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HTML and PDF versions of the report are available from the Commission's website at: <<http://www.apsc.gov.au>>.

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# COMMISSIONER'S OVERVIEW

Over the past few decades the Australian Public Service (APS) has changed and so has the world around us. The recent events on world stock exchange markets are another example of how quickly our circumstances alter, and how we must be able to respond instantly to global developments.

Notwithstanding, Australia is a wealthier nation than in the past. Government attention has moved from providing minimum standards of health care, education and welfare to how those services can be improved and better meet the needs of citizens; how to bolster national infrastructure to support a sound economy; and how to respond to difficult problems, like climate change and entrenched social disadvantage.

The APS has also undergone significant change. It has moved from a heavily centralised and rigid structure to one in which most responsibilities have been devolved to agency heads. We have seen a change in the nature of work performed—most of it is knowledge-based and there are much fewer low-skilled jobs. The public service is much more highly qualified, there are more staff at higher classification levels, they are older, and women comprise well over half of the APS workforce.

A number of factors have driven the changing make-up of the APS workforce, including: increasing requirements for more value added work—complex policy advice and intensive personal engagement with users of government services, service providers and other stakeholders; greater accountability requirements; and the ICT revolution, which has facilitated the automation of routine or lower-level jobs as well as an explosion in the pace and extent of communication.

This, the eleventh State of the Service report, finds the APS in the midst of a sea change in direction and context. The Australian public has much higher expectations than ever before about what the Government and the public service can deliver. There is a new government, with an ambitious and far-reaching reform agenda that it is seeking to implement in tandem

with other levels of government, and we are linked much more closely into the global economy. Technology is continuing to accelerate the pace and the way in which we work. The APS must adapt and reform to keep in step with these developments.

It is timely for us to consider the key directions in which the APS must move to meet the challenges that lie ahead. It is important that we think about the design and shape of the APS so that it is the best possible public service for this new environment. That necessarily means we will need to transform ourselves so that we continue to provide good quality policy and delivery strategies for the Government and so that we are firmly focused on the outcomes that the Government wishes to achieve. We will need to raise our sights so that we recognise ‘a good deal’ for the Government and identify important new strategic policy directions. Indeed, one of the big ideas in the governance stream of the Australia 2020 Summit, was around a review of the APS, with a focus on ensuring it is fit to meet future challenges.

Before we embark on what is required for the future, it is important to understand the shape and key characteristics of the APS right now. This year’s State of the Service report looks at: who we are; how we have increased productive capacity; measures to reinvigorate Westminster; and the progress we are making towards working with stakeholders and moving to more inclusive government.

## THE APS IN 2007–08

The State of the Service report examines employees and agencies covered by the *Public Service Act 1999* (the Act) who account for over two-thirds of the Commonwealth public sector.<sup>1</sup> It provides a comprehensive overview of the current state of play in the APS.

### KEY STATISTICS FOR 2007–08

- The APS grew in size over the year, and now has just over 160,000 employees.
- The rate of growth has slowed and was lower than in previous years, with the rate of new engagements in the second half of the year dropping considerably compared to previous years.
- The increased efficiency dividend took effect for the last four months of 2007–08, with a reduction in staff numbers in some agencies. The full year impact of the increased dividend is expected to have a greater impact on the overall size of the APS in 2008–09. For small agencies in particular, the imposition of the increased dividend has placed even further pressure on their budgets and capacity to maintain and provide core services.
- The proportion of women in the APS continued to increase and they accounted for over 60% of the entrants to the APS. At senior levels, female representation continued to increase, with the gap between the number of male to female EL1s having fallen to less than 1,000—it should disappear within two years. Women account for 37% of SES employees.

<sup>1</sup> Excludes permanent members of the Australian Defence Force.

- SES numbers grew further during the year (now accounting for 1.8% of the APS workforce).
- The trend towards a higher classification profile has continued, along with the trend towards a higher proportion of mature-aged employees.
- The proportion of Indigenous employment in the APS was 2.1% and there was a slight decrease in the number of ongoing Indigenous employees (down by 49 to 3059).
- There was a further decline in the number (4636) and proportion (3.1%) of people with disabilities employed in the APS.

