


# Deprivileging the public sector workforce: Austerity, fragmentation and service withdrawal in Britain

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## Abstract

The impact of the financial crisis has reignited debate about the scope and scale of public sector restructuring and its consequences for the workforce in Britain. The economic crisis precipitated austerity measures concentrated on expenditure reductions with the intention of reducing the public deficit. Because the public sector pay bill comprises over half of current public spending, achieving deficit reduction has major consequences for the total pay bill and the workforce. This article assesses the restructuring of the public sector and public sector employment relations in Britain and identifies underlying continuities in public sector restructuring over recent decades. Drawing on and repositioning New Labour's legacy, the Coalition government used the economic crisis to establish a pro-austerity frame that has legitimated deep cuts in public sector employment and involved measures to refashion public sector employment relations. The article considers the consequences of this agenda and responses by trade unions and indicates some of the limits and uncertain prospects for public sector restructuring under conditions of austerity.

**JEL Codes:** H40, H50, H83, J45

## Keywords

Austerity, employment conditions, global financial crisis, managerialism, public sector management, trade unions

## Introduction

The economic crisis has been identified as a turning point for public sector employment relations, and in Europe this is part and parcel of a larger onslaught on the European

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social model (European Commission, 2013; Vaughan-Whitehead, 2013). It is not, however, the first time that analysis of the public sector has focused on radical change, associated with policies of privatisation and the implementation of new public management from the 1980s as part of a shift from hierarchies to markets (Ferlie et al., 1996; Organisation for Economic Cooperation and Development (OECD), 2008). Considerable doubts remain about the claims made for these reforms in terms of improvements in service quality and reductions in running costs of government (Hood and Dixon, 2013; Seddon, 2014). Misgivings have also been expressed by politicians, frustrated at their inability to 'modernise' public services. Former Prime Minister Tony Blair referred in 1999 to the 'scars on his back' from confronting 'vested interests' and argued that 'we had inherited a public sector largely unreformed' (Blair, 2010: 214). This reflected his belief that Conservative governments had made limited inroads into altering monopolistic public services and that choice and competition had to be extended under the rubric of modernisation (Blair, 2010). Similar sentiments were expressed by Prime Minister David Cameron when he stated that 'I want one of the great achievements of this government to be the complete modernisation of our public services' and argued that centrally directed target-based reform had to be replaced with more choice, localism and professional staff empowerment (Cameron, 2011).

The impact of the financial crisis has reignited debate about the scope and scale of public sector restructuring and its consequences for the workforce. The economic crisis precipitated austerity measures concentrated on expenditure reductions with the intention of reducing the public deficit. Because the public sector pay bill comprises over half of current public spending, achieving deficit reduction has major consequences for the total pay bill and the workforce (Institute for Fiscal Studies (IFS), 2014). Blyth (2013) suggests that an ideological sleight of hand occurred in which policy makers converted an economic crisis into a sovereign debt crisis with accompanying austerity measures that transferred the burden of adjustment to the public sector and its workforce. In the immediate aftermath of the economic crisis, policy makers across Europe favoured economic stimulus, but this rapidly gave way to an analysis that laid the blame for public deficits at the feet of a bloated public sector. The Conservative-led Coalition government stated that 'deficit reduction and continuing to ensure economic recovery, is the most urgent issue facing Britain' (Cabinet Office, 2010: 15). This statement resonates strongly with the statement by the Thatcher Conservative government that 'Public expenditure is at the heart of Britain's present economic difficulties' (HM Treasury, 1979: 1). This narrative of crisis has been deployed in previous circumstances notably during the public sector strikes of 1978–1979, labelled the 'Winter of Discontent', creating political opportunities for a radical break with past practice (Hay, 1996).

McCann (2013) also recognises political opportunities that stem from moments of crisis and focuses on the importance of ideology in shaping ideas about limited government in the aftermath of the economic crisis. Political actors frame debate to narrate a particular version of the crisis, apportion blame and propose specific solutions. Policy makers use 'mechanisms of hope' to signal that a better future will follow and rhetoric is deployed to help frame and gain acceptance for specific austerity policies. McCann (2013) distinguishes between pro-austerity and anti-austerity framing devices that stripped down signal different assumptions about the efficacy of market mechanisms

versus state provision. The pro-austerity frame which has been dominant portrays cuts as rational in restoring economic growth and also sensible to reduce terms and conditions of public sector workers to limit cuts in employment. The anti-austerity frame portrays austerity as ideologically driven and designed to enhance privatisation, punish public sector workers and limit the role of government. Skidelsky (2015) similarly identifies pro-austerity frames in Britain and accuses the Chancellor of the Exchequer of constructing a misleading political narrative that invoked the Greek economic crisis and the role of the public sector within it as a salutary warning to be avoided.

This article assesses the restructuring of the public sector and public sector employment relations in Britain and identifies underlying continuities in public sector restructuring over recent decades. Drawing on and repositioning New Labour's legacy, the 2010–2015 Coalition government used the economic crisis to establish a pro-austerity frame that has legitimated deep cuts in public sector employment and involved measures to refashion public sector employment relations. It considers the consequences of this agenda and responses by trade unions and indicates some of the limits and uncertain prospects for public sector restructuring under conditions of austerity.

## **Austerity in the context of public management reform**

Austerity measures built on and intensified decades of public sector reform, centred on a sustained attempt to alter the basic organisational principles of the public sector in a shift towards the contract state (Kirkpatrick and Martinez Lucio, 1996). From the 1980s, priority was placed on private sector wealth creation, and the public sector was required to implement commercial principles and assist in enhancing competitiveness in a more global economy. Fragmentation and devolution of responsibility occurred by breaking up unified public services into constituent business units. This process started with the establishment of civil service agencies, and similar principles were applied to hospitals and schools that over time became individual employers. These changes provided local managers with enhanced operational discretion, including on rewards and working practices, but also increased central government scrutiny of performance. Performance management has been the dominant feature of centralised control. Targets elaborated at organisational, divisional and individual levels have proliferated and become the dominant component of staff management. Performance measures are overseen by powerful specialist central government agencies and legitimated by an emphasis on providing the public with league table information to inform choice (Bach and Kessler, 2012; Jordan, 2010).

Forms of marketisation have delegated service provision from the state to private providers and aimed to increase competition by encouraging more diverse service providers. From the 1980s, outsourcing of services spread from ancillary services such as hospital cleaning to include administrative and technical functions, and have subsequently extended into core areas of public service such as social care (Cunningham and James, 2009). These developments were accompanied by downward pressure on labour standards and an erosion of the public sector ethos (Hebson and Grimshaw, 2003). New providers were encouraged to enter public service markets and followed a similar pattern with initially private sector provision supplementing existing services – for example, to reduce waiting lists – but increasingly becoming more central to the provision of

back-office and frontline services. The expansion has been underpinned by shifts in financial regimes with payment by results and the growth of personal budgets facilitating the growth of outside providers (Leys and Player, 2011; Whitfield, 2012).

These overall contours of state restructuring were refined by the specific policies and priorities of successive governments. New Labour developed a hybrid approach that embraced core components and assumptions of market governance while also developing a distinctive agenda of public sector modernisation associated with network governance (Bevir, 2005). Marketisation remained prominent, but outsourcing was no longer the default position expected by government. In the National Health Service (NHS), hospitals were provided with opportunities to gain foundation status, while under-performing schools were encouraged to opt out of local government control to become academies. Despite the policy emphasis on managerial autonomy, a more direct line of accountability was established between central government and foundation hospitals and academies, reinforcing the emphasis on achieving central government targets.

Endorsement of marketisation and increased managerial autonomy did not preclude the adoption of policies associated with network governance that comprised an important element of New Labour's approach. Network governance signalled an emphasis on collaboration between a wider range of actors within networks to produce more coherent 'joined-up' solutions (Bevir, 2005). In shifting away from an over-reliance on market mechanisms and contractual incentives, Osborne (2010) contends that network governance responded to and overcame many of the limitations of managerialism and marketisation that fragmented public services, eroded co-ordination and portrayed users as passive consumers. This agenda included forms of co-production and institution building, especially in relation to workforce development and regulation, and fostered partnerships between organisations and with the workforce. Tensions between continuing managerialism and marketisation and forms of network governance were exemplified by the difficulties of reconciling hands-off steering with the political saliency of public services that fostered continual direct forms of political intervention (Bach and Kessler, 2012; Jordan, 2010). The tensions demonstrated the shortcomings in practice of separating what Osborne and Gaebler (1992) termed 'steering' from 'rowing', making it difficult to implement policy. This criticism has been forcibly expressed by the OECD (2015) that has recently distanced itself from its former enthusiasm for New Public Management reforms.

