

# Commissioner's Overview

Chapter 1



The introduction of the State of the Service report has been of major benefit to the Australian Public Service (APS). We have been able to get a much better picture of how we are performing—where are our areas of strength, what are our key challenges, and where we need to further improve to ensure that the APS delivers effective outcomes for the Australian Government and the community into the future. In a more decentralised environment, where the devolution of authority has markedly improved the quality and efficiency of the APS, the ability to stand back and reflect on our overall performance is vital.

Over time the State of the Service report has become more sophisticated. The introduction of an annual employee survey, the gradual accumulation of trend data on a range of important issues, and the use of additional analytical techniques have allowed us to develop a deeper and more accurate picture of the strengths and weaknesses of the APS.

This year the State of the Service report is structured around three key themes:

- (i) employee engagement, that is the extent to which agencies' policies and practices encourage employees to actively engage with their work and with their organisation
- (ii) organisational effectiveness, including organisational capability, effective governance processes and whole of government capability
- (iii) the effectiveness of the APS in working with the community.

There have been major changes in the structure of the APS which have implications for how we address each of these areas. This year there has been:

- strong growth in both ongoing and non-ongoing employment, with total numbers in the APS growing by 9.6% to 146,434
- a growth in the proportion of employees with graduate qualifications to 51.9%
- continuing decline in the employment of employees at the APS 1–2 levels, who now make up only 4.5% of total APS employment
- further feminisation of the APS workforce, with women now making up 56.4% of all APS employment.

This year's report demonstrates that, overall, the APS is a healthy institution, with generally high levels of employee engagement. In particular, APS employees have:

- high levels of job satisfaction
- high rates of satisfaction with both their levels of productivity in their current job and the effectiveness of their work group
- high rates of satisfaction with their access to flexible working arrangements
- generally high rates of satisfaction with their agency's commitment to workplace diversity
- high rates of satisfaction with their immediate supervisors.

The report confirms a strong focus on issues of integrity and fairness in the APS. Individual agencies and the Commission have invested significant effort in promoting and embedding the APS Values and the Code of Conduct into the culture of the APS, and this investment is clearly paying off.

There has also been a general consolidation of trends towards a more skilled workforce. Over half of employees, and around two-thirds of new recruits, now have graduate qualifications. Reflecting our need for highly-skilled employees, the APS is focusing on issues of organisational capability, including leadership development, workforce planning, and succession management, in a more strategic and systematic way.

One area where APS employees express particularly high levels of satisfaction is in their role as deliverers of services to the public. Employees are very positive about the impact of their workplace practices on service delivery and most believe employees in their workplace are committed to providing excellent customer service. These views seem to be well-placed—a range of key service delivery agencies report high levels of service user satisfaction.

This year, there are some very positive signs of improvement in areas that have previously been problematic for the APS. One notable area is performance management. On a range of indicators, performance management systems now appear to be more firmly embedded and employees report a strong understanding of the connection between their work, what is expected of them, and the strategy of their organisations. Perceptions of performance pay are also improving slightly, although there is still some way to go.

Our strengths in these areas enable us to achieve significant outcomes. In the one year, the APS has progressed counter-terrorism cooperation in South-East Asia and the Pacific, played a central role in developing the Work Choices legislation which has made major changes to workplace relations in Australia, prepared for the implementation of Welfare to Work reforms, administered the Community Water Grants Programme which will save billions of litres of water, and successfully responded to Cyclones Larry and Monica, to name but a few examples.

The APS is trusted by the Australian Government to produce results. This is reflected both in increases in staff numbers as the APS is asked to take on a range of new initiatives in the areas of Welfare to Work, support for families and carers, and initiatives aimed at enhancing Australia's security and levels of international engagement, and the fact that a number of Australian Government agencies are being brought within the APS framework.

We have good reason to be proud of our achievements as an apolitical, accountable and responsive APS. I am pleased to say that public servants are proud to work in the APS, and that their levels of pride are increasing.

## Challenges facing the APS

The State of the Service report helps us to identify our areas of strength, but also helps us to identify areas where we face challenges. These are the areas where all agencies need to be focusing to ensure the ongoing sustainability of the APS.

