

Chapter 1

Background: structural and organisational changes to the Australian Public Service

1.1 The staffing profile of the Australian Public Service (APS)¹ as one of the major recruiters of labour in Australia has changed significantly in the last two decades. Those changes are outlined in chapter 2. These need to be seen and understood in the context of wider governmental, social attitude and economic changes that have occurred across this period.

1.2 In order to help make sense of the trends and shifts in the APS discussed in the chapters that follow, this chapter sketches out the structural and organisational factors that have reconfigured organisations and altered their recruitment patterns, both in the public and private sector in Australia and globally.

1.3 Three major trends have impacted on Australia's public sector employment experience:

- Significant global changes in underlying economic attitudes, including movement towards greater global competitiveness and deregulation of labour;
- Shifts in social attitudes including greater demands by the community on the public service; and
- Changes in the nature and distribution of employment, including the increasing use of part-time, casual and contract labour and the impact of technological changes on the location of work and the type of skills required.²

1.4 In addition, trends within the APS are also affecting the nature of public sector work. These include:

- an ageing APS profile with the likely departure of a significant proportion of its workforce (around 23 per cent) over the next five years; and

1 Staff employed within the Australian Public Service (APS) under the authority of the *Public Service Act 1999* (PS Act) form only a part of total Commonwealth public sector employment across Australia. Some staff employed in Commonwealth-owned companies, statutory authorities and government business enterprises are not employed under the PS Act. These staff and state and local government staff are not included in the statistics published in the Australian Public Service Statistical Bulletins that, in large part, provide quantification of the trends discussed in chapters 2 and 3. The proportion of staff employed under the PS Act varies between agencies. For example, 78 per cent of ANAO's employees are employed under the PS Act while the figure is 85 per cent for the Australian Tax Office (ATO) staff (one of the larger agencies), and 100 per cent for the Department of Environment and Heritage.

2 J Kaul, 'The Transformation of Australian Employment: Policy, influences and impacts', *Just Policy*, No. 23 September 2001, pp.42-43

- major shifts in the APS classification structure, with more than 50 per cent of recruits with tertiary qualifications, more rapid advancement of new recruits and greater mobility within and between the sectors.³

1.5 Beyond the employment environment, other equally significant changes have been altering the public sector environment. These include:

- increased expectations about accountability for performance and ethical behaviour;
- increased uncertainty and volatility of the operating environment;
- loss of trust in government;
- change fatigue/cynicism among public sector workers after two decades of reform; and
- the need to build workforce capability to deal with these challenges.⁴

1.6 These factors have transformed the public sector into one in which there is an emphasis on:

- new models of service delivery;
- collaboration with each other, with non-profit organisations and with citizen groups to deliver publicly supported programs;
- strategic use of modern technology to manage and deliver services;
- efficient use of resources and service delivery in the context of markets and quasi-markets that are influenced by global forces; and
- better management of human resources to deliver outcomes.⁵

1.7 As a result of these changes, both to the employment environment and to expectations about the public sector, significant public sector reforms have taken place in recent decades. Australia is just one of the many countries to have introduced public service and financial management reforms in their public sectors. Countries with whom Australia often compares itself, including Canada, the United Kingdom, the United States and New Zealand have adopted similar reforms. Examination of issues of central concern to the public sector including the appropriateness of service provision (by whom and at what level), accountability, economy, efficiency and

3 APS Commission and the ANAO, *Building Capability: A Framework for Managing Learning and Development in the APS*, A guide for senior managers, line managers, human resource practitioners, April 2003, p.5

4 A Tiernan and P Bishop, 'Innovation in Public Sector Education and Training: The New Public Sector Management (PSM) Program', *Institute of Public Administration Australia (IPAA)*, National Conference 2002, Innovation and Impacts Day Presentation, p.5

5 L R Jones, F Thompson and W Zumeta, 'Public Management for the New Millennium: Developing Relevant and Integrated Professional Curricula?', *International Public Management Review*, Vol 2, Issue 2, 2001, p.19; Tiernan and Bishop, op. cit.; [also cite the Weller et al volume on service delivery etc]

productivity, effectiveness, ethics, and social justice have led to moves towards a smaller public sector.⁶

