STATE OF THE SERVICE REPORT 2001–2002

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The Australian Public Service:

- is apolitical, performing its functions in an impartial and professional manner;

- is a public service in which employment decisions are based on merit;

- provides a workplace that is free from discrimination and recognises and utilises the diversity of the Australian community it serves;

- has the highest ethical standards;

- is openly accountable for its actions, within the framework of Ministerial responsibility to the Government, the Parliament and the Australian public;

- is responsive to the Government in providing frank, honest, comprehensive, accurate and timely advice and in implementing the Government's policies and programs;

- delivers services fairly, effectively, impartially and courteously to the Australian public and is sensitive to the diversity of the Australian public;

- has leadership of the highest quality;

- establishes workplace relations that value communication, consultation, co-operation and input from employees on matters that affect their workplace;

- provides a fair, flexible, safe and rewarding workplace;

- focuses on achieving results and managing performance;

- promotes equity in employment;

- provides a reasonable opportunity to all eligible members of the community to apply for APS employment;

- is a career-based service to enhance the effectiveness and cohesion of Australia's democratic system of government;

- provides a fair system of review of decisions taken in respect of APS employees.

Agency Heads are bound by the Code of Conduct in the same way as APS employees and have an additional duty to promote the APS Values.

STATE OF THE SERVICE REPORT 2001–02

The Honourable John Howard MP
Prime Minister
Parliament House
Canberra ACT 2600

Dear Prime Minister

In accordance with the provisions of section 44 of the *Public Service Act 1999*, I present to you the annual report of the state of the Australian Public Service for the year 2001–02.

This State of the Service Report is the first of three companion volumes in the State of the Service Series for 2001–02, the others being the *Workplace Diversity Report 2001–02* and the *Australian Public Service Statistical Bulletin 2001–02*.

Section 34C of the Acts Interpretation Act 1901 requires that you lay a copy of the Report before each House of Parliament within 15 sitting days of that House after the day on which you receive the Report.

Your Sincerely

A S Podger
21 October 2002

CONTENTS

Section 44 of the *Public Service Act 1999* (the PS Act) provides, inter alia, that the Public Service Commissioner must provide a report each year to the Agency Minister for presentation to the Parliament, which includes a report on the state of the APS during the year.

The State of the Service Report uses a range of information sources. One of its main sources is a questionnaire sent to all agencies employing staff under the PS Act. Ninety-three questionnaires were sent out and 92 agencies provided responses to the questionnaire. The one agency that did not respond employed fewer than five staff under the PS Act. Some other small agencies were comprehended in their portfolio agency's response. This represents essentially a 100% response rate. The appendix to the report lists the agencies that provided responses to the questionnaire. The quality of the responses from agencies varied. A sizeable minority provided excellent, detailed responses. The majority provided adequate responses with a small minority providing sketchy and incomplete responses. In the report, this questionnaire is referred to as the Agency Questionnaire.

The report has also relied heavily on published reports from Parliamentary committees and the ANAO. Input has been sought from central agencies, particularly Finance, DEWR and the ANAO and their assistance is gratefully acknowledged. Contributions were also appreciated from the National Office for Information Economy, the National Archives of Australia, the Office of the Federal Privacy Commissioner, the Office of the Commonwealth Ombudsman and Comcare. The APS Commission provided a range of published and unpublished material including data from the APS Employment Database.

To assist with analysis of data from the Agency Questionnaire in this year's report, agencies have been grouped according to size. Of the 92 respondents to the Agency Questionnaire, 19 were classified as large agencies (>1000 ongoing staff), 21 as medium (250–1000 ongoing staff) and 52 as small agencies (<250 ongoing staff). These size categories are consistent with those used by the ANAO in the Performance Audit Report No 49 of 1998–99, *Staff Reductions in the Australian Public Service*.

As in previous years, the report is one of three companion volumes in the State of the Service Series, the other two being the *Workplace Diversity Report 2001–02*, and the *Australian Public Service Statistical Bulletin 2001–02*. All three reports will be available on the APS Commission website at **www.aspc.gov.au**. The Workplace Diversity Report will be included as part of a consolidated State of the Service Report from 2002–03.

With this, the third State of the Service Report prepared under the *Public Service Act 1999* (PS Act), a clearer picture is emerging as, on the one hand, agencies have become more familiar with their responsibilities and more expert in exercising their flexibilities and, on the other hand, the APS Commission is improving its capacity to assess and evaluate. At the same time, we come to appreciate the complexity of public administration as each year new issues emerge and there are new angles to old issues.

There has been growing recognition of the importance of workforce planning over the last year. The APS is in its third year of growth, but within that growth significant structural change is continuing (Chapter 2). The APS is older than the wider workforce and is continuing to grow older, but our numbers over 55 remain well below those in the wider workforce; the proportion of women is continuing to increase including most importantly at more senior levels; the numbers of employees at more junior levels is continuing to fall substantially; recruitment is focusing far more on graduates and lateral recruits, rather than school leavers (though there was a decline in graduate trainees last year); while the number of Indigenous employees at more senior levels is slowly increasing, the reduction in lower-level jobs and in recruitment of school leavers is offsetting this improvement—overall Indigenous employment is steady; retrenchments, though below the very high levels of a few years ago, continue to comprise a significant proportion of separations particularly amongst older workers. While individual agencies' profiles vary substantially, there is every indication that agencies need to undertake more careful workforce planning and, in particular, to adopt a more strategic approach to retaining or re-employing mature aged staff, and to transferring to younger staff the corporate knowledge and skills of the large cohort of older workers who will leave over the next 5 to 10 years. More effort is also needed to improve Indigenous employment in particular.

Managing performance (Chapter 5) has been a major theme over the last year, and will continue to be in the coming period. The Management Advisory Committee (MAC) Report on performance management provides a strategic framework for agencies to continue to refine their arrangements to improve organisational alignment, build greater credibility and increase integration of organisational objectives with the performance of teams and individuals. There is evidence of growing sophistication in performance management, though there remains room for better engagement with staff and more effective performance review and feedback to individuals, and for management to give particular attention to managing underperformance. The more successful performance management approaches are also building in more systematic career planning and skills development, and succession planning, and linking these to improved overall workforce planning to enhance the agency's future business capability.

Agencies have also achieved improved effectiveness and efficiency by taking advantage of the flexibilities available to them in employment (Chapter 4) and through contracting services (Chapter 7). For example, innovations in agreement-making have allowed agencies to attract and retain the skills they need, build better career paths, promote more direct employer/employee relationships and offer flexible work arrangements that address employee preferences, for example, to balance work and family responsibilities. There remains scope, nonetheless, to make more strategic use of Australian Workplace Agreements, particularly to address desires for more flexible work arrangements. There is also some unease about the quantum of some recent pay offers. The APS Commission is also conscious of potential risks to the APS Values if pay ranges across classifications overlap too far.

Outsourcing arrangements are now being more closely managed by agencies to address their particular business requirements, and many agencies have been pursuing ways to ensure contractors appreciate the obligation of the APS to the Values, and apply the Values where appropriate to their own operation. This is particularly important where contractors are providing services directly to the public.

Embedding the APS Values and ensuring compliance with the Code of Conduct (Chapter 3), is a particular responsibility of agencies and Agency Heads. There is evidence of improved systems and procedures, including performance management systems, induction training for new employees and the use of service charters, to promote the Values. Agencies are increasing their effort in applying the Values to improve the quality and integrity of relationships between the APS and the Government, and between the public they serve, as well as relationships in the workplace and personal ethical behaviour. These aspects of the application of the Values are examined in more detail in this report than in previous reports.

The APS Commission is now exploring with agencies how they might improve the 'hardwiring' of the Values into their governance and management arrangements, and measure the effectiveness of these systems and procedures for example through staff surveys and focus groups. Areas of some concern raised in this report include awareness of the Values amongst non-ongoing staff and labour hirees (as well as contractors), the extent of Values training of ongoing staff in some agencies, and the depth of understanding of some SES particularly of their parliamentary accountability rights and responsibilities.

On accountability (Chapter 6), which is one of the core Values, a number of external reviews during the year have pointed to ways in which financial and program performance reporting might be further improved, with some acknowledgement of the good quality of agency reporting. Recordkeeping, however, continued to be criticised. The vast majority of agencies report that they have been undertaking some form of review of recordkeeping in 2001-02.

Notwithstanding devolution to agencies over the last two decades, culminating in the PS Act, there remains strong interest in whole-of-government approaches both to coherent policy development and to integrated service delivery. The past year has seen some important initiatives to promote better coordination and integration within the devolved environment. MAC established a project to examine how information and communication technology (ICT) might both be business-driven and support interoperability. Specific examples of whole-of-government activities include work on border protection, salinity, welfare reform and Indigenous community development. Leadership development activity gives particular priority to capacity to work across organisational boundaries, including across jurisdictions and through partnerships with the private and not-for-profit sectors. While the issue of whole-of-government approaches is not explicitly addressed in this report, it is touched upon in a number of chapters. It may warrant closer attention in future reports.

Finally, the 'Children Overboard' affair has received considerable attention over the past year. At the time of preparing this report the Senate Inquiry has not yet reported, and I believe it would be inappropriate to comment directly on the incident or on specific aspects of public service management related to the incident that fall within the Senate Committee's terms of reference. Nonetheless, I believe this report would be incomplete if I did not refer to some of the issues highlighted by the affair that are of particular interest to the APS.

These issues include the importance of recordkeeping, the need for public servants (and members of the ADF) to understand their responsibilities as members of interdepartmental committees and their lines of accountability, and for public servants to have clear understanding of good practice in their relations with Ministers and ministerial advisers and of respective roles and responsibilities.

Most importantly, the affair has provided a timely reminder of the relevance of the APS Values. A number of the Values effectively define the APS as a key institution of Government and would be found in any text on public administration:

- The APS is apolitical, performing its functions in an impartial and professional manner (s.10(a));

- The APS is a public service in which employment decisions are based on merit (s.10(b));

- The APS is openly accountable for its actions, within the framework of Ministerial responsibility to the Government, the Parliament and the Australian public (s.10(e)); and

- The APS is responsive to the Government in providing frank, honest, comprehensive, accurate and timely advice and in implementing the Government's policies and programs (s.10(f)).

These Values, and the other Values set out in the PS Act, need to be read together. Sometimes, public servants need to balance them in handling a particular matter; none of the Values should be pressed to the point it conflicts directly with another; and each and every Value must be upheld. This is not always easy, and moreover the pace of Government activity can make the balancing task more challenging; debates on the balance between responsiveness and apolitical professionalism in particular are hardly new. But all APS employees must uphold all the Values, and APS leaders are obliged to promote as well as to uphold them. I would encourage APS leaders to foster open discussion amongst staff about the Values and about handling ethical dilemmas.

A S Podger

Public Service Commissioner

This chapter explores current demographic and labour force patterns of staff covered by the *Public Service Act 1999*. All the data, including the graphs and tables, are sourced from the APS Database (APSED),[1] maintained by the APS Commission. APSED covers recruitment, separation, mobility and diversity data for all ongoing and non-ongoing APS staff.[2] Further information on the size and composition of the APS can be found in the APS Statistical Bulletin 2001–02.[3] Further information on diversity aspects of the APS can be found in the Workplace Diversity Report, 2001–02.

GROWTH IN THE APS

As was the case in the previous two years, there has been growth in total APS employee numbers during 2001–02. Total employment at 30 June 2002 was 123 494, an increase of 3.6% from June 2001, representing a slowing from 5.1% last year.

Figure 2.1 shows the change in total numbers of APS staff from 30 June 1987 to 30 June 2002. The adjusted figures take account of changes that occurred in the functions performed in the APS over the period by showing the number of staff employed in those functions that remained in the APS at 30 June 2002.

Figure 2.1 APS staff 1987–02

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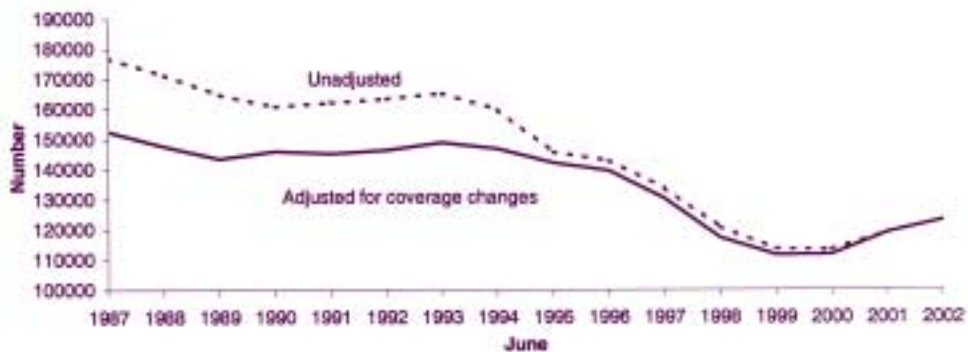
[1] While every effort is taken to ensure data integrity, the APS Commission cannot be held responsible for inaccuracies in the data supplied. The APS Commission undertakes extensive audits of the data provided by agencies, and as a result of these audits, the APS Commission is able to correct errors in historical data. For this reason, some caution should be exercised when comparing the data presented in this volume with that from previous years. Most significantly, previously published data on ongoing staff may have been revised and therefore may not be directly comparable. Due to different data sources and data definitions, there may be variations between the data published here and that published by individual agencies.

[2] SES data in this chapter include employees who are not in SES positions, but who receive a similar level of remuneration.

[3] Conceptual definitions used in workforce analysis are set out in the Introduction and Explanatory Notes to the APS Statistical Bulletin.

DIVERSITY TRENDS

Workplace diversity is monitored for employment–related disadvantage on the basis of gender, race and ethnicity,[4] indigenous status, or having a disability.[5] The traditional way of measuring the effectiveness of workplace diversity programs is to evaluate APS demographic trends. Apart from gender, staff in these categories have the option of identifying themselves as belonging to these groups.

Figure 2.2 Trends in diversity 1993–02
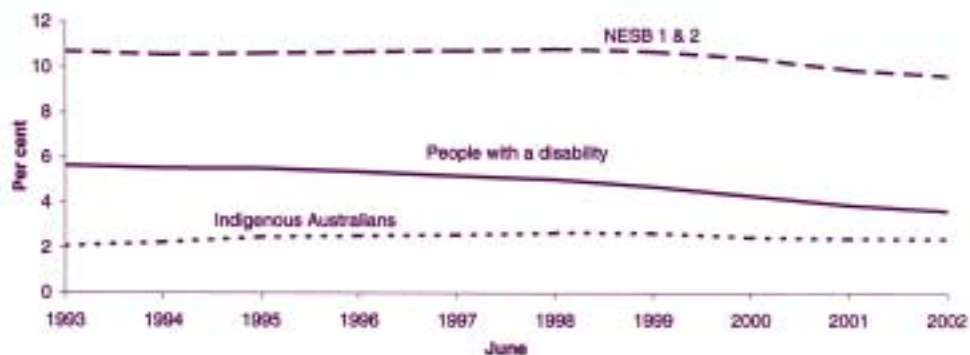
Women represented 52.8% of total staffing, a slight increase from 52.5% last year. As shown in Figure 2.2, the proportion of employees who identified themselves as being from a non-English speaking background decreased from 9.9% of ongoing staff at 30 June 2001 to 9.6% at 30 June 2002. The proportion of staff with a disability also decreased, from 3.9% of ongoing staff at 30 June 2001 to 3.6% at 30 June 2002. The proportion of indigenous staff has remained constant at 2.4% of ongoing staff for the past two years.

ONGOING AND NON-ONGOING STAFF

Both ongoing and non-ongoing staff increased over the last year.

ONGOING STAFF

Ongoing employee numbers increased from 108 598 to 112 123 (3.2%), the rate of growth slowing from the 5.7% increase recorded during 2000–01. During 2001–02, the number of ongoing female staff increased by 4.1% and ongoing male staff by 2.3%. These trends are shown in Figure 2.3.

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[4] The currently used surrogate measures for ethnicity are NESB 1 and 2. NESB 1 covers people born overseas whose first language was not English. NESB 2 includes children of migrants, including those who were born overseas and arrived in Australia before the age of five, but did not speak English as a first language, those who were Australian born but did not speak English as a first language and had at least one NESB parent, and those who were Australian born and had neither parent speaking English as a first language.

[5] Further information on diversity and trends in respect of identified groups of the APS workforce is published in the APS Commission's *Workplace Diversity Report 2001–02*.

Figure 2.3 Ongoing staff by gender 1993–02
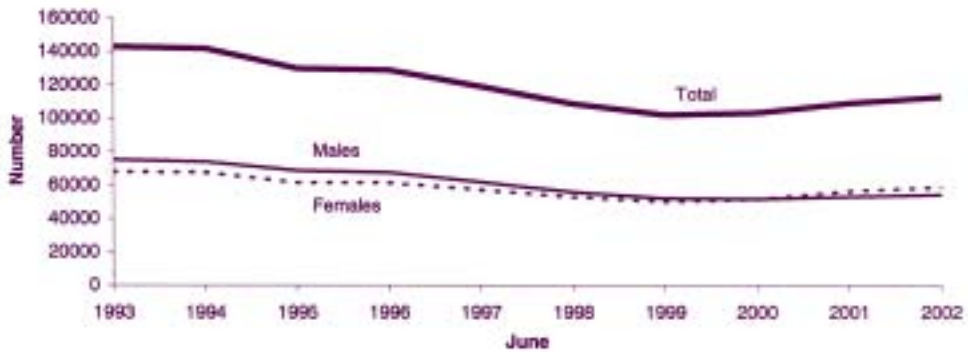
The percentage of ongoing employees who were women rose from 51.5% to 51.9%. Women comprised 28.4% of the SES, an increase from 27.0% at 30 June 2001.

Agency variations in the proportion of ongoing staff numbers from 30 June 2001 to 30 June 2002 ranged from an increase of 56.1% (170 staff) at the Defence Housing Authority, to a decrease of 12.0% (14 staff) at Worksafe Australia. The greatest numerical increase in ongoing staff numbers was 1416 (or 9.1%) at Defence, and the greatest numerical decrease in ongoing staff numbers was 1663 (or 8.5%) at the ATO.

NON-ONGOING STAFF

Non-ongoing employee numbers increased from 10 639 to 11 371 at 30 June 2002, an increase of 6.9% over the year. Non-ongoing employees comprised 9.2% of total APS staff as at 30 June 2002, an increase from 8.9% at 30 June 2001. Figure 2.4 provides details of non-ongoing staff as a proportion of total staff from 1993 to 2002.

Figure 2.4 Non-ongoing staff as a proportion of total staff 1993–02
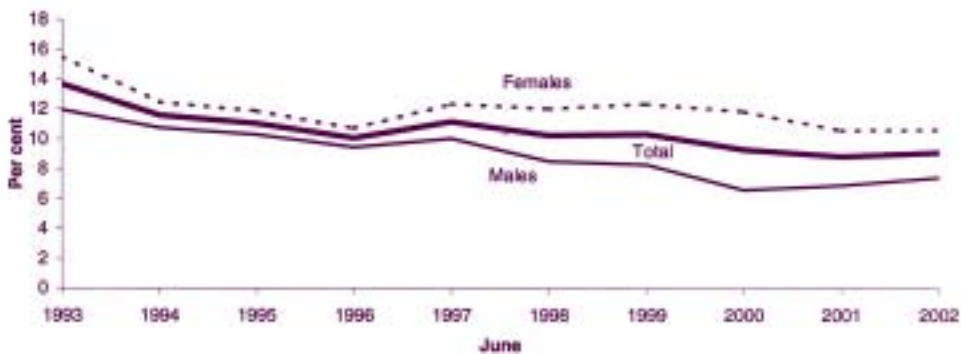
The number and proportion of male non-ongoing employees increased from 3953 (7% of total male employment) at 30 June 2001 to 4377 (7.5%) at 30 June 2002. While the proportion of non-ongoing female staff remained stable at 10.7% of total female employment, the number of female non-ongoing employees increased from 6686 to 6994.