## **Coalition government: Public expenditure reductions**

New Labour's legacy was drawn on selectively by the incoming 2010 Conservative-led coalition government, with the Liberal Democrats constituting the junior partner in government. Coalition government was a major departure for the British parliamentary system, but the Liberal Democrats were committed to deficit reduction. Nonetheless, they tempered some aspects of the Conservative's pro-austerity orientation and assault on collectivism as well as promoting forms of localism (Scott and Williams, 2014). The government's agenda extended beyond deficit reduction, and its ambition was to use the economic crisis as an opportunity to bring about a fundamental shift in the size and scope of the state (Grimshaw, 2013; Taylor-Gooby, 2012). Restructuring and shrinking of the

public domain have occurred under the rubric of promoting civil society and localism, reinforcing the decentring of the state. The most visible development, however, has been an extension of contracting out into areas such as job placement, probation services, primary healthcare and back office services (human resources (HR), information technology (IT)). Government outsourcing contracts amount to approximately £90 billion per annum – a substantial increase since 2010 – but it has been accompanied by major service failure and parliamentary criticism of the lack of transparency and accountability of outsourced providers (Public Accounts Committee, 2014).

Outsourcing has formed part of an agenda to extend markets and diverse service provision. In health services, the 2012 Health and Social Care Act increased contestability for primary and hospital services by encouraging service provision by ‘any qualified provider’ (Krachler and Greer, 2015). The schools landscape has been transformed by the expansion of academy schools from 203 in 2010 to 4344 by December 2014 (Education Committee, 2015: 5). Academies are funded and answerable directly to central government, distancing them from local authority control. In addition, a smaller number of free schools have been established by parents, teachers and academy chains and are intended to increase local choice and stimulate innovation. Academies and free schools are not bound by national terms and conditions of employment, can employ unqualified teachers and can set their own school hours, but few have used these freedoms. Of more concern is the lack of transparency and accountability of academies and the scope for misuse of public funds in an overly centralised and remote system of central government scrutiny (Education Committee, 2015).

In promoting more diversity of supply, the Coalition government was circumspect in championing the benefits of private sector provision, with more public emphasis placed on voluntary sector involvement and creating more scope for small and medium-sized enterprises (SMEs) to gain government contracts (Bach, 2012). The latter goal has proved elusive because the large private sector service firms have the capacity, networks and experience to win large government contracts. Public sector staff have also been encouraged to set up public service mutuals that may be structured as employee-owned enterprises, social enterprises or co-operatives (Cabinet Office, 2014). Mutuals remain small scale with 100 public service mutuals employing around 35,000 employees often spun off from local authorities in areas of social care, but there are widespread trade union concerns that mutuals represent a first stage towards privatisation (Michie, 2012).

A related component of the coalition’s agenda was to bolster service user voice and choice to strengthen the power of service users as a counterweight to professional influence, part of an international trend towards enhanced user involvement (OECD, 2014). From 2014, the revised OFSTED (school inspection) framework draws more systematically on parental and pupil views, and parents can trigger an OFSTED inspection, raising concerns among head teachers about vexatious complaints. In hospitals, an emphasis on ‘the patient experience’ is more prominent partly because of recent hospital scandals, allowing trusts to use patient feedback not only to improve services but also to identify staff who do not adhere to trust values centred on dignity and compassion.

The integrating element of this policy agenda is a reframing of the public domain that severely curtails state intervention in providing public services and reduces the size of the public sector as an employer, downgrading further its ambition to set an example in

key policy domains such as gender equality and disability rights (Rubery, 2015). Scaling back state provision involves more rationing and conditionality of provision as well as service withdrawal, curtailing the ambition of the state as a safety net. In high-profile public services that are integral to national competitiveness – education and health – the public domain is increasingly defined in terms of public financing and regulation, rather than being equated with public sector provision. In other areas of formerly public provision, the Coalition government used pro-austerity frames to develop a narrative of personal responsibility and an emphasis on voluntary action (termed the Big Society) to replace and reconfigure services with more reliance on voluntary labour, often backed up by compulsion, because of benefit sanctions if work was declined (Bach, 2012). The Coalition government was ridiculed for its emphasis on the ‘Big Society’, but substituting voluntary for paid employment remained an integral theme in the Conservative Party (2015) manifesto and was part of a broader attempt to blur the boundaries between paid and unpaid work, exemplified by the growth of unpaid internships.

### **Deficit reduction and austerity measures**

The Coalition government had an implicit model of public sector reform in which quantitative reductions in public expenditure were viewed as stimulating qualitative shifts in practice and fostering innovation. This approach was made more explicit after the Conservative party achieved a parliamentary majority in the 2015 general election with emphasis placed on developing a smarter state (Cameron, 2015).

As Streeck and Mertens (2013) point out, Britain was one of very few major industrialised countries that witnessed significant growth in public expenditure in the decade prior to the crisis. Public expenditure increased from £333 billion in 1998–1999 to £582 billion in 2007–2008: an increase of 75%, especially in high-profile services such as health and education. Total public expenditure increased from 38% of gross domestic product (GDP) in 1997–1998 to 40% in 2008–2009 and then rose after the crisis to 45% by 2010–2011, with plans to reduce it to 36% by 2019–2020 (Office of Budget Responsibility (OBR), 2015; Shaoul, 2011).

This investment made a substantial difference in remedying decades of under-investment and helped to curtail staff shortages but also gave rise to what Dolton and Makepeace (2011) term ‘sector envy’, in which private sector employees believed that the grass was greener in terms of wages and conditions in the public sector. Pay comparisons are sensitive to the time period, gender and qualifications of the workforce, and in the UK the existence of a public sector wage premium mainly benefits women and reflects lower levels of discrimination against women in the public sector in comparison to the private sector (Rubery, 2015). Other studies point to variations in terms of a pay premium or pay penalty across the European Union (EU), with the UK neither exhibiting a significant pay penalty or pay premium (see Muller and Schulten, 2015). Nonetheless, the supposed higher pay, better conditions and excessive top management pay have been used by the Coalition and subsequent Conservative government to advance the message of public sector excess and to cap public sector exit payments at £95,000 (Treasury, 2015).

Deficit reduction was therefore framed as essential to enhance competitiveness and economic growth. In the 2010 spending review, £81 billion of spending cuts were identified

(total government expenditure in 2010–11 was £697 billion) with deficit reduction skewed towards expenditure reductions – around 80% – rather than tax increases. Public expenditure cuts have been distributed very unevenly between departments with pledges to increase real spending on the NHS, schools, international development and latterly defence accompanied by larger cuts for unprotected departments. An overall 9.5% real cut in departmental spending (2010–2015) was translated into in excess of a 20% cut for unprotected departments (IFS, 2015: 158).

## Implications for employment relations

This agenda has occurred in a wider context of the economic crisis and low growth in the EU. Britain's finance-led growth model with a disproportionately sized finance and banking sector led to a very sharp deterioration in Britain's debt and deficit position after 2008 (IFS, 2015). Britain, however, is not a member of the Euro zone and therefore sheltered from the need to undertake internal devaluation while also benefitting from very low interest rates and long-dated debts, resulting in less frequent debt rescheduling. Britain's austerity programme can therefore be characterised as being dominated by *internal* pressures for fiscal consolidation. This can be contrasted with *external* market pressure, especially among the most financially vulnerable EU countries (most obviously Greece), where the severity of the crisis has led to sustained pressure from the Troika to reduce public sector wages and employment (Bach and Bordogna, 2013).

## Pay determination under the Coalition government

The traditional model of public sector employment relations has comprised industry-specific national negotiating machinery accompanied by local consultative arrangements. This model has been modified by the expansion of the system of independent pay review from the 1980s (White and Hatchett, 2003). The pay review bodies make recommendations to government and cover all NHS staff, schoolteachers, the armed services, senior civil servants and the police. The Coalition government had no shortage of advice that public sector national pay bargaining should be abolished and pay should become more reflective of local labour market conditions and individual performance (Wolf, 2010). Moreover, wage restraint has contributed to generating spending reductions and formed part of an agenda to downgrade pay and condition in the public sector that are considered by government overly generous. Changes in public sector pension provision have occurred that increased contributions and raised the pension age in a phased approach, further depleting the model employer tradition (see IFS, 2014).

There was no consultation with employers or trade unions prior to the 2010 announcement of a wage freeze, and there has been an increased trend towards unilateralism in pay determination with Coalition government pay policy announced in budget statements and not subject to meaningful dialogue. Public sector pay policy comprised 2 years of a pay freeze, followed by a 1% limit on public sector pay awards that will continue until 2019–2020. This policy is leading to real wages in the public sector being at their lowest level in comparison to the private sector since the late 1990s, a period of public sector recruitment and retention difficulties (IFS, 2014). Government pay policy has had major

consequences for the system of independent pay review, always regarded with suspicion by many trade unions committed to 'free' collective bargaining. The government has limited the scope for manoeuvre of the pay review bodies through increasingly prescriptive remits on matters such as progression pay. This led the review bodies to raise concerns that their independence was being questioned and this unease was reinforced by the decision of the Secretary of State for Health to reject the 2014 recommendation of the NHS pay review body for a 1% pay award (Sharp, 2015). Instead, the government implemented a 1% pay increase only for those staff who had no scope for progression within their pay range, provoking strike action and a partial government retreat. At the same time, the government used the pay review bodies to pursue reforms of terms and conditions in the NHS (in relation to unsocial hours payments) that are regarded as matters for the NHS staff council (comprising employers and trade unions). These developments not only raise questions about the independence and effectiveness of the pay review bodies – traditionally viewed as an arms-length form of collective bargaining – but more broadly indicate that the state remains a distinctive employer in terms of its capacity to downgrade joint regulation in times of national 'crisis' and impose wage restraint.

