

**SUBMISSION TO SENATE STANDING COMMITTEE ON EDUCATION AND  
EMPLOYMENT REFERENCES: INQUIRY INTO THE IMPACT OF THE  
GOVERNMENT'S WORKPLACE BARGAINING POLICY AND ITS APPROACH TO  
COMMONWEALTH PUBLIC SECTOR BARGAINING**

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**INTRODUCTION**

I am making this submission in my personal capacity. I am not an expert in public sector remuneration but have followed government policies in this area over many years with considerable dismay. When I was Public Service Commissioner (2002-2004) responsibility for APS remuneration was not with the APSC but with the Employment Department. The transfer of this responsibility to the APSC, now clarified in the Public Service Act, was an important initiative that now offers the opportunity for a more coherent approach that focuses on the requirements of the APS.

This submission focuses on the importance of any remuneration policy focusing on the attraction and retention of the skills the public sector requires, and also on promoting efficiency, high performance and continuous learning and development.

It suggests the current policy framework pays insufficient attention to these fundamentals and applies an overly narrow approach to promoting productivity which is not consistent with the way labour markets operate and is likely to exacerbate existing problems of inconsistent remuneration across the APS.

The submission does not address the likely remuneration outcomes of a more coherent policy approach, nor the budgetary implications involved, other than to suggest there is good reason to expect significant restraint in average increases in the public sector at present and in agencies' running cost budgets. There is nonetheless a strong case for further review of the way running cost budgets are set and adjusted each year to take into account reasonable expectations of ongoing productivity improvements.

**REMUNERATION POLICY FOCUS**

The central objective of remuneration policy should be to attract and retain the skills organisations need. There is little evidence that the current policy has regard to any evidence of the quantity or quality of applicants to join the APS, or to staff turnover. While it seems the APS is still attracting large numbers of applicants for base level graduate positions, it is likely that there are variations in attraction and retention across different skills-in-demand. Nonetheless, the overall state of the Australian labour market suggests the APS is not facing critical difficulties overall in attracting and retaining the skills it needs and, given the slow growth in wages generally, a very modest average pay outcome is to be expected in the current environment.

The approach to maintaining reasonable levels of attraction and retention recommended by the Coombs Royal Commission in 1976, and generally used by both public and private sector employers over many years, is to set remuneration levels comparable to those in the market place for similar work and skills and experience. As a rule, the public sector does not need to be a pace-setter, but it should choose a position in the market comparison taking account of the period of any pay agreement (ie choosing a slightly higher position in the market profile if the pay outcome is to apply for a lengthy period). Public sector employers should also, like private sector ones, make adjustments taking into account internal relativities that suit them, both vertical and horizontal, bearing in mind any specific attraction or retention issues they face with respect to particular occupation groups.

The public sector may be able to rely in part on 'public service motivation' and the interesting work often involved, as well as perceptions of greater security of tenure. But these factors are easily exaggerated particularly in an environment where the public sector is often competing directly with the private and NGO sectors to deliver public services. (Arguably, however, these factors have been underplayed in recent years for senior executives and agency heads, where market comparisons may have more limited bearing on actual labour market behaviour in the APS, and where internal relativities – and relativities with the remuneration of politicians – may be important considerations.)

Remuneration policy can also be complemented by other management strategies to attract and retain skilled staff. The APS generally does quite well in attracting applications for base grade graduate positions, but it is not clear it is attracting the 'best and the brightest' for future leadership roles. Cadetship schemes, and prestigious training programs for those with particularly strong potential can help in this regard. But these will not be successful if the basic remuneration is not competitive in the market.

The main consideration in the current policy framework seems to be the need to promote productivity improvements, pursued through the requirement for remuneration increases to be fully offset by productivity gains within each agency. This has been a feature of Commonwealth workplace bargaining in the early 1990s. Initially, it may have had some validity, as the idea of enterprise bargaining in the private sector was pursued in place of the previous collective bargaining approach under 'comparative wage justice' in order to facilitate labour market flexibility and to shift capital and labour to more highly productive enterprises and industries. The public sector was also seen to be overly inflexible and not paying sufficient attention to productivity and, as so-called New Public Management's emphasis on competition in the delivery of public services took effect, this approach was seen to have some benefits in the public sector.

The problem is that remuneration is not set solely by productivity within enterprises and that, in contrast with the private sector, public sector agencies' capacity to pay is not set by the market but by the public policy (political) process. Even in the private sector, productivity gains in one set of enterprises, or one industry, eventually flow on to employees elsewhere with similar skills, subject of course to those other enterprises being profitable (eventually, productivity gains in the economy flow on more widely again). In the public sector, treating each agency as a separate enterprise and limiting pay increases to productivity within each one, is doubly inappropriate if pursued other than on an occasional or short-term basis. Thirty years on, the case for this approach has long disappeared.