Non-ongoing staff are concentrated (60.1%) at the APS 1–3 levels. More than half (57.3%) of APS 1 staff are non-ongoing, as are 30.7% of APS 2 staff. A considerable portion of SES Band 3 staff are also non-ongoing (12.4%), a trend which has emerged during the past three years. Prior to this time, the proportion of non-ongoing SES Band 3 employees was very small (1–2%), although the numbers for earlier years may be underestimated.

Small agencies tend to have a greater proportion of their staff engaged as non-ongoing than larger agencies, with the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) (42.4% of staff) and the Federal Court of Australia (40.3%) having the greatest proportion of non-ongoing staff at 30 June 2002. While larger agencies had greater numbers of non-ongoing staff, the proportion of their total staffing who are non-ongoing was much smaller. Centrelink had 5.5% of their total staff engaged as non-ongoing, FaCS and DFAT 6.3%, ATO 9.0%, Defence 9.6%, and Health 10.9%.

The median length of service of non-ongoing staff separating during 2001–02 was six months. Median length of service for non-ongoing staff in Centrelink was five months, ATO and Customs six months, FaCS seven months, and Defence 10 months.

WOMEN IN NON-ONGOING EMPLOYMENT

As indicated above, the proportion of non-ongoing female staff remained constant at 30 June 2002 (at 10.7% of all female APS staff). This is the lowest rate for female non-ongoing staff in the last 10 years. The 10 year trend in non-ongoing staff proportions is shown in Figure 2.4 above, with the rate of non-ongoing employment of females consistently exceeding that for males. While the proportion of female non-ongoing staff has been generally decreasing and currently remains constant, male non-ongoing employment has increased over the last two years from a 10 year low of 6.6% at 30 June 2000 to its current level of 7.5%.

Women were more likely to be non-ongoing employees at all APS levels, especially at the APS 1 level, with 64.6% of female employees at that level being non-ongoing, compared to 49.1% of males.

Figure 2.5 Proportion of total staff who are non–ongoing June 2002
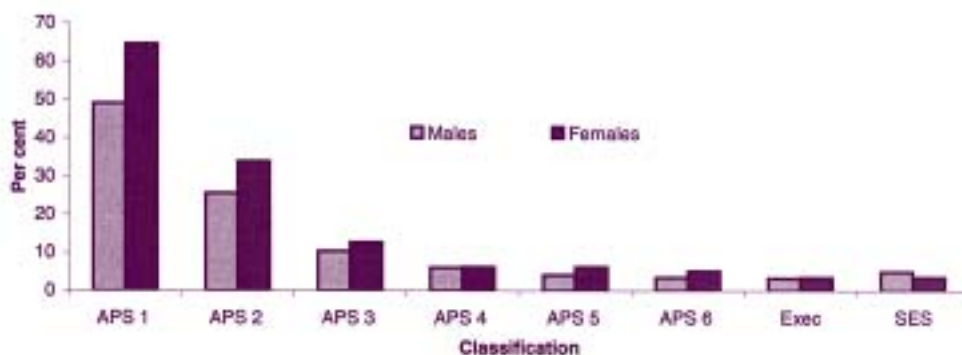
Male non-ongoing employees outnumbered women at the Executive Levels (ELs) and SES levels, with 11.1% (486) of male non-ongoing employees being at the ELs and 1.5% (65) at SES levels, compared with 4.3% (299) and 0.3% (18) respectively for women.

A higher proportion of female non-ongoing staff are employed on a part-time basis compared to female ongoing employees, with 15.6% of ongoing women being part-time, and 25.5% of non-ongoing women part-time. There is no substantial difference between males and females in the length of service of non-ongoing staff, or in terms of the different types of non-ongoing employment (e.g. fixed term, task, irregular and intermittent).

PART–TIME

Part-time ongoing staff continued to increase, both in absolute terms and as a proportion of total ongoing staff. As at 30 June 2002, part-time staff comprised 9.4% of total ongoing staff, compared with 8.1% at 30 June 2001. While part-time work has been growing in the APS, its incidence is well below that for equivalent occupations in the broader public sector (31%) and private sector (33%).[6]

Historically, female staff have engaged in part-time employment at a much greater rate than male staff. Female part-time staff increased from 13.8% of ongoing female staff last year to 15.6% at 30 June 2002, as shown in Figure 2.6. Male part-time staff increased from 2.0% of ongoing staff at 30 June 2001 to 2.8% at 30 June 2002. There are now 9083 women and 1511 men who are ongoing part-time employees.

Figure 2.6 Part–time staff by gender 1993–02
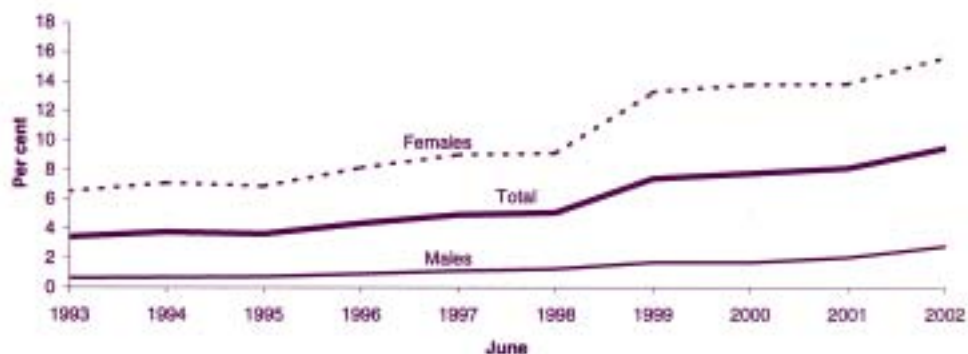
The incidence of part-time employment is highest for female staff aged 30–44 (21.3%); for males in this age group the incidence is much lower (3.2%) though also higher than the average incidence for males (2.8%). For both males and females aged 45 and over the incidence is lower (2.0% and 10.7% respectively) than the average for men and women. Part-time employment is concentrated at the APS 1–4 levels for both males and females (with 5.4% of ongoing male employment and 18.3% of ongoing female employment in these classifications working part-time).

The number of ongoing part-time employees increased by 20.7%—from 8776 at 30 June 2001 to 10 594 at 30 June 2002. Centrelink continued to be the largest user of part-time staff, with 34.1% of all APS part-time

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[6] The composition of APS equivalent occupations reflects as much as possible the current structure of the APS. It is based on a sub-set of occupations from the ABS's Australian Standard Classification of Occupations that is similar to the type of work done in the APS.

staff (3612 employees). Agencies with the highest increase in their ongoing part-time staff from 30 June 2001 to 30 June 2002 included Centrelink (an increase of 434 to 3612), the ATO (an increase of 236 to 1589), FaCS (an increase of 151 to 1021), Customs (an increase of 168 to 591), AFFA (an increase of 357 to 524) and Health (an increase of 65 to 307).

CLASSIFICATION STRUCTURES

Table 2.1 shows comparative staffing for each classification level at 30 June 2001 and 2002. An examination of staffing by classification levels shows increases in the share of staff at APS 4 (0.8 percentage points) and APS 6 (0.9 percentage points), with a reduction of 0.4 percentage points at APS 1 (representing a fall of staff numbers of 326 or 16.2%). Numbers at ELs increased by 4.5%, while those in the SES increased by 5.3%. In 2001–02 graduate recruitment in the APS fell by nearly half, from 942 to 508, following a pattern of peaks and troughs over the decade (although this result is largely attributable to the impact of a single agency—ATO).

Table 2.1 Ongoing staff numbers by classification June 2001 and June 2002

Classification	30 June 2001	(%)	30 June 2002	(%)
APS 1	2016	1.9	1690	1.5
APS 2	6396	5.9	6295	5.6
APS 3	13 579	12.5	13 390	11.9
APS 4	27 068	24.9	28 808	25.7
APS 5	12 017	11.1	12 136	10.8
APS 6	22 300	20.5	24 047	21.4
EL 1	13 122	12.1	13 317	11.9
EL 2	8950	8.2	9756	8.7
SES	1674	1.5	1763	1.6
Trainee	534	0.5	413	0.4
Graduate	942	0.9	508	0.5
TOTAL	**108 598**	**100**	**112 123**	**100**

MOBILITY

Figure 2.7 presents data on mobility rates between agencies over the past 10 years. The mobility rate is comprised of promotion rates and transfer rates. The data indicates that mobility has been trending down since the late 1990s. Large falls in mobility were experienced in 1999–00, particularly by women, with some recovery in 2000–01 before falling further in 2001–02. Mobility rates for women in 2001–02 were 1.0% compared to 1.5% in the previous year. The comparable data for men is 0.7% and 1.2%. More information on mobility rates by classification is presented in Chapter 4, which deals with employment issues.

Figure 2.7 Mobility rates between agencies 1992–93 to 2001–02
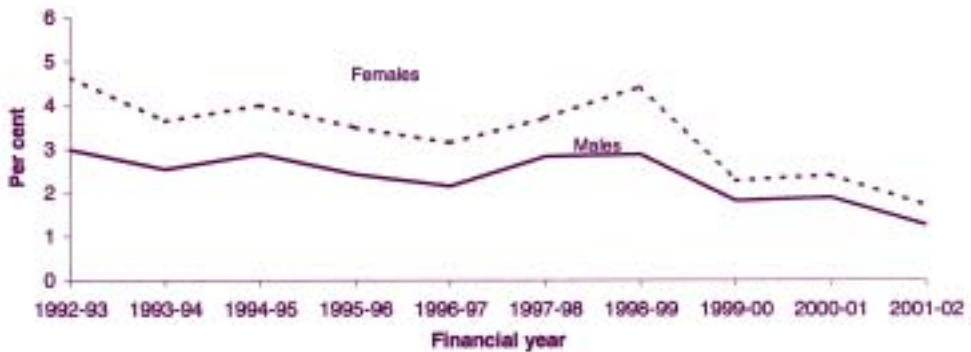
AGE PROFILE

Changes in the age profile over the year were mostly small. Within the under 25 years age group, the number of under 20 year olds decreased, while the number of 20–25 year olds increased. The number of 35–39 year olds decreased, and those aged 55 years and over increased. Figure 2.8 provides details of changes in the age profile of ongoing staff over the last 10 years.

Figure 2.8 Age profile of ongoing staff 1993–02
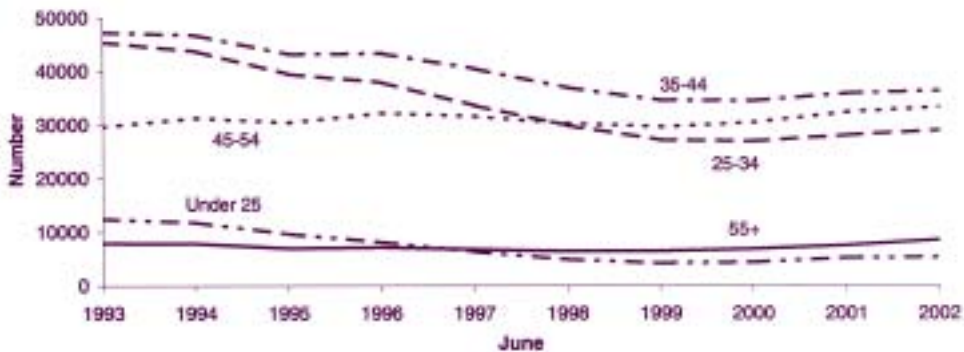
This figure indicates numerical increases in all age groups over the year to 30 June 2002.

Table 2.2 shows relative proportions of staff in each age group at 30 June 2001 and 30 June 2002 respectively. There was an increase in the proportion of total ongoing staff for the 55 and over age group—from 6.9% to 7.6%. Other age groups remained relatively stable, with the exception of the 35–44 age group, which recorded a decrease of 0.6 percentage points to 32.4%.

Table 2.2 Ongoing staff—age distribution

Age group 30	30 June 2001 (%)	30 June 2002 (%)
Under 25	4.7	4.6
25–34	25.7	25.8
35–44	33.0	32.4
45–54	29.7	29.6
55 and over	6.9	7.6

Figure 2.9 Age profile of APS and employed persons June 2002
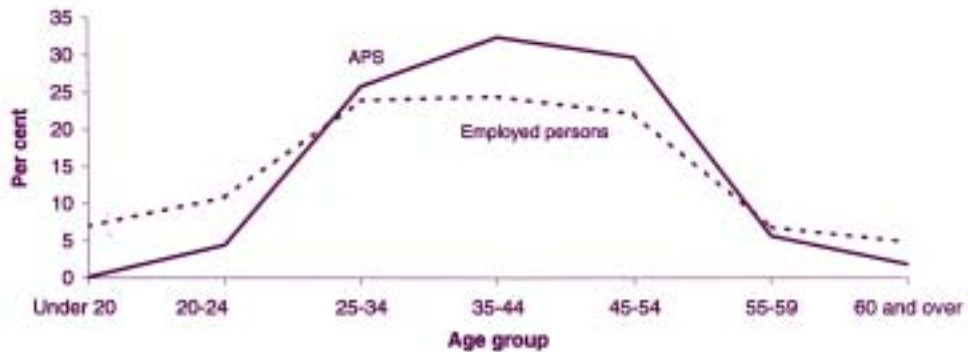
Source: APSED and ABS Labour Force 6203.0, June 2002

Figure 2.9 shows that the APS workforce is older than the Australian workforce generally, with fewer young people (aged under 25 years) and more 'middle aged' (35–54 years), but fewer older workers aged 55 or more. At 30 June 2002, 62.0% of ongoing APS staff were aged 35–54 compared to 46.5% of all employed persons.

Staff aged 45 years and over who will be of minimum retirement age within the next 10 years represented 37.2% of the APS at 30 June 2002. They are concentrated at the more senior levels and have greater length of service than average. The proportion of staff in the 45 and over age group varies from agency to agency. For example, 25.5% of Treasury staff are aged 45 years or over, whereas 52.9% of DVA staff are in this age group. More typically, ABS, ATO, Defence, and DFAT all have approximately 40% of staff aged 45 years or over.

Profiles will vary across agencies reflecting, in part, the nature of an agency's functions and the implications that may have for classification structures and recruitment patterns. Agencies with a higher proportion of older staff may face more critical workforce planning and knowledge management issues than those with a relatively younger age profile. Figure 2.10 shows comparative age profiles for a sample of APS agencies at 30 June 2002.

Figure 2.10 Ongoing staff in selected agencies by age group June 2002
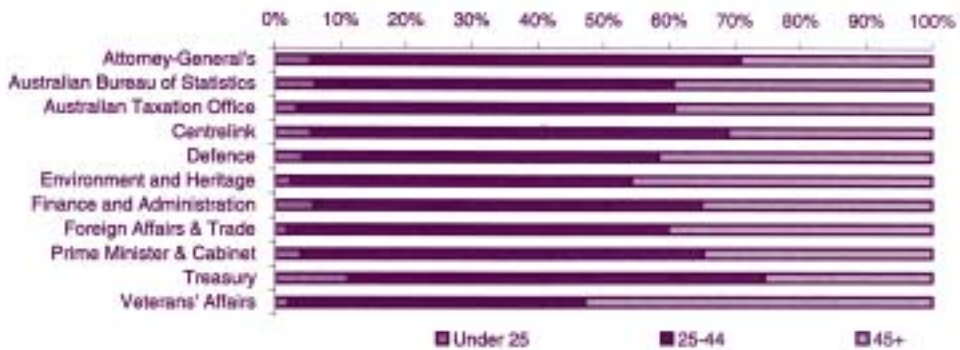
More senior employees are also ageing. At 30 June 2002, 28.3% of SES staff and 18.1% of EL staff were aged 50 to 54 years, compared with 18.0% and 10.4% respectively a decade ago. SES and EL staff aged over 55 years were 13.8% and 7.8% respectively of SES and EL staff at 30 June 2002, compared with 10.8% and 5.8% a decade ago.

LENGTH OF SERVICE

The median length of service for ongoing APS employees remained unchanged from 30 June 2001 at nine years. The median length of service for males was 11 years, and for females was seven years. Figure 2.11 provides details of the changes in length of service profile over the last 10 years.

Figure 2.11 Length of service 1993–02
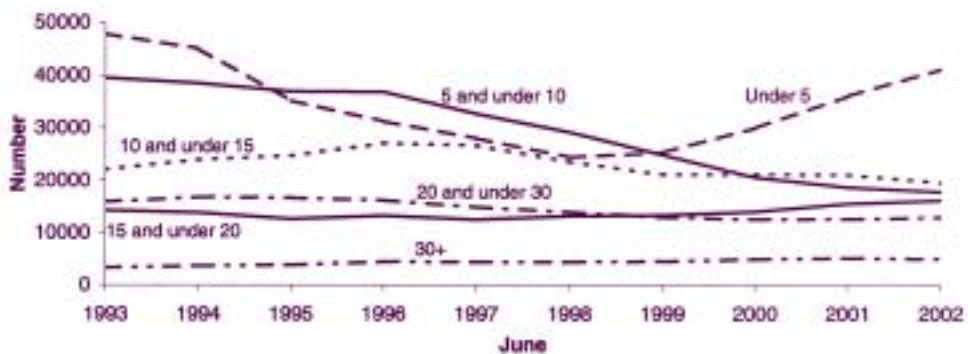
Employees with fewer than five years of service comprised 36.5% of ongoing employees at 30 June 2002, up from 33.0% last year. Last year's report noted the consistent decline in the numbers of employees with at least five and less than 10 years of service, falling from 28.5% of all ongoing employees in June 1996 to 17.1% in June 2001. This trend continued during 2001–02 with 15.8% of employees having between five and 10 years of service at 30 June 2002.

There has also been a reduction in ongoing employees with 10–14 years of service, down from 19.3% to 17.3% over the year.

ENGAGEMENTS AND SEPARATIONS

There were 12 093 engagements and 8583 separations of ongoing staff during 2001–02. Engagements of ongoing staff decreased over the year, while separations increased slightly. Figure 2.12 provides details of ongoing engagements and separations as a percentage of all ongoing staff in the last 10 years.

Figure 2.12 Ongoing engagements and separations as a proportion of total ongoing staff 1992–93 to 2001–02
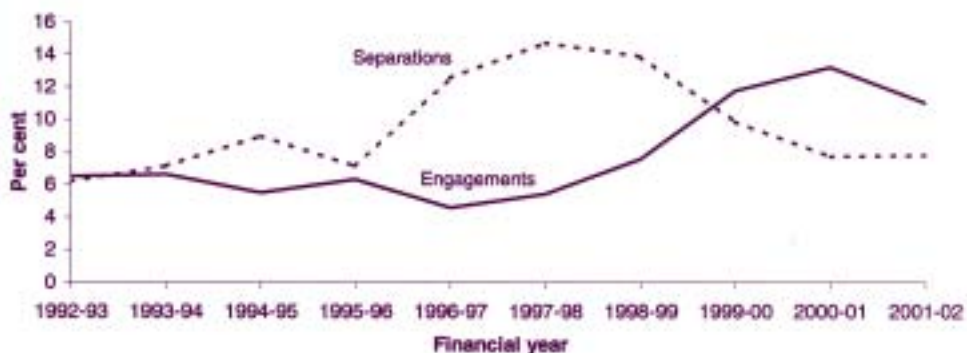
Figure 2.13 provides details of the age profile of engagements and separations of ongoing staff during 2001–02 against the age profile of total ongoing staff at 30 June 2002. Both engagements and separations for those under 30 years of age were greater than their proportion of ongoing staff. Both decreased in 2001–02, engagements by 13.8% and separations by 3.7%. Not surprisingly, separations increased for those 50 years and older, and engagements declined steadily amongst older workers; nonetheless, the workforce grew by 1401 employees aged 50 or more, including 1040 employees aged 55 or more. At the same time separations among mature aged workers continued to substantially exceed engagements, with 1500 of those in the 50–54 age group leaving (763 at age 54), and 613 being employed (105 at age 54).