### 1. Developing capability in the senior leadership group

Effective leadership is fundamental to the performance of the APS. It allows us to deal with the complexity, risk and uncertainty that characterises the modern public sector environment and to deliver high quality outcomes for the Government and the Australian community. Events of the last few years have shown that public services need to be adept at, and in a continual state of readiness for, dealing with crisis situations and other challenges, whether these arise from natural disasters or security and terrorism incidents. We also need to have the skills to carry forward an increasingly complex and important whole of government agenda. All of this puts a high premium on effective leadership.

The identification of the SES as an APS leadership cadre, which is clearly and very deliberately reinforced through the *Public Service Act 1999*, was further articulated in the recent *One APS—One SES* statement by the Management Advisory Committee.<sup>1</sup> This statement provides a timely reminder of the need for a greater APS-wide focus on leadership capability.

<sup>1</sup> Management Advisory Committee 2005, *Senior Executive Service of the Australian Public Service: One APS—One SES*, Commonwealth of Australia, Canberra.

At the agency level, it is important that all APS agencies have leadership teams that are strong, diverse and talented. They must be respected, seen as dynamic, and display visible commitment to the APS Values. Put simply, they must lead by example.

APS leaders must also acknowledge the potential for problems, be open to constructive criticism, and accept responsibility for remedying problems. They must articulate clearly the direction and goals of the organisation, recognise relevant changes in the external environment and keep abreast of changing political and community expectations.

This year's State of the Service report highlights that there has been an increase in the number of SES employees with limited experience, both at the SES level and in terms of broader experience outside their current agency. This situation is likely to increase, given the large numbers of SES who are relatively close to retirement age.

There are indications that the SES needs to work at improving its capacity in a range of areas, including in the critical area of the ability to shape strategic thinking. In addition, employee perceptions of their senior leaders are generally not positive. It is understandable, of course, that employees may be more positive about their immediate supervisor, with whom they have daily contact, than the senior leadership of their agency which may seem more remote. Nevertheless, APS agencies need to work harder at ensuring both that they have senior leadership of the highest quality, and that the interactions of their leadership team with more junior employees in the agency reflect this quality. This is particularly so given the strong link between employee satisfaction with their senior leaders and agency culture, and their overall levels of job satisfaction.

There is, of course, a wide variation between agencies in terms of the composition and experience of their SES. Different agencies will need to take different approaches to developing their SES. For all agencies, however, a continuing focus on the capability of their leadership group will be critical. SES employees need to invest in themselves and plan their careers carefully so they are able to contribute to the maximum extent possible. There needs to be more active engagement of SES Band 1 employees in organisational leadership, direction setting and feedback arrangements. We cannot afford to have any disempowerment of this group.

## 2. Supporting and developing Executive level employees—the middle-management and SES feeder group

The importance of the role of the APS middle-management cadre, our EL employees, should not be underestimated. EL employees have important strategic, people, financial and risk management responsibilities. To a large extent they act as the conduit responsible for translating and reinforcing important messages about organisational direction from the senior leadership to more junior employees on a daily basis. They also play a key role in terms of their technical skills, whether it be policy development, programme delivery or regulatory work. Moreover, as the SES feeder group, EL employees are looked to for their future leadership potential.

This year's State of the Service report suggests that there is room for improvement in the capability of the EL group. A consistent pattern appears to be emerging that EL employees are relatively weak in the area of strategic thinking, a critical leadership characteristic in an increasingly complex and fast moving world. This may relate to more limited experience in policy work in these days of rapid promotion and more comprehensive management roles. Strategic thinking is a skill that develops with time and experience.

Taken in combination with MAC's report *Managing and Sustaining the APS Workforce*,<sup>2</sup> which found that declining rates of inter-agency mobility among potential APS leaders risked creating a new generation of middle and senior managers who lack breadth and depth of experience in management, policy development and whole of government processes, these results are of serious concern. Trends in mobility have improved somewhat over the last two years, but this will not of itself resolve this issue. Agencies need to focus increasingly on strategic thinking as a core capability for their EL employees.

Many agencies also identified skill set gaps for their EL employees in the area of people management. In contrast, most employees were relatively satisfied with their immediate supervisor. There were, however, some indications of areas where management skills need to improve, particularly in handling underperformance and providing informal feedback. Improving capability in this area is critical if agency performance management systems are to be properly supported.

There are some indications that agencies also need to look at the levels of satisfaction and employee engagement among the EL group. There was a decline in job satisfaction among EL employees this year albeit that it is still at the level of the APS average. ELs also have relatively negative perceptions of some aspects of APS employment, particularly performance pay. In looking at strategies to increase employee engagement more generally, agencies need to have a particular emphasis on ELs, both in their own right, and because of the powerful impact that they can have on other employees.