Aspirations to decentralise and individualise pay determination reflected long-standing Conservative party antipathy to national pay determination. One prominent target has been a commitment to reform pay progression viewed as 'antiquated' and 'deeply unfair' as the Chancellor of the Exchequer (June 2013) outlined:

The biggest reform we make on pay is to automatic progression pay. This is the practice where many employees not only get a pay rise every year, but also automatically move up a pay grade every single year – regardless of performance.

This caricature ignores rewarding competence gained by experience and ensuring career development, especially important in what remain internal labour market career structures. In the civil service, the Treasury and the Cabinet Office are able to exert direct control over pay policy, despite the delegation of pay determination to individual departments and agencies in the early 1990s, and is overseeing the removal of pay progression. These developments are linked to encouraging performance-related pay. The NHS negotiations between employers and trade unions led to a 2013 agreement that increased the number of performance reviews in the NHS pay structure. Cautious reforms were also evident in local government, ensuring that staff meet their objectives before progression occurs rather than it being 'automatic' (Bach and Stroleny, 2014; Local Government Association (LGA), 2013).

Potentially more far-reaching changes have occurred in teachers' pay with the School Teachers' Review Body recommending the introduction of a system of performance-based pay that commenced in 2013–2014. A form of performance-based pay has existed since 2000 with teachers required to demonstrate effective performance to progress to a higher pay scale. The revamped system of performance-based pay removes seniority-based progression; instead, all teaching staff are required to achieve their appraisal objectives to be eligible for a performance-based increase. These increases do not need to be linked to existing pay points, because national pay fixing has become confined to the determination of minimum and maximum salaries for each scale. Consequently,



much greater autonomy has been delegated to schools, and especially the head teacher, in shaping rewards (School Teachers' Pay Review Body (STRB), 2012).

It could be argued that the system of appraisal-based pay signals considerable continuity as teacher appraisal is not new and a performance threshold for progression is long-standing. There is no system of forced distribution (school governors sign off aggregate appraisal outcomes), and a cost of living increase is retained. Nonetheless, appraisal-based pay enables tighter control over objective setting and performance, requires more senior staff to demonstrate a school wide contribution and bolsters further the power of head teachers. The concern among teachers is that budgetary constraints, subjective appraisals and increased dependence on head teacher judgements make pay outcomes more uncertain, points noted a decade ago (Marsden and French, 1998).

## **Austerity: Consequences**

### *Employment reductions*

In addition to bearing down on the public sector pay bill, the other main consequence of austerity measures has been employment reductions. Table 1 is organised by the main sub-divisions of the public sector in the national accounts. Central government includes all government departments and agencies controlled and financed by central government as well as the armed forces, the NHS and academy schools. Local government covers a specific geographical location and has some tax raising powers and includes social services, police, fire and local government-controlled schools. Finally, public corporations are companies or quasi-corporations controlled by government, but with substantial freedom to conduct their activities along commercial lines, such as London Underground. Employment in this category has fluctuated considerably because many banks were (temporarily) reclassified as public corporations after government bail-outs, while the privatisation of Royal Mail in 2013 removed over 200,000 employees from this category.

Public sector employment increased during the 2000s, especially in health and to a lesser extent education, stabilised around the period of the financial crisis before declining from 2010 to 2011. However, there are considerable variations between sectors in terms of employment reductions with local government especially hard hit. Table 1 indicates that employment reductions between 2010 and 2015 have amounted to almost 22% of the local government workforce. In local government, many authorities are combining vacancy freezes, mainly voluntary redundancies and de-layering with more concerted efforts to share services, such as HR (National Audit Office (NAO), 2014), and to collaborate more closely with other public sector and voluntary sector providers in their locality. In addition, services are being withdrawn (e.g. closing libraries), more narrowly targeted (e.g. social care), provided less frequently (e.g. waste collection), subject to more charges and being provided on an online basis only or transferred into forms of community ownership (Jones et al., 2015).

There have also been sustained workforce reductions in the civil service of around 17% (2010–2015) with larger reductions expected. In the case of the civil service, the Coalition government, without prior consultation, announced the abolition or merger of

**Table 1.** UK public sector employment 1991–2015 by sector.

Headcount, not seasonally adjusted, thousands	Central government (incl. NHS) (A)	Local government (B)	Total general government (A + B)	Total public corporations	Total public sector	Of which: civil service
1991	2333	3075	5408	582	5990	593
1992	2348	3021	5369	544	5913	609
1993	2529	2788	5317	515	5831	601
1994	2470	2752	5222	446	5668	578
1995	2417	2757	5174	433	5607	555
1996	2379	2732	5111	395	5506	538
1997	2338	2726	5064	348	5412	516
1998	2342	2708	5050	350	5400	505
1999	2346	2744	5090	359	5449	504
2000	2384	2779	5163	367	5531	516
2001	2462	2781	5242	379	5643	522
2002	2553	2798	5351	377	5728	538
2003	2663	2841	5504	387	5891	560
2004	2749	2895	5644	378	6022	570
2005	2808	2925	5733	383	6117	571
2006	2785	2935	5720	362	6082	558
2007	2745	2943	5687	356	6044	539
2008	2750	2923	5672	361	6033	523
2009	2852	2910	5763	566	6329	527
2010	2868	2907	5775	540	6315	522
2011	2839	2760	5599	507	6106	488
2012	2731	2559	5289	475	5764	458
2013	2822	2423	5245	454	5699	450
2014	2881	2353	5233	183	5416	442
2015 <sup>a</sup>	2909	2271	5181	178	5359	431
% change						
1991–1997	0.2	-11.3	-6.4	-40.2	-9.6	-13.0
1997–2010	22.7	6.6	14.0	55.2	16.7	1.2
2010–2015 <sup>a</sup>	1.4	-21.9	-10.3	-67	-15.1	-17.4

Source: <http://www.ons.gov.uk/ons/rel/pse/public-sector-employment/q2-2015/tsd-pse-q2-2015.html>

<sup>a</sup>Excluding Quarter 3 and Quarter 4.

262 government organisations in its ‘bonfire of the quangos’ and implemented a recruitment freeze on permanent civil servants, fixed-term appointments and temporary staff, alongside a moratorium on employing consultants. The Public Accounts Committee (2012) examined civil service job reductions and expressed concerns that ‘Given the scale and pace of headcount reduction and the lack of business redesign in departments, there are significant risks to service delivery’ (p. 5).

In the NHS between 2010 and 2015, there was less emphasis on headcount reduction of frontline staff than in the civil service or local government. This partly reflected

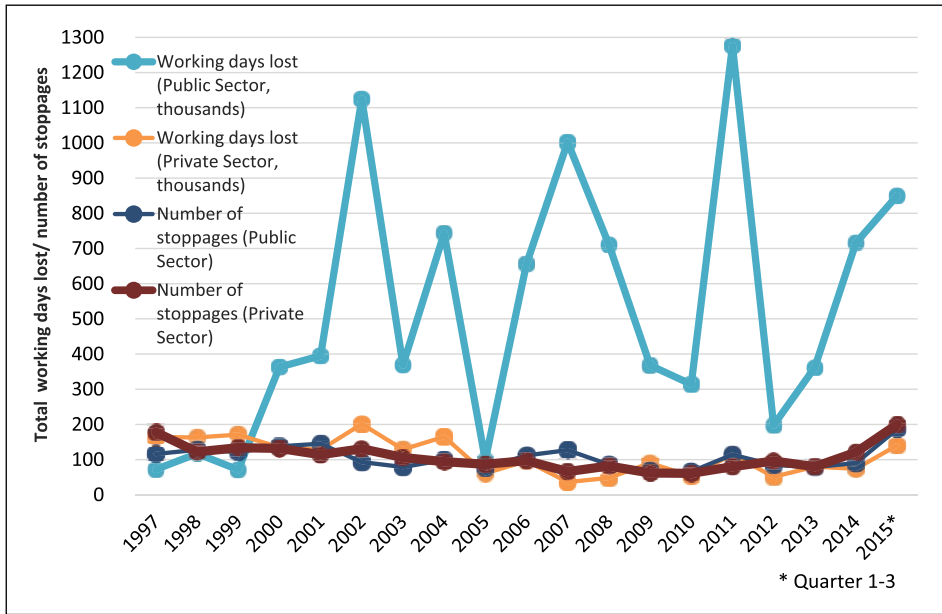


Figure 1. UK strike action 1997 to October 2015.

government policy to ‘protect’ the NHS budget, although the NHS is not immune from acute financial and service pressures (Public Accounts Committee, 2015). NHS employers are required to achieve high-profile waiting time and service targets that are highly dependent on adequate staffing levels, and hospitals are required to publish data on staffing levels, discouraging deep workforce cuts. The sustainability of investment in the workforce is uncertain and many NHS organisations are looking to alter the mix of staff and the roles that are undertaken in conjunction with changing patterns of service delivery. These changes include the development of more integrated health services that break down the barriers between primary care and secondary care and enhanced co-operation between social care and healthcare providers.