Figure 2.13 Age profile of engagements and separations of ongoing staff 2001–02
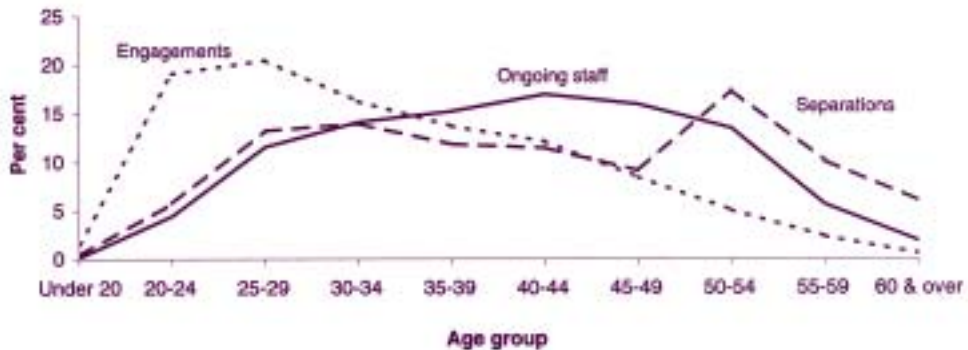
ENGAGEMENTS

Despite continued growth in APS employment, there was a 13.1% reduction in ongoing engagements during 2001–02. Figure 2.14 provides details of engagements by classification. While engagements remain most common at APS 3–4, there was a marked decline in the proportion at that level (from 51.1% to 41.8%). This is the first year for some time that engagements of the APS 3–4 group have declined, this group having previously recorded increases each year from a base of 14.8% in 1992–93. On the other hand, while engagements at APS 1–2 remained lower in recent years, the number increased in absolute and proportional terms during 2000–01 and 2001–02, representing a modest reversal of the strong long-term decline. Engagements at the APS 1–2 level comprised 17.3% of engagements of ongoing staff during 2001–02, up from 13.4% in 2000–01. Nonetheless, total numbers of ongoing employees at APS 1–2 declined again over 2001–02 (see Table 2.1).

Figure 2.14 Engagements by classification 1992–93 to 2001–02
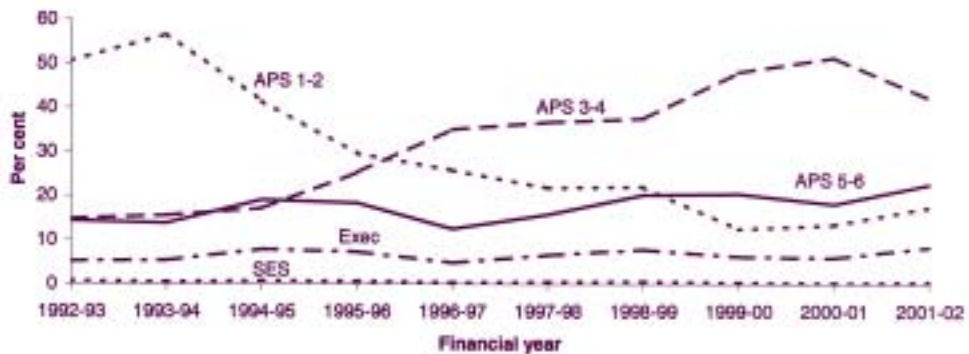
Figure 2.15 shows engagements of ongoing staff by age group. Variations across age groups during the year were slight, with an small increase in percentage terms of engagements in the 25–34 group (34.8% to

36.8%) and age 55 and over (2.6% to 2.9%), offset by slight decreases in the under 25, 35–44 and 45–54 age groups. However, the longer term trend in the recruitment of young people (less than 25 years old) continues to decline.

Figure 2.15 Engagements by age group 1992–93 to 2001–02
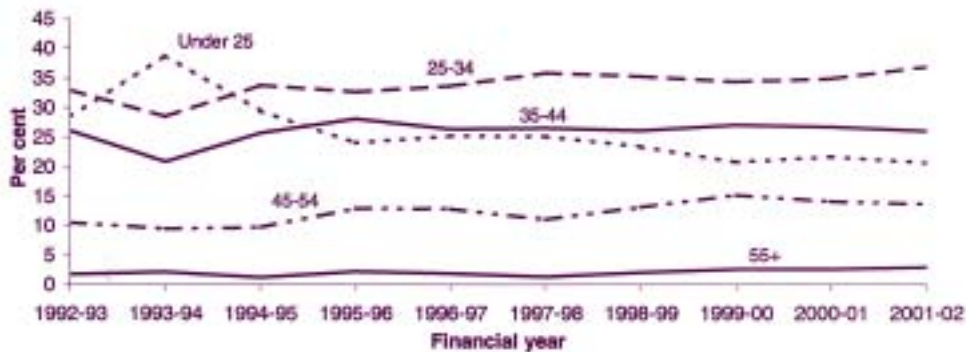
SEPARATIONS

Separations[7] increased 5.6% during 2001–02, to 8583. As Figure 2.16 indicates, resignation was the major type of separation from the APS in the period to 2000–01. This trend continued for 2001–02, with resignations accounting for 54.3% of separations. Retrenchments grew to account for 24.7% of separations, and age retirements and termination of appointments also grew marginally to 9.2% and 8.1% respectively of separations. Other types of separation rates over the year were invalidity retirements 1.7%, deaths 1.0%, compulsory movements to non-APS agencies 0.1% and other 0.9%.

Figure 2.16 Separations as a proportion of total separations 1992–93 to 2001–02

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[7] Separations include resignations, retrenchments, age and invalidity retirements, deaths, and terminations of employment.

Separations increased for all age groups, with the exception of the 25–34 age group, which recorded a slight decrease of 0.3%. Separations of under 25 year olds increased by 2.9%, of those aged 35–44 by 2.4%, of those aged 45–54 by 12.6% and those aged 55 and over by 11.3%.

A closer examination of resignation numbers during the year reveals that, with the exception of a slight increase in resignations amongst the under 20 age group, resignations in all age groups up to and including 40–44 decreased during 2001–02. Resignations in the 45–49 age group increased slightly by 4.4%. Resignations in the age group 50–54 increased by 21.0% from the previous year, and comprised 17.7% of all resignations for 2001–02, an increase from 14.5% in 2000–01 and 10.7% in 1999–00.

Last year's report noted that resignations[8] at age 54 would be monitored. Resignations at age 54 increased in 2001–02 by 33.4%, from 410 for 2000–01 to 547, and represented 66.5% of all resignations in the 50–54 age group during 2001–02.

From Figure 2.17, it can be seen that resignations of staff aged 54 exceeded those by other staff aged in their 50s over the whole of the last decade. But the trend in resignations by 54 year olds has increased steeply since 1996–97, at a time when resignations for other staff in their 50s has remained relatively constant. This is likely to be an indication of the number of staff in this age group who are affected by the financial incentive in the Commonwealth Superannuation Scheme to resign before they are 55.

Figure 2.17 Resignations by selected ages 1992–93 to 2001–02
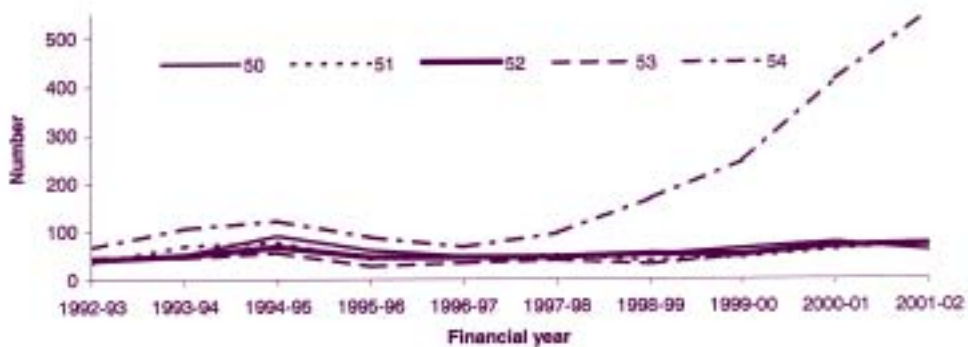
Age retirements[9] increased from 8.0% of all separations in 2000–01 to 9.2% in 2001–02, while terminations of employment also increased, from 6.4% to 8.1%. A substantial proportion of terminations (46.8%) are of staff with less than two years of service, with 34.4% of all terminations being staff with less than one year of service. During 2001–02 792 staff aged from 55 to 71 years of age left the APS through age retirement. Figure 2.18 shows age retirements by age group for 1992–93 to 2001–02.

[8] Staff aged to 55 years are able to resign, whereas staff aged 55 years or more must retire.

[9] Staff are eligible to retire on reaching age 55. However, retirement age is at the discretion of the individual.

Figure 2.18 Age retirements by age group 1992–93 to 2001–02
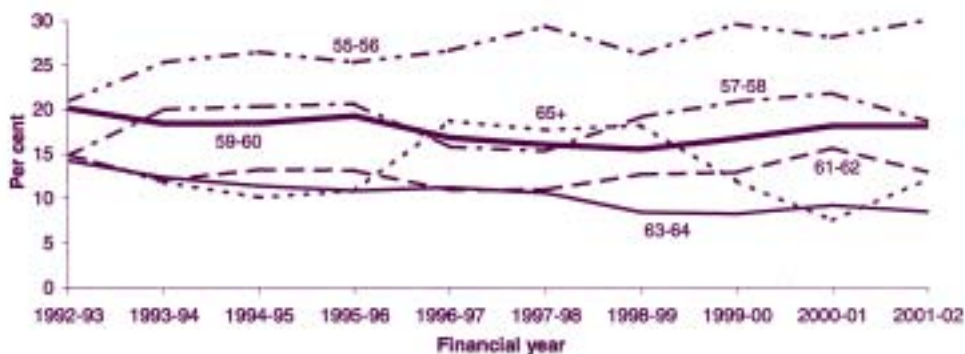
During 2001–02 29.9% of all age retirements were 55–56 year olds. This is the highest proportion of age retirements for this age group (or any other) over the last decade. Age retirements for this age group have increased from a low of 20.9% of all age retirements in 1992–93.

Retrenchments increased by 42.6% from 2000–01 (from 1490 to 2124), and comprised 24.7% of all separations at 30 June 2002, up from 18.3% last year. There were 990 retrenchments from the ATO, and 310 retrenchments from Defence. Overall, retrenchments from these two agencies comprised 61.2% of all retrenchments from the APS during 2001–02.

Figure 2.19 Retrenchments by age group 1992–93 to 2001–02
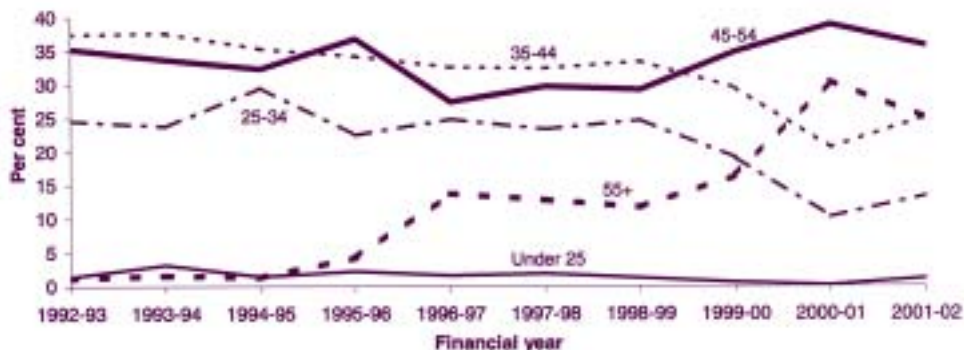
There were 526 retrenchments of staff aged 55 years and over during 2001–02. This represented 24.8% of all retrenchments. While, as shown in Figure 2.19, this represents a decline from the peak of 30.3% in 2000–01, that peak was due in part to an overall decline in retrenchments in the 1998–99 to 2000–01 period (see Figure 2.16). The actual numbers of retrenchments of those aged 55 years and over continue to be substantial, representing 37.7% of separations from this age group. There were 526 retrenchments, compared with 792 retirements, for employees aged 55 and over in 2001–02.

SOME OBSERVATIONS

During the year to June 2002, growth in the APS continued for a third year in a row, though a little more slowly (at 3.6%) than the previous two years. Engagements of ongoing staff decreased 13.1% from 2000–01, and separations increased by 5.6%. At June 2001, women made up more than half of ongoing staff for the first time and their representation increased again in 2001–02. Part-time employment continued to increase, but at 10.6% of the overall APS workforce, it remains well below the levels of the private sector.

Changes in the classification structure from June 2001 reflect continued falls at the lower classification levels. However, the impact of broadbanding in agencies cannot be isolated. There was also a fall in graduate recruitment after the very high recruitment by the ATO in 2000–01. Other lateral recruitment, however, will include graduates who are not part of a specific graduate recruitment program.

There were slight changes in the age profile of the APS, with the proportion of 35–44 year olds dropping slightly, and the proportion of 55 year olds and above increasing, though not to levels in the Australian workforce as a whole. The median length of service for the APS remained at nine years.

Looking over the longer term, the APS is clearly ageing, and is now, on average, some four years older than it was a decade ago. While the proportion of staff aged 55 years and over continued to increase, the proportion of staff aged 45–54 remained stable. During the year lateral recruitment of staff aged 50 years and over decreased while separations increased, and the workforce grew by 1401 employees aged 50 or more, including 1040 employees aged 54 or more. Not surprisingly, separations among mature aged workers continued to substantially exceed engagements, with 1500 of those in the 50–54 age group leaving (763 at age 54), and 613 being employed (105 at age 54).

There is every indication that agencies will need to adopt a more strategic approach to the available options for retaining or re-employing mature aged staff as well as to replace the corporate knowledge of the largest cohort of older workers who will separate from the APS over the next five to 10 years. This will require a more creative approach to flexible working arrangements for older workers. While there has been an increase in the proportion of APS staff working under more flexible working arrangements over the last decade, this increase has not taken place in the older age groups. A more creative approach to flexible working arrangements for older workers might include more part-time work, variable and part-year employment, project and mentoring work, phased retirement and telecommuting.

Agencies will also need to take a more strategic approach to succession planning, including the attraction and retention of young employees. Some of the trends in 2001–02 seem to indicate that some agencies are not approaching graduate recruitment and retention systematically: graduate trainees fell by nearly half, from 942 to 508 (though this is significantly affected by one agency—ATO), and retention rates declined (though this may reflect changing career patterns). There has been an increase in lateral recruitment and this will include graduates, but the evidence does not suggest agencies are applying considered, long-term approaches to renewal. The continued fall in lower classification recruitment may also be limiting choices for APS career pathways for young people.

A forthcoming Management Advisory Committee paper on organisational renewal will explore these issues in detail.

The APS Values and Code of Conduct essentially define the institution of the public service. They set the principles for relationships with Government and the Parliament, the public and other external stakeholders and within the workplace, and they guide personal behaviour. They set a framework of enduring principles of good public administration while giving agencies the flexibility to manage a wide range of functions and respond to the modern pace of change.

Last year's report discussed the ways in which agencies were promoting awareness of the APS Values and the Code of Conduct. It identified that there were a number of positive initiatives, but noted that agencies needed to continue to take steps to ensure that employees understand the importance of ethical behaviour and the relevance of the Values and Code to their everyday work. The measures agencies have taken in 2001–02 in this regard are examined in this chapter.

This chapter also examines the application of the Values and Code of Conduct by considering key aspects of agencies' relationships with Government and the Parliament including the measures that agencies are using to prevent leaks of sensitive material. Aspects of agencies' relationships with the public are also presented including progress with the implementation of service charters and complaints to the Commonwealth Ombudsman.

Relationships within the workplace are discussed briefly as Chapters 4 and 5 examine workplace relations and performance management issues in more detail. This chapter also presents data on important aspects of the personal behaviour of employees, including the misuse of email and the Internet and conflicts of interest in post-separation employment. Reviews of decisions by the Merit Protection Commissioner in relation to breaches of the Code of Conduct are examined and the number and nature of whistleblowing reports across the APS are also presented.

EMBEDDING THE VALUES IN AGENCIES

Most agencies are taking steps to educate new employees about the Values and the Code. Nearly all agencies (94%) provide information on the Code of Conduct and the Values to new recruits in the course of induction training. There is however less effort devoted to ensuring that a similar level of awareness exists among current employees. Many of the initiatives agencies use to promote an understanding of the Values and the Code to existing employees are passive in nature. For example, the majority of employees already employed in the APS can access the Code and the Values, as well as their agency's procedures for determining breaches of the Code, on their agency's Intranet. While this is a positive measure, the onus rests with employees to actively seek out and use the information.

A number of agencies have incorporated a commitment to upholding the Values and complying with the Code into their Certified Agreements (CAs). At this stage only a minority (39%) of agencies reflect the Values and Code explicitly in their Chief Executive Instructions (CEIs), although more (58%) use circulars for the promotion of the Values.

The more active measures that agencies employ include assessing values and behaviours in the context of individual performance assessments (74%), mandatory training courses (27%), self-nominated training courses (47%) and briefings (28%). Large and medium agencies indicated greater use of assessing values in their performance assessments (90% and 86% respectively) compared to small agencies (63%).

In total, however, 40% of agencies provided their staff with no training in 2001–02, either mandatory or self-nominated, to ensure an understanding of the relevance of the Values and Code. A breakdown by size of agency reveals that 10% of large agencies, 43% of medium agencies and 50% of small agencies provided no such training.

Amongst those agencies that have introduced active measures to promote and embed the Values are the following. The ABS conducts management and leadership development courses that include a strong emphasis on the APS Values and Code of Conduct. Discussion of case studies is a feature and 'graduates' of the courses are expected to practise the Values and to behave as 'model exemplars' for other employees.

DFAT adopts a comprehensive approach in the incorporation of the Values and Code into everyday work. Its CA highlights the importance of high standards of conduct and a conduct and ethics unit has been operating in the department for several years to promote ethical behaviour through an ethics outreach program and to investigate breaches of the Code. The APS Code is complemented by a *Code of Conduct for Overseas Service*, which is agreed to by all those who proceed on posting.

Among the initiatives taken by Defence is the development of the 'Ethics Matters' Intranet site, which provides specific advice on ethical matters. This is supplemented with an ethics newsletter and videos. Additionally, all Defence civilian performance agreements include a mandatory Key Expected Result that requires the employee to act in a manner consistent with the Values and the Code.

In the National Crime Authority adherence to the APS Values and the Code is a set work target of all employees and management and is included in the annual performance recognition program. Similarly, in the Australian Greenhouse Office (AGO), adherence to the APS Values, the AGO Values and the APS Code of Conduct is evaluated in its performance management and development scheme and represents 20% of the overall assessment.

The most common means used by agencies to assess the effectiveness of the measures they have taken to promote an understanding of the Values and the Code are through performance appraisal arrangements (57% of agencies) and employee surveys (47%).

Centrelink, for example, measures individual performance against work objectives and Centrelink's shared behaviours, which include a performance descriptor of integrity and ethics.

Defence measures effectiveness through employee surveys and performance appraisal every six months against the Values/Code of Conduct Key Expected Result in employee performance agreements. Defence also assesses effectiveness based on the number of reported instances of breaches of the Code.

In Comcare, upholding and promoting the Values and Code are mandatory parts of the performance development framework and are core expectations in the performance arrangements for Australian Workplace Agreements.

DVA gauges effectiveness through the general understanding of staff in team meetings and the level of reported breaches of the Code.

While it is evident that nearly all agencies are taking steps to increase new employees' awareness of the Values and the Code, there is more to be done to raise awareness and promote understanding among existing employees. An effective approach increasingly being adopted by agencies to ensure that the Values are a core component of their organisational culture is to assess both 'what' is achieved and 'how' results are achieved (consistent with the APS Values) in individual performance appraisals. This is discussed further in Chapter 5 — Achieving Higher Performance. There is scope for agencies to reflect the Values and Code more explicitly in their corporate management processes including CEIs and associated guidelines, and to ensure employees are fully aware of their agency's requirements in applying the Values and Code.

The APS Commission is currently undertaking an exercise, guided by a reference group of Agency Heads, examining in some detail how a selected group of agencies are applying the APS Values and ensuring compliance with the Code of Conduct. As well as feeding into next year's report, this examination should provide material for a good practice guide that will assist agencies not only to meet their obligations under the *Public Service Act 1999* and the Commissioner's Directions, but also to establish workplace cultures that are founded on principles that promote good judgement and discretion.

RELATIONS WITH GOVERNMENT AND THE PARLIAMENT

Central to the relationship between the APS, the Government and the Parliament are the three Values of the apolitical, professional nature of the APS and its impartiality, its open accountability within the framework of Ministerial responsibility and its responsiveness to the elected Government.