MAC's *Managing and Sustaining the APS Workforce* places a strong emphasis on investing in identifying and developing future leaders. This year's report finds that agencies still tend to rely on more informal mechanisms to identify potential leaders. Only a quarter of agencies have formal succession management strategies in place, although most other agencies are developing such strategies. Agencies need to ensure that they are making the early identification and development of high potential EL employees, who are capable of fulfilling senior leadership roles in the future, a priority.

### 3. Positioning the APS as an employer of choice

The workforce challenges that confront the APS are well-documented. Many of the challenges centre around the demographics of an ageing APS workforce, combined with the changing nature of APS work and the tightening of the labour market.

This year's State of the Service report shows clear evidence of emerging skill shortages, particularly in areas of specialist skills such as IT, accounting, and financial management. This situation is not expected to ease in the short-to-medium term.

Against this background, it is important that the APS positions itself as an employer of choice to compete for a diverse and sophisticated workforce under tight labour market conditions. We need to make a concerted effort to market the APS as an exciting employment opportunity. The nature of our work and the capacity to make a difference, particularly in strategic policy development and service delivery to the public, make the APS a unique place to work. Combined with our underpinning values framework, workplace flexibility and widespread access to development opportunities, this can potentially give the APS a leading edge.

Part of the response for APS agencies seeking to attract, develop and retain high quality employees will be to use the flexibilities available in our workplace relations arrangements to offer competitive and attractive salary packages. This will inevitably place ongoing pressure on our underpinning funding arrangements, with a continual need for the APS to deliver substantial productivity improvements to fund wage increases.

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<sup>2</sup> Management Advisory Committee 2005, *Managing and Sustaining the APS Workforce*, Commonwealth of Australia, Canberra.

Commitment to workplace diversity and equal employment opportunity is another area of relative strength for the APS and one that we should promote to potential employees. A wide range of agencies are investing considerable time and effort in promoting workplace diversity within their workplaces and employees agree that their agencies take these issues seriously.

The APS has had some major successes. This has been most notable in the area of women's employment. Women now make up more than half of the APS workforce and are increasingly represented at all levels in the APS, including in senior positions. It is also evident in the sustained levels of high satisfaction in work-life balance reflecting the wide access that APS employees enjoy to a range of flexible working arrangements.

Agencies need to ensure, however, that they market themselves as a potential employer to a wide range of employees and continue to draw on the full diversity of the workforce. In this regard, some agencies need to look at how they can be more attractive to men and to younger employees, particularly at junior levels.

The employment of Aboriginal and Torres Strait Islander people and people with disability continues to be an area of challenge for the APS. The wide range of initiatives implemented this year under the *APS Employment and Capability Strategy for Aboriginal and Torres Strait Islander Employees* has led to some improvements, particularly at the graduate trainee, EL and SES classifications. However, the overall representation of both Aboriginal and Torres Strait Islander employees and employees with disability has declined further this year.

The structural issues underpinning these declines, including a reduction in the number of jobs at the APS 1–2 levels, lower education levels coupled with an increasing reliance on APS employees with graduate qualifications, and reductions in the representation of service delivery employees, make the task immense. For Aboriginal and Torres Strait Islander employment to be put on a more sustainable footing, agencies need to make concerted efforts to encourage the employment of their Indigenous employees in a more diverse range of roles and take on more recruits who can be trained on the job. In the case of people with disability, it is important that agencies follow through on MAC's recent commitment to eight objectives aimed at supporting the employment of this group. Success is not assured in either case, but the rewards are considerable when workplaces fully engage these employees.

## 4. Achieving excellence in governance

Consistent with the interest in governance in Australia and internationally, there is a growing focus in the APS on issues of governance. Effective governance processes are essential to the operation of the APS. At a direct level, they provide the framework within which organisations can operate effectively. They also have an effect on employee satisfaction, and on the general public's confidence in our capability and integrity.

The implementation of the Uhrig Review<sup>3</sup> is leading to improved governance structures and processes across a range of Australian Government agencies, and placing lines of accountability between departments, Ministers and statutory agencies on a much stronger footing. APS agencies have also looked at the implications of the issues raised in the Palmer<sup>4</sup> and Comrie<sup>5</sup> reports for their own governance structures.