## A NEW GOVERNMENT

The smooth transition to the new Rudd Government in November 2007 was a landmark achievement for the APS, reflecting its professionalism. Only 32% of current public servants were employed in the APS at the change of government in 1996—hence the majority of public servants had never worked under any other government. The commitment of the new government to work with the APS and to quickly progress its large-scale reform initiatives has provided an exciting and challenging time for the APS.

The Prime Minister outlined in April 2008 what the Government sees as the key directions for the APS, including:

1. reinvigorating the Westminster tradition of an independent public service with merit-based selection processes and continuity of employment when governments change
2. building a professionalised public service committed to excellence
3. developing evidence-based policy making processes as part of a robust culture of policy contestability
4. enhancing the strategic policy capability of the public service
5. strengthening the integrity and accountability of government
6. broadening participation in government through inclusive policy processes
7. a contemporary view of government service delivery that emphasises both efficiency and effectiveness in outcomes.

The Prime Minister's message is clear. The APS needs to improve its policy capability; raise its overall professional standards; and modernise its community engagement and service delivery arrangements. The Deputy Prime Minister has also indicated that greater APS staff mobility (both within and across agencies and outside the public service) is necessary. These changes are just some of the directions in which the APS must move to make itself ready for the future.

The unfolding global financial turmoil, coupled with the Government's commitment to reducing inflation and ensuring Australia's economy can withstand these external shocks, has significantly changed the Budget outlook for the APS. New fiscal measures have already been applied, through the application of the increased efficiency dividend and reviews of key programme expenditures. The Government plans to introduce more coordinated APS-wide purchasing arrangements to help provide scope for greater efficiencies and may seek additional ICT savings in the wake of the Gershon Review. At the same time, the APS has

continued to achieve significant improvements in productivity which compare favourably with those in the private sector. Many agencies are now at financial crossroads—the impact of continued across the board efficiency measures is making it extremely difficult to properly maintain their core functions.

## NEW DIRECTIONS FOR THE APS

The APS of the future must be agile and responsive to the new operating environment emerging for public services here and around the world. The directions in which the APS will need to make significant improvements to meet these future challenges include:

- further embedding ethics and integrity
- improving the performance of all agencies
- building a unified highly professional APS
- making smarter policy and regulation
- moving citizens to the centre and encouraging innovation
- getting workforce issues right.

### 1. EMBEDDING ETHICS AND INTEGRITY

There is a fundamental difference between the public sector and the private sector, with the public sector committed to the public interest. That difference must always be recognised and Australians' expectations that public servants should provide good stewardship of government resources must also be met.

The APS Values (the Values) and the Code of Conduct (the Code) provide the framework for public servants' standards of behaviour and professional conduct. For some time now, there have been generally high levels of confidence among APS staff that their leaders and colleagues behave with integrity, and there have been low levels of actual misconduct, at least in terms of the level of reported breaches of the Code. These results are excellent by any objective standard, and they are backed up by international comparisons.

Nevertheless, there continue to be high-profile administrative failures, such as the outbreak of equine influenza during 2007. While these incidents have been more the result of mismanagement and organisational complacency than failures of integrity, they still damage the APS's reputation in the public mind and call into question our standards. There have also been stakeholder perceptions of ethical or governance weaknesses in some areas—which include adherence to the non-partisan Westminster system and public interest disclosure arrangements.

The Values need to continue to be embedded as the part of the foundations for a strong and effective APS in Australia. The Government has implemented a range of initiatives to support the 'restoration of Westminster' with a view to increasing the transparency, openness and accountability of government and to clarify relations between the Government and the APS. These reforms include the introduction of open, merit-based selection processes for most agency head and statutory office holder positions; a code of conduct and register for third party lobbyists; a code of conduct for ministerial staff; removal of performance pay for

departmental Secretaries; and the introduction of guidelines for government advertising. Further measures are still being finalised, including revised freedom of information legislation to improve access to government records as well as new public interest disclosure legislation to cover all Commonwealth officials.