RELATIONS WITH PARLIAMENT

One of the important obligations of senior public servants is to assist Ministers to fulfil their accountability obligations to parliamentary committees by providing information about the factual and technical background to policies and their implementation.[1]

The Senate Committee of Privileges has repeatedly expressed concerns that senior APS employees do not always have a sufficiently thorough understanding of their rights and responsibilities in relation to parliamentary accountability. In 1993, the Committee recommended that:

> …all Heads of Department and other agencies, statutory office holders and Senior Executive Service Officers should be required, as part of their duties, to undertake study of the principles governing the operation of Parliament and their committees, with particular reference to the rights and responsibilities of, and protection afforded to, witnesses before parliamentary committees.[2]

While in its 89th Report, April 2000, the Committee commented with a degree of optimism that 'in general, [the Committee], is satisfied with the attitudes of the majority of Commonwealth departments and agencies

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[1] Section 57(2) of the PS Act states that 'The Secretary of a Department must assist the Agency Minister to fulfil the Agency Minister's accountability obligations to the Parliament to provide factual information, as required by the Parliament, in relation to the operation and administration of the Department'.

[2] Senate Committee of Privileges, 42nd Report, *Possible Adverse Treatment of a Witness Before the Corporations and Securities Committee*, May 1993, p.42.

to the order',[3] it also noted the narrow approach taken by some organisations. As the resolution makes clear, it is aimed at all senior Commonwealth officials undertaking study of the principles governing the operation of Parliament not just those who appear before Senate committee hearings.[4]

The Agency Questionnaire for this year's report asked agencies what measures they had in place to ensure that SES staff understand their rights and responsibilities in relation to parliamentary accountability.

Ninety-eight per cent of agencies reported having at least one measure in place to inform their SES of their responsibilities. The two agencies that had no measures in place are both small statutory agencies.

The two most common measures that agencies reported using are self-nominating attendance at training courses or presentations (identified by 85% of agencies) and learning through attendance and observation of parliamentary committee hearings (79% of agencies). Mandatory training is used by 26 agencies, with large agencies (37%) and medium agencies (38%) more likely to use this measure than small agencies (18%). For example, Defence reported that 'a series of Defence–specific seminars was conducted by the Department of the Senate during 2000–01. At 30 June 2002, 175 of the 223 SES and military equivalent officers (some 78%) had attended the seminar'.

No information was collected in the Agency Questionnaire on the proportion of SES that has attended training and/or observation at parliamentary committee hearings. Such information will be collected in future Agency Questionnaires given the reliance of agencies on these two measures. An alternative source of information on the attendance at relevant training has been obtained from the APS Commission and the Department of the Senate. Both agencies provide training on public servants' accountability rights and responsibilities in response to concerns expressed by the Senate Committee of Privileges. Table 3.1 sets out this data.

The data indicates that there has been a significant drop in attendance in recent years in the APS Commission training courses dealing with this issue. Attendance in 1999–00 was relatively high, probably as a result of the Senate Committee of Privileges requirement that agencies report in 1999 on moves made to increase understanding in this area. A significant drop might have been expected given the limited size of the SES group and the extensive practical experience of some SES staff but the fall appears greater than these factors might imply.

Data from the SES database in the APS Commission indicates an annual inflow into the SES Band 1 of around 180 (averaging 145 promotions from the EL ranks, and 33 engagements from outside the APS each year over the past three years since 1999–00). This inflow should represent the continuing target group for this type of training. It should be noted that the APS Commission in its 'Orientation to the Senior Executive Service' training course also deals with the accountability framework under which SES operate along with a range of other issues. In this orientation course accountability responsibilities to Parliament are specifically dealt with in a one hour session, delivered by the Clerk of the Senate, but not in nearly as much depth as in the 'Public Servants' Accountability, Rights and Responsibilities' program. In recent years, just over half of eligible SES (54% in 2001–02) attended the SES orientation program, although all were individually invited by letter upon their promotion/engagement.

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[3] Ibid.

[4] *Standing and Other Orders of the Senate*, February 2000, p.130.

Table 3.1 Attendance at parliamentary accountability training

Course	Year	Attendance
Accountability, rights and responsibilities (a)	99–00	604
	00–01	189
	01–02	68
Preparing to appear before a Parliamentary committee (b)	99–00	–
	00–01	44
	01–02	19
Parliament, privilege and accountability (c)	99–00	53
	00–01	53
	01–02	108

(a) The Public Servants Accountability, Rights and Responsibilities course run by the APS Commission aims to make public servants aware of the framework of accountability to Ministers and the Parliament, and of their rights and responsibilities in this context. This course is open to both SES and EL level staff and it has not been possible to present separate data for each classification group.

(b) The Preparing to appear before Parliamentary Committees course is also run by the APS Commission and builds upon the content covered in the Public Servants' Accountability Rights and Responsibilities. The program is designed to build confidence and skills.

(c) Parliament, Privilege and Accountability is a half-day program run by the Department of the Senate for heads of government departments and agencies and officers of the SES, which covers a range of topics including the relationship between Parliament and the Australian Public Service, contempt of Parliament and the role of Committees, including those relating to the Senate's examination of the estimates.

Table 3.1 indicates that in contrast to attendance rates at the APS Commission courses, attendance at the Department of the Senate's course on parliamentary accountability increased markedly in 2001–02. Two agencies, Defence and DCITA accounted for a significant proportion of this increase, with the Senate providing them with in-agency seminars.

A small number of agencies, Centrelink, DIMIA, Health, Environment Australia, Finance, and the Australia New Zealand Food Authority, are using simulation type exercises to ensure their SES understand their role in relation to parliamentary accountability. Finance was the only agency to use both mandatory training and simulation exercises in addition to a range of other measures. Other measures include internal briefing of staff prior to attending parliamentary committees (69% of agencies) and written internal guidelines (24%). Such written guidelines were not commonly used by small and medium agencies but were used by the majority of large agencies (63%).

While the frequency of attendance at parliamentary committees varies considerably between agencies and for SES within agencies, the evidence suggests some agencies are not giving sufficient attention to training SES and other senior executives. Mandatory training for at least those SES without extensive practical experience of giving evidence to parliamentary committees, who may appear (even if occasionally) before such committees, should be implemented by agencies in addition to a range of other measures.

Formal avenues of accountability to the Parliament have continued to improve as acknowledged by Parliamentary committees. The committees have also identified some shortfalls, including the uneven uptake of better reporting practice across and between agencies, and they continue to encourage and suggest further improvement. Annual reports provide increasing performance information against measures and

targets set out in Portfolio Budget Statements according to each portfolio's outcomes and outputs structure. Agencies are also developing improved means of presenting the information not only to the Parliament but also to the public, including through specially designed Internet versions. The Joint Committee of Public Accounts and Audit, the Senate Finance and Public Administration Legislation Committee and the ANAO nonetheless continue to express unease over the clarity of the information provided against outcomes and outputs structure, and the amount of information provided on programs within outcomes. A Management Advisory Committee (MAC) study of budgeting and resources management framework initiated in 2001, surveyed agency Chief Executive Officers and Chief Financial Officers and explored possible enhancements to the framework. The MAC study was suspended when the Government asked Finance to conduct a review of key aspects of the estimates and budgeting framework, which is due to report late in 2002. Finance published during the year on their websites some examples of good practice reporting by agencies. Chapter 6 provides a detailed discussion of agencies' progress with financial management reforms including the outcomes and outputs framework.

RELATIONSHIPS WITH GOVERNMENT

APS employees are required to be responsive to the Government by providing frank, honest, comprehensive, accurate and timely advice, and in implementing Government policies and programs. They are also required to be apolitical, impartial and professional, and to be openly accountable. A key requirement under the Code of Conduct is for APS employees to maintain appropriate confidentiality in dealings with Ministers and Ministers' offices, a critical factor for a relationship of trust and cooperation.

The Agency Questionnaire focused on a number of aspects of the relationship between the APS and the Government, as implied by the APS Values and Code of Conduct. These include how agencies ensure good responsiveness to the elected Government, the procedures used to manage relations with Ministers and their offices including in particular the recording of advice and decisions, and arrangements for ensuring appropriate confidentiality.

Responsiveness to Ministers

All large agencies and 95% of medium agencies reported having some way of evaluating their responsiveness to Ministers in terms of providing 'frank, honest, comprehensive, accurate and timely advice.' Around a quarter of small agencies had no measures of their responsiveness but many commented that this reflected their limited dealings with Ministers.

Most agencies relied heavily on oral feedback, particularly from ministerial staff (75% of agencies) and to a lesser extent directly from the Minister (58% of agencies). Two other commonly used procedures to quality control advice to Ministers are a central co-ordination function for the quality assurance of written material to and from the Minister's office (78% of agencies report having such units) and the specification of a minimum classification level for the signing-off of ministerial briefs (73% of agencies). All large agencies reported having both of these measures.

Another measure reportedly used by just under one third of agencies was to include a formal rating scale for such criteria as timeliness and quality of analysis at the bottom of ministerial briefs. Two large agencies commented that they had attempted to introduce such a formal rating scale on briefs but that their Minister had not wanted to use it.

A total of 17% of agencies reported using some form of internal or external peer review to evaluate their ministerial advice. Large (32%) and medium (29%) agencies used this measure more than small agencies (8%). For those agencies that provided some comment on this form of evaluation the most common form of peer review was reported to be internal review by other senior executives in the agency. Several smaller agencies stated that they get some feedback on the quality of their advice from executives of their portfolio agency.

The most accurate picture of an agency's responsiveness to their Minister in terms of providing frank, honest, comprehensive, accurate and timely advice is likely to be gained from using a variety of evaluative and quality control measures. As indicated in the above discussion these measures can include a central co-ordination function (i.e. ministerial liaison unit), specifying minimum classification levels for signing-off briefs or for phone contact with the Minister's office, formal ministerial feedback via some form of a rating scale included on ministerial briefs, procedures for gathering oral feedback from Ministers and their staff and some form of internal or external peer review. Nearly 60% of agencies report using four or more of these measures. Only 11 agencies (12%) used six measures (Centrelink, ATO, Defence, FaCS, Customs, AusAID, Department of Transport and Regional Services (ITR), Australian Electoral Commission (AEC), Treasury, Finance, Office of the Employment Advocate). Those agencies that use three or fewer measures (five per cent of large agencies, 33% of medium agencies and 56% of small agencies) and that also undertake a relatively high level of briefing activity to their Minister/s should consider implementing some of the other measures mentioned in this section.

Policies on interactions with ministerial offices

To explore the ways in which agencies currently manage their interactions with ministerial offices the Agency Questionnaire asked if agencies had a protocol or policy guidelines that dealt with interactions with Ministers and their staff. Eighty-eight per cent of agencies reported having some procedures or guidelines on interactions with Ministers and their staff. Analysing this overall result by size of agency reveals that all large agencies had a range of such procedures while around 15% of both small and medium agencies had no specific procedures. However, some of these agencies commented that given the nature of their activities and status they had no or limited direct contact with ministerial offices.

As indicated in the previous section around three quarters of agencies report using a central co-ordination function for the quality assurance of written material to and from the Minister's office and the specification of a minimum classification level for the signing-off of ministerial briefs. Just over half of all agencies (52%) reported that they require that significant email communications with ministerial advisers be retained. A similar proportion (47%) requires that file notes be routinely made after significant phone calls or oral discussions with ministerial advisers. Disaggregating these results by size indicates that large agencies are more likely to require such measures with 63% and 53% of large agencies requiring emails to be retained and file notes to be made respectively.

Only one third of agencies reported having a requirement that oral briefing to Ministers or ministerial staff be followed up by written briefing where appropriate. Somewhat surprisingly, medium sized agencies were more likely to report having this requirement (48%) than large agencies (37%).

The ANAO has had cause to comment on such record keeping issues in the past. The ANAO's report in 1999–00 on the effectiveness and probity of the policy development relating to magnetic resonance imaging services stated that:

On key issues, and where sufficient time is available, it is good practice for departments to use written briefings to provide assurance that the issues and options are clearly presented to the Minister and that any decisions taken by the Minister are understood and recorded. Such documentation also would have assisted in better informing senior departmental management of the progress with the development of policy proposals, and identification and treatment of associated risks, in view of their departmental management responsibilities. In addition, it is also good practice for departments to maintain a record of oral briefing of significant issues and any resulting discussion and decisions. Briefings and records maintained need not be lengthy, but should be fit for purpose.[5]

This is evidently proving to be a continuing challenge for most agencies, particularly with the volume and speed of interactions with Ministers and their offices. Written confirmation of key advice and proper records of significant oral briefings and decisions nonetheless remains important. Chapter 6 reports in more detail on agencies' recordkeeping practices.

In response to the Agency Questionnaire, only 27% of all agencies reported having a means of resolving concerns that may arise about the nature of requests from ministerial advisers. Again, large agencies were much more likely to report having such procedures (58%).

Clarifying relationships between agencies and ministerial offices has been a matter of public interest in the last year. Trust and cooperation is essential, and ministerial advisers play a key role in facilitating the flow of information and advice between the APS and Ministers. The requirements of the PS Act that the APS be apolitical and impartial, and to be openly accountable, may best be met if agencies ensure all significant advice is directed to Ministers, that Agency Heads are properly involved and written records are kept. This follows the formal lines of accountability of APS employees to Agency Heads, and Agency Heads to Ministers.

In day-to-day practice, ministerial advisers must frequently be the conduits of advice in both directions, and for the most part this works well. APS employees need to have confidence in advice about ministerial directions, be able to follow-up that any such directions conveyed by ministerial advisers are accurate and well informed, and be confident that APS advice is accurately conveyed to Ministers.

Several agencies including DIMIA and Health, indicated that they are reviewing their procedures for regulating interactions with ministerial offices.

Unauthorised disclosure of official information

Critical to meeting the obligations of the APS to be responsive and professional is building a high level of trust between an agency and the Minister and the Minister's office. Such trust requires in particular confidential handling of information and knowledge. Last year's report noted that the unauthorised disclosure of information remains a concern in the APS. The measures agencies are using to prevent such disclosures are examined below.

Agencies report a range of measures to alert employees to their obligations not to release official information without authority, including through the induction process (used by 85% of agencies), promulgated policies (58%), CEIs (46%) and training programs (44%).

[5] Australian National Audit Office (1999–2000), Audit Report No.42 Performance Audit *Magnetic Resonance Imaging Services— effectiveness and probity of the policy development processes and implementation*, p.26.

A number of agencies commented that they require employees to sign a form on commencement of employment acknowledging their understanding of their obligations in regard to the disclosure of information.

While the majority of employees are informed of their obligations in regard to official information on commencement, 42% of agencies reported that they do not provide employees with regular reminders of those obligations. By contrast, in some agencies, for example DFAT, the requirement to manage classified material in accordance with guidelines and avoid security breaches is reported to be an integral part of daily workplace culture, with staff reminded of their responsibilities regularly.

Defence requires all employees to have at least a 'restricted' security clearance and requires them to sign an official secrecy form acknowledging their obligations. Defence also reminds employees of their obligations through informal meetings and individual briefings and when security clearances are renewed. The 'Defence Leadership Model' emphasises the importance of avoiding unauthorised disclosure of information. It is one of the 'four unbreakable rules' underpinning the senior leadership values within the 'Defence Strategy Map'. Defence has also recently released an updated instruction dealing with public comment and the dissemination of information.

In the case of Centrelink, the concern about unauthorised disclosure is more to do with privacy of information on clients than on confidentiality of dealings with Ministers. Employees are required to sign a declaration regarding their responsibilities. Centrelink encourages a strong privacy culture within the organisation and it has a network of privacy officers who deliver privacy and confidentiality training to employees on a regular basis. Centrelink has developed a suite of products to alert employees to their responsibilities, including manuals, videos, screen savers, posters and screen-based messages during the log on process and before accessing the customer database. As well as its education strategy, Centrelink restricts access on a need to know basis to systems and applications through its security access monitoring system.

During 2001–02 agencies reported a total of 129 incidents of apparent unauthorised disclosure of information. It should be noted that 49 of these incidents were in Centrelink and all related to possible breaches of the Privacy Act, rather than leaks. The majority of the remaining 80 cases related to leaks, with Defence commenting that the bulk of disclosures in its cases were to the print media. In many cases, it was not possible for agencies to identify the source of leaks, although in several, agencies were able to conclude that there was no indication or likelihood that the leaks came from within the agency. In one case, the agency had established that the leak was not internal but the attempts to identify the external source were still in progress. In all, agencies reported 20 cases where an investigation identified an employee as the source of a leak. The outcome in nine of these cases was termination of employment.

The leaking of information cannot be controlled and discouraged solely through measures designed to enforce compliance. For the 43% of agencies that do not periodically remind their employees of their obligations, more work is required. Agencies need to work to ensure that an understanding of the APS Values, including the importance of acting professionally and being responsive to the Government, is an integral feature of workplace culture.

RELATIONS WITH THE PUBLIC

The APS Values require APS employees to treat members of the public with respect and courtesy, and without harassment. The services provided should meet defined standards of fairness, efficiency and responsiveness.

SERVICE CHARTERS

On 24 March 1997, the Prime Minister announced the Government's decision to introduce service charters across Commonwealth Government agencies as part of the *More Time for Business* Statement. The introduction of service charters was part of the move to embed a responsive, client-focused culture within departments and agencies.

The Public Service Commissioner's Directions provide that services are delivered taking into account the principles set out in the document entitled *Principles for Developing a Service Charter*, published by the Department of Industry, Science and Tourism in March 1997. Those guidelines were subsequently revised and reissued as the *Client Service Charter Principles, June 2000* (the Principles) by Finance. The Service Charters function transferred from Finance to the APS Commission under changes outlined in the Administrative Arrangements Order of 26 November 2001.

All Government bodies that provide services directly to the public are required to develop a service charter. An agency may have more than one service charter in place to deal with several different functions, products or services and different client groups with particular needs. A service charter is a short publication that contains a number of key elements such as informing the client about the agency's services, outlining relevant avenues of communication, detailing relevant service standards and outlining client rights and responsibilities including feedback and complaint mechanisms available.

Coverage and review activity

Seventy of the 92 agencies surveyed (76%) reported that they are required to implement a service charter in the context of the Principles. Sixty-eight agencies indicated that they have a service charter in place, including all of the 19 large agencies, 16 of 21 medium sized agencies and 33 of 52 small agencies.

Allowing for Machinery of Government changes since the last whole-of-government report, *Service Charters in the Commonwealth Government* in November 2000, it appears that there has been a slight increase in the number of service charters in place across portfolios in the APS. Some agencies that are required to implement a service charter have yet to do so, while others who are not formally required to implement a service charter have introduced one. In addition, as noted above, an agency may develop more than one service charter.

Seven agencies that advised they are required to implement a service charter also reported that they are yet to have a service charter in place. Five of those agencies have either commenced development or have plans in place for introduction or development during 2002–03.

Agencies reporting that they have introduced a service charter, while not being formally required to do so include Finance, the National Competition Council, the APS Commission and the Office of Parliamentary Counsel.

The Principles recommend that agencies should review their charters on a regular basis. This review may occur as part of a programmed cycle or may be prompted by a specific event. The Principles suggest that agencies regularly review their charters internally and might also consider having a charter reviewed by an external body.

Consequently, further analysis of service charters has been undertaken in respect of those 68 agencies with a service charter in place. Responses from those agencies indicated that 31% review their service charter on an annual basis and 44% over one to three-year intervals. Ten per cent of agencies reported that service charters are reviewed on an 'as required' basis, with 15% of agencies advising that no review had, as yet, been undertaken.

Promoting service charters

By far, the most common medium agencies use to promote their service charter is via the agency website, with 90% of agencies reporting that their charters are published on the Internet. Other strategies include the display of the service charter and related materials at shop fronts and public contact areas, inclusion in brochures and agency publications, targeted correspondence to client groups, service providers and peak bodies, direct marketing and distribution at client forums.

Performance measurement

The Principles note that agencies are accountable for their performance against the service charter standards and must publish performance against charter commitments in the agency annual report. Of the 68 agencies with service charters in place, 88% reported that the charters incorporate, to some degree, performance indicators or service standards that are measurable. The figure is fairly evenly distributed across large, medium and small agencies. Service standards with a focus on quality of service, timeliness and responsiveness to client requests are a common theme in comments provided by agencies.

