STATE OF THE SERVICE REPORT 2000–01

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PUBLIC SERVICE & MERIT PROTECTION COMMISSION

To mark the centenary of the Australian Public Service, a selection of images used in the PSMPC publication *Serving the Nation: 100 Years of Public Service* are included as design features in the three volumes of the State of the Service series.

The Honourable John Howard MP
Prime Minister
Parliament House
Canberra ACT 2600

Dear Prime Minister

In accordance with the provisions of section 44 of the *Public Service Act 1999*, I present to you the annual report on the state of the Australian Public Service for the year 2000–01.

This State of the Service Report is the first of three companion volumes in the State of the Service Series for 2000–01, the others being the *Workplace Diversity Report 2000–01* and the *Australian Public Service Statistical Bulletin 2000–01.*

Section 34C of the *Acts Interpretation Act 1901* requires you to lay a copy of the Report before each House of Parliament within 15 sitting days of that House after the day on which you receive the Report.

Yours sincerely

Helen Williams
19 October 2001

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This is the second year in which the State of the Service Report has been prepared in accordance with the *Public Service Act 1999* (the PS Act 1999).

Section 44 of the PS Act provides, inter alia, that the Public Service Commissioner must provide a report each year to the Agency Minister for presentation to the Parliament, which includes a report on the state of the Australian Public Service (APS) during the year.

The report this year will follow the structure of last year's Report, concentrating on particular issues of importance to the APS in 2000–01. These issues have been grouped around the following themes:

• agency progress in moving towards a culture which balances devolved management and workplace flexibility with the maintenance of openness, accountability and the APS Values;

• the way in which the APS, both collectively and as individual agencies, is facing emerging technological and operational challenges in financial management, client service and protection of information;

• managing performance, including the ongoing identification and maintenance of leadership and other capabilities needed to achieve a high performance APS; and

• the maintenance of effectiveness and accountability in the management of market testing and outsourcing.

Reference to the relevant APS Values is integrated into the discussion of these themes.

The basic source of information for the Report was input from individual APS agencies. This was obtained through a letter to the heads of all agencies seeking their responses on a range of issues related to the major themes identified above (copy at Appendix 1). Generally, agency responses to the general survey were timely and of good quality.

Additional information was obtained from a variety of sources, including published and unpublished data from central agencies, such as the Department of Employment, Workplace Relations and Small Business, the Department of Finance and Administration and the Treasury, which have APS-wide roles and interests, and from specialist groups including the National Office for the Information Economy and the Office of Asset Sales and Commercial Support. Input was also provided by external review organisations, including the Auditor-General, the Ombudsman and the Privacy Commissioner.

In order to assess employee perceptions about the APS Values and the way in which they were managed, agencies were asked to include several questions around these themes in their staff surveys during the year. The response to the survey from a number of agencies was disappointing, given the length of time agencies had to manage the survey and the number of reminders given about its importance. On the other hand, some important methodological lessons were learned which can be applied to similar exercises in future years.

An additional requirement for the State of the Service Report this year is an assessment of the progress made by agencies in respect of outsourcing their information technology (IT). The *Review of the Whole of Government Information Technology Outsourcing Initiative* conducted by Richard Humphry AO recommended a whole of government approach to monitoring the progress of IT outsourcing, and the Government responded that this would be undertaken annually through the State of the Service Report. This review was undertaken through a survey of Portfolio Departments, major agencies and selected smaller agencies that have outsourced their IT.

I would like again to put on record my appreciation for the efforts made by many Agency Heads and their staff, as well as by central agencies and review bodies, to provide quality information and analysis, often in very short time frames.

This Report is one of three companion volume in the State of the Service series for 2000–01, the other two being the *Workplace Diversity Report 2000–01*, and the *Australian Public Service Statistical Bulletin 2000–01*. All three Reports will be available on the Public Service and Merit Protection Commission's Internet site at www.psmpc.gov.au.

In most respects, 2000–01 was a year of consolidation for the majority of agencies. The new operational arrangements encompassed by the *Public Service Act 1999*, new directions in budgeting and financial management, and The New Tax System were in place. Agencies were working within the devolved framework to improve the efficiency and effectiveness of their performance.

Accountability is a core issue in this new environment. In parallel with the use of the new flexibilities, the reduction in central regulation means that both agencies and individual line managers now have to consider what systems and procedures they will need to ensure that accountability for the use of public funds is not only in place, but is seen to be in place. This applies in employment areas such as selection, probation and the management of misconduct, where legislative prescription has been significantly reduced. It includes budgetary, financial management and privacy changes that have introduced new accountability demands. It applies to functions that have been market tested and outsourced and which are managed under different arrangements. Finally, it applies to the responsible management of electronic data and client service. Accountability must go hand in hand with devolved employment powers if the new framework is to achieve its potential.

An additional challenge for agencies is to use the new flexibilities to develop a strategic and innovative approach, tailored specifically to their needs. Previous reports have commented that some agencies have tended to incorporate the detailed prescription formerly in legislation or Service-wide awards and agreements into their own procedures. This Report also notes a tendency by some agencies to stay with the safety of previous approaches, with evidence for more customised arrangements remaining patchy. While this may well be appropriate to particular circumstances, it does suggest that further thinking may be required in agencies about the best way to integrate and manage reform to meet their overall interests.

An important function of the State of the Service Report is to be a report card for the Australian Public Service (APS) on how well the Service understands and applies the APS Values and Code of Conduct across the range of its functions. While the systems and procedures which agencies put in place to uphold and promote the Values and the Code will remain important, the perceptions and views of individual members of the APS about the Values and the Code and how they are being applied are one of the important indicators of success. To test this, APS agencies were asked to seek their employees' views on key issues around the incorporation of the Values and the Code into the behaviour and culture of agencies. While the level and quality of responses was somewhat disappointing, the results at least provide an indicative benchmark of the perceptions of APS staff.

The survey results indicate that most employees consider that they have a good understanding of the Values and Code of Conduct and how they apply to their work. Clearly, agency efforts in promoting the Values and the Code, and in integrating them into their day-to-day processes, are having some effect. The fact that respondents were somewhat less certain about their colleagues' understanding of the Values indicates that there is still work to be done.

Employees were more cynical about their agency's commitment and support for certain aspects of the Values which impact directly upon their working lives and careers—merit employment, diversity and

fair rewards. While there are no benchmarks on which to test these results, and it is not possible to say whether these doubts are recent or of a longer term nature, they are obviously a cause for concern.

One of the important challenges identified in last year's Report was the need to maintain a focus on building and enhancing workforce capabilities in a changing environment. This year's Report considers some of the demographic themes emerging last year and looks at the implications for workforce planners.

Two aspects deserve particular mention. For the first time, women were a majority of ongoing staff in the APS and their representation at senior levels continues to increase. Secondly, despite the increasing resignation rates by employees in their mid-fifties, the number of employees over 55 years is still growing. This phenomenon is at least partly explained by the fact that, as a result of changes in recruitment patterns, older workers no longer necessarily have periods of long service. This factor also explains why the resignation of Commonwealth Superannuation Scheme members at age 54 may not have quite the effect on the APS's capabilities that had been anticipated. There is also a small but growing number of staff taking advantage of the abolition of compulsory retirement at age 65 years.

Agreement making has continued to be the primary mechanism for settling wages and conditions and has been a key focus for agencies through the year. A growing maturity and confidence has been demonstrated as second and third round agreements are being negotiated.

Increased differentiation has emerged in wages and conditions for both Senior Executive Service (SES) and non-SES employees between and within agencies. This reflects the greater flexibility and emphasis in the employment framework on agencies tailoring approaches to local needs and circumstances. It also puts an increased onus on agencies to have a clear, well-developed remuneration policy in place that provides a firm rationale and set of principles for striking particular rates and conditions, is well understood by staff, is seen as fair and equitable, and is applied consistently. Clearly, remuneration approaches also need to be consonant with, and indeed reinforce, the APS Values.

Performance management has been a shared management priority across the Service, with a strong emphasis by agencies on developing and refining systems through the year. In addition, the APS Management Advisory Committee initiated a review of performance management as a priority in its work plan.

A diversity of approaches has been adopted in this area, but with a common goal of integrating people, planning and performance with organisational objectives. While significant progress was made through the year with the systemic application of performance management approaches, some challenges were evident. Credibility and staff engagement are two such challenges, with a perception that a gap exists between the supportive rhetoric of senior staff for, and the reality of, performance management in a number of agencies. In addition, there is a perception that poor performance has not been handled consistently well across the Service.

Performance-based remuneration has become more widespread in the APS. Again, agencies have adopted a range of different approaches, with a key issue being the role of performance pay.

As for overall organisational performance, agencies are beginning to take a more strategic approach to building the capabilities they will need to sustain the delivery of effective and high quality outcomes into the future. The greater use of coherent workplace planning frameworks is helping to

identify long-term skill requirements and the strategies for meeting them. While the continued development of the leadership capabilities of the current SES remains a Service-wide priority, agencies have begun to focus on the capacity of Executive Level 'feeder group' staff to step up to SES roles in the future.

Agency feedback on information technology outsourcing indicates that experiences have varied greatly. While agencies have reported on the outsourcing process itself, including some difficulties in implementation, overall effectiveness has proved more difficult to assess, partly because of the short time in which the initiative has been in place. An interesting point made by a number of agencies is that outsourcing has increased their focus on the measurability and transparency of service standards compared to the situation prior to outsourcing. The Government's decision, in response to the Humphry Report, to return responsibility for outsourcing to Agency Heads has seen agencies take the opportunity to reassess their requirements to ensure the effective linkage of the process to overall agency and stakeholder interests and goals.

In approaching the market testing and outsourcing of their human resources functions, agencies have adopted a variety of approaches involving various levels of outsourcing, but generally have retained control of the levers which enable them to ensure that the APS Values are met. In particular, while many agencies have outsourced aspects of their recruitment and selection processes, they appear to be retaining effective control of the final merit selection decision. As far as the process of human resource market testing and outsourcing goes, case studies this year demonstrate the importance of rigorous agency procedures, accurate and relevant data and articulation of expectations to employees and providers before a decision is made.

There is a general consensus across the service that the acquisition and development of contract management skills in the new environment is essential to agency operations. There is also an emerging understanding of the need to extend the coverage of the APS's probity, accountability and public interest requirements to outsourced providers and contractors undertaking work for APS agencies.

In summary, perhaps the primary focus of the work of APS agencies during the year has been on the range of activities that are directed towards upgrading organisational capability—whether through workforce planning, improved financial management, more effective performance management or better system operability. Although considerable work remains to be done, agencies seem more clearly aware of their own responsibilities and accountabilities in this context.

The Values encapsulate the distinctive character of the Australian Public Service (APS) and are central to the public interest aspect of public sector employment. They also provide the basis for the strengthened accountability that balances the greater flexibility available under the more devolved framework.

The integration of the public service Values into the way the APS works and its decision-making process is also an essential factor in achieving high performance. The APS Values provide the real basis and integrating element of the Service, its professionalism, its integrity and its culture of impartial and responsive service to the government of the day.

The leadership of Agency Heads is crucial to articulating the role and meaning of the Values and how they complement the agency's overall corporate vision and organisational goals. Agency Heads must have systems in place to ensure that APS employees understand and apply the Values and, as appropriate, they must be able to demonstrate to government, Parliament, and the Australian community that they uphold and promote the Values.

Last year, agencies were asked for information on steps they had taken to incorporate the new and amended APS Values into their corporate governance framework. The *State of the Service Report 1999–00* noted that the response across the APS was disappointing and varied considerably in quality and content.

EMPLOYEE PERCEPTIONS OF VALUES AND CODE OF CONDUCT

One way to assess agency performance in upholding and promoting the APS Values is to seek feedback from employees on their understanding of the Values and their perceptions of whether these are upheld in their workplace. Agency Heads were therefore asked to include some specific questions in their staff surveys during 2000–01. Seven statements were developed and agencies were asked to obtain staff responses, using a five point Likert scale, on the following issues:

- understanding and upholding the APS Values and the Code of Conduct;
- merit based decisions;
- the diversity of the workplace; and
- performance rewards.

This was the first time that information about staff perceptions of the Values and the Code of Conduct across the APS had been sought, and several aspects of it must be kept in mind when interpreting the findings. In particular, as the survey was administered by the agencies themselves, it was run differently, in different contexts and formats, and at different times. These issues will be taken into account in designing similar projects in the future.

Fifty-four of the 94 APS agencies asked to conduct the survey did so (agencies that responded to the survey are listed in Appendix 2). Of these, 37 agencies used the rating scale and the requested

questions in the format suggested. Of the remaining 18 agencies, there were a number who did not put all the questions to staff, who changed the wording (some agencies sought and received agreement to minor changes to reflect particular aspects of their workplaces), and/or used a three or seven-point scale instead of the suggested five-point scale. The majority of responding agencies surveyed all employees while some, including the Department of Defence, the Department of Foreign Affairs and Trade (DFAT), the Department of Health and Aged Care and the Australian Customs Service (ACS), only sampled a percentage. In total, 37 agencies did not respond to the request. Eighteen of these agencies provided reasons, including inability to schedule a survey, insufficient resources, the timing being outside the agency staff survey cycle or, in one case, that staff were already 'surveyed out'. Two large agencies advised that they do not currently undertake staff surveys. Several others advised that they would incorporate the questions in surveys next year.

Overall it was a disappointing response given the length of time agencies had to manage the survey and the reminders they were given about its importance. The results are, however, believed to be indicative of large, medium and small agencies and include both policy and service agencies.

AGENCY SURVEY RESULTS

Agencies were asked to obtain their staff's response to the following statements:

1. I have a good understanding of the APS Values and the way in which they apply to my work.

2. I believe that people with whom I work uphold the APS Values as they apply to their work.

3. I have a good understanding of the APS Code of Conduct and the way in which it applies to my work.

4. I believe that the behaviour of the people with whom I work is consistent with the APS Code of Conduct as it applies to their work.

5. My agency makes decisions about people based on merit.

6. Diversity of skills, experiences, backgrounds and ways of working are recognised and appreciated in my agency.

7. My performance rewards are fair compared to other staff across the agency.

A detailed breakdown of the results is provided in the relevant sections of this Report. Briefly the aggregated data shows:

- just over three quarters of employees consider they have a good understanding of the APS Values (79%) or Code of Conduct (80%) as they apply to their work;
- 68% of employees consider that their collegues uphold the Values and 66% of employees believe that their colleagues behave in accordance with the Code of Conduct;
- only 39% consider that their agency makes decisions based on merit (discussed further in Part 4);
- only 46% consider their agency values diversity (discussed further in the Workplace Diversity Report); and

- only 40% believe they are rewarded fairly in comparison to their colleagues (discussed further in Part 6).

The aggregated results using a three-point scale are shown in Table 1.

TABLE 1 RESULTS OF AGENCY SURVEYS

STATEMENT	POSITIVE	NEITHER	NEGATIVE	TOTAL NUMBERS
1	12 137	2018	1293	15 448
%	78.57%	13.06%	8.37%	
2	10 480	3130	1723	15 333
%	68.35%	20.41%	11.24%	
3	12 367	1840	1164	15 295
%	80.46%	11.97%	7.57%	
4	10 127	3105	2072	15 304
%	66.17%	20.29%	13.54%	
5	5977	4368	4932	15 277
%	39.12%	28.59%	32.28%	
6	7013	3931	4316	15 260
%	45.96%	25.76%	28.28%	
7	4619	4243	2733	11 595
%	39.84%	36.59%	23.57%	

The varying number of responses to each question reflect the fact that, as noted earlier, some agencies did not put all statements to their staff. In addition, because some agencies used a three-point scale, all responses have had to be condensed similarly, with 'agree' and strongly agree' combined as a positive response and 'disagree' and 'strongly disagree' combined as a negative response.

In gauging individual attitudes of employees across the APS, it also must be remembered that there is no historical basis on which to make comparisons of the results, particularly in relation to merit. The data does, however, provide a useful benchmark for future assessment.

VALUES AND CONDUCT RESPONSES

Survey responses indicate that APS employees believe that they have a good understanding of the Values and the Code of Conduct, although they were less likely to think the same of their colleagues. Just over 78% of respondents agreed with the statements 'I have a good understanding of the APS Values and the way in which they apply to my work' and just over 80% agreed that 'I have a good understanding of the APS Code of Conduct and the way in which it applies to my work'. However, it

is interesting to note the lower percentage that agreed with the same statements when applied to their colleagues. The reason for this is a matter for speculation. It may be that employees do not have as clear an understanding of the operation of the Values and the Code as they themselves believe. It may also mean that they apply a higher or more critical standard of behaviour to their colleagues.

Under 10% of respondents believed that they did not understand the Values or the Code, and just over 10% neither agreed nor disagreed in each case—the lowest percentage who did not give their view for all of the seven questions.

When the responses were analysed by agency size, there was little difference in responses when categorised into small, medium or large agency blocks. This is notable given the fact that the nature of work differs considerably between large and small agencies.

Generally speaking, the effort by both central and line agencies in promoting the Values and the Code of Conduct seems to be having some effect, although the results suggest that there is still work to be done in this area.

MANAGING CONDUCT

With the introduction of the *Public Service Act 1999* (PS Act 1999), detailed legislative provisions for handling misconduct were replaced by a short framework of basic requirements set out in Chapter 5 of the Public Service Commissioner's Directions 1999. Agency Heads are required to establish procedures that comply with those requirements for determining whether an APS employee has breached the APS Code of Conduct.

The APS has the highest ethical standards.

APS Values—*Public Service Act 1999*.

The Public Service and Merit Protection Commission (PSMPC) has issued a booklet, *Managing Breaches of the APS Code of Conduct* containing advice and guidance to assist agencies in the development of their procedures. The booklet also contains a set of suggested procedures that agencies may use, or adapt to their local requirements.

As part of the process of gathering information for this report, agencies were asked to provide information about their procedures. All respondents indicated that they have procedures in place.

To date, the majority of APS agencies have adopted the PSMPC's suggested procedures, either without amendment or modified to meet their individual requirements. In those instances where agencies have developed their procedures independently, including the Department of Defence, the Australian Bureau of Statistics and the Australian Taxation Office, they remain consistent with Chapter 5 of the Directions and the suggested procedures.

Most agencies that have made changes to the suggested procedures consulted with their employees, usually through established consultative forums, prior to their finalisation.

The appropriate application of sanctions is an important element in the effective and fair use of the Code of Conduct. Considering the type of sanction applied is important in this regard. Concerns about such consistency within and between agencies have arisen in a number of reviews of action conducted by the Merit Protection Commissioner.

Agencies were therefore asked about how they maintain consistency in applying sanctions where breaches of the Code of Conduct have been found. Responses indicated variations in approach that reflected factors such as the size of an agency and the nature of its work. Small agencies tended not to issue detailed guidelines, as they deal with a small number of cases (if any) and the delegation to apply sanctions is usually restricted to a small number of senior staff or, in some cases, to the Agency Head only.

In the Defence Housing Authority, for example, all allegations of misconduct are reported to a senior manager in the Authority's Head Office. The investigation of allegations is controlled centrally to ensure consistency and adherence to procedure. The Managing Director reviews any proposed sanctions before they are applied. The sole decision maker for sanctions in the Great Barrier Reef Marine Park Authority is the Authority Chairperson, which provides uniformity.

Larger agencies tend to be more structured in their approach. They may provide formal guidelines to staff as to the range of sanctions available and the considerations to be taken into account in deciding which sanction to apply. Other approaches include ensuring that sanctions are imposed in consultation with central human resources (HR) and/or Legal areas, limiting the number of delegates who can apply sanctions, keeping registers or databases of sanctions to which HR Managers can refer in providing advice to decision makers, and providing decision makers with relevant case precedents.

The Department of Education, Training and Youth Affairs (DETYA), for example, applies a range of these strategies. In addition to the formal procedures for determining whether a breach of the Code of Conduct has occurred, DETYA has also issued a handbook to assist in dealing with such issues. This handbook covers the imposition of sanctions and includes a description of matters appropriate for consideration when determining the sanction to be imposed. A limited number of people have delegation to impose a sanction, and this also aids in ensuring consistency and uniformity across the Department. Legal advice is normally sought as part of this process.

MANAGING POSSIBLE BREACHES OF THE CODE

REVIEW OF ACTIONS

During 2000–01, a total of 33 applications were made to the Merit Protection Commissioner for reviews of determinations by agencies that employees had breached the Code of Conduct. In a number of these cases, it is evident that the individuals concerned were not fully aware of their obligations under the Code or of the fact that their behaviour was likely to result in misconduct action being taken against them.

There were, for example, a number of cases relating to misuse of e-mail and the Internet in which it appeared that some employees were unaware of the seriousness with which their agencies regard the

misuse of these facilities. This is despite the fact that, as highlighted in the 1999–00 State of the Service Report, this is an important issue for agencies, nearly all of which have developed, or are developing, policies on using e-mail and the Internet.

The Privacy Commissioner's advice for agencies on establishing policies in this area sets out a number of guidelines, the first of which is that the policy should be promulgated to staff and that management should ensure that it is known and understood by staff. One such approach is to link the policy from a screen that the user sees when he or she logs on to the network.

Another issue identified by the Merit Protection Commissioner, and commented on by several agencies in their responses, is the problem sometimes encountered in a misconduct process of identifying which particular element or elements of the Code of Conduct may have been breached.

It is possible for certain types of behaviour to be in breach of more than one aspect of the Code. Agencies therefore need to take care in identifying breaches correctly and in ensuring that sanctions are in proportion to the nature and circumstances of the conduct in question. In those cases where an action is in breach of several elements of the code, agencies should consider applying a sanction that is relevant to the whole action, rather than imposing a separate sanction for each element of the Code that has been breached.

In reviewing a determination, the Merit Protection Commissioner or his delegate will generally have regard to whether the standards of conduct set out in the Code of Conduct as a whole have been met. While this may result in a recommendation to vary a determination where a breach has been incorrectly identified, it will not necessarily result in a recommendation to set the determination aside.

While the new framework is less prescriptive, and it is possible for agencies to investigate suspected breaches with less formality and in a less legalistic way than had become customary under the old system, it remains the case that investigations into suspected misconduct have potentially serious consequences for the employees involved. Consequently, all care must be taken to follow the procedures that agencies have established under section 15(3) of the PS Act 1999, to document fully the actions that are taken, and to conduct investigations in a fair and reasonable manner that will withstand independent scrutiny.

There is widespread agreement among agencies that the new framework is more streamlined, provides more flexibility than was available under the previous disciplinary procedures, and is more easily understood by managers and employees.

The Department of Employment, Workplace Relations and Small Business (DEWRSB), for example, commented that the new framework provided a clear description of the values and standards of conduct expected of public servants. DEWRSB also believed that the procedures ensured a balance between an informal and expeditious resolution of ethical and conduct issues and the requirement to ensure that the rules of natural justice are applied to all employees.

The Department of Veterans' Affairs found the new procedural framework easier to read and understand and less bureaucratic than the former regulations. This made it less daunting for managers and Human Resource practitioners to take action in relation to breaches of the Code of Conduct.

The Department of the Prime Minister and Cabinet (PM&C), however, pointed out that, while misconduct procedures would appear to have been simplified under the new framework, there are a

number of procedural issues that must still be considered carefully if the sanctions imposed are to be justified in a review of employment action or in the Australian Industrial Relations Commission. PM&C commented that agencies needed to consider and act on a significant number of issues on which there was no regulatory prescription, and suggested that the PSMPC booklet, *Managing Breaches of the APS Code of Conduct*, provided useful information for agencies in this regard.

The Department of Transport and Regional Services made a similar point, saying that, while the framework itself is simple and easily understood, individual misconduct cases are often complex and require careful management.

WHISTLEBLOWING

A whistleblower is defined in section 16 of the PS Act 1999 as an employee who reports a breach or alleged breach of the APS Code of Conduct to a person authorised to receive such a report. In most cases, APS employees report breaches to their Agency Head for investigation in the first instance, although in some circumstances they may report directly to the Public Service Commissioner or the Merit Protection Commissioner, or to persons authorised by them. Division 2.2 of the Public Service Regulations 1999 requires Agency Heads to establish procedures for investigating whistleblower reports and sets out the minimum requirements for such procedures.

Since the introduction of the PS Act 1999, several agencies have sought advice from the PSMPC on a particular issue relating to whistleblowing investigations, and the subject was again raised by an agency in the context of this report. The issue is the extent to which a whistleblower's report should be investigated before undertaking a more thorough investigation into a possible breach of the Code of Conduct.

Agencies should be aware that, while there is a need for judgement in such cases, a whistleblowing investigation will generally conclude when the person investigating the report has established whether there is sufficient evidence to suspect that a breach of the Code has occurred. It is at this point that a separate process should commence to determine whether a breach of the Code has taken place, using the agency's procedures established under section 15(3) of the Act. This is because a sanction can only be imposed as a result of a misconduct process. The investigation of a report under the whistleblowing scheme cannot, of itself, lead to the imposition of a sanction.

The PSMPC recently issued a circular dealing with this issue in more detail. The circular also clarified the role of the Public Service Commissioner and the Merit Protection Commissioner when a whistleblowing report is made to them, either directly or following consideration of the report within an agency. When the Commissioners inquire into the allegations made in a whistleblowing report, their task is to determine whether a recommendation should be made to the Agency Head to commence action under the Agency Head's procedures for determining breaches of the Code. The Commissioners do not have the power to reach any determination about whether the alleged misconduct has actually occurred, or to impose a sanction. A determination can only be made under procedures established under subsection 15(3) of the PS Act 1999 by an Agency Head and it is only Agency Heads, or persons authorised by them, who may impose a sanction, under subsection 15(1), where an employee or employees have been found to have breached the Code of Conduct.

PROMOTING THE CODE

The framework provided for by the new legislation is considered to draw clearer links between expected standards of behaviour, the APS Values, the Code of Conduct, and the potential consequences of breaching the Code. It is also considered to assist in clarifying the obligations and responsibilities of employees and managers.

It is the practice in most agencies to provide information on the Code of Conduct and the Values to new recruits in the course of induction training. For the majority of employees already employed in the APS, the Code and the Values, as well as their agency's procedures for determining breaches of the Code, can be accessed by way of their agency's Intranet systems. In addition, a number of agencies have seen the introduction of the new framework as an opportunity to promote the importance of ethical behaviour in the workplace, and have adopted a variety of initiatives in order to do so.

A number of agencies, including the Commonwealth Rehabilitation Service, the Department of Immigration and Multicultural Affairs (DIMA) and Centrelink, have featured articles about the Code of Conduct in their staff magazines and newsletters.

DIMA is conducting extensive training on the Code of Conduct, focused around an interactive compact disc called *No Harm Done*. The Department has provided copies of the disc and supporting documentation to its overseas posts, with the intention of providing training to all employees, including those who are locally engaged.

In order to publicise the Code, Centrelink ran a Values and Code of Conduct Competition in its *Centrelink People* magazine, offering a small prize to the first employee to correctly identify words relating to values and conduct in a word-search style puzzle. A follow up article will appear in a future issue. Centrelink has also developed APS Code of Conduct and Values posters for use within the agency.

The ACS is developing an ethics and conduct booklet, to be distributed to all employees and placed on its Intranet and, in common with many other agencies, displays PSMPC produced posters on APS Values and the Code of Conduct in its offices.

DETYA provided all employees with a brochure summarising their responsibilities as public servants, which referred to the relevant policies and guidelines available on the Department's Intranet. DETYA also issued a circular to its employees providing details of its procedures for determining breaches of the Code and reminding its employees of the need to behave in accordance with the Values and the Code of Conduct. The Department delivered small group training sessions that discussed the Values and the Code and procedures for dealing with suspected breaches. The sessions were built around practical, work-based scenarios designed to promote discussion, raise awareness and provide an opportunity for people to raise questions. DETYA has presented the sessions to a number of areas of the Department, intending to cover the whole Department over time.

In addition to the information available to employees through its administrative circulars and the Conduct and Ethics site on its Intranet, DFAT provides ethics workshops for its employees, and the Conduct and Ethics Unit holds briefings for all Heads of Mission before they are posted overseas. DFAT also has an Ethics Committee, chaired by a Deputy Secretary and with a membership broadly

representative of the Department. The committee has as its objectives to promote high standards of ethical behaviour, prevent fraud and misconduct, and ensure that investigations are carried out fairly and expeditiously.

While these are positive initiatives, as mentioned previously, agencies must continue to take steps to ensure that employees understand the importance of ethical behaviour and the relevance of the Code of Conduct to their everyday work. A key development in this area is the growing emphasis on the Values and on behavioural issues in agencies' performance management systems.

LEAKS AND SECURITY COMPLIANCE

The unauthorised disclosure of official information remains a concern in the APS. Leakage of sensitive material may reflect weaknesses in the security culture of an agency, but it also represents a fundamental breakdown in the mutual trust which must underpin any professional workplace. This is recognised by the Code of Conduct and provisions of the regulations under the PS Act 1999.

> An employee must, except in the course of his or her duties as an APS employee or with the Agency Head's express authority, not give or disclose, directly or indirectly, any information about public business or anything of which the employee has official knowledge.
>
> P.S. regulation 2.1.

Serious or continuing leaks are highly corrosive of the relationship between government and the APS. They undermine in particular the APS Values, which specifically encompass this relationship.

> The APS is apolitical, performing its functions in an impartial and professional manner.
>
> APS Values—*Public Service Act 1999.*

DFAT is an example of an agency that has made a concerted effort to make security an integral component of the broader professionalism and culture of the department. Security consciousness is now a significant management responsibility of all supervisors and forms an aspect of every officer's performance agreement. The security performance of divisions is also monitored and reported, and division heads are held directly responsible for breaches in their division. DFAT has developed a compulsory security awareness course and all employees sign an annual declaration confirming they are familiar with the department's security regulations and their responsibilities. Employment within DFAT is contingent upon an appropriate security clearance, which is reviewed every five years. The department has an investigative capacity for security infringements, which includes electronic audit trails and a strict 'need-to-know' regime for electronically distributed documents. DFAT attributes the absence of any known or suspected leaks in the past year to these initiatives.

FRAUD

As the APS moves towards electronic service delivery, there is a strong potential for fraud to increase. Internet fraud can include theft of funds through illegal transfers, theft of credit card details, illegal credit card use and extortion. Fraud can be committed by contractors in a number of ways, and can include not delivering a service that was paid for, or by misusing information. Fraud has become a pressing concern for the APS, and the changing nature of fraud will require greater scrutiny of current fraud management practices.

The *State of the Service Report 1999–00* reported on the progress of the Commonwealth's Fraud Control Policy and Guidelines, which will affect all agencies covered by the *Financial Management and Accountability Act 1997* (the FMA Act), and agencies subject to the C*ommonwealth Authorities and Companies Act 1997* (the CAC Act) which are 50% budget funded. The first draft for this policy was circulated for consultation during June 1999. The second consultation draft was circulated in April 2001.

The aim of the new policy is to devolve responsibility for fraud management to individual agencies. Fraud management is to be incorporated into risk management procedures in a holistic approach that is more in line with corporate governance principles. Agencies will no longer be requested to provide fraud risk assessments to the Attorney-General's Department (AGs) and the Australian Federal Police for evaluation, and the Commonwealth Law Enforcement Board will no longer be cited as the body responsible for fraud control policy. Once the policy is finalised, Chief Executive Officers will have the responsibility of ensuring that their fraud control plans are in line with the Commonwealth's guidelines, and must notify their Minister and the Secretary of AGs of their compliance.

AGs will continue to monitor fraud across the APS, and will conduct strategic targeted reviews of high-risk areas. Agencies will have more stringent annual report requirements, which will provide consistent, more strategic information and advice to Government on current trends in fraud.

Last year's Report also commented on an Australian National Audit Office (ANAO) survey investigating fraud control issues and arrangements in APS and other Commonwealth agencies subject to the FMA and CAC Acts.

The survey, released in June 2000, found that the majority of APS agencies had frameworks in place to deal with fraud prevention. The report also found that many agencies were not undertaking risk assessments of fraud procedures. The ANAO report stressed that this was necessary, particularly in light of the increased opportunities for fraud which e-commerce and electronic service delivery may provide.

The year saw several highly publicised cases of individual fraud in the APS involving convictions of former APS employees or contractors. But there is no evidence that these few cases represent any broader or more widespread probity problems for the APS than in past years.

Agencies are reminded, however, that the management of fraud depends as much on the values and behaviour of individual employees and other people undertaking work on behalf of the Commonwealth as on the implementation of effective fraud prevention procedures.

CONCLUSION

An understanding of the APS Values and the APS Code of Conduct and of how they apply in the workplace is central to the maintenance of the public interest in a devolved APS. While the coverage of returns from agencies on the Values and Conduct survey could have been more comprehensive, they nevertheless demonstrate that there is a reasonable level of understanding among APS employees, at least in relation to their own roles and responsibilities. There is perhaps less confidence that employees understand how the Values and the Code apply more broadly to the responsibilities and organisational goals of their colleagues, their agency and the APS. This, together with the new growth in recruitment, including the recruitment of older staff who may be used to different workplace cultures, means that the APS cannot be complacent about its continuing responsibilities to promote the Values and the Code of Conduct. This will be an ongoing issue for future State of the Service Reports.

The leaking of sensitive material remains an ongoing concern. A future Report will look at the strategies that agencies have put in place to deal with leaks, including procedures for protecting information, identifying sources of leaks and the development of cultures in which employees can be trusted to protect sensitive information. The Report will also continue to monitor the incidence of fraud in the APS.

THE SIZE AND COMPOSITION OF THE APS •

WAGES AND CONDITIONS SETTING IN THE APS •

Last year's Report noted that, for the first time in at least five years, there had been growth in total Australian Public Service (APS) employee numbers. This trend has continued with total staff numbers reaching 118 644 at 30 June 2001, a slight increase from 113 322 at June 2000. Ongoing employee figures grew from 102 703 to 108 005 at June 2001.

Last year's Report also noted that, after plateauing in 1998–99, the representation of women had increased slightly. This year has seen the total percentage of women employed rise from 51.4% to 52.4%. More significantly, the percentage of women in ongoing employment rose from 49.9% to 51.4%. This is not only an important jump in the representation of ongoing women employed, but it also means that, for the first time, women are now a majority of the ongoing staff in the Service. Further information on women in the APS can be found in the Workplace Diversity Report.

Figure [I] gives the change in total numbers of APS staff from June 1985 (where numbers reached 172 680) to June 2001. The bold line represents unadjusted figures while the dotted line represents figures adjusted for coverage changes and covers those staff employed in functions that were still in the APS at 30 June 2001. There were no coverage changes during the 2000–01 financial year, the first year since 1996–97 in which there have been no coverage changes.

FIGURE [I] APS STAFF 1985 TO 2001
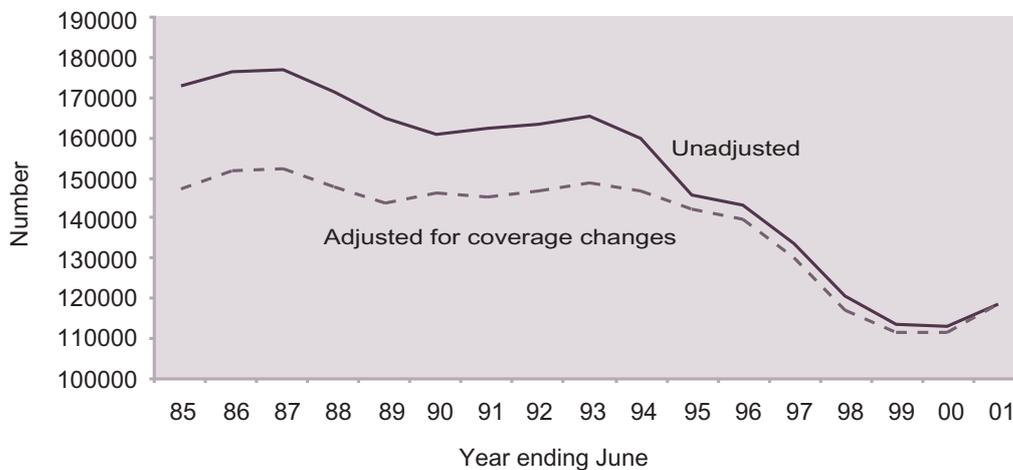
Source: APS Employment Database

There were 13 454 ongoing engagements over the 2000–01 period (61.5% of whom were women) and 8151 separations.

The coverage of the APS is restricted to those staff employed under the Public Service Act 1999. Further information on the size and composition of the APS is contained in the Australian Public Service Statistical Bulletin 2000–01. The statistics in this chapter and elsewhere in the Report are, unless otherwise indicated, prepared from the same data source as those in the Bulletin. The conceptual definitions and limitations of the data are set out in the Introduction and Explanatory Notes to that Bulletin. SES data in this chapter for 2000–01 includes those employees in groups 9, 10 and 11 of the approved classifications who are not SES but who receive a similar level of remuneration.

The rise in engagements can be partly explained by the increased number of staff taken on by Defence, the Australian Taxation Office and Centrelink during the year. There were no other particularly large staff intakes. Figure [2] shows ongoing engagements and separations as a percentage of all staff in the last ten years.

FIGURE [2] ONGOING ENGAGEMENTS AND SEPARATIONS AS A % OF TOTAL STAFF 1991–92 TO 2000–01
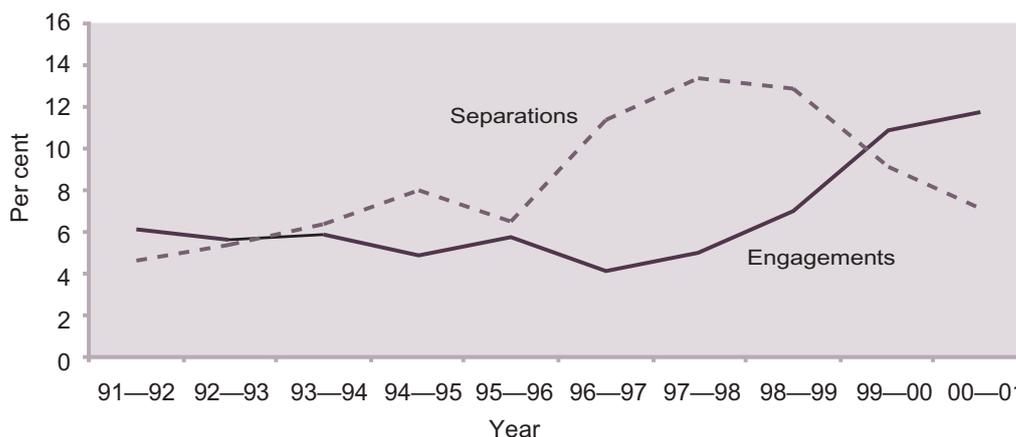
Source: APS Employment Database

Separations of ongoing staff from the APS include retrenchments, resignations and age retirements. From 1996–97 to 1998–99, retrenchment was the major reason for separations from the APS. The percentage of separations as a result of resignations declined over the same period.

As figure [3] illustrates, this trend has reversed over the last two years.

