the five countries had adopted both strategies although, the report stated, New Zealand had enforced market principles more rigorously than the others while Australia, France and Sweden had leant more to the management end of the spectrum.

The reforms had resulted in sizeable efficiency gains, reflected in reduced staffing levels and operating expenses, with little apparent reduction in services. On the other hand, in all of the countries, restructuring was seen as a long-term effort to change managerial behaviour and organisational culture. Procedural changes, such as devolving formal controls, had been relatively straightforward, however 'getting civil servants to manage for results and transforming state agencies into performance-driven producers of public services was taking much more time'.²

² OECD, *Modern Budgeting*, 1997, p.9.

The commonality of approaches to government reform was a theme of U.S. Vice President Gore's speech to an international conference on *Transforming Governments in the 21st Century: A Global Forum on Reinventing Government*, held in Washington in January 1999. The reforms, he said, reflected four key themes:

- economic competitiveness—cutting deficits and wasteful spending and eliminating unnecessary regulation;
- doing more with less—improving services without increasing taxes;
- building faith in government - treating citizens as customers and bringing government closer to the people; and
- strengthening community and civil society—providing an increased role for communities within a framework of goals and standards set by government.

The conference heard from country representatives about the reform programs taking place in their countries: for example, cutting back regulations in South Korea, turning around the budget deficit in Canada, conducting a government-wide Customer Satisfaction Survey in the United States, and privatising and decentralising government functions in Poland and Thailand.

In other developments overseas, the British Government issued a White Paper, *Modernising Government*, in March 1999. The paper set out a long-term program of improvement aimed at ensuring 'joined-up', strategic policy making, providing high quality services and using new technology to meet the needs of citizens. As part of the program, a Civil Service Reform strategy was developed and announced in December 1999. It focuses on six key areas: leadership, recruitment, business planning, performance management, diversity and 'a better deal for staff'.

Ireland has enacted a new Public Service Management Act. The Act defines more clearly the respective roles of ministers and heads of departments, now called Secretaries General. While maintaining the principle of ministerial accountability to the Parliament, set out in the Constitution, the Act specifies the responsibilities of Secretaries General for the management and organisation of their Departments. In line with the thrust of the Act, authority for human resource management is being devolved to line ministries from the Department of Finance and, within ministries, from the centralised human resource function to line managers.

Canada has continued implementation of its *La Relève* program, an acronym which stands for Leadership, Action, Renewal, Energy, Learning, Expertise, Values and Excellence. The program includes a review of developmental programs and recruitment requirements, implementation of an Accelerated Executive Development Program, reinforcement of values and ethics, and revitalization of pride and recognition in the Public Service.

In New Zealand, the State Services Commission is working with Ministers and public sector chief executives to construct a strategy for an 'information age government', which will seek to enhance the capabilities of agencies by standardising and automating generic business functions within a secure electronic environment.

Role and functions of the Public Service and Merit Protection Commission

The changed public service environment, with agencies exercising greater management and employment powers balanced by increased accountability for the use of those powers, has been reflected in the changed role of the PSMPC.

This new emphasis has seen a reduction in the PSMPC's regulatory role while upgrading its role in promoting the public interest aspects of public sector employment, particularly in promoting and upholding the APS Values, merit employment and the Code of Conduct. It has also strengthened accountability including through the Public Service Commissioner's annual State of the Service Report to Parliament.

The Commission continues to have a focus on its statutory functions and on advising the Minister on the management and development of the APS and APS employment. The PSMPC also seeks to achieve a stronger emphasis on facilitating high performance in the public service through helping agencies develop their management structures and their staff.

This role is achieved by:

- providing policy advice to Government on a range of statutory and other responsibilities, and on shaping and implementing public sector reform;
- promoting the role of APS Values and Code of Conduct in a high performing and ethical Service and assisting agencies to apply them and evaluate their application;
- developing the skills and fostering the development of APS staff, and coordinating service-wide training and career development opportunities;
- encouraging continuous improvement in the management of people, and communicating examples of good practice in public administration;
- undertaking statutory responsibilities relating to Machinery of Government changes, Workplace Diversity and the APS Whistleblowing scheme;
- supporting the Merit Protection Commissioner in the coordination and performance of independent review; and
- monitoring and reporting on the nature and performance of the APS including through the Public Service Commissioner's State of the Service Report to Parliament.

With regard to the first of the Inquiry's Terms of Reference, the PSMPC has a specific role under the new Public Service Act for developing leadership in the APS as well as issuing directions about SES employment matters such as engagement, promotion, redeployment, mobility and termination. The Department of Employment, Workplace Relations and Small Business (DEWRSB) has responsibility for the SES remuneration framework. On the second matter, DEWRSB has overall policy responsibility for matters relating to agreement making, while the PSMPC has specific policy responsibility for a range of matters including non-SES redeployment, reduction and retrenchment matters. With regard to performance pay, the PSMPC has overall policy responsibility for performance management while DEWRSB is responsible for performance-linked remuneration matters.

In addition to work on the development and introduction of the public service legislation, the PSMPC has also undertaken considerable work associated with the implementation of the APS Values. The Values were given legislative force prior to the enactment of the new Public Service Act through amendments to the Public Service Regulations. (The Act amended certain of the Values and added others.)

To assist the APS in the implementation of the Values, the PSMPC consulted widely with agencies and issued a Discussion Paper, which was released in final form in February 1999. The paper describes the key components of each of the Values and provides a list of indicators that agencies might wish to use in evaluating the application of the Values within their organisation.

The Public Service Commissioner's *State of the Service Report 1998–99* (see Attachment B) examines developments in key areas relating to the APS Values, such as accountability, client service, performance management, merit, and leadership, as well as the implementation of the APS Values themselves and the Code of Conduct. Examples of agencies' good practices and initiatives are highlighted throughout the Report.

The Report is prepared in accordance with Public Service Regulation 12 which requires that the Public Service Commissioner report annually to Parliament on the state of the APS, including on the extent to which agencies incorporate the APS Values and the adequacy of systems and procedures for ensuring compliance with the Code of Conduct. The Report was tabled in Parliament in November 1999, together with the *Workplace Diversity Report 1998–99*.

Conclusions

A major theme running through the recent reforms of the public service has been the move to increase performance and achieve results through a reduction in prescription and regulation, and a devolution of powers to Agency Heads, balanced by greater accountability for the use of these powers and an increased focus on the APS Values.

Flowing from the introduction of the Workplace Relations Act, agencies are now able to negotiate employment terms and conditions with their staff through agreement making. This has led to differentiation in the conditions that apply from agency to agency, although agreements must be negotiated within a set of broad policy parameters determined by the government, which require, among other things, that salary advancement is based on a performance management system.

These aspects of the public sector reform program inevitably raise questions about the concept of the career public service. Trends in APS staffing suggest that a traditional feature of the career service—that public service is a vocation for life—may have less relevance for a growing number of public servants.

Key aspects of a career service, however, continue. This applies particularly to the increasing focus on the APS Values which set out the special characteristics of the public service, such as merit, openness, diversity and responsiveness to Government, and distinguish the Service from other industries. The Senior Executive Service is also an important and integral element of the concept of a career service, with its emphasis on developing a broader, whole-of-government perspective amongst the senior management group.

The reform process has highlighted the need for the APS to be able to respond to changing priorities and manage change processes effectively. This in turn requires that employees have the appropriate set of skills to perform effectively and that managers have the necessary leadership skills to guide their staff through organisational change.

The reforms have also had significant implications for the role of the PSMPC and other central agencies. With the devolution of substantial management and employment powers to line agencies, the role of the Commission is now more focused on working with agencies to help them improve performance and develop effective management strategies. The PSMPC will continue to have a key role in the management and development of the SES, particularly with regard to leadership development, as well as a broad monitoring and review role in relation to the implementation of the APS Values.

SENIOR EXECUTIVE SERVICE

The evolving changes in the nature of the Senior Executive Service, including chief executive officers, as a result of the devolution of responsibility for staffing matters to individual agencies, such changes including, but not limited to, selection, tenure and independence, remuneration, including relativities, mobility and career development.

This part provides an overview of key features and trends in the composition of the SES, background information on the establishment and development of the SES, an outline of the relevant aspects of the new Public Service Act and associated Public Service Directions and PSMPC functions, and information on recent initiatives in leadership development programs for the SES. Matters relating to performance pay for the SES are covered under the specific Reference relating to performance pay.

Under the new Public Service Act, the APS consists of Agency Heads and APS employees, with the latter including SES employees. There are three categories of Agency Heads:

- (a) the Secretary of a Department—advice on appointment and termination of appointment of Secretaries (other than the Secretary of the Department of the Prime Minister and Cabinet) is the responsibility of the Secretary of the Department of the Prime Minister and Cabinet and the decision is one for the Prime Minister under Part 7 of the Act;
- (b) the Head of an Executive Agency—appointment and termination of appointment is the responsibility of the relevant portfolio Minister under Part 9 of the Act; and
- (c) the Head of a Statutory Agency—provisions for appointment and termination of appointment are set out in the relevant legislation establishing the agency and are the responsibility of the relevant portfolio Minister.

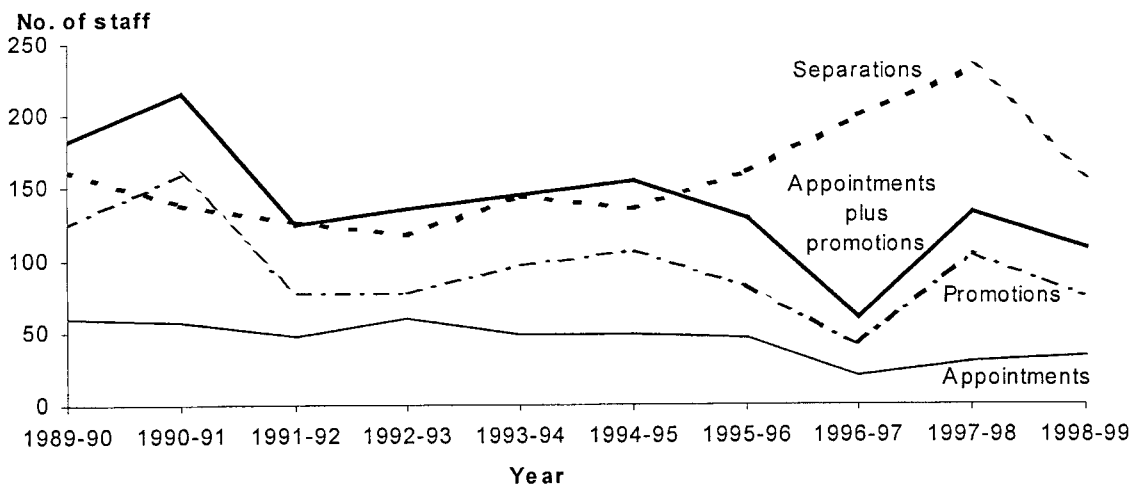
Matters relating to the selection, tenure, independence and remuneration of chief executive officers are not, therefore, covered in this submission. All Agency Heads are bound by the APS Values and the Code of Conduct. Under the new Act, one of the functions of the Public Service Commissioner is to inquire into alleged breaches of the Code by Agency Heads, as well as to evaluate the extent to which agencies incorporate and uphold the Values.