The Taxpayers' Charter from the ATO sets out measurable standards as well as quality expectations.

Centrelink's charter focuses on service commitments or standards that cover the quality of the relationship with its customers, measurable from two perspectives, namely the subjective view from the customer, but also through translating the commitments into internal service standards that are incorporated into the organisation's balanced scorecard.

The charter for DIMIA contains service standards specifying the department's commitment to high quality service from both an onshore and offshore perspective.

The Therapeutic Goods Administration's (TGA) service charter was developed in consultation with members of the Therapeutics Industry Consultative Committee comprising representatives of the peak organisations involved in therapeutics in Australia. The Charter is an important part of the relationship between the regulator (TGA) and the industry, representing agreement on service level standards which complement arrangements for cost recovery. There is systematic feedback

on performance and handling of complaints. The Charter is seen as part of the overall accountability measures for the timeliness of delivery services by the TGA.

IP Australia reports that their charter includes a mix of quantitative and qualitative standards, with some relating broadly to customer interaction, communication and expectation, while others are more specific relating to timeliness.

Service standards within the Child Support Agency (CSA) complement the key performance indicators in the organisation's business plan.

Of the 60 agencies advising that their charters incorporate, to some degree, performance indicators or service standards that are measurable, 51 (85%) reported that they actually measure and report against them. Common reporting media included agency annual reports, quarterly or other periodic management and/or client reporting, results of customer satisfaction surveys and, in some cases, periodic reporting using the balanced scorecard technique.

FaCS commented that refinement of the performance indicators and development of assessment measures will be undertaken during the review of the service charter in 2002.

The National Native Title Tribunal reports that the standards are currently under review and the ability for measurement is a requirement of the review.

In addition to surveys, the Australian Industrial Registry approaches core groups of clients on a regular basis for both simple and specific feedback on a broader scale.

A specific example from the AEC was to approach electors at four major polling places across Australia at the last Federal Election to seek feedback on various AEC sources of electoral information.

In response to the Agency Questionnaire 29% of agencies with a service charter identified customer surveys as one of the main strategies in place to gauge customer feedback and to assess performance standards. Other initiatives in place include comment/feedback forms, workshops and consultative forums, online access for providing feedback, toll free telephone numbers and contact details included in the service charter itself.

Customs has established specific consultative forums to consult and liase with key stakeholders.

As part of their initiatives, the National Archives of Australia, the Australian War Memorial and Screensound Australia have visitor's books or similar mechanisms available on site for people to record feedback on their experiences. Regular summary reports and highlights are conveyed to management.

> The Migration Review Tribunal is implementing a complaints handling procedure with a built in monitoring and reporting process and is constructed around the service standards contained in the Service Charter.
>
> The CSA conducts regular client satisfaction research through its professionalism survey, which measures four elements of client service dealing with the personal characteristics of staff; the professional characteristics of staff; how the client is treated by staff and the outcomes of interaction with staff.

Agency reporting in annual reports has typically commented on the rating of services from the perspective of quality, timeliness and usefulness, as well as outlining the number and nature of complaints received and the degree to which they had been resolved. Information has also been included in some annual reports on agreed performance targets and delivery times and the extent to which standards have been met in the reporting period.

Service Charter Awards for Excellence

Particular achievements in the development of service charters and service delivery were recognised in the *Service Charters—Awards for Excellence* (the Awards) presented in June 2002.

The Awards scheme has been operating since 1999. The objective of the Awards scheme is to recognise and encourage high standards of service provided to the Australian public by departments, agencies and their staff. The Awards in 2002 attracted 17 nominations from nine agencies. Five agencies were recognised in the 2002 Awards.

The CSA was recognised for achievements ranging from its comprehensive approach to business management, demonstrated by strong links between customer knowledge and business systems, advances in technology and client feedback and particular achievements in the delivery of services to rural, regional and remote Australians.

Comsuper demonstrated particular achievements through the use of external benchmarking and polling of customers and a strong commitment to equity. The Health Insurance Commission demonstrated a commitment to continuous improvement through regular customer research and feedback including formal stakeholder forums as well as demonstrating that charter objectives are linked closely into staff training strategies.

Other award winners included the AFP who demonstrated that value to the client was a key driver in setting priorities and clear evidence of initiatives to interact with the customer base and to obtain feedback. Passports Australia from DFAT were also acknowledged for the use of client satisfaction surveys and their outcomes being incorporated into changed processes to reflect client needs, as well as demonstrating favourable comparisons with international standards and benchmarking.

In conclusion, service charters have had a significant impact on service standards and on efficiency in many organisations, and research in the preparation of this year's report has indicated that agencies have embraced the role that charters play in contributing to continuous improvement in service delivery and customer relations. It is important, to emphasise, however, that charters are of limited benefit if they do not include service standards which are measurable and which are actually measured and reported against.

ON-LINE SERVICES

The Prime Minister, the Hon John Howard MP, released the *Investing for Growth* Industry Plan in December 1997. This set a target for Australian federal departments and agencies to have all appropriate services online (via the Internet) by December 2001. In February 2002 the Prime Minister announced that APS agencies had met this target. Assessments from international consultants and think tanks that specialise in the area consistently rate Australia as in the leading group of e-Government nations.[6]

The *Government Online* strategy, released in April 2000, provided guidance to federal agencies on meeting the 2001 commitment. A survey collected whole of government information about progress in placing information and services online.

At September 2001 there were 1665 federal government services online, with a further 602 projected to come online in the future. The vast majority of these are directed to clients external to government. Business/Industry and all Australians were the groups most often cited as beneficiaries of online services. The nature and level of sophistication of services is increasing. This is a key indicator of e-Government progress. In the survey agencies reported that 30% of current services have integrated and/or transactional capabilities and that future work on the development of integrated services will see this number increase to around 50%.

Citizens can lodge an individual tax return through the ATO's e-Tax service and businesses can apply for an Australian Business Number through the Business Entry Point website coordinated by the ITR with the support and active participation of all state and territory governments. Job Seekers can explore employment opportunities through the DEWR's Australian JobSearch website.

The achievement of the target associated with the *Government Online* strategy represented an important phase in moving towards more sophisticated online service delivery. The next phase, fully-fledged e-Government, aims to make government services more convenient and accessible for citizens and businesses. It also aims to create added efficiencies for government through business process improvement enabled by new technologies. An e-Government strategy is being developed by the National Office for the Information Economy (NOIE) to guide federal agencies in these endeavours and will be available in 2002.

COMPLAINTS FROM THE PUBLIC TO THE COMMONWEALTH OMBUDSMAN

The Commonwealth Ombudsman is in general an office of last resort in resolving complaints from the public about APS agencies. The Ombudsman exercises discretion not to investigate a complaint issue in most cases where the agency has an effective complaint and review mechanism. Improvements in agency mechanisms over time have seen the average rate of the exercise of this discretion rise from 58% in 1997–98, to around 67% in 2001–02.[7]

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[6] For example, Accenture (2002) *eGovernment Leadership: Realising the vision*; Accenture (2001) *eGovernment: Rhetoric vs reality*; Economist Intelligence Unit & Pyramid Research (2002) *Economist Intelligence Unit e-readiness rankings*; United Nations Division for Public Economics and Public Administration & The American Society for Public Administration (2002) *Benchmarking e-Government—a Global Perspective*.

[7] Commonwealth and Defence Force complaints (excludes Australian Federal Police complaints)

The continuing emphasis on mechanisms for handling customer feedback means that the larger agencies are generally able to handle simpler complaints more successfully. This has in turn led to an increase in the average level of complexity in the complaints investigated by the Ombudsman relating to the activities of APS agencies in 2001–02.

The total number of complaints received by the Commonwealth Ombudsman in 2001–02 fell by 12.6% compared with the previous year.[8] This year, an election year, was a relatively stable period for most agencies in the Commonwealth, with relatively fewer changes in the legislative framework for agencies with large client groups and thus reduced incidence of, or perception of, administrative error.

Complaints received about the Commonwealth agencies that comprise the APS totalled 16 250 in 2001–02. Over half of these (8854, a 13% decline compared with 2000–01), related to Centrelink, arising from its role in the delivery of a large number of Commonwealth programs to the Australian public. The 8847 Centrelink complaints finalised during the year involved 10 147 issues. In 7116 of these, the Ombudsman exercised discretion not to investigate, in most cases referring the complainant to Centrelink's internal complaint or review processes.

Legislative change to the family assistance system implemented in July 2000 led to many of the complaints about Centrelink, as some families with less stable income patterns found they were incurring inadvertent or unavoidable overpayments arising from the income estimate processes. Centrelink's administration of the breach penalties for some benefit categories also gave rise to complaints during the year.

Of the 2843 Centrelink issues investigated, the Ombudsman identified an arguable administrative defect in 792 issues. Remedies were achieved for 2194 of the issues raised.

Complaints about the ATO declined by 22%, reflecting the bedding down of the major changes to the taxation system over the past two to three years. Complaints about the ATO represent 16% of complaints about APS agencies.

Complaints about the CSA remain steady, with 2007 complaints received during the year, representing 12% of complaints about APS agencies. The CSA's implementation of a new computer system during the year gave rise to complaints involving migration of data, connections with Centrelink's information systems, and a general rise in delays in dealing with customer issues.

The widespread use of customer contact centres to respond to queries in large service delivery agencies, while having efficiency benefits, has also resulted in some loss of local identity and knowledge. For example, in the case of Centrelink any loss of knowledge about the location and operation of local offices can disadvantage some clients. Within the ATO, the concentration of tax advice expertise in certain states requires processes for contacting offices in different states to get the range of information required to respond to an inquiry or complaint.

The growing trend in APS agencies to handle complaints and inquiries more informally, orally and personally can be advantageous where such informality results in timely and personally tailored resolution of complaints. However, it can lead to customers becoming more confused, particularly in relation to already complex matters, with the complaint being exacerbated in a way that might have been avoided if agencies were more inclined to confirm oral information or explanation in writing. Where such matters are

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[8] Ibid.

subsequently raised with the Ombudsman, the investigation becomes more complex and is likely to take longer. This trend is noticeable in complaints about Centrelink, CSA, and the ATO.

DIMIA was another significant source of complaints with 1098 received by the Ombudsman during the year, representing a rise of over 10% over the past year. This level of complaint is attributable to a combination of factors, including a rise over recent years in the number of non-citizens entering Australia unlawfully and being detained, changes to legislation, processing arrangements and procedures, and heightened public interest in detention issues.

Against the general average of over 30% across all Commonwealth agencies,[9] the Ombudsman investigated 40% of complaint issues arising from complaints about DIMIA, concluding that there was arguable administrative defect in relation to 115 issues out of a total of 465 issues investigated. Ombudsman investigations arising from these complaints can involve serious matters indicative of systemic issues. In general the investigation of immigration and detention complaints involves the Ombudsman in higher-level contact with agency officials than for most other agencies.

The Ombudsman conducted an own motion investigation into reporting of 'incidents' in detention centres, concluding that there was a need to develop mandatory standards for such reports, quality control and tracking, and the implementation of a database to facilitate systemic analysis. In particular, there should be better linkage of complaints handling and incident reporting. Over the coming year the Ombudsman will review progress towards a more accountable framework within detention centres.

Other own motion investigations and reviews of the complaints handling mechanisms of several agencies and systems were undertaken in the ATO and DEWR, including Job Network provider complaints mechanisms.

The number of systemic issues investigated increased again in 2001–02. The issues were spread across 16 Commonwealth agencies and covered a diverse range of matters. The issues investigated included claims of unreasonable use of information gathering powers; unreasonable debt recovery policies and practices; inadequate reasons for decision; failure to keep adequate records of advice given; delays in handling Freedom of Information applications; reconsideration of decisions which are flawed by errors in fact or in law; poor co-ordination when more than one agency is involved; lost correspondence; violation of privacy requirements; errors in computer systems; errors and delays in processing applications for visas; and ambiguous information in pamphlets.

RELATIONS IN THE WORKPLACE

The APS Values and Code of Conduct shape the relationships between APS employees in the workplace. The Values protect merit employment, diversity and co-operative and consultative workplace relations. The Values also state that the APS provides 'a fair, flexible, safe and rewarding workplace'. Chapter 4 deals with employment issues in the APS. In relation to merit employment it examines agencies' use of orders of merit in recruitment decisions and the extent of community access to APS vacancies. Developments in wages and conditions in the APS are also reviewed in Chapter 4 as are some OH&S issues. Information is also presented on how agencies are promoting an understanding of the APS Values and Code of Conduct to non-ongoing employees and staff employed from labour hire firms.

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[9] Ibid.

The APS Values also focus on managing the performance both of individual employees and agencies' generally. Chapter 5 deals with performance management issues. In that chapter the 2001 MAC report on performance management in the APS provides a framework for the analysis of information from the Agency Questionnaire.

PERSONAL BEHAVIOUR

The APS Values state that the APS has the highest ethical standards and the Code of Conduct provides more detail on the standards of personal behaviour expected of public servants in the APS.

APPROPRIATE USE OF EMAIL AND THE INTERNET

While misuse of email and Internet facilities is not a significant issue for most small agencies, it is significant for some large departments, such as Defence and the ATO.

Within Defence, almost 3000 civilian and military users had their Internet access suspended for inappropriate Internet activity in 2001–02. This represents four per cent of the more than 75 000 users on the Defence system. Defence has formal policy instructions regarding the use of email and the Internet that have been recently reviewed and widely promulgated through the Department's Intranet. Internet and email usage are topics covered in fraud and ethics awareness presentations, which are provided for inductions, orientation sessions and formal training days.

The ATO identified, and took action to deal with, 200 cases of misuse during 2001–02, relating to incidents that were identified during 2000–01. Desktop access to the Internet in the ATO is limited to around 2000 of its employees, and while there were some cases of Internet misuse, the majority of cases involved misuse of email facilities.

Just over a third of agencies (37%), including 11 large departments, reported taking action during the reporting period to address the issue.

A number of agencies have introduced, or are looking to introduce, some form of filtering software that blocks receipt of certain types of graphics and executable files or prevents access to particular Internet sites.

Most agencies (87%) use their Intranet systems to promulgate policies about appropriate usage. A number of agencies, for example, Defence, ATO, DEWR and Environment Australia, use 'splash screens' or messages when employees first log on to the system to remind them of their responsibilities. In AFFA, if an employee attempts to access an Internet site that has been blocked, a message displaying the Code of Conduct appears. The ANAO's policy is located on all computer terminals as a screen saver and is automatically activated at start-up.

The Office of the Privacy Commissioner requires new employees to complete an agreement to abide by the agency's policy on use of email and Internet facilities. New employees are briefed in detail on the policy. Employees cannot log on to the system without agreeing to comply with the policy.

Although most small agencies did not identify misuse of email and the Internet as a significant issue, it is an important one for large departments, and the potential for damage to any agency's reputation that can result when cases of misuse do occur means that all agencies need to take a strong educative and preventive stance on this issue, ensuring that their policies are widely understood and adhered to.

CONFLICT OF INTEREST

Public confidence in the integrity of the APS is vital to the proper operation of government. Where the community perceives a conflict of interest that confidence is jeopardised. Agencies and individual employees need to be aware that employees' private interests, both financial and personal, could conflict at times with their official duties.

Changes to the nature of public sector employment, such as people moving in and out of the APS rather than making it a career for life, and the widespread use of outsourcing arrangements, have made conflict of interest issues in relation to post-separation employment a growing issue for many agencies. While such mobility is generally healthy there are some areas of caution where APS employees are leaving to take up employment in fields that are closely aligned to their responsibilities in an agency.

In the context of the trend to outsource various services in the APS, the Agency Questionnaire asked whether agencies restrict successful tenderers from employing people who were key decisions makers in the tendering process. Just under half of all agencies reported having such a restriction. This issue is discussed in more detail in Chapter 7, which deals with developments in outsourcing services in the APS. It seems likely that fewer agencies actively regulate post-separation employment outside of the outsourcing situation.

Agencies should have in place guidance on the issue of avoiding conflict of interest in post-separation employment that makes it possible for all parties (the agency, the transferring employee and the new employer) to demonstrate that ethical considerations have been explicitly considered. Next year's report will explore further the measures used by agencies to avoid conflicts of interest in this area and more generally.

REVIEWS OF BREACHES OF THE CODE OF CONDUCT

The Agency Questionnaire did not ask for information on the number of breaches of the Code of Conduct alleged or investigated in agencies in 2001–02. However, information is available on the applications for review of decisions relating to the Code of Conduct made to the Merit Protection Commissioner. An APS employee who is seeking review of a decision that they have breached the Code of Conduct and/or the sanction imposed for a breach (misconduct matters) must apply directly to the Merit Protection Commissioner.

Table 3.2 indicates the number of misconduct matters that have been received and reviewed by the Merit Protection Commissioner. The 43 cases received during 2001–02 has been the largest number of applications received for five years.

It also appears that since the 1999 PS Act the number of applicants who have withdrawn applications concerning misconduct matters continues to be fewer than had been the experience under the former *Public Service Act 1922*. The reason for this may relate to the less formal approach taken in relation to misconduct reviews under the 1999 PS Act.

Table 3.2 Reviews related to breaches of the Code of Conduct

	1997–98	1998–99	1999–00	2000–01	2001–02
No. received	39	28	36	34	44
No. reviewed	25	20	19	33	26

Note: The data for 2001–02 includes one disciplinary matter dealt with under the former *Merit Protection (Australian Government Employees) Act 1984* (Merit Protection Act). The data for other years also includes a number of applications dealt with under the former Act.

The Merit Protection Commissioner made a formal recommendation to an Agency Head in relation to 25 applications in 2001–02. In 16 of these cases, the decision of the Agency Head was confirmed. In three other cases, the Merit Protection Commissioner recommended that the Agency Head set aside the decision that a breach had occurred and recommended in a further six cases that either the sanction or the breach, or both, be varied.

While definite comments are difficult to make due to the small numbers of applications, it appears that agencies managed the process in relation to breaches of the Code of Conduct more effectively during 2001–02. Agencies that have gained more experience in dealing with cases under the PS Act are now more confident in determining appropriate approaches and outcomes in these matters. In the case of one agency, for example, where the Merit Protection Commissioner has made recommendations to the Agency Head in relation to a number of applications, there has been a marked decrease in the numbers of cases where the Merit Protection Commissioner has found it necessary to recommend either varying or setting aside the agency decision in 2002–01 compared to 2000–01.

In relation to the applications received, the reasons for Agency Heads determining that a breach of the Code of Conduct had occurred in 2001–02 included the misuse of e-mail, other misuse of departmental resources or official role, unacceptable behaviour and language towards members of the public and colleagues, unsatisfactory work performance, unauthorised access to records, unsatisfactory attendance and time keeping and unauthorised absence from duty. There was a reduced number of applications in relation to misuse of e-mail compared to previous years. This may reflect that many agencies now have widely promulgated policies in relation to the use of e-mail in the workplace.

One matter also came before the Public Service Commissioner during 2001–02 under s. 41(1)(f) of the PS Act, where a former employee alleged a breach of the Code of Conduct by an Agency Head. The Commissioner enquired into the matter and determined that there was no substance to the complaint.

WHISTLEBLOWING

The PS Act and the Public Service Regulations provide for a scheme for the reporting of alleged breaches of the APS Code of Conduct (whistleblowing reports). The scheme also protects APS employees who report breaches of the Code of Conduct from victimisation and discrimination. Reports under the scheme may be lodged with the relevant Agency Head, the Public Service Commissioner or the Merit Protection Commissioner.

While it is generally envisaged that disclosures would normally be made to, and investigated within, the agency concerned, in certain specified circumstances an employee may make a disclosure directly to the Public Service Commissioner or the Merit Protection Commissioner. In addition, where a whistleblower is not satisfied with the findings of an agency-based investigation, he or she has the option of then taking the matter further, to either the Public Service Commissioner or the Merit Protection Commissioner.

During 2001–02, 12 reports were lodged with the Public Service Commissioner. Issues raised included alleged interference in a tendering and contracting exercise, improper use of legislative powers, inappropriate use of code of conduct provisions, breaches of Privacy Principles, inappropriate conduct in a permanent residency matter and not making certain information available to the public.