FIGURE [3]: SELECTED TYPES OF SEPARATIONS 1991–92 TO 2000–01
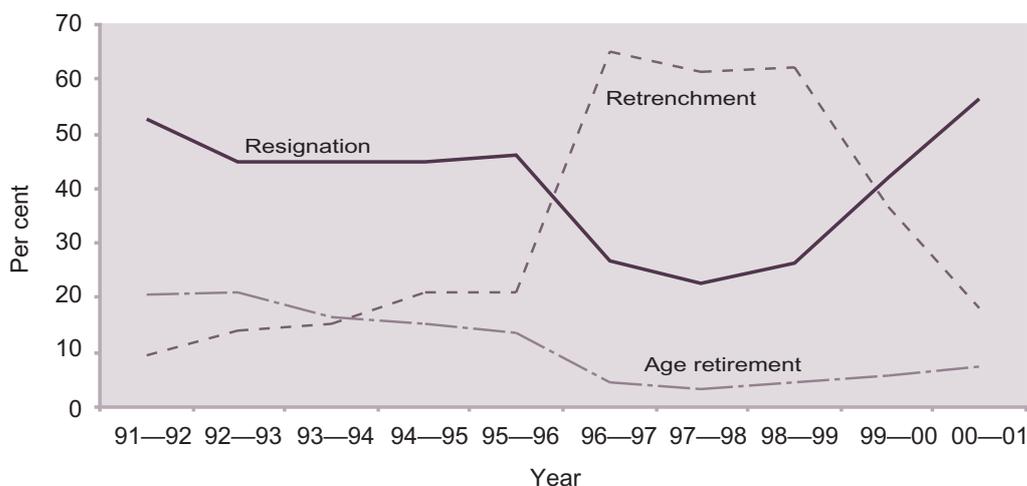
Source: APS Employment Database

In particular:

- the number of retrenchments fell considerably in 2000–01, when there were only 1480 retrenchments, compared to 3674 in 1999–00. This represented a decrease from 36.7% of all ongoing separations in 1999–00 to 18.2% in 2000–01. The Department of Defence accounted for 27.8% of all retrenchments. There were no other large retrenchment movements during 2000–01;
- resignations as a proportion of separations have increased from 41.9% in 1999–00 to 56.5% in 2000–01 and have again become the major cause of separations, as they were up to 1995–96; and
- age retirements have increased slightly over the last 12 months. They comprised 7.6% of separations in 2000–01, compared with 6% in 1999–00.

The reason for these trends may be no more than a return to traditional patterns of separations following a period of organisational change and restructuring, or they may represent important changes in attitudes toward long term careers. The issue will be looked at in more detail in a future Report. The specific issue of resignation of Commonwealth Superannuation Scheme (CSS) members at age 54 is discussed later in this section.

AGE

There has been almost been almost no change in the median age of APS employees in the last 12 months. The median age remains at 41 years. The median age for males is still 43 years, while the median age for women has increased slightly from 38 to 39 years.

Figure [4] tracks changes in the age profile of ongoing staff over the last 10 years.

FIGURE [4]: AGE PROFILE OF ONGOING STAFF, 1992–2001
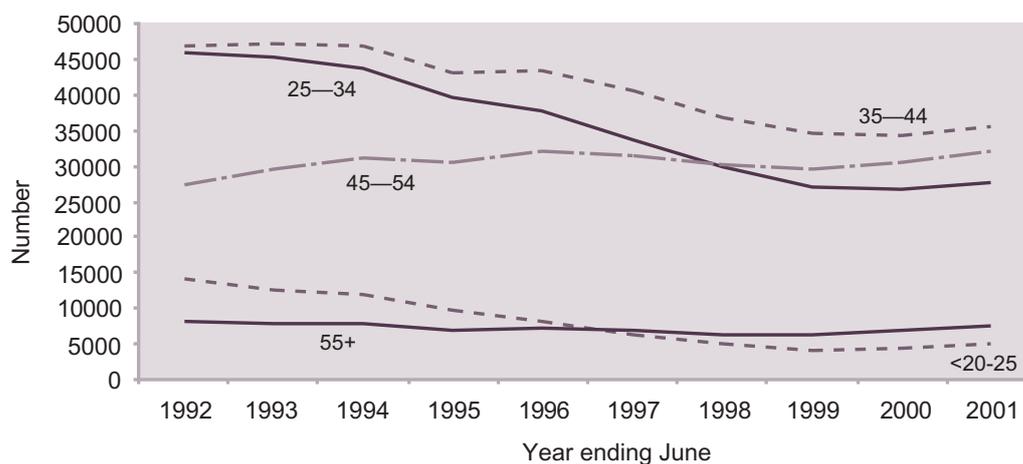
Source: APS Employment Database

It indicates that, while there have been fluctuations during the period, the numbers in most age groups decreased consistently until 1998–99, but are now moving slowly upwards with the overall increase in numbers in the last two years. Significant exceptions to this pattern, however, are:

- the number of employees in the 45–54 age group, which has grown consistently over the last 10 years. This is discussed in more detail below; and
- the number of employees in the under 35 age group, which has remained static for the past two years.

While employees under 25 years continue to comprise only a small proportion of the APS, there has been a slight overall increase in their representation in the last 12 months, rising from 4.2% at June 2000 to 4.7% at June 2001. There has also been a slight lowering of the median age of ongoing engagements in the last 12 months, slipping from 33 years in 1999–00 to 32 years in 2000–01. The median age of engagement for males has declined from 35 to 34 years, while the median age for females has remained at 31 years over the same period.

The representation of employees aged 60 years and over is still small but is increasing. While the number of ongoing employees in this group increased by only 214 in 2000–01, it is still growing at a faster rate than the overall APS. The abolition, in the *Public Service Act 1999*, of a compulsory retirement age (formerly 65 years) appears to be a contributing factor. In June 2001, some 18 months after the abolition of the compulsory retirement age, there were 77 ongoing employees over 65 in the APS, although 90% of these employees were at or below the APS 6 level.

LENGTH OF SERVICE

The median length of service for ongoing APS employees remained at ten years. The average length of service for men was 11 years, and for women eight years at 30 June 2001. Figure [5] charts changes in the length of service profile of ongoing staff over the last ten years.

FIGURE [5]: LENGTH OF SERVICE
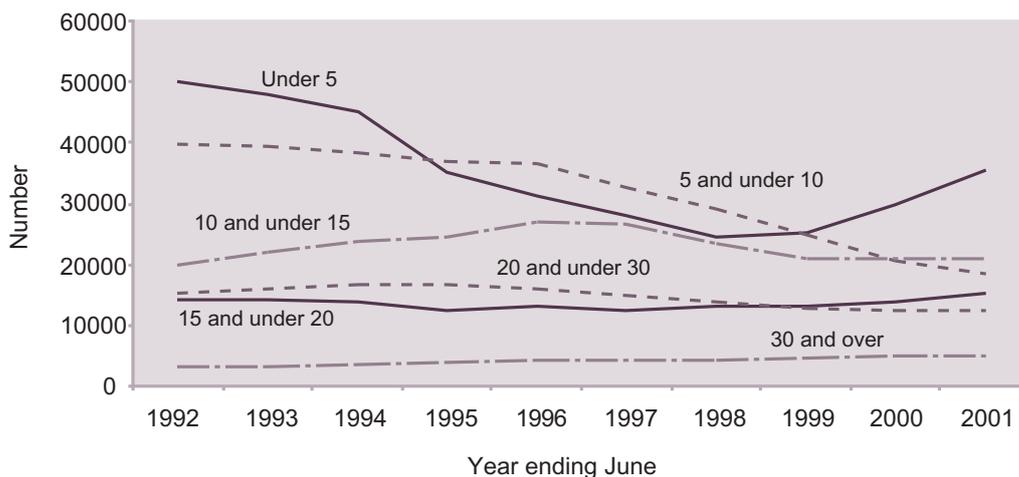
Source: APS Employment Database

The main feature here is the consistent decline in the numbers of employees with five and under ten years of service, falling from 28.5% of all ongoing employees in June 1996 to 17.1% in June 2001. The figure also illustrates the increase in recruitment over the last couple of years, with the representation of employees of less than five years service increasing from 22.5% in June 1998 to 32.8% in June 2001. Within this group, the representation of employees with less than two years service more than doubled during the same period, from 8.6% to 19.1%.

RESIGNATION BEFORE AGE 55 YEARS

One of the current concerns of APS managers and workforce planners is that the departure of staff at around the 54–55 age level could result in a very considerable loss of skills and corporate knowledge across the APS, particularly as this group could be expected to include a significant proportion of senior staff. Last year's Report noted these concerns, but also noted that the representation of employees over 55 years was continuing to increase. It undertook to look at these issues in more detail in this year's Report.

Concerns about the loss of employees in the middle fifties are the result of a number of interrelated demographic and employment factors. First, as figure[4] indicates, the representation of staff aged 45–54 has been steadily increasing. They now comprise 29.8% of all ongoing APS employees, compared with 25.0% in June 1996.

The period from the late sixties to the early seventies was, for various reasons, one of considerable growth in the APS. The number of ongoing staff grew by about 56% between 1967 and 1975. While both administrative re-arrangements and downsizing have resulted in a fall in the size of the APS, it is reasonable to assume that many of the people recruited as graduates and school leavers in the late sixties and early seventies now form a considerable proportion of the large group of employees aged 50–54 years.

The superannuation provisions of the CSS which, until 1992, covered almost all ongoing employees, enable employees approaching 55 years with long service to resign with a reasonable pension if they preserve their benefits until after they turn 55 years. This is the result of a combination of a different method of calculation of pension after preservation on retirement and high interest earnings over recent years. In some cases, a person would have to continue in employment well beyond 55 years to make up the difference to their benefits. Demographic and planning concerns have focused in on this issue and on the potential for large losses of experienced staff aged 54 years who are seeking to take advantage of this arrangement.

It is difficult to calculate the precise number of APS employees aged 54 years who are members of the CSS. When the new Public Sector Superannuation (PSS) scheme was introduced in 1992, CSS members were given the option to remain with the older scheme. Moreover, the CSS covered other

government employees as well as APS staff and ComSuper figures cannot identify APS members. ComSuper nevertheless advises that 27% of members of CSS scheme (11 849) are between the ages of 50 and 55. It also advises that 45% of all resignations from the CSS scheme occur at age 54 years.

There is certainly evidence of a demographic change that could be reflected in the resignation rates. Figure [6] shows that, in comparison to resignations at ages 50–53, there has been a large increase in the representation of the 54 year age group in resignations over the last three years.

FIGURE [6]: RESIGNATIONS BY AGE GROUP, JUNE 1991–JUNE 2000
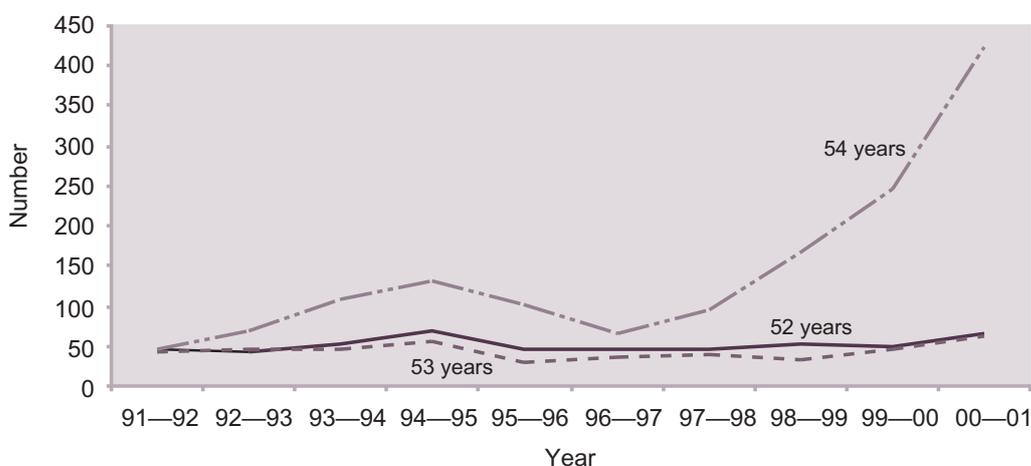
Source: APS Employment Database

Looking more precisely at the group aged 54 during 2000–01:

- employees aged 54 comprised 2.5% of all ongoing staff in June 2001, yet they made up 9.2% of all resignations in 2000–01;
- over 45% of employees aged 54 who resigned in 2000–01 were Executive Level 1 or above, compared with 31% of all employees aged 54 years;
- almost 84% of ongoing employees who resigned at age 54 in 2000–01 had more than 20 years APS service, compared with 38.4% of all APS employees aged 54 in June 2001.

This last point is illustrated in Figure [7] which shows in particular the considerable drop in the representation of employees with more than 30 or more years service between 54 and 55 years.

FIGURE [7]: LENGTH OF SERVICE BY AGE, JUNE 2001
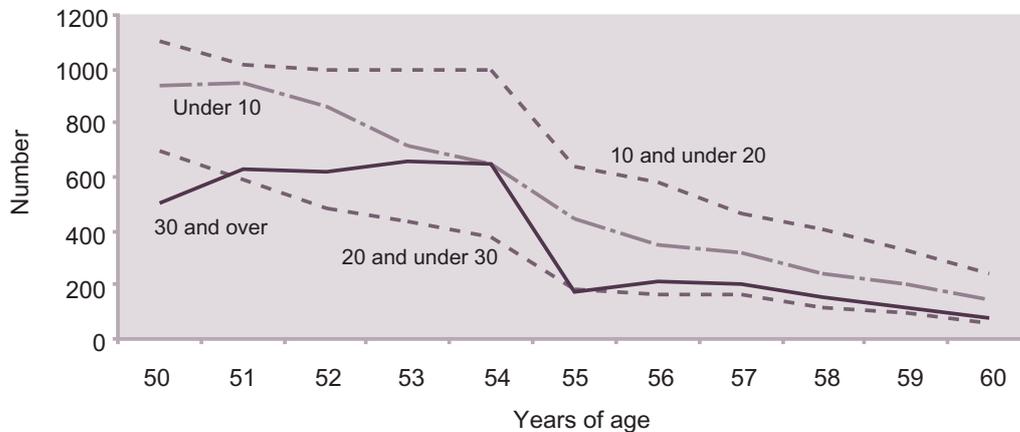
Source: APS Employment Database

In summary, there appears to be a significant number of resignations of long serving employees aged 54 and experienced senior staff appear to be over represented in this group.

Knowledge about, and interest in, the option of resignation at 54 under the CSS appears to have spread through the APS only recently. ComSuper has advised that one of the major factors for the increase in the use of this option appears to be changes to the CSS Act made in 1995–96. Prior to these changes, a person was required to preserve for a minimum of three months before claiming their preserved benefit. Three months without an income naturally deterred some people from taking advantage of a deferred benefit. After the 1995–96 changes, people could preserve for one day and then claim. ComSuper's briefing and information sessions conducted in 1996, as part of its campaign to publicise the PSS scheme, drew people's attention to the option, including the fact that the preservation period was no longer three months. The increasing demand for financial advice from the growing numbers of staff approaching retirement age has seen the information spread quickly among people in a position to take advantage of it.

The significance of this development should not, however, be exaggerated. There were 425 resignations of employees aged 54 in 2000–01, or only about 15.9% of all employees who were aged 54 in June 2001. Moreover, the number of staff aged 55 and over continues slowly but steadily to grow. Seven per cent of all ongoing employees were in this group at 30 June 2001, compared with 6.6% 12 months earlier and 5.7% in June 1992. The representation of senior staff fell after 54 years but only slightly. The representation rate of Senior Executive Service (SES) employees in the 50–54 age group at 30 June 2001 was 3.3%. For the group 55–59 it was 3.1%.

On the other hand, the length of service patterns of employees changes significantly between 54 and 55. Figure [8] compares the length of service of employees aged 54 in June 2001 with those aged 55. It shows a large difference in the representation of employees with over 20 years service.

FIGURE [8]: COMPARATIVE LENGTHS OF SERVICE OF EMPLOYEES AGED 54 AND 55, JUNE 2001
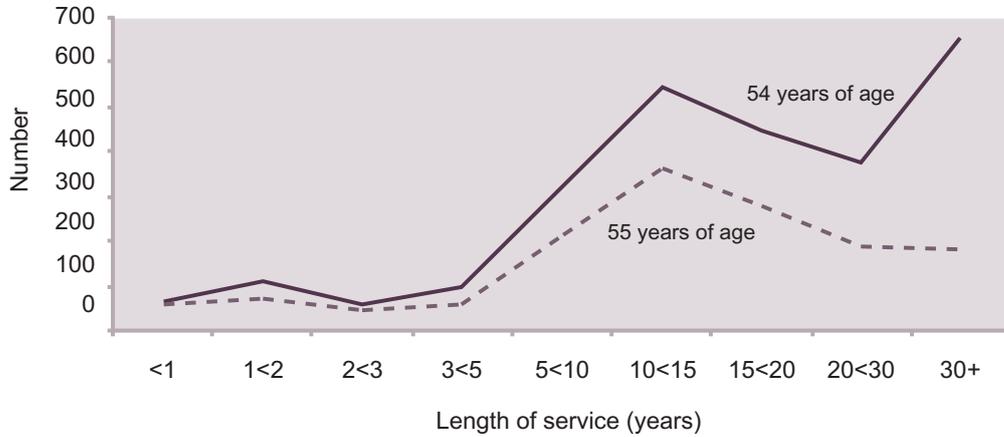
Source: APS Employment Database

An important factor here may be changing recruitment patterns and the fact that a correlation between age and length of service can no longer be assumed. It should be noted in particular that:

- over 28% of all new ongoing recruits to the APS in the last five years have been 40 years of age or over. Thirty per cent of all ongoing recruits in 2000–01 were 40 years of age or over;
- nearly 25% of all staff aged 54 at 30 June 2001 have less than ten years service, and would not, therefore, be members of the CSS; and
- nearly 45% of all employees aged 54 in June 2001 had less than 15 years service.

In other words, while long serving employees at 54 years of age appear to be finding resignation an attractive option, there is also a large number of employees around this age who do not fit this category.

These are, of course, Service-wide figures and the situation and its effect will differ from agency to agency. Nevertheless, the figures indicate that the situation may be more complex than was at first thought and, while an exodus of employees aged 54 is certainly occurring, its effects may be less dramatic than has been feared. This issue will be monitored and reported upon in a future Report.

CONCLUSION

In general, the trends observed last year are continuing, although it needs to be borne in mind that, as in most years, demographic shifts have been influenced by staffing decisions in large agencies as well as overall trends. For the second time in two years, recruitment outstripped separation.

Women are being recruited in greater numbers, and this has led to a significant jump in their overall representation, which increased by 1.5% in 2000–01, compared with just 0.8% percentage points in 1999–00. Women now comprise 35% of the Executive Level group, compared to 33% 12 months ago, and they make up 27.4% of the SES, compared with 25.3% in June 2000. For the first time, women

now comprise a slight majority of ongoing staff in the APS. The steady increase in the representation of women means that agencies may need to pay particular attention to the career and workplace interests of women if they are to retain an increasing number of this group.

While gender differences in separation rates are discussed in more detail in the Workplace Diversity Report, it is interesting to note, in this context, that while women comprised 49.1% of all separations in 2000–01, they were 54.7% of all resignations. Separations trends for women will continue to be monitored.

Last year's Report noted a fundamental shift in the classification levels of staff over the last 15 years from an organisation with large numbers of base grade employees to one with an increasing number of junior and middle managers. This trend continues, albeit at a very gradual rate. APS 4 continues to be the largest classification level, its members comprising 24.9% of all ongoing employees in June 2001, almost the same as in June 2000 (25%). The representation of ongoing Executive Level 1s increased from 11.4% to 11.9% over the same period. The representation of APS 1 ongoing employees declined from 2.4% in June 2000 to 2.0% in June 2001.

The trend that saw retrenchments as the major cause of separations between 1995–96 to 1998–99, has reversed in the last two years. The change was much more pronounced in 2000–01, with the number of retrenchments declining by more than half. On the other hand, resignations have once again become the major cause of separations and the resignation of CSS members at 54 years, while it is increasing, does not provide the full picture. Trends in the resignation of employees aged 54 years will continue to be monitored, but current information suggests that, while it may an issue for individual agencies confronted with losses of particular skills, its overall effect on the APS may not be as great as first thought.

Consistent with the devolved employment arrangements now operating in the Australian Public Service (APS), employees' wages and conditions are generally established through agreements at the enterprise level.

There is now scope for agencies to tailor arrangements to their particular organisational and business goals, thereby enhancing overall performance and efficiency.

The APS focuses on achieving results and managing performance.
APS Values—*Public Service Act 1999.*

At the same time, the processes for agreement making need to take account of the interests and concerns of employees.

The APS establishes workplace relations that value communications, consultation,
co-operation and input from employees on matters that affect their workplace.
APS Values—*Public Service Act 1999.*

AGREEMENT MAKING

The employment framework operating in the APS allows for both collective and individual agreements, through certified agreements (CAs) and Australian Workplace Agreements (AWAs) made under the *Workplace Relations Act 1996* (WR Act).

Agreement making is now more widespread in the APS than any other industry. The 2001 Survey of Agreement Making in the APS, conducted by the National Institute of Labour Studies (NILS) on behalf of the Department of Employment, Workplace Relations and Small Business (DEWRSB), found that almost all staff are covered by either CAs (94.3%) or by AWAs (5.2%). Most agencies operate both forms of agreements. The 2001 Survey found only two agencies where all staff were employed under AWAs and six agencies (all without Senior Executive Service (SES) staff) where all staff were covered by a CA. APS level employees are generally covered by CAs, although a growing number, in particular at the executive levels (14.6%), are covered by AWAs. Nearly all SES (93.8%) are on AWAs.

As at 30 June 2001, there were 100 certified agreements operating within the APS. Sixty-one of these agreements were made during the year, comprising 58 second-round agreements, two third-round agreements and one greenfields agreement under section 170LL of the WR Act. (A greenfields agreement is one made in a new business where staff are not yet employed. The agreement is negotiated with the union or unions that may represent the staff, and when staff are employed the conditions are already set.)

The 2001 Survey found that the majority of APS CAs (88%) are stand alone, fully comprehensive agreements that displace awards, Public Service determinations and previous agreements. This compares with 60% in 1999 and indicates a growing maturity in bargaining infrastructure and confidence on the part of the APS agencies over that period.

Most APS CAs were made with one or more trade unions under section 170LJ of the WR Act. Some 35% of agreements were made directly with employees under section 170LK of the WR Act (falling from 45% in 1999) although this survey finding understates the true extent of section 170LK agreements according to the database of current APS agreements maintained by DEWRSB. These section170LK agreements are more likely to be found in large agencies, in agencies whose primary function was policy or advisory in nature and in agencies where the majority of staff were based at head office.

It would appear that agency processes of agreement making are improving with experience. While the process still remains protracted, reflecting the degree of consultation required, the time taken to finalise agreements has shortened considerably. In the NILS survey, agencies were more likely to report that the process of agreement making had got better rather than worse, and this applied to the time taken and the costs incurred.

A wide range of measures is included in agency CAs, with common features including a stronger link with performance appraisal and performance more generally, the more flexible use of classification structures, including through broad-banding, flexible working hours arrangements, and the simplification of leave arrangements, allowances and penalty provisions. Measures to enable people to balance their work and family responsibilities better are common. Agreements have also been used to secure commitment to organisational and cultural change.

The top five ranked performance enhancing features identified in the NILS study were performance management arrangements (74%), family friendly working arrangements (74%), flexible working hours (61%), tailoring conditions to agency business (57%) and simplification of leave entitlements. There has been a relatively high degree of stability in these features over time (the proportion nominating performance management, flexible hours of work and leave measures having barely altered since 1999). Two issues, however, which are now seen as more important by agencies are family friendly working arrangements (up from 22% in 1999) and tailoring conditions to agency business (up from 25%).

There is a significant degree of variation in the approaches taken and the nature of provisions (for example, in how hours arrangements are structured). The evidence suggests that agreements are being made which are tailored to the operational requirements of agencies, meeting the objectives set for the devolution of the setting of pay and conditions to agencies. It also suggests that increases generated by improving productivity and staff commitment have been considerably more prominent in the APS than the narrower focus on pruning costs by, for example, rationalisation of employment conditions.

The 2000 Australian National Audit Office (ANAO) report on agreement making recommended that agencies should establish arrangements to assess whether the objectives of their CA had been met and, where possible, the contribution of their CA to overall agency objectives. In the NILS study, the survey results show that more than 50% of agencies keep actual records on a variety of performance

indicators but significantly fewer agencies (37%) actually specified the objectives or performance targets in their agreement. The survey also showed that 55 agencies achieved the stated cost savings, whereas 35% of agencies indicated that it was too early to say if the objective had been met.

The figures of the Office of the Employment Advocate show that there were 10 636 APS AWAs as at 30 June 2001, but this overall figure included a number of replacement agreements, so there is a degree of double counting. A DEWRSB survey determined that there were more than 6200 'live' AWAs in the APS as at 30 June 2001, covering around 1600 SES employees and 4600 other employees. This is up from about 5000 AWAs as at 30 June 2000. Of that figure, almost 3500 covered non-SES staff.

The 2001 Survey of Agreement Making found that the use of AWAs is extensive within the SES (93.8% coverage). More broadly, AWAs are used by many agencies, but for a relatively small proportion of their staff and targeted at the Executive Level. For example, while 72% of agencies had one or more Executive Level staff on AWAs, only 14.6% of staff at this level were on AWAs overall. Some 36% of agencies had one or more APS 1-6 level staff on AWAs.

There has been an extension in AWA coverage over recent years, most marked at the Executive Level classifications. Forty-four per cent of agencies had extended their use of AWAs since the previous round of agreement making, their most important objective being to retain key staff. Larger agencies and policy/advisory agencies were more likely to have extended coverage.

During the year, the first proceedings seeking an arbitrated award under section 170MX of the WR Act in respect of an APS agency commenced in the Australian Industrial Relations Commission (AIRC). The proceedings relate to the Australian Protective Service, which has yet to conclude agreements in respect of about two-thirds of its workforce. A decision in this matter is expected in the latter part of 2001.

REMUNERATION TRENDS AND ISSUES

The more devolved arrangements and use of agency CAs and AWAs have resulted in a growing differentiation in remuneration approaches and outcomes. This is evident in the results from recent surveys on developments in SES and non-SES remuneration undertaken for DEWRSB.[1,2]

SES REMUNERATION

There has been a significant widening of the SES salary band ranges across the APS since the decentralisation of remuneration management in the APS in 1996. The table below compares salary bands over that period.

[1] Department of Employment, Workplace Relations and Small Business, *APS SES Remuneration Survey*, May 2001.

[2] Department of Employment, Workplace Relations and Small Business, *APS non-SES Remuneration Survey*, October 2001.

SES BAND	MINIMA & MAXIMA	1996 $	1998 $	1999 $	2000 $
SES1	Min	68 228	69 593	68 228	68 228
	Max	82 120	100 000	112 888	125 000
	Difference	13 892	30 407	44 660	56 772
SES2	Min	81 856	81 856	83 493	74 927
	Max	101 217	122 000	130 000	135 000
	Difference	19 361	40 144	46 507	60 073
SES3	Min	95 493	95 496	97 403	97 712
	Max	122 136	140 000	163 200	185 000
	Difference	26 643	44 504	65 797	87 288

The difference in the salary range between the minimum of Band 1 to the maximum of Band 3 has more than doubled since 1996 (from $53 908–116 772).

While agencies have set wider salary ranges, actual salaries paid are clustered at the upper end of the ranges. Ninety six percent of SES employees in agencies with published salary ranges are paid at the maximum of the range for that particular agency.

The APS SES Remuneration Survey May 2001 found significant increases in all remuneration elements—base salary, total remuneration package (TRP—the sum of base salaries, superannuation, motor vehicles and other fixed benefit items) and incentive payments.

SES base salary levels had increased significantly ranging from 6.5-9.7% between December 1999 and December 2000. The median base salary of an SES Band 1 increased by 6.5% ($5779), SES Band 2 base salary increased by 7.3% ($8,002) and Band 3 increased by 9.7% ($12 788), in contrast to increases in 1998 of 1.7%, 2.8% and 4.1% respectively. Public sector SES base salaries, however, continued to remain lower in comparison to those in the private sector, particularly at the higher executive levels of the Band 3 equivalent.

The average sample on sample increase for the median base salary for SES employees from 1996 to 2000 is:

• 4.3% for SES Band 1;
• 4.4% for SES Band 2; and
• 5.2% for SES Band 3.

The survey also measured increases in TRP. Increases in TRP were recorded between 1999 and 2000 of 7.0% ($8638) for SES Band 1, 8.4% ($12 517) for SES Band 2 and 8.1% ($14 552) for SES Band 3. This compares with an equivalent movement in the private sector of 5.6%.[3]

[3] Mercer Cullen Egan Dell, Top Management Remuneration Review 2001.

The average sample on sample increase for the median TRP for SES employees between 1996–2000 is:

- 3.7% SES Band 1;
- 4.2% SES Band 2; and
- 4.5% for SES Band 3.

The equivalent average movement for the private sector was 5.9%.

Performance pay forms an important element in SES remuneration, with most agencies (84%) using such incentives and most eligible employees (80%) actually receiving an incentive. Overall, the level of incentive payment has increased since 1999 (mainly for Band 3 employees). Further details on performance linked remuneration are provided in Part 6, Achieving High Performance.

Retention payments are made to some SES staff as a means of retaining the employee for the duration of a particular project or for a specified period of time, and differ from performance pay or incentive plans which reward employees for achieving specific objectives. The APS SES Remuneration Survey May 2001 report noted that 18% of SES Band 1 employees were eligible for retention bonuses, compared to 22% of Band 2 and 35% of Band 3 SES.

Fourteen percent of APS agencies have performance threshold targets that set an overall minimum level of organisational performance before performance based remuneration is provided for the SES for performance beyond the thresholds, and most agencies place a cap on the maximum incentive bonus payout.

NON-SES REMUNERATION

The remuneration of most non-SES employees is provided by CAs. These show a significant degree of variation in how pay packages are structured across agencies (for example, in the use of sign-on bonuses, conditionality applying to increases or differential pay increases).

Wage outcomes (i.e. increases to base salary) of current agreements range from 2.3% to 6.7% per annum, averaging 3.9%.

The main factor driving the size of the pay increase appears to be finding the balance between what the agency can afford and the 'going rate', with benchmarking generally done against other APS agencies, rather than more widely.

Wage arrangements in agency CAs have also included a range of different organisational and individual performance elements. The 2001 Survey of Agreement Making in the APS found, for example, that:

- 28% had agency-wide increases, some or all of which were contingent on, for example, the achievement of productivity improvements or of specified objectives;
- most agencies (85%) progress individuals through a salary scale on the basis of performance assessment; and
- many agencies' agreements (57%) allow for differential individual pay increases which are dependent on performance—through a combination of accelerated salary advancement (42%), additional bonus payments (29%) and/or higher percentage pay increases (17%).

Further details on performance related remuneration are provided in Part 6, Achieving High Performance.

Non-SES salary ranges have widened significantly since 1996, reflecting the greater flexibility available to recruit and retain employees according to role, responsibilities and performance. The DEWRSB APS non-SES Remuneration Survey October 2001 showed, for example, that the maximum salary point for an EL1 increased by 48% from $61 350 in 1996 to $91 040 in 2001, and for an APS 5 increased by 92% from $40 675 in 1996 to $77 940 in 2001.

Base salary levels for non-SES employees have increased over the years since 1996, depending on classification. The median base salaries for EL2 employees increased by 13%, compared with 5% for EL1s, 10% for APS 5s and 6s, 9% for APS 4s, 4% for APS 3s and 8% for APS 1s and 2s.

Significant differences are emerging between remuneration arrangements for those on CAs compared to those on AWAs. The DEWRSB survey shows that the salary ranges for employees covered by AWAs are generally broader than for employees covered by CAs in the same classification. The table below is taken from the DEWRSB survey. The APS 4 level shows minimal difference in the salary range between staff covered by CAs and AWAs, whereas the EL2 level shows the greatest variation.

APS CLASSIFICATION	MINIMA & MAXIMA	1996 SALARY RANGE ($)	2001 SALARY RANGE CA ($)	2001 SALARY RANGE AWA ($)
APS 4	Minimum	33 304	32 610	31 900
	Maximum	37 341	49 170	49 980
	Difference	4037	16 560	18 080
APS 5	Minimum	28 890	37 750	32 000
	Maximum	40 675	48 160	77 940
	Difference	11 785	10 410	45 940
EL1	Minimum	50 931	48 750	50 000
	Maximum	61 350	80 360	91 040
	Difference	10 419	31 610	41 040
EL2	Minimum	57 983	60 160	59 430
	Maximum	70 331	110 450	140 000
	Difference	12 348	50 290	80 570

Employees covered by AWAs in 2001 generally receive a base salary of between 2–3% above that for employees covered by CAs at the same classification, as shown below:

APS CLASSIFICATION	1996 MEDIAN BASE SALARY ($)	2001 MEDIAN BASE SALARY CA ($)	2001 MEDIAN BASE SALARY AWA ($)
APS 4	37 341	40 600	41 900
APS 5	40 675	44 870	45 000
EL1	61 350	63 760	65 100
EL2	70 331	78 800	80 040

The 'total reward'—TRP (base salary, superannuation, vehicle, fringe benefit tax and fixed benefit costs) and incentive/bonus payments (performance, retention, sign-on bonus, etc)—for employees covered by AWAs are also usually higher than their counterparts covered by CAs.

Thirteen percent of non-SES employees covered by CAs and 70% covered by AWAs are eligible to receive a performance bonus and, of these, 44% and 61% of employees respectively actually receive a performance bonus. Performance bonuses are usually between 4–7% of base salary. Employees covered by AWAs are more likely to receive higher performance bonuses than their CA counterparts as shown in the table below, the difference in median performance bonus paid ranging from $1830 to $3500 depending on the classification level concerned.

APS CLASSIFICATION	MEDIAN PERFORMANCE BONUS CA $	MEDIAN PERFORMANCE BONUS AWA $	DIFFERENCE $
APS 4	840	2900	2060
APS 5	1000	4500	3500
EL1	1340	3200	1860
EL2	2030	3860	1830

None of the employees covered by CAs in the sample were eligible for a retention bonus, whereas 7.5% of non-SES employees covered by AWAs from the APS 6 to EL2 classifications were eligible for such payments. Eighty percent of employees eligible for retention bonuses actually received a bonus. Retention bonuses are generally paid at around 7% of base salary.

The 2001 Survey of Agreement Making results affirmed the findings of the DEWRSB annual remuneration surveys that pay levels were frequently higher for employees covered by AWAs at the same classification (71% of agencies). It also found that those agencies with a higher coverage of employees on AWAs were more likely to have differences in pay levels, performance pay, job specific targets, streamlined conditions, a focus on a TRP and no job security.

ISSUES

Last year's State of the Service Report pointed to the perception, not supported at that time by the evidence, that smaller agencies may fall behind in their wages and conditions against larger organisations with greater resource flexibility. These and wider concerns about funding agreement making have continued to be raised, including in the latest agreement making survey conducted by DEWRSB. Three quarters of all agencies reported that funding arrangements constituted a highly significant or significant impediment to successful agreement making. Nine in ten agencies reported that identifying productivity improvements were, at least, a significant impediment.

Interestingly, these agencies were more likely to be those where the system is presently working well—agencies reporting that productivity improvements in their current agreement would be sufficient to meet the cost of pay increases and agencies saying that they had successfully met the goal of generating productivity improvements. Interestingly, also, the group that stated they could not fully meet the cost of current pay increases through such improvements had an average pay increase that was 0.29% per annum higher than other agencies.

The capacity of small agencies to pay increases was an issue addressed by the Senate Finance and Public Administration References Committee (the Senate Committee) in its first report on the use of AWAs in the APS on 2 November 2000 as part of its inquiry into APS employment matters.

The Senate Committee expressed concern about the ability of smaller agencies to keep pace with larger agencies in terms of remuneration levels. The report drew attention to data provided in the Review of Agreement Making in the APS (1999) which found that 19% of agencies were not expecting to be able to maintain funding arrangements in future rounds of agreement making. The report suggested that productivity cannot be increased indefinitely without adverse effects on staff morale, and expressed concern that a remuneration system 'whose affordability is based on previous quality of financial management is unfair'. Statements provided by some small APS agencies to the Senate Committee supported these views. For example, the Commonwealth Ombudsman, Mr Ron McLeod stated:

> It does not take too much to see that, unless there is a change in the current arrangements in the future, the only way in which I will be able to ensure that under my industrial agreements the competitiveness of the pay rates and conditions of employment in my office are kept in reasonable balance with the rest of the Public Service will be at the expense of reducing my staff further and, in turn, cutting back in the quality of service that I am able to deliver under current arrangements.

The Department of Finance and Administration, on the other hand, has not found this to be a problem. Its Secretary, Dr Peter Boxall, told the Committee that a basic premise of its performance system was that it contributes to increased productivity and hence was affordable. In relation to the comparison between larger and smaller agencies, Dr Boxall stated that small agencies 'have the same sort of margin for manoeuvre as large agencies'.

The 2001 Agreement Making Survey compared wage outcomes across different agencies. It found that average pay increases were lower in agencies involved in program management and delivery than elsewhere. However, the survey found no evidence of smaller agencies having less capacity to pay

increases. In the recent DEWRSB non-SES remuneration report, there does appear, at some classification levels, to be a correlation between agency size and the level of remuneration. This was generally less pronounced, however, when looking at averages.

A further issue that arises is the growing differentiation in pay outcomes for both the SES and non-SES, and the differences in outcomes for those non-SES employees on CAs and AWAs. It needs to be noted, however, that AWAs are used for relatively small numbers and in a highly targeted way for the non-SES, to attract and retain key staff. Differences based on individual skill and performance factors are therefore to be expected. In addition, AWAs are likely to have included other changes, for example, as noted earlier from the 2001 Survey of Agreement Making, job specific targets and streamlined conditions.

Nonetheless, issues about the relative capacity of agencies to pay and the impact of differential outcomes on the operation of the internal labour market should be kept under ongoing review.

The Senate Committee also raised the issue of accountability and transparency in the context of remuneration and AWAs. It expressed the view that the level of confidentiality of AWAs maintained by agencies is inappropriate for the APS. It made a series of recommendations aimed at greater disclosure of AWAs and reporting of remuneration outcomes.

In its response, the Government agreed 'with qualification' to the Committee's recommendation that annual and financial reporting requirements should be as rigorous as those applying to the private sector. The Government's view was that current APS reporting standards were as rigorous as the private sector, and that this standard should be maintained, although noting that some disclosure requirements may not apply to the APS and others may not be applicable to the private sector. The reporting of directors' and executives' remuneration, including the APS, is currently under consideration by the Australian Accounting Standards Board which is expected to issue an exposure draft of a new accounting standard later in 2001. As outlined in Part 6 of this State of the Service Report, Achieving High Performance, the Government has revised the reporting guidelines to improve accessibility to the information required.

A further issue for agencies as they progress with agency bargaining is the need for effective consultation with, and involvement of, staff as part of building positive employee relations. For example, in the 2001 Survey of Agreement Making, more than a third of agencies contributing to the survey identified employee resistance to change (37%) and lack of trust between management and staff (49%) as either 'highly significant' or 'significant' impediments to successful agreement making.

EMPLOYMENT UNDER THE PS ACT 1999 •

MERIT EMPLOYMENT •

REVIEW •

EMPLOYMENT UNDER THE PS ACT 1999

An important objective of legislative, administrative and policy change over the last few years has been to give individual agencies greater flexibility to manage their human resource and employment functions. The principles-based approach of the *Public Service Act 1999* (PS Act 1999) has provided agencies with more freedom to vary their employment practices in line with the needs of individual workplaces and with the flexibility to produce innovative solutions.

The APS focuses on achieving results and managing performance.