Size and composition of the Senior Executive Service

The overall number of permanent SES officers employed under the Public Service Act has fallen over the last ten years, from 1,578 at June 1990 and a peak of 1,746 at June 1994 to 1,486 at June 1999, although the proportion of SES officers in the APS as a whole has risen marginally from 1.2% at June 1990 to 1.5% at June 1999.

The reduction in the number of SES officers since the mid 1990s reflects the significant increase in the number of separations compared with promotions and appointments, following a period of three years when there was a net gain in SES numbers, with SES entrants outnumbering exits. Figure 4 compares the number of officers entering and leaving the SES.

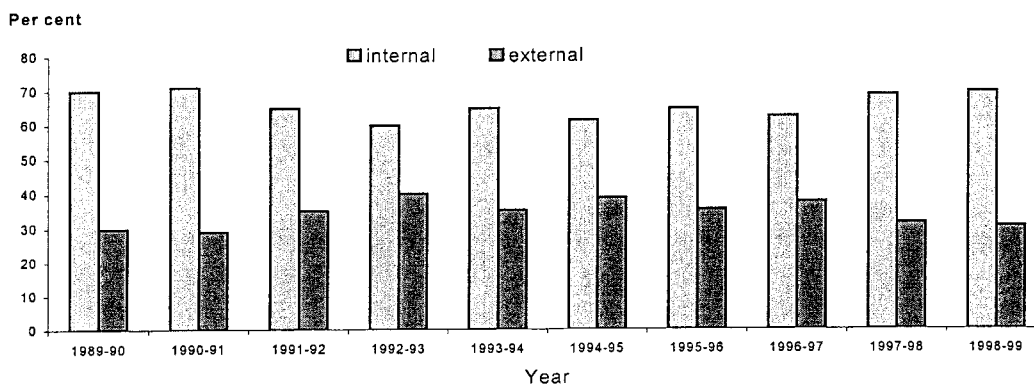
Figure 4: Number of separations from, and promotions and appointments into, the SES³



The above data does not include transfers within agencies nor does it distinguish between internal and external agency promotions. Figure 5 shows the extent to which advertised SES vacancies have been filled internally, by promotion or transfer within the agency, or externally, by promotion or transfer of an officer from another agency or by appointment of a person from outside the APS.

It shows that during the first half of the decade there was an increase of approximately 10% in the proportion of positions filled by applicants from outside the relevant agency, from 30% in 1989–90 to around 40% in 1993–94 and 1995–96, falling back to 31% in 1998–99.

Figure 5: Proportion of SES vacancies filled by internal agency applicants and external applicants

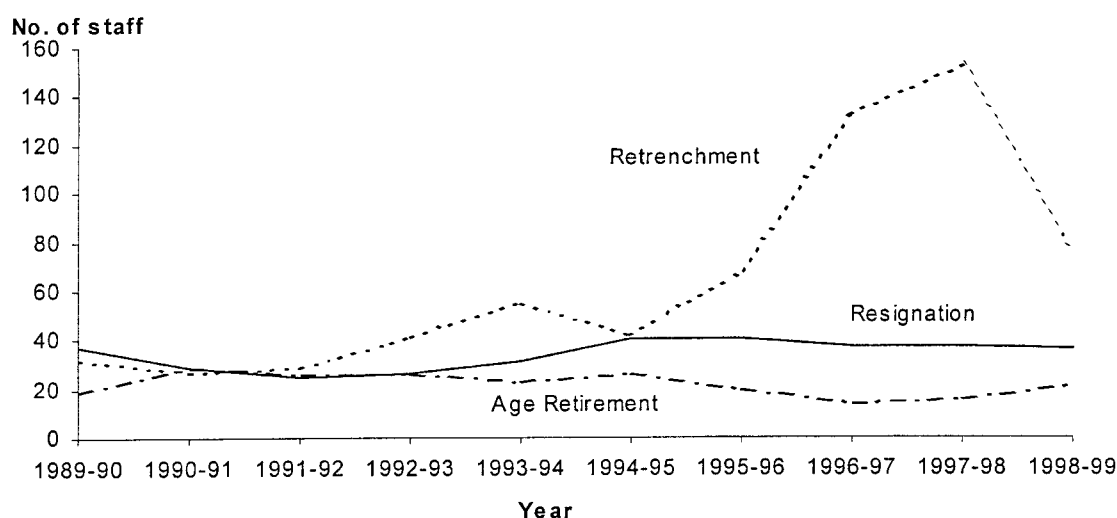


³ 'Separations' include SES officers moving to an authority covered by the mobility provisions of the *Public Service Act 1922*. 'Appointments' include the re-engagement of SES officers under the provisions of the Act.

The proportion of external appointments, compared with internal APS promotions and transfers, shows a similar pattern, with the percentage of appointments rising from around 9% in 1989–90 to over 16% in 1995–96, and then falling back to 9% in 1997–98 before climbing again to 15.6% in 1998–99. It remains to be seen whether the return to a relatively high proportion of external appointments in 1998–99 reflects a continuing trend. Anecdotal evidence from agencies suggests that they are looking to attract a broader range of applicants for senior positions with the more flexible remuneration packages that can be offered.

Figure 6 shows the three main types of separation over the ten years to 1998–99. Unlike the APS as a whole, SES resignations have remained fairly constant over the period whereas retrenchments have increased steadily for the first few years and substantially from 1994–95 to 1997–98, reflecting a similar pattern for the APS.

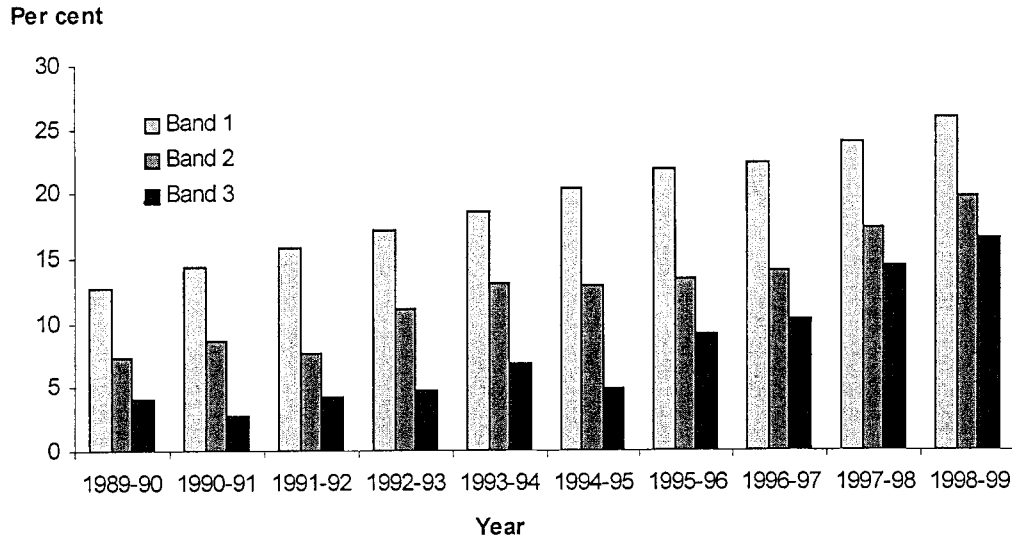
Figure 6: Separation of SES officers by type of separation



There were 358 women in the SES in June 1999, or 24.1% of all SES officers, compared with 11% in 1990. SES women were most heavily represented in the Department of the Prime Minister and Cabinet (40.6% of all SES officers) and in the education and community services departments such as Family and Community Services, Health and Aged Care and Education, Training and Youth Affairs, where the average is 36%.

The proportion of women increased in all three SES bands in the ten years to June 1999. The relatively small numbers of Band 3 women mean that a small change in numbers is reflected in a relatively large percentage change, as was the case in 1994–95; however, over the ten year period the highest rate of increase has occurred at this level.

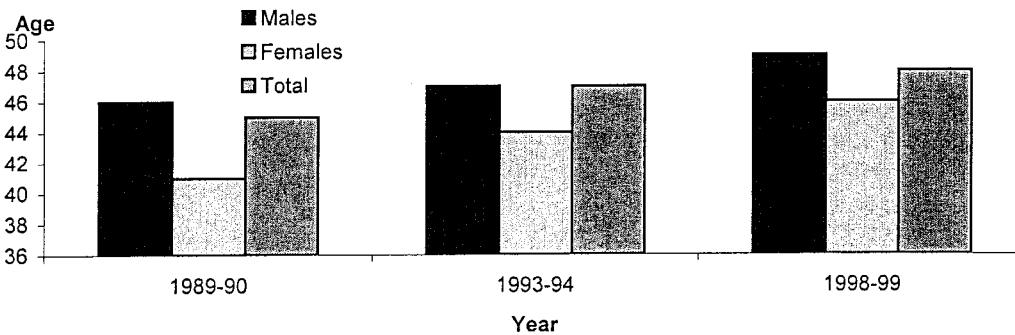
Figure 7: SES Women as a proportion of SES officers



The median length of service at June 1999 was 23 years for SES men, and 17 years for SES women. This represents a slight increase on the June 1990 figures of 21 and 14 years respectively. Around 18% of SES officers at June 1999 had more than 30 years' service, while 25% had less than 15 years' service.