### Strike action

There has been considerable opposition to austerity measures with many national and local campaigns, but no sustained surge in strike action. The main response of trade unions has been concession bargaining at sectoral and single employer levels. The preoccupation has been with opposing immediate threats to members’ terms and conditions with some set-piece industrial action that spiked around co-ordinated national action on pensions in 2011 (Figure 1). There has been a discernible increase in striker days (working days lost) between 2012 and 2014 (Office for National Statistics (ONS), 2015), and this trend has continued in 2015. Figure 1 indicates that strike action remains dominated by public sector strikes and that the number of striker days in the public sector more than

quadrupled from around 200,000 per annum in 2012 to around 850,000 in the first 9 months of 2015. Trade union members remain wary of taking industrial action in a climate of staffing reductions, and higher thresholds are being introduced for lawful strike action as part of a drive to curb collectivism that is being pursued with vigour by the Conservative government elected in 2015.

The previous coalition government was relatively successful in portraying austerity measures as necessary for economic recovery and in developing pro-austerity frames (McCann, 2013). These narratives invariably pointed to the Labour government legacy of workforce and capital investment as excessive and leading directly to the growth in the deficit as a means to sustain an argument for a period of fiscal consolidation. Benefit cuts have been targeted at the most vulnerable, workfare schemes have proliferated in which the unemployed and people with disabilities have to work in return for benefits and there has been strong growth in zero-hours contracts (Pyper and Dar, 2015). Overall, these labour market and welfare reforms force people into poorly paid insecure employment that discourages workforce opposition. Public opinion indicates that satisfaction with public services has been maintained or improved with certain exceptions (road maintenance and social services), but the public still strongly support universal services and are concerned about the future funding of key services, especially the NHS (Hall, 2014). Campaigns against privatisation have gained some traction, but this does not necessarily equate with empathy and support for public sector workers.

There are considerable uncertainties among the public sector workforce that public sector trade unions can alter government policy. Public sector trade union membership fell by 79,000 to 3.76 million in 2014; overall, between 2010 and 2014, there has been a 339,000 fall in public sector membership. Public sector trade union density was 54.3% in 2014 with continuous decline since 2007 when public sector density was 59% (Department for Business, Innovation and Skills (BIS), 2015). The increased diversity of public sector provision and continuing outsourcing have made union organisation more resource-intensive and challenging. Facility time (paid time off for trade union representatives to carry out trade union duties) has been limited – the cost of facility time was reduced by 75% from £36 to £10 million during the 2010–2015 parliament (British Broadcasting Commission (BBC) News, 2015). More fundamentally, the Coalition government expressed a commitment to end check off (the payment of union subscriptions by deduction from pay that is then passed to the trade union) in the civil service and wider public sector. This measure, included in the 2015 Trade Union Bill, will require public sector workers to switch to direct debit to pay their union fees and continue their membership, presenting trade unions with major organisational challenges in maintaining trade union membership.

In some cases, trade union and employer attempts to mitigate the impact of wage cuts on the lowest paid may also have influenced trade union action at sectoral and local levels. Some local government employers have sought to achieve trade-offs between pay bill reductions and less severe employment cuts; in addition, there has been much support for paying a living wage (Bach and Stroleny, 2014). The sustainability of this quiescent employment relations climate is uncertain. As private sector wage growth has recovered, the sustainability of a public sector pay squeeze becomes less certain and these difficulties may be exacerbated by staff shortages in key areas of the public sector.

## Discussion and conclusion

There has been a continuing preoccupation with the transformation of public sector employment relations and despite Britain's being viewed as in the vanguard of public sector restructuring, there have been differing interpretations about the extent and consequences of public sector employment relations reform over recent decades. There is an underlying thread from Thatcher to Cameron that has privileged market-oriented governance, but it has been combined with other reform strategies, including network governance that emphasises collaboration and partnership. The economic crisis has reignited this debate, with sustained austerity measures bringing about a more deep-seated shift towards increased outsourcing, more diverse provision and the withdrawal of key services, accompanied by deterioration in public sector terms and conditions of employment (Bach and Stroleny, 2013; Grimshaw, 2013; Scott and Williams, 2014).

The Coalition government built on and redirected previous governments' legacies to bring about major changes in public sector organisation and management towards a more complete construction of the contract state. This involved a complex and chaotic reorganisation of the NHS, the majority of schools leaving local government control, local government retrenching to concentrate on the provision of statutory services and continuing civil service mergers and reorganisations. In a public sector in which there is no separate employment statute preventing employment reductions, the most prevalent employer response has been to reduce staffing using a variety of methods (hiring freezes, early retirements and voluntary redundancies), but employers have also made pay bill savings stemming from the government's limits on public sector pay awards. In terms of the 2010–2015 parliament, the Coalition government achieved its main short-term objective of further 'deprivileging' public sector workforce conditions such as pay and pensions and loosening further the regulatory impact of national terms, but the overall prospects for continuing austerity and far-reaching shifts in public sector employment regulation are more uncertain.

The scale of austerity measures has not been as deep as originally planned by the Coalition government and timelines for deficit and debt reduction have been extended, reflecting the political and economic limits of austerity measures. Although pro-austerity frames have been used effectively to limit opposition and mobilisation against austerity, there are limits to public expenditure reductions. As O'Connor (1973) noted more than 30 years ago, the state has to support capital accumulation while also pursuing a legitimate role through welfare spending. Although some of these dynamics have altered in the context of a more open international economy and associated arguments about reducing spending to promote competitiveness, political constraints remain. In Britain, recent governments have differentiated between protected and unprotected departments, implying that protected areas of spending (especially the NHS and schools) are the most important in legitimation and competitiveness terms, but in practice it is difficult to erect barriers between protected and non-protected areas of spending. The NHS has been affected by cuts in local government social care spending that has affected the ability of hospitals to discharge patients and led to increased waiting times (Appleby et al., 2015).

The election of a majority Conservative government in 2015 and a divided opposition place fewer constraints on the government to pursue austerity measures and service

withdrawal. The Conservative government is seeking to demobilise trade union opposition by returning to a more direct Thatcherite anti-collectivism agenda, exemplified by planned restrictions on strike action in essential services and further privatisation measures, but the public remain wary of further outsourcing. There is far less public support for private provision of public services than a decade ago, as the employers' organisation the Confederation of British Industry has noted (Confederation of British Industry (CBI), 2014). This arises from a more questioning attitude towards commercial interests and recognition of high-profile failures of private sector delivery (Public Accounts Committee, 2014). Although the Conservative government remains committed to deepening marketisation in areas such as health and education as Krachler and Greer (2015) point out (in relation to health), there are significant obstacles to increased private sector provision with limited scope for profitable activity. This was exemplified in 2015 by the withdrawal of a private sector firm that had been managing an NHS trust on a franchise basis. Circle blamed NHS commissioners for funding cuts and inability to control emergency admissions as the reason that the contract was unviable. The withdrawal and refinancing of hospital private finance initiative (PFI) schemes are further illustrations of a more cautious attitude towards private sector involvement, although some NHS contracts are being awarded to private providers. Relatedly, attempts to rationalise hospital services are focused on building closer partnerships and collaboration between healthcare organisations; consequently, the context and incentives are very different from earlier attempts to foster competition between hospitals in the 1990s.

The Coalition government's ambition to move away from national pay determination and to make pay more subject to individual performance has only partially been achieved. Attempts by government to establish regional pay failed, and planned changes to terms and conditions by a group of more assertive NHS trusts were defeated, with limited reforms of national pay structures occurring by agreement at national level. Overall, increased central government intervention in pay policy and more forceful direction of the pay review bodies have not translated into a radical break with existing systems of pay determination and joint regulation of terms and conditions. There have been changes to pay progression, and a system of appraisal-related pay has been introduced in schools. The consequences of these policies are shaped by local employer practice, but when increased scope to depart from national terms and conditions has been offered to employers, there has been a cautious approach to change from academy schools, foundation trusts and local authorities.

The balance between national and local decision-making is continuing to evolve, and behind the facade of institutional continuity in terms of national pay determination, more variation is emerging as local employers seek to recruit, retain and engage their workforce by devising local solutions. Austerity measures, however, also have encouraged centralisation by increased government unilateralism not just on pay awards but also in terms of tight control of funding and 'market' management, limiting managerial discretion over key components of their HR agenda. Overall, the government's strategy reinforced by the election of a Conservative government in May 2015 is to encourage employers to pursue more local variation and to undermine collectivism rather than to launch a direct assault on national structures of pay determination.