1.8 The Australian Public Service Commission (the APS Commission) told the Committee:

Like the rest of the labour market the APS has been affected greatly by technological and social change. In addition, the APS has been affected by changes in the institutional and policy framework within which work is carried out in response to global competitive pressures. These pressures are by no means unique to the Commonwealth or to Australia — many comparable jurisdictions have grappled with and continue to grapple with similar pressures...There is clearly a degree of commonality in the reform drivers and experiences around the world.⁷

1.9 Recruitment and training in the APS must be considered, therefore, in the context of the transformation of the APS as a whole in response to the complex and volatile environment in which the public sector now operates.

Recent assessments of reforms to the APS

1.10 Given the considerable transformations that have taken place in the APS, the Committee was interested in how these changes are now viewed, and what challenges they are believed to present. While claiming that Australia has a strong system of public administration by international comparisons, Dr Allan Hawke, former Secretary of the Department of Defence, considered that recent changes had transformed the APS into ‘a loose federation of people and knowledge-based organisations seeking to attract and retain the best possible talent’.⁸ He considered it imperative that the APS address the changes in methods and general attitudes in the private sector and the wider community and the ongoing national and international trends referred to above. He highlighted the global employment phenomenon known as the ‘war for talent’ that he saw as being driven by three forces:

- an irreversible shift from the industrial to the information age;
- an intensifying demand for high quality talent – due, in large part, to an ageing population and a shrinking workforce; and
- growing propensity for high quality executives to switch from one employer to another.

1.11 Griffith University claimed that today’s business, management and marketing schools implied that private sector careers were considered ‘superior’ to those in the

6 *APS 2000: the Australian Public Service Workforce of the Future*, Interdepartmental Working Party convened by the Australian Public Service Commission, pp.8-11

7 APSC, Submission No. 15, pp.14-15

8 A Hawke, ‘Public Service: A Secretary’s View’, *Canberra Bulletin of Public Administration* No. 105 September 2002, p.23

public sector. It noted that this had ‘serious long-term consequences for Australian governance’ and suggested that strategies to *retain* staff were perhaps more important than those to *attract* staff.

Good governance requires that the ‘best and the brightest’ be attracted to public service...Our research and our experience of dealing with current public servants suggests that many are leaving the service, while others are contemplating career alternatives. Unless these trends are stemmed, this will have serious long-term consequences for Australian governance. There is an urgent need for further research to identify the reasons why the [public service] career maybe regarded as less attractive than it once was, and the strategies that could improve retention rates.⁹

1.12 Professor Glyn Davis defined two ‘waves’ of public sector change, each with significantly different implications for public sector resourcing. The first trend (known variously as corporate management, managerialism or the new public sector management) sought to improve efficiency while retaining many of the essential features of public administration. It therefore requires the retention of a permanent public service. The second and arguably more significant trend (contracting) puts competition at the basis of public life so that the traditional preference for government delivery of services no longer applies. This scenario goes beyond importing business practices to the public sector, to the delivery of government services by business according to contracts won through competition. Governments regulate markets but do not participate in them, employing a residual public service that sets policy but relies on others (perhaps the lowest private sector bidder) for service delivery. The implications are many fewer public servants and a narrower skill base.¹⁰

1.13 For a public sector faced with greater functional complexity now than ever before in its history, with the boundaries between public and private sectors blurred and the possibility of the core functions of policy advice and contract management forming the basis of regular public sector employment, many employees are likely to be attracted to careers spanning both sectors, ensuring that ‘the war for talent’ will be ongoing.

1.14 While noting the advantages offered by a contracting approach to human resource management (including flexibility, rapid responsiveness to new developments, and a capacity to buy in expensive skills), Davis considered that convergence with the private sector may not be appropriate when the tasks and costs are different. He noted that the consequences of convergence could be severe including:

- critical losses of institutional memory;

9 Griffith University (Brisbane), Submission No. 16, p.3

10 G Davis, ‘A Future for Public Service? Human resources management in a shrinking sector’, *Canberra Bulletin of Public Administration*, No. 89, August 1998, p.22