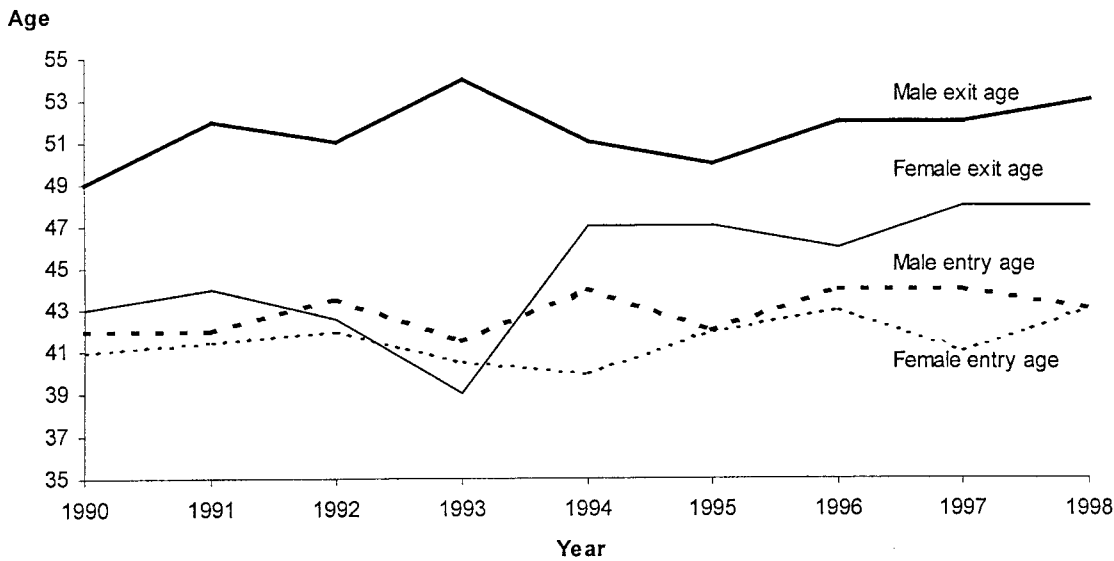
The median age for SES officers has risen from 45 in June 1990 to 48 in June 1999, reflecting an ageing of the APS as a whole. As shown by Figure 8, the median age for women has risen by five years in the same period, compared with an increase of three years for men.

Figure 8: Median age of SES by gender.



The ageing of the SES is reflected in an increase in the median age of people leaving the SES and, to a lesser extent, also joining the SES. Figure 9 shows that this has applied to both men and women.

Figure 9: Median age of entry to, and exit from, the SES



Last year the PSMPC carried out an analysis of the career backgrounds of APS staff who had been promoted to the SES during 1997–98. The study showed that at least 75% of the 120 people promoted in that year commenced work in the APS as part of a graduate recruitment program or some other form of base grade entry.

This suggests that a significant proportion of senior management of the APS has made a career commitment to spend a large part of their working lives in the APS. Of the 120 promotees, 60% have worked in only one or two agencies, suggesting they have made their career in a particular sector of government activity.

The study also examined whether the promotees shared any particular characteristics different to those of the feeder group as a whole, that is Senior Officer Grade (SOG) As and Bs and professional equivalents. The analysis revealed that promotees were proportionately more likely to be in the 30 to 50 age group than the SOG B group as a whole. For women, promotees were more likely to be in the 45 to 49 age group than any other age group; while for men they were more likely to be in the 35 to 39 age group.

Also, female SOG Bs were more likely than male SOG Bs to be promoted into the SES when considered against their proportions in the SOG B group as a whole (36% of promotions compared with 26% of the SOG B group). Other than this, there were few characteristics about the promotees, such as length of service, that distinguished them from the feeder group.

Establishment of the Senior Executive Service (SES)

The concept of a senior management group was raised in several inquiries into aspects of the APS during the 1970s and 1980s: the 1976 (Coombs) Report of the Royal Commission on Australian Government Administration; the 1982 Joint Parliamentary Committee of Public Administration Report on *The Selection and Development of Senior Managers of the Commonwealth Public Service*; and the 1983 (Reid) Review of Commonwealth Administration. The inquiries identified common desirable features of a senior staffing group as including open entry, mobility, performance appraisal, improved training and central coordination of staffing policy.

In December 1983 the Government issued the White Paper on reforming the APS, a key element of which was reform of the senior public service. The White Paper proposed the creation of a Senior Executive Service, 'free of political patronage, which places greater emphasis on management ability, appraisal of performance and flexibility of deployment in accordance with Government priorities'. The White Paper made it clear that the SES was not intended to be an elitist, protected group; positions would be open to outsiders, and SES officers would be required to meet high standards of performance.

The SES was formally created in October 1984 through an amendment to the Public Service Act. In his Second Reading Speech, the then Minister for Finance and Minister Assisting the Prime Minister for the Public Service, the Hon. John Dawkins, stated that one of the objectives of the reforms was to create new arrangements for senior management, with the dual purpose of ensuring a fully productive relationship with government and enabling senior managers to realise their full potential. This would be achieved by re-shaping the Second Division into a 'more unified and cohesive group'.

The formal functions of the SES were set out in s.26AA(2) of the Act:

The Senior Executive Service is established in order to provide for a group of officers who:

- (a) may undertake higher level policy advice, managerial and professional responsibilities in Departments; and
- (b) may be deployed ... so as best to promote the efficiency of the Australian Public Service.

The legislation provided for, among other things:

- gazettal and open competition for vacancies except where a transfer is to be made;
- fixed-term appointments as an option;
- selection to be made on the basis of relative efficiency;
- promotions and appointments to the SES to be made by the PSB, on the recommendation of the relevant departmental Secretary;
- mobility of SES officers within and between departments; and
- redeployment and retirement of SES officers, including provision for the PSB to initiate voluntary retirement with special benefits.

In selection processes, more emphasis was to be given to general management and policy skills and less to experience relevant to specific duties. Core selection criteria, developed by the PSB, were adopted in 1987 and used by agencies in selection processes.⁴ They comprised human relations skills; strategic view; conceptual/analytical and creative skills; adaptability and flexibility; and achievement orientation.

Additional job specific criteria could be included after consultation with the PSB. Although there was an emphasis on ability to perform at level, it was possible to include specialised knowledge as a requirement for certain jobs.

Developments in relation to the SES 1987–98

Prior to the substantial changes to the SES brought in by the *Public Service Act 1999* there were several changes in the formal arrangements applying to SES employment, as well as several reviews that looked at a range of management and development issues. Appendix 1 provides a more detailed account of these developments.

In summary, the major changes to the SES structure in this period were the reduction from six levels to three bands and the introduction of the SES (Specialist) category, both of which occurred in 1990, and the 1987 streamlining legislation, which saw the number of departments reduced from 28 to 17 and a substantial number of SES officers displaced or leave the Service.

Two Parliamentary Committee inquiries, one by the Senate Standing Committee on Finance and Public Administration in 1990 on the *Development of the Senior Executive Service* and the other by the Joint Committee of Public Accounts in 1992 on *Managing People in the Australian Public Service*, dealt with SES management and development issues.

The Senate Committee reaffirmed the value of having a cohesive group of senior managers with a broad perspective, but raised doubts as to whether any concrete measures other than redundancy arrangements had been undertaken since 1984 to develop this concept. Both Committees advocated a stronger central agency role in the management and development of the SES, with a view particularly to broadening the experience and increasing the mobility of SES officers.

There have also been several surveys of SES officers, most notably the Jans, Renfrow and Kakabadse surveys, and the staff survey conducted by the Task Force on Management Improvement. These surveys have revealed a consistently positive view held by SES officers about the concept of the SES, the value of the public sector reforms, the professionalism of their own organisation and the nature of their work, although there were some reservations about the level of their remuneration. The findings also indicated a persistent concern about the quality of leadership and communication in their organisation and about the extent to which their own development needs were being met.

⁴ The criteria were revised in November 1990, following a review by the PSC, to comprise corporate management skills, representation skills, leadership, conceptual and analytical skills, and judgement.

The 1999 Public Service Act

The distinctive nature of the APS Senior Executive Service, with separate employment arrangements, a cross agency perspective and clear management responsibilities, has been reaffirmed in the new Public Service Act.

Part 4, Division 2 of the Act relates to the SES. Section 35 states that the function of the SES is: to provide a group of APS employees each of whom, within his or her Agency:

- (a) provides one or more of the following at a high level:
 - (i) professional expertise;
 - (ii) policy advice;
 - (iii) management;
- (b) promotes co-operation with other Agencies; and
- (c) by personal example and other appropriate means, promotes the APS Values and compliance with the Code of Conduct.

The Act also retains a strong central agency role in the management of the SES. Section 36 provides that the Public Service Commissioner must issue directions in writing about employment matters relating to SES employees, including engagement, promotion, redeployment, mobility and termination.

Section 37 provides that an Agency Head may give a notice in writing to an SES employee, stating that the employee will become eligible to a payment of a specified amount if the employee retires within a specified period. Section 38 provides that a Commissioner's certificate is required for termination of employment of an SES employee.

Under the Act, Agency Heads exercise the employment powers affecting SES employees, taking account of the requirements of the Act, the Public Service Regulations and the Commissioner's Directions. (DEWRSB has responsibility for the SES remuneration framework.)

The PSMPC has provided advice to agencies on what these requirements are and how they should be handled. A copy of the advice is at Attachment C.

Recruitment and selection

The principles upon which SES selection practices are based continue to be equity, natural justice and open competition on merit. The Commissioner's Directions state that decisions on engagement or promotion are based on merit if an assessment is made of the relative suitability of the candidates for the duties to be undertaken, using a competitive selection process, and the assessment focuses on the relative capacity of the candidates to achieve outcomes related to the duties. The assessment is the primary consideration in making the decision.

⁵ The report notes however that this high rate of mobility would have been influenced to some extent by the Machinery of Government changes in 1987.

The PSMPC's advice to agencies sets out the new arrangements for recruitment and selection and the role of the Public Service Commissioner in the process. A key element of the new selection procedures is the replacement of the existing core selection criteria with five new criteria derived from the Senior Executive Leadership Capability Framework.⁶ The Framework, launched by the Minister in May 1999, identifies the critical success factors for high performance in APS leadership roles. The five key areas are:

- shapes strategic thinking;
- achieves results;
- exemplifies personal drive and integrity;
- cultivates productive working relationships; and
- communicates with influence.

In order to be considered suitable for the SES, applicants have to be assessed as having a basic level of competence against all of the criteria. Where an agency believes it is necessary to include, in addition, agency-specific criteria such as particular qualifications or mobility requirements, it will be able to do so with the approval of the Commissioner.

Other features include:

- notification of vacancies (defined in the Act as 'ongoing employment opportunities') in the Gazette and appropriate external media;
- inclusion of a representative of the Commissioner on the selection advisory committee;
- endorsement of the selection process by the Commissioner before an Agency Head can engage or promote an employee to the SES level; and
- an option to engage the preferred applicant as an ongoing SES employee or for a specified term of up to five years.

Mobility

The advice notes that an Agency Head may decide, at any time, that it is most appropriate to fulfil a staffing need through the movement of an existing SES employee at the same classification level.

Mobility can also include movement of SES employees to duties at a lower level, either with or without the agreement of the employee. Consideration of such a move must be based on one or more of the reasons set out in section 23(4) of the Act, relating to classifications, and in the Commissioner's Directions. These grounds include:

- the employee is excess to requirements;
- the employee lacks, or has lost, an essential qualification;
- non-performance, or unsatisfactory performance, of the employee's duties;
- inability to perform duties due to physical or mental incapacity; or

⁶ Further information on the development of the Framework is provided at p.24. The capabilities relevant to each of the five core criteria are set out in full in Attachment D.