Three of these 12 disclosures met the criteria for investigation by the Public Service Commissioner. The remaining nine disclosures did not. The three disclosures represent an increase in comparison to previous years, with only one disclosure during 1998–99 concerning an alleged harassment case, investigated by the Public Service Commissioner. During 1999–00 and 2000–01, of the five and six reports, respectively, lodged directly with the Public Service Commissioner, none had met the criteria for investigation.

Of the three disclosures that did meet the criteria for investigation by the Public Service Commissioner in 2001–02, the first disclosure, relating to not making certain information available to the public, was investigated and it was concluded that the matters raised related to a policy or process decision within an agency, as opposed to the conduct of any specific employee. The second and third disclosures, one relating to alleged interference in a tendering and contracting exercise and the other relating to breaches of the Privacy Principles, are currently being investigated by the Public Service Commissioner.

Two whistleblowing reports, one from an APS employee and one from a former APS employee were considered by the Merit Protection Commissioner during 2001–02. One case was referred to the relevant Agency Head for investigation, and the Merit Protection Commissioner did not accept the other report. Issues raised included mismanagement, probity in selection and recruitment, and inappropriate use of public monies. The Merit Protection Commissioner had not accepted any whistleblower reports during 2000–01 or 1999–00.

The Agency Questionnaire asked several questions relating to whistleblowing activity. Public Service Regulation 2.4 requires Agency Heads to establish procedures for dealing with whistleblowing reports. Responses to the Agency Questionnaire indicate that more than 20% of agencies have yet to put in place such procedures.

Noting that Defence and ATO were not able to provide detailed statistical information about the number of reports made, other agencies indicated that a total of 51 reports were made under the whistleblowing provisions, 61% of which were made within large agencies. The largest number of reports received in a single agency was 13 in DIMIA.

With the exception of s.13(6) of the PS Act, requiring appropriate confidentiality of dealings with Ministers or their staff, breaches of every element of the Code of Conduct were alleged. Indications are that the majority of reports made under the provisions concern inappropriate conduct of individuals rather than systemic corruption or mismanagement. In a small number of cases the conduct reported on was found, following an investigation, to be serious enough to warrant dismissal.

Agencies reported a total of four cases in which employees who had made whistleblowing reports complained of victimisation or discrimination as a result. In two cases the person complained of harassment, in one the person complained about the way their work performance was assessed after making the report and in one case the person applied for a move out of the work area after telling the subject of the complaint that they had made a report. The Agency Questionnaire did not ask about the outcome of the complaints.

While the number of reports made under the whistleblowing provisions is not large, a scheme that encourages the reporting of mismanagement and corruption in the APS, and provides protection for those who make reports, is a fundamental part of the accountability framework. Those agencies that do not have procedures in place should ensure that they do so as soon as possible. This issue will be followed up in future reports.

SENATE INQUIRY INTO THE PUBLIC INTEREST DISCLOSURE BILL

On 27 June 2001, Senator Murray introduced a Private Member's Bill, the Public Interest Disclosure Bill 2001, proposing a scheme for the protection of whistleblowers in the public sector. On 8 August 2001 the Senate referred the Bill to the Finance and Public Administration Legislation Committee for inquiry and report by 18 April 2002. The reference was readopted on 21 March 2002 with a new reporting date of 27 June 2002. A public hearing into the inquiry was held on 16 May 2002, which the Public Service Commissioner and the Acting Merit Protection Commissioner attended as part of a Roundtable.

The Committee released its report in September 2002.

SOME OBSERVATIONS

In the current environment, in which Agency Heads exercise devolved employment powers, and managers throughout the service are called on to make decisions with significant implications for their agencies, it is essential that APS employees understand the Values and conduct requirements that shape the culture of the APS, and on which their behaviour and decisions should be based. The Values embody a common culture for the APS, notwithstanding the wide range of businesses across agencies.

Agencies have taken some positive steps to incorporate the Values and Code into workplace cultures, particularly in relation to informing new employees about their responsibilities. It is also encouraging that almost three quarters of agencies include some assessment of behaviours and adherence to the Values in their performance assessment procedures.

There is still work to be done particularly with refreshing the awareness of the Values of those who have been in the APS for some time. Building a workplace culture that is founded on high ethical standards is not a task that can be accomplished by a one-off effort. It is a continuing process, and one that cannot succeed unless active and ongoing measures are taken to embed them in agency cultures. It is of concern that 40% of agencies in 2001–02 provided no training to staff on the Values or Code of Conduct and that only 27% provided mandatory training.

How effectively agencies promote the Values and Code of Conduct is an issue that will continue to be addressed in future reports.

In relation to agencies' role in informing their SES of their parliamentary accountability rights and responsibilities it appears that more could be done, particularly in regard to requiring new entrants to the SES to attend in-depth training in this area. Agencies might also usefully provide guidance to their staff on interactions with ministerial offices to assist in ensuring adequate record keeping and to assist in achieving high quality advice that meets the requirement of responsiveness and apolitical professionalism.

Service charters and a greater provision of services to the public online have had a significant impact on service standards in the APS over recent years and have the potential for further improvements in service delivery in 2002–03. The fall in the number of complaints received from the public by the Ombudsman in 2001–02 is an encouraging development despite being partly as a result of the bedding down of changes to the tax and income support systems.

This chapter examines several aspects of the employment framework in the APS. An analysis of agencies' use of non-ongoing employment and labour hire employees is included based on the information provided by agencies in the Agency Questionnaire and from data from the APS Employment Database (APSED). Information is also presented on how agencies are promoting an understanding of the APS Values and Code of Conduct in these categories of employees.

In relation to the merit principle, agencies' use of orders of merit is analysed, as is the extent of community access to APS vacancies. Information on the reviews of promotion decisions by the Merit Protection Commissioner is also presented. Developments in wages and conditions in the APS are reviewed and the issues raised by these developments are discussed. OH&S issues in APS workplaces are considered as is the issue of how smoothly the machinery of government changes occurred following the November 2001 election.

CATEGORIES OF EMPLOYMENT

Within the legislative framework of the *Public Service Act 1999* (PS Act), the Regulations and the Public Service Commissioner's Directions, an Agency Head must:

- make appropriate use of the employment categories prescribed in the legislation

- ensure employment decisions are based on merit, that selection processes are fair and transparent and that there is reasonable access by the community to APS employment opportunities.

The PS Act specifies three categories of employment and requires that all engagements must be:

- as an ongoing employee

- for a specified term or for the duration of a specified task

- for duties that are irregular or intermittent.

While the PS Act states that the usual basis of engagement is as an ongoing employee, an Agency Head has the power to determine the category of employment and whether there are means of achieving outcomes other than employment under the PS Act.

The Regulations set out the circumstances in which specified term and specified task engagements can be made. For non SES employees, the Regulations place restrictions on the duration of a specified term engagement (up to 18 months for the initial engagement with a maximum total term of three years) and require that for a specified task that the length of the task must be capable of estimation at the time of engagement and that the services of the person are unlikely to be required on completion of the task. In relation to an engagement for a specified term as an SES employee, the Regulations stipulate that such an engagement cannot exceed a total of five years.

During the development of the PS Act, there were concerns raised in the Parliamentary debates that the more flexible provisions compared to those covering temporary employment in (PS Act 1922), would lead to a 'casualisation' of the workforce and an increase in use of labour hire firms. As the PS Act has now been in operation for a couple of years, this chapter examines the use of the current employment framework and the extent of employment outside of the PS Act.

The agency questionnaire asked:

- whether agencies used non-ongoing employment under the PS Act or persons not employed under the PS Act

- the extent to which agencies could estimate what significant changes have occurred in the use of different employment categories

- the type of work on which these people are employed

- the duration of employment and the reasons for using different types of employment.

Agencies were also asked if they were satisfied with the flexibilities of the categories of employment in the employment framework and to identify any problems experienced and any provisions requiring amendment.

USE OF DIFFERENT EMPLOYMENT CATEGORIES IN THE APS

Almost all agencies make use of the non-ongoing employment provisions under the PS Act and of persons not engaged under the PS Act. Specified term employment is widely used (98% of all agencies), with labour hire firms a close second (90%). Specified task and irregular or intermittent employment are used by just over half of all agencies (58% and 55% respectively). A quarter of agencies make use of employment under other Acts of parliament. Other forms of employment identified were consultants, contractors, public office holders, locally engaged staff, secondments and work experience students.

There is a large variation in the information agencies can provide on numbers of people in the different categories.

Non-ongoing employees

APSED indicates that there is a wide variation between agencies in the employment of non-ongoing staff, reflecting their different functional requirements. For example, at 30 June 2002, the non-ongoing proportion varied from 42% in the Australian Institute of Aboriginal and Torres Strait Islander Studies, to one per cent in the ANAO. In response to the Agency Questionnaire, most agencies are able to identify the number of non-ongoing employees but many noted that they are unable to differentiate between the different categories of non-ongoing employees. This is surprising given that agencies are required to provide such a breakdown to APSED. This discrepancy appears to reflect both on the accuracy of the data provided to APSED and on the accuracy of agency questionnaire responses. Discrepancies between APSED's records and agency responses will be followed up with agencies.

The main factors reported by agencies as preventing determination of numbers for non-ongoing employment are the limitations of existing statistical systems and existing internal reporting requirements as the agency has not needed to distinguish the different types of non-ongoing employment (despite, as noted above, reporting requirements to APSED and the desirability of having such information for workforce planning purposes).

Almost three quarters of agencies reported no significant changes in the use of the differing employment categories since the introduction of the PS Act. The change identified by six large, three medium and 12 small agencies was predominantly an increase in non-ongoing staff. This increase in non-ongoing employment was attributed to overall growth in agency staffing or workloads, introduction of new initiatives, or the application of policies to decrease the use of labour hires.

APSED data indicates that the proportion of non-ongoing employees in total APS employment increased to 9.2% at the end of 2001–02, compared to 8.9% at the end of the previous year. This upward movement still leaves the proportion of non-ongoing employment lower than the average of just under 10% in the past four years and well below the 13.7% of total employment recorded in 1992–93.

Breaking down non-ongoing employment into its three component parts indicates that specified term employees comprise the vast majority of non-ongoing employment (86%), followed by irregular or intermittent employees (12%) and specified task employees (two percent). The increase in non-ongoing employees has been concentrated in specified term employees and, to a lesser extent, irregular/intermittent employees. The median length of service of non-ongoing staff separating during 2001–02 was six months, with larger agencies tending to engage non-ongoing staff for shorter periods than smaller agencies.

Agencies were asked to indicate the reasons for their use of non-ongoing employment. The five most frequently cited reasons (agencies could nominate more than one) were:

• temporary increase in workload (92.4%)

• replacing ongoing employees on a temporary basis (83.7%)

• while awaiting filling of ongoing vacancies (72.8%)

• one-off projects or tasks (70.7%)

• need for specific skills (64.1%).

It is difficult to categorise the nature of work undertaken by non-ongoing employees as the nature of the duties undertaken by such employees varies widely across the 92 agencies surveyed. Specified task employment is most commonly used where the work involved is of a more specialised nature.

Figure 4.1 Non-ongoing as a proportion of total employment June 2002
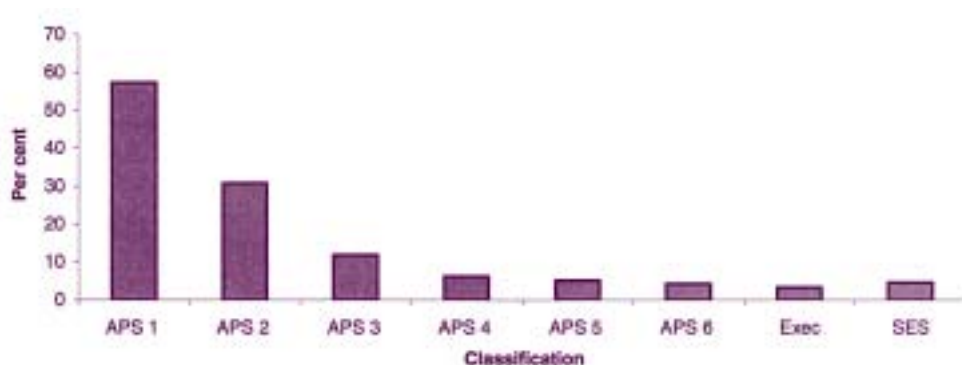
Figure 4.1, based on data from APSED, illustrates that non-ongoing employees are engaged at all classification levels (EL) but are predominately employed at the APS 1 and APS 2 levels. At the APS 1 level non-ongoing employment represents more than half of total employment (57%) falling to 31% at the APS 2 level and reaching its lowest level in the Executive Level (EL) classifications (3.3%). Chapter 2 which provides a statistical snapshot of the APS provides more data from APSED on non-ongoing employment.

Use of labour hires

Only half of agencies were able to determine numbers of staff from labour hire firms at a specific point in time in May or June 2002. Of the large agencies, only six (31%) were able to provide the number of labour hirees with any confidence and one of these reported no labour hire staff at the time of the survey. The other five agencies employed around 760 labour hire employees and three of these agencies noted that there had been no significant change in the number of labour hirees over the last two years. The ATO used the most labour hirees (337), and noted that there had been a fall in the number of labour hire staff. The only agency AFFA, indicating that there had been an increase in the use of labour hirees (196) in June 2002 reported general increases in most types of staffing as a result of an expansion of functions, particularly in the quarantine area. Around 75% of medium and small agencies were able to report on the numbers of labour hirees employed at a specific point in time in May or June 2002, which totalled around 300 in both agency groupings.

Where agencies were unable to identify the number of labour hirees, the main reason cited by 38% of agencies was that payments were often made out of administrative budgets by line managers with records not being kept on the payroll system.

Staff from labour hire firms are mostly utilised in administrative, technical and service support areas e.g. executive assistants, clerical/keyboard, information technology support and design. Fifty-five per cent of persons from labour hire firms are employed at the APS 1–4 classifications. The average length of employment for labour hirees was 10.9 months.

Agencies identified a number of reasons for choosing staffing by labour hire firms rather than employing persons under the PS Act. Labour hire staff are seen to offer greater flexibility in that they had specific skills

(including security clearances), could be brought in quickly to cover key roles on a temporary basis and the administration, including termination, is easier. While there is no longer a separation of general administrative funds from salary funds within an agency's budget, a number of agencies suggested there was a benefit in reducing demand on salary budgets by funding this cost from their general administration funds. A number of agencies also noted that some specialists prefer to work through labour hire firms rather than be engaged as non-ongoing employees.

Given the limitations of the data provided by agencies, the information gives only a general picture of what is happening across the APS in relation to the employment of staff from labour hire firms. There is no evidence to indicate any systematic 'casualisation' of the workplace following the introduction of the PS Act, though the lack of capacity to confirm this and the lack of, or unreliability of, statistics in the larger agencies particularly is of some concern. It would be advisable if agencies considered implementing systems that would allow the tracking or, at least, estimation of numbers of labour hirees and other non-PS Act engagements. This would also enable them to more accurately assess their workforce numbers and costs for workforce planning and other HR planning purposes. This issue will continue to be monitored in future reports.

ENSURING APPLICATION OF THE VALUES AND CODE OF CONDUCT

The APS Commission is concerned that non-ongoing employees are aware of the obligations that flow from employment in the public sector and to ensure their behaviour accords with the APS Values and the Code of Conduct and that similar standards are also understood by staff from labour hire firms.

Agencies were asked how the agency had promoted an understanding of the APS Values and Code of Conduct to non-ongoing staff and staff from labour hire firms. Most agencies (93%) indicated that they had policies in place or were introducing policies to ensure that non-ongoing employees were aware of the APS Values and the Code of Conduct. Thirty-seven per cent of agencies specifically mentioned policies that covered labour hire staff.

Agencies reported using one or a combination of methods to educate these staff including ready access to information on the APS Values and Code (hard copy or electronic) for all staff (27% of agencies), induction and training programs (60%) and incorporation of requirements into the selection and engagement process, for example, in letters of engagement or contracts (39%). Where agencies had no specific policies for labour hire staff given the short time frames or the duties involved, there was reliance on close supervision by managers.

The above information suggests that agencies should consider greater use of the incorporation of the APS Values and Code of Conduct in the letters of engagement or contracts of labour hire staff and other forms of non-PS Act employment. In addition, the 40% of agencies that do not include induction or other training programs for such staff should also consider adopting this active measure, where appropriate, for example where staff are engaged for longer periods.

AGENCY VIEWS ON THE CATEGORIES OF EMPLOYMENT

Agencies in general, consider that there are sufficient flexibilities within the practical application of the non-ongoing employment provisions to meet their needs (88%) and that the current employment framework is practical in terms of meeting operating requirements (92%).

The difficulties identified by agencies with the non-ongoing employment provisions focused mainly on what they saw as the prescriptive timeframes and advertising requirements imposed on non-ongoing employment through the employment framework. A number of agencies criticised the 18-month restriction on the length of an initial specified task engagement and the three-year maximum for term employment. They felt that the timeframe was affecting the recruitment of suitable non-ongoing staff.

Agencies also noted that the advertising requirements for engagements over 12 months and, in particular, the requirement to notify an extension of an engagement that might extend a few weeks beyond 12 months created extra administration and costs if the initial timeframe was uncertain or the known field of potential applicants was very small. It was also suggested that clearer guidance was needed on specific issues such as performance management, early termination, irregular or intermittent employment and current case law issues. Other comments included a criticism of the terminology, which is seen as clumsy, and the need to simplify and consolidate information for line managers.

While it may be possible to address some of these difficulties, the merit principle places limits on what can be changed. The APS Commission is planning to provide more advice on better practice in this area, and is considering options for further flexibility consistent with the merit principle, which will assist in addressing some of these issues.

MERIT–BASED EMPLOYMENT

Merit-based employment is one of the core APS Values. Last year's report focused on selection processes and alternative methods of selection. This year agencies were asked about the use of existing orders of merit to promote or engage applicants to similar employment opportunities.

ORDERS OF MERIT

The Commissioner's Direction on merit allows an agency to choose to use an existing order of merit to fill a 'similar employment opportunity' for 12 months from the date of the Gazette notification of the original employment opportunity. This provides agencies with flexibility to reduce the number of selection exercises needed to fill employment opportunities quickly while the time limit ensures that the field is current.

Agencies were asked whether they used the flexibilities of existing orders of merit and in what circumstances; how they defined similar employment opportunities; to identify any difficulties and to provide comments on any impediments in the use of existing orders of merit. Agencies were also given the opportunity to comment on general issues in regard to merit-based employment and to identify any additional services or information that could be provided by the APS Commission to assist agencies to comply with the legal framework.

About 87% of agencies (including all large and medium agencies) reported using existing orders of merit to fill recurring or similar employment opportunities. However, only 42% of agencies indicated that they have a formal policy in place. Those with formal policies usually incorporate them into recruitment guidelines or selection policies. Of those agencies without a formal policy, about 30% advised that they either used APS Commission guidelines, provided advice as part of the selection process, were in the process of reviewing or developing policies or had only limited recruitment.

The Commissioner's Directions do not define the term 'similar'. Agencies use a range of interpretations; some are more flexible (where an agency decides that a similar field of applicants would be attracted) whereas others are more conservative (e.g. the opportunity is identical or has 80% similarity of job description or criteria). Within this wide range, there are many common elements. 'Similar' is generally expressed in terms of a need for the same classification or level, the same or very similar duties, identical or similar selection criteria, and a requirement for similar skills or attributes.

On the information received, these interpretations by agencies are consistent with the APS Values of merit-based employment decisions and reasonable community access to APS employment.

There is no particular pattern in relation to classifications where orders of merit are used with 54% of agencies either nominating use with all classifications or stating that they were used too sparingly to comment. Of the 80% of agencies who used existing orders of merit frequently enough to comment, 89% were more inclined to use existing orders of merit if the similar opportunity became available earlier rather than later in the 12-month period when they are valid. Information gathered from agencies and APS staff through the APS Commission's helpline indicates that many agencies are unaware that a later selection from the order of merit continues to be subject to review by a Promotion Review Committee.