There are fresh professional ethical challenges facing the APS, brought on by having to manage in a more fluid environment, with changes in the breadth and speed of communication systems and a need to meet greater government and stakeholder expectations about cross-jurisdiction and cross-sector collaboration. Furthermore, there are significant numbers of APS employees, including leaders being recruited from other sectors who are used to different ways of doing things and who need to learn quickly the higher ethical standards of the APS.

The key challenges will be to maintain and improve the quality and consistency of ethical decision-making across the APS in the face of these pressures and to better anticipate and manage emerging ethical issues. The Commission is examining options to enhance and improve training in ethical decision-making, including at SES level, but it is also essential that senior managers provide ongoing ethical leadership in the workplace. This involves not only modelling the Values and the Code but maintaining an ongoing conversation with employees about current and emerging ethical issues. This will encourage thinking and reflection and also help to ensure that when ethical problems arise, employees know what to do or where to get help and advice so that they can act ethically.

## 2. IMPROVING APS PERFORMANCE

Sound internal governance and an agency culture that upholds the Values help to ensure healthy agencies and underpin high performance. This year's employee survey findings show that, while overall the APS is performing well, there are still areas of concern around performance. It is particularly disheartening that for some agencies, key employee measures of perceptions about integrity and ethics deteriorated during the year, particularly measures of bullying and harassment and perceptions around the application of the merit principle.

The Equine Influenza Inquiry report highlighted once again the need for all agencies to have in place an institutionalised practice for continuous improvement in their corporate health and agency culture. Agencies can access a range of guidance on issues around governance and agency health through the Commission's own publications on *Building Better Governance* and *Agency Health*, as well as through guidance provided by ANAO.

Agencies also need to make sure their governance frameworks do not become overly burdensome. This year's employee survey findings found that over half of all SES and EL 2 employees in the APS consider that 'more streamlined administrative processes within my agency' is the single most important action that would assist their agency to achieve greater efficiency and effectiveness. They rate it as more important than recruiting high-quality staff (47%) and improved ICT (29%). Agencies appear to have scope to achieve considerable gains through governance reforms designed to streamline their internal rules, guidelines and processes.

There is also a need to consider service-wide approaches to improve performance. The Government has signalled its intention to establish coordinated procurement for the APS in a

number of specific areas. There are likely to be other areas where more coordination of activities across the APS will bring benefits to the service as a whole. It is highly desirable, for example, that there should be: greater coordination of leadership development; a service-wide commitment to ongoing learning and discussion around ethical issues; and the adoption of further coordinated approaches in administration, including employee security checks.

A service-wide look at how agencies are faring and whether they are performing well in all their functions would also be timely. This approach needs to take into account the financial circumstances of agencies, and should also consider how agencies are performing in a range of business areas, including their leadership and strategic capabilities as well as their continued ability to deliver on key Government objectives. The APS needs to think seriously about independently benchmarking its performance between agencies and internationally. Several new tools to assist in this process have emerged overseas; we could learn a lot from them and build upon their success.

It may be that some agencies are experiencing difficulties as a result of the continued application of the efficiency dividend on their budgets, combined with underlying rigidities in their funding arrangements. This may start to impact on their capacity over time to attract and retain high-quality staff. Another potential risk is that they may be less able to ensure strong governance arrangements, or in the worst case scenario, be forced to reduce their core services to clients. It could also be the case that other agencies are experiencing management problems or are performing badly in certain key programmes. It would be better to expose these risks and manage them before major problems arise, and to set in train measures to avoid further agency failures.

This year's report reveals that there is a need for individual agencies to improve their performance in particular areas (such as bullying and harassment) or across the board (the application of merit). It is important that agencies use their employee survey results, benchmarked against APS average results, to improve APS performance overall. A strong approach to agency governance, and a robust and transparent approach to measuring agency health and benchmarking overall capability are essential requisites for the future directions of the APS.