- changes to the operational requirements of the agency.

Movement of SES employees based on these grounds may be made with or without the consent of the employee. Mobility based on other reasons will require the consent of the employee.

Retirement and termination of employment

PSMPC's advice also sets out arrangements for the retirement and termination of employment of SES employees. SES employees have the same options regarding age retirement as non-SES employees. That is, they may retire at any time after attaining age 55. There is no longer any specified upper age limit by which an employee must retire.

As noted above, the Act gives Agency Heads the power to offer an ongoing SES employee the opportunity to retire with an incentive. This is similar to the arrangements applied under section 76R of the *Public Service Act 1922*, but with Agency Heads, rather than the Public Service Commissioner, making the employment decision.

The Commissioner's Directions on retirement with an incentive set out the minimum requirements that must be met. These include:

- the employee has been given information about available options for reassignment, including assignment to duties at a lower classification level;
- the employee has been given access to financial advice and career counselling; and
- the Commissioner has agreed to the amount to be paid as an incentive to retire.

With regard to the specified amount to be paid as the incentive to retire, it is anticipated that, in normal circumstances, similar levels of benefit will be paid as applied under section 76R of the *Public Service Act 1922*. This is a benefit calculated at the rate of two weeks of salary for each year of service, up to a maximum of 48 weeks of salary, plus an amount of four or five weeks 'in lieu of notice'. The normal maximum specified amount will therefore be no more than 53 weeks of salary. This is in accordance with the Policy Parameters for Agreement Making in the APS.

In cases where an offer to retire is not agreed to by the SES employee concerned, the agency will need to consider whether to pursue other options, such as reconsideration of possible reassignment of duties, reduction in classification level or termination.

An Agency Head may, under section 29 of the new Act, terminate the employment of an employee, including an SES employee.

Any decision to terminate an SES employee must be justified on one or more of the grounds mentioned in subsection 29(3) of the Act relating to terminating the employment of APS employees, namely:

- the employee is excess to the requirements of the Agency;
- the employee lacks, or has lost, an essential qualification;
- non-performance, or unsatisfactory performance, of duties;

- inability to perform duties because of physical or mental incapacity;
- failure to meet a condition imposed under section 22(6), such as satisfying probation and/or citizenship requirements;
- breach of the Code of Conduct; or
- any other ground prescribed by the regulations.

In relation to the termination of an SES employee, section 38 of the new Act prevents an Agency Head issuing a notice of termination unless the Commissioner has issued a certificate stating that all relevant requirements of the Commissioner's Directions have been satisfied in respect of the proposed termination and that the Commissioner is of the opinion that the termination is in the public interest.

A new strategic approach to leadership development in the APS

The PSMPC has for many years offered a wide range of development opportunities for the SES and feeder groups at the Senior Officer level. The programs have typically included short term and longer term courses, seminars, and fellowships for overseas study.

These programs play an important role in cross-Service leadership development by enabling senior executives to build and maintain a comprehensive understanding of the overall APS environment, and to develop a broader range of key competencies. Not only do they provide participants with a broader perspective and context for their role within an agency, but they also provide opportunities for networking and discussion about common issues.

Over the last two years the PSMPC has been reviewing its leadership role with a view to significantly upgrading leadership development in the APS. The review has taken account of feedback from Secretaries, HR practitioners, program participants and program providers. It has also taken account of public sector trends in both Australia and overseas. Almost 50% of agencies indicated they had their own leadership development programs in place, but all of them regarded the PSMPC programs as providing complementary leadership development, particularly the broader perspective they gave to leadership and management.

The need for better overall planning and development for the SES was a recurring theme in discussion between the Commissioner and agency heads in 1998. These discussions identified the need for further action in three key areas:

- ensuring the supply of quality senior executives for the future;
- improving the understanding, and the development, of skills required by that group; and
- putting in place mechanisms to ensure that senior executives could bring a Service-wide, as well as an agency, perspective to their work.

The review led to the announcement by Minister Kemp, in August 1998, that the Public Service Commissioner would undertake an initiative to revitalise and strengthen leadership identification, development and training in the APS. This initiative had four key elements;

- identifying the capabilities required of high performing APS leaders;

- reviewing selection and assessment processes to ensure integration of the capabilities;
- aligning leadership development programs with the capabilities; and
- identifying and communicating good practice in leader development and succession planning.

Identifying leadership capabilities

A major output of this initiative was the *Senior Executive Leadership Capability Framework*. The process for developing the Framework, which commenced in August 1998, was both rigorous and consultative. It was designed to incorporate the views of APS agencies and to ensure that the capabilities built on agencies' own leadership experiences. Participants in the process included agency heads and a sample of SES officers and Executive Level staff. In all, almost 200 agency representatives from 49 different agencies participated.

The Framework was endorsed by Portfolio Secretaries in March 1999. It was then fine-tuned and launched officially by the Minister on 19 May 1999.

The Framework has several distinctive characteristics. First, it is a clear statement of the criteria and associated capabilities for high performance leadership. Secondly, it is specific to the APS and is not an adaptation of other models or frameworks. Thirdly, it is performance based, identifying the behaviours that are exhibited by the more effective performers at these levels.

The Framework sets out a new statement of requirements for the SES that takes account of the former SES selection criteria, but highlights the very different expectations that have emerged in recent years. In particular, whereas the former criteria included leadership as one of the requirements, the Framework is centred on leadership itself.

It also reinforces the role of the SES as a source of interconnection across the APS. It establishes clearly that the more successful SES officers are active in making sure that they understand whole of government objectives, seek out the interconnections between those objectives, and work together, within and across agencies and with external groups, in a way that produces the best overall outcomes for government.

In this regard, the Framework redefines the aspirations which accompanied the creation of the SES. As noted previously, it had been intended that the SES would be a readily mobile resource and would, as a result, transfer knowledge and skills across agencies. The new Framework acknowledges the reality that even if this level of mobility might not be achievable, SES officers constitute a group who must work together across organisational boundaries to achieve coherence both in advice to government and delivery of services.

Development programs

In consultation with agencies, the PSMPC has reviewed and redesigned its SES development programs in line with the Leadership Capability Framework. Details of the new programs, which are available from February 2000, are provided in Attachment E.

The objective is to ensure that the new programs meet the changing needs of the SES and reflect best practice in design and delivery. Their design acknowledges the workload constraints and pressures on SES officers and as a result the programs incorporate more flexible forms of delivery.

The new suite of programs is grouped into three streams:

- career development programs, including leadership extension activities and seminar series;
- expertise development programs—seminar workshops and briefings; and
- individually focused development services that can be accessed on request.

The career development programs are closely aligned with the five key characteristics of the Framework. They include:

- an induction program for people who have been appointed to the SES from other industries;
- a program to provide APS officers who have recently been promoted into the SES with the core skills required in their new roles; and
- a program for more experienced SES officers to refine their knowledge and skills and sustain their leadership capabilities.

A new program, *Top Leadership: Strategy and Complex Systems*, is being developed for those in the most demanding senior executive roles. The focus of the program is work on a major challenge confronting government and the APS, which participants use to develop their skills. While working in project groups, participants have access to expert support and advice and undertake highly focused coursework that addresses the skills required to analyse and understand complex systems and develop pragmatic solutions. The approach is currently being evaluated in a pilot program.

The extension programs include a series of four-day Strategic Public Sector Leaders' Summits which are designed to challenge senior executives to explore issues and opportunities facing the public sector. The Summits, which were first conducted in 1998, are a joint initiative of the Australian and New Zealand Public Service Commissioners or their equivalents. Each Summit focuses on a different theme, such as the impact of emerging technologies, internationalism and regionalism, the structure of work in organisations and the role and nature of the public sector.

The expertise development programs are one or two day seminars and workshops that develop both knowledge and practical skills in specific areas such as strategic planning, contract management, performance management and effective personal leadership. Two of the workshops examine issues concerning public servants' relationships with Parliament and follow on from the series of seminars conducted by the PSMPC during 1998–99 on this topic.

A new feature is the provision of experienced coaches, on a fee-for-service basis, to assist officers in a range of leadership and management areas such as strategic career management, personal effectiveness, financial management and resolving difficult staff management issues.

This service complements the confidential advisory service that the PSMPC has provided since the establishment of the SES. The SES Adviser role is currently undertaken by the Team Leader of the Staffing, Structures and Performance Team, an SES position. The Adviser is able to assist SES officers who may be encountering difficulties in their work situation, or facing potential redeployment or retirement, or may be seeking advice on career directions and development.

Career Development Assessment Centre

In addition to its application to selection processes, mentioned above, the Leadership Capability Framework has also been used as the basis for the design of a Career Development Assessment Centre. The Centre will focus initially on identifying the specific developmental needs of high potential Executive Level staff, and formulating strategies to address those needs.

The Development Centre has arisen out of a need identified by Portfolio Secretaries to strengthen the development of future senior executives, to prepare them for SES roles and equip them to meet emerging challenges for the APS. The need for better overall planning and development for the SES emerged as a recurring theme in discussions between the Public Service Commissioner and agency heads in 1998 and 1999.

The PSMPC has coordinated the establishment and implementation of the Centre as a collaborative venture with fifteen APS agencies that have made a financial commitment to its establishment. The design and delivery arrangements for the Development Centre were guided by an advisory group of secretaries from the participating agencies. As such, it is strongly supported by the heads of those agencies.

The Centre became operational in December 1999. It is a two and a half day event which involves twelve participants, six observers/assessors and two facilitators. Each Centre will involve participation from a number of agencies to gain the advantages of cross-agency interaction and networking; four of the observers at each Centre are SES officers drawn from the participating agencies.

Initially, the Development Centre will be aimed at Executive Level 2 officers. Each agency will have its own process for determining participants, however the PSMPC has suggested that agencies take into account that participants clearly and consistently demonstrate above average performance and are considered to have the potential to operate at the SES Band 1 level in the next two years.

The fundamental objective of the Development Centre is to meet development assessment, not selection, purposes. It will provide a comprehensive and balanced picture of the participant's strengths and development needs using the Capability Framework as a benchmark. The information generated through a range of assessment activities will provide a basis for participants to formulate specific development plans in consultation with their line managers.

Seven additional Centres will be run in the first half of 2000 to meet the needs of the agencies participating in this collaborative exercise. From July 2000, all APS agencies will be able to

access the Centre on a fee for service basis, as well as the 360-degree feedback tool and self development materials initially developed for use in the Centre.

Best practices in leadership development

The PSMPC has prepared a *Good Practice Guide on Leadership Development*, drawing on research of literature, trends in management development, the experience of best practice organisations both in Australia and overseas, and material submitted from agencies about their own initiatives in leadership development. The Guide identifies key themes that are common to effective leadership development practices and includes case studies that show how some APS agencies and other organisations have used leadership development approaches to meet their own needs. It is available on the Commission's internet site.