APS Values—*Public Service Act 1999.*

The removal of the detailed process that covered the employment arrangements in previous public service legislation means that agencies must consider the need for, and the form of, the processes that are appropriate for their particular businesses. They must also take into account areas in the employment framework where requirements continue to exist, and put in place arrangements to manage these requirements.

PROBATION

Australian Public Service (APS) employment arrangements have, under previous legislation, included specific provisions designed to ensure that new starters are suitable for work in the APS. These arrangements have included a requirement to undertake health and character checks and, usually, a period of probation.

A properly managed probationary period can be a key element in an effective performance management system. The approach to probation under the PS Act 1999 provides an interesting example of the shift in thinking which underpins the new framework. The previous Act contained detailed processes for the management of probation, with time frames based on a six or a 12-month review. Although it did not actually prescribe a minimum length for probation, it made it clear that the period should not be less than six months unless there were exceptional circumstances. The previous PS Act required probationary appointments to be confirmed at 12 months if they had not already taken place before then, and probationers were deemed appointed as officers at the end of two years so long as they satisfied citizenship requirements.

Feedback indicated that these provisions were difficult to understand, did not take account of the particular staffing requirements of agencies and tended to encourage managers to see probation as a process to be ticked off rather than as an integral part of a performance management system.

The PS Act 1999 replaced this process with a provision that enabled the engagement of an employee to be subject to conditions notified to the employee (including probation) where agencies wished to do so. Thus agencies must decide whether they put probation arrangements in place to ensure that

they are able to weed out potential performance problems. Any processes put in place by an agency need to be consistent with the APS Values that emphasise equity, diversity and procedural fairness, and need to take account of human rights and workplace relations case law.

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The APS promotes equity in employment.

APS Values—*Public Service Act 1999.*

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The *Workplace Relations Act 1996* (WR Act) allows employees on probation to be excluded from the application of the unfair dismissal provisions if the probation period determined in advance is three months or less or, if the period is more than three months, if the period is reasonable having regard to the nature of the employment. It also provides a three month default qualifying period before unfair dismissal claims can be brought by new employees. Some of the factors taken into account by the Australian Industrial Relations Commission (AIRC) in determining the reasonableness of a longer probationary period include the level and difficulty of the duties, the previous experience of the employee, the level of supervision needed by the employee, the extent of any managerial or supervisory duties, and the nature of any training.

Agencies were asked what arrangement, if any, they had put in place to manage probation for new employees. All agencies advised that they had put in place probation arrangements of one sort or another. These arrangements appeared generally to be conservative and similar to the old provisions. A little over half of the agencies surveyed explicitly reported that they used a standard time frame for the probation process. Of these agencies, about 75% reported that their standard probationary period was six months, usually with a provision for one or more reviews within this period and with variations for specialist or graduate positions.

Some agencies advised that they had simply rolled over the arrangements which operated under the former PS Act, although several of these noted that they had adopted these approaches to maintain basic systems while looking at options for streamlining.

A number of agencies mentioned that they had introduced initiatives to link probation to overall performance management arrangements. The Department of Industry, Science and Resources links probationary arrangements to the agency's overall Performance Planning and Review Framework, and requires new employees to complete a standard performance agreement with their supervisor within one month of commencing employment. The Department of Family and Community Services (FACS) is implementing a new performance management system and probationary assessment will be integrated into the new system. The Department of Transport and Regional Services (DoTRS) has adopted a flexible approach that involves the establishment of Probation Support Contacts in Employee Services who are responsible for supporting probationers and their supervisors through the probationary period. The DoTRS approach also includes the option of early completion of the general six-month probation period and the use of monthly Plans on a Page for probationers.

The information provided by agencies on the management of probation raises a number of issues. Although agencies are taking seriously their responsibilities to ensure that new starters are subject to performance checks through the probationary period, they do not seem yet to be taking full advantage of the flexibilities available to them under the new arrangements.

The AIRC has recently made a series of determinations about the operation of the unfair dismissal provisions of the WR Act for people on probation. The AIRC's main consideration in these decisions has been whether the employee was appropriately advised of the probationary period in advance, the reason for any extension of employment decision and whether the duration of the probationary period was reasonable, having regard to the nature and circumstances of the employment.

Agencies should ensure that their managers are fully aware of these decisions. The National Library explicitly advised that it revised its probation arrangements following the introduction of the PS Act 1999 to provide a maximum of three months.

It is, of course, up to agencies to manage probation in ways that meet their particular organisational goals and culture. Agencies also need to keep abreast of developments in industrial and human rights case law, and to take them into account in developing their probationary processes.

HEALTH AND CHARACTER CHECKS

The probation arrangements under the previous PS Act included the requirement for a medical examination, in a manner approved by the Public Service Commissioner, to assess health and fitness. This provision was originally associated with the medical requirements of the Commonwealth Superannuation Scheme. Changes to superannuation arrangements in 1993 meant that a medical examination for superannuation purposes was no longer necessary, and it was left to agencies to decide the particular health and fitness checks that they should undertake to meet both the requirements of the legislation and their own particular needs.

A separate section of the former PS Act provided that a person could not be appointed as an officer unless they had been assessed as 'a fit and proper person to be an officer of the Service' (section 34). The test of a fit and proper person, not to be confused with the particular job related security and character checks which agencies applied to people dealing with sensitive material or in positions requiring a high degree of trust, was generally applied to all permanent new entrants to the Service. There was no mandatory standard for the assessment; usually it meant a police records check and/or checks with previous employers.

Appropriate checks on character and health continue to be important, since they seek to protect the APS from taking on people with long-term fitness and behavioural problems. On the other hand, they need to be managed in ways that fit the particular requirements of the organisation and that avoid allegations of unfairness or discrimination.

The PS Act 1999 includes security and character clearances and a health assessment among the conditions that an agency may apply to the engagement of an employee (section 22(6)). The aim, again, was to give agencies the flexibility to manage these checks in accordance with their own particular labour market and organisational requirements.

Another important feature of the new legislation is that it separates this aspect from the performance-based probationary process. Under the previous PS Act, probationary appointees were not 'confirmed' as APS officers until health and character checks were satisfactorily completed.

Agencies were asked what arrangements, if any, they had put in place to assess the health and character of potential employees. Here, again, most agencies reported that they had put in place systems for health, security or character checks. Again, however, while the detail of responses from agencies varied, the bulk of agencies had simply translated the practices that operated under the former framework, including checks of police records for criminal offences.

This may, of course, mean that agencies had considered the matter and decided to retain trusted practices for the time being. Some responses, however, indicated a movement toward greater flexibility. The Department of Employment, Workplace Relations and Small Business undertakes character checks on a case-by-case basis, taking into account the requirements of the particular jobs. The Department of the Prime Minister and Cabinet has no mandatory requirement for a health assessment, but the health of new employees is monitored during the probationary period and an assessment may be undertaken if it is considered necessary.

The Attorney-General's Department's (AGs) approach to character checks aims to balance the issues of the overall probity standards of the agency, the specific requirements of each job and the rights of the individual. Where potentially adverse information is obtained about a person, including on any criminal convictions, a decision is made on whether an offer of employment should proceed. In making this decision, the Department has developed eight criteria which may be relevant in any individual case.

RE-EMPLOYMENT OF PERSONS WHO HAVE RECEIVED A REDUNDANCY BENEFIT

As noted in last year's Report, the legislative framework supporting the PS Act 1999 continues the restriction on the re-employment in the APS of people who have received a redundancy benefit from the Commonwealth within the last 12 months. These arrangements reflect the longstanding policy of encouraging the proper and ethical use of redundancy payments in Commonwealth employment.

An APS employee must use Commonwealth resources in a proper manner.

Code of Conduct—*Public Service Act 1999.*

Chapter 4 of the Public Service Commissioner's Directions 1999 regarding merit in employment require an Agency Head to put in place measures to ensure that a person who receives a redundancy benefit from an APS Agency or a non-APS Commonwealth employer is not engaged as an ongoing employee within 12 months of the person ceasing employment.

Agencies were asked what arrangements they had put in place to ensure that they were complying with this Direction. All agencies confirmed that they had systems in place to monitor receipt of a redundancy benefit. Most agencies reported that they rely on selection panels and selection decision delegates to satisfy themselves that candidates had not received a redundancy benefit and this is usually backed up by arrangements which require an applicant or prospective employee to declare that he or she has not received a benefit during the last 12 months. Arrangements differ between agencies as to whether this occurs as part of the application process, the selection process or when the offer of

employment is finally made, but the extent to which these are verified or further investigated appears in many cases to be left to selection panels and selection decision delegates. The Department of Education, Training and Youth Affairs guidelines remind selection decision delegates of their obligations and responsibilities under the Commissioner's Directions, but also require new employees to sign a declaration that they have not received a benefit in the last 12 months.

The majority of agencies appear to rely on the good faith of the applicant. Less than 20% of agencies specifically indicated that, in meeting their obligations under the Directions, they went beyond documentation and statements provided by candidates. The general practice for these agencies was to verify details, where feasible, with the applicant's most recent employer. This could provide a quick and relatively easy check on whether the individual has received, or is likely to receive, a redundancy benefit, but it also relies to at least some degree on information supplied by the applicant. While agencies are reminded of their obligation to take all reasonable steps to check new employees, there is no evidence that the current system is failing in this area.

Although there are no circumstances in which a person who has received a redundancy benefit from an APS Agency or a non-APS Commonwealth employer can be engaged within 12 months as an ongoing employee, there are circumstances in which such a person may be engaged as a non-ongoing APS employee, if the Agency Head considers it essential for the Agency's operations. In most cases, the Agency Head must consult the Public Service Commissioner before engaging the person. The exception to this is where the person is engaged for a period not exceeding six months pending the engagement of an ongoing APS employee. Between 1 July 2000 and 30 June 2001, the Commissioner was consulted on nine occasions (two of which were later withdrawn after discussion with the Public Service and Merit Protection Commission) in relation to the engagement of persons as non-ongoing employees in situations where the skills required were generally of a specialist nature, the market had been properly tested and no suitable alternative candidates could be found. The periods of engagement were also generally of a short duration.

The measures set out in chapter 4 of the Commissioner's Directions in relation to the employment in the APS of persons who have received a redundancy benefit from Commonwealth employment within the previous 12 months do not apply to the engagement of such persons as consultants or contractors. APS Agencies are able to engage consultants and contractors as required, having regard to the Commonwealth Procurement Guidelines issued by the Minister for Finance and Administration. Agency Heads, however, are expected to comply with the spirit of the Government's policy concerning the employment of persons who have received a redundancy benefit when engaging individuals as consultants and contractors.

The practice of taking on, as consultants, former employees who have taken a redundancy benefit within the last 12 months is an issue that will be examined in a future Report.

NON-ONGOING EMPLOYMENT

As noted in last year's Report, the PS Act 1999 considerably simplified arrangements for the employment of non-ongoing staff. The Act provides that the usual basis for employment in the APS is as an ongoing employee, but it also enables agencies to engage non-ongoing employees for a

specific term or for the duration of a specified task. The Public Service Regulations further prescribe the circumstances under which staff can be engaged under these two categories. They set time limits for the employment of staff for a specific term—normally not more than 18 months but up to three years is permissible in some circumstances. There are no prescribed time limits for employment for a particular task. Agencies are required to conduct a full merit selection if they wish to engage a non-ongoing employee for more than 12 months.

The APS is a career-based Service to enhance the effectiveness and cohesion
of Australia's democratic system of government.
APS Values—*Public Service Act 1999.*

It is probably too early to identify changes, if any, which are occurring in the pattern of non-ongoing employment as a result of these changes. As last year's Report noted, however, the APS Employment Database (APSED) provides a greater capacity to track and analyse non-ongoing employment.

As Figure 9 indicates, the decline in the usage of non-ongoing employees identified in last year's Report is continuing. Non-ongoing employees comprised 9% of the APS on 30 June 2001, compared with 9.4% 12 months earlier.

FIGURE 9: NON-ONGOING STAFF AS A PERCENTAGE OF TOTAL STAFF, 1992–2001
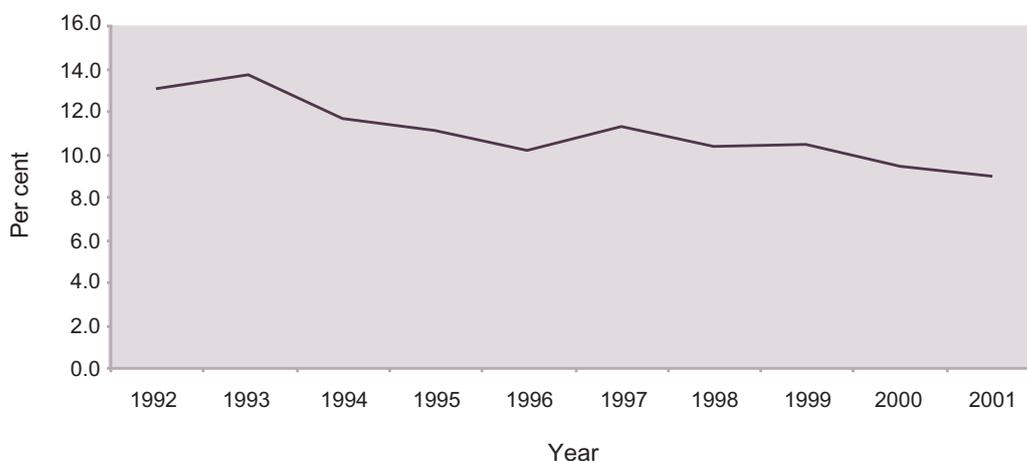
The data set out in Figure 9, though a useful basis for historical comparison, only provides a snapshot of one particular day of the year and does not give an indication of the actual usage of non-ongoing employees during the year, particularly those employed for short periods. Thus, while there were 10 639 non-ongoing employees in the APS on 30 June 2001, there were 15 992 non-ongoing employees engaged during the year 2000–01.

APSED makes it possible to track the length of employment of non-ongoing staff.

FIGURE 10: SEPARATION OF NON-ONGOING EMPLOYEES BY LENGTH OF SERVICE, 2000–01

Figure 10 indicates that, on a Service wide basis, non-ongoing employees are still being employed for relatively short periods. Thirty-five per cent of the non-ongoing employees who separated from the APS in 2000–01 had been employed for less than three months, 56.5% had been employed for less than six months, and 69.2% had been employed for less than nine months.
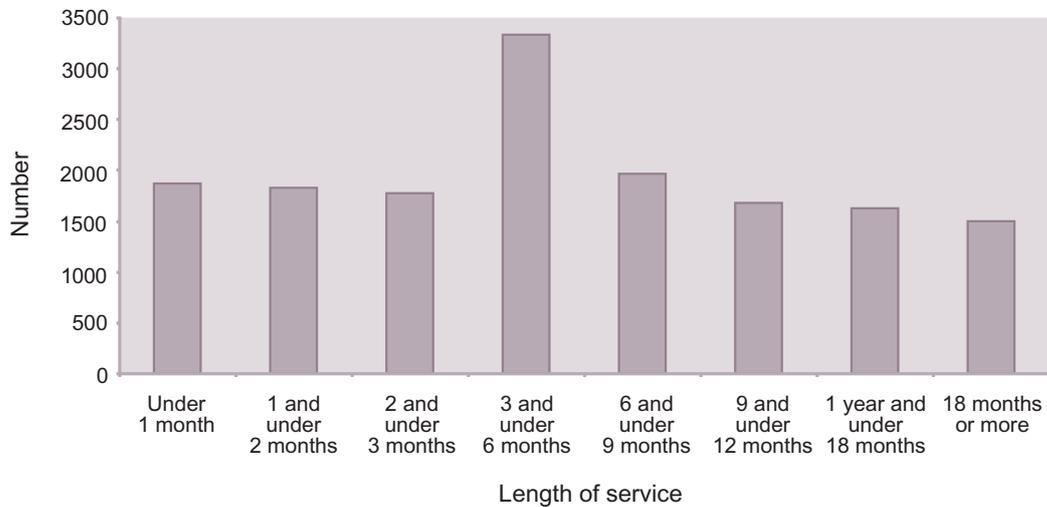
The median length of service of these non-ongoing employees on 30 June 2001 was seven months, but the median varied considerably across individual agencies, reflecting different organisational goals and labour market pressures.

There is a significant representation of smaller specialist organisations among those agencies that are employing non-ongoing employees for longer periods. The median length of an Australian Institute of Health and Welfare non-ongoing employee on 30 June 2001 was 21 months. It was 20 months for the Office of National Assessments and 19 months for the Australian National Maritime Museum and the Human Rights and Equal Opportunity Commission. While it difficult to determine the precise reasons for these trends, agencies such as these could be undertaking longer term but discrete projects and tasks requiring capabilities that are not available in-house in smaller organisations.

On the other hand, two portfolio departments had long periods of non-ongoing employment. The median length of non-ongoing employment in the Department of Foreign Affairs and Trade was 20 months and in the Department of Finance and Administration it was 17 months.

The greatest usage of non-ongoing employment continued to be at the lower classification levels of the Service. Over three quarters of the non-ongoing employees in the APS at 30 June 2001 were at APS 1–4 levels.

While these trends will be monitored, there is little evidence of any overall shift in the usage of non-ongoing employees or increased 'casualisation' of the APS workforce. Although some agencies, particularly specialist and technical agencies, are engaging non-ongoing employees for longer

periods, there is no evidence yet that this is a new trend. Generally, the typical non-ongoing employee tends to be employed for a short period at a junior level.

Last year's Report mentioned the higher representation of women in non-ongoing employment. Next year's Report will focus in more detail on this issue.

AGENCY HIREES

Prior to the introduction of the PS Act in December 1999, there was anecdotal evidence of an increasing use of employment agency 'hirees' in the APS. Hirees are temporary staff who are not employed under the public service legislation, but who are normally engaged through recruitment agencies. Hirees were reportedly performing line tasks and functions within agencies—including supervisory responsibilities—that would normally be carried out by APS employees.

Prior to December 1999, the increasing use of agency hirees was attributed to the uncertainties of downsizing and outsourcing, and the perceived inflexibilities of the temporary employment provisions of the former PS Act. The employment provisions of the PS Act 1999, however, provide that ongoing employment is the usual method of engagement and provide increased flexibilities to engage non-ongoing employees for periods of up to three years.

Last year's Report included a discussion of agency hirees as an alternative to non-ongoing employment, reminding agencies that there were potential legal and workplace problems around the use of this method of employment, and noting that there would be benefit in a detailed examination of the use of hirees when the new PS Act had been in place for two years.

The issues relating to the use of hirees are fourfold. First, there continues to be considerable confusion in terminology, with the differences between hirees, consultants and non-ongoing employees not seeming to be fully understood, and the term 'contractor' sometimes being used interchangeably for all three categories. Secondly, as hirees are not actually APS employees, they are not recorded on APSED or agency employee databases and the data which these sources produce may no longer be giving a clear picture of who is actually working in the APS. Thirdly, hirees are not employed under the PS Act 1999, and their engagement is not therefore subject to legislative provisions covering merit, diversity, the prohibition of patronage and favouritism and the reemployment of retrenched employees. Unless special provisions have been included in their contracts, they are not bound by the APS Values or the APS Code of Conduct. Finally, it could be open to a court to determine that a hiree was actually an employee, with all the rights and entitlements, including retrenchment and redeployment rights, of an employee.

No particular issue in relation to the use of hirees has arisen during the reporting period. The Australian National Audit Office Audit Report No. 54 *Engagement of Consultants*, tabled on 29 June 2001 looks primarily at probity issues in relation to the selection, engagement and evaluation of consultants, but it also reminds stakeholders of the legal distinction between a consultant (who provides a specified, independent service) and an employee (who works at the direction of the employer). Agencies should take this distinction between consultant and employee into account when engaging staff.

As indicated above, a detailed study of the use of hirees will be included in next year's Report. In the meantime, agencies are reminded that the PS Act 1999 provides the basis for the employer/employee relationship in the APS, reflecting the public interest and accountability expectations on APS staff, and should generally be the basis for engaging people to work in the APS.

Agencies are also reminded that, while there is no legislative requirement preventing agencies from employing agency hirees within 12 months of their having taken a redundancy benefit from the Commonwealth, agencies are expected to comply with the spirit of the Government's policy concerning the employment of persons who have received a redundancy benefit when engaging individuals as consultants and contractors.

DELEGATIONS

Sub-section 78(8) of the PS Act 1999 provides that:

> An Agency Head cannot, under subsection (7), delegate powers or functions to an outsider without the prior written consent of the Commissioner. For this purpose, outsider means a person other than:
>
> (a)   an APS employee; or
>
> (b)   a person appointed to an office by the Governor-General or by a Minister, under a law of the Commonwealth.

The Senate Standing Committee for the Scrutiny of Bills in its June 1999 report referred to the matter of delegations as follows:

> Since its establishment, the Committee has consistently drawn attention to legislation which allows significant and wide-ranging powers to be delegated to anyone who fits the all-embracing description of 'a person'. Generally, the Committee prefers to see a limit set either on the sorts of powers that might be delegated, or on the categories of people to whom those powers might be delegated. [1]

To address these concerns, the Commissioner asked Agency Heads in July 2000 to consider and address a range of issues when submitting requests for the Commissioner's consent to delegate powers and functions under the PS Act 1999. These issues included the nature of the relationship between the 'outsider' and the agency, the work to be undertaken, the relevant qualification or experience of the 'outsider', the period for which the consent is required, whether supervision of APS staff is included in this work, whether the 'outsider' has received a severance payment benefit from an APS Agency or non-APS Commonwealth employer within the last 12 months, and whether the arrangement provides for, and is consistent with, the APS Values.

During the year, the Commissioner received nine submissions seeking agreement to delegate Agency Head powers or functions to non-APS employees. Four of these involved the exercise of APS delegations by persons on secondment from non-APS organisations, including Australian Defence

[1] Senate Standing Committee for the Scrutiny of Bills, *The Work of the Committee during the 38th Parliament May 1996–August 1998*, p.50.

Force personnel working in Defence, and Australian Customs Service and Australian Federal Police staff working in the Protective Security Coordination Centre at AGs. The Commissioner also agreed to the delegation of Agency Head powers and functions to three consultants performing specific tasks in their respective agencies and agreed to the delegation of powers to a UK civil servant on exchange with an APS agency. A further approval was provided to an independent investigator whose function resulted from the recommendation of a Royal Commission of Inquiry. None of the submissions were for persons providing services with an outsourced service provider.

USING FLEXIBILITY FOR ORGANISATIONAL NEEDS

It is understandable that agencies would want to retain, under the new legislative framework, processes that they believe served them satisfactorily under the old regime. Agencies, however, need to ensure that they focus carefully on the flexibilities that are available to them under the current legislation, and on how they might use these to adapt and improve their employment systems to meet business needs. Otherwise the chances to tailor provisions to particular circumstances and to increase efficiency and effectiveness may be lost.

Merit-based employment is one of the core Australian Public Service (APS) Values and, although its application may have changed over time, it has been of central importance to the Commonwealth Public Service since its creation.

> The APS is a public service in which employment decisions are based on merit.
>
> APS Values—*Public Service Act 1999*.

The removal of centralised regulation under the *Public Service Act 1999* (PS Act 1999) and the move away from one-size-fits-all methods for APS selection have made it imperative for agencies to have a firm understanding of the principles entailed in merit-based selection.

The practical application of merit in selection requires processes to be in place to ensure:

• that all eligible applicants have a reasonable opportunity to put forward their claims;

• that the selection process is transparent, and is seen to be applied fairly, to all applicants; and

• that the assessment process is able realistically to match the qualities of the applicant to the qualities genuinely required for the job.

These principles are embodied in the PS Act 1999 and the Public Service Commissioner's Directions 1999. Within this, however, there are important differences between the processes to be followed for Senior Executive Service (SES) and non-SES selection.

SES AND NON-SES SELECTION

There is no mandated non-SES selection process. Recent legislative and administrative changes have meant that the framework for the management of merit in engagement and promotion has, like many other aspects of staffing and employment, moved from a centrally prescribed or recommended process to a variety of processes depending on the needs and circumstances of individual agencies. It is important that agencies are able to take advantage of this flexibility, but it is also important that they have in place systems to ensure compliance with the merit principle.

SES selection arrangements operate under a tighter framework than for those for non-SES staff, reflecting the particular importance of the effective and transparent selection of the leadership group across the APS in view of the important role that this group plays in a devolved environment.

> The APS has leadership of the highest quality.
>
> APS Values—*Public Service Act 1999*.

The Public Service Commissioner retains a clear role through the PS Act 1999 and Public Service Commissioner's Directions in SES selections. First, the SES has common core selection criteria for the assessment of applicants, currently spelt out in the *Senior Executive Leadership Capability Framework*.

Secondly, although the employment action itself is one for the Agency Head, the Commissioner must be satisfied that the selection process has met merit requirements. The Commissioner is assisted in this through the inclusion of a Commissioner's representative on all SES selection advisory committees who must certify to the Commissioner that the exercise adhered to all requirements of the PS Act 1999 and the Public Service Commissioner's Directions. The Commissioner's endorsement of this certification must be secured before the Agency Head can proceed with the proposed staffing actions.

These provisions in practice mean that, while executive search, assessment centres and other tools may be used in SES selection, an assessment interview remains important for selection to the SES.

Much of the discussion in this chapter will be more relevant to non-SES selections.

ALTERNATIVE SELECTION PROCESSES

This year, agencies were asked to describe any changes they have made over the last two years in their methods and procedures for assessing the suitability of candidates, to describe any evaluation they have made or comments they may have on the effectiveness of these methods and procedures, and to advise whether these new methods have been modified or abandoned on the basis of evaluation.

Noting that the level of detail in the responses varied, about a quarter of the agencies responded that they had made no changes or modifications to their selection processes. Four agencies advised that they had no agency-wide preferred or mandated selection process, and left it to individual units or managers to choose the process they believed to be the most effective.

The changes reported by the rest of the agencies fell into three categories:

- those where the standard selection system had been modified to a greater or lesser degree;
- those where alternative selection methods had been tried; and
- those where the process had been outsourced to varying degrees.

In many cases, individual agencies had used combinations of these approaches.

MODIFIED APPROACHES

A number of agencies reported that they had introduced modifications to the standard selection process, including streamlining of the documentation and reporting requirements by selection advisory committees. Others involved aligning non-SES selection criteria more closely with broader organisational and performance management requirements. Treasury advised that its selection criteria had been amended to reflect the Treasury's capability framework and appraisal processes.

About 15% of agencies reported that they no longer used the interview process in some, if not most, non-SES selections, and undertook selection assessments 'on the papers' using written applications and referees reports. Some agencies have noted the practical advantages in using this method to fill

vacancies. Agriculture, Fisheries and Forestry—Australia, for example, reported that the flexibility of this approach had provided benefits in the form of administrative savings and shortened selection times.

A few agencies drew attention to their use of sections 4.2 and 4.6A of the Commissioner's Directions which enable agencies to fill vacancies over the next 12 months from an order of merit established from a single selection process. Agencies had some capacity to do this under the previous legislative framework, but the current framework has considerably simplified and streamlined the option.

Agencies have also made use of these provisions in SES selections. This is an obvious advantage in cases where a considerable number of vacancies are anticipated over a year, for instance in the Department of Foreign Affairs and Trade, but is also of use where new opportunities may emerge, requiring similar capacities and skills as were assessed through the already completed merit selection exercise.

To promote equity of opportunity and to ensure high quality fields, there would be obvious advantage in agencies making it clear, where possible, from the start of the recruitment exercise, that future positions may be filled from this order of merit.

A number of agencies reported the use of bulk selection exercises, where several jobs at the same level and with the same requirements are filled though a single advertisement and selection process. The extent of the use of bulk selection exercises across the Service is difficult to determine, since many of the assessment centre selection exercises (see below) also clearly involve bulk selections. Agencies using bulk selections generally supported this process in terms of costs savings and efficiency, although the Department of Health and Aged Care reported that its Bulk Promotion trial for APS 5/6 staff, while considered to have been cost effective, was not considered to have been efficient in terms of the overall time taken. In addition, employee perceptions were mixed.

NEW METHODS OF SELECTION

About 15% of agencies reported that they had used assessment centres to assist with selections.

The assessment centre concept generally involves a series of simulated exercises designed to gauge the performance of candidates in work situations. In most cases mentioned, assessment centres were used for the purpose of shortlisting and, in all reported cases, the final selection was made through some form of selection advisory committee. There were no reports of situations where the assessment centre was the sole arbiter for selection.

Most respondents who used assessment centres reported that they were used for certain types or levels of job or for particular recruitment exercises, rather than for every vacancy.

The assessment centre process used by the Australian Protective Service for assessment of shortlisted candidates for Protective Security Officer Grade 1, for example, required each shortlisted applicant to attend a one-day assessment process including face-to-face interview, group discussion, written exercise, individual presentation, linguistic testing, and testing in numeracy and logic.

The National Museum of Australia used a one-off assessment centre process to recruit 70 front of house staff. Candidates were run through a four-hour exercise involving team communications, problem solving and a test of the ability to memorise and apply information. The process also involved

an interview and a numeracy test. The Australian Taxation Office has also used assessment centres for particular bulk recruitment exercises.

The Office of the Employment Advocate (OEA) has introduced group selection exercises to provide additional information to assist selection advisory committees to shortlist more rigorously. The exercises provide an opportunity for all applicants to be viewed working in groups and undertaking individual and team-based exercises, and enable the committee to assess applicants' team-based skills. The time put into conducting the group exercise is offset by conducting less interviews. OEA is confident that better selection decisions are being made using the group exercise process.

Agencies that used assessment centres were generally supportive of them and planned to continue to use them where appropriate, although there was little evidence of any detailed evaluation of their use.

The Australian Customs Service (ACS) stated that a 'higher quality' of ACS Trainees had been recruited through the assessment centre process and believed that, while the cost of assessment centres appears high, the cost should be seen in the context of more consistent merit-based selection decisions and a better fit of candidates to roles in the organisation. ACS reported that feedback from candidates suggested that some scepticism existed prior to the assessment centre testing, but that post-testing comments indicated that applicants felt they were given a fair hearing and the opportunity to present their skills and capabilities. The Australian Protective Service reported in very similar terms, claiming that, while the assessment centre approach added extra cost to the process (eight assessors are required to assess 16 applicants per day), the quality of the recruits had improved and employee perceptions of fairness in selection had increased.

Applicants for Customer Service Officer jobs (broadbanded APS Levels 3 and 4) in Centrelink Call are not required to complete detailed applications. The initial screening is done through the telephone, with shortlisted applicants then being assessed on their ability to operate in a call centre environment. This assessment includes testing in a simulated call centre and group sessions to test interpersonal and problem-solving skills. These assessments lead to further shortlisting and shortlisted applicants are then interviewed by a Centrelink selection panel before a final decision is made.

It could be argued that a telephone application as the basis for shortlisting could discriminate against people from a non-English speaking background. The central issue, however, is the inherent requirements of the task. Centrelink believes that an effective telephone manner is essential to the effective performance of the job and that the telephone application and shortlisting is the most effective way to test this. All applicants are put through the same competitive selection process and Centrelink monitors diversity issues and develops strategies to ensure that they are being addressed.

The Government's Online Strategy requires agencies to advertise all vacancies electronically. A random check indicates that agencies are placing job advertisements on their websites.

The Public Service and Merit Protection Commission (PSMPC) introduced a web-based Gazette during 2000–01, consistent with this strategy. The E-Gazette is available to the community through the Internet and agencies may also access it by downloading it to their Intranet sites in searchable and static forms. A printed version of the Gazette will continue to be produced to ensure its accessibility to all members of the community.

A few agencies also reported on the more strategic, targeted use of online recruitment to meet particular requirements, generally using an outsourced provider. One of the most successful of these is the Graduate Recruitment Online consortium, formed by a number of APS agencies to use online recruitment to target and shortlist graduates. This program was covered in more detail in last year's Report.

Not all users were happy with their online recruiting experiences. One agency advised that its trial of an online recruiting agency resulted in applications which had no relevance to the position advertised and applicants who did not meet the required skills rating.

The Australian Centre for International Agricultural Research (ACIAR) has used psychometric testing for a limited number of senior positions. Applicants complete a number of tests over three hours, the results of which are used as an additional tool to support/confirm the panel's assessment following interviews and consideration of referee reports. The tests are used to provide additional feedback to candidates and are not used to determine the outcome of a selection process.

SELECTION AND OUTSIDE PROVIDERS

Agencies were asked to describe any arrangements that involve outsourced recruitment and selection processes. They were also asked to describe the way in which their responsibilities in relation to the Merit Value were managed when recruitment was outsourced.

Overall, agencies seem to have been conscious, in their use of outside recruitment and selection, of their responsibilities in relation to the selection decision. They have generally used outside recruiters to attract particular skills for large scale recruitment exercises or where there is a shortage of internal recruitment resources. In all reported cases, however, control of the final assessment and selection outcomes remains within the agency. The Office of Parliamentary Counsel provides an example of a small agency approach. It advised that it used outside recruiters for two staffing exercises during the period. In one case, it used a recruitment agency to provide a number of candidates for an IT job when general advertising was unsuccessful. On another occasion it used an outside agency to shortlist, due to problems with processing a very large number of applicants for two positions.

The Commonwealth Grants Commission has outsourced a range of functions including advertising, dissemination of selection information, receipt and collation of applications, notification to unsuccessful applicants and processing of successful applicants. All tasks associated with the formation and operation of selection committees are handled within the Commission, except that scribing services are engaged to prepare reports.

The Australian National Audit Office (ANAO), which used an outside provider for graduate recruitment and selections for positions at APS 4 to Executive Level 2, was also concerned to maintain overall control of the outcomes. Its outside provider assisted with targeted advertising, application assessment and screening and the use of the Internet for information dissemination and receipt of applications, but ANAO staff conduct the final selections on the basis of this work. Similarly, Centrelink makes extensive use of outside providers for recruiting to Centrelink Call, but a Centrelink panel makes the final selection.

Agencies generally reported that they were satisfied with the use of outside providers, although, as indicated above, many had resorted to them only in particular circumstances where standard methods of recruitment had failed. The Royal Australian Mint, which uses outside providers to shortlist for executive level positions, reported that the more an employment agency is involved in the selection process the more the candidates' perception of fairness increases.

Cost is an issue for some agencies. The Australian Bureau of Statistics noted that, while external recruitment providers have generally been effective in terms of providing quality outcomes, there has been a shift away from using them in some areas on cost grounds. The Mint said that the cost of using an employment agency is quite high but that this needs to be set against the fact that vacancies can place significant strains on resources in a small organisation and it is often worth the cost in the interests of overall effectiveness. The ANAO similarly reported that the front end processing performed by its service provider had freed the organisation to devote greater attention to the final selection process, although it was reviewing its outsourced arrangements to assess whether more cost-effective options were available.

SELECTION METHODS AND THE MERIT PRINCIPLE

Agencies generally seem to have taken a sensible approach to the development and use of alternative methods of selection, adopting new systems where they appeared to be appropriate to the particular capability requirement and labour market, but retaining more traditional arrangements where these appeared to be working satisfactorily. While agency assessments of the success of the new methods have varied in their thoroughness, most seemed satisfied with their operation and, with a few exceptions such as those noted above, were not planning any significant modifications.

There is no evidence that alternative systems and methods undermine the principle of merit employment. As we have seen, agencies may use a variety of techniques to enhance fields or streamline processes, but they say that they continue to keep their hand firmly on the controls when it comes to the final assessment.

It is also important to maintain a proper balance in developing selection criteria for non-SES positions. While there are advantages to agencies in aligning these more closely with particular organisational requirements, care must be taken to ensure that the criteria are not so agency-specific or narrow that only insiders, including those already performing those duties, would be able to meet them.

PERCEPTIONS OF FAIRNESS

There are two sources of information that can be considered in assessing whether methods of merit selection are seen to be fair, namely responses to the Values Survey and the outcome of reviews of promotion decisions held during the year.

The APS promotes equity in employment.

APS Values—*Public Service Act 1999.*

THE VALUES SURVEY

As discussed in Part 2 above, the methodology of the Values survey and the issues that need to be taken into account in analysing it, mean that there are important limitations on this data in terms of its applicability to the APS as a whole. It does, however, give an insight into perceptions of merit in a reasonably representative sample of agencies.

Employee responses to the statement 'my agency makes decisions about people on merit' revealed that, although responses ranged from a high of 100% agreement (two agencies) to a low of 13% agreement, overall only 39% of total respondents agreed or strongly agreed with the statement.

If the results for the 'strongly disagree' and 'disagree' (33%) are added to the 29% who neither agree nor disagreed, there are over 60% of APS staff who either consider that their agency does not abide by the merit principle or are unable to confirm that it does.

Of the 46 agencies that actively provided responses in this area, thirty-two received less than a 50% agreement or strong agreement that the merit principle was followed, ten agencies received greater than 60% agreement; and only six agencies received 75% or higher agreement ratings.

When broken down by agency size, the figures reveal an interesting trend. Small agencies (those with less that 500 employees) are more likely to agree that their agency makes decisions on merit (58%) than large agencies with greater than 3000 employees (32%). The figure for agencies with employees between 500 and 3000 (medium sized agencies) was 42%. The range of results for small and medium sized agencies was greater than that for large agencies. The results from employees agreeing with the statement in large agencies ranged from 27%–43%, medium sized agencies 13%–82%, and small agencies 22%–100%.

While merit, or the perception of merit, is very much a personal thing and may be influenced by an individual's recent personal experiences, the results suggest that many Agency Heads have an issue to deal with in terms of staff perceptions of the application of merit in their agencies.

The more difficult issue is whether this perception has broader implications for the actual application of merit in the APS. In the absence of any comparative data, it is hard to judge whether these figures are of any more concern than the situation in previous years. The figures do, however, provide a benchmark for future analysis.

THE MERIT REVIEW PROCESS

Unsuccessful applicants for APS 2–6 promotions can seek a review of the decision by an independent committee established by the Merit Protection Commissioner.

The APS provides a fair system of review of decisions taken in respect of employees.

APS Values—*Public Service Act 1999.*

The frequency with which employees seek reviews of a promotion decision can also be a measure of the extent to which they are unhappy with the application of merit in employment.

The number of promotion decisions reviewed has declined from 1,047 in 1999–00 to 716 in 2000–01. It needs to be borne in mind, however, that 1999–00 saw the transition to the new review arrangements under the PS Act 1999, and that about 55% of the reviews in that year were handled under the previous arrangements in which an appeals committee which included union representation had determinative powers. At this stage it is difficult to know what effect, if any, the changed review arrangements might have on requests for review. Moreover, any analysis of the data needs to bear in mind that the individual's decision to seek a review may be influenced by a number of factors, including organisational cultures that discourage seeking review of a decision.

COMMUNITY ACCESS TO APS VACANCIES

Within the overall framework of selection on the basis of merit, the APS Values require that all Australians should have a reasonable opportunity to compete for APS employment.

> The APS provides a reasonable opportunity to all eligible members
> of the community to apply for APS employment.
>
> APS Values—*Public Service Act 1999.*

In last year's Report, the PSMPC indicated that it would continue to monitor both the number of ongoing employment opportunities open to the community and selection outcomes.

Since 1998, the PSMPC has been undertaking a small annual survey of the selection outcomes of ongoing employment opportunities notified in a February Gazette. This study was undertaken again in 2001, using the Gazette of 22 February 2001.

Following the introduction of policies requiring open access in 1998, there has been widespread compliance with the community access Value. The percentage of employment opportunities notified in the Gazette of 22 February 2001 as open to the public has remained at the 2000 level of 99.5%, despite a significant increase in the actual number of employment opportunities (725 in 2001 compared to 435 in 2000).