The most visible challenge confronting the government's austerity measures relates to staff disengagement and increased recruitment and retention problems, especially in

health and education with variations between occupations, locations and grades. In relation to teachers, the STRB (2015) referred to a ‘deteriorating position’ and ‘worrying trends’ (p. 43) because of falls in recruitment to initial teacher training, increases in official vacancy rates, a reduction in retention and an increase in hours taught by non-specialist teachers. Some of the reasons for these trends were revealed in the government’s own ‘workforce challenge’ survey of teachers with almost 44,000 responses pointing to high workloads, excessive detail required in terms of assessment and lesson planning and a more generalised sense that accountability and inspection were disproportionate (Department for Education (DfE), 2015). In health, an ageing workforce, increased workloads and concerns to maintain safe staffing levels have combined to generate recruitment and retention difficulties that have encouraged trust managers to pursue a variety of familiar strategies. These include international recruitment for nurses, doctors and paramedics from crisis-affected countries (Portugal, Spain, Ireland) and from central and Eastern Europe. There has also been an increased use of agency staff among occupations including nurses (Royal College of Nursing (RCN), 2015). The NHS spent £2.6 billion between 2012–2013 and 2013–2014 on temporary medical staff with particular shortages in accident and emergency departments (Public Accounts Committee, 2015).

These trends suggest that characterising public service professionals as privileged knaves and cutting pay and employment will generate staff shortages and also discourage staff from taking on leadership positions that will impact the pursuit of austerity measures. Previous periods of severe public sector staff shortages as occurred in the late 1990s contributed to the catastrophic 1997 electoral defeat of the Conservative government and subsequent reinvestment in public services. It is too early to judge whether history will repeat itself, but what is clear is that since 2010 a narrative of crisis and public sector excess has been used to diminish the size and protective role of the state, withdrawing service provision, encouraging provider diversity and engaging in concerted attempts to demobilise and deprive the public sector workforce.

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## Author biography

Stephen Bach is a Professor of Employment Relations at King's College, London, having previously worked at the University of Warwick. His main research is into public service human resources management (HRM) in an international context and changing workforce roles. His specialisations include international migration of health professionals, new ways of working in the public services in an era of austerity and the future of public service trade unions. His research has been funded by the Economic and Social Research Council (ESRC), the Leverhulme Foundation, the Home office (Migration Advisory Committee), the Scottish Executive and the European Commission. He has served as an advisor to the International Labour Organization (ILO), the Organisation for Economic Cooperation and Development (OECD), the World Health Organisation and the United Nations (UN) University and is currently co-ordinating a comparative European Commission research project to examine the participation of service users in social dialogue.

# Bargaining over Australian public service cuts: Do forcing strategies work?

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## Abstract

Although a Labor government fiscal stimulus had helped Australia weather the 2008 global financial crisis, budget deficits increased, and the public service was targeted for economies. The Liberal/National (Coalition) opposition won office in 2013, promising public sector cuts. In this context, the Walton et al. concept of a forcing strategy helps analyse the 2014–2016 bargaining round in the Australian Public Service. A forcing strategy involves three negotiating processes: distributive bargaining to achieve concessions in pay and working conditions, the structuring of attitudes to heighten animosity between the negotiating parties, and the management of internal differences to minimise intragroup conflicts. The Liberal/National (Coalition) government adopted elements of these approaches, requiring Australian Public Service agencies to reduce a range of employment conditions to justify pay increases. Interactions between Australian Public Service management and the principal Australian Public Service trade union, the Community and Public Sector Union became increasingly hostile over the course of the bargaining round. In addition, internal differences emerged between the Australian Public Service Commission, which oversaw the bargaining process, and individual Australian Public Service agencies. We consider the efficacy of this forcing strategy in light of the potential for the Community and Public Sector Union to mobilise its membership to resist such an approach to pay negotiations.

**JEL Codes:** L88, H83, J45

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## Keywords

Distributive bargaining, collective bargaining, employment conditions, forcing strategy, industrial action, public sector, trade unions

## Introduction

While Australia survived the global financial crisis (GFC) of 2008 relatively unscathed and austerity measures were not a prominent feature of Commonwealth government responses, the Commonwealth budget experienced deficits from 2007 to 2008 onwards as the mining boom faded and company tax receipts declined (Fraser, 2015). This article explores how the Coalition government (2013–2016) framed its approach to bargaining during the 2014–2016 bargaining round in the context of this budget-constrained environment. The Coalition was elected in September 2013 following 6 years of Labor governments on an electoral mandate to slash Commonwealth government employment levels as one response to budget deficits. It was also committed to an agenda of smaller government, involving the outsourcing of government functions and privatisation of government enterprises (National Commission of Audit, 2014). In reality, rather than achieving the promised reduction, the Australian government's budget deficit expanded rapidly following the election of the Coalition government (see below). Such increases, however, were accompanied by an agenda of reducing the size and scope of the public sector as safety net and regulator and the role of the state as a model employer.

In 2014, the Coalition outlined its bargaining policy for the forthcoming round of collective bargaining negotiations involving over 100 line agencies and departments and public sector unions. Walton et al. (1994) suggested that at the centre of the interactions between collective bargaining parties are three negotiating processes: bargaining (distributive and integrative), the shaping of attitudes between the parties, and the management of internal differences within the parties. A forcing strategy combines all three negotiating processes. It emphasises a distributive approach to bargaining, the structuring of attitudes between the parties to emphasise the adversarial nature of their relationship and the management of internal differences to reinforce intragroup solidarity and to minimise internal conflicts (Walton et al., 1994). The Australian government's 2014 bargaining policy required Australian Public Service (APS) agencies to find productivity offsets and make substantial cuts to employment conditions in exchange for modest pay increases. We analyse the impact of this negotiating strategy in the APS on the three key negotiating processes involved in a forcing strategy. While this approach may be compatible with the strategic choices desired by the Coalition, whether it became a feasible strategy in the APS depended largely on the ability of public sector trade unions to mobilise their power resources and mount an effective resistance (Walton et al., 1994). Therefore, we will explore how feasible this forcing strategy was in the context of public sector union responses over 2014–2016.

There are three levels of Government in Australia – Local, State/Territory and Commonwealth. This article is concerned with bargaining at the Commonwealth level. The Commonwealth public sector can be divided into APS employees and non-APS

employees (such as employees of statutory authorities). We are concerned with the former, who are employed directly by the Commonwealth under the *Public Service Act 1999 (Cth)*. The APS is responsible for developing, implementing and monitoring compliance with Commonwealth government legislation in areas that include foreign affairs, defence, immigration and taxation. The APS also delivers social services such as old-age pensions and administers grants to the States for the provision of services such as education and healthcare and to local governments for the maintenance of roads (National Commission of Audit, 2014; Parliament of Australia, n.d.).

The article is structured in the following manner. First, the literature review explores the Walton et al. (1994) framework for strategic negotiations. Second, the methods underpinning the empirical research and the economic context of continuing budget deficits are outlined. Third, the Commonwealth government's distributive bargaining agenda and the responses of public sector unions and employees are examined. Fourth, efforts by the Coalition government, public sector management and unions to shape attitudes towards one another and to manage internal differences are explored. A conclusion draws together the key points developed throughout the article.

## **A framework for collective bargaining negotiations**

Walton et al. (1994) build on the ground-breaking *A Behavioral Theory of Labor Negotiations* (Walton and McKersie, 1965) to develop a comprehensive framework for strategic negotiations in the more dynamic and turbulent environments that existed in North America from the 1980s onwards. Walton et al. (1994) distinguish between the web of rules resulting from substantive agreements and the social contract or underlying ideology that develops between the parties. Substantive agreements comprise the rules and rights of the parties and may include management's focus on minimising wage costs, maximising labour flexibility and employee work effort and the interests of labour in protecting job security and increasing participation in workplace decision-making. Substantive agreements also include human resource policies and well-understood informal and tacit work rules. The social contract, on the other hand, develops through interactions between management and unions at the institutional level and between individual employees and their supervisors at workplace level. Such social contracts involve an understanding of the quid pro quo reciprocal arrangements that evolve between the parties (Walton et al., 1994: 43–50).

Walton et al. (1994) suggest that at the centre of the interactions between collective bargaining parties are three negotiating processes: bargaining (distributive and integrative), the shaping of attitudes between the parties, and the management of internal differences. All three negotiating processes are interrelated and actions affecting one process can have a significant impact on the others (Walton et al., 1994: 58). These authors suggest that the parties' strategies for negotiations, whether explicit or implicit, can alternate between either forcing or fostering strategies, while an avoidance strategy of escape is also possible.

Forcing strategies are compatible with distributive bargaining and involve conflicts over fixed amounts of resources. The achievement of one party's goals involves a loss or sacrifice by other parties (Walton and McKersie, 1965: 127). A forcing strategy aims to

limit pay increases and improvements to working conditions, increase labour flexibility, enhance management's ability to ratchet up performance standards and enable management to gain increased power over trade unions:

(i) in its pure form, the forcing strategy means that management focuses on achieving specific substantive changes, even at the expense of its working relationships with its employees and union representatives. (Walton et al., 1994: 26)

Many negotiations involve combinations of forcing and fostering strategies. Integrative bargaining is a fostering strategy that focuses on problem solving to extend the amount of value that can be created by the parties (Walton and McKersie, 1965: 127). Integrative bargaining provides for value to be enhanced through a process of dialogue, communication and a willingness to explore the other parties' underlying interests (Walton and McKersie, 1965: 5). This approach to creating value through negotiations is also referred to as 'interest-based bargaining' and has been widely used as a framework for labour negotiations (see for example, Cutcher-Gershenfeld et al., 1996, 1998; Cutcher-Gershenfeld and Kochan, 2004; Eaton et al., 2004; Fonstad et al., 2004; McKersie and Cutcher-Gershenfeld, 2009; McKersie et al., 2008).