About 90% of agencies were generally satisfied with the legal framework used to fill similar employment opportunities from an existing order of merit. Comments provided generally related to 'the need for more guidance on the interpretation of 'similar' employment opportunities' and suggestions that the 12 month time limit be more flexible in certain circumstances (such as when filling an employment opportunity where there is uncertainty as to its ongoing status).

The APS Commission is producing specific guidance on the employment framework and is developing good practice advice on recruitment and selection. The evidence from the responses to the Agency Questionnaire suggests that agencies are careful in their use of existing orders of merit, and there is little risk to the merit principle in the flexibility now provided by the Public Service Commissioner.

GENERAL CONCERNS ABOUT THE MERIT FRAMEWORK

Thirteen per cent of agencies have indicated that there are aspects of general merit-based decision making processes that are a cause of concern. Most of these issues are being addressed by agencies internally, for example, by increasing training for selection advisory committees; using the services of Independent Selection Advisory Committees (ISACs) and the revision of recruitment and selection guidelines.

There were two issues identified by agencies that warrant further broader consideration. These were: the potential conflict between the cost of assessing candidates and the application of merit in agencies involved in overseas recruitment or operating in a commercial environment; and the application of the merit Value to non-ongoing employment decisions. In relation to this second issue, agencies may not appreciate that they do not have to apply the same extensive selection processes that they must apply to ongoing selection. The APS Commission is seeking to clarify the application of the merit Value to the different categories of employment in future publications. The importance of the merit principle, however, limits the scope for major change.

A further and related issue arose in late 2001 in Defence when delays in market-testing led to a number of non-ongoing staff being required to continue in employment. The implications of an Australian Industrial Relations Commission decision to allow them to do so as ongoing employees are still being considered by the APS Commission.

COMMUNITY ACCESS TO APS EMPLOYMENT OPPORTUNITIES

Since 1998, the APS Commission has undertaken a small annual survey of the selection outcomes of ongoing employment opportunities notified in a February Gazette. This study was repeated again in 2002, using the Gazette of 21 February 2002.

Since the introduction of open access policies in 1998, there has been a requirement to provide reasonable community access. The percentage of ongoing employment opportunities notified in the Gazette of 21 February 2002 as open to the public has remained at the high level of over 99.5% despite a small decrease in the total number of opportunities (691 in 2002 compared to 725 in 2001).

Information on the outcome of the selection process was available on all of these employment opportunities. Based on this information, five per cent were not finalised or action had ceased (down from eight per cent in 2001 and 13% in 2000). Of the rest, 32% of opportunities were filled on an ongoing basis by applicants external to the APS. This is significantly lower than the 43% external filling rate in 2001 but slightly higher than the 20–30% range of the previous three years. This apparent fall may be misleading. One agency accounted for around 38% of all employment opportunities of which external applicants filled only one per cent. If this agency is excluded from the analysis, then the external filling rate in 2002 is 49%.

Further analysis of the classification levels of the employment opportunities shows that only 63% (down from 78% in 2001) of all engagements were to classifications in the APS 1–4 levels, which are the main entry points for APS employment, demonstrating the increasing trend towards lateral recruitment to the APS.

As the study is based on only one Gazette a year, it is difficult to determine overall trends. It would appear nonetheless that there might be an underlying trend of external applicants being selected on merit but that this can be obscured by one-off large-scale recruitment exercises in the Gazette period.

PROVISION OF FEEDBACK IN SELECTION EXERCISES

Each APS agency has the responsibility to develop policies covering the release of selection information to applicants. While there is no legislative requirement to release selection documentation, good management practice would suggest that applicants be given appropriate feedback on their claims to enable them to identify strengths and development needs and for agencies to be seen to be openly accountable for their employment decisions.

The Commission is aware of one instance where contracted entry-level recruitment processes by Customs initially resulted in a lack of feedback to an applicant who was not selected as a trainee.

Customs advises that it receives very large numbers of entry-level applications and it:

- continues to provide detailed feedback to all applicants who are interviewed by Customs after having been through rigorous psychological testing and assessment centre processes

- continues to provide feedback to applicants who go through the psychological testing and assessment centre processes but are not selected for interview

- provides basic feedback to applicants who are not selected for further consideration on the basis of their application. In the above instance, Customs negotiated a fixed fee for a set amount of feedback to be provided by the service provider to all such applicants who seek feedback.

REVIEW OF PROMOTION DECISIONS

The APS Values state that the 'APS provides a fair system of review of decisions taken in respect of APS employees'. An important area of review to protect merit employment is the review activity of the Merit Protection Commissioner of promotion decisions in agencies. APS employees can apply directly to the Merit Protection Commissioner for review of promotion decisions relating to employment opportunities up to the APS 6 classification. An independent three person Promotion Review Committee (PRC) is appointed by the Merit Protection Commissioner. A recommendation by a PRC concerning a review of a promotion decision is binding on an Agency Head.

Table 4.1 indicates the numbers of PRCs that have considered applications for promotion review over the last five financial years. The number of PRCs does not indicate the numbers of promotions considered in each case, or the number of applicants in each case.

The number of PRCs in each year has been declining for a number of years, by a rate of around 25% each year since 1996–97.

Table 4.1 Committees established to review promotion decisions

	1997–98(a)	1998–99(a)	1999–00 (a)	2000–01	2001–02
No. of committees	258	213	165 (b)	142	76

(a) These figures include a small number of committees established to consider temporary performance selections.
(b) These figures represent the total number of cases under the PS Act 1922, PECTA Regulations and PS Act 1999.

Table 4.2 indicates the total number of promotion decisions considered by PRCs (or Promotion Appeal Committees under the former legislation), and the number and percentage of promotion decisions that have been overturned during the last five years.

The number of promotion decisions against which APS employees have lodged applications for review has steadily declined since 1999–00, and while proportionally the number of decisions overturned in 2001–02 compared to 2000–01 and 1999–00 has increased this is not necessarily evidence that agencies were less effective in managing promotion exercises. The number of applications for review is small, and of these, the numbers of promotion decisions that the PRC recommended be overturned are also small.

Table 4.2 Promotion decisions reviewed and overturned 1997–98 to 2001–02

	1997–98(a)	1998–99(a)	1999–00(b)	2000–01	2001–02
No. of promotion decisions reviewed	NA	NA	1047	717	277
No. of decisions overturned	NA	NA	29	26	15
% of decisions overturned	8.6	8.8	2.8	3.6	5.4

(a) May include a small number of temporary performance selection decisions.
(b) In 1999–2000 485 promotion decisions were considered by PRCs. 13 or 2.7% of these promotion decisions were not upheld. In addition, a number of promotions and temporary performance selections were also considered by PACs, established under the Merit Protection Act or the transitional regulations under the PECTA Act. PACs established under the Merit Protection Act considered 233 promotions, overturning the decision in 10 or 4.3% of cases (no temporary performance selections were considered in this period). PACs established under the PECTA regulations considered 329 promotions, overturning the decision in six or 1.8% of cases.

The level of activity in relation to reviews of promotion decisions, including the number of PRCs and the numbers of APS employees applying for review of promotion decisions, has been steadily decreasing for some years and is also decreasing relative to the number of promotions. The reasons for this continuing trend, and for a substantial decrease in the levels of activity during 2001–02 have not been established. The trend may reflect in part the increased use of broadbanding of classification levels by agencies, as well as the increasing maturity of agency selection and review processes, as well as the increased use of ISACs in some agencies.

INDEPENDENT SELECTION ADVISORY COMMITTEES

ISACs may be established by the Merit Protection Commissioner at the request of an Agency Head to make recommendations to agencies about the suitability of candidates for engagement, promotion or assignment of duties in connection with employment of APS 1–6 classifications. A promotion decision made on the recommendation of an ISAC is not subject to review by a PRC.

Table 4.3 Independent Selection Advisory Committees 1997–98 to 2001–02

	1997–98(a)	1998–99(a)	1999–00(a)	2000–01	2001–02
No. of ISACs/JSCs	42	43	30	125	43
No. of candidates assessed	1746	1337	1325	4116	1720
No. of candidates recommended	571	253	328	1169	320

(a) Includes Joint Selection Committees established under PS Act 1922

The number of vacancies for which candidates are recommended by an ISAC can vary considerably and reflects an agency's particular recruitment strategies. For example, during 2001–02 DFAT used two ISACs to recommend 112 candidates to fill vacancies, whereas Defence used 30 ISACs to recommend 56 candidates for vacancies.

The number of candidates assessed by ISACs during 2001–02 appears to have decreased in comparison with a large number of applicants assessed by ISACs during 2000–01. This, however, is more a reflection of recruitment patterns of agencies that did not allow for the finalisation of a number of ISACs that had commenced during 2001–02.

There are a number of agencies that predominantly fill positions at the APS 1–6 classification levels through the use of ISACs. An increased usage of ISACs is expected during 2002–03.

WAGES AND CONDITIONS IN THE APS

Since 1997 the wages and conditions of employees in the APS have been negotiated and determined at the agency level. Agencies have significant flexibility in these negotiations subject to consistency with the Government's *Policy Parameters for APS Agreement Making* (the Policy Parameters). These Policy Parameters cover a range of matters but include the important requirements that improvements in pay and conditions be linked to productivity and funded from within agency budgets.

The APS has the highest proportion of employees covered by formal federal agreements (as opposed to federal awards or informal over award payments) of any industry. The 2001 Survey of Agreement Making in the APS found almost all employees were either covered by collective certified agreements (94%), or individual Australian Workplace Agreements (5.2%).[1] Since that survey was conducted the first arbitrated award under section 170MX of the *Workplace Relations Act 1996* was made to cover the Australian Protective Service that had been unable to reach agreement with two-thirds of its employees. This decision means that 100% of APS employees are no longer reliant on the wage rates in the *Australian Public Service Award 1998*.

AGENCY BARGAINING

Certified Agreements

The wages and conditions of most non-SES staff are determined by certified agreements (CAs). At 30 June 2002 there were 100 CAs operating in the APS. Thirty-seven of these agreements are third-round agreements. Thirty-six agreements were made during the year to 30 June 2002.

About two thirds of APS CAs are made with one or more trade unions under section 170LJ of the *Workplace Relations Act 1996,* while the remaining third are made directly with employees under section 170LK. These are much the same proportions as in 2001 but a change from the proportions in 1999 when 55% of agreements were made with one or more trade unions and 45% were made directly with employees.

Around 90% of APS CAs are stand alone agreements that completely displace the *Australian Public Service Award 1998*, determinations and previous agreements. Again, this is much the same as the level of stand-alone agreements in 2001 but significantly higher than the 60% in 1999.

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[1] National Institute of Labour Studies (2001) *The 2001 Survey of Agreement Making in the APS*, conducted for the then Department of Employment, Workplace Relations and Small Business.

The average annualised wage increase (AAWI) for all APS agreements certified in the 12 months ending 30 June 2002 was 4.1%. When calculated from the nominal expiry date (NED) of an agreement to the NED of that agreement's replacement the AAWI was 3.9% for the same period.[2] The NED-NED AAWI of 3.9% compares to a NED-NED AAWI in the APS in the previous 12 month period of 3.5%, while the private sector AAWI to end June 2002 was 3.7%. The annualised wage increases in APS CAs (calculated on a NED-NED basis) in the 12 months ending 30 June 2002 ranged from 3.1% to 5.5%. This compares to a range of 1.8% to 5.2% in the previous 12 month period.

Australian Workplace Agreements (AWAs)

As at 30 June 2002 there were approximately 7000 operative AWAs in the APS (1740 covering SES employees, just over 3900 covering EL employees and around 1300 covering APS 1–6 employees). This is up from about 6200 AWAs at 30 June 2001 with a 13% growth in the number of non-SES employee AWAs (up from 4 600 at 30 June 2001).

While growing in number, a more strategic use of AWAs needs to be adopted by agencies. The recent change to the Policy Parameters will assist in this regard. AWAs can be used to attract and retain key staff at all levels of an organisation, including those with specialist skills. They can also be used as part of a performance management strategy and to maximise the retention of mature-aged workers by being creative with superannuation and more flexible working patterns such as phased retirement. They can also be used to facilitate movement between the private sector and the APS on fixed term placements or interchange arrangements.

Reviewing agency bargaining

Last year's report presented details from the then Department of Workplace Relations, Employment and Small Business (DEWRSB) surveys of APS SES and non-SES remuneration. Since that time no new non-SES remuneration survey results have been available but the results of a new SES remuneration survey have been released. The results from this SES survey are analysed in a separate section below. DEWR will release the results of a new combined SES and non-SES remuneration survey in 2003.

The lack of new data on non-SES remuneration trends limits the analysis in this year's report. However, the 2001 Survey of Agreement Making conducted by the National Institute of Labour Studies was commissioned by DEWRSB to examine the experience of agencies' agreement making. DEWRSB also wanted to identify the extent to which the Policy Parameters supported or inhibited effective agreement making by agencies. Some of the results of this survey were analysed in last year's report. A key finding of the survey was that agencies reported, by a factor of more than three to one, that their most recent round of bargaining had been less costly, less time consuming and less difficult to manage than the previous round. Aspects of the survey not fully explored in last year's report are examined below.

The survey provides some insights into how an agency arrives at a particular type of certified agreement, that is, either an agreement directly with staff (section 170LK agreement) or an agreement negotiated with one or more unions (section 170LJ agreement). The most important factor determining the pursuit of an agreement directly with staff is management preference and whether the agency already has such an agreement. For union agreements the most important factor is staff preference and whether the agency already has such an

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[2] The nominal expiry date (NED) to NED AAWI measures the average annual pay increase from the NED of the previous agreement to the NED of the current agreement. This measure of AAWI seeks to even out any adjustment to the wage increase(s) provided for in APS agreements to compensate for any lag between the expiry of an earlier agreement and finalisation of a replacement agreement. The measure excludes any bonus payments, eg. sign on or performance bonuses.

agreement. The level of union membership was an important factor for both types of agreement. A high dispute potential was also a relatively high-ranking reason for an agency making a union agreement.

It is not possible to discern whether union-based or staff-based agreements yield different overall pay outcomes. The survey reported that section 170LJ agreements yielded on average 0.24% per annum higher wage increases than agreements made under section 170LK, but this small difference might be associated with offsetting factors such as higher individual performance payments for LK agreements.

While two thirds of agreements are LJ ones (made with unions), 93% of agencies have consultative arrangements under their agreements with their employees and the vast majority of these include employees nominated directly by staff (only 15% involve only employees nominated by unions, 26% involve only employees nominated directly by staff and 59% use a combination of these).

The survey provides also some insights into why agencies have been extending their use of AWAs into classifications below SES. The most common objective reported was to reward key staff. For example, 92% of agencies reported that they had extended coverage so as to improve the recruitment and retention of key staff and 82% of agencies reported using AWAs to meet the needs of individuals and to be better able to link pay to individual performance. One in five agencies reported that they had plans to extend AWA coverage in the future, mostly confined to EL employees.

Agencies were asked for suggestions about ways of assisting agreement making to be more effective. The most common response put forward by a slim majority (51%) of agencies was for changes to be made to the funding arrangements. The survey also asked about impediments to agreement making. Three quarters of agencies reported that funding arrangements were either a 'highly significant' or 'significant' impediment. One in three agencies responded that less prescriptive Policy Parameters would help them better achieve their objectives, while in contrast, 12% sought greater detail in the Parameters. A significant minority of agencies also identified impediments on the staff side, including employee resistance to change and lack of trust between management and staff.

REVIEW OF THE POLICY PARAMETERS FOR APS AGREEMENT MAKING

Following the 2001 Survey of Agreement Making in the APS, DEWR undertook a review of the Policy Parameters in early 2002. The review was to ensure that the Policy Parameters remained contemporary and continued to support effective agreement making by APS agencies.

The Minister approved revised Policy Parameters in June 2002. The revised Policy Parameters, which came into effect on 1 July 2002, retained the requirement for improvements in pay and conditions to be linked to productivity and funded from within agency budgets. However, there were two key changes to the Policy Parameters:

- clarification of the Government's policy on retrospective pay increases: the Policy Parameters now explicitly state that pay increases should apply prospectively, with any retrospectivity applying only in exceptional circumstances
- a requirement that Agency Heads put in place arrangements that enable any employee in their agency to seek to negotiate an AWA.

SES REMUNERATION

Nearly all APS SES employees are covered by AWAs. The 2001 SES Remuneration Survey[3] found that SES remuneration in 2001 was generally made up of a base salary component (on average 71% of total reward), a non-salary component comprising superannuation (13%), motor vehicle (11%) and other benefits (one per cent), and performance payments (four per cent).

Executive remuneration strategy

A well-developed executive remuneration strategy, as part of a broader remuneration strategy for all employees, will contribute to the successful achievement of an agency's outputs and outcomes. Such a remuneration strategy should flow down from the agency's broader HR strategy and business strategy, and be aligned with the agency's overall approach to performance management. To ensure gains are achieved from such alignment, it is important that the remuneration strategy be effectively communicated to employees so that they understand the value of their total remuneration package and the link between reward, individual performance and business results; transparency of remuneration strategies also contributes to trust and confidence amongst the executive team.

The 2001 SES Remuneration Survey indicates that 72% of the 61 agencies that returned the survey have a formal executive remuneration strategy that is communicated to SES employees (10% more than in 2000). The majority of agencies (85%) have a performance payment system for their SES employees. When assessing individual performance the majority of agencies surveyed used key performance indicators to assess organisational results and executive performance. Commonly used measures included key business indicators (86%), leadership indicators (86%) customer satisfaction measures (58%) and service levels (58%).

Another factor influencing remuneration strategies is benchmarking comparator groups. Agencies indicated that other parts of the federal public sector are considered to be the main competitor in terms of attraction and retention with lesser but still significant competition from other public sectors and the private sector. As the classification level of the SES rises, so too does the competitive threat of the private sector and government–business enterprises.

SES remuneration outcomes

The following analysis examines movements in SES base salary, total remuneration package (comprised of base salary and non-salary components) and total reward (comprised of total remuneration package plus performance payments and bonuses).

The 2001 SES Remuneration Survey found that the average increases in base salary for SES in the APS in 2001were higher than the AAWI in CAs (4.1%). SES Band 1 (SES 1) base salary increased by 4.8%, for SES Band 2 (SES 2) by 4.4% and for SES Band 3 (SES 3) by 5.2%. However, a comparison of SES remuneration with the broader market in 2001[4] indicates that SES base salaries are still positioned well below the median private sector level at all SES classifications. In comparison to the combined State Public Service, SES 1 and SES 2 are positioned slightly above the median base salary while the median base salary level for SES 3 was the same as the median for all States.

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[3] Mercer Human Resource Consulting (2002) 'APS SES Remuneration Survey 2001' conducted for DEWR.

[4] Mercer Human Resource Consulting (2002) 'Broader Market Comparison – SES Remuneration 2001' conducted for DEWR.

Movements in SES total remuneration package were more modest in 2001, increasing by 2.1% for SES 1, 2.3% for SES 2 and 3.4% for SES 3. The smaller movements can be explained by the relatively unchanged superannuation and motor vehicle values for 2000 and 2001. Again the median total remuneration package for SES is well below the private sector median with the gap between the sectors increasing compared to the gap for base salaries for all SES levels but most markedly for SES 3. The comparison with the State public services is much the same as for base salaries except that SES 3 slips just below the median for the combined states.

Table 4.4 Comparison of SES remuneration

	Private sector median	Combined State public service median
SES 1	- 15%	+ 5%
SES 2	- 28%	+ 1%
SES 3	- 43%	- 2%

Note: Comparison of the total remuneration package (TRP) of SES with the private sector median TRP and the median TRP of the combined State public services.

Source: Mercer Human Resource Consulting (2002) 'Broader Market Comparison – SES Remuneration 2001' conducted for DEWR.

The majority (85%) of agencies reported that they provide performance-based payments for SES employees. This is much the same proportion as in 2000 (84%). Seventy-one per cent of those eligible to receive such payments did so. This is a significant drop compared to the 80% who received such payments in 2000. The average size of payments was 3.5% of total remuneration package for SES 1, 4.4% for SES 2, and 4.5% for SES 3. This also represents a drop from 2000 when performance payments represented 4.5% of total remuneration for SES 1, 5.1% for SES 2 and 7.8% for SES 3. The performance payments for senior executives in the private sector are typically in the order of 10 to 25% of total remuneration package.