Succession Planning

Succession planning to ensure the sustainability of agencies and of the leadership of the APS as a whole is a key responsibility of Agency Heads.

In his speech launching the Framework, Minister Kemp stressed the importance of this aspect:

‘Succession planning is about increasing the breadth and strengthening the depth of a pool of suitably qualified candidates who have the potential to take on positions at a higher level so that the Service as a whole has an increasing number of high quality leaders on which to draw. It is important to emphasise that succession planning is not about patronage or favouritism. It will be implemented in the APS within the framework of the merit principle and the APS Values.’⁷

Succession planning is part of effective resource planning as it involves both the identification of suitable candidates to compete for senior positions and the development of the feeder group to increase the incoming skill base. It enables agencies to identify and retain talent, facilitate mobility and create diversity and opportunities.

In addition, Portfolio Secretaries have agreed to institute a more structured approach to succession planning at the senior levels of the Service. The initiative, to be coordinated by the Public Service Commissioner and to commence in the 1999–2000 financial year, should prompt a greater focus on succession planning at other levels in the organisation.

International comparisons

It is useful to compare developments in Australia with the experience of other countries in relation to their senior management group.

OECD Report on Managing the Senior Public Service: A Survey of OECD Countries, 1997

The report was based on a survey of 21 countries, including Australia, carried out by the OECD's Public Management Service (PUMA) in 1995. The topics covered in the survey

⁷ The Hon. Dr David Kemp MP, Launch of the Senior Executive Leadership Capability Framework, Canberra, 19 May 1999.

included the existence of a separate management system or strategy for the senior group, recruitment and employment arrangements, and performance management.

The survey found that there was no common trend in the size of the senior public service over the previous ten years, with some countries showing a decrease in absolute numbers and others a substantial increase. Almost all countries, however, reported an increase in the proportion of women in the senior ranks, with the proportion ranging between 10 and 20%.

Only a few countries had established separate senior executive systems that emphasised the notion of senior managers as a Service-wide resource with a shared culture, broad experience, a government-wide perspective, and possessing generic managerial competencies. On the other hand, senior managers were, in many cases, covered by special terms and conditions of employment that did not apply to the rest of the public service and had access to special training and development programs.

Countries were asked to indicate the most important changes in the characteristics of the senior public service and the way it was managed. The most frequently mentioned changes included:

- a stronger emphasis on management skills and competencies rather than specialist skills;
- changes in recruitment and appointment procedures with the aim of broadening access to the senior public service, diminishing or eliminating seniority as a selection criterion, and attracting a wider range of talent;
- greater attention to career management and development of senior public servants;
- a concern to increase the diversity of the senior public service; and
- new initiatives related to remuneration, mobility, termination of employment and selection criteria or procedures.

Senior recruitment other than to top level posts tended to be under the decentralised control of the recruiting organisation, although there were often standard selection processes that had to be followed. In all of the countries surveyed, the majority of those entering the senior public service came from within the national public service and very few from outside the public service.

Ten of the twenty-one countries indicated that they had some provision for contract employment for their senior public servants. In many cases, this included fixed-term contracts, with or without provision for renewal. There were often special provisions relating to termination of employment of senior officials, including termination for unsatisfactory performance or due to reduction or restructuring of the public service.

Few of the countries reported having any type of formal mobility arrangements or mobility policy. Several countries, however, indicated a need to increase mobility at senior levels and a number had introduced or reinforced mobility instruments of various types in recent years.

Fourteen countries reported that they had some type of formal reporting or performance appraisal arrangements for senior public servants and several others reported the use of

informal mechanisms of various types. The majority of countries had formal mechanisms available to deal with poor performers, including formal warning, transfer to a less demanding job, reduction in classification, and dismissal. The usual approach to performance problems, however, has been to set up a performance improvement plan and provide training if necessary or to initiate a voluntary transfer or voluntary retirement.

Recent country initiatives

The UK Civil Service Reform strategy, announced in December 1999, contains a range of measures to improve the quality of the Senior Civil Service (SCS). They include a review of the key competencies required for the SCS, to give greater emphasis to behaviours such as innovation and risk-taking, and extension of 360-degree feedback and personal development programs to all SCS officers. Officers seeking to enter the SCS will in future be expected to have experience in frontline delivery or operational management, and by 2005 at least 50% of the SCS will be expected to have had experience outside the Civil Service.

A Public Service Leadership Scheme will identify 100 of the most talented middle managers and provide them with structured training and development including experience in the private and voluntary sector. Succession planning arrangements will be put in place to provide talented officers in the SCS and feeder groups with relevant development opportunities and facilitate movement of appropriate candidates. In addition, departments will be expected to create opportunities for new people by advertising a higher proportion of SCS positions for external competition and implementing a targeted early retirement program.

A Senior Public Service (SPS) was introduced in the Netherlands in 1995 and comprises 350 civil servants in the top three salary levels of central government. The initiative was aimed at increasing mobility among senior public servants and providing a more concerted, long-term development program.

A formal evaluation was carried out in 1997. It showed that 40 % of vacancies in the SPS were filled as the result of movements between departments and 40% of the total were of a horizontal, rather than vertical nature. Following the evaluation, a system of career guidance has been put in place, competencies for the top group have been approved and development and training activities have been undertaken.

The Canadian Government appointed an Advisory Committee on Senior Level Retention and Compensation, in response to difficulties experienced in recruiting and retaining senior level officers. The Committee made a number of recommendations, contained in a report of February 1997, which were accepted by the Government. In addition to an increase in executive salaries, the recommendations include the introduction of a suite of programs for new entrants to the senior service through to the most senior levels, designed to provide available 'pools' of high-performing leadership potential at various levels. The Canadian Public Service Commission has since introduced new leadership programs, including an Accelerated Executive Development Program, which involved extensive assessment and development processes against defined leadership competencies.

Conclusions

The SES model as it was originally conceived was centred on a distinctive senior management group of high performing officers who would compete openly for jobs without political influence, who would undertake high level policy advisory, managerial and professional responsibilities, and who would be subject to redeployment in order to meet Government priorities. They would have separate employment arrangements and career development opportunities and would be expected to have a broad public service perspective and ethos that extended beyond their specific departmental and job responsibilities.

These key elements remain valid today. SES officers must, for example, have the capacity to think and act outside formal organisational boundaries and to develop networks both within their own organisation and across agencies.

This is not to say that the SES has been isolated from change.

First, the composition of the SES, while still predominantly male and Canberra based, has shown a continuing increase in the proportion of women, who now make up 24% of the SES; and while the median age of the SES has continued to rise over the last ten years, a much higher proportion of SES officers now leave the Service through retrenchment—almost 50% in 1998–99 and 66% in 1997–98—compared with resignation or age retirement.

The role of the SES has shown some change. While SES officers continue to exercise both management and policy/professional responsibilities, they now have a much stronger leadership role. The requirements of this leadership role have now been articulated more comprehensively and clearly than ever before, and the planning and development effort of agencies and the PSMPC are being aligned with these requirements.

SES officers now enjoy a greater degree of flexibility in the way in which they manage their staff and other resources but at the same time are more accountable for outcomes.

In terms of employment, SES officers' remuneration and other conditions of employment are now very largely determined through the process of negotiating AWAs with their agency head. As part of this process, their remuneration (or at least a proportion of it) is generally more closely linked to performance.

The employer role of agency heads in relation to the SES in their agency has been enhanced by the new Public Service Act. This applies to actions such as engagement, movement and suspension of employees and termination of employment, as well as to remuneration and conditions of employment. On the other hand, in exercising their powers, agency heads are required to take account of the Public Service Commissioner's Directions. The Commissioner also retains specific powers in relation to the selection and engagement of SES officers and termination of their employment. In addition, there are quite clear safeguards against patronage or the arbitrary dismissal of employees

Consistent with the recommendations of several parliamentary inquiries and other reviews, the PSMPC continues to exercise a key role in the training and development of SES officers. Flowing from the changing role of the SES, there is now a much greater focus on developing the leadership capabilities of the SES, including the use of career development assessment centres to identify and assist senior officers with SES potential. Developing the leadership of senior managers in the APS is critical to achieving high performance and to successfully implementing and managing change in the new APS environment. It is also a fundamental means of encouraging SES officers to adopt a broader whole of government perspective and to work across organisational boundaries to achieve government outcomes.

AGENCY BARGAINING

The impact of agency-based bargaining in contributing to the development of a more efficient, productive and independent Australian Public Service, accountable to the Australian Parliament.

The 1998-99 State of the Service Report noted progress made by agencies in concluding agreements. As at June 1999, there were 98 certified agreements and 4,130 AWAs in the APS covering virtually all staff. The Report noted that DEWSRB and the ANAO were conducting reviews of agreement making in the APS. The outcomes of those reviews, together with the two agencies' submissions to the Inquiry, will address the broader developments and issues in agreement making within the APS.

This section therefore focuses on the PSMPC's involvement in agreement making and related issues.

PSMPC policy role

Under the 1997 policy parameters for agreement making in the APS, DEWSRB had responsibility for assessing draft agreements proposed by agencies against the policy parameters. An arrangement was in place whereby DEWSRB consulted the PSMPC on matters within our policy role. The Commission's main interest was in the area of redeployment, reduction and retrenchment.

Under the 1999 policy parameters, DEWSRB no longer has the same direct role in assessing all areas covered by agreements. The PSMPC, however, continues to have an interest in draft agreements to assist in developing guidance material for agencies in areas that fall within its policy interests, and DEWSRB staff have continued to consult PSMPC staff on contentious provisions of draft agreements lodged by agencies.

While DEWSRB has primary responsibility for the operation of the policy parameters, the PSMPC has participated in aspects of their development, including on matters relating to merit protection, redeployment, reduction and retrenchment, performance management and Machinery of Government (MoG) changes.

The role of central agencies in assessing draft agreements against the current policy parameters will lessen as agencies gain the benefit of experience with the first round of agreement making. This experience, together with the guidance material provided to them, has contributed to a noticeable improvement in the quality of agreements being developed.

Machinery of Government (MoG) changes

The PSMPC had substantial involvement in the implementation of MoG changes following the October 1998 federal election. This was the first large-scale MoG change to have occurred since the introduction of agency specific bargaining arrangements resulted in differences in salaries and conditions across the APS. While 'staff follow function' continues to be the general principle that applies to MoG changes, the move towards agency specific classification

structures and salary levels created some complications in the implementation of the MoG changes.

There is a general expectation that employees affected by a MoG change would be bound by the gaining agency's agreement, unless significant disadvantage would flow from the immediate application of the conditions. As a result, staff could receive an increase in pay if they moved to an agency with higher salaries under a certified agreement. In other cases, the movement of staff into an agency could result in different rates of pay applying to staff at similar classification levels.