The process of shaping attitudes between the parties explores how the relationship between the parties alters during the negotiating process (Walton and McKersie, 1965: 5). A range of possible attitudes include conflict, containment aggression, accommodation, cooperation and even collusion (Walton and McKersie, 1965: 185). For example, Walton and McKersie (1965) note that a pattern of interactions leading to conflict indicates a refusal to accept the legitimacy of the other party, such as management refusing to meet with union representatives and communicating directly with employees. A relationship based on cooperation, however, highlights that there is an acceptance of the legitimacy of the other party, mutual trust, friendliness and a willingness to negotiate over a more extensive range of issues. The relationship between the parties is also influenced by the social beliefs of management and trade unions. A management ideology that highlights management prerogatives can result in efforts to actively undermine the role of trade unions in the workplace and promote direct communications between management and employees (Walton and McKersie, 1965: 186–198). Researchers have also examined the levels of trust and collaboration between the parties, including in public sector negotiations (Brown and Oxenbridge, 2004; Caverley and Cunningham, 2006; Rubin and Rubin, 2006; Townsend et al., 2013; Williamson et al., 2015).

The management of internal differences highlights that there is often a lack of agreement among different groups within one party regarding objectives and priorities in negotiations. It can be more challenging to resolve these tensions than it is to negotiate an acceptable outcome with other parties (Walton and McKersie, 1965: 289). The need to manage such internal differences has been highlighted in previous research on public sector bargaining. In 1974, Kochan found that internal conflict within the parties was common. Kochan's research also emphasised the multilateral and political nature of public sector bargaining. Bach has also examined the multi-party nature of public sector collective bargaining, noting that internal conflicts within the respective bargaining parties makes negotiations increasingly complex and can potentially

jeopardise the achievement of bargaining goals (Bach, 1999: 12). Internal bargaining, therefore, is a common feature of public sector bargaining (McKersie and Cutcher-Gershenfeld, 2009: 504).

Walton et al. (1994) highlight the important role played by negotiation structure and the context within which bargaining takes place. They emphasise the importance of the degree of centralisation or decentralisation of bargaining, the number of parties involved (bilateral or multilateral) and the channels of communication utilised by the parties. Walton et al. (1994) also recognise the significance of the economic, social, legal and historical contexts within which bargaining occurs for the strategies and tactics adopted by the parties. Kessler and Purcell (1996) also emphasise that bargaining 'will be influenced by a range of socio-economic, political and legal environmental factors' (p. 209). In relation to devolved bargaining, they note the importance and influence of centralised government policies, linked in with wider human resource management (HRM) reforms such as moves to performance-related pay (Kessler and Purcell, 1996: 215). Others have also found that constraints on local level managers in the public sector resulted in a lack of authority over bargaining processes and outcomes (Bach, 1998: 574; Kirkpatrick and Hoque, 2005: 114).

We aim to analyse the forcing strategy developed by the Coalition in its 2014 Bargaining Policy. In particular, how did the Coalition's managerial agents pursue a distributive bargaining strategy? How were attitudes between the parties influenced by this approach to bargaining? And how did the parties manage their internal differences? In addition, how feasible was this forcing strategy in the face of opposition and resistance from public sector unions?

## **Methodology**

At the time of writing, only eight APS agreements had been approved by the Fair Work Commission (FWC). The FWC is Australia's national workplace relations tribunal and is responsible for, among other things, overseeing the process for agreement-making and enterprise bargaining. The authors coded the initial agreements into a spreadsheet which contained the details of each agency and compared the clauses in the new and previous agreements. Clauses on working hours, overtime, leave provisions, pay rises, working arrangements (such as rostering), performance management, union facilities and consultation clauses were examined. We also analysed media reports to track and monitor the progress of the negotiations. Online media were checked regularly for stories on the negotiations, and relevant stories were compiled into a compendium. We then manually thematically coded the stories into categories that related to the negotiations in individual agencies, industrial action across agencies and editorial commentary. Where possible we analysed multiple sources containing similar data to maximise reliability. Additionally, the bargaining policies of both the former Labor government and the Coalition government were examined.

We also interviewed five key informants. After obtaining university ethics approval, the researchers interviewed senior human resources managers (HR managers) involved in enterprise bargaining in four agencies on two occasions. These agencies comprised one large service delivery agency, one medium-sized policy department, one medium-sized central agency and one small cultural agency. We also interviewed a senior Community

and Public Sector Union (CPSU) official. Interviews lasted from 30 to 60 minutes. Interviewees were asked about the progress of bargaining in their respective agencies, the parties' claims, trade-offs, industrial action and bargaining strategies. The interview transcripts were manually coded, and themes and developments were then analysed to provide an overview of bargaining in the APS and in individual agencies, the roles and actions of negotiators and the impact of government policies on the negotiations. These interviews took place over 2014 and 2015.

A range of other data sources were also used, including protected action ballot orders and ballot results. These data are useful because under the *Fair Work Act 2009 (Cth)* (FW Act) industrial action will only be lawful if, among other requirements, it is approved by a secret ballot of eligible employees (Creighton and Stewart, 2010: Chapters 22–23; Stewart, 2015: Chapter 18). The authors coded the ballot orders to determine the types of action employees indicated they would be prepared to undertake. The coding framework for the industrial actions included work stoppages, which varied in duration, and work bans, such as not responding to emails, and other collective actions. Once the ballots were coded, the authors analysed the results to determine the extent and types of action in which employees may have engaged.

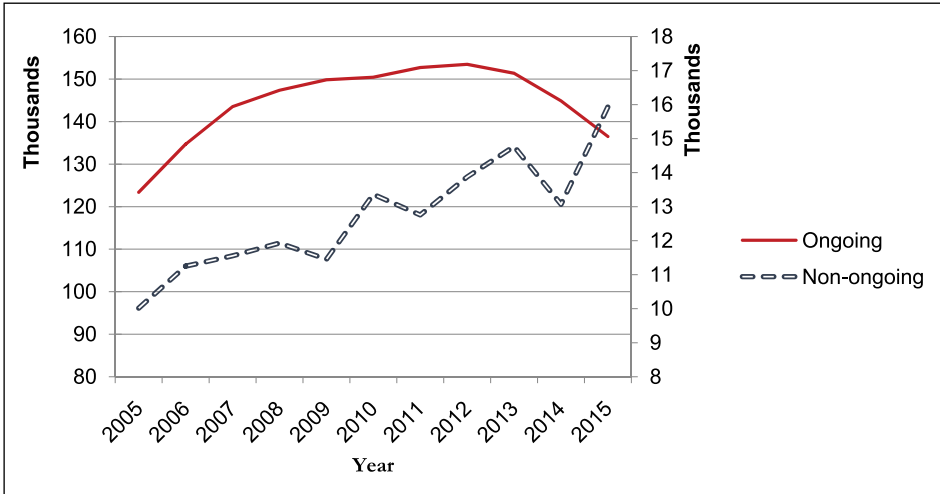
## **The Australian Public Service and the response to the global financial crisis**

While Australia avoided a recession following the GFC of 2008, to inoculate the economy, the then-Labor government implemented a large fiscal stimulus in late 2008 and over the 2009–2010 financial year of over USD50 billion. This stimulus programme was designed to encourage economic activity and retain jobs in key areas of the economy. The then-Labor government also undertook substantial investments in infrastructure, health services and education (Rudd, 2009). Despite the stimulus, sectors of the economy – such as finance and manufacturing – experienced a substantial contraction. Many employers across a range of sectors also implemented redundancies or required employees to take paid and unpaid leave (Cooper, 2010: 263). The Labor government reported a USD44 billion deficit for the 2011–2012 financial year and a deficit of USD18.8 billion for 2012–2013 (Australian Government, 2013; Colebatch, 2013; Swan, 2012). This constrained budgetary environment impacted on the APS. The Labor government embarked on a programme of APS redundancies which shed approximately 2000 employees (APSC, 2014a). It also increased efficiency dividends, effectively imposing a budget cut on most APS agencies (Roles et al., 2012: 640).

The Coalition government, elected in September 2013, continued the previous Labor government's focus on reining in the budget deficit (Austin, 2015). However, the Commonwealth government's budget deficit worsened. It was USD41 billion in 2014–2015 and was predicted to be USD37 billion by 2016–2017 (Morrison and Cormann, 2015). Much of the deficit was related to reductions in government revenue resulting from declining commodity prices, falling company tax receipts and a slowing economy (Parliamentary Budget Office, 2015).