- transaction costs that are initially reduced, but whose savings may not endure over time if the necessary skills and systems to monitor and assess contract outcomes are not in place. For example, a template approach to contracting and a focus on short-term results is not conducive to letting contracts for new or changed outcomes; and
- reduced or unfulfilled community service obligations and a net social welfare loss.¹¹

1.15 Jones, Thompson and Zumeta consider that, while differences between managing in the public and private sectors may be a matter of degree rather than kind, they are significant. Jones, Thompson and Zumeta identify large areas of overlap between the sectors, noting that generic business management tools (for example, concerning economics, organisation theory, human resources, finance, accounting and information technology) are basic to public sector management. They also consider, however, that substantial overlap exists between the sectors regarding strategy, policy and marketing as well as in politics, negotiation, law and ethics.¹²

1.16 Further, they note that the information technology revolution is breaking down economies of scale and scope within organisations leading to the removal of the need for internal specialisation. For example, databases, telecommunications networks and expert systems can provide many if not all the benefits formerly provided by in-house staff in functions such as personnel, finance and accounting. To the extent specialist knowledge is required, it can be obtained through contracting. As a result, the trend is to organisations that are smaller, flatter and ‘organised around a set of generic, value-creating processes and specific competencies’.¹³

1.17 That the public sector has functions intrinsic to government based on ‘core values and operating principles’ is enshrined in the Public Service Act which strives for a balance between the advantages of markets and the realities of parliamentary accountability. As the Australian Public Service (APS) Commission noted:

The broad and abiding objective of these reforms has been to develop and foster a public sector that is effective, efficient and responsive while maintaining, despite fundamental change, those generally recognised values and institutional characteristics that are unique to the public sector and that are highly valued by the community, the Parliament and the Government.¹⁴

11 G Davis, ‘A Future for Public Service? Human resources management in a shrinking sector’, *Canberra Bulletin of Public Administration*, No. 89, August 1998, p.22

12 L R Jones, F Thompson and W Zumeta, ‘Public Management for the New Millennium: Developing Relevant and Integrated Professional Curricula?’, *International Public Management Review*, Vol 2, Issue 2, 2001, pp.20-21

13 *ibid*

14 APSC, Submission No. 15, p.15

1.18 In the view of Mr Pat Barrett, Auditor-General, attempts to maximise overall ‘value for money’ for the taxpayer in the provision of public services involve ‘consideration of issues other than production costs, such as citizen satisfaction, the public interest, openness, fair play, honesty, justice, privacy and equity’.¹⁵

1.19 The Recruitment Consulting Services Association (RCSA), a peak body for recruitment companies, told the Committee that ‘outsourcing has been a key force to reshaping the public and private sector’ with government now focused on core capabilities and outsourcing non-core capabilities, including human resource management, to specialists.¹⁶

1.20 O’Neill and Hughes noted the demise of the role of government as producer and provider of an extensive range of goods and services. The Public Service Act is considered by many to mark the formal end of the traditional career service model as the prevailing paradigm of public management in Australia.¹⁷

1.21 In such an environment, the Committee agrees with the ANAO that the APS is facing ‘an ongoing challenge’ in recruiting and retaining ‘high performing staff with the right skills, particularly as the distinction between the public and private sectors becomes less well-defined’.¹⁸

1.22 Many agencies have developed or are in the process of developing strategies to address the challenges posed above. To cite one example, the Defence White Paper, *Defence 2000 – Our Future Defence Force*, emphasises ‘that people are capability...that it is people who give Defence its competitive edge’.

The White Paper’s vision is of Defence as a high performing organisation with a flexible, adaptive and highly capable workforce able to meet the objectives set by Government.¹⁹

1.23 The Department of Defence (Defence) argued that it has been facing particular challenges regarding a range of pressures in recent years to develop cultures and organisational practices that embody the required standards and allow it to achieve the Government’s objectives. These pressures include:

- ‘increased operational tempo’;

15 Mr Pat Barrett, quoted in S Tongue, ‘The Digital Divide and the Underlying Rationale for Quality Public Service Delivery’, *Canberra Bulletin of Public Admin* No.105 September 2002, p.40

16 RCSA, Submission No. 9, p.6

17 D O’Neill and O Hughes, ‘Is there a new model of public sector human resource management?’, *Canberra Bulletin of Public Administration* No.89 August 1998, pp.30-36