Information on the outcome of the selection process was available on 99% of these employment opportunities. Based on this information, 7.5% of selection exercises were not finalised or action had ceased (down from 12.5% in 2000). Of the rest, 43% of opportunities were filled on an ongoing basis by applicants external to the APS. This is significantly higher than the 20–30% range of the previous three years.

Further analysis of the classification levels of the employment opportunities shows that 78% of all engagements were to classifications in the APS 1–4 range which are the main entry points for APS employment. As the study is only based on one Gazette a year, it is difficult to say at this stage whether the increased number of engagements from the 22 February 2001 Gazette is a one-off occurrence reflecting an unusual concentration of opportunities at the APS1–4 level or whether it is the beginning of an increasing trend of external applicants achieving selection on merit.

The important point is that the policy of making a greater number of employment opportunities open to non-APS applicants continues to result in an absolute increase in the number of engagements in areas of APS employment which were previously largely closed.

BROADBANDING

Last year's Report included a discussion of the implementation of broadbanded classifications systems in the APS. As last year's Report explained, the APS Classification Rules issued by the Prime Minister under section 23 of the PS Act 1999 include a list of approved APS classifications below SES, centred on a basic eight level structure. Agencies are able, however, through their certified agreements, to broadband these classifications (for example, broadbanding approved classifications APS 1 to APS 4) to enable staff to progress between classification levels (other than SES classification levels) without a competitive merit selection exercise. The only exception is where agencies wish to introduce a new classification structure that is separate from the APS classifications.

The Reports for the last two years noted that around 45% of agencies had adopted some form of broadbanded structure, although at least a quarter of these were limited or specialist schemes rather than agency-wide broadbands.

Last year's Report highlighted the possible tensions between the staffing efficiencies claimed for broadbanded structures and the need to maintain the open, diverse, merit-based system encompassed in the APS Values. In addition, there are concerns by some stakeholders that broadbanded structures will lead to a form of classification creep, with staff inevitably rising to the top of the structure on the absence of hard merit tests.

....

The APS is a public service in which employment decisions are based on merit.

The APS promotes equity in employment.

The APS provides a reasonable opportunity to all eligible members of the community

to apply for APS employment.

APS Values—*Public Service Act 1999.*

....

While the variety of broadbanded arrangements across the APS makes it difficult to generalise, most schemes contain various combinations of the following core features:

- the division of the broadbanded structure into a series of levels which broadly align with the APS classifications and encompass the full range of work values and work level standards of the previous classification levels;
- the division of these levels into pay points;
- advancement through the pay points on the basis of the outcomes of an annual performance assessment;
- advancement through some levels ('soft barriers') on the basis of attaining a particular standard or level of competency or performance;

- advancement through some other levels ('hard barriers') on the basis of a competitive assessment and the availability of work at the higher level;

- points within the structure where a full merit selection may be held as an alternative to advancement; and

- points within the structure where a full merit selection is mandatory.

These types of arrangements, if properly applied and managed, should maintain a broadbanded structure where advancement is linked to performance and the availability of work, and which is subject at key points to a full merit test.

This year, agencies were asked to describe any new broadband arrangements that they had introduced or developed during the reporting period, to describe any modifications made to existing broadband structures and the reasons for these changes, and to provide any general comment on the operation of agency broadbanded structures from the point of view of efficient vacancy filling in the interests of agency effectiveness.

....

The APS focuses on achieving results and managing performance.

APS Values—*Public Service Act 1999.*

....

There has been little growth in the diffusion of broadbanded structures across the APS, although many agencies have taken the opportunity, in the second round of certified agreements, to make adjustments and modifications to their existing structures based on their experiences of allocating work and attracting skills. The Department of the Prime Minister and Cabinet, for example, reported that it had decided to move from a three to a four band structure based on the view that there was a clear delineation between the skill sets and work level standards required at Executive Levels 1 and 2 in the department. It considered that an open competitive merit selection process was the best approach to attracting a quality field of skilled candidates for Executive Level 2 jobs. The Australian Transaction Reports and Analysis Centre has broadbanded its APS 6 and Executive Level 1 classifications, arguing that advancement between these levels without a full merit selection mitigates against losing experienced staff at middle management levels.

The Department of Family and Community Services (FACS) moved in December 2000 to replace a hybrid arrangement, which the Department inherited when it was created, comprising the former Department of Social Security broadband structure and the APS eight level classification structure used by the Department of Health and Family Services. The new classification structure features three broadbands within a five tier structure: FACS Broadband 1 (APS 1 and 2), FACS Broadband 2 (APS 3 and 4), FACS Broadband 3 (APS 5 and 6), FACS Executive Level 1, and FACS Executive Level 2.

Agencies which implemented or modified broadband structures during the period appear to have complied with the Public Service Commissioner's letter to agencies reiterating the need to take all the APS Values—including merit—into account when developing a broadband classification structure and suggesting the incorporation of at least two points in the structure that require a full merit selection.

Despite modifications and adjustments, agencies reported that they were generally happy with their broadbanding arrangements, although the extent to which they have systematically been evaluated

remains problematical. Most agencies' comments focused on the perceived expenditure and time involved in managing a full merit-based selection exercise.

The ACIAR, which had resolved the problems with its broadbanded structure reported on last year through the introduction of a temporary movement arrangement, reported that its arrangements (and particularly using vacancies as development opportunities at a higher level) provide one of the few mechanisms by which it can address its high staff turnover and alleviate the low percentage of staff winning internal promotions. Several other agencies commented on the importance of their broadbanded structures in encouraging the retention of skills and the maintenance of career paths for current employees.

As well as a general survey of the status of broadbanding across the APS, a detailed examination of two broadband structures was undertaken to look at how broadbands actually operate in practice and whether stakeholders concerns about them are proving justified. The agencies chosen—the Department of Education, Training and Youth Affairs (DETYA) and the ANAO—had both implemented comprehensive broadbanded structures across their administrative streams.

BROADBANDING IN ANAO

The ANAO introduced a four-band structure in its first certified agreement in 1998, two of which are broadbands. The bands are ANAO Band 1 (grouping APS 1–3), ANAO Band 2 (APS 4–6), ANAO Band 3 (Executive Level 1) and ANAO Band 4 (Executive Level 2). All pay points are aligned to ANAO work level standards. The structure reflects the different types of work available at various levels— administrative, performance audit and assurance audit.

Movement between pay points within bands is on the basis of an annual performance assessment. Movement between those points within the band, which are aligned to the standard classification structure, can be through consistently high performance (attainment of two consecutive 'three' ratings in a three point rating scale during a 12 months assessment cycle), accelerated advancement or promotion. Advancement between classification levels within a salary band on the basis of performance appraisal is subject to a work availability test at the higher level.

Movement between broadbands is solely on merit-based promotion. Higher duties allowance was abolished with the introduction of the broadband arrangements. A responsibility allowance may be payable if an individual is performing work in a higher salary band.

There is provision for accelerated permanent salary advancement, which is consistent with the ANAO remuneration policy, and which provides an opportunity to reward staff who are required to undertake higher level or more complex work for a period exceeding six or more months. In considering advancement, regard is given to a range of factors, such as the complexity and conditions under which work is performed, the corporate contribution an employee makes to the ANAO, or the completion of a substantial task where there is a clearly measurable benefit in terms of quality, value and major enhancement to ANAO internal or external objectives.

Vacancies within a broadband are advertised across the range of classifications within the band but may be restricted to one or more classifications. Internal applicants for advertised vacancies are considered on an ongoing basis, as part of the ANAO continuous recruitment process, by a selection

panel to determine suitability. If rated suitable, promotion action with notification in the Gazette follows. These exercises are conducted in conjunction with the assessment of external applicants who are sourced from a variety of areas including the Gazette, press and web advertising.

The ANAO considers that its particular arrangements provide recruitment flexibility through the ability to advertise and assess applicants spanning more than one classification level. The organisation also believes that it has enhanced its competitiveness in the marketplace by providing scope to tailor remuneration packages to match the skills and experience of each individual. The ANAO considers that there is also a much more visible career path within the organisation, pointing out that, in the three years since the introduction of the broadbanding structure and a range of associated workforce planning initiatives, there has been a significant decrease in staff turnover.

Under the ANAO model, there is no evidence of classification creep or infringement of the APS Values concerning merit, diversity and open access. Movements within salary bands are still predominantly by way of competitive merit selection on the basis of the availability of work at the higher level. The structure enhances recruitment from outside the ANAO or outside the APS. In the first three months of 2001, 41 employees joined ANAO from outside, 20 of which were the annual graduate intake. ANAO advises that the structure has had no significant impact on salary costs and that, while staff surveys have not asked specific questions about the broadbanded structure, the 1999 survey indicated a very high satisfaction rate with the certified agreement current at the time which had introduced broadbanding.

BROADBANDING IN DETYA

DETYA has a five-level classification structure, three of which are broadbanded, which was introduced in DETYA's 1998 certified agreement. The three broadbanded classifications are DETYA Level 1 (APS 1–3), DETYA Level 2 (APS 4 and 5) and DETYA Executive Level 2 (Executive Level 2 combining the previous Senior Officer Grade A and Senior Officer Grade B classifications). There is a separate legal structure. The standard APS 6 and Executive Level 1 classifications have been retained as separate classifications.

DETYA also has separate broadbanded arrangements for its graduates which provide, through an Australian Workplace Agreement (AWA), for the possibility of accelerated advancement though to the APS 5 level subject to performance assessments against the five-point rating scale.

Progression through pay points within a DETYA broadband is dependent, in the first instance, on the achievement of a rating of fully effective in the annual performance appraisal cycle. As well as pay points, there are attainment points within each broadband which are aligned with the standard APS classification. Progression beyond an attainment point is not automatic but is dependent upon the availability of work at the higher level and the demonstrated ability of the employee, through their performance assessment, to undertake work at that level. If there are a number of suitable staff at the same level and work at a higher level is available, however, a merit selection exercise is conducted. A full merit selection is always an option at any time.

DETYA introduced its current classification structure when the Job Network was being established. At this time, the Department moved from a large service delivery agency (through the

Commonwealth Employment Service) to a predominantly policy development agency. The broadbanded classification structure formed part of DETYA's strategy to retain key people and provide for their development. DETYA's current certified agreement, effective from November 2000, made no changes to the classification structure. The organisation's view is that the arrangements are both efficient and effective and are appropriate to the levels at which work is performed. In support of this, DETYA advises that it has had no grievances in respect of its broadbanding arrangements in the time they have been in place.

Once again, there is little evidence that the DETYA system has encouraged classification creep or is inconsistent with the APS Values. The system provides DETYA with flexible options for vacancy filling, and agency representatives have pointed out that it is particularly useful in regional locations where particular employees may be required to undertake more complex tasks at a higher level but where a full merit selection would be costly and time consuming. On the other hand, there appears still to be predominant use of the standard promotions system for movement within the broadbanded structure, particularly in National Office. During the twelve months to 30 June 2001, only 21 employees were progressed through these arrangements (eight within the DETYA Executive Level 2 broadband and 13 within the DETYA Level 2 broadband). In contrast, during the 1999–00 financial year, 278 positions were advertised with 109 filled by DETYA people and 169 filled from outside DETYA (of the 169, 110 were filled from outside the APS and 59 filled from non-DETYA APS Employees).

MERIT CONCLUSION

The core element of merit in selection—that all eligible people are given a fair and reasonable opportunity to demonstrate that they have the capabilities genuinely required for the job—is one of the central pillars of APS employment and has remained largely unchanged for 100 years. The ways in which this principle is managed and applied, however, has evolved over the years. The pace of change has increased in recent years as the APS continues to move down a devolved pathway where experimentation with alternative selection processes and the provision of these services by external providers is becoming increasingly common.

In this environment it is important that agencies follow effective merit procedures and be seen to be following them. This is an area where trust and confidence in the process is important to building strong resilient cultures and morale. Returns from agencies indicate that they are aware of the need for, and are putting in place, processes which help ensure fairness and objectivity. On the other hand, the Values survey results in relation to merit, despite their limitations, display a worrying cynicism about the application of merit in the APS. Cynicism about promotions is likely to be a common feature in many workplaces, and there is no evidence that it is linked specifically to alternative methods of selection. It does mean, however, that agencies need to take particular care in developing processes in support of alternative selection methods which are perceived to be fair and transparent.

The Australian Public Service (APS) Values emphasise the importance of fairness as an element in the achievement of a harmonious and productive workplace.

The APS provides a fair, flexible, safe and rewarding workplace.

APS Values—*Public Service Act 1999.*

This encompasses a system of review of APS actions affecting APS employees in their employment, aimed at dealing quickly, impartially, and fairly with employee concerns.

The APS provides a fair system of review of decisions taken in respect of employees.

APS Values—*Public Service Act 1999.*

The availability of a system of review has always been a feature of APS employment. The current legislative and policy framework has streamlined the processes for the formal review of actions. The emphasis remains on review of actions within agencies but in some limited circumstances an employee can lodge a request for review directly with the Merit Protection Commissioner (MPC). Employees who are not satisfied with the outcome of an agency review retain the right to seek a second review by the MPC. Last year's Report examined the steps which agencies had taken to implement the new framework, and found that agencies may not yet have thought through how to use the new flexibilities to the advantage of the agency and its employees.

The ongoing implementation and management of review processes by agencies is an issue that will be returned to in future reports. For this year, information gathering and reporting focuses on two particular aspects of the new framework.

ALTERNATIVE DISPUTE RESOLUTION METHODS

A feature of the new framework is an emphasis on the use of alternative dispute resolution methods such as mediation, conciliation and negotiation as an alternative to the production of a formal report on an application for review.

The APS establishes workplace relations that value communication, consultation, cooperation and input from employees on matters that affect their workplace.

APS Values—*Public Service Act 1999.*

Public Service regulation 5.1(4) provides that 'the review processes are intended to be consistent with the use of alternative dispute resolution methods to reach satisfactory outcomes where appropriate'. Regulation 5.1(5) notes that 'nothing in this Part is intended to prevent an application for review from being resolved by conciliation or other means at any time before the review process is completed'. This year, agencies were asked to describe arrangements they have in place to facilitate the alternative resolution of disputes, including any statistics.

Agency returns indicate some confusion about what might actually comprise an alternative dispute settlement arrangement, and this has affected the quality of responses. Generally, agencies mentioned three types of dispute resolution—formal, informal and alternative—with considerable overlap between the latter two. The MPC's Annual Report 2000–01 notes that alternative dispute resolution methods encompass approaches including negotiation, mediation or conciliation as an alternative to the production of a formal report on an application for review.

Based on this, some agencies may have understated their understanding of, and commitment to, a cooperative approach to dispute resolution. The Department of the Prime Minister and Cabinet, for example, advised that it did not have any internal dispute resolution mechanisms in place, yet the relevant section of its certified agreement makes it clear that grievances are to be resolved informally where possible before resorting to formal internal or external processes. Similarly, the Bureau of Meteorology has advised that it has no alternative arrangements for dispute resolution, yet its certified agreement states that, where issues arise over decisions or actions affecting an employee, every effort will be made to resolve the matter at the local level.

While certified agreements cannot displace the review arrangements set out in the Public Service Regulations, such expressions of intent relating to the resolution of employees' concerns indicate a commitment to resolution of those concerns in the workplace, without recourse to the enforceable processes of either the Regulations or those established under agreements.

There were a few agencies that did not appear, from their returns or from an examination of their certified agreements, to have any explicit commitment to the informal or alternative resolution of disputes or grievances. Most APS agencies, however, seem to recognise the importance, consistent with the APS Values, of attempting to resolve disputes informally through discussion and conciliation before proceeding to a formal investigation and report. The Department of Health and Aged Care (DHAC) is one of a number of agencies that has mentioned that it has included, in its current certified agreement, a specific policy on the fair and effective management of reviews of decisions. DHAC's Fair Treatment Policy commits it to ensuring that, wherever possible, a matter will be resolved in the workplace before it advances to a formal request for review of an action.

Fourteen agencies reported that they had taken specific steps to establish alternative systems for dispute resolution. The Australian Greenhouse Office (AGO) has a relatively simple arrangement that is in many ways typical of the systems reported to us by agencies. AGO's arrangement requires that, if a matter cannot be appropriately resolved informally at Team Manager level, then the Deputy Chief Executive or Chief Executive may, after discussion with the claimant, appoint a suitably qualified and unbiased person, agreed by the parties involved, to resolve the matter by conciliation or mediation. Where this is not successful or appropriate, then the formal investigation of the employee's concern may begin.

Comcare advises that it gives employees and managers access to a number of senior Comcare staff that have undertaken formal training in dispute resolution. The Attorney-General's Department formally nominates a dispute resolution facilitator to provide managers, supervisors and employees with assistance in informal dispute resolution. The Department of Education, Training and Youth Affairs gives its employees and managers access to alternative dispute resolution processes through the Department's Employee Assistance Program.

While the level of reporting by agencies was patchy, it seems that the emphasis on resolution of disputes or reviews of actions/decisions at a local level has been very successful. Eighteen agencies reported that they had not required use of their dispute resolution procedures since the introduction of the PS Act 1999. A further nine agencies reported that applications for review had been resolved informally while only three agencies stated that formal resolution processes had been required.

THE USE OF CONSULTANTS FOR REVIEW

An effect of the new legislation may have been to increase the opportunity for outside consultants to undertake reviews of actions on behalf of agencies. Under the previous legislation, the Merit Protection and Review Agency (MPRA) had in place arrangements which allowed it, in some instances and with the agreement of parties, to undertake the investigations necessary for primary reviews on behalf of agencies, on a fee-for-service basis. While the agency remained the decision maker in such matters, if the findings of reviews undertaken in this way were accepted, the matter would not normally be accepted for review by the MPRA unless the employee produced additional evidence or could point to an error in the investigation.

Agencies also had the option to use outside consultants to undertake reviews on their behalf, although the review decision remained with the agency delegate and it remained open to secondary review.

Under the new legislation, Agency Heads may refer applications for review to the MPC with a request that he conduct the primary review. The MPC may conduct primary reviews relating to the employment of members of the Senior Executive Service (SES) on a fee-for-service basis. The MPC also has discretion to accept for primary review matters relating to non-SES staff but he is precluded from recovering the costs associated with such reviews and hence rarely accepts them. Where such a primary review is undertaken by the MPC, the result is a recommendation to the Agency Head and the employee has no entitlement to seek a secondary review.

Agency Heads retain a right to engage outside consultants to undertake reviews of actions although, as before, the review decision remains with the agency delegate and such decisions remain subject to secondary review by the MPC.

The use of consultants to manage reviews of actions raises similar issues to the use of consultants to undertake other aspects of human resource management. On the one hand, it can provide a flexible, cost effective, timely and knowledgeable resource. On the other hand, there may be concerns about consultants' knowledge of, and commitment to, the APS Values.

Agencies were therefore asked to describe any arrangements they have put in place for the employment of consultants to undertake reviews, including how they are selected and how their

understanding of the APS Values is assessed. They were also asked about any staff concerns regarding the objectivity of consultants and how these concerns were addressed.

About 66% of agencies replied that they did not use consultants to undertake formal reviews although, as indicated above, some at least of these agencies use outside advisers in the informal or alternative resolution of disputes. Where agencies gave reasons for this, it was almost entirely due to the fact that the issue or need had never arisen.

Those agencies which had employed consultants to undertake reviews had a variety of different ways of selecting them. As mentioned elsewhere in this Report, the majority of agencies make specific reference in their contract to a requirement for the contractor to comply with the appropriate legislated requirements.

Other agencies include specific reference to the Values in their tender documentation. The Aboriginal and Torres Strait Islander Commission (ATSIC), for example, advises that tender documents for consultants to undertake reviews of actions stress the importance of the APS Values, and tenderers are asked specifically to address the Values and demonstrate their understanding of them. Some agencies include knowledge of the Values in the assessment process. The Department of Employment, Workplace Relations and Small Business includes the Values in its contractor briefings, while the Federal Court of Australia undertakes an assessment of consultants' understanding of both APS and Court Values.

There were very few reported concerns that outside consultants conducting review processes may not be impartial. Some agencies stressed that consultants are only engaged to manage the review process, the responsibility and delegations for the outcome remaining within the agency. The Department of Immigration and Multicultural Affairs (DIMA) believes that the use of outside consultants actually strengthened perceptions of the integrity of the review process. It advised that results indicated that employees were more accepting of the outcome following an investigation by an external contractor as it removed the perception of bias. DIMA reported that experience had shown that employees were less likely to seek a review of the decision by the MPC following an investigation undertaken by an external investigator.

ATSIC, on the other hand, noted that some staff had raised concerns that, because ATSIC was paying for the contractor, the contractor would be biased in ATSIC's favour. Staff have been advised that the consultants are chosen because of their objectivity and that, if a consultant fails to be objective, ATSIC would no longer engage them for this purpose.

A MORE HARMONIOUS WORKPLACE?

Perhaps the most lasting impression from agency returns is that the level of requests for review of actions appears to be so low that many agencies have not yet had to deal with the issues that were raised in the questionnaire. One agency stated explicitly that the level of disputation was so low that an alternative system of dispute resolution was unnecessary.

This is consistent with the experience both of the MPC and of the former MPRA. While exact comparisons with 1999–00 are not possible given the differences in the available review processes, it

would appear that the number of reviews completed in 2000–01 (other than those related to breaches of the Code of Conduct and promotion decisions) declined by approximately 16%. This decline, while less than in previous years, continued a trend which has been evident since at least 1994–95. This may be due to the fact that informal processes, such as those outlined in most certified agreements—for which no cross service data is available—are working effectively. The level of review will continue to be monitored for possible discussion in a future State of the Service Report.

FINANCIAL MANAGEMENT AND ACCOUNTABILITY •

CLIENT SERVICE •

PRIVACY AND SECURITY •

Both the Australian Public Service (APS) Values and the APS Code of Conduct emphasise the importance of efficient, effective and accountable financial management within a framework of probity and accountability:

> The APS focuses on achieving results and managing performance.
>
> APS Values—*Public Service Act 1999*.

> APS employees must use Commonwealth resources in a proper manner.
>
> Code of Conduct—*Public Service Act 1999*.

FINANCIAL MANAGEMENT REFORMS

In the area of financial management, 2000–01 might best be described as a period of consolidation of the initiatives of the previous two years. In particular, 2000–01 saw increasing focus by Parliament on the information provided in Portfolio Budget Statements (PBS) and accountability for expenditure of appropriated funds. The year also saw the first full year in which agencies were required to manage the tax reform package and devolved banking arrangements.

> The APS is openly accountable for its actions, within the framework of Ministerial responsibility to the Government, the Parliament and the Australian public.
>
> APS Values—*Public Service Act 1999*.

The *State of the Service Report 1999–00* noted that the successful implementation of the accruals-based budget framework was a long-term process for both central and line agencies, with a focus on continuous improvement as the new framework was bedded down.

The Department of Finance and Administration (Finance) reported that, as anticipated, there has been an improvement in agencies' preparedness for, understanding of, and commitment to the accruals-based framework this year. A number of agencies have refined their frameworks and refined their outcome statements and output structures in the context of the last budget. Finance has completed an analysis of the first cycle of accrual budget documentation (PBSs and annual reports), advising that this has enabled it to establish a benchmark of agencies' understanding of the framework and will be used for comparative purposes.

Finance reports that the overall improvement in this area has produced a better level of performance information representing more relevant data, an alignment of the PBSs with annual reports, and a

higher level of engagement with officers in Finance. The *Senate Finance and Public Administration Legislation Committee Report on 1999–00 Annual Reports* corroborates these observations, while noting, as outlined below, some areas for further attention.[1]

Despite this increased level of understanding, Finance notes that there are still a lot of questions being asked that demonstrate that some agencies remain confused about the structure and intent of the documentation. In response, it has updated its website with a guide to the outcomes and outputs framework; developed a series of one page fact sheets; and released updated Performance Management Principles to guide agencies on performance reporting and its uses internally and externally.

THE OUTPUTS AND OUTCOMES FRAMEWORK

The outputs and outcomes framework was introduced for the first time in the 1999–00 Budget to improve agencies' corporate governance and to enhance public accountability. While there is considerable scope for customisation by individual agencies, it is important that outputs and outcomes are structured in a way that maximises consistency between agencies and enables comparisons and benchmarking across agencies.

The *State of the Service Report 1999–00* noted concerns that agencies would be able to change their individual frameworks too frequently to allow for proper parliamentary scrutiny, and that there was a lack of consistency and logic across portfolios in the level of detail disclosed.

This area has been the focus of considerable scrutiny in the last twelve months. The Senate Standing Committee on Finance and Public Administration has continued its consideration of *The Format of Portfolio Budget Statements*. The Joint Committee of Public Accounts and Audit commenced a Review of the Accrual Budget Documentation, and the Australian National Audit Office (ANAO) had as one of its key themes for performance audits in 2000–01 performance information as it relates to corporate governance.

Finance assessed performance reporting relating to departmental outputs in 2000–01 as good overall, with improvements evident in reporting on outcomes and administered items.

As noted above, there has been some refinement of agencies' frameworks over the past couple of cycles which has led in some cases to difficulties in year-to-year comparisons. Finance has emphasised that any refinement of the outcome and output structure must strike a balance between refinement and consistency. For the most part, agencies across the service have managed to find a balance between the two. Where there have been changes, agencies have been encouraged to map the changes clearly in both their PBSs and their annual reports. There has been some criticism that these maps are not sufficiently clear, and Finance will be producing better practice guidance to address the issue.

The Institute of Public Administration Australia noted in its *Report of Judges on the 1999–00 Annual Reports of Departments and Agencies* that there had been a quantum leap in the quality of

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[1] *Senate Finance and Public Administration Legislative Committee Report on 1999–00 Annual Reports*, Report One, March 2001, p.14.

performance reporting in 1999–00 annual reports compared with the previous year. The report noted, however, that the integration of financial information from portfolio budget statements with performance reporting was an area for further improvement.

The *Senate Finance and Public Administration Legislation Committee Report on 1999–00 Annual Reports* referred to above also confirmed that direct reference to the PBS in annual reports enabled straightforward tracking of budgetary information and permitted the reader to examine performance results against estimates, targets and indicators. It also commented, however, that striking a reasonable balance between the provision of adequate performance reporting and the need for conciseness still presents a challenge to some agencies. It emphasised that, while performance reporting is intended to focus on results rather than processes, an account of how outcomes and outputs were actually achieved was essential if stakeholders are to form a view as to how well agencies have performed and whether they have met legislative requirements for the efficient, effective and ethical use of Commonwealth resources. It urged agencies to look carefully at where information about difficulties or obstacles experienced is placed, so as not to compromise the true spirit of openness and transparency. It also commented on what it saw as a growing tendency for some annual reports to read as marketing exercises for government policy and initiatives.

The same Senate Committee has also produced three reports on the form of the PBSs. The Committee's third report in November 2000 commented that Senators were seeking greater consistency and comparability of the pricing and performance information contained in the PBSs. The Committee sought the provision of forward estimates information and, in response to concerns about the time lapse between the setting of indicators and reporting against them, suggested that agencies provide part year performance in the PBS where available. The Committee also noted that inadequate reporting on progress towards outcomes was a weakness of the system.

The Joint Committee of Public Accounts and Audit is currently conducting a wide-ranging Review of the Accrual Budget Documentation. At its June 2001 hearing, the Committee noted what it regarded as shortcomings of the framework:

- the time lag between the provision of the PBS at budget time and the reporting on it in annual reports;
- lack of disaggregation of data leading to a lack of transparency;
- changes in program structure and reporting structure; and
- issues with single outcome agencies.

While the validity and reliability of performance information is a key consideration in most ANAO performance audits, there are two audits that have specifically considered performance information in the context of the PBSs.

The first of these, an audit of the Australian Taxation Office (ATO), examined performance reporting within the outcomes and outputs framework to identify areas for improvement in specifying, measuring, administering and reporting outputs and outcomes. The results of this audit were tabled in June 2001. In the second audit, the ANAO is examining the appropriateness of performance information in PBSs across a selection of ten agencies. This audit is scheduled for tabling later this year.

In these audits the ANAO is examining matters such as:

- outcomes, outputs, strategies and whether relationships between these are sufficiently evident in the annual reports;
- whether there is appropriate explanatory and statistical information supporting performance information reporting; and
- the achievement of outputs and outcomes and whether their relationships with agency strategies is sufficiently evident, and any necessary remedial action and/or ameliorating factors sufficiently identified, to make the reporting more useful.

The audits have confirmed that agencies are experiencing difficulties in establishing and demonstrating links between desired outcomes and the outputs to be delivered by the agency, as well as in identifying performance indicators which can be used to measure and monitor success in delivering outputs and achieving outcomes.

The ANAO has identified a number of ongoing difficulties being experienced by parliamentary committees with the presentation by agencies of material in the accrual-based outputs and outcomes framework, including the:

- variability in the definition of outputs—some outputs are very highly aggregated and others were quite specific;
- apparent lack of consistency in the approach to distinguishing between departmental and administered items—the definition of control is crucial to the distinction between administered and departmental items;
- failure to disclose discrete entities;
- lack of alignment between the organisational structure of the agency and the outputs and outcomes framework. Where agency outputs do not reflect the organisational structure, a clear description of the methods used to allocate costs should be provided;
- stability of the outcomes-outputs structure—major changes make it difficult for committees to keep track of expenditure year to year and need to be made transparent; and
- measuring progress towards outcomes which are long-term goals.

In part, the use of very broadly defined or 'aspirational' outcomes by agencies has contributed to the last of these difficulties. The use of intermediate outcomes, as has been encouraged by Finance and the ANAO, is intended to allow improved linking between outcomes and outputs and thus support increased accountability and enhanced reporting over time.

In undertaking its audits on performance information, the ANAO is developing a number of better practice principles in relation to specifying performance measures, and to measuring and reporting performance. The audits will provide material for the preparation of a better practice guide for performance information in PBSs and annual reports.

MANAGEMENT OF THE BUDGET PROCESS

Finance and Treasury views on the third accruals budget process continue to reflect last year's comments that, while there has been improvement, the system will still take a couple of years to bed

down. The updated Performance Management Principles in particular target reporting on administered items for attention. The principles also encourage the use of targets, estimates and activity levels as part of performance measures.

The Accrual Information Management System (AIMS) provides for the automated transfer of accruals-based budget data from agencies to Finance. While the Vertigan Report criticised the performance of AIMS in its first year of operation, last year's State of the Service Report noted that these problems had been largely overcome and that the system performed significantly better during the lead-up to the 2000–01 Budget. Last year's Report also noted that Finance had commissioned PricewaterhouseCoopers to undertake an overall review of AIMS. The review covered the original implementation of the system, consideration of the business requirements for central and line agencies and an analysis of options for improved agency data capture to enable the system to meet all of these requirements more fully.

Finance has reported that AIMS continued to maintain a satisfactory level of performance for the 2001–02 Budget preparations, with almost all agencies able to meet budget deadlines.

At a broader level, the PricewaterhouseCoopers review was completed in November of last year. The review considered that AIMS was meeting stakeholders' business requirements and meeting the purpose for which it was implemented, with significant improvement since its first year of operation. It identified six areas for Finance to concentrate on:

• the linkage between the Adjustment Tracking Module and the Estimates baseline;
• collection of program information;
• database performance;
• reporting;
• enablement of internet communications; and
• the AIMS security structure.

The Department of Finance and Administration Management Board accepted these recommendations and the Secretary of the Department subsequently wrote to Agency Heads to inform them that AIMS would be maintained in its current form until the 2004–05 Budget, at which time it will be replaced.

AGENCY MANAGEMENT OF THE GOODS AND SERVICES TAX

The 2000–01 financial year was the first full year that agencies were required to manage the requirements of The New Tax System and agencies were asked to describe their experiences in managing the tax reform package, including any particular issues they faced.

Comments were also obtained from the Goods and Services Tax (GST) Implementation Unit in Finance which monitored agencies' progress in implementing processes and procedures and taking other steps necessary to ensure that they would comply with The New Tax System by 1 July 2000. This entailed a series of five pre-implementation questionnaires culminating in a formal sign-off by each Commonwealth agency Chief Executive Officer confirming that their agency would be compliant with the new system. As a final phase to the monitoring process, Finance conducted a post-implementation compliance review in January 2001 (after six months of experience).

Last year's Report noted that the implementation of The New Tax System was placing a strain on some agencies. Returns this year indicate that agencies generally are coping with the change and all have confirmed that they are compliant with its provisions. Some agencies noted that they had experienced minor implementation teething issues, but that they have taken appropriate action to resolve these issues. In some cases, this action had been contingent on the finalisation by the ATO of GST Rulings.

Some of the survey responses identified issues which were not compliance breaches under the new system, but were issues that may need to be addressed by agencies to prevent compliance risks in the future (for example, introducing processes and Chief Executive Instructions to monitor compliance with ATO rulings and legislative amendments).

Following this advice, Finance wrote to those agencies which were part of the formal monitoring program and provided them with general information about best practice risk management procedures which can be adopted to address the issues identified. Finance advises that it has continued to disseminate important whole-of-government information to Commonwealth agencies as necessary.

The establishment of the GST Implementation Unit in Finance was considered beneficial in providing timely and accurate advice and facilitating resolution of complex and disparate issues. Finance noted that the model used for implementation of the new system was also particularly beneficial from a central agency perspective. There is little ongoing requirement for central assistance in this area and the GST Unit has now been disbanded.

Agency returns indicated that a majority of them used a similar internal model, setting up small implementation teams whose members had a good understanding of the agency workings and systems. There was close liaison with Finance in most cases, with some agencies engaging consultants to help the process.

The major area where agencies experienced some difficulty was in the clarification of ATO rulings and advice and the associated determination of GST exempt items, with some 18 agencies mentioning this as a problem.

A specific issue that has concerned the Australian War Memorial and Screensound Australia is their ongoing status as deductible gift recipients. These agencies have reported that the ATO has advised that they no longer meet the requirements necessary to be granted this status. The matter is currently with the ATO for consideration. Until further advice, all donors to these agencies will continue to be able to claim a tax deduction for donations of $2 and over.

The other major issues raised by agencies included:

- the lack of preparedness of some suppliers and community groups, resulting in some agencies having to allocate resources to bring them up to speed (14% of agencies);
- the requirement by agencies to modify, upgrade or implement new financial management systems to meet the requirements of the GST (12% of agencies); and
- the greater level of resources than estimated required for the implementation and management of the process and the ongoing training of staff (18% of agencies).

AGENCY MANAGEMENT OF DEVOLVED BANKING ARRANGEMENTS

The Government introduced private sector competition for transactional banking services of *Financial Management and Accountability Act 1997* agencies from 1 July 1999. Previously, transactional banking services could only be provided by the Reserve Bank of Australia. From that time, agencies were able to choose the transactional banker that best suited their business needs in terms of cost and quality of service. Agencies managing under the *Commonwealth Authorities and Companies Act 1997* have been required to manage their own banking arrangements for some years and were not affected by the transition.

Twenty-six agencies have already completed market testing of transactional banking services. In a survey undertaken by Finance in 2000–01, 52 agencies advised that they expect to complete market testing by November 2001.

Agencies have been forming consortiums to achieve synergies in market testing. Finance is aware of the formation of nine consortiums covering 29 agencies.

A number of agencies have advised of significant benefits from market testing transactional banking services, both in terms of direct cost savings and through improved business processes. To maximise benefits, some agencies also market tested multiple banking-related services at the same time.

This year, agencies were asked to describe their experiences in this field. Of particular interest were agency views on the ease of operation, financial flexibility and probity matters.

The majority of agencies reported that the transition was managed well and that there were no issues of note. Agencies that market tested their banking arrangements during the period reported minor issues associated with managing this process. In the main, these concerned the length and costliness of the market testing process. A number of smaller agencies queried the cost benefits of moving down this path.

The experience of the Department of Immigration and Multicultural Affairs (DIMA) with devolved banking is fairly typical. The introduction of the Treasury function has improved the management of DIMA's appropriations and revenue including:

- creation of bank accounts for departmental, administered and Special Purpose Monies with banking providers that can service DIMA's geographically spread network of regional offices;
- increasing merchant service facilities for regional offices so clients are encouraged to pay electronically by debit/credit cards;
- management of departmental appropriation draw-downs, in line with output delivery, ensuring flexibility in accessing resources to produce Outcomes/Outputs;
- flexibility of payment management; and
- implementation of Cash Management and Investments Policy with the opportunity to earn interest revenue.

The Department of Family and Community Services noted, however, that the combination of some of the accrual reforms had provided somewhat perverse incentives, for example, interest earnings above the target can increase an agency's operating surplus and thereby attract the capital use charge.

ELECTRONIC PROCUREMENT

As part of the Government Online Strategy, the Electronic Procurement Strategy sets the following major goals:

- to pay all suppliers to government electronically by the end of 2000, with this facilitated by the issue of electronic remittance advice to all suppliers; and
- to deal electronically with all those simple procurement suppliers who wish to deal with the Government, using open standards, by the end of 2001.

The Electronic Procurement Strategy notes that product and service identification and catalogue standards can vary in an electronic trading environment. These trends must be monitored, and 'open standards' used (such as Open Buying on the Internet and Extensible Markup Language standards), to ensure maximum interoperability between buyers, suppliers and service providers.

Before this strategy was initiated the majority of the approximately 1.5 billion transactions taking place each year, worth around $1.6 trillion, were electronic fund transfers by means of EFTPOS or ATM transactions. In addition, there were approximately $150 million worth of credit card transactions. The Commonwealth Electronic Procurement Implementation Strategy April 2000 also found that the ratio of processing costs for cheques versus direct entry payments varies between 10:1 and 5:1.

The *Government Online Progress Report,* December 2000 reported that 20% of agencies pay more than 90% of suppliers electronically. Other agencies are finding it more difficult to pay their suppliers electronically. The main reported barrier for reaching this goal was the lack of readiness or willingness of suppliers themselves to be paid this way.

The Government intent was that 90% of purchase related simple procurement transactions would be conducted electronically by the end of 2001. The March 2001 survey indicated that 67% of agencies were paying more than 50% of the value of their payments electronically.

The National Office for the Information Economy's (NOIE) third progress report recognised the difficulty some agencies, particularly small agencies, have in meeting the goals of the electronic procurement strategy. The main issues are the costs of electronic procurement solutions and the lack of skilled resources in the area. For this reason NOIE is considering establishing a 'Shared Service Centre for E-procurement' which would provide access to a suite of electronic procurement tools and capabilities. It believes that this will aid small agencies in moving their procurement activities online. It will also help Government suppliers establish a viable presence on the electronic marketplace.

ACCOUNTABILITY AND CONTRACT MANAGEMENT

The growing emphasis on contract management and outsourcing in the APS has given rise to a number of issues and challenges with respect to accountability. Two key issues have been access to contractor information and the confidentiality of contract provisions.

As stressed by the Auditor-General, for accountability measures to be effective, it is critical that agencies examine the nature and level of information to be supplied under the contract and the

authority to access contractors' records and premises as necessary to monitor adequately the performance of the contract. The inclusion of access provisions within the contract for performance and financial auditing is important in maintaining the thread of accountability with Commonwealth agencies' growing reliance on partnering with the private sector on contractors' quality assurance reliance on partnering with the private sector and on contractors' quality assurance systems.

Agencies have been adopting model access clauses drafted by the ANAO in 1997 to give the agency and the ANAO access to contractors' premises and the right to inspect and copy documentation and records associated with the contract. The Joint Committee of Public Accounts and Audit recommended that the Minister for Finance and Administration make legislative provision for such access. The Government response to that report was that its preferred approach was not to mandate obligations, through legislative or other means, to provide the Auditor-General an automatic right of access to contractors' premises. It stressed that the inclusion of appropriate clauses in contracts was the best and most cost effective mechanism to facilitate access by the ANAO to a contractor's premises in appropriate circumstances.