The consequences for continuing to press this approach have already proven to be very damaging, and are extremely difficult to reverse. Pay for the same work and the same skills and experience now varies

very considerably across the APS as the APSC's annual surveys reveal. This has been the case now for a decade, and was identified as a serious concern in the 2008 Moran Report that contributed to the subsequent transfer of overall remuneration policy to the APSC and the expectation of a firmer APS-wide approach. The problem is most acute for agencies affected by Machinery of Government changes bringing together employees from different agencies with different remuneration legacies. The pay differences do not reflect in any way genuine productivity differences and lead to significant discontent with the risk of poorer organisational performance. Even where the differences are only between agencies, not within them, there can be negative consequences, for example making it harder for poorer agencies to attract and retain the skills they need, exacerbating any poor organisational performance.

Far from promoting productivity, these outcomes run the risk of damaging morale and teamwork, and building resentment. Pay differences are not seen to reflect genuine merit, or genuine differences in skill sets or experience, but favouritism. This is not to suggest pursuing 'fairness' at all costs, but to promote differentiation more firmly based on skills, experience and work value, and performance, that public servants will recognise and accept.

All this suggests the need for a firmer whole-of-APS approach to setting remuneration, reversing 30 years of devolution in this area that has caused many more problems than the benefits promised, of flexibility and improved organisational and program performance, including through improved productivity. This does not mean reversal of other moves to devolve management authority or to use market competition to improve performance and results. But Australia is almost the only country that devolved pay and classification, and the evidence is clear that we went too far on this. In addition to the damaging variations in remuneration for the same work, the system has involved a very high transaction cost across the APS, requiring enormous effort by management in every agency, most of whom lack the specialist knowledge needed to get the best remuneration outcomes.

There is merit, however, in having some degree of flexibility for remuneration for some specific positions, such as specialist jobs requiring skills in high demand and short supply (the selective use of AWAs in the late 1990s and early 2000s had considerable advantages, but these were lost when wider use of individual contracts in the APS was pursued on ideological grounds against the advice of most agency heads at the time).

Unscrambling the egg will continue to be a difficult challenge, particularly in times of austerity and limited average wages growth: those being paid too little will have to wait longer for pay equity, and those being paid too much will have to wait longer for any pay increase while the others slowly catch up.

## **CONDITIONS**

As the policy makes clear, the focus of the bargaining process should be on total remuneration, not just pay: the cost of any conditions need to be included. Australia has focused on total remuneration now since the running costs reforms of the 1980s which facilitated 'contracting out' and 'commercialisation' based upon an even playing field.

But offsetting pay increases by reducing conditions does not usually involve any productivity gain – it is merely trading off one part of remuneration for another. The exception is where the conditions involve more than a direct monetary cost in the remuneration package: this occurs where conditions constrain

management prerogatives and limit productivity gains in the organisation. It is not unreasonable for the policy therefore to place some constraints on conditions.

That said, conditions have been on the table now for twenty five years and perhaps there are diminishing returns from further trying to curb them. Moreover, some conditions may provide a safe working environment or lend other support for attracting and retaining skills or enhancing organisational performance. At times the APS has set conditions that have later become the norm for successful employers in the private sector wanting to get the most from their employees; in some cases the conditions have later been mandated by law.

Reference has been made in this connection to the relatively generous superannuation benefits available to APS employees. Several points need to be made about these:

- First, they originated as a means of retaining staff in the context of the then view of the APS as a career for life;
- Second, the value and costs have been included in total remuneration figures and agency running costs since the mid 1980s;
- Third, reforms to public sector superannuation since that time has steadily shifted the system away from unfunded benefits-promise schemes rewarding most those (generally male) longer-term and senior employees at high cost towards fully-funded defined contributions schemes more attuned to the modern APS workforce at more modest cost;
- Finally, while the employer contribution of 15.4% is above the private sector minimum of 9.5%, that minimum is legislated to increase to 12%, and most workers on median earnings and above will need to contribute of the order of 15% in total to achieve reasonable income replacement rates in retirement, even if retiring at age 67 i.e. the public sector figure is nearer the optimum that the private sector might consider moving towards for the sorts of employees that are in the APS today.

## **BUDGET IMPLICATIONS**

Whatever remuneration levels might emerge from a more coherent approach, it is certainly true that agency budgets should be firmly based on reasonable expectations of continuing productivity gains, and not automatically adjusted for pay increases: 'output prices' should generally be expected to fall in real terms. There remain serious problems with the current methods of achieving this, including the continued use of 'efficiency dividends' and assumed productivity offsets for remuneration increases.

This is not to deny the case for occasional across-the-board cuts to running cost budgets in dire fiscal situations, but these should not be presented as 'efficiency' measures but as a requirement for re-prioritising activities and outputs, preferably with the explicit endorsement of ministers who should accept the responsibility. Unfortunately such across-the-board cuts have become the rule rather than the exception and continue to be presented as 'efficiency' or 'productivity' measures.

A more coherent approach would be to adjust running costs each year by the CPI (which includes a productivity element particularly when applied to services) and any workload shift, with the option of additional offsets for particular circumstances such as major capital investments (arguably there is also a case now from the capacity of many agencies to review their classification profiles, reducing numbers at high levels and increasing numbers at very low levels).

This issue was examined by a Senate Committee some years ago but has not been adequately or coherently addressed by this or the previous Labor Government (nor it seems by the relevant central agencies, though this might have been done in confidential advice).