To address this situation, the policy parameters were revised to require certified agreements to 'facilitate mobility and maintain a cohesive APS by ... including facilitative provisions to apply transitional terms and conditions to those staff transferring from another agency as a result of Machinery of Government changes'.

In the preparation of the new Public Service Bill, the opportunity was taken to give legislative effect to the required arrangements. The new Public Service Act and Public Service Regulations now set out specific provisions relating to the remuneration and other conditions of employment of staff affected by an administrative re-arrangement.

Under the Regulations, the annual salary of an APS employee moved to another agency will be the greater of the salary that the person was entitled to before the move or the annual salary payable after the move in the gaining Agency. In other words, if higher salaries apply in the gaining Agency, employees will be entitled to receive the higher salaries.

The other terms and conditions of employment of an employee affected by such a move are those that apply in the gaining agency, with the proviso that the Head of that Agency may determine that some or all of the terms and conditions of employment of the transferring staff are to be the same as those that applied to them immediately before the move. Such a determination ceases to have effect when the terms and conditions of employment applying to the transferred employee in the gaining Agency are next varied by way of a change to an Award, certified agreement or AWA.

These arrangements under the new Public Service Act supersede those set out in the 1999 Policy Parameters, which have now been amended to delete references to MoG issues. The new arrangements also override any specific arrangements included in second round agency agreements.

Agreement making in the PSMPC

In 1997, the PSMPC completed its first round of agreement making under the framework provided by the *Workplace Relations Act 1996*.

Individual AWAs were developed for all Senior Executives and Executive Level 2 staff and the first of these were effective from 1 July 1997. The remaining staff are covered by an enterprise

agreement that was certified by the Australian Industrial Relations Commission (AIRC) on 26 November 1997.

The enterprise agreement was developed by a working group comprising the then Commissioner and some management nominated representatives, elected employee representatives and union representatives. The Agreement was certified following a vote, conducted by the Australian Electoral Commission, in which 85% of eligible staff supported the Agreement.

The Agreement has two important features:

- it is a comprehensive agreement which incorporates all terms and conditions of employment in a single document and displaces existing awards and determinations; and
- it is an agreement made between the employer and employees under section 170LK of the Workplace Relations Act. The Community and Public Sector Union successfully applied to the AIRC to be bound to the Agreement.

The Agreement provided for performance based increases in remuneration, introduced a broadbanded classification system and streamlined a range of traditional allowances and leave provisions to reduce administrative costs and to provide increased flexibility.

The Agreement also established a tripartite Workplace Relations Committee as the major consultative body in the PSMPC, replacing the former National Consultative Council and its sub-committees.

The PSMPC is now well advanced in the development of its successor Agreement.

Conclusion

The remuneration and conditions of employment of APS staff are now largely determined by agency agreements and AWAs, negotiated within broad policy parameters. The policy parameters provide a broad Government policy framework within which APS agencies have flexibility to develop agreements that meet their special needs and interests.

This has resulted in differences in conditions and remuneration across the Service which, initially, led to some complications in implementing the 1998 MoG changes. This has since been addressed by the inclusion of special provisions in the new public service legislation. It will however be important to monitor developments to ensure that these arrangements do not unduly inhibit movements of staff between agencies or undermine the operation of the merit principle.

PERFORMANCE PAY

The extent to which performance pay is being incorporated into agreements negotiated by individual agencies, the disparity between agency agreements in performance pay and the impact of such agreements on agency performance, accountability and transparency.

Current arrangements for performance appraisal and pay in the APS are to a large extent the product of a period of development which extends back to the late 1980s. In 1988 MAB endorsed an approach for the introduction of performance appraisal in the APS which gave agency heads responsibility for implementation, within the context of Service-wide guidelines. Since then, the guidelines have been refined in the light of agencies' experience and to take account of comments made by parliamentary committee inquiries and other reviews. Further information on these developments is provided at Appendix 2.

In general terms, the reports of the parliamentary inquiries strongly supported the introduction of performance appraisal but raised a number of concerns about both the concept and implementation of performance pay. The 1994 Report on Performance Pay by the Senate Standing Committee on Finance and Public Administration, in particular, expressed concerns about the difficulty in measuring the specific contribution of individuals to achieving organisational objectives, the affect on teamwork and the actual appraisal process. The response of the then Government to the Report noted, however, that many of the difficulties identified by the Committee reflected agencies' inexperience with such schemes and the extensive cultural change that was required.

A 1994 report by the Management Advisory Board on Performance Management acknowledged problems in agencies' implementation of individual and team performance management systems in the past. The Board advocated that agencies adopt a more coherent and strategic approach which linked performance management more closely to their strategic directions and corporate goals as well as to their broader people management policies and practices. MAB concluded that in the devolved environment of the APS it was more appropriate to provide agencies with a framework rather than a prescriptive model. This recognised that there would be increasing variation between agencies' performance management systems as agency agreements focused more on agency specific productivity and performance issues.

Development of performance management arrangements in agency agreements

In May 1997, the Government issued its Policy Parameters for Agreement Making in the APS which provided a framework for agencies developing agreements under the terms of the Workplace Relations Act 1996. The Parameters required agencies to 'move to introduce a rationalised classification structure, linked to Service-wide benchmarks, but with flexibility at agency level' and with effective performance management arrangements 'to guide salary movement through new classification pay ranges'.

Following a review of the Parameters by DEWRSB, the Government issued a revised and reduced set of Parameters in May 1999 which provided a more streamlined framework for

agency agreement making. The 1999 Parameters reaffirm the 1997 objectives by requiring agencies to maintain the APS classification structure 'with effective performance management arrangements to guide salary movement'.

Minister Kemp, noting that virtually all APS employees were now covered by certified agreements, commented in May 1999 that 'the diversity in pay and conditions outcomes achieved under APS agreements reflects the differences in business requirements between agencies'.⁸

Review of performance management arrangements

Progress by APS agencies in implementing performance management arrangements was examined as part of the PSMPC's People Management Benchmarking Study, carried out in 1998, and in a separate study undertaken by the PSMPC in June 1999 of agency agreements.

The outcomes of the two exercises were reported in the Commissioner's State of the Service Report for 1998-99. The Report noted the findings of the Benchmarking Study that 80% of agencies participating in the study had had a performance assessment system in place for 12 months or more and the remaining 20% were either developing a system or putting one into place.

A further analysis of performance management systems developed by 41 APS agencies was completed in July 1999. The analysis found that, by the end of the financial year, all of the agencies had developed and were implementing some type of performance management scheme. All schemes involved staff developing individual performance agreements which identified responsibilities that were linked to work area or business plans.

The analysis indicated that all of the agreements make provision for linking remuneration to performance in some way, either through salary increases or performance pay bonuses, or a combination of the two. The approach adopted generally involves an annual or bi-annual performance assessment. Most agencies have negotiated different arrangements for groups of staff or variations between classifications (e.g. senior executives and senior officers).

Thirty eight of the 41 agencies use a rating scale to differentiate between levels of performance. The most common approach is a three or four point scale, one or other of which was adopted by two thirds of the agencies. Of the remainder, 18% use a five point scale and 10% a two point scale. A typical four point scale describes the levels of performance in terms of outstanding, superior, effective and unsatisfactory or something similar.

The majority of schemes provide for advancement of employees through multiple pay points within classifications or broadbands of classifications. Salary advancement of one pay point for an effective performance rating and two points for a superior or outstanding performance rating are the most common practices. Two of the 41 surveyed agencies provide for percentage increases in salary instead of advancement through pay points.

⁸ The Hon. Dr David Kemp MP, Government releases 1999 Policy Parameters, Canberra, 17 May 1999.

Thirteen agencies have a one-off or annual bonus for top of the range staff and high performers, ranging from 2% to 15% of base pay or an equivalent pay point advancement. Bonuses do not constitute an ongoing addition to the base salary. In some cases, provision is also made for an annual bonus pool to reward individuals or workgroups. Some agencies include both annual salary advancement through multiple pay points and an annual bonus to reward high performance.

The different range of approaches makes it difficult to give a precise indication of the magnitude of performance pay increases that an individual officer might be eligible to receive. An analysis of 16 agency agreements and performance management frameworks indicated that an advancement of one pay point for an employee in the APS 4 classification was generally in the range of \$900 to \$1,720. The magnitude of the pay advancement often varied depending on their position within the broadband. High achievers in one agency could attract a 10% performance pay bonus. This is estimated to be of the order of \$3,800 for an employee at the APS 4 level.

Agreement making provides the means for employers and employees to find the right mix of remuneration and rewards to satisfy employees and support business success. A comprehensive remuneration and reward system could comprise salary increases, cash rewards, benefits, development opportunities and other non-monetary awards. Problems can arise if there is a singular focus on pay and other monetary rewards as the means for recognising achievement. Rather, remuneration policy and reward arrangements need to include a range of items that foster a culture of recognition and reward.

To achieve improvements in performance, APS agencies are encouraged to adopt a culture that embraces performance planning and management. Few agencies, however, have a fully integrated and strategic approach to performance planning and management. Agencies have tended to focus on separate elements of performance management such as assessment mechanisms and remuneration rather than as an integrated organisational management strategy.

An effective integrated strategy aligns individual performance with business and corporate goals, the values of the organisation and salary movement; links individual learning, workforce planning and succession planning to corporate strategy to meet current and future role and skill needs; and takes corrective action to address poor performance.

Conclusions

The introduction of performance pay has reflected the greater emphasis on performance and outcomes over recent years.

Implementation of performance pay schemes has been subject to criticism in the past. In many cases, however, the schemes had been in place for only a short time and were often introduced in conjunction with performance appraisal. They also suffered from limited flexibility in the design of systems and from a tendency in some agencies to impose fairly rigid or arbitrary

quotas. Agency bargaining has provided the opportunity for agencies to better tailor their schemes to meet their own needs and circumstances.

Provision for performance pay has been included in the great majority of APS agency agreements that have been concluded to date, either through salary increases or one-off bonuses or a combination of the two. Most of the performance pay systems use some form of rating scale aligned with broad criteria such as outstanding, satisfactory and/or inadequate. There has, however, been substantial variation in the methods for appraising performance and allocating pay, as well as in the timing of implementation. Several agencies are trialling quite innovative approaches such as linking performance pay to organisational performance and providing team-based rewards.

It is important however that performance pay systems are developed in the context of an overall and integrated approach to performance management, including underperformance, and are part of a broader set of rewards and recognition. Particular attention will also need to be given to developing performance agreements with clear performance indicators and measures for assessing performance which, where relevant, would include feedback from clients as a means of assessing performance over time.