The new *Commonwealth Procurement Guidelines* and Best Practice Guidance released by the Minister for Finance and Administration on 5 October 2001 require agencies to consider on a case by case basis, including a provision in contracts to enable the ANAO access to contractors' records and premises to carry out appropriate audits.

Concerns about the use of confidentiality clauses in contracts were raised by the Joint Committee of Public Accounts and Audit in its November 2000 report on *Contract Management in the Australian Public Service*. The report concluded that accountability and parliamentary scrutiny was being eroded through the argument that all or parts of government contracts were commercial-in-confidence, and made a number of recommendations to counter this.

The Senate Finance and Public Administration References Committee conducted an *Inquiry into The Mechanism for Providing Accountability to the Senate in Relation to Government Contracts*, when a motion by Senator Andrew Murray was referred to it for investigation. This motion requires Agencies to post on their websites a list of contracts entered into, to indicate what clauses in those contracts are confidential, to justify the need for that confidentiality and to provide the Senate with a list of contracts entered into that exceed $100 000. It also requires independent verification of the confidentiality aspects by the Auditor-General.

In its June 2000 report, the Senate Committee requested the Auditor-General to take into consideration a number of matters when undertaking a scheduled performance audit of the use of confidentiality provisions in contracts by a number of agencies. The Committee gave notice that, pending the Auditor-General's report, it would monitor cases where the provision of contract information was refused to Parliament on the basis of confidentiality.

The Auditor-General tabled his report on 24 May 2001. The report found a lack of guidance on the use of confidentiality provisions, that agencies had weaknesses in how they approached confidentiality, that there was no simple rule for classifying information as confidential, and that adherence by agencies to the Gazette Publishing System requirements was mixed.[2] It made a series of recommendations that

[2] Audit Report No.38 2000–01, *The Use Of Confidentiality Provisions In Commonwealth Contracts*, May 2001.

agencies should include provisions in contracts which allow information to be disclosed to parliamentary committees and should provide summarised performance information to committees.

Senator Murray's motion was subsequently passed on 20 June 2001, with a Government response tabled in the Senate on 27 August 2001. While noting legal concerns around the Senate's power to make such an order, it agreed, in principle, to comply with its spirit. Agencies are to commence placing contract lists on their website, taking account of the Department of the Prime Minister and Cabinet guidelines on the scope of public interests and privacy, secrecy and commercial in confidence requirements and considerations.

Similar issues of access to information for accountability to Parliament have been raised in the context of information technology (IT) outsourcing.

The Inquiry into the Government's Information Technology Outsourcing Initiative by the Senate Finance and Public Administration References Committee generated two interim reports in April and June 2001. In the first of these the Committee drew attention to the apparent lack of understanding in the Australian Public Service about parliamentary accountability, stressing that this was a wider issue than the outsourcing inquiry. The report detailed a number of instances where the Committee had experienced difficulties in obtaining relevant documentation. The Committee's June 2001 report stated that its inquiries remained unsatisfactory, stating that the common thread was a problem confronting a number of Parliamentary Committees—lack of accountability.

The Committee's final Report, *Rebooting the IT Agenda in the Australian Public Service*, released on 28 August 2001, also touched on accountability issues and made a number of recommendations in relation to transparency in Commonwealth contracts. These included a recommendation that any future requests for tender include provisions that require contractors to keep and provide sufficient information to allow for proper parliamentary scrutiny, including before parliamentary committees, of the contract and its arrangements.

The same Committee issued a further report on *Commonwealth Contracts: A new Framework for Accountability* in September 2001. The report supported its outsourcing inquiry recommendations to ensure more accountability in Commonwealth contracting—to secure the application of the principle that information relating to Commonwealth contracts should be in the public domain unless there are sound reasons for withholding it. The report also makes a number of further recommendations to strengthen the Senate order, to amend the Gazette Publishing System to deliver additional information and functionality, and to increase information requirements for annual reports.

The new *Commonwealth Procurement Guidelines* referred to above require agencies to include provisions in tender documentation and contracts that alert prospective providers to the public accountability requirements of the Commonwealth including disclosure to Parliament and its Committees.

More generally, a number of Senate Committee Reports have questioned the level of understanding that APS employees appearing before them have of what their accountability responsibilities mean in practice, particularly in relation to their dealings with parliamentary committees. The Senate Finance and Public Administration Committee, in both its *Additional Estimates 2000–01 Report* of March 2001 and its *Estimates 2001–02 Report* of June 2001, for example, commented on the lack of awareness by senior APS employees of the procedures and the urgency of advising committees of corrections of evidence.

Agencies need to ensure that their employees fully understand their rights and responsibilities in this regard. This is both consistent with the Senate's 1998 requirement on agencies to report on moves made to increase understanding in the area and is essential to meet the emphasis on proper accountability in the APS Values. In addition, the Public Service Commissioner's Directions require APS employees to understand the accountability framework. The PSMPC conducts a *Public Servants' Accountability Rights and Responsibilities* program to address this need, with over 1100 SES employees having attended. The Department of the Senate also hold relevant seminars and workshops.

CONCLUSION

Implementation of the Government's financial reforms continued this year. The major issue for most agencies was the continued refinement of the outcomes and outputs framework along the lines recommended in the Vertigan Report and on the basis of experience.

The related issue of performance reporting was an area of focus on a number of fronts. There was a general consensus that, although the framework is good, implementation of it across the board has some way to go. Challenges remain in the area of mapping changes in agency outcomes and outputs across reporting periods, reporting on progress towards outcomes, and achieving greater transparency of output data. Development and systematic application of meaningful performance measurement indicators is also important, both for accountability and as part of an integrated performance management system. This issue is addressed further in Part 6, Achieving High Performance.

Maintaining a strong record of accountability remains a continuing priority for the APS, particularly in an environment of increased contracting out and outsourcing. Agencies need to ensure their approaches to contracts and contract management, including access to contractor information and handling of commercial-in-confidence information, are structured in such a way that supports proper accountability. Ensuring APS employees are aware of their rights and responsibilities with respect to parliamentary accountability also needs to be a continuing priority.

One of the areas where the flexibility that is central to the new public service employment framework can be used most effectively is in providing better and more innovative methods of service delivery to clients. The Australian Public Service (APS) Values give clear emphasis to the importance of high quality service delivery and to the diversity of needs to which it should have regard.

The APS delivers services fairly, effectively, impartially and courteously to the Australian public and is sensitive to the diversity of the Australian public.

APS Values—*Public Service Act 1999.*

SERVICE CHARTERS

An important instrument of accountability in this area is the requirement for client service charters. Since the implementation of the Government's 1997 policy statement, *More Time for Business*, all Commonwealth agencies that deal with the public have been required to develop client service charters, while those with policy development functions are encouraged to do so.

The Special Minister of State has responsibility for reporting on the implementation of service charters. Senator the Hon. Chris Ellison, then Special Minister of State, presented a second whole-of-government report to Parliament in November 2000 detailing performance against the Client Service Charter Principles. The report found that agencies had displayed strong performance against the Principles, with compliance in the 92–100 percentile against most of them.

In February 2001, the Department of Finance and Administration (Finance) conducted a telephone survey in line with its responsibility to coordinate this initiative. Responses to the survey indicated that 80% of agency charters had improved service delivery capabilities. The remaining 20% of agencies with a charter said they already had good service delivery strategies in place prior to the service charter initiative.

Senator the Hon. Eric Abetz, who was appointed Special Minister of State in February 2001, undertook an evaluation of the reporting process and advised the Prime Minister of his intention to devolve the responsibility for reporting on service charter activities to departments and agencies, using their annual report as the key reporting document. Agencies required to have service charters in place were asked to refer in their 2000–01 annual reports to performance against the service charter customer service standards and to complaints data, trend analysis, the agency's response to complaints and, where appropriate, social justice impacts. Finance ceased its whole-of-government reporting obligations and informed Secretaries and heads of agencies of this decision in early July 2001. Reports on service charter activities will continue to be included in individual agency annual reports.

As part of the review of Finance's service charter functions, the Special Minister of State confirmed that the *Service Charters—Awards for Excellence* would continue on an annual basis to recognise outstanding effort by agencies who address client needs in a highly successful and contemporary manner.

On 6 December, Senator Abetz presented awards to five agencies as part of this year's service charter awards scheme. The Australian Trade Commission and the Australian Federal Police won gold awards for demonstrated excellence in integrating service charters into core service delivery outcomes and organisational culture. Centrelink won a gold award for demonstrated excellence in service charters driving online service delivery. Both Centrelink and the Aboriginal Hostels Limited won gold awards for demonstrated excellence in service charters driving service delivery to rural, remote and regional Australians. Centrelink won a silver award for demonstrated excellence in service charters driving service delivery to clients with additional needs (including people with disabilities or having English as a second language). The Health Insurance Commission won a platinum award, the highest award, for excellence across all categories.

GOVERNMENT ONLINE STRATEGY

The Government's *Investing for Growth* statement contains major initiatives designed to encourage innovation and boost investment in Australia. In response to technological change, the Investing for Growth commitment includes the *Government Online Strategy*, released in April 2000, which requires Commonwealth departments and agencies to deliver all appropriate services online by December 2001. The National Office for the Information Economy (NOIE) is responsible for monitoring and facilitating this initiative.

NOIE's Round 3 Survey Results for March 2001 found that, at March 2001, 93% of agencies were expecting to meet the December 2001 deadline. Those not expecting to meet the deadline anticipate meeting the Government's commitment in 2002. Seventeen per cent of agencies reported that all appropriate services were already online.

NOIE's survey also showed that 44% of agencies were anticipating that over 70% of their services would ultimately be delivered online. Included in this figure were the 9% of agencies that expect all of their services to be online.

The NOIE analysis indicates that the Government is on track to meet its *Investing for Growth* initiatives. The latest survey results show that agencies are increasing the volume, range and functionality of services they bring online. By the time all agencies are compliant with the Online initiative, around half of online services will have transaction and data interchange capacities. Agencies that have conducted client surveys have found that customer groups are already supportive of the increased capacity for out of hours servicing resulting from electronic service delivery.

The Aboriginal and Torres Strait Islander Commission (ATSIC) has made grant applications for funding available online and, in 2001–02, approximately 67% of grant submissions for funding were received in electronic form.

The Department of Foreign Affairs and Trade is developing an interactive passport website. In addition to providing passport services online, it has also established a Frequently Asked Questions page, directed at overseas travellers.

The National Library of Australia designed its website in the context that those clients who would be accessing it would not be able to go to the Library. With this in mind, the Library is considering an initiative whereby readers' cards would allow offsite access for registered readers to subscription-based electronic resources. Readers' cards would also allow people to request resources from the Library collection online.

Centrelink is planning a number of strategies to bring more services online. It is planning to give students on line access to personalised claim forms and to extend this facility to all clients over time. In addition, a proposal to allow all customers to register for passwords online will not only enable customers to conduct business online, but also provide customers with access to services individually tailored to their needs.

Centrelink, through Centrelink Call, has established Indigenous call centres in Cairns, Palmerston and Kalgoorlie. The Indigenous call centres have given much improved access to Indigenous people in remote areas and have enabled clients to receive personalised service. The service was established to cater for the needs of Indigenous clients in remote areas of Queensland (including the Torres Strait Islands), the Northern Territory, Western Australia and the northern part of South Australia. In this area, a very high percentage of the population are Indigenous and many have difficulty accessing Centrelink due to issues such as distance, language, literacy and numeracy, mail delivery frequency, and lack of appropriate information technology (IT) facilities. Staff within the Indigenous call centres are almost entirely Indigenous people from diverse backgrounds and different language groups. The Indigenous network handles approximately 1000 calls per day. Ninety per cent of calls are answered from the local site which provides enhanced knowledge of local issues and language.

Centrelink is also planning an online request form, which will allow customers to request certain items through the mail (for example, a duplicate copy of a document), and a tip-off registration form, allowing public tip-offs regarding fraud to be lodged online.

The National Science and Technology Centre (Questacon) will be using web-based student and teacher resource materials to promote secondary student participation in science and technology related careers.

Where agencies may have problems in delivering services by the deadline, the four most commonly cited impediments are costs and resources (36%) client access to the Internet (16%), security (14%) and IT infrastructure/technical limitations (13%).

WEBSITE ACCESSIBILITY

Agencies are required to make their web resources as accessible as possible, keeping in mind people with disabilities, older Australians and users facing technical constraints. This gives life to that aspect of the value emphasising the recognition of the diversity of the Australian community.

Many agencies are adopting the World Wide Web Consortium's (W3C) Web Content Accessibility Guidelines as the best practise standard for Australian government websites. The guidelines are widely recognised internationally, and have the support of Australia's Human Rights and Equal Opportunity Commission, disability groups and rural groups.

Agencies were expected to meet the accepted standards by December 2000, in order to comply with the *Disability Discrimination Act 1992* which is directed towards ensuring that no group is excluded from access to Government Online. Centrelink has consulted with customer and community groups in the design of menus and options. Input from the Disability, Sickness and Carers Reference Group has helped Centrelink to enable these customers to use self-service options.

The March 2001 survey found that 48% of agencies indicated that their websites met the guidelines. Of the agencies that did not meet this standard in March, 26% were expecting to be compliant in June and a further 55% expect to be compliant in December 2001.

The pilot centre for Airservices Australia provides access to the National Aeronautical Information Processing System (NAIPS) and the Airservices Publications Centre. NAIPS is a multifunctional, computerised, aeronautical information system. To make the system more accessible, Airservices Australia provides a user interface program that can be downloaded without charge.

The Department of Family and Community Services (FACS) faces a different kind of challenge when helping clients access web based services. Despite realising the opportunity the Internet provides for developing and connecting communities of interest, particularly where mobility may be restricted, FACS has found that many clients are unlikely to have ready internet access and fear that this may become a barrier for full participation in society.

Other agencies have also stressed that regional and remote users may have impeded Internet access due to restrictions such as transmission speed, cost of connection and lack of appropriate infrastructure.

ATSIC uses electronic but non-Internet based technology—by sending compact discs to clients, which can then be returned by post. Centrelink is also backing Internet-based services with other forms of technology. Interactive Voice Response (IVR) Technology makes self-service available via channels to which customers have ready access i.e. telephone technology as well as the Internet. Trials of IVR have proved successful and Centrelink is planning a staged roll out.

Some agencies have been able to provide access to online services to clients in Australia but have trouble when dealing with international stakeholders. The Australian Centre for International Agricultural Research has assessed which services could be provided online, and the primary users of these services. They found that, although stakeholders in Australia generally have above-average levels of access to infrastructure, institutions and individuals in beneficiary countries in Asia, Africa and the Pacific encounter both access and language barriers.

Language barriers also need to be addressed when delivering electronic services to customers from diverse cultural and linguistic backgrounds. Centrelink, the Department of Immigration and Multicultural Affairs (DIMA) and the Australian Electoral Commission are examples of agencies that enable clients to access information online in a number of languages. DIMA provides information in 18 different languages in addition to English, with a special symbol used to indicate to people with low level of English language skills the availability of translated material on the site.

A customer survey undertaken by Centrelink in November 2000 found that a lack of day-to-day familiarity with technology can also be a barrier to the initial uptake of electronic services. Electronic services need to be presented in a way that reflects the customer perspective rather than the

underlying legislation or organisational boundaries. When upgrading its website, Centrelink presented material in a life events model, using plain English (with some basic multilingual content). This feature means that customers do not need to know the types of payments or services available—they can select the event/s which best describe their particular circumstances.

The NOIE December 2000 *Government Online Progress* report found that website accessibility is often checked formally using 'Bobby' software (38% of agencies). Bobby is a free service provided by the Centre for Applied Special Technology to help Web page authors identify and repair significant barriers to access by people with disabilities.

Fifteen per cent of agencies use informal methods and manually check their websites against the guidelines. Only 6% use external consultants to ensure their websites meet the W3C guidelines. Other agencies use continuous review, internal audit or user feedback to monitor website accessibility. At the date of the NOIE report, 11% of agencies were either not checking their websites or were investigating mechanisms to do so.

COMPLAINTS TO THE OMBUDSMAN

Until now the Ombudsman has been responsible for complaints about public sector agencies. The Ombudsman defined his position as being 'able to investigate the actions of a contractor if they can be deemed to have been taken by an agency (for example, if the contractor is an 'officer' of the agency). This requires a case-by-case analysis of the nature of the service being performed and of the requirements of the contract.

The Ombudsman can also investigate the process by which an agency enters into and administers contracts, and the way an agency responds to complaints about contractors.

Complaints received by the Ombudsman in 2000–01 numbered 21 000, and have increased by 9% compared to the previous financial year. Complaints about the Australian Taxation Office increased by more than 60% in the last financial year, jumping from 2081 in 1999–00 to 3354 in 2000–01. Almost one third of these complaints related to the introduction of the new tax system. The number of complaints about Centrelink increased by 5%, whereas the number of complaints about the Child Support Agency remained the same. These three agencies continue to account for nearly 75% of all complaints to the Ombudsman.

Overall, there has been very little change in the reasons for complaint. The most common cause is an action or decision taken by an agency, and the most frequent complaint resolution is the provision of a detailed explanation by an agency of its decision or action.

CONCLUSION

Generally speaking, agencies are coming to grips with their responsibilities in relation to client service and to electronic service delivery in particular. They appear to be adapting increasingly to the needs of clients with different cultural and linguistic backgrounds and levels of experience with, and access to, the Internet. The ways that agencies are meeting these challenges include the use of alternative electronic technology where the Internet may not be appropriate.

As the Government works towards making all its services readily accessible to the Australian public, a number of important considerations are emerging. Privacy, confidentiality and security play a significant role in delivering information or services online.

The effective collection, protection, transfer and use of data is central to an ethical, accountable and high performing Service.

The APS has the highest ethical standards.

APS Values—*Public Service Act 1999.*

The *State of the Service Report 1999–00* noted that the storage and management of personal information was a matter of ongoing concern for the Australian Public Service (APS). The Privacy Commissioner also made the point that agencies have not prepared themselves well enough to transfer information to non-APS agencies in the course of outsourcing agreements.

The growing use of contractors in outsourced service roles, and the imminent commencement of the *Privacy Amendment (Private Sector) Act 2000* (Privacy Act 2000), have highlighted these concerns.

Privacy and confidentiality are becoming increasingly important as agencies give private sector organisations access to more and more personal information, especially through outsourced arrangements. Online service delivery can often require the input of personal information and agencies must be sure that this information is secure and remains confidential.

As part of the 2000–01 State of the Service survey, Agency Heads were asked to describe what measures they had put in place to ensure that electronic data provided to contractors delivering services on their behalf complies with the Information Privacy Principles (IPPs), and to comment on any evaluation they had performed on these measures. Agencies were also asked to describe steps they had taken to ensure that their current arrangements would comply with the Privacy Act 2000 when it takes effect in December 2001.

The majority of agencies who responded stated that they included privacy and confidentiality clauses in contractual arrangements with external outsourced providers. Many also required APS staff, as well as external contractors, to sign Deeds of Confidentiality. Few agencies commented on the work of their Privacy Contact Officers (PCOs), which may indicate a generally low awareness of this role.

Privacy and confidentiality issues are not, however, only pertinent to the electronic transfer of data. Direct linkages can also be made to outsourced arrangements, accountability and contract management. The majority of agencies who have outsourced their human resources functions to private sector organisations now ensure that contracts include confidentiality clauses at the very minimum. The Privacy Commissioner has developed a number of templates for confidentiality clauses, covering a variety of situations, which are available on his website for agency use. Confidentiality and

privacy rights of individuals are obviously key factors to be taken into account in complying with the accountability obligations of the APS.

The APS is openly accountable for its actions, within the framework of Ministerial responsibility to the Government, the Parliament and the Australian public.

APS Values—*Public Service Act 1999.*

Security and privacy measures are also an important aspect of the Government Online initiative. The National Office of the Information Economy (NOIE) has released the *Government Online Progress Report December 2000*, and the Online Round 3 Survey results for March 2001, which both address these issues and are explained in more detail later in this chapter.

Electronic business, although convenient and a powerful tool, is associated with risks in the area of privacy and confidentiality. The Humphry *Review of the Whole of Government Information Technology Outsourcing Initiative* (discussed in detail in Part 7 of this Report) listed a number of possible reasons for confidentiality or security breaches in an outsourced information technology (IT) environment. These are:

- lack of understanding of legislative and regulatory privacy and security requirements in public sector;
- lack of technical capability and capacity;
- lack of appropriate certification and qualification of systems;
- ineffective monitoring of compliance; and
- unauthorised access or disclosure of confidential information.

THE AMENDED PRIVACY ACT

The *Privacy Act 1988* protects personal information in the possession of federal government departments and agencies. All public service organisations must comply with eleven IPPs originally set out in section 14 of the *Privacy Act 1988*. These principles relate to the collection, storage and disclosure of personal or confidential information.

The Privacy Act 2000, passed on 6 December 2000 and taking effect on 21 December 2001, amended the *Privacy Act 1988* which had focused on the Commonwealth public sector, credit providers and credit reporting agencies. The Privacy Act 2000 will cover most private sector organisations as well.

The Privacy Act 2000 contains ten National Privacy Principles (NPPs), in addition to the IPPs, that set out how private sector organisations can collect, use and disclose personal information. The NPPs are based on the *National Principles for the Fair Handling of Personal Information*, which were developed by the Privacy Commissioner in 1997–98 after extensive consultation with business and consumers. The guidelines describing the NPPs can be found on the Privacy Commissioner's website at www.privacy.gov.au.

The Privacy Act 2000 also specifies that, in an outsourced situation, the provider must comply with the privacy rules which govern the outsourcing organisation. It means that, where APS functions are

outsourced, the outsourced provider will in most cases come under the IPPs. The Privacy Act 2000 makes it clear that it is mandatory for a contractor working for a government department or agency to comply with the IPPs, and does not rely on a privacy clause in a standard agency contract as the *Privacy Act 1988* does. Exceptions are where agencies are governed by privacy requirements in their own Acts. The Australian Institute of Health and Welfare (AIHW) noted that the AIHW Act 1987 is more stringent than either the *Privacy Act 1988* or the Privacy Act 2000.

Thus, while the NPPs apply generally to private sector organisations, the private sector organisations undertaking work on behalf of APS agencies will in most circumstances be covered by the more stringent IPPs. This makes it especially important for public sector agencies to ensure that private sector providers understand compliance with the IPPs.

The Government has announced that it will review existing laws to determine whether there needs to be amendments to current privacy measures for employee records. The Attorney-General's Department and the Department of Employment, Workplace Relations and Small Business (DEWRSB) will be conducting this review in consultation with other key stakeholders.

THE PRIVACY AND GOVERNMENT REPORT

The *Privacy and Government Report*, prepared for the Office of the Federal Privacy Commissioner (OFPC) in July 2001, concluded that awareness of privacy responsibilities amongst Commonwealth officers is generally high, although the perceived impact of these changes is low.

The survey, on which the report was based, was responded to by 68 people, of which just under one third were PCOs.

Eighty-six per cent of PCOs were aware of the imminent changes to the Privacy Act, compared to 51% of non-PCOs. However, the researchers who prepared the survey stressed that, due to the low sample size, caution must be exercised when examining individual PCO and non-PCO results.

Of those that were aware of the changes, 68% of respondents thought that their agency was at least prepared for the effects. Twelve per cent did not expect that the changes would have any impact on government agencies. The greatest perceived impact of the privacy amendments was to government outsourcing contracts (81%).

Seventy-four per cent thought that privacy was very important to their agency, and 77% believed it very important to the clients of the agency. Respondents considered 'security of information' equally important to 'efficient service delivery'.

According to the survey, information provided to staff about privacy issues is usually in the form of a short course or seminar, or as written material such as an induction manual. This left 59% of respondents feeling that they had a high level of knowledge, while 42% believed they had some level of knowledge.

The report also found that 32% of respondents rated their agencies current level of understanding/implementation of the privacy principles as high. The rest of the respondents (63%) believed their agency had some level of knowledge and implementation.

Readers are asked to note the following clarification to information on page 105:

The Privacy Act 2000 provides that it is mandatory for an agency to provide in the contract with the outsourced provider, that the provider will comply with the IPP's. More information will be available in an Information Sheet on "Privacy Obligations for Commonwealth Contracts" to be issued shortly by the Office of the Federal Privacy Commissioner.

The Act also provides that outsourced providers can be held accountable under the Privacy Act (as well as under contract) for breaches of privacy obligations they commit.

It should be noted that the second full paragraph on page 105 relates specifically to private sector employment and has no relevance to public sector employment.

AGENCY PRIVACY PROCEDURES

Agencies were asked to respond to questions relating to their current privacy procedures and any changes they may have implemented in anticipation of the Privacy Act 2000. Agencies were also asked to describe any measures they had put in place to evaluate the system they implemented.

Many agencies noted that they would be reviewing their current practices and amending them so as to comply with the new privacy provisions.

Agencies that did not release personal information to contractors tended not to pay too much attention to the changes to the *Privacy Act 1988*. Although the Privacy Act 2000 amends private sector privacy and confidentiality procedures, Commonwealth departments and agencies must be aware of the requirements this places on contractors. While the Australian Industrial Registry does not provide electronic data on clients to contractors, for example, it did note that it is planning to review its current arrangements to ensure compliance with the Privacy Act 2000 in case there is a future decision to engage contractors.

Agencies may find that they will have to educate the contractors they hire about the IPPs and the privacy standards expected of the public service. A number of agencies already realise the need for adequate training on the amendments to the Privacy Act. DEWRSB offers privacy awareness training to contractors, while the Department of Finance and Administration includes privacy training in induction sessions for new staff.

Centrelink has gone to great efforts to ensure that staff are adequately trained in privacy procedures. Comprehensive training manuals detailing the kinds of behaviour considered acceptable and non-invasive are provided to all staff. Staff and contractor awareness of privacy and confidentiality legislation is also raised by means of privacy videos, training modules, screen savers, posters, job aids and reference updates. These products are available to staff via the Centrelink Intranet. Staff also have access to a privacy helpdesk.

The survey responses indicate that agencies often include clauses in contracts that require contractors and sub contractors to comply with the IPPs in the same way as Commonwealth public servants. Privacy and confidentiality clauses are written into standard contracts. Deeds of Confidentiality are also required by agencies that would be releasing personal information to private sector contractors.

Agency responses highlighted the fact that many agencies have no measures in place to monitor the effectiveness of their current privacy procedures. The paucity of evaluation is a general theme that has been noted in other chapters of this report. While many agencies are developing and implementing procedures aligned with the principles based approach adopted by the *Public Service Act 1999*, not enough are developing ways to monitor the effectiveness and efficiency of these procedures in the future.

Of the agencies that are reviewing their compliance with the Privacy Act 2000, internal audits are a common theme. The Department of Foreign Affairs and Trade conducted a privacy audit on its website last year, producing good results. The Department of Veterans' Affairs undertakes periodic internal reviews of privacy and participates in regular audits by the Australian National Audit Office (ANAO) and the OFPC. The Refugee Review Tribunal conducts an annual IT audit that also assesses data protection and security.

Other agencies are including a date for evaluation in their strategy for implementing the new measures. The National Native Title Tribunal will be undertaking an assessment in 2002, as will Screensound. The PSMPC is also proposing a privacy audit in the near future to ensure compliance with the new Privacy Act.

Although there is a high level of awareness of privacy issues in the APS, agencies need to raise the profile of their PCOs. The *Privacy and Government Report* noted that it is not generally understood that the term 'personal information' also includes 'opinions about people' and business titles, addresses and phone numbers. Increased use of PCOs could be of assistance in filling in such information gaps.

RECORD KEEPING

The Privacy Commissioner advised that there had been no complaints to, or investigations by, his office in relation to privacy issues in respect of outsourcing.

The storage and security of personal information, however, is more of a concern. IPP 4 states:

> A record-keeper who has possession or control of a record that contains personal information shall ensure:
>
> (a) that the record is protected, by such security safeguards as it is reasonable in the circumstances to take, against loss, against unauthorised access, use, modification or disclosure, and against other misuse; and
>
> (b) that if it is necessary for the record to be given to a person in connection with the provision of a service to the record-keeper, everything reasonably within the power of the record-keeper is done to prevent unauthorised use or disclosure of information contained in the record.

Audits undertaken on the processes surrounding outsourcing of human resources and information technology, where this involves the handling of personal information by an external service provider, have raised several areas of concern which breached IPP 4:

- physical security of external provider's premises and in relation to the access code to servers and help desk locations;
- storage of forms and back-up tapes containing personal information and the provision for return of these to agencies at the expiration of the contract;
- absence of security, privacy and confidentiality clauses in waste disposal contracts;
- failure of all employees and sub-contractors to complete a Deed of Undertaking in Relation to Personal Information;
- inadequate checks of computers prior to disposal to ensure that personal information on hard drives was removed; and
- little indication that contracts were being monitored.

IPP 4 embodies the principle that a person whose information is held by a government agency has a right to expect that the agency will hold it securely, and will ensure that access to the information is permitted only for legitimate purposes. The audits have shown that there are a number of aspects of such storage that warrant the attention of agencies.

More detailed guidelines, particularly in relation to the provision of personal information to external providers, are available on the Privacy Commissioner's website.

ONLINE SECURITY

The Government's Gatekeeper strategy is a framework for the implementation and management of digital signatures. Digital signatures provide authentication, confidentiality and integrity to online service delivery, regulatory returns and commercial transactions. The strategy incorporates an accreditation scheme that ensures that services and service providers comply with a range of government policies, including privacy and security.

The Government introduced a new information security system for intra-government communication in July 2001. The network, called FedLink, will allow secure transactions between participating Government agencies by using a gateway-to-gateway authentication and encryption process. Data will be transferred between FedLink users at a 'protected' level by sending information through encrypted tunnels.

Agencies are expected to comply with four privacy guidelines:

- Guideline 1—Openness;
- Guideline 2—Collection of personal information via a website;
- Guideline 3—Security;
- Guideline 4—Publishing personal information on a website.

Over 80% of agencies indicated in the NOIE March 2001 survey that they comply with Guidelines 1, 2 and 4. Seventy-four per cent of agencies said that they comply with Guideline 3 (security), although 97% expect to comply by the end of the year.

The Auditor-General tabled a performance audit in Parliament on 20 September 2001 reviewing Internet security within Commonwealth agencies. The ANAO concluded that, although agencies generally approach the management of Internet security in a way that is broadly consistent with Commonwealth policy directions, security levels across the audited agencies varied significantly from very good to very poor.

Of the ten agencies reviewed, six were found to manage websites containing significant vulnerabilities. The majority of agency websites audited were considered to have insufficient levels of Internet security, given the threat environment and vulnerabilities identified within a number of agency sites.

The report concluded that a number of agencies could improve performance in some key areas and that all agencies could improve performance in one or more aspects of managing Internet security.

The report also noted that, while some agencies had produced sufficient threat and risk assessments, these were not always administered effectively. A distinction was observed between the risk management approach of smaller agencies, with generally small, static websites, and larger agencies which use larger more complex sites. Only the larger agencies, particularly those that managed their Internet presence using in-house resources, had developed comprehensive security, disaster recovery or business continuity plans.

On a more positive note, nine of the ten agencies had implemented anti-virus products appropriately and, for the most part, the security of transactional sites was considered well managed.

CONCLUSION

The protection of sensitive information supplied to outsourced providers remains a major challenge for APS agencies. The Privacy Act 2000 provides a new legislative framework for the management of this information, yet responses to both the Privacy and Government Report and this year's State of the Service Report have suggested that a large number of APS employees, other than PCOs, may not be aware of the amendments to the Privacy Act and how it might affect them. Agencies need to do more work to prepare systems, staff and suppliers for the changes to the Act. The low profile of PCOs within agencies is also cause for concern.

The Privacy Commissioner remains apprehensive about the handling of personal information by outsourced providers and stresses that, with an increase in outsourcing across a range of services, APS employees must be confident that service providers are complying with the IPPs and the Privacy Act 2000. This may require public sector employees to educate their private sector contractors. It is therefore imperative that APS employees are sure of their own privacy obligations.

An issue that emerged from the State of the Service responses is that agencies need to invest more time in evaluating the privacy protection procedures they have put in place. Whether this is through internal audits, external audits or private sector audits, agencies must be sure that their privacy practices are of an acceptable standard and meet the needs of the particular organisation. The paucity of evaluation is again an issue in this context.

As indicated above, the Privacy Act 2000 comes into effect in December 2001. The State of the Service Report will look again at the operational experience of agencies in managing and evaluating of their responsibilities under the legislation once it is bedded down.

PERFORMANCE MANAGEMENT •

CAPABILITY DEVELOPMENT •

LEADERSHIP •

Recent years have seen agencies put increasing emphasis on the development and implementation of performance management systems.

As a generic term, performance management in the Australian Public Service (APS) covers a set of interrelated strategies designed to improve the performance of individuals and teams and, thereby, contribute to the achievement of agency goals. Effective performance management is a key element of the APS Values.

....

The APS focuses on achieving results and managing performance.

APS Values—*Public Service Act 1999.*

....

The Commissioner's Directions require agencies to put in place a fair and open performance management system that covers all employees, guides salary movement, is linked to organisational and business goals and the maintenance of the Values, and provides employees with a clear statement of performance expectations and an opportunity to comment on those expectations. The Government's Policy Parameters for Agreement Making in the APS also required performance management arrangements to guide salary movement. Within this broad framework, Agency Heads have had the flexibility to develop performance management systems that meet the particular needs of their organisations and employees.

Against this background, performance management has become a shared management priority across the Service. The Management Advisory Committee (MAC) conducted a comprehensive review of developments in this area as its first major project, released in September 2001. It drew on interviews with Chief Executive Officers (CEO) from a range of Commonwealth public sector and private sector organisations to identify key success factors in the design, implementation and review of performance management systems[1].

Performance management was the subject of other studies and inquiries through the year, notably:

• a study for the Institute of Public Administration Australia (IPAA) of performance management approaches in 14 APS agencies to identify good practice performance management principles and approaches from the collective experiences of the participating agencies;[2]

• analyses of APS certified agreements (CA) and remuneration trends[3,4] undertaken by the Public

[1] Management Advisory Committee, *Performance Management in the Australian Public Service*, Commonwealth of Australia Service, 2001

[2] People and Strategy and Institute of Public Administration (ACT Division), *Performance Management: A Guide to Good Practice*, August 2001.

[3] Department of Employment, Workplace Relations and Small Business, *APS SES Remuneration Survey*, May 2001.

[4] Department of Employment, Workplace Relations and Small Business, *APS non-SES Remuneration Survey*, October 2001.

Service and Merit Protection Commission (PSMPC) and the Department of Employment, Workplace Relations and Small Business (DEWRSB) respectively; and

- the Senate Finance and Public Administration References Committee inquiry into Employment Matters in the APS, the terms of reference for which included the extent to which performance pay is being incorporated into agency agreements, the disparity between agreements in performance pay, and the impact of such agreements on agency performance, accountability and transparency.[5]

These sources provide a good indication of progress with the implementation of performance management and of the key issues and challenges concerned.

STATE OF PROGRESS

Performance management arrangements are now widespread in the APS.

Their development continues to be evolutionary. Over the year, many agencies modified and extended their approaches, reflecting their dynamic operating environment and the maturity of their systems. In the interviews conducted for the MAC project, agencies pointed to a range of design changes including to rating scales, remuneration arrangements, links to business planning and priorities, and moderation and consultation processes. Such changes can also be seen in the modifications made to performance management provisions in agencies' second and third round certified agreements.

The need for performance management to be an evolutionary process was highlighted by both the MAC and IPAA studies. They also showed how agencies are at different stages in implementing performance management systems and have achieved different levels of maturity in this regard.

Also striking is the diversity of approaches adopted across the Service. It is clear from both studies that the more successful performance management approaches are those that are tailored to meet the cultural and business needs of individual organisations. What works well in a particular organisation depends on a range of environmental factors, including the nature of the agency's business, values and culture, history and demographics, CEO leadership, maturity of systems and the industrial climate. Both the MAC and IPAA studies concluded that the flexibility to tailor performance management systems to agency needs was important to achieving an effective result.

Notwithstanding this diversity, performance management developments across the Service share a number of common features and themes.

A strong consensus is apparent among Agency Heads that performance management is a fundamentally important tool that can assist agencies to improve organisational capability, to meet broad organisational objectives and to deliver high quality policy advice and program administration. IPAA found that the common themes in the stated goals of agencies' systems could be grouped as aligning and clarifying expectations, communication and feedback, learning and development, reward and recognition, improving performance and developing a performance culture. Performance management is also being increasingly used by agencies to drive broader cultural change.

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[5] Senate Finance and Public Administration References Committee, *Australian Public Service Employment Matters, First Report, Australian Workplace Agreements*, October 2000.

While differing in their detailed approach, agencies' performance management frameworks generally include the following features:

- performance objectives, linked with organisational business plans;
- periodic performance appraisal of individuals or teams against the achievements of these objectives;
- feedback from this appraisal;
- recognition or reward for performance, including performance pay and salary progression guided by performance;
- team and individual development to build capabilities;
- counselling, or other action to deal with poor performance;
- establishing a link between the development of capabilities with organisational and business planning; and
- evaluating the contribution of individual, team and organisational performance.

Organisations are recognising the need for organisational planning to cascade down and relate to individual performance agreements in an integrated way. The integration of people, planning and performance with organisational objectives is recognised as promoting individual and organisational capability and leading to improved performance overall. Importantly from the perspective of the Values and the Commissioner's Directions noted above, such integration also enables employees to have a better understanding of work expectations and performance standards, and how their work fits into broader organisational objectives.

Within such a framework, there has been a move by a number of agencies to use performance management systems to reinforce values and desired behaviours as well as outcomes. Striking the right balance between focusing on what is achieved and on how it is achieved is critical for managing behaviour through a values-based system. The extent to which agencies have in place such systems varies. The majority of the agencies surveyed considered values and the need to take into account both behavioural and task-oriented criteria in assessing performance to be important. Consistent, on-the-ground application of these facets is a challenge for a number of agencies.

Agencies formally provide for their performance management systems through a combination of corporate policy documents and their CAs and Australian Workplace Agreements (AWAs). The level of detail included in their agreements is one for the agencies themselves, but they generally specify the procedures for performance assessment and the links with remuneration. The PSMPC's analysis of CAs found, for example, that the majority of agreements (94%) have incorporated some form of performance review which in the main aims to clarify and provide feedback on performance expectations (94%). The analysis also showed that performance management provisions in CAs address poor performance (99%), identify learning needs (95%), determine eligibility for performance linked remuneration (100%) and are linked to organisational goals (92%) and the APS Values (75%).

A range of performance assessment approaches has been adopted by agencies and this has been an area subject to considerable refinement and adjustment on the basis of experience. The CA analysis found that 63% of agencies have made refinements or modifications to rating scales, performance descriptors and performance review processes as a result of feedback from managers and staff and operational experience from first to second round agreements.

The analysis showed that the simplest form of performance appraisal rating of satisfactory/unsatisfactory is still used by 18% of agencies. Many other agencies have adopted a rating scale that can differentiate between satisfactory and outstanding performance—five point rating scale (20%), four point rating scale (19%), three point rating scale (15%). The PSMPC, for example, has moved from a three point rating scale to a five point scale as a result of consultations with employees during its second round agreement process.