### **3. BUILDING A UNIFIED HIGHLY PROFESSIONAL APS**

The professional reputation of the APS will be enhanced through both a stronger focus on ethics and integrity, and sound governance structures. Embedding a more cohesive APS, which is readily identified as one entity that is delivering on the Government's agenda, will be another key element in rebuilding the public service's professional standing.

The SES will have a key role to play, as strong ethical leadership will be required. The leadership strategy involved will need to encompass:

- a cohesive senior leadership cadre that supports work across the whole of government and collaboration with a range of stakeholders, particularly citizens and communities and the states and territories
- investment in APS-wide leadership development for the SES and SES Executive Level feeder group

- systematic and integrated succession management planning, including the identification and development of talented employees at all levels.

Action in each of these areas will need reinforcement through agencies' performance management systems and a strong cross-service focus on them if we are to achieve the Management Advisory Committee's goal of 'One APS—One SES'.

It is particularly disappointing that this year there was a significant reduction in the proportion of the SES (now 40%) who identified as part of a broader leadership cadre. This decline and relatively poor outcome does not reflect well on APS leaders, given that there is an increasing emphasis on building strong and effective collaborative relationships within the APS and with a broader range of stakeholders.

New leadership models may emerge to underpin more coordinated arrangements across the APS. It is necessary to tackle the structural impediments against adopting cross-agency and cross-jurisdictional approaches which include cultural barriers, procedural constraints and budgetary arrangements.

For the APS more broadly, there is a need to rebuild the concept of 'one APS' and to broaden the concept once again so that we see ourselves as a career service where employees can enjoy many and varied government careers. Over time, a key strength of the APS has been that its staff have been encouraged to pursue their careers across portfolios, gaining experience and depth of knowledge about government processes and policy. This must be rejuvenated.

It is necessary to address impediments that may be limiting employee mobility across agencies, including consideration of whether remuneration may be impacting adversely on employee mobility. Agency remuneration is one of the factors that employees consider when joining the APS and when moving between agencies. There is no doubt that agency-based arrangements for agreement-making have delivered significant productivity gains. An increase in salary dispersion under a devolved system is a natural consequence, but it may be impacting on the concept of the APS as one career service.

There are some indications that mobility may be influenced by pay differentials between agencies to the detriment of medium-to-lower paying agencies. Overall mobility rates among agencies fell in 2007–08. Mobility, underpinned by a sound classification system, is vital to building a professional and collaborative APS that shares a common identity, and is well-positioned to deliver on future challenges.

The combined effect of the efficiency dividend and the partial funding arrangements for remuneration increases have placed pressure on some agencies whose size, or the nature of their activities, affect their potential for cost saving productivity gains to be generated year after year. For some agencies this has impacted on the remuneration levels they are able to offer. A key issue is how to ensure the APS operates in a sustainable way so that agencies of all types and sizes can attract and retain staff with the capability to deliver on their core functions. It may be timely to consider putting a safety valve mechanism in place to ensure the ongoing ability of lower paying agencies to attract and retain a skilled workforce in what will no doubt continue to be a tight fiscal environment.

## 4. SMARTER POLICY AND REGULATION

The nature of the issues that face government policy makers have always been tough, but many would agree that they are becoming increasingly complex. Tackling complex problems such as climate change, lifestyle health issues and social and economic disadvantage require smarter policy making and regulation.

Devising policy options and interventions for government is now well and truly a contestable market in which APS agencies need to demonstrate to their Ministers and the Government that they are competitive. The Prime Minister has outlined the priority he places on the APS being able to develop evidence-based policy making processes as part of a robust culture of policy contestability.

There is a growing need for APS agencies to be able to demonstrate that they are capable of working across organisational boundaries and in partnership with a range of organisations in order to devise and implement policies that tackle complex policy issues effectively. As these issues cross organisational boundaries and go beyond the capacity of any one agency to understand and respond to, they require an APS response that is more innovative and flexible than the traditional linear approaches to policy making that have operated in the past. Business as usual will not be effective in the coming decades.