At this stage, it is difficult to assess the impact of performance appraisal and pay systems on agency performance. Such systems have in many cases been introduced for the first time as part of the first round of agency agreement making, and many agencies are now using the opportunity provided by the second round of agreement making to fine tune the arrangements in the light of experience.

DEVELOPMENTS RELATING TO THE SES, 1987-1998

Public Service Legislation (Streamlining) Act 1987 and Administrative Arrangements Act 1987

The Acts gave effect to a series of reforms in the public service including simplified and streamlined provisions relating to discipline, promotion, promotion appeals and higher duties for APS staff. The Public Service Board was abolished and replaced by the Public Service Commission (PSC) and many of the Board's powers were devolved or delegated to departments.

Twenty eight departments were reduced to seventeen and as a result many SES officers were displaced and a substantial number left the APS.

Nick Jans and Judy Frazer-Jans, Careers and Culture in the SES, 1990

This was a report of a survey commissioned by the PSC in 1989 to assess how SES officers perceived their career development opportunities and work situations. A little over 50% of SES officers, of whom 91% were male, responded to the questionnaire.

The survey results indicated a high level of morale within the SES group in terms of job satisfaction and use of skills, although they were less satisfied with pay and career prospects. Only about a quarter of the respondents had been in their current job for more than two years and of those who had been with their current organisation for at least five years, more than half had had three or more jobs in those five years.⁹ Most of them intended to remain within the APS, although many planned to move to other agencies within five years.

There was a widespread belief that 'technocratic' management skills prevailed over people management skills as the means to advancement, and a pervasive neglect by supervisors of career management and development of their subordinates. Almost half of the respondents had never had a performance appraisal and only 15% had received an appraisal in the previous twelve months. On the other hand, agencies that were rated highest in terms of organisational effectiveness were those which were seen to have had a strong staff orientation and whose leaders were respected for their ability to provide vision and purpose.

The report concluded from the findings (p.viii) that 'one of the APS' key strategic goals for the future must be to nurture and reward outstanding leadership and to develop operating cultures in which staff can be developed and used effectively'.

⁹ The Report notes however that this high rate of mobility would have been influenced to some extent by Machinery of Government changes.

Senate Standing Committee on Finance and Public Administration, Development of the Senior Executive Service, 1990

The Inquiry was undertaken to evaluate the extent to which the specific objectives in establishing the SES had been achieved and to review the effect of subsequent structural and staffing changes on SES members. The Report noted that:

The Committee had no difficulty in concluding that the concept of the SES as a unified, cohesive group of senior staff offers a desirable way of organising the higher public service. The constitutional role of senior public servants requires a degree of independence vis-à-vis department heads and ministers, a breadth of outlook and a common concept of the meaning of public service. Each of these will be best developed in an institutional structure which limits the rigidity of departmental boundaries.¹⁰

The report went on to state that the SES was quite different from the former Second Division both in terms of its structure and personnel: security of tenure had been reduced and there had been a very large turnover of staff. On the other hand, the SES had developed in such a way that it was closer to the managerial model than to the career system ideal. Few concrete measures had been implemented since 1984 to make the SES more unified or cohesive. In particular, with the exception of the redundancy arrangements, plans for greater central involvement in the career development of SES officers had mostly not been implemented.

The Report made a number of recommendations which, it noted, involved a shift towards a greater degree of central leadership and direction in personnel policy. The recommendations related to seven specific areas: mobility, tenure, selection, relations between central and regional offices, remuneration, training and development, and leadership in personnel policy and management.

The Government's response to the Report reaffirmed its commitment to the SES, agreeing that the original concept of the SES as a unified leadership group remained relevant. The Government required of its senior management that it 'shares a common administrative culture, has similar generalist skills and competencies, shares training and development experience and can be deployed across the Australian Public Service in response to changing Government priorities'.¹¹

The Government considered, however, that increased central control was not appropriate in the existing devolved environment, although some elements of central management of the SES should be retained. The PSC would give particular emphasis to SES career development and mobility, with a view to providing a broad range of training options. These would include an external development scheme encompassing visits to or placements with academic institutions and short courses at post graduate management schools.

¹⁰ Senate Standing Committee on Finance and Public Administration, *Development of the Senior Executive Service*, 1990, p.17.

¹¹ Government Response to the Report of the Senate Standing Committee on Finance and Public Administration on the Development of the Senior Executive Service, 1991, p.5.

The response observed that ‘in a devolved management environment, the development and dissemination of career management strategies, opportunities and programs which have demonstrable mutual advantages for management and individuals is probably one of the most effective means of encouraging Senior Executive Service officers to think of themselves as members of a unique professional group’.¹²

Pay and Structural Changes to the SES, 1990

Following the November 1989 agreement between the APS and public sector unions under the Structural Efficiency Principle (SEP), and the resultant decision of the Industrial Relations Commission on 22 December 1989, the structure of the SES was reduced from six levels to three bands (Senior Executive Bands 1, 2 and 3).

Provision was also included for the creation of a new stream, within the broad SES classification structure, of Senior Executive (Specialist). The need for Specialists was considered necessary to allow for filling of senior positions requiring high level technical or professional expertise, with concomitantly lesser management and leadership requirements.

These changes required a number of actions to be undertaken, including legislative amendments and Public Service Commissioner Determinations. The new structure became effective from January 1990.

APS Agreement Improving Productivity, Jobs and Pay in the Australian Public Service, 1992

The Agreement, which was certified in December 1992, set out a framework for the development of agency agreements to improve productivity and efficiency, in accordance with specified principles.

The Agreement provided for the introduction of performance appraisal and performance based pay for the SES and Senior Officers.

Joint Committee of Public Accounts, Managing People in the Australian Public Service – Dilemmas of Devolution and Diversity, 1992

The Committee’s report, published in December 1992, covers a number of issues relating to the efficiency and effectiveness of human resource management in the APS. It focuses on the impact of the reforms introduced in the 1980s and 1990s and in particular those associated with the abolition of the Public Service Board and the decentralisation of its functions to other agencies

With regard to the SES, the Committee stated that one of its major concerns related to the need to broaden the range of predominantly economic policy advice available to government. For this reason, it identified a need to broaden the recruitment base of the SES and improve training and development opportunities for the SES and its feeder group. Specific recommendations included the establishment of public sector management centres ‘targeted at the needs of the

¹² *ibid.*, p.6.

senior managers in the APS', a more proactive role for the PSC in coordinating structured career planning for SES officers, and mandatory periods of experience in policy and operational departments as well as regional and central offices.

Other recommendations related to the provision of additional data on mobility of officers between departments, and a review of the impact of performance pay on the effectiveness and efficiency of the SES.

Task Force on Management Improvement, 1992

The Task Force was established by the Management Advisory Board to undertake a major review of public sector reforms over the previous decade, in six main areas: budgetary, commercial, structural, industrial, planning/reporting and human resource management. As part of the review, the task force undertook a survey of all agencies and SES officers and a sample of non-SES officers—in all around 10,000 officers of whom approximately 60% (53% of SES officers) responded.

Agency responses were positive about the concept of the SES and how it had enabled Secretaries to rely more on their most senior managers to play leadership roles in a variety of positions.

SES officers were, with few exceptions, much more positive about the reforms than other respondents. For example, 79% of SES staff were positive about the impact of the reforms on overall performance compared with only 47% of Senior Officers. Overall, respondents rated better training as the most important of a list of specified changes that would have the greatest effect in improving the quality of their work, although SES officers rated better management systems highest while Senior Officers rated additional support staff highest.

Of particular concern was that only one third of all respondents considered that management above their direct supervisor was aware of problems at their level, and only 50% of staff at the ASO 1-6 levels considered that sufficient effort was made to obtain the opinions of staff in their workplace.

The report described as 'encouraging' the figures provided by the PSC which showed mobility in the SES as being around 30%. On the other hand, while the profile of the SES had changed quite dramatically since 1984, the composition of the SES remained predominantly male and Canberra-based.

The MAB Report, *Building a Better Public Service*, which was released in conjunction with the task force report on *The Australian Public Service Reformed: an Evaluation of a Decade of Management Reform*, identified leadership as one of three key areas of future reform. Effective leadership, the Board suggested, would entail establishing a culture of responsiveness to government, accountability against established indicators and an awareness of client needs. Effective leaders would also seek to improve communication with staff, reward good performance and give staff as much scope as possible to manage for results.

Report of the Public Service Act Review Group, 1994

The Review Group, chaired by Mr Ron McLeod, was established to recommend changes to the legislative framework, in particular the Public Service Act, under which the APS operated.

The Report recommended that there should be a new, smaller Act which among other things would set out the principles and values of the public service; stress the centrality of an apolitical public service with merit-based staffing; provide for remuneration and benefits to be settled through the industrial relations process; and place public servants on the same footing as other employees in terms of the unfair dismissal provisions of the Industrial Relations Act.

With regard to the SES, the Report focused primarily on the issue of fixed term contract employment. The Review Group did not favour introduction of such contracts for the SES, although it noted that the SES along with the remainder of the Service should not have a presumption of permanent tenure. Other recommendations related to improved arrangements for handling compulsory separation of underperforming SES officers, and a continuation of the practice of opening all SES positions to outside applicants.

Dr Patty Renfrow, An Assessment of the Senior Executive Service in the Australian Public Service: A Survey of its Officers, 1995

In 1993–94, Dr Renfrow, from the University of Queensland's Department of Government, conducted a survey of SES officers. Approximately 75% of the 1,500 officers completed the survey questionnaire. The survey addressed a range of issues relating to the SES and human resource management, including the SES model, work and rewards, performance pay, executive development and career planning.

Results of the survey indicated that the majority of SES officers viewed the SES positively, both as an appropriate model for the management of the senior public service and in terms of improving individual and organisational performance. The creation of the SES, and the new results oriented culture, was not seen to have impacted adversely on the maintenance of traditional APS values such as merit and ethical behaviour.

While SES officers generally supported the intended objectives of performance appraisal, they believed there was room for improvement in its usage and in the provision of feedback. There were mixed views about performance pay, including whether it encouraged greater productivity.

The majority of officers reported a high level of satisfaction with their work and their organisation, although a significant minority were dissatisfied with the level of remuneration. There was also dissatisfaction with the extent of career development assistance provided, and only 50% of officers considered that the creation of the SES had improved access to development opportunities. Over 65% of Band 1 officers perceived a need for better organisational leadership compared with only 44% of Band 3 officers.

On the basis of the survey results, the Report concluded that more attention might need to be given to facilitating career mobility and development across the Service.

Andrew and Nara Kora Kakabadse, Leadership in Government: Study of the APS, 1996

The study involved a survey of 1,500 SES officers and Senior Officers that examined issues relating to leadership, organisational culture, performance, and relationships between central and regional offices. Approximately 50% of the survey questionnaires were completed. Results of the survey were compared with a similar study carried out over several years of over 5,000 managers in twelve countries, in both the public and private sectors.