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<sup>3</sup> J. Uhrig, *Review of the Corporate Governance of Statutory Authorities and Office Holders*, June 2003, <[http://www.finance.gov.au/governancestructures/docs/The\\_Uhrig\\_Report\\_July\\_2003](http://www.finance.gov.au/governancestructures/docs/The_Uhrig_Report_July_2003)>

<sup>4</sup> M. J. Palmer, *Inquiry into the Circumstances of the Immigration Detention of Cornelia Rau: Report*, July 2005, <<http://www.minister.immi.gov.au>>

<sup>5</sup> Commonwealth Ombudsman, *Inquiry into the Circumstances of the Vivian Alvarez Matter*, Report by the Commonwealth Ombudsman of an inquiry undertaken by Mr Neil Comrie, September 2005, <<http://www.ombudsman.gov.au>>

The lessons of Palmer have emphasised the need for integrated systems and processes for finance, human resources, and information technology aligned to our business needs. In responding to Palmer, the APS needs to focus on accountability and ensure that responsibility for decision-making is clearly understood.

Most APS agencies do appear to recognise the need to help their employees understand their responsibilities in terms of governance, and to ensure that they have the capacity to perform their roles. Effective governance, however, requires more than this. It requires employees to be thoughtful, helpful, critical and active participants in the governance of their agency. It is incumbent on all agencies to encourage and reward this type of behaviour.

Information management and record keeping are important components of governance at the agency level. This is an area that continues to be a problematic one for the APS both as a whole and for individual agency effectiveness. The experience of DIMA demonstrates what can go wrong when record keeping fails, and reinforces the importance of making record keeping a routine part of business operations within all APS agencies. MAC's current project on record keeping should be a useful tool in reinforcing the priority of record keeping to all employees and encouraging agencies to develop practical, business-oriented, and easy-to-use systems.

Financial arrangements are another critical component of governance. This is an area where we have seen a range of reforms, including the implementation of an outcomes and outputs framework, the development of Budget mechanisms for spending scrutiny, and the introduction of whole of government financial reporting on an accrual basis across the general government sector. These reforms have provided greater flexibility, devolution and empowerment with clearer accountability for results.

More recently, there has been a strong focus on reducing the burdens imposed by excessive amounts of internal regulation or red tape on agencies, as well as a greater focus on developing whole of government budgetary approaches that cross departmental outcome and output frameworks. This creates some tensions in the existing arrangements for financial reporting that need to be addressed.

At the broader level, there continues to be a lack of detailed guidance as to what effective internal governance processes should look like. There is a need for further work to deliver a governance model that deals effectively with the challenges of the modern APS and alerts executive management to potential difficulties before they develop into systemic problems. In consultation with the Department of Finance and Administration, the Commission is undertaking work in this area, with a view to providing further good practice guidance to agencies.

## 5. Building our organisational capacity to address the challenges of the future

The APS is facing a range of immediate and pressing challenges. It is important, however, that we not let the need to deal with these issues distract us from reflecting on where we are going, and where we need to go to build our capacity to deal with the likely challenges of the future.

Efforts around public service reform have slowed somewhat in the last five years, reflecting the need to embed some of the significant people management and financial reforms of the 1990s. It is now time for the debate around public service reform, and the capacity of the APS to deal with these reforms, to regain momentum. Although the future reform agenda is still emerging, and will continue to evolve, some key components are already apparent.

A renewed focus on working in a whole of government manner has of course been with us for some time, and has been identified as a critical challenge in a number of State of the Service reports. Embedding whole of government culture and processes will continue to be an important part of the public service reform agenda, both nationally and internationally into the future, as the need for such approaches grows.

The APS is learning how to work in this new environment and we are seeing results. Nevertheless, some risks and pressure points remain, at both the systems level, in ensuring that underpinning financial and ICT frameworks support collaboration, and in developing the appropriate agency culture and capability. The onus is on all agencies, and on all APS employees, to make whole of government work effectively.

Whole of government means more than just working collaboratively across the APS. It also means working effectively across state, territory, and local government boundaries. Making whole of government work effectively at the cross-jurisdictional level is particularly important in view of the extensive Council of Australian Governments (COAG) agenda.