One of the Coalition's first acts in relation to the public service was to establish a Commission of Audit to review the 'scope, efficiency and functions of the Commonwealth





**Figure 1.** All APS employees by employment category, June 2005 to June 2015.  
Source: Australian Public Service Commission (2015).

government'. Simultaneously, the Coalition planned to fast track the outsourcing and privatisation of Commonwealth government functions. The 'smaller government' programme resulted in the sale of Medibank Private for USD5.7 billion in 2014 (ABC, 2014). The Coalition also outlined its intention to reduce the overall size of the APS. A freeze on external recruitment was introduced in 2013, with exemptions for positions deemed to be 'critical' (APSC, 2013). In May 2014, the Treasurer announced in the budget that 16,500 staff would exit the APS over the following 3 years as part of the Coalition's response to the Commission of Audit (Hockey, 2014). The government achieved this target ahead of time. Before the election of the Coalition, there were a total of 167,051 APS employees employed under the Public Service Act (APSC, 2014a). By 30 June 2015, total APS employment levels had declined to 152,430 people, a reduction of almost 15,000 employees (APSC, 2015a) (see Figure 1).

## A forcing strategy in the APS

The Coalition's negotiation strategy was outlined in its Australian Government Public Sector Workplace Bargaining Policy (2014 APS Bargaining Policy). The 2014 APS Bargaining Policy, among other things, required the Australian Public Service Commission (APSC) to ensure that any wage increases were '... affordable ... and offset by genuine productivity gains which satisfy the Australian Public Service Commissioner' (APSC, 2014: 6). The requirement for productivity offsets resulted in agencies offering low pay rises – initially below 1% per annum. The Coalition, through the 2014 APS Bargaining Policy, also went as far as it could within the FW Act framework to reduce union involvement in proposed enterprise agreements. Consultation and dispute resolution terms were to be 'equivalent' to the minima prescribed in the *Fair Work Regulations*

2009 (Cth) and could not 'provide third parties with the ability to veto or interrupt workplace improvements and managerial prerogative' (APSC, 2014b: 30–31). Agencies were also encouraged to establish mechanisms for direct consultations with employees (APSC, 2014b: 26).

But the forcing strategy had limits. The FW Act did protect union recognition and constrained efforts by agency managements to minimise union participation in APS bargaining. Such protections weakened the feasibility of the Coalition government's forcing strategy. Any new single-enterprise agreement must ultimately be approved by employees. In the APS context, this is by a ballot of eligible employees, in which a majority must cast a valid vote in favour of the agreement for it to be made (FW Act ss 180–182). Although the FW Act formally vests representational rights in bargaining representatives which, on the employee side, may or may not be a trade union, the practical effect of the legislation in the APS was an increased capacity and role for unions in bargaining. This effect occurred through provisions aimed at informing employees of their representational rights, union recognition, good faith bargaining and the capacity to bring bargaining disputes before the FWC (Roles and O'Donnell, 2013: 102–108).

In 2015, public sector unions campaigned to organise 'no votes' (i.e. to reject a proposed agreement) in response to initial agreement offers they believed to be substandard. They also relied on the taking of targeted industrial action and other forms of community campaigning. The 2014 Bargaining Policy's requirements for strict productivity offsets, the stripping out of terms and conditions of employment and changes to consultation and dispute resolution provisions in proposed enterprise agreements caused difficulties for medium and large agencies with more comprehensive agreements. The CPSU and some union members vigorously opposed the 'streamlining' of agreements, fearing that conditions could be reduced if transferred to policy (interviews with HR managers, 26 November 2015; 1 December 2015; 2 December 2015).

In September 2015, APS employees at the Department of Veteran's Affairs (DVA), the Department of Human Services (DHS) and Department of Immigration and Border Protection (DIBP) were asked to vote on new enterprise agreements. All the proposed agreements sought to move a large number of conditions to agency workplace policies. Additionally, the agreement offer to DVA staff asked them to accept an increase in working hours while losing other entitlements (CPSU, 2015a). The proposed DHS agreement sought to provide increased managerial prerogatives over rostering arrangements, reduce allowances and to change the way personal leave accrued (CPSU, 2015b).

DIBP was formed following a merger of the former Department of Immigration and the former Customs agency. The bulk of the cuts would affect ex-Customs employees, who stood to have a raft of allowances replaced by one allowance, estimated by the CPSU to cost individual employees USD8,000 per annum (CPSU, 2015c). Ex-Customs employees also faced an increase to their daily hours. The unions campaigned hard for a 'no vote' in these and other affected agencies. These campaigns were successful in that all these agreements were voted down by large margins (DHS: 83%, DVA: 61%, and DIBP: 91%).

In addition to 'no votes', public sector trade unions engaged in targeted and lawful forms of industrial action. Trade unions in Australia can take lawful industrial action, known as protected industrial action, provided that strict rules are followed (Creighton

and Stewart, 2010: Chapters 22–23; Stewart, 2015: Chapter 18). In broad terms, protected industrial action can only be taken by employees if any previous agreement has passed its nominal expiry date (FW Act, ss 409(1) and 417). Before protected action can be taken, it must be approved by a secret ballot of eligible employees (FW Act s 409(2); pt 3–3, div 8). At least half of the eligible employees must vote, and a majority of those voting must support the taking of the forms of industrial action listed in the ballot order issued by the FWC (Stewart, 2015: 400–401). The action must then generally be taken within 30 days of the date of the declaration of the ballot, provided notice and other requirements are met (Creighton and Stewart, 2010: Chapters 22–23; Stewart, 2015: Chapter. 18). Under the FW Act, employees are not permitted to be paid, or to accept payment, for work stoppages caused by protected industrial action (FW Act, ss 470 and 473). Partial work bans are treated differently, and in broad terms involve the employer making a choice as to whether to accept the ban and make no deduction, make a proportional deduction or accept no work from the employee and make no payment of wages (FW Act, ss 471 and 472).

APS unions appear to have acted within these stringent rules. The industrial action taken was characterised by gradual escalation as bargaining became more protracted, with forms of action specifically tailored for individual agencies. For instance, union members engaging in protected industrial action in December 2014 in the 24,000 employee-strong DHS offices across Australia refused to wear the corporate uniform or to enter auxiliary codes into the computer/telephone system. They also read a statement to the public using DHS call centres (FWC, 2014). As bargaining dragged on, unions gradually escalated the protected industrial action. A notable feature of the 2014–2016 bargaining round was an increased willingness by employees to stop work for between 1 and 24 hours, with such action being approved in the four largest agencies by margins of between 90% and 98% (FWC 2014; FWCa, FWCb, FWCC). According to the union, in May 2015, ‘30,000 members took part in rolling 1-hour stoppages across 1000 workplaces’ (CPSU, 2015d). In June 2015, union members working in 15 APS agencies engaged in a half-day strike. Key services were targeted, such as processing airline passengers arriving on international flights and the delivery of front-line services, including tasks associated with the processing of welfare payments (CPSU, 2015e).

In September 2015, these stoppages escalated further following the rejection of agreements in DHS, DIBP and other agencies. CPSU members in DIBP engaged in 2-hour stoppages at Australia’s international airports during peak periods for 10 days (CPSU, 2015e). APS employees at international airports refused to inspect or search cargo, baggage and passengers. Planned to coincide with the start of the school holidays in most Australian States, this action was designed to maximise pressure on the government, though it also risked alienating many members of the public. The escalation was not confined to airports, with a coordinated half-day stoppage involving workers in the departments of Human Services, Employment, Environment, Education, Agriculture, Defence, Veteran’s Affairs, the Australian Tax Office (ATO), the Bureau of Meteorology and the Australian Bureau of Statistics.

Tensions escalated in late 2015 when DIBP union members working at eight international airports engaged in a simultaneous 24-hour strike, an increase on the 2-hour rolling stoppages outlined above (CPSU, 2015f; Towell, 2015a). Matters escalated on the

management side also, with DIBP electing not to accept any work from employees engaging in partial work bans and exercising its right not to pay them at all until the end of the day on which the ban ceased. This industrial action represented a significant escalation compared with earlier rounds of APS bargaining (Roles et al., 2012).

The Coalition shifted its position. In September 2015, Malcolm Turnbull became Australia's new Prime Minister. He appointed Michaelia Cash as the new Minister for Employment and Minister Assisting the Prime Minister for the Public Service (Cash, 2015). In October, Minister Cash released a new workplace bargaining policy (2015 APS Bargaining Policy) which contained two main changes. The first was to stipulate that agencies could offer a 2% per annum pay rise (APSC, 2015b: 1). The second relaxed the approval process. The 2014 Bargaining Policy had required that agencies obtain approval from the APSC, the relevant agency minister and, in certain circumstances, the Department of Finance before providing the proposed agreement to employees (APSC, 2014b: 32). The 2015 Bargaining Policy required that approval was only required from the APSC (2015b: 1). Our interviewees confirmed that this change assisted negotiations to proceed more effectively (interview with HR managers, 1 December; 2 December 2015, 26 November 2015).