18 ANAO Office, Submission No. 25, p.1

19 DOD, Submission No. 36, p.4

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- ‘increased scrutiny of organisation and management standards by external regulators and media acting as arbiters of community values’; and
 - ‘perhaps most importantly, higher expectations of people’ who may ‘choose alternative employment on the basis of the quality of their relationship with their employer’.²⁰

1.24 In response, Defence has developed an integrated approach to people issues and workforce planning that has implications for recruitment and training, as well as the distribution of staff between Australia Defence Force and APS personnel. In particular, it cites the need for excellent leadership and people management, stating:

The major implication of these trends for Defence is that they put a premium on the quality of day to day leadership and management of people at all levels. Defence has begun the process of focusing on the quality of the day to day leadership and management of its people. The Secretary and Chief of the Defence Force are using the “Organisational Renewal Agenda” and the “Results Through People” approach to achieve this goal. The strategic importance of people is recognised in the whole of Defence Strategy Map –in the theme that Defence should create a climate where people can do their best. The “People Matter” quadrant of the “Defence Matters” balanced scorecard reports on factors affecting the ability of Defence’s people to contribute to the results sought by Government.²¹

1.25 Analysis of the situation for the APS as a whole, and of the strategies adopted by individual agencies, reveals a transformed and relatively fragmented APS. In undertaking its inquiry, the question for the Committee was whether current recruitment and training in the APS is delivering a public sector workforce resourced and skilled enough for its role ‘to assist government in thinking through and implementing [its] plans and policies’. The Committee is keenly aware that, as noted by Dr Allan Hawke, today’s APS ‘has an unparalleled breadth of functional responsibilities covering matters that would have been unthinkable or unheard of at Federation’.²² The Committee considers that both ongoing pressures and the fundamental nature of the changes experienced by public sectors in Australia and internationally in recent years mean that it is not possible to return to the public sector as it existed two decades ago. These pressures include:

- demographics (an ageing population, retirement of senior cohort leading to loss of corporate knowledge and skills, fewer young people entering the workforce, greater mobility and great lateral recruitment into the APS);
- changed economic and social attitudes and values (more competition for ‘the best and the brightest’, remuneration differentials between employers, poor

20 DOD, Submission No. 36, p.4

21 *ibid*, pp.4-5

22 A Hawke, ‘Public Service: A Secretary’s View’, *Canberra Bulletin of Public Administration* No. 105 September 2002, p.20

public sector image, changes in attitudes towards work, demands for mobility, flexibility and interesting work from employees, work/life balance issues and a strong preference for family-friendly workplaces); and

- exponential advances in information technology and communications that are contributing to community and government expectations for more efficient and effective services, and more accountable and open government.

1.26 To respond to these and other as yet unforeseen pressures, a more strategic and organised approach to workforce planning in the APS is required. At the same time, the APS must ensure it continues to provide excellence in delivering core services by recruiting and retaining suitably qualified staff, encouraging ongoing training in cross-APS skills and providing opportunities for learning and development in areas of emerging need across all APS agencies.

1.27 The Committee has sought to determine the implications for APS recruitment and training from the breaking down of the former nexus between policy and implementation and replacement of the traditional role of service delivery with a focus on policy analysis, funding and national regulation. Some of the issues the Committee faced revolve around the following general questions:

- What skills are required of employees in the new public sector?
- How can the APS attract and retain ‘the best and the brightest’ and make the most of the workforce so recruited?
- In light of the human resources reforms already undertaken and current trends in recruitment and training, is the APS on track to deliver a public sector workforce equipped to deal with the challenges of the future?

1.28 Against this background, the Committee examines in the next chapter APS recruitment trends in general. It then turns, in Chapters 3 to 5, to focusing on three particular categories of recruitment, namely, young people, indigenous people and graduates. In Chapter 6 the Committee assesses the effectiveness of devolution and the role of the APS Commission in recruitment and staffing matters. Chapters 7 to 10 set out evidence received and commentary on issues relating to training and development in the APS. Chapter 11 considers the effectiveness of devolution and the role of the APS Commission in training.