The survey found a consensus amongst APS officers that the culture of the APS promoted high quality performance and high levels of work satisfaction. Respondents viewed their organisation as being professional, service oriented and highly principled. On the other hand, respondents were much less positive about the leadership of their organisation. Compared with managers in other countries, APS leaders were rated poorly in terms of cohesion about future directions, the level of trust amongst themselves, communication with each other and with subordinates, and their capacity to address and resolve issues of sensitivity.

The report concluded that, in the APS:

introducing new or improved innovation and services, changing the structure of the organisation or embarking on more fundamental change, is unlikely to work as intended, as the leadership contribution necessary for effective implementation is considered as lacking.¹³

¹³ Andrew Korac Kakabadse and Nada Korac Kakabadse, *The Kakabadse Report: Leadership in Government – a study of the Australian Public Service*, 1996, p.39.

DEVELOPMENTS IN ARRANGEMENTS FOR PERFORMANCE APPRAISAL AND PAY, 1988–97

In 1988, the Management Advisory Board endorsed an approach to performance appraisal, which provided for:

- heads of departments and agencies to be responsible for implementation;
- an initial focus on performance management improvement rather than on selection and placement;
- use of objective setting against the corporate plan for performance assessment and use of core skills for development and training;
- an agreement between the officer and their manager on performance objectives at the beginning of the planning cycle; and
- a formal interview at the end of the cycle that focuses on achievement against the objectives and the level of the competence against core skills.

MAB also endorsed a role for the PSC in providing advice and support for agencies in respect of SES appraisal, including developing guidelines and facilitating networking. Draft guidelines were issued for comment in June 1989 and revised in November 1989 and again the following year.

Senate Standing Committee on Finance and Public Administration, Inquiry into (a) The Development of the Senior Executive Service: Performance Based Pay and (b) The Development of the Senior Executive Service, 1990

The first report supported the introduction of performance appraisal for the SES, but was not supportive of performance based pay. The Report stated that:

‘The evidence before the Committee was unanimous that the introduction of formal performance appraisal in the SES would have beneficial effects, even if not accompanied by performance based pay. There was also widespread agreement that performance based pay systems place a significant additional burden on the appraisal process. The proposal to introduce performance based pay at the same time as an appraisal system will clearly place at risk the benefits that could be expected if the appraisal system were introduced by itself.’ (para 38).

The main report dealt with general issues relating to the SES but also commented on performance appraisal and pay, and made several recommendations relating to the annual publication of performance payments made in each agency and an evaluation of appraisal schemes.

In its response, the Government confirmed its continued support for the introduction of performance-based pay, but noted that the guidelines would be reviewed by the PSC and the Department of Industrial Relations after they had been in operation for twelve months. The

Government did not support publication of individual payments but agreed that the Department of Finance would report annually on Service-wide statistics aggregated across agencies.

John Niland, William Brown and Barry Hughes, Breaking New Ground: Enterprise Bargaining and Agency Agreements for the Australian Public Service, December 1991

In a report prepared for the then Minister for Industrial Relations on the introduction of enterprise bargaining and agency agreements into the APS, the authors discussed a range of issues relating to performance pay at both the agency and individual level.

They cautioned against the use of productivity measures for assessing performance, noting that they were particularly inappropriate in a public service context. Instead they advocated using performance indicators which could measure variations in performance over time, for example by surveying clients about the standard of services they receive.

The report noted that individual performance appraisal and pay had been resisted in some quarters over the years, but argued that:

this perhaps reflects an earlier era where stricter levels of uniformity were more prized, and before fairer and more sophisticated methods of assessing individual achievements were available. In the wider context of enterprise bargaining, individual performance provides another level at which variability might be introduced to enhance pay and reward structures.¹⁴

APS Agreement 1992 and PSC Guidelines for implementation of performance pay

Final arrangements for the introduction of performance pay were not settled until 1992, as part of the 1992 APS Agreement. Each agency was to establish performance appraisal arrangements, endorsed by the PSC, for the SES and Senior Officers. Senior Officers became eligible for performance pay, provided that an appraisal cycle of at least three months had been completed, while SES officers had to wait until the following year and then on the condition that an annual appraisal cycle had been completed.

The Agreement also provided for regression arrangements for under-performing SES officers. Under these provisions, under-performing SES officers could be regressed within their Band or to a lower Band. (The Public Service Act provided for the regression of under-performing SES officers to the Senior Officer Structure and, ultimately, involuntary retirement.)

The PSC's guidelines on the implementation of performance pay provided that:

¹⁴ John Niland, William Brown and Barry Hughes, *Breaking New Ground: Enterprise Bargaining and Agency Agreements for the Australian Public Service*, 1991, p.61.

- performance agreements were to be drawn up by officers and their supervisor and include agreed statements of work objectives, expected levels of performance and indicators to assess the level of achievement;
- work objectives should relate clearly to the department's corporate plan and business plan;
- officers were to be rated on a five point scale from unsatisfactory through to outstanding; and
- there was to be an internal review and disputes handling procedure, including a process for quality control whereby senior managers would be able to review the preliminary appraisal ratings of staff.

Joint Committee of Public Accounts, Managing People in the Australian Public Service: Dilemmas of Devolution and Diversity, 1992

The Committee supported performance appraisal in the APS and advocated that its use be extended to other officers. It recognised that there were potential benefits in the introduction of performance pay, especially with the decline in promotional opportunities available to APS staff, and noted that the majority of departments had welcomed its introduction. The Committee expressed some reservations about performance pay, however, concerning in particular the difficulties of measuring an individual's performance against corporate outcomes, and recommended that the impact of performance pay should be reviewed after two years.

Senate Standing Committee on Finance and Public Administration, Performance Pay, February 1994

The Committee undertook an inquiry into performance based pay during 1993-94. In a separate but related exercise, the Australian National Audit Office carried out an audit of the implementation of performance appraisal and pay and tabled its report in December 1993.

The PSC made a submission to the inquiry which suggested that the implementation of performance appraisal needed to be seen in the context of a broader strategy for managing performance, of which an important element was linking rewards and sanctions to the assessment of a person's performance. These linkages were considered to be crucial to developing a culture that valued performance and the management of performance. The PSC noted some initial difficulties experienced by agencies in introducing performance appraisal and pay, however, which pointed to the need for more rigorous performance indicators, better training and clearer processes for moderation.

The Committee's Report expressed strong concerns about both the concept and implementation of performance pay in the APS. It concluded that the system rested on doubtful assumptions about motivation and the nature of the work in the APS, and did not take account of the difficulty in adequately measuring the specific contribution of individuals to achieving organisational goals. Other concerns related to the affect on teamwork and on the appraisal process itself.

The Committee also referred to problems arising from the implementation of the system, in particular its restriction to senior ranks of the APS, the lack of training and experience with performance appraisal, and inadequate central support. The Committee noted, but did not endorse, the central agencies' comments that it was too early to reach firm conclusions about the achievement of the overall objectives of the scheme, and recommended that it be abandoned at the expiry of the APS Agreement in December 1994.

Following the release of the Report, the heads of the central agencies issued a joint circular to agencies in April 1994 which provided further advice on performance appraisal and pay. Emphasising the need for 'robust quantitative and qualitative indicators', the circular outlined proposals to address shortcomings identified in the initial round of performance-based pay. These related to moderation and the spread of ratings, and the need to distinguish more effectively between different levels of individual performance.

In its response issued later that month, the Government expressed the view that many of the problems identified by the Committee had been symptomatic of the cultural shift involved in introducing the new arrangements and of the lack of experience with such schemes. It reaffirmed its commitment to a more flexible pay system that more closely linked individual rewards to achievement of corporate goals and at the same time softened the potential negative impact of reduced promotional opportunities.

MAB Report, Performance Management: The Integrated Use of Recognition, Rewards and Sanctions, October 1994

MAB's Report commented that agencies' approaches to managing individual and team performance in the past had been somewhat fragmented. The Board advocated a more coherent and strategic approach which linked performance management more closely to agencies' strategic directions and corporate goals as well as to their broader people management policies and practices, including management of under-performance.

MAB concluded that in the devolved environment of the APS it was more appropriate to provide agencies with a framework rather than a prescriptive model. This recognised that there would be increasing variation between agencies' performance management systems as agency agreements focused more on agency specific productivity and performance issues.

PSMPC advice on performance management

Following the October 1994 report and MAB's review of the costs and effectiveness of personnel services (ACEPS) in 1995, performance management was identified as a key issue that needed attention. The PSMPC worked with a number of APS agencies to assist them to develop their approach to performance management. Some common themes emerged from this work which resulted in the identification of principles that govern effective performance planning and management.

These principles, which were set out in full in the 1997-98 State of the Service Report¹⁵, can be summarised as:

- planning is the key to performance and needs to integrate both the organisational and individual/task levels;
- performance management is a tool to deliver strategy and achieve outcomes and is not an end in itself;
- performance management must take account of the existing culture of the organisation;
- individual employees need to be able to see what is expected of them, and how their role fits into the organisation's objectives;
- constant review and fine tuning of systems is necessary to ensure continuing relevance;
- effective performance management involves continually setting expectations and providing feedback; and
- assessment processes must be perceived as legitimate by staff.

Overseas experience

A survey carried out by PUMA in 1994–95 examined performance pay systems in five OECD countries, Australia, Denmark, Ireland, the UK and the US. The survey was designed to assess the effectiveness of performance based pay schemes and covered almost 1,000 senior and middle level managers in 11 public sector agencies. The results of the survey were published in a 1997 OECD Report on *Performance Pay Schemes for Public Managers*.

The survey indicated that performance based pay schemes had been implemented with varying degrees of effectiveness and evoked mixed reactions from managers. The managers were more positive about their personal experiences of performance pay than they were in their assessments of general reactions to the schemes in their agencies. Managers were generally unclear about the standards used to allocate rewards and only one in three believed that rewards were distributed fairly.

The report concluded that the processes used to measure performance were fundamentally important to the success of the schemes, and that if the measurement processes were not accepted as valid then the types of rewards and other aspects of the scheme were less relevant in determining managers' reactions.

The UK Government White Paper, *Modernising Government*, expressed strong support for performance pay in the Civil Service. It argued that inflexible, inefficient and inequitable pay practices should be overhauled so that pay could be tailored to meet the needs of the Service and provide incentives for staff:

¹⁵ PSMPC, *State of the Service Report, 1997-98*, November 1998, pp. 29-30.

A person's pay should reflect their output, results and performance. This means that the best performers both individuals and teams and those who contribute most, should be best rewarded. We should challenge systems which give automatic pay rises to poor or inefficient performers.¹⁶

¹⁶ Prime Minister and the Minister for the Cabinet Office, *Modernising Government*, UK, 1999, p.59.

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