The majority of agencies have a planned approach to learning and development to encourage staff to improve their skills and capabilities through individual development plans or development components within performance agreements. As noted above, most CAs provide for plans to identify learning and development needs. A growing number (27%) were also found to make specific linkages to people management strategies such as corporate training strategies, workforce planning and succession planning. The Australian Customs Service, for example, has introduced a Workforce Capabilities Program that directly links workplace competencies to the performance management framework to provide information on job requirements and employees' development needs. By defining core competencies and job specific competencies, employees are able to gain a better understanding of their roles, responsibilities and skills capabilities through regular review.

In the past, the effectiveness of performance management approaches has been diluted by insufficient attention to securing the involvement of, and acceptance by, employees. Building credibility was identified by the MAC as a key success factor. Employees who contribute to the design of a performance management model and provide feedback during implementation that is subsequently acted upon, tend to have greater ownership of the system and are generally more supportive of its implementation and success. The IPAA study found that a wide range of unreconciled staff expectations about the performance management system may contribute to some dissatisfaction with the outcomes of systems, and that consultation with staff about objectives rather than design features can build greater acceptance of the approach. Similarly, the study found that staff cynicism about the effective application of the system and poor morale could distract employees from working towards the performance improvement goals of the agency. Agencies appear overall to be investing more in establishing foundations for a performance culture through a variety of approaches including training and coaching, moderation processes to ensure consistency, and seeking staff input in reviews and refinements.

Multi-source feedback is increasingly being used by agencies to collect perceptions about managers and team members' behaviours and the impact of those behaviours on work productivity. The CA analysis showed that 24% of agreements refer to upward feedback and 17% adopt a multi-source or 360 degree feedback process. More generally, it is being increasingly used by agencies as part of their leadership development programs and to improve communication and teamwork. Most, however, do not directly link pay to its outcomes. In a small number of cases, agencies include client and stakeholder feedback as part of performance review and development processes.

Virtually all agencies have procedures in place for initiating action to handle poor performance. These procedures are generally incorporated in agencies' CAs, covering the performance assessment processes, the length of the re-assessment period, arrangements for who should conduct any further assessment and implications for salary. It appears that many agencies have imported pre-existing

procedures for handling under-performance which were centrally provided through APS-wide enterprise agreements. Some refinement and tailoring to local circumstances has been achieved. However, while the extent of procedures varies between agreements, agencies have often retained and even increased what were seen to be quite complex provisions.

PERFORMANCE-BASED REMUNERATION

As noted above, performance-based remuneration is a common feature of agencies' performance management frameworks.

Virtually, all agencies link performance to remuneration in one way or another. The two most common approaches continue to be:

- a base salary increase for satisfactory or higher performance, usually in terms of progression through pay points or through a percentage increase; and
- a performance bonus, usually a one-off bonus payment in recognition of higher than satisfactory performance.

Frequently, a combination of these approaches is used. As noted in last year's Report, some confusion has arisen from the interchangeable use of terminology, the term performance pay has increasingly been used for either a performance bonus or for a system of proportional increases in base salary for higher than satisfactory performance. Systems that link the full base salary increase to the attainment of satisfactory performance can be seen as performance-based remuneration but are not generally seen as denoting a performance pay system.

Agencies are mostly using both CAs and AWAs to underpin their performance-based remuneration approaches. The latter are used particularly for Senior Executive Service (SES) and Executive Level 2 employees and quite frequently reflect different approaches than for other employees covered by the agency's CA.

The most common approach to performance-linked remuneration for non-SES staff is salary advancement through multiple pay points within a classification or broadband of classifications. This was found in 88% of CAs—either by salary advancement (70%) or in combination with performance bonuses (18%). Eight agreements (10%) provided a percentage increase of base salary for effective and higher performance.

Allied with the freeing up of classification arrangements and the move to performance-based remuneration, there has been a noticeable trend away from semi-automatic increment payments and systems with agencies developing performance criteria and advancement arrangements particularly suited to their organisation. Only eight percent of agencies have retained the old assessment criteria—efficiency, diligence and attendance for duty—for annual salary increments.

Twenty-five percent of agency CAs provided a performance bonus as a method to reward employees whose performance is rated higher than effective—either through a fixed amount or as a percentage increase of base salary. The size of performance bonuses provided for in CAs generally ranged from a fixed amount of between $500–$2000 or a percentage increase in base salary of between 1–15% (most commonly being in the 1–5% range). Only 2% of agreements were found to use performance bonuses as the sole means of rewarding non-SES employees for effective or higher performance.

Twelve agencies (14%) had addressed the issue of advancement of employees at the top of a salary range by introducing a notional extra pay point or providing an annual bonus payment.

In addition to these individual performance arrangements, 34 (40%) CAs provided additional productivity increases in the form of bonus payments at certification or during the life of the agreement. Wage increases are linked to the achievement of satisfactory performance by six agencies (7%) or are contingent on implementing new initiatives or fulfilling conditions, such as gaining employees' commitment to the implementation of a performance management scheme in other agencies.

The above figures are taken from the analysis of CAs conducted by the PSMPC. They are supported by the results of the recently released National Institute of Labour Studies (NILS) survey of agreement making undertaken for DEWRSB which found that:

- in most agencies (85%), individuals progress through a salary scale on the basis of satisfactory performance assessment;
- 57% of agencies incorporate an ability for individuals to obtain higher pay increases than others or additional payments on the basis of performance—through a combination of any one or more of the following—accelerated salary advancement (42%), additional bonus payments (29%) and higher percentage pay increases (17%).

While most non-SES staff are covered by CAs, a growing number have their terms and conditions set by AWAs. The 2001 Survey of Agreement Making, for example, showed that a significant number of agencies were using performance bonuses in non-SES AWAs (46%). The APS non-SES Remuneration Survey October 2001 also demonstrated that performance bonuses are more likely to apply to these AWA employees (13% of non-SES employees surveyed on a CA and 70% of those on an AWA were eligible to receive a bonus). In addition the average bonus payments received by AWA employees were higher than those paid to employees on CAs.

The survey also found that the vast majority of performance pay for non-SES staff is capped. Most performance payments are made in the form of a lump sum, with a lesser amount made as an increase in base salary. Very few agencies provide performance pay as a superannuation increase or non-cash benefit.

A range of different approaches has also been taken to performance-based remuneration for SES employees implemented through AWAs.

Performance bonuses are far more common for this group. The DEWRSB 2000 SES Remuneration survey found that 84% of APS agencies provided performance bonuses for their SES and that 80% of eligible SES employees actually received a bonus payment. Payments ranged up 32% of base salary, averaging around 5% of Total Remuneration Package (TRP).

Overall, the level of incentive payment made to SES employees has increased since 1999. The increase is mainly seen for SES Band 3 employees (an increase of 59.5% since 1999 in median incentive compared to increases of 1.1% and 6.4% for Band 1 and Band 2 employees respectively). Incentive payments as a proportion of base salary and of TRP increased for Band 2 and Band 3 employees, while decreasing slightly for Band 1 employees. Such payments were found to range from 6.2% to 10.4% of base salary and from 4.5% to 7.8% of TRP.

Incentive payments for SES were still found to be significantly below those for their private sector counterparts which averaged 30% of base salary and 20% of TRP.

OTHER REWARDS AND RECOGNITION STRATEGIES

Many organisations are recognising the benefits of giving rewards and recognition—both monetary and non-monetary—more immediately than is possible through an annual performance cycle. A small, but growing, number of agencies are providing for such approaches in their CAs, with the CA analysis noting that 15% of agreements provided for such rewards. The types of rewards involved include both formal awards (for example, Australian Honours and Awards including the Public Service Medal, Australia Day awards sponsored by the National Australia Day Council, Agency Head Commendations and Employee of the Month) and more informal rewards (theatre tickets, meal vouchers, development opportunities, timely praise, small presentations, written comments of appreciation by managers, provision of work/home balance programs that may include time off in lieu and home-based work).

A small number of agencies have introduced team-based incentives. These initiatives have not all been successful with some agencies. The PSMPC, for example, subsequently moved away from this approach following representations from staff.

A fairly common theme emerging from the Agency Head interviews, conducted as part of the MAC project, was the need to encourage and reward collaborative team work, although there were concerns about the practicality of team-based bonus arrangements. A variety of approaches has been adopted, including point in time rewards for team achievements. Another approach has been to incorporate demonstrated capacity for team work as a criteria in all performance agreements and assessments—the Productivity Commission has taken this approach.

ISSUES AND CHALLENGES

Although significant progress has been made with the more systematic application of performance management approaches, some major challenges remain. The MAC study identified credibility and staff engagement as two of these challenges.

In a number of agencies, there appears to be a gap which agencies need to address between the supportive rhetoric of senior management, including the values espoused in corporate documents, and the reality of on-the-ground application and behaviours.

An indication of how the reality is seen by staff is provided by the values surveys run by agencies for the State of the Service Report. As noted above, caution needs to be exercised in drawing conclusions from the results because of the small sample size. They do, however, illustrate a broader issue. In response to the statement, 'my performance rewards are fair compared to other staff across the agency', 40% agreed that their rewards were fair whereas 24% of respondents disagreed with the statement and the remainder neither agreed nor disagreed. The survey revealed that employees in large agencies (those with employee numbers of 3000 or greater) were less likely to agree with this statement (36%) than those in medium (42%) or small (53%) agencies.

As highlighted by MAC, the credibility of systems is an issue on which agencies need to work. Factors it saw as critical for employee perceptions about system fairness were consistency in application, systematic training of all players, review of managers' capabilities in this area and an effective moderation and review process to facilitate greater consistency. Also important will be the quality and meaningfulness of performance measures and how they are seen to link with organisational priorities.

Poor people management practices more generally can also pose a major challenge to the effective implementation of performance management systems as shown by the IPAA study. It found that managers continue to be rewarded for their efforts in achieving results and for focusing on the task aspects of their role rather than on good people management practice, and that this was driving an attitude that people management was an add-on to the real job. Insufficient allocation was given to skills development and support for people managers. Building capacity in giving and receiving feedback and providing coaching and mentoring is an issue that needs more attention by agencies. Many agencies have been making an increased investment in this area, but an overall increase in effort will be vital in ensuring the effectiveness and acceptance of performance management systems consistent with the APS Values.

A further area for continued attention by agencies is improving the integration of the various elements of their performance framework. While most formally link their business planning and priority setting to individual performance expectations and assessment, the degree to which this occurs in a practical, on-the-ground sense is less well developed.

The management of underperformance is a key area where agencies are working to close the rhetoric/reality gap. The interviews conducted for MAC evidenced support from CEOs for dealing with poor performance and, as noted earlier, procedures for this are a core element in most agencies' performance management systems. Yet the prevailing view appears to be that, in general, the APS does not do well on this front. Staff surveys in a number of agencies highlight a perception that little is done or achieved in dealing with poor performers. The MAC review concluded that failure to address underperformance in the workplace is one of the persistent factors that could undermine the credibility of, and produce cynicism about, a performance management system.

One factor seen as impeding action is the overly complex and onerous agency procedures that continue to apply and act as a disincentive for managers to initiate action. This is an area that agencies should be looking at as part of their agreement-making responsibilities. The active support, commitment and follow through of the senior leadership team will be critical for the effective and systematic handling of underperformance. Also critical will be adequately equipping managers with the skills and support to provide honest feedback and with better guidance on how to apply agencies' procedures when dealing with such cases.

Some agencies are tackling these issues through enhanced training and making managers' demonstrated capacity to apply performance management in their area a central part of their own performance agreement and assessment. For example, to improve the performance and strengthen the role of management, the Department of Health and Aged Care uses a matrix of accountabilities in three broad dimensions—business, resources and people in conjunction with the department's performance management scheme.

There also remain a number of issues to be worked through in relation to performance-linked remuneration.

The MAC study noted the diversity in the approaches to performance-based remuneration and rewards being implemented by APS agencies, and also differences in views on the usefulness of various approaches including performance incentives. Proponents of pay incentives argue that performance bonuses are a means to motivate and reward high performance. The contrary view is that performance pay is not a motivator and in fact can undermine team solidarity. As stressed earlier, the culture, business needs and operating environments will also influence what approach is appropriate for particular agencies.

The Senate Committee on APS Employment Matters in its first report on the use of AWAs recommended against the use of performance bonuses. The Committee considered that, in the majority of public service activities, individual performance cannot be assessed with sufficient rigour and fairness to warrant linkage to an individual reward. It recommended that individual bonus payments be discontinued but, failing that, they be made for outstanding individual or team service, not for achieving the minimum competent performance expected. It also recommended that any bonuses paid be capped.

The Government response, tabled in the Senate on 21 June 2001, disagreed with these recommendations, stressing the importance of agency flexibility and performance pay in attracting, retaining and rewarding high performing staff.

As outlined above, both the MAC and IPAA studies found strong support for a flexible approach which enabled agencies to tailor their performance-linked remuneration systems, including the possible use of bonus payments, to their agencies' business needs and culture. Important to the workability of any performance pay approach are the robustness of links with organisational outcomes and priorities, processes to ensure acceptance and credibility of the arrangements so that they are seen as fair, and strong skills in providing performance assessment. Continued improvement is required on these fronts. The application of performance pay and remuneration trends and practices more generally should be kept under review to ensure ongoing consistency with the Values.

As noted earlier, some CEOs expressed interest in developing strategies to reward teams for working collaboratively to achieve goals and share resources and information rather than reward individuals competing to achieve work targets. Achieving a balance in recognition and reward between individual and group performance is an area identified as warranting further examination.

A further issue for continuing review is the appropriate level of reporting of outcomes from performance assessment and pay processes. An adequate level of reporting is important for meeting broader accountability requirements. The challenge is how to achieve this without infringing on the privacy and confidentiality of individuals and the flexibility and workability of performance management arrangements.

Issues of transparency and accountability with respect to performance-linked remuneration have received increased attention. Through the year they were raised in the Senate Finance and Public Administration References Committee inquiry into APS employment matters. In its first report on the use of AWAs in the APS (November 2000), the Committee recommended complete disclosure of all

payments in annual reports, accepting the grouping of information where individuals' payments could be identified. The Government agreed to this recommendation in such a way that the privacy of individuals is maintained. The *Requirements for Departmental Annual Reports* were subsequently amended to require reports to present information on performance pay, including for each classification level the number of employees receiving performance pay, the aggregate amount of such payments and the average bonus payment and range of payments, as well as the aggregate bonus payment for the agency as a whole. Lesser disaggregation would be required where payments to individuals could otherwise be identified.

The performance of the Australian Public Service (APS) depends on the capability of its staff. Building organisational capability is one of the most significant challenges currently facing agencies and their leaders.

To deliver effective and high quality outcomes in a changing work environment that is increasingly contestable requires agencies to identify and articulate their future skills needs and to put in place tailored workforce plans to meet those needs. The changing nature of management as functions are market tested and outsourced, the development of alliances with the private sector, new methods and higher expectations for service delivery, and the greater focus on results all require an increasingly skilled and flexible workforce that can respond effectively to the needs of government.

> The Australian Public Service is responsive to the Government in providing frank,
> honest, comprehensive, accurate and timely advice and in implementing
> the Government's policies and programs.
>
> APS Values—*Public Service Act 1999.*

PRESSURE POINTS

For this year's State of the Service Report, agencies were asked to comment on the major pressure points in the current employment framework which impact on their ability to acquire and maintain capabilities. Four key areas of recruitment, retention, remuneration and retirement were highlighted by agencies.

RECRUITMENT

Many agencies, particularly those employing specialist staff, reported a challenge in the recruitment of staff with the appropriate skills, knowledge and attributes to meet capability requirements. The Treasury mentioned a particular difficulty recruiting skilled staff at the Executive Level 1 classification, and the Department of Health and Aged Care (DHAC) noted the difficulty of attracting economists, especially health economists. The Aboriginal and Torres Strait Islander Commission (ATSIC) had difficulty recruiting skilled Indigenous staff. The Australian Communications Authority, Screensound Australia, the Commonwealth Grants Commission, the Office of Asset Sales and Commercial Support (OASACS), the Productivity Commission and a number of other agencies all mentioned difficulty in recruiting employees with qualifications specific to their individual needs.

The recruitment of specialist information technology (IT) staff with appropriate skills remains a particular problem for some agencies. This may be linked to the current outsourcing of IT functions as staff take other jobs prior to the function being outsourced.

There was less concern about attracting quality graduates, with the majority of agencies indicating success in their graduate recruitment. Clearly, agencies are looking to graduate recruitment as a key strategy to build skills and capabilities over the long term. DHAC, for example, is planning to increase its current intake of graduates from 50 to around 75–80 in future years.

RETENTION

A large number of agencies commented on the difficulty in retaining staff at particular levels or with particular expertise. The Australian Radiation Protection and Nuclear Safety Agency reported problems with the retention of corporate and scientific knowledge, while the Department of Veterans' Affairs (DVA) was concerned about the retention of Public Affairs Officers. An analysis of agency returns suggests that retention is more of an issue in smaller specialist agencies where it is more difficult to provide a career structure, and where there may be less ability to match market remuneration levels. Retention seems to be a particular concern for these smaller agencies at middle to senior levels with such agencies reporting that their staff are actively targeted both by other agencies and the private sector.

Larger agencies also reported difficulties in retaining people at some levels and in some specialisations. Agriculture, Fisheries and Forestry—Australia commented that, while its recruitment of graduates was effective, several options were being considered to increase the retention of graduates for longer periods of time. These included alternative development programs, specific projects/taskforce work and access to performance and retention bonuses. Large agencies were less likely, however, to consider the issue critical due to their size and resultant ability to deploy other staff to areas of need.

A number of agencies reported that their turnover was high compared to the rest of the APS and even their industry.

REMUNERATION

Many agencies noted that competitive remuneration was a major issue affecting their ability to attract, recruit and retain specialist, skilled or key staff. Associated with this issue, a number of agencies reported difficulty obtaining specific information about the external environment on such factors as current market rates for salaries or the availability and location of specific skills.

The use of Australian Workplace Agreements for certain individuals with desired skills was the main way that agencies were endeavouring to address these issues. Some smaller agencies stated that, while their ability to remunerate was limited by their size and other funding pressures, the more flexible employment framework had, to this point, enabled them to develop workable solutions.

RETIREMENT

The State of the Service Report for 1999–00 discussed the possible loss of experienced staff as the 'baby boomers' reach the age of 55 years but noted that the figures for the Senior Executive Service (SES) suggest that employees may be staying longer in the Service, particularly at the most senior levels. Comparable figures for this year are discussed in the chapter on leadership.

Regardless of these figures, the majority of agencies mentioned their concern about the potential for a large number of their long serving staff both at SES and non-SES levels to retire within the next three to five years. While there are only 13.7% of APS staff in the age cohort 50–54, many agencies are developing workforce planning frameworks to prepare for this possibility with recruitment, learning and development and succession planning as prominent strategies.

The Australian Bureau of Statistics (ABS), for example, has identified that some 173 staff may choose to retire in the next five years. This includes 22% of its Executive Level 2 cohort and 36% of its SES employees.

In this context, the APS Management Advisory Committee established a sub-committee to investigate the challenge of building organisational capability. The hypotheses to be tested include the possible departure in the near future of a large group of staff approaching the age of 55 which may affect corporate knowledge. The sub-committee will report during 2001–02.

WORKFORCE PLANNING

The *State of the Service Report 1999–00* noted that the use of strategic workforce planning techniques using demographic data and labour market scenarios still appeared to be in its preliminary stages in the APS.[6]

In March 2001, the Australian National Audit Office (ANAO) released a better practice guide on workforce planning titled *Building the Workforce of the Future*. The ANAO guide identified six key elements to successful workforce planning and listed considerations to be taken into account under each element:

- **consider the broader context**—workforce planning should not be undertaken in isolation from other processes but linked to an agency's business planning and governance framework and broader societal demographics;
- **identify future business directions and business needs**—a clear understanding of an agency's business at both a strategic and operational level enables decisions to be made about critical capabilities and how to obtain and maintain them;
- **know the current workforce**—agencies need to have a mechanism in place to obtain quantitative and qualitative information about the demographics and capabilities of their current workforce as a basis for decision-making;
- **identify and address workforce issues**—knowledge of issues and gaps to be addressed enables agencies to deliver business outputs and outcomes more effectively and efficiently and to provide a guide to where strategic human resources (HR) interventions can be best targeted;
- **provide a sound basis for effective implementation**—workforce planning is most effective when it is treated as a continuous process in which systems and processes are aligned and responsibility is shared at all levels from Agency Head to line managers; and
- **monitor and evaluate**—workforce planning activities require monitoring and reporting to track progress and identify new, possibly unexpected, developments as they occur.

[6] *State of the Service Report 1999–00*, p.147.

This year, agencies were asked to describe any progress they had made in the development and application of workforce planning frameworks and whether they were aware of and used the ANAO guide. Responses to these questions indicate that the majority of agencies are aware of the ANAO's publication and are starting to use aspects of it to address individual agency priorities.

Agency responses reflected the fact that their thinking about workforce planning has progressed both in terms of acceptance and sophistication over the past year. A number of agencies provided details of comprehensive capability plans linked directly to other components of their business. Links between business planning processes, people management strategies, learning and development plans, human resource management information systems, and certified agreements were common.

Those agencies with less comprehensive workforce planning strategies indicated that they were implementing particular aspects of the framework to address their specific needs as a first stage. The Department of the Prime Minister and Cabinet stated that it was considering using the ANAO guide but noted that it was important to have accurate and reliable workforce information prior to embarking on any formal workforce planning initiatives. Some agencies stated that they had identified a small number of core capabilities that were critical to agency performance. Only three agencies indicated either that they did not use workforce planning or that they were unaware of the guide.

DHAC is an example of an agency taking an integrated approach to workforce planning. Its integrated workforce planning framework has been incorporated into its certified agreement for 2000–02. A key purpose of the framework is to emphasise that people management policies, strategies and actions need to adopt a longer-term perspective and be based on a more systematic analysis of:

• the Department's external and internal environment;
• the skills, knowledge and abilities required to perform the work of the Department, both currently and into the future; and
• the organisational structures, systems and processes that are needed to attract, retain and develop people with these skills and attributes.

The Department's Human Resource Management Committee applies the Framework in advising on people management priorities, including the Department's age profile, the role of graduate recruitment and career development, employment of Aboriginal and Torres Strait Islander staff, and investment in learning and development.

The Attorney-General's Department has undertaken an assessment of its capability and projected strategic direction over the next 3–5 years and is using these projections to underpin recruitment, job design, learning and development and all other elements of an integrated approach to people management.

Agencies noted that they use a range of strategies and frameworks to ensure that there are clear linkages between organisational business goals and learning and development strategies. The Investors in People Standard, for example, establishes a planning cycle under which organisations commit to developing their employees to achieve business objectives, and review and plan the learning and development needs of employees against the capabilities required to deliver those objectives. Twelve agencies are now using this Standard.

BUILDING SPECIFIC CAPABILITIES

A number of specific capability areas have been a particular focus of attention over 2000–01.

STRATEGIC HUMAN RESOURCE MANAGEMENT

Increasingly agencies are noting the importance of strategic HR management and the importance of specialist knowledge in this area in aligning people and their skills with achieving business objectives.

During 2000–01, the Public Service and Merit Protection Commission (PSMPC) developed a Human Resources Capability Model to define the skills required by highly effective HR people in the APS and to delineate the core capabilities required by this group in building organisational capability. The impetus for this work was the findings of the 1999 People Benchmarking Study that, amongst other things, identified the need to build the skills of HR people in the Service.

The model sets out six capability clusters: knowledge, credibility, alignment, performance, relationships and innovation, with behavioural indicators for each cluster.

Since its launch in February 2001, agencies have increasingly used the Model as a focus for the development needs of HR staff, and to define the skills required when selecting HR staff. It has also been used as a basis for service level agreements between the HR function and business areas, as a guide to business planning for HR functions and as a basis for the construction of performance agreements for HR staff.

The PSMPC has also developed a 360° feedback tool to support the HR Capability Model, to allow HR staff to gain feedback on their own capabilities and to identify where further development is needed.

CONTRACT MANAGEMENT

The real need in the increasingly outsourced environment to address contract management issues continued to be a focus of attention during the year.

The Joint Committee of Public Accounts and Audit published a report in November 2000 on *Contract Management in the Australian Public Service* as a follow up to its 1999 report on *Australian Government Procurement*. The report commented on the capability of APS contract management personnel and systems, and considered, in particular, the technical and legal skills, corporate memory, centralised purchasing units and the training approaches adopted by agencies. The report concluded that there should be continuing focus on training and skills development and, in particular, the development of legal skills and awareness.

In February 2001, the ANAO released a better practice guide on contract management which focused on the process for ensuring reliable delivery of goods or services by external suppliers.

In their State of the Service responses, agencies were asked to comment on any issues they had faced in the development or retention of contract management skills and any strategies they have put in place to address these concerns.

Around 15% of agencies have identified contract management as a critical corporate priority and these agencies have developed, or are in the process of developing, an integrated strategy to ensure that the necessary skills are available to them on an ongoing basis. An equal number of agencies, however, have not taken any steps in relation to contract management to date, usually stating that there is a minimal requirement for this skill in house or that the agency was too small in size for dedicated in-house skills to be viable.

A nationally accredited Certificate IV level program in contract management based on Public Services Training Package competencies has been developed for the Department of Employment, Workplace Relations and Small Business (DEWRSB). The program, which can be delivered on line to staff in all locations, is built on modules covering outcomes and outputs; the regulatory environment; service delivery strategy; the legal framework and financial management and control.

The Departments of Education, Training and Youth Affairs (DETYA), Immigration and Multicultural Affairs, and the Department of Health and Aged Care (DHAC), the Australian Electoral Commission (AEC), Australian Greenhouse Office and OASACS each offer formal programs in project or contract management. The AEC has also established an intranet-based program which supports its contract management processes. The ABS and the Department of Family and Community Services (FACS) also have this type of support.

An increasing number of agencies have established dedicated units or positions that have corporate responsibility for providing advice on all aspects of contracting. In many cases these positions or units provide a central repository of standard contracts or contract clauses.

The National Library of Australia has addressed the issue of contract management skills at several levels and is an example of what can be undertaken by a small agency. A dedicated Executive Level 1 position was created during 2001 to bring together the four related disciplines of tender, contract, risk and project management. A new contract management system was established that recorded contract details, prompting staff to undertake key activities from the time that a Request For Tender or contract identification number is sought. In addition, the Library undertook a series of contract management workshops during April–May 2001, covering the tendering process and documentation and highlighting the need for consistency with core procurement principles and for monitoring the performance of contractors.

The PSMPC provides APS senior executives with workshops on the management and negotiation of contracts. The emphasis is on an upfront strategic analysis of outcomes required, ensuring the process of contracting is correct and recognising the importance of building and maintaining mutually beneficial relationships with contractors. During 2000–01, 36 senior executives attended the PSMPC's workshops.

It also provides non-SES staff with the opportunity to participate in workshops on planning and managing contractual issues. The focus of these particular workshops is on the Commonwealth procurement context, planning and managing tender processes, strategies to develop and negotiate contracts, and a systematic approach to contract management including handling contract amendments and managing disputes. During 2000–01, 186 staff attended from across the APS.

POLICY ADVICE

The provision of high quality public interest policy advice is an increasing focus of attention in the APS as more of the operational aspects of its work are outsourced. The Australian Customs Service (ACS), DETYA, DHAC, FACS and DVA in particular identified policy analysis and advisory skills as critical corporate priorities.

The ANAO is currently conducting a review of the quality of specific aspects of policy advice and the ways in which agencies assure themselves that the policy advice provided is the best available. The review will examine arrangements for planning and monitoring policy advice and reporting against performance information. It will also look at consultation, information-gathering, quality control and review, and linkages with business planning processes.

Three departments are taking part in the audit—DEWRSB, DETYA and FACS. The application of quality management mechanisms is being examined in six case studies recommended by the departments.

The ANAO acknowledges that assessing policy advice is a matter for judgement and therefore difficult to measure, but it is aiming to highlight useful techniques and better practice ideas. It is expecting to table the review report in late October 2001.

The PSMPC holds workshops to enable senior executives who have policy advisory responsibilities to explore a Quality in Policy model and to consider its application for their own organisations. During 2000–01, 18 senior executives attended the workshop.

It also provides workshops for non-SES staff on effective policy formulation and the provision of policy advice at both an introductory and advanced level. The introductory workshops focus on the development of research, analytical and policy management skills and advanced workshops provide APS staff who have some experience in policy work with an opportunity to update and enhance their skills. The focus is on good practice trends and developments, outcome performance measures, and the essential attributes of effective policy advisers. During 2000–01, the workshops were attended by 339 staff from across the APS.

Seven agencies indicated that they have a formal development program in place to develop policy skills in-house. In some cases, these programs are based on the PSMPC policy modules that have been adapted for their specific needs. A third of agencies, however, responded that they either had no need for these skills or had not initiated any activity in this regard.

VOCATIONAL EDUCATION AND TRAINING (VET)

Agencies are continuing to show a growing interest in developing capabilities through a more structured approach to vocational training.

Last year's State of the Service Report noted the endorsement in November 1999 of the Public Services Training Package (PSTP). PSTP was formally launched in October 2000 and represents agreement by the Commonwealth, State and Territory Public Service Commissioners on the skills needed by effective public servants. The training package allows agencies and individuals to recognise existing skills, to structure learning from entry-level to post-graduate level, and to link workplace learning to 22 nationally accredited qualifications.

During the year, a consortium coordinated by the PSMPC, led by the Department of Defence and comprising the Australian Taxation Office, the ACS, the Australian Federal Police, Centrelink, ATSIC and Comcare (overall more than 50% of the APS) signed an agreement with Open Learning Australia. The agreement is to develop VET materials. These materials include both generalist competencies and competencies from the specialist areas of policy development and management—areas identified as skill priorities by agencies in the training package development process. The VET materials are to support both distance and face-to-face delivery. In time, it is also intended to make the VET materials available online.

The broad role played by the Australian National Training Authority (ANTA) in the national training agenda also has implications for all APS agencies utilising a VET approach. This year ANTA endorsed a new Australian Quality Training Framework (AQTF) which refines and strengthens the standards for Registered Training Organisations (RTO) and establishes consistent national auditing practices and standards.

Specifically, the AQTF introduces:

- more explicit quality assurance requirements for RTOs, including minimum competency requirements for those delivering and assessing VET, strengthened requirements for the development of training package learning strategies, strengthened assessment requirements including validation of assessment, and the provision for recognition of prior learning;
- a single, national set of requirements for registration as an RTO, with a common registration period of five years; and
- agreed national standards for the audit of RTOs, including the introduction of a risk management approach to audit, arrangements for the audit of RTOs across multiple sites and annual self-assessment.

These changes will help ensure that APS staff experience consistent treatment from the learning and development opportunities offered by their agency.

ANTA also chairs an Australian Indigenous Training Advisory Council which includes membership from the ATSIC, DETYA, and DEWRSB. The Council's role is to develop training infrastructure for Indigenous people. One of the priority tasks is to drive the implementation of *Partners in a Learning Culture*, a five-year strategy for Indigenous training.

The Department of Defence has been one of the drivers of the PSTP across the Australian Public Service. Defence education and training has been closely aligned with the National Training Framework and the department is implementing the training package nationally. The Defence model is based on competency profiling of individual workplaces and their articulation to Branch, Division and Agency competency profiles. These in turn are linked, where possible, to qualifications from the PSTP offered by Open Learning Australia.

The ACS also has aligned selection, development and performance management around the PSTP core competencies. People in Customs are assessed against the same capabilities whether undergoing recruitment, learning and development or performance management appraisals. Competencies form the basis of a formal learning contract in performance agreements. Any gaps in competency ability in turn indicate learning and development requirements.

Trainees and graduates are trained in six core competencies for half of their 12-month probationary period, at the end of which they receive a Certificate III or IV qualification in Government that is recognised nationally. Depending on where the trainee is to be placed in Customs, they are then trained in job specific competencies.

THE CONTINUING CAPABILITY CHALLENGE

In the ongoing search for higher performance in the APS, capability development is obviously crucial. Agencies are recognising the need for a comprehensive and integrated approach to obtaining and developing the capabilities required to meet the challenge of a changing environment with shifting skill needs. In particular, workforce planning needs to link an assessment of the capabilities required for the future against those that are currently available, the identification of specific needs, and learning and development strategies to meet those needs. Responses for State of the Service reporting show that agencies are increasingly aware of the important role that capability development must play in their strategic planning.

The need to embed a leadership culture of responsiveness and high performance which is results-orientated, while preserving the impartial, professional and ethical standards needed in an apolitical public service, has remained a central theme for the Australian Public Service (APS) during 2000–01.

The APS has leadership of the highest quality.

APS Values—*Public Service Act 1999.*

Last year's State of the Service Report noted that the challenge for the APS was to develop the full potential of the current leadership group while working to ensure a pool of potential leaders from which tomorrow's senior executives can be selected. Having the right people ready to assume new responsibilities at the right time requires the integration of all leadership development activities into a system that provides coordinated momentum for their growth and development.

In this context, agencies were asked to describe any initiatives planned or implemented to promote effective leadership at both Senior Executive Service (SES) and non-SES levels.

DEMOGRAPHY OF THE LEADERSHIP GROUP

The majority of agencies expressed concern about the potential for a large number of their staff to retire in the next three to five years. Last year's Report indicated that, while this continued to be a concern in relation to the SES, there was an indication from SES demographics that earlier retirement may have been less than anticipated.

Figures taken from the PSMPC's Senior Executive Management System (SEMS) database indicate that the trends identified in last year's Report appear to be continuing, with the representation of SES employees aged 55 years and over continuing to increase. In June 1996 this figure was 10.2% of the total SES, in June 2000 the figure was 12.7%; and it rose to 15.1% in June 2001. This suggests that members of the SES are increasingly remaining in the APS past age 55 despite the advantages of resignation just prior to this age for many people belonging to the Commonwealth Superannuation Scheme.

In June 2001, 44.7% of the SES was aged 50 years or older. This was comprised of 40.4% of Band 1, 56% of Band 2 and 60% of Band 3 staff. While the potential for loss due to age related retirement or resignation is still an issue, the 33% of Band 1 staff aged 44 years or younger forms a pool of talent from which future leaders might be selected, meaning that this is less of an issue than some might fear.

Figure 11 shows the age distribution of the SES by Bands as at June 2001.

Data source for these graphs is the PSMPC's Senior Executive Management System (SEMS). SES data from this source differs slightly from the APS Employment Database (APSED), which is the source of all other statistics in this Report. APSED includes a number of employees, mainly in professional and scientific areas, who are not SES but who are equivalent classification level. It also includes inoperatives and employees on temporary movement to the SES.

FIGURE 11: SES AGE BY BAND

Senior Executive Management System
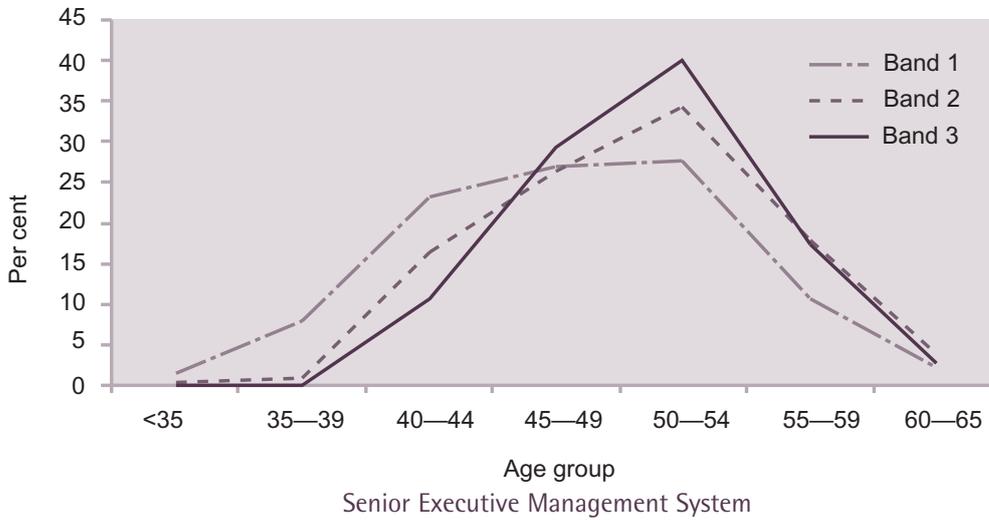
A breakdown into Bands shows that the median age of SES Band 1 employees across the APS increased slightly from 47 years in June 2000 to 48 years in June 2001. The median age of SES Band 2 increased from 50 to 54 years in the same time period while that of SES Band 3 remained the same at 51 years.

As these figures indicate, the most significant change has been at SES Band 2 level. While age patterns for Bands 1 and 3 remained almost static between June 2000 and June 2001, there was a significant decline from 13 to three in the number of Band 2 officers aged between 35 and 39 years and an increase from 40 to 57 in the numbers aged between 55 and 59 years. This is illustrated in Figure 12.

FIGURE 12: AGE OF SES BAND 2 AS AT 30 JUNE 2000 AND 2001

Senior Executive Management System
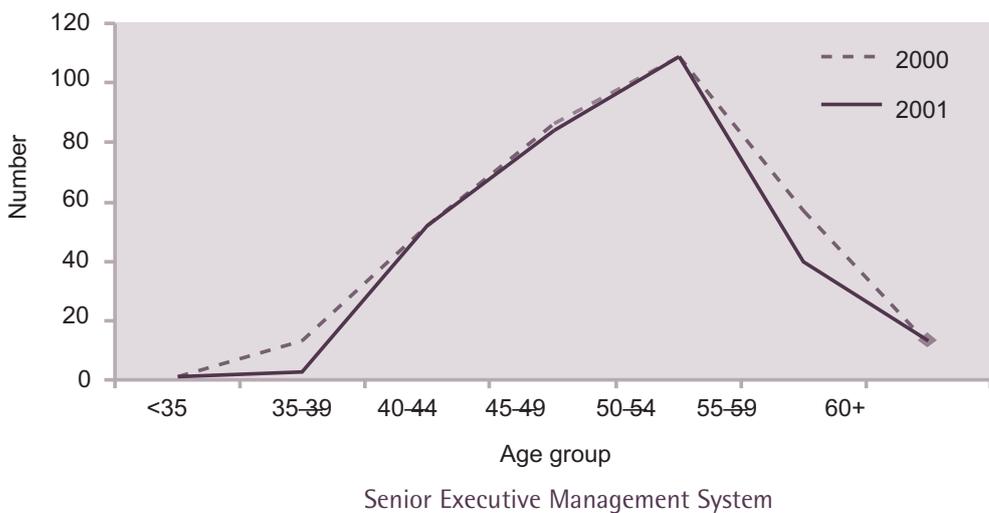
Any speculation on the reasons for these developments, including that the change was most manifest in Band 2 employees during the reporting period, has to take account of the fact that the SES is a relatively small group where individual decisions can have a significant effect on overall demographics. The Public Service and Merit Protection Commission (PSMPC) will continue to monitor developments in individual Bands.

Data on the length of service in any particular band reveals an interesting pattern. While median length of service at level for each of the three Bands is three years and the average length of service is five, five and four years for each of Bands 1, 2 and 3 respectively, the length of service ranges from less than one year for all Bands to greater than 15 years for SES Band 3 and greater than 20 years for SES Bands 1 and 2. Figure 13 shows this graphically.