The Context of the Committee’s inquiry

1.29 The Committee’s findings come hard on the heels of two recent reports that relate to issues central to its inquiry. The first, prepared by the APS Commission’s Management Advisory Committee (MAC), deals with organisational renewal.²³ It calls for a more systematic and integrated approach to workforce planning and capability building across the APS, with alignment of recruitment and retention

23 Management Advisory Committee 3, APS Commission, *Organisational Renewal*, March 2003

strategies, and a more planned approach to people management.²⁴ As the Committee's inquiry has found, the MAC report also points to the challenges involved in organising and managing a more varied and demanding workforce, in responding effectively to the changing attitudes and expectations of employees, government and the community and in providing interesting work that will act as an incentive for people to remain in the APS.²⁵

1.30 Most importantly, the MAC report focuses on 'organisational inflexibility' as the main barrier to retaining corporate knowledge and expertise. Reflecting issues in evidence provided to the Committee, it emphasises the priority employees place on flexible working arrangements as critical to their decisions to join or remain in the APS. It urges development of more creative solutions to provide new opportunities for experienced and skilled staff to make a contribution to the work of the APS, so as to prevent loss of corporate knowledge and allow management of the phased retirement of the APS older workforce.²⁶

1.31 The second report, developed jointly by the APS Commission in collaboration with the Australian National Audit Office (the ANAO), comprises a framework for managing learning and development in the APS. It 'articulates the principles and characteristics of a framework for building capability'. The guide draws on the outcomes of recent audits of learning and development in the APS²⁷ and on the MAC report on organisational renewal,²⁸ as well as international and private sector trends.²⁹ It points to the need for improvements in organisational planning, integration, delivery and evaluation of learning and development in all agencies.

1.32 It is significant that both reports recognise the urgent need for action now to address the issues raised above and that both reflect many of the concerns raised in the Committee's inquiry. **The Committee considers that these documents provide a firm basis for agencies to develop practical approaches to recruitment and retention, and to apply the guide's principles to build workforce capability appropriate to their particular situations.**

1.33 In the context of increasing competition within and amongst sectors for high caliber staff, an issue with major implications for APS recruitment, in particular, of

24 Department of The Prime Minister and Cabinet, Media Release: *New Challenges for the Australian Public Service*, 20 March 2002, p.1

25 *ibid*

26 *ibid*, p.2

27 These include: *Management of Learning and Development in the Australian Public Service*, Audit Report No.64 2001-2002, and *Managing People for Business Outcomes*, Audit Report No.61 2001-2002)

28 Management Advisory Committee 3, APS Commission, *Organisational Renewal*, March 2003

29 APS Commission and the ANAO, *Building Capability: A Framework for Managing Learning and Development in the APS*, A guide for senior managers, line managers, human resource practitioners, April 2003, p.4

young people, is the ageing of the Australian workforce. The Committee notes that, as recently as 26 February 2003, Cabinet considered the challenge posed by an ageing workforce. According to media reports, the Treasurer urged Ministers to consider policy initiatives, such as incentives to reward ongoing participation in the workforce, with a view to reversing the trend to early retirement.³⁰ More recently, in the context of issues such as superannuation, it has been reported that the government has been considering ways to raise the retirement age;³¹ and the March 2003 report of the APS Commission's Management Advisory Committee (MAC), *Organisational Renewal*, highlights the ageing of the APS workforce as a 'challenge' requiring skilful and active management over the next decade.³²

1.34 Other qualitative evidence of the phenomenon is also available. For example, the Institution of Engineers stated:

There is an ageing of technical professionals in the Public Service just as there is an ageing of technical professionals in many industries as well, particularly former government agencies, power authorities, which are now privatised companies, and so on. We are seeing that as a common thread across all industries. It is certainly not APS related.³³

1.35 Chapter 2 discusses trends concerning the age of APS personnel in more detail.

30 'Costello urges workers to retire later', *The Age*, 26 February 2003, p.4

31 'Super crisis may delay retirement', *Herald Sun*, 12 March 2002, p.8

32 *Organisational Renewal*, Management Advisory Committee 3, March 2003, p.3

33 Mr A Yates, IOEA, *Committee Hansard*, 14 August 2002, p.40