Negotiations escalated in the latter part of 2015, with more agencies issuing proposed agreements to employees. The incidence of employees rejecting agreements also increased. Employees in the Department of Prime Minister and Cabinet (Thomson, 2015a) rejected the offer put to them, reportedly due to the low wage rise, decreased access to pay increments and reduced conditions of employment (Sansom, 2015). Similarly, employees in the ATO, one of the largest APS agencies, as well as employees in the Department of Agriculture and the Department of Employment voted against their proposed agreements (Towell, 2015b). Employees in several smaller agencies also rejected proposed agreements. Bargaining fatigue was becoming evident, however, as the margins by which some of the agreements were voted down were declining – by 62 votes in the Department of Agriculture and by 55% of employees in the Department of Employment (Towell, 2015c). A minority of agreements were also approved by APS staff, for example, at the Department of Foreign Affairs and Trade (Thomson, 2015b) and the Department of Finance, due, in part, to the pay offers being increased to 2% (Thomson, 2015c).

It is possible to discern some trends in the eight APS agency agreements that were approved by a majority of employees in 2015. First, a slight reduction in conditions can be detected – working hours were slightly longer in one agency, access to part-time work for parents returning from parental leave have been reduced in another. Second, demonstrating the government's commitment to 'streamlining' agreements, various provisions relating to performance management and flexible working arrangements, such as working from home and job-sharing, have been incorporated into human resource policies. Other clauses, such as those relating to facilities for union members, were removed from some agreements. Consultation obligations in some agencies were truncated in accordance with the 2014 Bargaining Policy.

## Shaping attitudes between the parties

Within the context of a forcing strategy, shaping attitudes between the parties often entails maximising intergroup animosity. Both the CPSU and the Coalition (and its

managerial agents) were highly critical of each other in their public messaging. The CPSU maintained a consistent message that the government's bargaining policies were 'harsh and unfair', unworkable and 'radical' (Towell, 2015d, 2015e, Thomson, 2015d). The CPSU repeatedly argued that the relatively low pay offers and proposed reductions to terms and conditions of employment were unacceptable, given increased workloads due to downsizing, redundancies and outsourcing (CPSU, 2015g, 2015h). The CPSU portrayed the government as harsh and unreasonable towards its own employees and ideologically and politically driven. The public service minister reportedly stated that the CPSU's claims were 'unaffordable and unworkable' (Mannheim, 2015). Portraying the union's claims as excessive and self-interested, particularly in comparison with the private sector, the public service minister stated that APS employees had enjoyed higher wage rises over the previous decade than private sector employees (Towell, 2015f). Both sides accused each other of not living in the 'real world' (CPSU, 2015g; Towell, 2015g).

As bargaining became more protracted, the language used by both the union and management escalated in tone and animosity. Nadine Flood, the National Secretary of the CPSU, was highly critical of revised offers provided by management in agencies such as DIBP that came with proposals to reduce the proposed workforce by over 5%, reportedly describing it as '... outrageous and show[ing] just how ridiculous the government's funding of Immigration and Border Protection is ...'. DIBP responded by claiming the union's statements were misleading: '(t)he CPSU is trying to distort the fact that this is a much improved offer with exaggerated claims ...' (Towell, 2015h). In addition, Minister Cash sought to downplay the level of employee participation in industrial action, using APS agency statistics. She cited the example of the DHS, claiming that on average, only 1173 of 30,000 employees engaged in industrial action, statistics which were disputed by the CPSU (Thomson, 2015e). Both the union and management negotiators sought to discredit one another's responses to the revised offers in an attempt to shore up support or mobilise against agreement offers.

## **Managing internal differences**

There is considerable potential for disagreements to emerge within one or more parties to the bargaining process. Such conflicts threaten internal solidarity and may encourage other parties to take advantage of such internal differences (Walton and McKersie, 1965: 289). In the 2014–2016 bargaining round, internal divisions emerged between APS agencies and the APSC, with agency management reportedly stating that they had 'no room within the framework to make better offers' (Towell, 2015d). In March 2015, the APS Commissioner, John Lloyd, indicated that a less onerous definition of productivity savings would be applied (Easton, 2015). Additionally, long-term structural adjustments to work practices could be regarded as productivity trade-offs. This eased the restrictions on negotiations slightly, and a few agencies with relatively low union density successfully negotiated agreements.

In contrast, the CPSU presented a more unified front and appeared to maintain internal solidarity. The CPSU's campaign contained several strategies. First, the CPSU presented a consistent message. The union campaigned against proposed modest pay rises and reductions to terms and conditions of employment. Second, the union presented their

campaign as being ‘the fight of our lives’ (Towell, 2015i), an industrial struggle which was larger than the bargaining occurring in individual agencies and affecting individual employees. Industrial action, discussed earlier, was widespread and occurred over an extended period of time. The CPSU used social media to distribute details of the actions and their impacts (such as long queues at airports due to striking workers) to build solidarity amongst the membership and to encourage potential members to join. Solidarity was also enhanced as hundreds of union members in numerous locations attended rallies and meetings (CPSU, 2015i). A crowd-funding campaign was also established to seek public support to help striking workers (CPSU, 2015k). Third, campaigning accompanied the industrial action and aimed to engage the public, with over 2.5 million postcards reportedly distributed by union members (CPSU, 2015j).

But inter-union differences in negotiation strategy also emerged at the ATO, between the CPSU and another union, the Australian Municipal, Administrative, Clerical and Services Union (ASU). The CPSU wanted a management offer in August 2015 to go to an employee ballot, in the hope that it would be voted down, continuing to build the momentum of ‘no’ votes. The ASU wanted to use the FW Act’s good faith bargaining requirements to obtain more information concerning the ATO’s offer. The ASU was unsuccessful (FWC, 2015d) and the agreement was voted down by a large margin of employees shortly afterwards.

## Discussion and conclusion

The Coalition pursued an approach to APS bargaining in 2014–2016 that was compatible with a forcing strategy. This forcing strategy comprised a distributive bargaining approach that required APS agencies to fund wage increases through productivity savings and cuts to employment conditions. This negotiating approach affected the attitudes of public sector managers and unions towards one another and created internal differences within the ranks of both management and unions. Walton et al. (1994) emphasise that negotiations give rise to both substantive agreements and social contracts between the parties. The social contract is underpinned by a set of ideological beliefs. The Coalition believed that public service employment conditions should be brought into line with those of private sector employers, ‘deprivileging’ the Commonwealth public sector workforce (Bach, 2016). The Coalition attempted to use its power resources, principally the 2014 and 2015 APS Bargaining Policies, to implement its forcing strategy.

However, the 2014–2016 bargaining process highlights the limits of a forcing strategy where public sector unions have the organisational capability to organise an effective opposition. Public sector unions were able to utilise the FW Act to mobilise their network of workplace union representatives and members to promote ‘no vote’ campaigns in many APS agencies. Industrial action targeted stoppages at airports and other politically sensitive workplaces in an effort to place political pressure on the Coalition to improve its offers. Where a majority of employees did vote in favour of agreement offers, cuts to conditions were relatively modest. At the time of writing, only approximately 6% of APS employees in eight APS agencies were covered by a new or replacement enterprise agreement approved by the FWC. Proposed reductions to terms and conditions of

employment were minimal though agreements were streamlined, with union consultation and performance management clauses shortened or relegated to HR policy. The low number of agreements approved by the end of 2015 highlights the ability of the CPSU to maintain a strong level of solidarity amongst both union and non-union members. Even though the government maintained that participation in industrial action was low, the swathe of agreements rejected – some more than once – highlighted the effectiveness of a strong union campaign. It also highlights the importance of legislation supportive of collective bargaining and union participation in collective negotiations. Nonetheless, the Coalition and its managerial agents have succeeded in freezing APS wages for the vast majority of APS employees.

This public sector bargaining process also demonstrated how the shaping of intergroup attitudes under a forcing strategy can lead to an escalation of hostile rhetoric as the adversarial nature of the relationship between the parties intensifies (Walton et al., 1994). Over 2014–2016, the relationship between the CPSU and the Coalition and its managerial agents deteriorated. Nevertheless, this increased hostility assisted public sector unions to maintain members' solidarity throughout its industrial campaigns, rallies and industrial actions.

In addition, this study highlighted that the control of internal differences is particularly challenging for public sector managements. The involvement of multiple layers of management, from line agencies, to the central agency overseeing the bargaining process, the APSC, to the Minister Assisting the Prime Minister for the Public Service, created multiple opportunities for intragroup conflicts. In particular, tensions emerged between agency management and the APSC over the latter's strict interpretation of the Coalition's Bargaining Policy. The revised Bargaining Policy, issued in 2015, raised the remuneration cap to 2% and implemented some other changes including a streamlined approval process by the APSC. This provided agencies with increased capacity to negotiate and a number of agreements were finalised and approved in 2015. On the whole, agency managements would have preferred increased discretion to negotiate with union representatives at workplace level. However, the reality of oversight by central agencies over public sector collective bargaining processes highlights the likelihood of ongoing and structural conflicts between line and central agencies involved in public sector pay negotiations.

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