FIGURE 13: LENGTH OF SERVICE AT LEVEL BY BAND

Senior Executive Management System
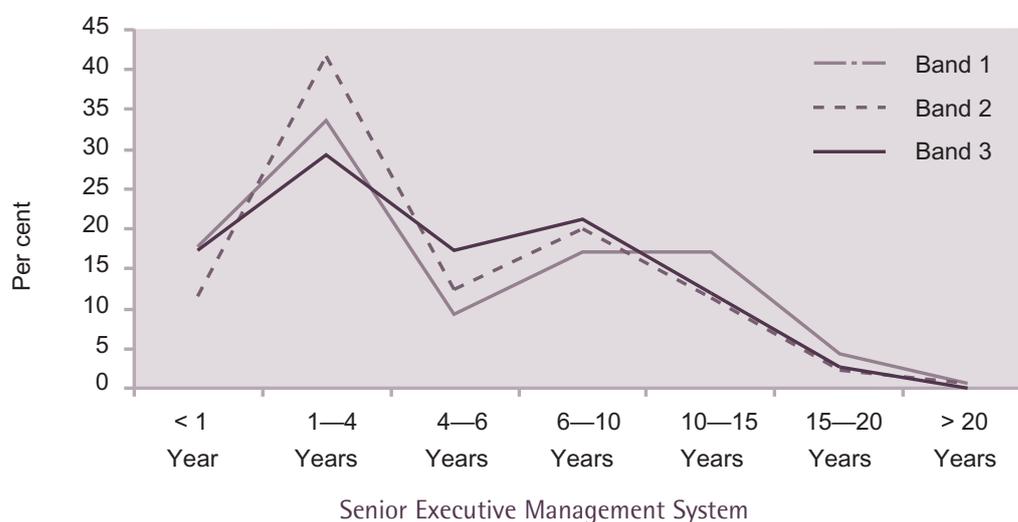
The SES has continued to grow this year. The total number of 1489 in the SES represents a 3.5% increase over last year but remains some 5% lower than the 1996 figure of 1567. The percentage of women in the SES remained constant at around 28%. The majority of the growth in the SES was at the SES Band 1 level, which increased by 4.6% on last year's figure. Figures for SES Bands 1 and 2 remain around six percent lower than the 1996 levels. Interestingly, however, the figure for SES Band 3 at 75 represents an increase of just over 11% on 1996 figures.

CAPABILITY OF THE SES

The *Senior Executive Leadership Capability Framework* (SELCF) continues as the key point of reference for the selection, development and performance management of APS leaders. As mentioned in the *State of the Service Report 1999–00*, the SELCF was launched in May 1999 to articulate a shared understanding across the APS of the crucial success factors for leadership—in particular the behaviours which support high performance.

The SELCF identified, through extensive consultation and validation, five core criteria for high performance by senior executives—*Shapes Strategic Thinking, Exemplifies Personal Drive and Integrity, Communicates with Influence, Cultivates Productive Working Relationships, and Achieves Results.*

These five core criteria of the SELCF form the criteria for SES selection. All entrants and promotees to the SES must meet each of the criteria.

Additional agency or job specific criteria may be added to the core set with the agreement of the Public Service Commissioner. Thirty-five requests for additional criteria were received in 2000–01, one of which was refused. This is an increase of 45.8% on the number of requests in 1999–00. The requests came from 15 agencies, with the majority (53%) from the Australian Taxation Office (ATO) and the Attorney-General's Department (AGs). Almost half the requests (49%) for additional criteria focused on specific corporate/financial aspects and taxation specific requirements, with 26 % dealing with legal skills.

Although specific positions may require additional criteria, it is essential for the core criteria to maintain their position as the prime qualification for entry to the cross-Service leadership group. The Commission will be monitoring the number and type of requests for additional criteria over the coming year.

LEADERSHIP DEVELOPMENT

As the APS leadership challenge increases in its complexity, it is important that the capability of the SES continues to grow to meet the new challenges. The provision of well-targeted and effective development options for senior executives remains an important strategy to enhance leadership capacity. During 2000–01, both the PSMPC and agencies continued to give high priority to this area.

It was noted in last year's State of the Service Report that nearly half of the eligible new SES employees did not attend the cross-Service Orientation to the Senior Executive Service program.

The PSMPC surveyed all new SES appointees from the last two years to gain a view on what issues may have led to this result. The views of those who responded to the survey reflected the ongoing feedback from Orientation participants in strongly endorsing the need for the program and the value of its current content. The most common reason given for not attending the program was lack of availability due to other commitments. Other reasons included difficulty in getting to a Canberra-based program when not based in Canberra, attending their own agency's in-house orientation program and having gained significant experience in the SES prior to actual appointment. The PSMPC will continue to consider options for scheduling the Orientation program to ensure that the maximum number of new senior executives have an opportunity to attend.

Continued utilisation of 360° feedback for senior executives and the leadership feeder group assists in refining leadership development priorities for the future. As indicated in last year's State of the Service Report, the PSMPC facilitates the use of a 360° Questionnaire based specifically on the capabilities in the SELCF. The Questionnaire is used in selected PSMPC Senior Executive Development Programs and for Executive Level 2 staff participating in the Career Development Assessment Centre (CDAC) (see below). In addition, a number of agencies are now using the Questionnaire with their

senior executives and Executive Level 2s to support their own leadership and performance management processes. As sufficient data is gathered and the PSMPC begins to consolidate individual results from the Questionnaire, a further useful picture of leadership development needs and priorities will start to emerge.

ASSESSING THE CAPABILITIES OF THE FEEDER GROUP TO THE SES

The CDAC is part of the overall strategy to strengthen leadership development and succession planning in the APS. Specifically, the objectives of CDAC are to identify the strengths and development needs of high performing Executive Level 2 staff, relative to the SELCF, and to assist individuals and their agencies in the formulation of strategies to address the identified development needs.

An evaluation undertaken during 2000–01 supported the validity and relevance of the CDAC format and approach. Overall, 91% of former CDAC participants believed that CDAC provided specific and useful information about their individual strengths, and believed that it was valuable in providing specific information about their development needs in relation to the SELCF. In addition, 95% indicated increased awareness of the SELCF and 72% indicated that they had made changes to their leadership style and method of operating since attending the CDAC.

Agency Heads believed that the CDAC:

- provided a useful APS benchmark against which to measure the performance of Executive Level 2s in their own agency;
- provided a new dimension on the assessment of the feeder group pool within their agencies, as well as practical development suggestions which are immediate and concrete in building individuals' capability and confidence;
- provided a clear diagnostic tool upon which individuals and agencies can build;
- linked to and complemented succession planning;
- encouraged participants to reflect on their development needs against the SELCF; and
- gave greater visibility to leadership and the SELCF across the APS and within their agencies.

IDENTIFIED STRENGTHS AND AREAS FOR LEADERSHIP DEVELOPMENT EMERGING FROM THE CDAC

The CDAC is generating some useful information on the strengths and areas for development of participants against the SELCF. Trends emerging from the CDAC indicate that the average performance of participants against the capabilities in the SELCF has remained marginally below the standard expected of a member of the SES. These results are not surprising given that the focus of the Centre is on identifying development needs against the level above that of the participants.

In terms of the specific SELCF capabilities assessed in CDAC, participants perform best on *Communicates with Influence* followed in descending order by *Exemplifies Personal Drive and Integrity and Cultivates Productive Working Relationships*, with *Shapes Strategic Thinking* ranking as the lowest capability. The *Achieves Results* capability is not assessed at the CDAC.

There are also areas of relative strength and weakness of CDAC participants within each capability area:

- under *Communicates with Influence*, participants are relatively strong on 'communicates clearly', but need development on 'listens, understands and adapts to audience' and 'negotiates persuasively';
- in the area of *Exemplifies Personal Drive and Integrity*, 'displays resilience' is a relative strength, but 'engages with risk and shows personal courage' and 'commits to action' could be improved;
- under *Cultivates Productive Working Relationships*, participants are sound on 'nurtures internal and external relationships' and 'facilitates cooperation and partnerships', but 'guides, mentors and develops people' is an area for improvement; and
- in the area of *Shapes Strategic Thinking* participants are relatively strong on 'shows judgment, intelligence and commonsense', but 'inspires a sense of purpose and direction' and 'focuses strategically' have been identified as development needs.

In response to the CDAC findings and other needs identified in consultation with agencies, the PSMPC is currently developing a suite of cross-agency development products and services for Executive Level staff. While the intention is to cover the range of development needs, initially this will focus on *Shapes Strategic Thinking*.

AGENCY UTILISATION OF LEADERSHIP DEVELOPMENT INITIATIVES

Thirty-eight per cent of agencies specifically reported using the SELCF in various aspects of their workforce planning or learning and development strategies. These included performance management schemes, individual development plans, recruitment and selection, agency leadership programs, leadership capability profiles, 360° feedback and staff surveys. A further 20% indicated a strong reliance on participation in PSMPC senior executive programs and the CDAC for development of their senior executives and feeder group staff.

Through its Leadership Development Steering Committee (headed by a Deputy Secretary), for example, the Department of Employment Workplace Relations and Small Business promotes and utilises the SELCF in its selection and development activities for current and future leaders.

Many agencies use the SELCF as part of their performance management scheme. Staff are assessed against the behavioural aspects of the SELCF in addition to the work outputs and outcomes specified. An increasing number of agencies are integrating multi-source or 360° feedback using the SELCF as a basis.

The Insolvency and Trustee Service Australia uses the SELCF for selection decisions, with a corresponding shift of emphasis away from technical qualifications as the main basis for selection. It also uses the SELCF in its performance management process to define expectations, evaluate performance, support development of leadership capability and provide a basis for career planning.

Some agencies noted that they had developed agency capability frameworks based on the SELCF. These agencies included the Department of Family and Community Services (FACS), the Department of Transport and Regional Services (DoTRS), the Aboriginal and Torres Strait Islander Commission, the Australian Communications Authority (ACA), the Australian Electoral Commission (AEC), the Australian Securities and Investments Commission (ASIC) and Comcare.

An increasing number of agencies have an integrated leadership strategy. Centrelink is one example of what may be achieved in this area.

Centrelink has developed a leadership framework that sets out the priorities for the three levels of leadership (that is, SES, Executive Levels 1 and 2, and APS 5 and 6) and incorporates the use of a Centrelink Development Centre for potential leaders. In addition, Centrelink has developed positions for SES Leaders in Training to provide them with on-the-job development and coaching. Informal mentoring is encouraged as part of the feedback process. The SELCF is embedded in nine Centrelink key leadership qualities, which are further defined by performance criteria and performance measures. Leadership development programs, primarily from Centrelink Area Offices, are being validated against the performance criteria. The outcome will be a suite of National Leadership Programs that address the performance criteria at each level. The SELCF is used, as part of the Development Centre approach, to provide feedback to individuals who have applied for SES positions and to assist them in the development of their career plans.

Many agencies mentioned that all learning and development, including leadership development, was underpinned by their performance management system which in turn had close linkages with governance frameworks. The ACA has developed a Leading Edge program based around the SELCF. This integrates in-house development activities, a leadership network, a seminar series, external program placements, 360° feedback, project work and a dedicated website.

DoTRS has identified leadership at all levels as a core skill area and conducts a Leading in DoTRS program. The program provides participants with the opportunity to develop and extend their leadership capabilities in a range of areas including influencing others, developing an understanding of the impact of ethics and values on decision making and developing the capacity to manage change It is linked to the Department's Leadership Profile which is based on the SELCF.

Agencies with specialist functions are beginning to implement leadership programs tailored to their own environments. The Australian War Memorial and the Australian National Maritime Museum are both developing leadership programs specific to the museum environment. The Department of Foreign Affairs and Trade runs a Locally Engaged Staff Leadership Program and also leadership programs that are specific to overseas posts. The Department of Defence runs a Graduate Program in Scientific Leadership.

The Department of Health and Aged Care has a Health Leadership Network (HLN) which operates under the auspices of the Australian Health Ministers Advisory Committee and the New Zealand Ministry of Health. HLN uses leading global and local academics and practitioners in health care and leadership as presenters and facilitators for an annual calendar of events. HLN provides programs that focus on providing knowledge on leading edge global and local developments in health care policy and practice, and leadership skills to implement this knowledge.

COACHING AND MENTORING

Coaching and mentoring has long been seen as an important element in the development and support of future and current leaders. A range of formal and informal approaches has been taken by agencies

to mentoring and coaching, with a small number of agencies outlining strategies for both areas. Some agencies noted that their efforts in this regard were linked to succession planning strategies.

The Commonwealth Rehabilitation Service stated that coaching is one of the primary learning and development mechanisms it has in place, with programs to equip professional and managerial leaders with appropriate coaching skills in place for the past two years. The induction process for managerial positions relies on the appointment of coaches to assist new managers to understand their role.

The Department of Veterans' Affairs (DVA) referred to a specific mentoring program for its regional staff, while the Federal Court and the Australian Competition and Consumer Commission (ACCC) mentioned coaching and mentoring programs for women. The Department of Education, Training and Youth Affairs, FACS and the Treasury have implemented Manager Once Removed programs, under which a staff member's line manager two levels above them has a responsibility for inviting them to a discussion on their career aspirations and development needs.

The Department of Immigration and Multicultural Affairs (DIMA), the Australian Agency for International Development and the AEC referred to executive coaching programs for senior staff.

A related development is an increasing trend by agencies to have their leadership programs monitored by an SES level steering committee. In many cases senior executives facilitate modules and participate as presenters or Directors in Residence to pass on their particular expertise.

COOPERATION BETWEEN AGENCIES ON LEADERSHIP DEVELOPMENT

Individual agencies were asked to comment on the extent to which they collaborated with other agencies in leadership development initiatives. The responses varied considerably with a number of agencies commenting that collaboration with other agencies on leadership initiatives could be cost prohibitive, difficult to arrange and of limited value.

Activities in cooperative leadership development generally fall into the following categories:

- PSMPC Senior Executive Programs;
- PSMPC coordinated activities for SES feeder groups such as Senior Women in Management and the CDAC;
- inter-agency exchanges (including to those within the same portfolio);
- secondments to the private sector;
- overseas appointments to agencies such as the OECD or related agencies in other public services; and
- temporary transfers to tertiary and community organisations.

The Cultural Management Development Program is a collaboration between a number of cultural institutions. The Australian War Memorial, the National Gallery of Australia, the National Library of Australia, the National Museum of Australia and Screensound Australia are using the program as the premier vehicle for addressing the leadership and management training needs for their middle managers at APS 6 to Executive Level 2 levels.

The objectives of the program are to foster useful networking amongst managers in the participating agencies, to assist promising middle managers to enhance their management knowledge and skills through coursework and action learning, to stimulate new ways of thinking about their organisations and how they can contribute to them, and to provide participants with an opportunity to demonstrate their commitment to learning and developing solutions to problems through completion of a workplace-based team project.

The Women in Law Enforcement Strategy (WILES) is another example of a multi-agency mentoring program. The objectives of WILES are to encourage women from Commonwealth Operational Law Enforcement Agencies (Australian Transaction Reports and Analysis Centre, AGD, Australian Federal Police, Australian Customs Service, Commonwealth Director of Public Prosecutions, the ATO, DIMA, Australian Prudential Regulation Authority, National Crime Authority, the ACCC, and the ASIC) to pursue careers in law enforcement and regulatory agencies, and to encourage women to pursue senior positions in these same agencies. The WILES links participants with mentors and equips mentors with the skills necessary for effective semi-formal mentoring.

As part of its work to foster and support leadership initiatives in the APS, the PSMPC is initiating a Leadership Development Network. The purpose of this network is to provide an avenue for those responsible for leadership development within respective agencies to share their approaches to leadership and leadership development and seek opportunities for cooperation.

EVALUATION OF LEADERSHIP INITIATIVES

The last few years have seen a significant investment, both direct and indirect, in leadership development activities across the APS. This year agencies were asked to describe any evaluation of their leadership initiatives and outcomes.

While all agencies reported that their initiatives were effective and delivered the intended results, responses indicated that formal evaluation was not being undertaken in a consistently structured manner. Several agencies reported that the development and implementation of their new initiatives was based on evaluation of previous or existing programs. Others noted that no evaluation had been undertaken as it was too early in the life of the initiative, or that evaluation was planned.

The Australian Greenhouse Organisation (AGO) noted that it was accredited under the Investors In People program. As part of its Investors in People commitment, AGO assesses the contribution of its learning and development activities (including its leadership development) to achieving its organisational goals.

The Treasury advised that its Executive Level 2 Leadership Development Program has undergone initial evaluation and is overwhelmingly perceived to have had a significant impact in terms of both individual leadership development and organisational development. A formal evaluation will be completed after the conclusion of the program.

IP Australia reported that an evaluation of its Executive Learning Program had been performed by an independent external organisation. The results indicate the success of the program generally, with coaching achieving a high level of effectiveness.

DVA stated that a review of its national non-SES leadership development programs is underway. The purpose of the review is to determine the continued relevance of these programs to business unit needs and to define links to other local and national initiatives that address development of leadership capabilities. The report is due to be presented to DVA's executive management group later this year.

The Australian National Audit Office (ANAO) has recently commenced a performance audit of learning and development in the APS. The audit's objectives are to examine and report on the key management factors that assist in ensuring value for money in learning and development. In particular, its focus will be to examine how agencies plan, deliver and evaluate learning and development.

Given the importance that ongoing effective evaluation has in identifying areas for reconsideration, improvement and development of new leadership directions and programs, and that a performance audit is being conducted by the ANAO, this issue will be monitored in future State of the Service Reports.

THE FUTURE

High quality leadership, and therefore investment in developing leadership, will remain crucial to a high performing APS.

The SELCF, launched in May 1999, represented a major new direction for leadership in the APS in providing a comprehensive statement of leadership requirements specifically tailored to APS needs.

Agency feedback this year indicates that some agencies are developing their own capability frameworks and designing leadership programs addressing what they consider to be their specific, individual needs. This seems to be particularly the case in specialist areas such as museum, health and scientific leadership.

Against this, it is vital that the cross-Service leadership group continued to be selected, managed and developed against a set of fundamental criteria which is specific to leadership in the APS and which facilitates inter-agency mobility.

When the SELCF was launched, it was intended that it would be reviewed after three years. This was to ensure currency and ongoing relevance within the APS environment. While the breadth of evidence is that the Framework remains sound and relevant, a further examination and, as appropriate, a revalidation is planned to commence in October 2001. As with the development of the Framework itself, extensive consultation will occur to ensure that any modifications accurately reflect the evolving nature of the APS and its leadership requirements.

Over the long term, the sustainability of leadership in the APS will depend significantly on the effort devoted by agencies to identifying and developing future senior executives in the Executive Level feeder group. The CDAC will continue to provide a useful indication of the development needs of the higher performers in this group. Over the next year, the PSMPC will be working closely with agencies in providing a range of targeted development options for Executive Level staff that address capability priorities.

OUTSOURCING AND MARKET TESTING •

IT OUTSOURCING IN THE APS •

One of the key components of the Government's financial management reforms is the increased use of market-based and financial management tools (such as competitive tendering and contracting, benchmarking and process re-engineering) to put the Australian Public Service (APS) on a more business-like footing, to foster a more competitive environment and to shift the traditional focus of compliance with regulation to a culture of managing for results.

The APS focuses on achieving results and managing performance.

APS Values—*Public Service Act 1999.*

In November 1999, the Government reaffirmed its commitment to Competitive Tendering and Contracting (CTC) as a key component of its public sector reform. Market testing of relevant activities and services is mandatory for all agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act). Implementation has focused so far on corporate services, which includes such areas as human resource management, financial services, records management and facilities and property management. The major initiative to outsource information technology (IT) services is considered separately in the next chapter of this Report.

An important aspect of any outsourced arrangement in the public sector, and one that needs considerable attention, is that agencies ensure that they maintain sufficient control over the outsourced arrangement to enable them to continue to carry out their accountability responsibilities in line with the PS Act 1999 and the FMA Act.

The APS is openly accountable for its actions, within the framework of Ministerial responsibility to the Government, the Parliament and the Australian public.

APS Values—*Public Service Act 1999.*

OUTSOURCING OF HUMAN RESOURCE MANAGMENT

Agencies were asked about their experiences in the market testing of human resource (HR) management. They were asked to describe, where appropriate, the models, systems or controls they have in place to ensure that the APS Values are upheld in relation to outsourced human resource functions.

Generally, the following human resources functions have been considered for outsourcing:

- compensation services;
- learning and development services;

- software and systems services;
- occupational health and safety services;
- personnel security administration;
- recruitment services;
- remuneration and personnel administration services;
- strategic human resources planning;
- payroll; and
- workplace relations services.

Agencies have approached the market in a number of different ways. The Attorney-General's Department went to a restricted tender although it subsequently decided to retain the services in-house. IP Australia and the Aboriginal and Torres Strait Islander Commission called for expressions of interest prior to taking a decision whether to proceed to tender. Almost a quarter of all agencies are yet to approach the market in this area and are developing integrated market testing strategies with plans to proceed in the next 12–18 months.

Prior to moving to the new Department of Family and Community Services as part of an administrative re-arrangement, the Child Support Agency (CSA) outsourced personnel, payroll and HR services to the Australian Taxation Office (ATO). Since then, CSA has outsourced some of the work previously undertaken by the ATO to private sector providers, including parts of the recruitment process, employee assistance counselling and salary packaging services. HR services, occupational health and safety (OH&S), personnel and payroll are also expected to be market tested by CSA by the end of the year.

Some agencies have sought tenders for the delivery of a broad range of strategic and operational services. The Department of Education Training and Youth Affairs (DETYA) is currently in the process of seeking responses to a request for tender (RFT) for strategic and processing services. At this stage, the DETYA RFT includes aspects of HR policy development. The Department of Industry Science and Resources tendered for a full range of policy and operational services but decided to retain all aspects in-house.

Approximately 40% of agencies have outsourced payroll, either entirely or aspects of it such as disbursements. The Australian War Memorial and the Productivity Commission both mentioned that they had been unsuccessful in outsourcing payroll. The former had brought it back in-house because of poor service and the lack of effective performance issues, and the latter found that the service provider was unable to deliver a service which complied with APS requirements. The Australian Communications Authority, Australian Geological Survey Organisation and the Australian Institute of Health and Welfare each mentioned that they would continue to outsource, as it is no longer cost-effective to obtain the resources or technical expertise necessary to perform the services in-house. ComSuper is in the process of partially outsourcing its payroll function (hosting of software and support).

Eighteen per cent of agencies representing almost 28% of APS staff have outsourced HR functions, typically including payroll, occupational health and safety, case management, training and development activities, various aspects of recruitment (discussed in more detail in the Chapter on merit), human resources systems and personnel administration. All these agencies have retained core groups of human

resource professionals in-house to set the strategic direction for the function, develop, and in some cases manage, policy and strategy decisions, and manage the agreement-making process.

Agriculture, Fisheries and Forestry—Australia, for example, has outsourced all of its HR functions including remuneration policy and administration, HR information system administration and reporting, recruitment, training and development, workplace relations, personnel security administration, OH&S, compensation claims administration and rehabilitation case management. The Department retains a core group of HR professionals to set the strategic direction for human resources, to make decisions, develop business rules and manage key policies.

Agencies were asked to provide reasons for their decisions to proceed in particular directions. Agency responses to this question were of varied quality. Many agencies ignored the question altogether while others responded with a simple statement that it represented 'value for money'. The Department of Communications Information Technology and the Arts commented that it had selected the Empower Group partly on the basis of its ability to contribute to shaping policy and strategy. A small number of agencies stated that one reason for outsourcing was to allow the agency to focus on its core functions. The Public Service and Merit Protection Commission (PSMPC) mentioned that outsourcing had allowed it to access a depth of experience, skills and resources not generally available to small agencies in-house.

The Department of Finance and Administration (Finance) was the first APS agency to decide to outsource its HR function, and is now into the third year of a strategic partnership with PricewaterhouseCoopers (PwC). Finance believes its contract with PwC goes beyond other national and most international outsourcing operations in that it provides not only for an effective base-level component of 'transactional services'—the administration of basic staffing actions such as payroll, leave, personnel records and staff movement—but also for additional 'value-added services'. Under this arrangement, Finance may ask the contractor to undertake additional specific tasks, such as developing a training course, preparing a report or assisting with a recruitment exercise. The contract also provides for PwC to play a pro-active role in advising senior management of any issues or trends that require early intervention, either at organisation, business unit or individual level.

In the first 18 months of implementation, the contract focused on process aspects which Finance considered could be delivered more cheaply, more responsively and at a better quality than previously. As it moves into the next phase of the contract, the services delivered are being reviewed with a view to achieving further gains.

During the initial 18 months, the broader HR functions proved the more problematic. There were few strategic services delivered and, while some value-added services were undertaken, these tended to be unfocused due to confusion of roles and responsibilities. Some of the reasons for this included:

• lack of investment in the transition process—particularly hand-over and protocols;
• the capability sought by Finance did not initially exist in PwC's new area of Business Process Outsourcing, which was a new line of business within PwC and required time to become established and forge the required linkages;
• the tendered model did not fit culturally with either Finance or PwC;

- marketing of the contract and management of staff expectations was poor; and
- there was some instability in the communications infrastructure between the IT platforms of Finance and PwC.

A review of the relationship early in 2001 addressed these concerns. Both parties now believe that the appropriate structures and relative responsibilities have been articulated more clearly, with Finance making decisions on its policy direction, framework and corporate branding, and PwC taking greater ownership of the entire human resources spectrum. Both parties emphasise that the original model was challenging and innovative and that building both the model and the respective cultures of the two organisations has taken time to realise. Both parties hold the view that HR outsourcing has more complexities than areas that have traditionally been the focus of outsourcing, as HR management impacts on every person in the organisation.

Finance and PwC both report that they are now starting to reap the benefits of their relationship. Finance assesses these as including better quality and less expensive services, greater visibility of the full cost of the function and the ability to tap into better practices of both public and private sector organisations in Australia and overseas. PwC assesses the benefits as including the establishment of a new global business and the ability to leverage off the lessons learned over the past two years.

ADHERENCE TO APS VALUES AND CODE OF CONDUCT

Last year the State of the Service Report noted that agencies are accountable for all aspects of a contractor's performance and that they would need to consider including provisions in contracts that spell out clearly the standards of behaviour that they are expected to achieve and the penalties for non-compliance. This year, agencies were asked to describe the models, systems or controls they have in place to ensure that the APS Values are upheld in relation to outsourced human resources functions.

An Agency Head must uphold and promote the APS Values.

Section 12—*Public Service Act 1999.*

Of the agencies that had outsourced aspects of their human resources function, almost 60% stated that they utilised contractual arrangements to alert providers to the fact that they were expected to abide by the APS Values.

While agency responses varied in detail, these contractual arrangements appear to be at two levels. At a basic level, the majority of agencies include a statement that the service provider is at all times to meet the obligations of the agency's legislated requirements. A slightly more targeted approach is for agencies to make specific reference to the APS Values. The Department of Foreign Affairs and Trade includes the following standard clause in all of its contracts that 'the Contractor must ensure that the Specified Personnel conduct themselves in accordance with the Values and the Code of Conduct of the Australian Public Service'. Many agencies reported ongoing monitoring of compliance with values as an aspect of their contract management.

The Department of Workplace Relations and Small Business (DEWRSB) provided the most comprehensive response to this question, including that:

• the contract with the outsourced providers contains requirements for conformance with all legislative requirements, with special attention to privacy and confidentiality;

• the contract contains specific provisions which bind the outsourced provider to protect personal and confidential information and which allows the Privacy Commissioner to investigate any complaints about the misuse of personal information. Staff of the outsourced provider are required to sign a confidentiality agreement acknowledging the penalties which apply under the *Crimes Act 1914* to the unauthorised use and disclosure of information;

• an orientation/induction intranet site, that is available to the contractor, includes information and advice on the APS Values;

• the department and the service provider are developing a partnering charter of which key values that reflect APS Values form an integral part; and

• a key part of monitoring the contract is a regular random surveys of clients. Dissatisfaction or complaints in relation to breaches of the APS Values will be followed through with the contractor.

Almost 25% of agencies stated that specific reference is made to the APS Values in their tender documentation and that tenderers are assessed against their responses to this service delivery criterion. The Office of Asset Sales and Information Technology Outsourcing commented that all outsourced functions contracts have regard to APS Values.

With an increasing amount of work being outsourced, it is important that all agencies give serious consideration to the mechanisms by which contractors are made aware of, and agree to uphold, the APS Values. The Values are central to the public interest aspects of the work that is done on behalf of APS agencies. It may be insufficient to include a general clause in contracts if agencies are not prepared to take action over a breach should it be necessary.

TRANSMISSION OF BUSINESS

An issue that has been the subject of legal consideration over the past 12–18 months has been that of transmission of business. The transmission of business provisions of the WR Act provide that federal awards and agreements will bind a new employer which is the 'transmittee, assignee or successor' of a business.

The circumstances in which these provisions might apply in outsourcing situations are complex, and their application has been tested on a case-by-case basis in the courts.

In November 2000, the High Court, in upholding an appeal in the PP Consultants case, dealt with the circumstances where a non-government employer takes over the commercial activities of another non-government employer. Where one government agency is engaged in the business of government previously undertaken by another government agency, the Court indicated that a transmission of business is likely to have occurred where there is a 'substantial identity' between the activities pre and post transfer. Where a government agency contracts with a non-government body for the performance of functions previously carried out by a government authority, the High Court noted

that 'there may well be other considerations' in determining whether or not a transmission of business had occurred. The Court did not, however, elaborate on what these considerations might be. In March 2001, the Full Federal Court found in dealing with this issue in the Stellar Call Centres case that no transmission of business had taken place between Telstra and Stellar Call Centres, as no distinct part of Telstra's business had been transferred.

In relation to the APS, the Full Federal Court confirmed in June 2001 in the Employment National decision that public service awards and certified agreements can apply outside the APS, although the practical effects of transmission will depend on the extent to which such instruments are capable, according to their terms, of applying to another employer.

DEWRSB, in consultation with the PSMPC, has produced a series of information papers on this issue for APS agencies. Those information papers focused on the implications of the various Court decisions for market testing and contracting out of services and activities within the federal public sector. The transmission of business issue is not an impediment in itself to market testing or outsourcing. It is important for agencies to remember, however, that the objective of market testing and outsourcing is to achieve value for money by identifying the most efficient and effective way of providing services, and that this is unlikely to be achieved in a competitive labour market simply by a reduction in terms and conditions of employment by the outsourced provider.

CONCLUSION

As we have seen, the approach to the market testing and outsourcing of HR varies considerably from agency to agency, reflecting particular business interests and structures. Functions outsourced range from basic processing activities to provision of advice on strategic planning. A core issue for agencies in the market testing and outsourcing of HR is the extent to which they are able to retain overall control. This is important because the direction of an agency's recruitment, development, advancement, performance management and support of staff must be relevant to its overall organisational and business goals. It is also important because Agency Heads remain accountable for upholding the APS Values, many of which have direct implications for HR management.

There is no evidence yet to suggest that agencies are losing control of the overall direction of HR, or that the APS Values are being compromised. Agencies need to be aware of the issues, however, and must monitor outsourcing arrangements to ensure that the direct efficiencies of outsourcing are balanced against broader effectiveness and accountability responsibilities.

In response to the recommendations of the Report of December 2000 by Mr Richard Humphry AO, Review of the Whole of Government Information Technology Outsourcing Initiative, the Government agreed, among other matters, that progress with implementation of information technology (IT) outsourcing would be monitored and reported on annually by the Public Service Commissioner in the State of the Service Report.

This is the first such report and the approach has been to survey major agencies about progress on IT outsourcing, to gather comment from agencies who have outsourced their IT, and to identify some general considerations relevant to IT outsourcing. The report also summarises the major external reviews that have been undertaken on IT outsourcing.

PROGRESS WITH THE IT OUTSOURCING INITIATIVE

The IT Outsourcing Initiative was introduced in the 1997–98 Budget. It was designed to replace agency service delivery with contracted External Service Providers (ESPs) who would deliver an integrated suite of services and be responsible for the delivery of those services. The initiative was to be completed within two years.

The aim of the strategy was to reduce tender costs to government and industry, increase rationalisation and standardisation across the APS, produce significant savings and result in efficient contract management. In 1997, it was estimated that savings of around $1 billion would be realised over seven years. The initiative was also expected to benefit the IT industry and generate employment in metropolitan and regional areas through the creation of opportunities for small to medium-sized Australian enterprises and through industry development requirements.

The initiative gave priority to outsourcing IT infrastructure that generally include desktop and Local Area Network (LAN) services, mid-range application servers, mainframe services and data communication services. Other aspects were outsourced at the discretion of individual agencies.

Agency budgets were lowered in 1998–99 in anticipation of savings expected to be achieved. If agencies did not produce the expected savings, they were required to fund the resultant shortfall from other agency sources.

The overall management of the implementation of IT outsourcing was the responsibility of the then Office of Asset Sales and IT Outsourcing (OASITO). A major management feature was the grouping together of agencies whose IT requirements could be outsourced in a single contractual process. The primary considerations applied by OASITO in developing the eleven agency groupings were agency preferences, synergies between agencies, economies of scale, and the manageability of agency groupings.

Several of these groups—Cluster 3, Groups 5 and 8, and the Health Group have completed the OASITO administered process and outsourced their IT infrastructure and support services.

The Australian Taxation Office (ATO) and Screensound Australia, also outsourced their IT through the OASITO administered process but as individual agencies.

A number of agencies have outsourced their IT services outside the OASITO administered process including the Department of Veterans' Affairs (DVA), the Department of Finance and Administration (Finance), ComSuper and the Australian Customs Service (ACS).

TABLE 2: SUMMARY COMPLETED PROJECTS AT (30 JUNE 2001)

PROJECT	DEPARTMENT AND AGENCIES	KEY DATES
Cluster 3	Department of Immigration and Multicultural Affairs Department of Finance and Administration (Electorate Office Services) Australian Electoral Commission IP Australia Australian Government Analytical Laboratories Australian Surveying and Land Information Group Ionospheric Prediction Service	5 year contract with CSC Australia Pty Ltd signed on 31 March 1998. Handover of services took place on 1 July 1998.
Australian Taxation Office	Australian Taxation Office	5 year contract with EDS Australia signed on 31 March 1999. Handover of services took place on 24 June 1999
Group 5	Department of Transport and Regional Services Australian Competition and Consumer Commission Department of the Prime Minister and Cabinet Department of Communications, Information Technology and the Arts Department of Industry Science and Resources	5 year contract with Advantra Pty Ltd signed on 14 April 1999. Handover of services took place on 1 July 1999.
Health Group Information	Department of Health and Aged Care Health Insurance Commission Medibank Private Ltd	5 year contract with IBM GSA signed on 6 December 1999. Handover of services took place between April and June 2000.
Group 8 Information	Civil Aviation Safety Authority Australian Communications Authority Environment Australia Agriculture, Fisheries and Forestry—Australia Public Service and Merit Protection Commission Aboriginal and Torres Strait Islander Commission	5 year contract with IPEX ITG signed on 9 March 2000. Handover of services took place on 26 June 2000

PROJECT	DEPARTMENT AND AGENCIES	KEY DATES
	Australian Broadcasting Authority	
Small Agency Model	National Film and Sound Archive (ScreenSound)	3 year contract with PRAXA signed 7 April 2000. Handover took place on 5 June 2000.
In addition the following Agencies outsourced their IT services outside the OASITO process:	Department of Veterans' Affairs Department of Finance and Administration Commissioner for Superannuation Australian Customs Service	5 year contract with IBM GSA covering provision of services to the three agencies commenced on 24 April 1997. 5 year contract with EDS signed 23 Dec 1997. Handover of services took place on 28 March 1998.

The DVA, Finance and ComSuper group is unusual in that it grew from a competitive tendering and contracting process undertaken by DVA. Finance and ComSuper joined in the arrangement following completion of the initial tendering process.

REVIEW OF IMPLEMENTATION

Not unusually for a project of this size, the implementation of the IT outsourcing initiative has been the subject of considerable review.

ANAO Performance Audit—Implementation of the Whole of Government Information Technology Infrastructure Consideration and Outsourcing Initiative (September 2000)

The focus of the Australian National Audit Office (ANAO) audit was on the overall management of the initiative's implementation by OASITO. ANAO considered the tendering process of the first four major tenders completed—Cluster 3, the Department of Employment, Education, Training and Youth Affairs/Employment National, and the Australian Taxation Office and Group 5 (including the application of the evaluation criteria set out in the relevant requests for tender (RFT) and the assessment of tenderers against the particular Government objectives as set out in the RFT). It also looked at the management by the relevant agencies of the resulting agreements.

The audit found that:

- implementation of the overall initiative was two years behind schedule with only six of the twelve planned tenders completed;
- tendering costs were nearly three times that originally budgeted;
- there was a shortfall in industry capacity to take on the work; and

- the longer term effectiveness of the outsourcing in delivering the expected service and financial benefits will be determined over the length of the contract and the extent to which these benefits have been realised by agencies in their initial implementation phases has been variable.

As a result of changes in agency cost structures and in the process of tender letting and evaluation, the ANAO found it was impossible to make any precise assessment of savings contributed by the Initiative.

Report by Richard Humphry of Review of Whole of Government Information Technology Outsourcing Initiative (December 2000)

The Humphry Review focused primarily on the implementation risks associated with transitioning from in-house provision to an external provider. While endorsing the overall IT outsourcing policy, the Review report made ten recommendations, the thrust of which was to return to agencies the responsibility for implementation of the outsourcing initiative. The Government accepted most of these recommendations and agreed in particular that:

- the responsibility for implementing the initiative would be devolved to agency Chief Executives or Boards, with the Department of Communications, Information Technology and the Arts (DCITA) retaining responsibility for the industry development component;
- the appropriate model for outsourcing would be a matter for agencies to determine, within the bounds of the Government's IT initiative;
- agencies would be free to seek economies of scale through groups at their own discretion when their contracts expire;
- initially OASITO would continue to provide assistance to agencies at the request of Agency Heads; after the transitional period, where assistance was required, agencies could obtain it from a source of their own choosing (OASITO's direct role in IT Outsourcing concluded during 2001);
- the outcomes of implementing the IT outsourcing policy would be included in the performance assessment of Agency Heads; and
- the Public Service Commissioner would report on the implementation of the initiative annually in the State of the Service Report.

Senate Committee Inquiry—Rebooting the IT Agenda in the Australian Public Service (August 2001)

On 29 November 2000 the Senate Finance and Public Administration References Committee announced an inquiry and report on the Government's IT outsourcing initiative in the light of recommendations made in the Committee's report, Contracting out of government services—*First Report: Information technology*, tabled in November 1997, and the Auditor-General's performance audit.

Following two interim reports in April and June 2001, the Committee tabled its final report *Re-booting the IT Agenda in the Australian Public Service* in August 2001.

The Committee found that:

- the sheer size of the implementation task was ambitious and the initiative introduced substantial risks in its own right;

- the initiative demanded high-level project management skills from OASITO and that, with adequate planning, a simpler, shorter, less costly and more rigorous process could have been achieved;

- while there was support for the initiative, the imposition of groups and centralised control of the contracting process did not receive unqualified support from agencies;

- the initiative did not fully achieve its goals of creating substantial opportunities for small to medium sized Australian enterprises and generating employment in metropolitan and regional Australia;

- projected cost savings were not fully achieved and difficulties were experienced in the transition to outsourcing; and

- agencies had succeeded in building genuine partnerships with their providers and have consequently set standards for what both agencies and business should be working for.