Some say that APS agencies do not compete on a level playing field with the political advisers and consultants with whom they vie for policy advice. This is because APS agencies have roles and responsibilities, professional standards and legislative employment arrangements that they are required to work within. In my view, these arrangements are crucial to the Westminster tradition and should actually provide the basis for the APS's competitive advantage.

The APS can have a clear advantage if a broad view is taken of what evidence-based policy means. A broader view involves gathering evidence to scope the nature of the policy problem and the risks of not addressing it, but also to test and gather information on what is likely to work in practice. There needs to be adequate research into how people and organisations are likely to respond to policy and regulatory interventions using field research, pilots and trials, rather than relying only on insights from economic and behavioural theory. These can add valuable information about what works in practice as opposed to what is predicted to work.

Policy development and evaluation needs to be informed with on-the-ground intelligence about operational issues and the views of those implementing the policies and regulations. In this sense policy design and implementation should be iterative rather than a one-off task. It is best understood not as a linear process—leading from policy ideas through implementation to changes on the ground—but rather as a more circular and interactive process involving continuous learning, adaptation and improvement, with policy changing in response to implementation as well as vice versa. In this broader view of evidence-based policy making, the APS has a clear advantage to the one-off or value-laden advice that can be provided by consultants, advisers or stakeholders but it does require a change to the more traditional view of what policy making entails by both agencies and the Government. It also requires agencies to invest equally and promote strong integration in all phases of activity—policy and programme design, implementation and then evaluation and/or learning and adaptation.

APS agencies need to also highlight their ability to provide the Government with a longer-term perspective to decision-making and policy making, including a balanced view of the impact of policy options on the Australian community as a whole, and on the most vulnerable parts of the community, in particular. The APS's recordkeeping requirements, corporate memory, long-term experience, and the skills of senior staff should be engaged to this end.

As part of this, there is also a need to ensure that central agencies provide a good framework across the APS to underpin and build up shared expertise—this should include investment in ensuring that lessons learned across agencies are pooled and made available so that capabilities around evidence-based policy making and relationship management in the APS are strengthened.

This highlights the challenge that APS agencies face in the development and retention of employees with the skills and experience necessary to develop evidence-based policy and to bring a longer-term, strategic perspective to policy development. Smarter policy and regulation still requires the high-level analytical and technical skills of the traditional approach but in addition will need employees capable of high-level connecting, communication and facilitation to effectively work across levels of government and organisational boundaries and to engage stakeholders in cooperatively tackling policy issues. It also requires an organisational culture that supports an adaptive and innovative approach to policy interventions and a tolerance for exploring what works in practice. It is clear that investment at all levels is necessary if we are to address the shortcomings frequently identified in the skills base of APS leaders, around 'strategic thinking' and 'achieves results'.

## 5. MOVING CITIZENS TO THE CENTRE AND ENCOURAGING INNOVATION

A key driver for building a more cohesive and coordinated APS is the need to interact better with citizens, ensuring they are able to deal with the Government as a single entity and not a range of different entities. It is widely recognised that services must better meet the needs of citizens, and that improved coordination across government is often required to help make this happen. Many agencies have already begun reforms to assist in moving citizens to the centre of service delivery, but there is a need to ensure citizen views are reflected both in relation to how current services are working, and to ensure they are engaged and able to have some input into the policy and design of new programmes and services. Differing levels of engagement will be required to tackle different issues and, in some cases, citizens will be part of the policy response when a change in their behaviour can be effective, such as where increased use of public transport options contributes to a reduction in carbon gas emissions.

The direction this is taking across the world is that: governments would be regarded as approachable, with services that are easy to locate and understand; citizens would be able to choose a range of service models based on their needs without having to understand which agencies deliver which services; authentication and personal information would only need to be provided once in order to access services; and diverse transactions could be grouped and completed together. Such an approach in Australia would require a significant change to the way the APS manages and delivers services, and would take many years to implement and bed down culturally.