As part of this agenda, the APS will need to strengthen its capacity to work with external partners, but this is not something that is limited to the government sector. The APS is already delivering programmes through and with a range of non-government bodies and this trend is likely to continue. Such collaborations have greatly improved the efficiency and effectiveness of service delivery in some areas, for example, in the delivery of employment services. The APS needs to be open to new ways of delivering services, to identify where collaborations with external stakeholders will add the most value, and try to loosen some of our controls and guidelines to facilitate more flexibility, innovation and effectiveness on the ground.

Another plank of the future reform agenda relates to our relationships with the community more broadly. In Australia and internationally, governments are looking at ways in which working more directly with the community can lead to better policy and programme outcomes.

Engaging the community comprehends a range of approaches, from information dissemination and consultation to active participation. Targeted in the right areas, community engagement has the potential to provide governments with access to broader perspectives and potential solutions. It can also influence community behaviour in a way that extends beyond traditional regulatory levers, a requirement for many of the more intractable problems that face our community, such as public health, crime, education or environmental issues. This approach has already been used to good effect with the development of Shared Responsibility Agreements in Aboriginal and Torres Strait Islander communities.

It is likely that such approaches will become more common, and extend to a much broader range of policy issues in the future. It is important, however, that they be undertaken in a strategic way, at appropriate points in the policy cycle, and in areas where they have been identified as having the potential to add value.

Working collaboratively in partnership with organisations from outside the APS, and working more directly with the community, both raise challenges. In particular, with greater external involvement in policy development and programme delivery, issues of governance will be central to the future public service reform agenda. The APS needs to develop arrangements that support a truly cooperative approach in cross-jurisdictional and partnership relationships, and provide for clear understandings around desired outcomes, accountability and risk. It is likely that in the future there will be a range of different arrangements in place depending on the nature of the issue being addressed. These could include more traditional forms of public administration, distributed government where Government works in direct partnership with non-government bodies, and government by market where the Government uses its power to create a market that serves a public purpose.

There are also implications for APS skill sets. The APS is already struggling to sustain a critical mass of employees with high-level research and policy skills, and the demand for such skills will only increase. The APS's success in implementing these new approaches, however, will depend largely on its capacity to manage a diverse and complex web of relationships. We will require people who have strong relationship management skills, a willingness and an ability to listen to the views of others, conflict resolution and negotiation skills, and a focus on achieving the best outcomes.

Part of this mix will be developing the capacity of our leaders so that they can successfully drive and implement future reform and ensure the APS has the organisational capacity to deal with the challenges ahead. Leadership is clearly a current challenge, one that will remain with us into the future. Reviewing current concepts of leadership and updating them so they have relevance for younger generations of public servants and those who have come to the APS from other sectors is important. APS leaders also have an important role to play in fostering the right APS culture for the future—one that facilitates creativity and innovation, where employees are willing, and supported, to try out new things.

The Government's capacity to deliver on its policy and programme objectives, and to maintain the confidence of the community, is dependent on the maintenance of an accountable, responsive and professional public service. This is a view echoed by the Prime Minister on the occasion of the Centenary of the APS:

The quality of any government is dependent, in large part, upon the quality of advice it receives. To believe otherwise—that a responsible and successful government can be sustained in the long term without the support of a dynamic and dedicated bureaucracy—defies logic and history.<sup>6</sup>

The APS is an important national institution, a fundamental part of the Australian democratic process, contributing to the health and well-being of the nation. Public servants should be proud of the work they do, but it comes with responsibility. It is incumbent on every public servant to think about their job; about how they contribute to the strategic direction of their agencies and to the APS as a whole; and how they can do things better.

The APS has to focus on developing an institutional culture that is self-reflective—where we are capable of constructive self-criticism, of hearing what our employees have to say, and of leveraging off the creative and innovative ideas that are generated. These things are critical to a continuing process of organisational renewal.

The days of inflexible top-down public service are over. We need public servants to exercise leadership at all levels in their agencies, and to take personal responsibility for contributing to quality outcomes for the Government and for the Australian community.

We need public servants to think about the public service of the future—about our culture and identity, about our capability, and about how we respond to the challenges ahead. The future will arrive soon enough—but what it looks like will depend on our actions and decisions in the present.

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<sup>6</sup> Hon. John Howard MP, *The Australian Public Service*, (Address to the Centenary Conference of the Institute of Public Administration, Australia, 19 June 2001), <<http://www.pm.gov.au/News/Speeches/2001/speech1163.htm>>