The Committee made a total of 22 recommendations, focusing on improvements to IT outsourcing including probity and contract management, data security, intellectual property, savings, industry development and the development of a centre of IT outsourcing expertise that will assist agencies to productively and successfully outsource their IT. The Committee also made recommendations that are designed to strengthen accountability and increase transparency in contractual dealings.

The Government had not responded to the Senate Committee Report at the time this State of the Service Report was prepared.

AGENCY EXPERIENCE WITH IT OUTSOURCING

In preparation for this State of the Service Report, information was sought from Portfolio Departments and the five major agencies—the Aboriginal and Torres Strait Islander Commission (ATSIC), the Australian Bureau of Statistics (ABS), the ACS, the ATO and Centrelink, and to six smaller agencies which had outsourced their IT—the Australian Broadcasting Authority (ABA), the Australian Communications Authority (ACA), the Australian Electoral Commission (AEC), IPAustralia, Screensound and the Public Service and Merit Protection Commission (PSMPC).

The ABS replied that the secrecy provisions of the *Census and Statistics Act 1905* limit the extent to which access to data collected for statistical purposes can be outsourced. It will therefore be keeping most of its IT services 'in-house', monitoring their cost effectiveness through benchmarking and review.

Agencies were asked about:

- the extent of their outsourcing;
- strategic planning procedures;
- inter-operability; and
- future plans.

Table 4 identifies the IT functions that the agencies surveyed have outsourced and those retained.

TABLE 4: AGENCY IT FUNCTIONS OUTSOURCED AND RETAINED

DEPARTMENTS AND AGENCIES	OUTSOURCED FUNCTIONS	RETAINED FUNCTIONS
Cluster 3		
Department of Immigration and Multicultural Affairs	MR, D, M, L/W, T, CP	SP, ADM (part)
Department of Finance and Administration (Electorate Office Services)	D, I, T, M	Not provided
Australian Electoral Commission	D, M, T, MR	I
IP Australia	M	D, MR, T, CP, I, ADM
Australian Taxation Office	M, L/W, MR, T,	ADM, SP
Group 5		
Department of Transport and Regional Services	D, L/W, MR, ADM, T	SP
Australian Competition and Consumer Commission	D, L/N, MR, T	SP, ADM
Department of the Prime Minister and Cabinet	D, L/W, MR, T	SP, I, ADM
Department of Communications, Information Technology and the Arts	D, MR, L/W	ADM, SP
Department of Industry Science and Resources	D, L, MR, T	ADM, SP, T, I
Health Group Information		
Department of Health and Aged Care	M, MR, D, L/W, T, CP, I	ADM, SP
Group 8 Information		
Australian Communications Authority	D, L, MR	ADM
Environment Australia	D, L, MR, RIS, CP	T
Agriculture, Fisheries and Forestry—Australia	MR, RIS, L/W, D	I, ADM, T
Public Service and Merit Protection Commission	D, L, CP	I, ADM, T
Aboriginal and Torres Strait Islander Commission	D, L/W, MR	ADM
Australian Broadcasting Authority	D, L, MR, RIS, T, ADM, CP, I	SP
Small Agency Model		
National Film and Sound Archive (ScreenSound)	D, L, T	ADM
Prior to the OASITO process:		
Department of Veterans' Affairs	M, L/W, T, D	ADM, I, SP
Department of Finance and Administration	D, L/W, M	SP, ADM
Australian Customs Service	D, MR, T, M, ADM	SP

As can be seen, consistent with early expectations that agencies would outsource their infrastructure and exercise discretion in relation to other aspects of their IT, agencies have generally outsourced their infrastructure and support while retaining responsibility for applications development, strategic planning, IT security and IT contract management. In some cases, agencies have retained responsibility for specialist systems (for example, the AEC retained its electoral systems in-house). Where functions such as research information systems are sourced from third parties or are not part of agencies IT operations, they are not included in the table.

All respondents that had outsourced some IT functions confirmed that the control of their strategic planning remained in-house. In most cases, this appeared to involve technical collaboration with the outsourced provider , a third party source of expertise or both. The Department of Transport and Regional Services (DoTRS) pointed out, for example, that it engages specialist advisers on a project by project basis for work such as IT audits, IT project management, new applications development and IT architectural/strategic planning.

Agencies also affirmed, with varying degrees of detail, that their IT planning was linked, or was being linked, to their overall business and corporate needs. The ABA advised, for example, that its strategic plan would be developed within the context of its Corporate Plan and has links with other appropriate plans including its Information Management Plan, Government Online Action Plan and Website Plan.

INTEROPERABILITY

Responses to the question about the consideration given to interoperability with other agencies showed a wide variability with many seeing little need for interoperability beyond the basics but with a number of the larger agencies indicating that they had extensive requirements for interoperability.

Most agencies reported a basic approach to ensuring interoperability for email and document exchange. Responses made the point that agencies relied on widely adopted industry standards and applications, which ensured the potential for interoperability both with other government agencies and with external clients and service partners.

A number of agencies noted that the need for interoperability with other agencies was built into their IT strategy and systems development, and referred to the interaction between agency IT strategies and whole of government requirements administered by the Defence Signals Directorate (DSD) and the National Office for the Information Economy (NOIE).

A group of agencies with very extensive electronic service delivery strategies in place or under development placed a high priority on the need to consider interoperability with related government agencies and external clients and service provider partners. The ATO noted that interoperability was a cornerstone of ATO's enterprise architecture.

MANAGING OUTSOURCED CONTRACTS

Agencies were asked about how the outsourcing contracts were managed, to comment on the resources required for this activity and to describe any audit and review activity undertaken.

Most agencies that have outsourced operate within an overall contract management framework established as part of the group to which they belong.

Group 8, for example, is managed through a Deed of Understanding, signed by the CEO of each agency, which specifies the rights and obligations of the agencies as members of the Group and establishes protocols for dealing with each other and with the contractor. The Deed establishes a management framework under the agency CEOs which consists of:

- a Management Committee, comprised of a representative from each Group 8 agency, with overall responsibility for strategic management of the contract and ensuring that the contractor complies with the Services Agreement;
- a Contract Management Office which reports to the Group 8 Management Committee and acts as the central point of contact for Group contract management; and
- Agency Contract Managers, responsible for managing the delivery of routine services to each Agency.

Most agencies have small units to manage the contract directly with the provider on a day-to-day basis.

Contract management issues and concerns reported by agencies ranged from the strategic to the highly specific. Some of the respondents emphasised the importance of the outsourced provider developing an understanding of the overall business priorities and requirements of the contracting agency.

A general comment concerned the internal management of the cultural shift to a situation where the agency no longer directly controls the resources and assets used to deliver the service. The Department of the Prime Minister and Cabinet noted that the primary management tool had become reliance on contract terms especially service levels, service credits and other incentives and penalties.

Management of the ongoing contractual relationship was an issue raised by agencies. Some agencies reported that management, communications and day-to-day dealings with the outsourcer had been much more difficult and time consuming than initially anticipated. A small agency noted that, as it had only one position in the agency dedicated to managing the contract, there was considerable risk that turnover would cause disruption.

RESOURCES

Agencies were asked to estimate their annual allocation of resources to manage outsourced IT services. Table 5 identifies the estimated costs to individual agencies of managing outsourced IT.

TABLE 5: AGENCY RESOURCES ASSOCIATED WITH IT OUTSOURCING

AGENCY	NUMBERS OF STAFF SEPARATED	ESTIMATED NUMBER OF FORMER STAFF NOW EMPLOYED BY CONTRACTOR	ESTIMATED ANNUAL COST OF MANAGING IT OUTSOURCING $MILLION
ABA	5	0	$0.195
ACA	5	2	$0.355
ACCC	7	3	$0.365
ACS	200	50	$3.0
AEC	7	3	$0.527
AFFA	50	12	$2.2
ATO	383	109	$3.637
ATSIC	8	1	$0.415
CITA	not known	6	$0.308
EA	22	3	$0.430
Finance	150	not known	5 - 7% of contract cost
HAC	85	approximately 75%	$5.15
IMA	64	0	12.2 staff + $1.916
IP-A	4	0	$0.110
ISR	4	4	$0.159
PM&C	5	3	$0.216
PSMPC	n/a	n/a	$0.117
Screensound	4	1	$0.132
TRS	23	2	5% of contract cost
VA	43	not known	$0.876

There has been some variation in the approaches adopted by agencies to estimating the cost of contract management. In some cases it has not been possible for agencies to isolate fully the cost of contract management from other IT management costs, for example, business development costs. Two agencies, Finance (5–7%) and DoTRS (5%), set targets for the cost of contract management as a percentage of the overall cost of the contract.

Several agencies commented that the level of complexity of contract management and demand on resources had significantly exceeded expectations. This was in part due to the nature of 'group contracts' which appear to be more expensive to manage, but was also attributable to the complexity and scale of IT outsourcing and, in some cases, to a lack of familiarity with public sector accountability on the part of the contractor.

STAFF SEPARATIONS AND SKILL RETENTION

Agencies were asked about staff separations following implementation of the outsourcing and the ongoing skills required to manage the agencies IT arrangements.

Table 5, summarises agency responses on numbers of staff separations although, again, the information provided was patchy. In most cases the staff appear to be IT specialists who were directly performing the functions that were outsourced. IT outsourcing appears to have had little impact on administration and management staff. The PSMPC moved to a group outsourced arrangement from a circumstance where its services had been provided through a combination of a memorandum of understanding (MOU) with Agriculture, Fisheries and Forestry—Australia (AFFA) and contractors. Hence, no staff are reported as separated or joining the contractor.

Six of the agencies that had already outsourced replied that the acquisition of IT skills and capabilities had not been an issue or a problem for them, although only a couple of them elaborated on this. One of these—DVA—pointed out that it was crucial in an outsourced environment to find the right balance and mix of IT skills and knowledge, particularly in the light of emerging technology. IT skills likely to be of increasing importance to the Department included change management, strategic planning and systems integration maintenance and support, capacity planning and maintenance in an evolving distributed environment, project management coordination, and software evaluation.

The other respondents noted that they had to train, recruit or contract staff with the skills necessary to oversee the outsourced arrangements. In most cases, the skills required involved the technical oversight of the contract and/or the strategic planning of IT. Generally speaking, agencies seem to have been able to recruit or buy in these skills.

The maintenance, acquisition or upgrading of contract management skills have also been an issue for agencies.

The Department of the Prime Minister and Cabinet (PM&C) commented that it had retained some technical expertise to provide advice on the technical impact of the outsourcer's recommendations on business operations, but that it had also to acquire new skills in managing complex projects, negotiating outcomes, managing the outsourced relationship and handling escalations.

AFFA mentioned the need to acquire people with a particular mix of technical and project management skills. Some agencies were better equipped, by the nature of their ongoing business, to deal with contract management. The ATO advised that it already had considerable experience in managing large scale IT contracts and operating large scale IT environments. Two agencies commented that the acquisition of contract management skills was part of the broader issue of managing outsourced arrangements generally.

Only a few agencies mentioned the need for other skills and, in most cases, these arose out of particular complexities or difficulties with managing the contract. One agency commented that its contract management team required financial management skills to manage additional complexities introduced by outsourcing such as payment terms, penalties, price variations, invoicing, dispute handling, volume usage, service changes, financial forecasting and notional charge back to end users. Another agency commented that the lack of adequate substantiation data by the outsourced provider had led to the need to employ a resource that was almost full time dedicated to billing issues.

AUDIT AND REVIEW

Agencies have undertaken a range of audit activities associated with the outsourced IT arrangements.

Group 5, for example, reviewed systems for monitoring and reviewing the outsourcer's performance and backup procedures covering accuracy of service level reporting and compliance with booking obligations. Recommendations were made to improve these systems and procedures to ensure compliance with the contract.

AFFA initiated a review of the achievement of specified service levels. The review that found that the intent of the contract had not been achieved to the satisfaction of AFFA and the agreed service levels had not been consistently met.

EFFECTIVENESS OF OUTSOURCING

Agencies were asked about the effectiveness of their outsourced arrangements, whether the level of outsourced service had improved or declined during the contract, and whether it had delivered value for money overall. Agencies were also asked about any effects of outsourcing on client service or access to IT skills.

Agencies' assessment of service levels under outsourced provision of IT infrastructure varied considerably.

Only two respondents reported unequivocally that they had experienced improved levels of service. Other agencies indicated that the outsourced provider now gave comparable levels of service or the level of service contracted for, although initial service levels did not always meet expectations. A number of agencies reported a decline in service levels under outsourced arrangements, even after the transitional period.

A significant proportion of respondents advised that the level of services had improved over the period of the contract, but in several cases these remarks were qualified. The AEC advised that, while there had been improvement, it had been from a very low starting point. IP Australia commented that, while the overall level of service provided had improved over the last eighteen months, it was variable and depended on the particular staff provided by the outsourced provider. The Group 5 agencies noted that, while the level of skills of the outsourcer had probably not changed, the effectiveness with which they were managed and deployed had improved.

Many agencies qualified their comments by pointing out that it was not easy to compare variations in the levels of specific services before and after outsourcing. A common comment by respondents was that, as service levels were not regularly or formally measured prior to outsourcing, any comprehensive or thorough attempt at comparison was problematic. An interesting comment by some respondents, which is also echoed in other comments in this report about outsourcing generally, was that outsourcing had imposed a greater degree of measurability and transparency in the establishment and maintenance of service standards.

Several respondents identified problems with the capabilities of the outsourced provider. These ranged from the maintenance by the provider of technological currency and investment in infrastructure to broader concerns about the overall capacity of the contractor, at least initially, to

provide the service. The ABA noted the problems posed by the complexity of the contract in relation to the capacity and experience level of the contractor.

Differences in interpretation of often complex contractual arrangements have proved a problem. One respondent spoke of the complexity of the agreement and clauses in the agreement that resulted in differences in interpretation in relation to in-scope activities, out-of-scope activities and new business requirements. Finally, individual agencies reported a number of specific operational problems with the contractor, including transitional arrangements, asset management, discrepancies in the inventory of assets transferred, the establishment of reporting and accountability obligations, and deficiencies in specific operational areas.

EFFECTS ON CLIENT SERVICE

Agencies were asked whether the outsourcing of IT had had any effect on the level of client service and whether any differences had emerged between levels of service provided to clients in central and regional offices.

Most agencies reported no or minimal impact on client service levels, some respondents pointing out that the maintenance of appropriate levels of client service was a core priority in the contractual arrangements. Three agencies reported that the decline in service levels had impacted negatively on at least some aspects of their client service capability.

Forty per cent of respondents who had outsourced their IT advised that consistency in levels of service across the organisation, including regional offices, was not an issue. DoTRS reported that service to regions had been made easier because of greater access to resources. Several respondents pointed out that they had tiered arrangements with the outsourced provider which delivered different levels of service to different parts of their organisations, including the regions, and that these arrangements reflected their business priorities.

ACCESS TO SKILLS

Almost all respondents indicated that outsourcing had given them access to a broader range of IT skills, but there were qualifications to this. Several pointed out that the outsourced provider's commitment to other clients sometimes affected the provision of skills at the time they were actually required.

Two respondents advised that the access to skills had declined. The ACS noted that it was clear that outsourcers experience similar difficulty in attracting and retaining skilled people.

VALUE FOR MONEY

Finally, agencies that had outsourced were asked whether they believed that the initiative had provided them with value for money, taking into account all the factors involved in IT outsourcing arrangements including costs, resource allocation and levels of service.

A majority of agencies reported that the initiative had provided them with value for money, although respondents gave varying degrees of justification or explanation. Finance was one agency that provided a detailed response:

For IBM GSA the savings against baseline costings, including the extension of the contract to cover the former Department of Administrative Services components of the Department, were estimated at 31%. Estimated savings have been met or surpassed in the first three years of operation. Also the initiative is considered to deliver a greater level of transparency in relation to IT costs and performance standards, and in particular access to global strategic IT resources and intelligence.

Several agencies advised that, for various reasons including the complexities involved, their short experiences so far with outsourced IT and uneven levels of service, it was not yet possible to give a definitive response.

The Department of Immigration and Multicultural Affairs (DIMA) noted that, while the dynamic nature of IT and changing business requirements make value for money difficult to measure over time, outsourcing had led to enhancements to their IT infrastructure and a better appreciation of IT costs and performance standards.

Three agencies replied that they did not believe that the new arrangements had provided value for money, one commenting that initial estimates of savings were overly optimistic and that the lack of flexibility that would otherwise be available with in-house resources had led to additional expenses.

ACCOUNTABILITY

Agencies that had outsourced were asked a number of questions about how they managed accountability responsibilities and issues.

Those agencies that are members of IT outsourcing groups reported that intellectual property issues were covered by the group contract. PM&C and the ACA reported that their Group contracts provided that any intellectual property owned by the Commonwealth would be retained by the Commonwealth and any intellectual property created by the outsourcer in the course of delivering the services to the Group would become the property of the Commonwealth.

Those agencies that were not part of the group contracts had developed their own arrangements. DVA advised, for example, that its agreement requires the contractor to acknowledge the Department's absolute ownership of the data and of the intellectual property rights in Departmental software. Such ownership and intellectual property rights will not pass or be assigned to the contractor at any time.

Privacy issues are similarly covered by Group or individual contractual arrangements. Group 5 arrangements, for example, treat the outsourced provider as a 'Commonwealth agency' for the purposes of the Privacy Act. The Group 8 agreement contains a similar clause. The ATO's Services Agreement also brings the outsourced provider under the provisions of the Privacy Act. The Cluster 3 Agreement requires compliance with the Privacy Act and security certification by the DSD.

Four respondents advised that they had been subject to an audit by the Office of the Federal Privacy Commissioner (OFPC) that was relevant to IT outsourcing. The agencies were awaiting the Commissioner's Report.

The fourth, ATO, advised that its arrangements were reviewed by OFPC in its report titled Department of Family and Community Services, Australian Taxation Office, Child Support Agency—Information

Privacy Principles. The Privacy Commissioner recommended:

> that all outsourced services where the service provider may have access to personal information, be provided under agreement or contract and that when current contracts and agreements are next amended or negotiated, the ATO and CSA should ensure that conditions regarding the security and confidentiality of information take into account the requirements of the Privacy Act. The ATO responded to the Commissioner that it agreed and complied with the recommendation.

Most respondents advised that they had undertaken a risk assessment, usually as part of the tendering process. Issues identified or being addressed included fraud control, security, business continuity and disaster recovery.

APS VALUES AND CODE OF CONDUCT

Agencies were also asked about what other controls they had in place to ensure that outsourced IT arrangements are compatible with their responsibilities in terms of the APS Values and the APS Code of Conduct.

Five agencies advised that compliance with the Values and the Code of Conduct was specifically written into their contractual arrangements. Group 8 agencies made a similar response.

The Department of Health and Aged Care (DHAC) advised that its Contract Management Unit continually reviews the outsourcer's performance against key performance indicators including the APS Values, and that its outsourcer is contractually bound to comply with several key legislative requirements including the Financial Management and Accountability Act and other legislation.

Other responses indicated that agency views of the probity requirements under the APS Values and the Code of Conduct might be narrow. Several agencies responded to this question by referring simply to the privacy, fraud, performance and security clauses in their contractual arrangements. It is important for agencies to understand that the Values go beyond privacy and security and encompass issues like accountability and the behaviour of contract staff in the workplace.

SOME OBSERVATIONS FOR THE FUTURE

A common theme from agency responses was the impetus given to improved specification and measurement of agency IT requirements. For some agencies, the outsourcing process was the first time that they had specified the desired service levels to enable the agency to meet its and its clients needs. In other cases, the process of outsourcing had enabled agencies to cost their IT operations and to make these costs transparent. Agencies have generally seen this as a positive development.

Related to this has been the cultural shift required to adapt to an environment where the agency no longer directly controls the resources to deliver required IT outcomes. Agencies must work with the outsourcer through contractual terms and conditions. In many cases, this has required agencies to seek additional skills in the contract management area.

Again agency responses identified transitional issues as very significant. A common theme was that, in the initial stages, the outsourcer had difficulty in meeting agency expectations. In most cases these

transitional issues improved significantly over time. Given the magnitude of the task and the cultural shifts required to operate in an outsourced environment this is not unexpected.

The need for agencies to take a strategic approach to the implementation and management of IT outsourcing is emphasised in the Humphry Report (page 16). A strategic approach to IT management must take into account the whole-of-government context within which it operates. Requirements for interoperability arise where there are shared external clients and business partners, and/or where there is a business need to share data, applications or to link transactions. Change on each of these dimensions is being experienced by agencies but the nature, scale and rate of change in interoperability requirements varies from agency to agency.

It is to be expected that, as agencies adopt electronic service delivery strategies, interoperability is becoming a larger issue. In particular, as these strategies incorporate an approach to service improvement integrated around external customer circumstances rather than internal agency structures, they will generate new and increased requirements to consider interoperability.

Opportunities to reduce costs through shared services and outsourced business processes will also be constrained or enabled by the interoperability of the systems of agencies and external providers proposed to be linked in these business arrangements.

These considerations will loom increasingly large in the governance of Commonwealth Information Technology and Telecommunications (IT&T) investments and in the design and management of IT outsourcing arrangements.

The Management Advisory Committee (MAC) has recently set up a sub-Committee to examine the development of a governance and investment framework for the development and management of inter-agency IT&T infrastructure. The MAC process will identify issues that may most appropriately be handled at the whole-of-government level to optimise outcomes from a whole-of-government perspective.

It is important that the potential cost savings and service improvements available are not compromised by contractual arrangements entered into before business process plans, architectural plans and standards are determined. Agencies will need to give early consideration to these issues in deciding future competitive sourcing strategies for IT systems.

Challenges will continue to be faced in seeking to strike the right balance between the devolved management and strengthened accountability that underpin the employment framework now operating in the Australian Public Service (APS). These challenges focus on how to optimise agency flexibility and innovation while at the same time preserving the essential public interest nature of the APS.

Using the flexibilities now available to produce higher performance is an ongoing task for APS agencies. As indicated through the report, there is potential for a greater tailoring of management approaches to agency needs and circumstances. Achieving this will take concerted and strategic leadership, encompassing deliberate shaping of organisational structure and culture to achieve business outcomes.

At the same time, it is vital that, as required by the legislation, agencies promote and uphold the APS Values and that proper accountability is a focus for attention. Agencies will need to build on the progress they have already made in lifting staff awareness of the Values to embed them into management systems and approaches that underlie the culture of the agency. Identifying and closing any gaps between rhetoric and reality will need to be a priority for all agencies, as will monitoring staff views on their progress.

The more commercialised and contestable environment in which the APS operates heightens the need for organisational approaches and behaviour to be grounded in, and consistent with, the APS Values and Code of Conduct. This environment will also continue to give rise to challenges in meeting the high standards of accountability expected of the public service. In particular, agencies will need to ensure that their approaches to contracts and contract management are open to proper scrutiny and that senior managers fully understand their rights and responsibilities in this regard. The protection of sensitive information in an outsourcing situation, from both a privacy and a security point of view remains a major issue for agencies. Further improvement also needs to be made in the quality of performance reporting as part of the new accruals-based, outcomes and outputs framework.

Other aspects of the APS environment are also shifting and increasing in complexity, demanding an ongoing strategic response by agencies. The size, shape and nature of the APS and of its workforce is changing. Agencies need to have a full understanding of their organisation's demographics and the changing skills and capabilities required for effective delivery of agreed Government outcomes, and they need to be more systematic about their workforce planning to achieve this result.

Succeeding in this complex environment requires strong and dynamic leadership and a broader range of organisational capabilities. The Service collectively, and agencies individually, will need to invest significantly on this front.

It will also require performance management to continue as a high priority for agencies. They will need to give further attention to integrating the various elements of agency performance management frameworks, linking business planning and priority setting to individual performance expectations in practical ways. Agencies will need to focus more on using performance management

to reinforce values and behaviours and on ensuring that this is supported by their people management practices and that processes for handling under-performance are workable.

On the performance based remuneration front, agencies will need to ensure that their systems are consistent with the APS Values and are part of a strategic approach to remuneration more generally. They will also need to pay attention to the appropriate reporting of such approaches and their outcomes.

Funding of pay increases has been identified by a number of agencies as a challenge, particularly by smaller agencies. The evidence of any correlation between size and pay outcomes is not definitive. The fact that 75% of agencies reported that funding constituted a significant impediment to agreement making, however, means that the issue will need to be kept under review. There are also issues for agencies in ensuring that responsible wage and conditions outcomes are linked to productivity enhancing measures.

In meeting these challenges and making the transition to the new employment framework, agencies have been looking to their corporate services areas to play more of a strategic role in driving and supporting cultural change. Building a modern human resource (HR) capacity that is able to offer organisational change, build capability and link HR initiatives to achieving organisational outcomes is the key to raising performance in agencies.

Leveraging information technology (IT) to maximise efficient client service will continue as a challenge for most agencies. This will encompass developing strategic IT skills among leadership teams, managing outsourced arrangements, advancing the online strategy, ensuring website accessibility, and reviewing organisational business structures. To ensure that IT potential is maximised in programs and service delivery, it is important that the governance and infrastructure for IT across the Service provides for an appropriate level of interoperability. This is the focus of a Management Advisory Committee project currently underway.

More widely, as important issues continue to reach across traditional portfolio boundaries, the challenge is for agencies to foster approaches encompassing a whole-of-government perspective to policy development and service delivery.

In its centenary year, the APS has shown a remarkable capacity to adapt. It will need to continue to do so into the future, at both the agency and Service-wide level.

QUESTIONS FOR DEPARTMENTS AND AGENCIES

Agencies are requested to provide information on the items identified below. We are generally seeking a short statement for each item in the space provided , although agencies are encouraged to provide or attach more detailed responses in cases where the agency considers that its experience and views might be of particular interest. Electronic versions of this form are being emailed to agencies and will also be available on the PSMPC web site.

MAIN THEME: AGENCY MANAGEMENT OF REFORM

A main feature of legislative, administrative and policy change over the last few years has been to give individual agencies greater flexibility to manage human resource and other functions. The management of these functions, however, must take place within a framework aimed at upholding the APS Values..

The new Act gives agencies a great deal of discretion in some areas of human resource management, particularly in assessing eligibility and suitability for engagement. Agencies are asked:

- what arrangements, if any, have they put in place to manage probation for new APS employees;

- what arrangements, if any, have they put in place to assess the health and character of potential employees;

- what arrangements have they put in place to ensure that they are complying with legislation which prohibits them from engaging staff who have taken a redundancy benefit from the APS or other Commonwealth authority in the last 12 months;

Detailed legislative provisions for determining breaches of the Code of Conduct have also been replaced by a short framework of basic requirements set out in Chapter 5 of the Public Service Commissioner's Directions 1999. Last year's State of the Service Report noted that nearly 80 per cent of agencies had already established their own procedures, and of these nearly half advised that they had drawn on the basic model for determining breaches of the Code of Conduct suggested by the PSMPC in November 1999.

In my letter of 14 June 2000 I referred to concerns about the Commissioner's Directions dealing with procedures to determine breaches of the Code of Conduct, and the potential for the development of a variety of different procedures. I indicated that I would be following the matter up in 2000-2001.

In light of these issues, agencies are asked:

- to provide copies of their procedures for determining breaches of the Code of Conduct, with the date of promulgation;

- to indicate where they have adopted the draft PSMPC procedures and, indicate, if this was the case, whether they have subsequently added to or amended the procedures to take account of their particular requirements;
- to describe consultations with employees, if any, which have taken place in the course of developing these procedures;
- to describe how they make their staff aware of these procedures;
- to describe procedures, systems or other guidelines they may have put in place to cover the imposition of sanctions under the Code, including the maintenance of any degree of uniformity across the agency;
- to provide any statistics on the use of the new procedures;
- to provide any general views or comments on whether the new framework has helped manage ethical and conduct issues more effectively.

The new Act and associated administrative changes have given agencies increased flexibility to explore alternative selection processes within an overall legislative framework of merit selection principles. Agencies are asked:

- to describe any changes they have made in the last two years in methods and procedures for assessing the suitability of candidates for engagement or promotion, including whether these arrangements operate in all circumstances or only for particular levels or types of jobs;
- to describe any assessments they have made or other views they may have of the effectiveness of these methods and processes, including in terms of cost, speed of vacancy filling, employee perceptions of fairness and the upholding of the Merit Value;
- to advise whether, on the basis of these assessments, these new methods have been modified or abandoned.

These changes have also given agencies much greater responsibility and scope for managing reviews of employment decisions, including the use of consultants. Last year's report noted, for example, that several agencies had taken advantage of the provisions in the new Act for alternative dispute resolution processes. This year, agencies are asked:

- to describe arrangements they have put in place to facilitate the alternate resolution of disputes, including any comparative statistics they may have on the usage of this alternative;
- to describe any arrangements they have put in place for the employment of consultants to undertake reviews, including how they are selected and how their understanding of the APS Values is assessed;
- to comment on whether concerns have been raised by staff about the objectivity of consultants employed under contract to agency management and how these concerns have been responded to.

Last year's Report sought information on agency broadbanded structures. This year I am seeking an update on some aspects of broadbanding. Agencies are asked:

- to describe any new broadbanded arrangements they have introduced or developed during the reporting period;

- to describe any modifications made to existing broadbanded structures and the reasons for these changes;
- to provide any general comment on the operation of agency broadbanded structures from the point of view of efficient vacancy filling in the interests of agency effectiveness.

MAIN THEME: CAPABILITY DEVELOPMENT

A major thread in State of the Service reporting has been the identification and development of the capabilities the APS needs to be able to respond to the requirements of the new financial, management and client service frameworks. There are emerging concerns about contract management and policy development skills. One major sub theme of the last year's report was the challenge for agencies to put workforce planning knowledge into practice. Agencies are asked:

- to describe any progress they have made in the development and application of workforce planning frameworks. Are they aware of and have they used the ANAO good practice guide Planning for the Workforce of the Future?

- to describe any issues for them in the development or retention of contract management skills and any strategies they have put in place to address these;

- to describe any issues for them in the development or retention of policy analysis, development and advisory skills and any strategies they have put in place to address these;

- to comment on what they see as the major pressure points in the employment framework— recruitment, remuneration, retention etc—which most impact on their ability generally to maintain capabilities.

MAIN THEME: LEADERSHIP

Last year's Report noted the contribution of effective leadership to organisational performance. It focussed on central agency initiatives, but it also noted the ongoing challenge for the development of leadership initiatives in individual agencies. Agencies are asked:

- to describe initiatives planned or put in place to promote effective leadership at both SES and non-SES levels, including:

    — Succession planning

    — Learning and development programs

    — Integration of leadership and other learning and development programs

    — Use of the Senior Executive Leadership Capability Framework;

    — Coaching and mentoring
- to describe any evaluation so far of these initiatives and its outcomes.

Last year's Report also emphasised the importance of cross agency leadership development. Agencies are asked:

- to describe any unilateral or combined mobility or non-ongoing transfer programs or arrangements they may have developed or entered into to provide leaders and potential leaders with cross APS experience;
- to provide information on the number of employees who have participated in these programs during the reporting period;
- to describe their experiences with these programs, including any problems with take up rates and with the temporary or permanent loss of important skills.

MAIN THEME: OUTSOURCING AND MARKET TESTING

In November 1999 the Government reaffirmed its commitment to Competitive Tendering and Contracting (CTC) as a key component of its public sector reform. Market testing of relevant activities and services is mandatory for all agencies subject to the Financial Management and Accountability Act 1997. Implementation has focused so far on corporate services, which includes such areas as human resource management, financial services, records management and facilities and accommodation management.

This year's State of the Service Report will focus in particular on the market testing of human resource management, which needs to comply in particular with the APS Values relating to merit, diversity, equity in employment, workplace co-operation and open access to jobs. Agencies are asked:

- to describe the particular HR functions—payroll, records, recruitment, planning, development etc, that they have outsourced or are planning to outsource, and the reasons for these decisions;
- to describe, where appropriate, the models, systems or controls they have in place to ensure that the APS Values are upheld in relation to outsourced HR functions;
- to describe in particular any arrangements that involve outsourced recruitment and selection processes, including systems to ensure that these arrangements are consistent with the APS Values and the merit and diversity provisions of the legislative framework.

MAIN THEME FINANCIAL MANAGEMENT

Last year's Report focused on agency preparations for the implementation of the Government's tax reform package, which came into effect on 1 July 2000. 2000-2001 was also the first fully operational year for devolved banking. Agencies are asked:

- to describe their experiences in managing the tax reform package in its first full year of operation, including any particular issues they faced;
- to describe their experiences in managing devolved banking, including any particular issues from the point of view of ease of operation, financial flexibility and probity.

MAIN THEME: MANAGING IN AN ELECTRONIC AGE

Last year's Report also focussed on agencies' accountability for the collection and storage of electronic data, with feedback from agencies and other sources indicating that progress had been made but that more needed to be done. An area of particular interest was the protection of electronic data transferred to non-APS and private organisations, with last year's Report noting that the passage

of the Privacy (Private Sector) Bill (which was passed in December 2000 and will come into effect in December 2001) will place increased responsibilities on agencies in this area. Agencies are asked:

- to describe, where appropriate, measures taken to ensure that electronic data on clients which have been provided to contractors delivering services on their behalf comply with the information privacy principles;
- to describe in particular steps they are taking to ensure that these arrangements will meet the requirements of the *Privacy (Private Sector) Act 2000*;
- to describe any other confidentiality requirements, including any updates on information provided last year;
- to describe any assessment or evaluation of the effectiveness of these measures.

Last year's Report focused in particular on the on line delivery of services and raised a number of challenges for agencies, including, ultimately, the responsibility to uphold and promote the APS Value which relates to the delivery of effective client service which is sensitive to a diverse public. Agencies are asked:

- to describe the assessments they have made of the issues for their clients in accessing electronic services, including location, access to infrastructure, age and cultural and linguistic diversity;
- to describe the strategies they have put in place to address these issues, or any they are planning to implement.

LIST OF RESPONDING AGENCIES

Aboriginal and Torres Strait Islander Commission
Aboriginal Hostels Limited
Administrative Appeals Tribunal
Australian Agency for International Development
Australian Antarctic Division
Australian Competition and Consumer Commission
Australian Customs Service
Australian Geological Survey Organisation
Australian Greenhouse Office
Australian Industrial Registry
Australian Institute of Aboriginal and Torres Strait Islander Studies
Australian National Audit Office
Australian Protective Service
Australian Radiation Protection and Nuclear Safety
Australian Transaction Reports & Analysis Centre

Bureau of Meteorology

Centrelink
Comcare
Commonwealth Grants Commission

Department of Communications, Information Technology and the Arts
Department of Defence
Department of Education, Training and Youth Affairs
Department of Employment, Workplace Relations and Small Business
Department of Family and Community Services
Department of Finance and Administration
Department of Foreign Affairs and Trade
Department of Health and Aged Care
Department of Immigration and Multicultural Affairs
Department of the Prime Minister and Cabinet
Department of Veterans' Affairs

Environment Australia

Federal Court of Australia
Federal Magistrates Service

Human Rights and Equal Opportunity Commission

Insolvency and Trustee Service, Australia
Inspector-General of Intelligence and Security
IP Australia

National Archives of Australia
National Capital Authority
National Competition Council
National Library of Australia
National Museum of Australia
National Office for the Information Economy

Office of Asset Sales and Commerical Support
Office of Film and Literature Classification
Office of National Assessments
Office of Parliamentary Counsel

Productivity Commission
Professional Services Review
Public Service and Merit Protection Commission

Questacon

Refugee Review Tribunal

ScreenSound Australia

Treasury

AQTF	Australian Quality Training Framework
AAWI	Average Annualised Wage Increase
ABS	Australian Bureau of Statistics
ACA	Australian Communications Authority
ACCC	Australian Competition and Consumer Commission
ACIAR	Australian Centre for International Agricultural Research
ACS	Australian Customs Service
AEC	Australian Electoral Commission
AFFA	Agriculture, Fisheries and Forestry–Australia
AFP	Australian Federal Police
AGO	Australian Greenhouse Office
AGS	Australian Government Solicitor
AGs	Attorney-General's Department
AGSO	Australian Geological Survey Organisation
AIHW	Australian Institute of Health and Welfare
AIMS	Accrual Information Management System
AIRC	Australian Industrial Relations Commission
ANAO	Australian National Audit Office
ANTA	Australian National Training Authority
APS	Australian Public Service
APSED	APS Employment Database
AQIS	Australian Quarantine and Inspection Service
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
ATSIC	Aboriginal and Torres Strait Islander Commission
AusAID	Australian Agency for International Development
AUSTRAC	Australian Transaction Reports and Analysis Centre
Austrade	Australian Trade Commission
AWA	Australian Workplace Agreement
CA	Certified Agreement
CAC Act	Commonwealth Authorities and Companies Act 1997
CDAC	Career Development Assessment Centre

CEN	Centrelink Education Network
CEO	Chief Executive Officer
CFO	Chief Finance Officer
COMNET	Corporate Management Network
CRS	Commonwealth Rehabilitation Service
CSA	Child Support Agency
CSS	Commonwealth Superannuation Scheme
CTC	Competitive Tendering and Contracting
DETYA	Department of Education, Training and Youth Affairs
DEWRSB	Department of Employment, Workplace Relations and Small Business
DFAT	Department of Foreign Affairs and Trade
DHAC	Department of Health and Aged Care
DIMA	Department of Immigration and Multicultural Affairs
DoTRS	Department of Transport and Regional Services
DVA	Department of Veterans' Affairs
EAP	Employee Assistance Program
EL	Executive Level
FACS	Department of Family and Community Services
Finance	Department of Finance and Administration
FMA Act	Financial Management and Accountability Act 1997
GST	Goods and Services Tax
HLN	Health Leadership Network
HREOC	Human Rights and Equal Opportunity Commission
HR	Human Resource
HRMC	Human Resource Management Committee
IP Australia	Intellectual Property Australia
IPAA	Institute of Public Administration - Australia
IPP	Information Privacy Principles
ISR	Department of Industry, Science and Resources
IT	Information Technology
ITSA	Insolvency and Trustee Service Australia
IVR	Interactive Voice Response
JCPAA	Joint Committee of Publice Accounts and Audit
JSC	Joint Selection Committee
MAC	Management Advisory Committee

MPC	Merit Protection Commissioner
MPRA	Merit Protection and Review Agency
NAIPS	National Aeronautical Information Processing System
NLA	National Library Of Australia
NOIE	National Office for the Information Economy
NPP	National Privacy Principles
OASAC	Office of Asset Sales and Commercial Support
OEA	Office of the Employment Advocate
OFPC	Office of the Federal Privacy Commissioner
OH&S	Occupational Health and Safety
OLA	Open Learning Australia
OPC	Office of the Parliamentary Counsel
PBS	Portfolio Budget Statements
PCO	Privacy Contact Officers
PM&C	Department of the Prime Minister and Cabinet
Privacy Act 2000	Privacy Amendment (Private Sector) Act 2000
PS Act 1922	Public Service Act 1922
PS Act 1999	Public Service Act 1999
PSMPC	Public Service and Merit Protection Commission
PSS	Public Sector Superannuation Scheme
PSTP	Public Services Training Package
PwC	PricewaterhouseCoopers
Questacon	National Science and Technology Centre
RFT	Request for Tender
RTO	Registered Training Organisations
SAC	Selection Advisory Committee
SELCF	Senior Executive Leadership Capability Framework
SES	Senior Executive Service
SWIM	Senior Women in Management
the Act	Public Service Act 1999
the Directions	Public Service Commissioner's Directions 1999
VET	Vocational Education and Training
W3C	World Wide Web Consortium
WILES	Women in Law Enforcement Strategy
WR Act	Workplace Relations Act 1996