New forms of engagement with citizens have already been commenced by the Government, including through the Australia 2020 Summit and Community Cabinets. Better use of technology and Web 2.0 platforms will provide the APS with further opportunities to engage more with citizens. As new opportunities for engagement emerge, APS employees' capabilities to think broadly, to communicate and to manage relationships will need to be strengthened.

Innovation and flexibility will help build APS capability to design responses to citizens that better meet their needs and minimise the impact of government on them. The current disparity between employees' views about their capacity to be innovative, and the support provided to them by agencies and senior managers for adopting new approaches, needs to be addressed. As already mentioned, better alignment and recognition of the need to develop evidence-based policy, trialling new approaches, and the opportunity to learn from both failures and successes, needs to be achieved.

Collaboration and partnership, across all levels of government and with third party providers, will ensure citizens can access and work with the Government in the most effective way possible. Citizens want to deal with the Government, not a specific agency, and our challenge is to make sure the back-end arrangements amongst government agencies and other providers are well-integrated, and meet citizens' needs, rather than our own as the primary service providers.

## 6. GETTING WORKFORCE ISSUES RIGHT

Fundamental to building a better APS is ensuring we have a workforce that can respond effectively to future challenges. In an environment of limited resources, people will always be the primary key to delivering on our commitments. We already compete in a tight labour market for employees with specialist skills, including ICT and accounting expertise. To meet government, community and stakeholder expectations of a professional, responsive, intellectual and flexible APS—which achieves quality results in short time frames with limited resources—APS agencies need to attract nimble, innovative, creative and entrepreneurial employees, including those with strong policy and relationship management skills. Up until now, many of these skills have not typically been associated with government employees, but the future demands our employees have many talents and are versatile.

In addition, the APS workforce should reflect the broader diversity of the Australian community. There continues to be several groups of employees in the APS where agencies need to improve their recruitment and retention performance, and develop more effective strategies to increase their representation and improve their employment experience—in particular, people with disability, Indigenous Australians and younger people.

The long-term decline in employment of people with disability continued this year. The fall represents a decrease of 3.8% in the number of employees with disability, compared with an increase in overall ongoing employees of 2.7% during the year. Although some factors may help to explain this decrease (such as the reduction in number of jobs at lower classification levels and increased efficiency pressures), the overall trend is very disappointing, particularly in light of the commitment that agencies made to boosting the employment of this group as part of implementing the recommendations of the Management Advisory Committee (MAC) report, *Employment of People with Disability in the APS* (2006). I will write to MAC agencies

shortly to ask them to provide me with information on how they intend to improve their performance. It will be an area of more detailed investigation in next year's State of the Service report.

Despite some previous success with recruiting Indigenous employees, this was not sustained in 2007–08. There was a small reduction in the number of Indigenous employees during the year, from 3,108 at June 2007 to 3,059 at June 2008. Although representation of Indigenous employees is much higher in the APS than elsewhere in the labour market, this result is disappointing. It is of particular concern that APS Indigenous employees are more likely to leave the APS. The separation rate for Indigenous employees has been higher than their engagement rate for all but two of the past 10 years, and has been higher than their overall representation every year. There has been strong support for the APS Indigenous Employment Strategy, and specific recruitment and retention measures for Indigenous Australians are widespread in the APS, but more effort is still required, including a look at the use of more targeted approaches and positions for Indigenous employees.

The representation of young people (aged under 25 years) continues to be much lower in the APS than in the broader Australian workforce. The proportion of young people in the APS fell this year. At June 2008, 4.9% of ongoing employees were aged under 25 years, with 0.2% aged under 20 years and 4.7% aged 20–24 years. It is important for the ongoing vitality and sustainability of the APS that it is an attractive employment option for both young women and young men.

It is a time of change for the APS—we need to take action in the six key areas identified above to make sure that our agencies and the overall service are agile; that we are well-placed to respond to future challenges; and that our working arrangements ensure a highly ethical, professional, cohesive and productive public service that continues to be internationally renowned.