It appears from this data that agencies adopted a more selective approach to performance payments in 2001 compared to 2000. Whether this approach related to budgetary factors or more sophisticated performance assessment methods is not clear but the level of such payments will continue to be monitored in next year's report.

The majority of SES employees were not eligible for a retention bonus. Only 32 individuals (2%) were paid such a bonus. These tended to be individuals with specialist skills and those perceived as being critical to a project.

Total reward comprises base salary, non-salary components, performance payments and bonuses. Average total reward increased even more modestly than total remuneration package with increases of 2.0% for SES 1, 2.4% for SES 2 and 2.0% for SES 3. This lower average rate of increase is largely explained by the fact that 15% of SES were not eligible for any performance payments and of those 85% who were eligible only 71% received a payment.

Interestingly, there appears to be no discernible correlation between the size of an agency (based on annual budget/turnover and number of employees) and remuneration levels for APS senior executives.

Spread of SES salaries

Last year's report discussed the widening range of both SES and non-SES remuneration. It was noted that this reflected the greater flexibility in the employment framework to recruit and retain employees according to role, responsibilities and performance, particularly by using AWAs. While exactly comparable data are not available it is clear that the range of SES salaries widened in 2001 compared to 2000, continuing a trend apparent since the move to agency-level bargaining in 1997. For example, the minimum and maximum base salaries paid to an SES 2 in 2000 were $74 927 and $135 000 respectively (with the vast majority being paid more than $85 000). These had increased to between $90 000–$95 000 for the minimum and $175 000–$180 000 for the maximum in 2001.

Figure 4.2 Range of SES salaries 2001
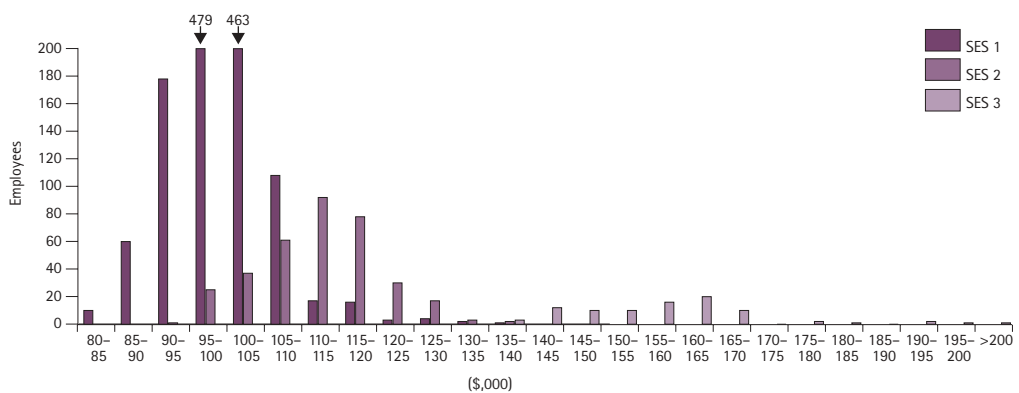
Source: Human Resource Consulting (2002) 'APS SES Remuneration Survey 2001' conducted for DEWR, p.59.

Figure 4.2 presents data on the range of base salaries paid to the three levels of SES in 2001. It indicates that although the spread of base salaries is wide, the majority of SES Bands 1 and 2 are still paid within a relatively narrow range.

For SES 1

• 66% are paid a base salary of between $95 000 and $105 000

• 23% are paid below $95 000

• 11% are paid $105 000 and above.

For SES 2

• 67% are paid a base salary of between $115 000 and $130 000

• 18% are paid below $115 000

• 15% are paid $130 000 and above.

For SES 3 the distribution of base salaries are less concentrated around the median.

• 54% are paid between $145 000 and $160 000

• 30% below $145 000

• 16% are paid $160 000 and above.

The increasing spread of salaries amongst SES is also reflected amongst EL2 staff. The spread for these, as identified in Figure 4.3 is not as wide as for the SES classifications, but it does imply some increase in the overlap between pay ranges for EL2 staff and SES 1 staff. The overlap is, however, relatively small, affecting only around 15% of EL2s (it should be noted that the EL2 data also includes research scientists and medical officers, some of whom have historically been paid more than generalist EL2s; and that Figure 4.2 does not include the value of the car that is normally provided to SES officers, and only rarely to EL2 officers).

Figure 4.3 Range of EL2 salaries 2001 base salary distribution
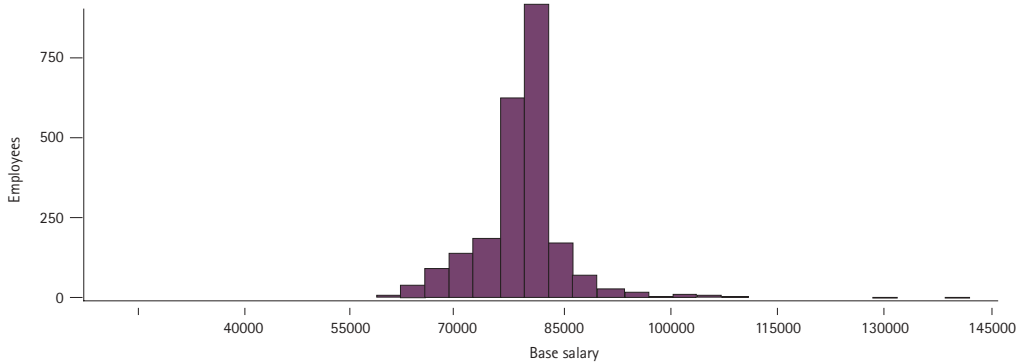
EFFECT OF AGREEMENT MAKING ON MOBILITY RATES

Figure 4.4 presents data on mobility rates between agencies over the past 10 years from APSED. The mobility rate is comprised of promotion rates and transfer rates. The data indicates that overall mobility rates between agencies have been trending downwards since the late 1990s particularly for non-SES employees.

Figure 4.4 Mobility rates between agencies 1992–93 to 2001–02
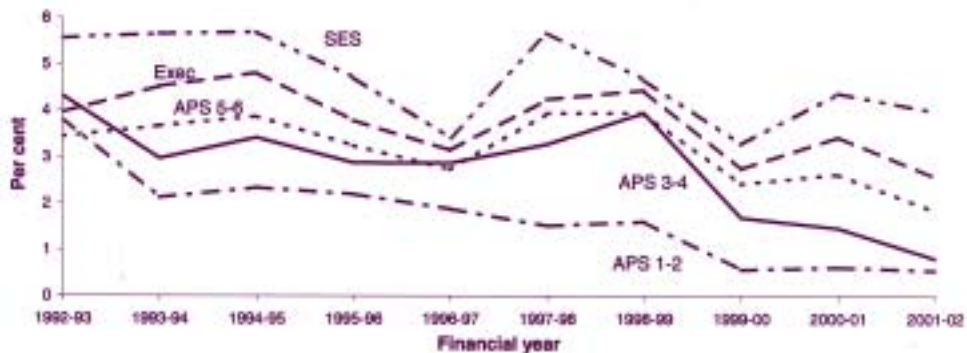
The downward trend has been particularly strong for APS 1–4 classifications. Last year the trend halted for higher level classifications but in 2001–02 the trend seems to have restarted though mobility amongst SES remains higher than in 1999–2000. The effect on mobility rates of the variability of wages and conditions in the APS resulting from agency bargaining will be explored in next year's report.

ISSUES

The flexibility provided through the devolved approach and agency bargaining is a generally positive development, allowing agencies to cater effectively for their different business and skill requirements as well as local needs and circumstances. There is evidence of increasing alignment between agreements and corporate business directions, particularly through the introduction and development of performance management regimes. However, more could be achieved from the strategic use of agreements, both CAs and AWAs, as part of an overall corporate strategy. For such flexibility and devolved arrangements to be reached and implemented effectively, a number of general conditions need to be satisfied.

Agencies need to adopt a responsible and objective approach to agreement making from the point of view of their own specific financial management and accountability requirements. It is also important, as the existence of the Policy Parameters signals, that agencies have regard to the broader labour market within which they operate. In these respects, there is concern about the quantum of some recent increases and the degree to which they are productivity based. Over the past year, the AAWI in agreements has increased by 0.4% (from 3.5% to 3.9%—in proportional terms an increase of over 11%) in an environment where inflation has remained benign. A number of agreements providing above average pay increases have led to pay pressure in other agencies. Against that background, in assessing agreements against the Policy Parameters, DEWR is paying greater attention to the productivity initiatives underpinning above average pay increases and has in a number of instances raised policy concerns in this area.

Agencies also have a responsibility to proactively manage employee expectations regarding the quantum of pay increases by reinforcing the linkage to productivity and the need to fund improvements in pay and conditions from within agency budgets. In doing so, agencies should seek to dispel perceptions of the need to maintain pay parity with top paying agencies.

The issue of the funding arrangements for agreement making is an ongoing one. Some agencies expressed concern about the funding arrangements for pay increases, questioning the sustainability of continuing efficiency dividends and indexation parameters that require the ongoing identification of productivity gains. On the other hand, some recent pay increases offered by agencies exceed the level of average wage increases in the broader community. Both these points warrant further consideration.

Agreement making itself needs to be underpinned by better practice workplace relations, including ongoing consultation and involvement. While the form of the agreement is a matter for Agency Heads and negotiation, it is vital that both union and non-union CAs promote a strong and direct employer/employee relationship and professional ethos. Almost half of all agencies (49%) reported a lack of trust between management and staff as an important barrier to more effective agreement making. This highlights the need for agencies to make a significant investment in engaging employees through meaningful consultation and involvement on a regular and ongoing basis, not just at agreement renewal time.

As part of their consultative arrangements, agencies should be able to present remuneration polices which are understood by staff, with due transparency of reporting (while protecting individual privacy). This is important from an accountability perspective as well as for building employee confidence in, and support for, more flexible and individually based approaches to rewarding performance. Remuneration policies should draw on classification structures that exhibit internal integrity and support the APS Values, particularly merit in employment. Possible issues to be addressed in this context include broadbanding and overlapping salary arrangements.

It is worth noting the increasing overlap between salary ranges for EL2s and SES 1 staff, and SES Bands 1 to 3. While there is nothing of itself wrong with these, care is needed to ensure remuneration strategies remain robust. This means linking remuneration firmly to skills and performance, and avoiding strategies that undermine the merit principle and the APS Commission's important quality assurance role for SES selection and promotion.

PROVIDING SAFE WORKPLACES

The Commonwealth's workers' compensation scheme that operates in the APS is one of the best performing in Australia. The Commonwealth has one of the lowest rates of compensated workplace injury across all measures. The Commonwealth's average premium rate is the lowest overall in Australia and when standardised to reflect industry mix, is the second lowest.[5] In addition its scheme provides amongst the highest benefits of all schemes across Australia.

However, in 2002–03 the average premium rate is to increase significantly, mainly due to injured employees staying off work for longer periods. Comcare's actuary has estimated that, over the life of the claims, payments for time off work for injuries suffered in 2001–02 will be 24% higher than for injuries suffered in 2000–2001 and double the payments for time off work for injuries suffered in 1996–97.

This year APS agencies will pay approximately $88.8m (net) to Comcare in premium fees. This direct cost is the equivalent of around 1 500 staff. If indirect costs to agencies such as retraining and recruiting staff to replace injured employees are included, the total costs are much higher.

Agency managers taking responsibility for workplace safety and for returning employees to work after an injury is part of cultivating productive working relationships and building organisational capacity, consistent with the broader APS leadership capability framework. The prevention and management of workplace injury are part of effective resource management, and part of building a supportive workplace culture in which staff feel valued.

The framework for the prevention and management of injury and disease in APS agencies is provided by the *Occupational Health and Safety (Commonwealth Employment) Act 1991* (OHS (CE) Act) and the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act). Comcare administers these Acts.

Figures 4.5, 4.6, and 4.7 show the average performance of all APS agencies in 2000–01 and 2001–02 against a number of performance indicators. They also show the average performance of the top 15 premium payers. The performance indicators used are:

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[5] The Comparative Performance Monitoring (CPM) report provides details of the scheme and allows for comparison between other schemes in Australia and New Zealand. The findings cited here are from the latest report (4th edition, August 2002 at page 134).

- incidence rate (number of injuries per 1000 employees) for compensated workplace injuries resulting in five or more days off work. The National Occupational Health and Safety Strategy (www.nohsc.gov.au) has set an Australia-wide target against this indicator of a 40% reduction over 2002–12 in the incidence of injuries resulting in lost time of five days or more; and

- the incidence of injuries that go on to accumulate 30 days and 60 or more days of time off work. These indicators are of increasing importance for the APS because duration of incapacity following injury has deteriorated across the Commonwealth scheme. Commonwealth managers are accountable for injury management and for returning employees to work as soon as their health permits. The longer people are off work, the smaller is the chance that they will return to work.

Figure 4.5 Incidence of injuries resulting in five days of incapacity: all APS agencies and the top 15 APS premium rates
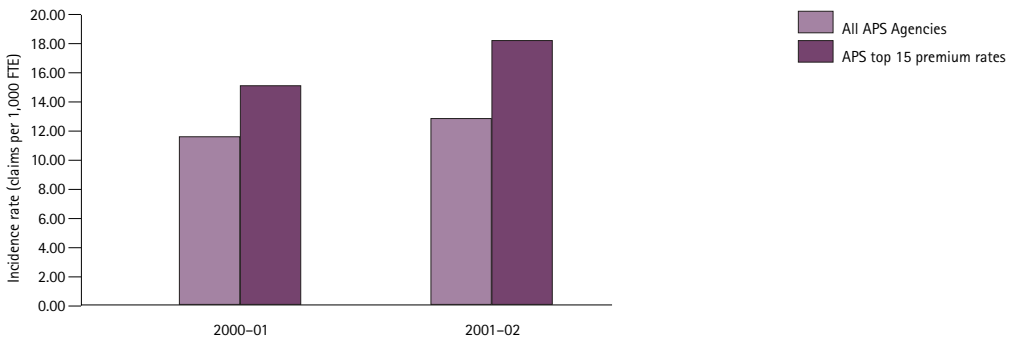
Source: Comcare

Figure 4.6 Incidence of injuries resulting in 30 days of incapacity: for all APS agencies and the top 15 APS premium rates
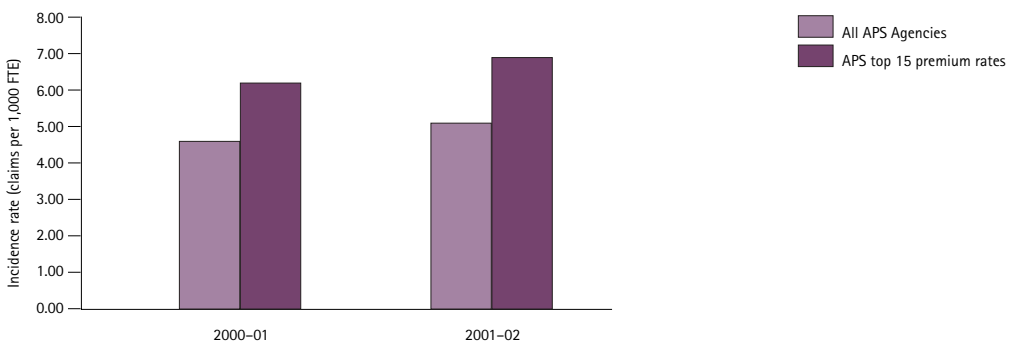
Source: Comcare

Figure 4.7 Incidence of injuries resulting in 60 days of incapacity: all APS agencies and the top 15 APS premium rates
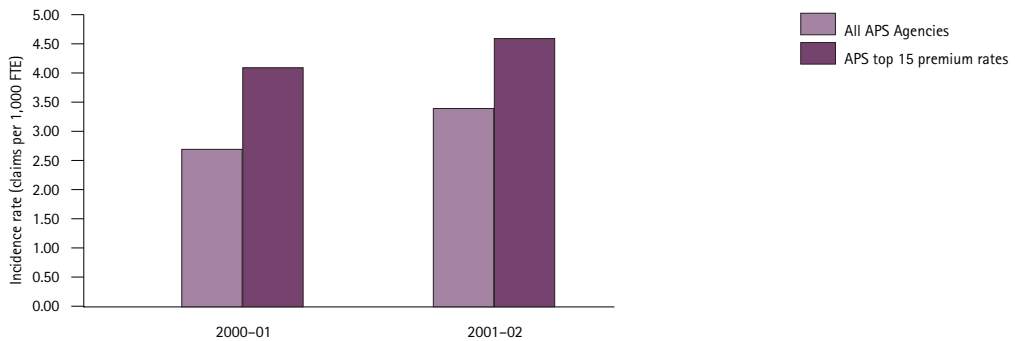
Source: Comcare

Some of the factors that Comcare has identified as critical to reducing the length of time an injured employee spends away from productive work include:

• acting quickly to support employees, without waiting for a claim to be determined

• minimizing the time taken to lodge a claim

• beginning rehabilitation activity as soon as possible

• developing a return to work plan to guide the individual back to full-time work

• providing a workplace focus for an individual's rehabilitation program

• the extent to which managers actively identify and provide suitable duties

• the accountability of senior managers for the achievement of good return to work outcomes.

Strong agency executive leadership and commitment are critical to improving performance in this area. On 10 July 2002 the Minister Assisting the Prime Minister for the Public Service launched a *Leadership and Accountability Strategy for Injury Prevention and Management* in the APS.

The strategy draws senior executives' attention to their responsibilities to provide safe workplaces, and provides technical support to review and improve agency–based injury prevention and management systems.

As part of its accountability framework, the strategy establishes a simple scorecard, which can give individual agencies a snapshot of their performance at key points along the continuum of injury prevention and management.

MACHINERY OF GOVERNMENT CHANGES

The *1998–99 State of the Service Report* commented on changes in the structure of the APS following the federal election of October 1998 and noted that:

> [T]he resulting movements in staff and functions between agencies in the new environment of devolved pay and conditions, raised implementation issues additional to those faced in previous changes and work was initiated to ease such problems for the future.[6]

The 1998 Machinery of Government (MoG) changes were the first since agency specific agreement making had produced different salaries and terms and conditions of employment across the APS. To ensure that MoG changes proceeded more smoothly in the future, the *Policy Parameters for Agreement making in the APS* were amended to require agencies to include facilitative provisions in their agreements to apply transitional terms and conditions to those staff transferring from one agency to another as a result of MoG changes.

The introduction of the new PS Act in December 1999 saw the inclusion of more streamlined and consolidated provisions that were designed to address the implementation issues that arise when staff is moved as a result of a MoG change.

Under section 72 of the PS Act, the Public Service Commissioner is able to move persons between APS Agencies, or between the APS and other Commonwealth employment, in order to give effect to any increase, reduction or re-organisation of Commonwealth functions, including one that results from an order by the Governor-General. As a general rule, the 'staff-follow-function' principle continues to apply to these moves, affected employees are moved with their function and their employment status (i.e. ongoing or non-ongoing) remains the same.

The PS Act and the PS Regulations also describe the arrangements that apply in relation to the remuneration and other conditions of employment of persons moved as a result of a MoG change. These arrangements replace the amended provisions in the *Policy Parameters for Agreement Making in the APS*.

NOVEMBER 2001 ADMINISTRATIVE RE-ARRANGEMENTS

Following the Federal election in November 2001, the Prime Minister announced a number of changes to the structure of the APS, which resulted in significant changes to the functions of some APS agencies. In total, the changes impacted on 12 agencies and involved the movement of around 500 APS employees. At 30 June 2002, the necessary staffing action to give effect to two of the changes had yet to be finalised because the separate legislative amendments necessary to move responsibility for the ongoing operation of the particular functions had not been passed. The delays were not due to problems over devolved pay and conditions within the APS.

The November 2001 changes were the first large-scale re-organisation of APS agencies since the introduction of the new Act. The movement of employees between agencies as a result of these changes proceeded in a much more timely way as compared with the moves that were made after the 1998 election, although it should be noted that the 1998 changes involved the movement of a considerably larger number of employees and impacted on some 15 APS Agencies. While there continued to be points of detail that needed to be addressed in relation to specific aspects of the changes, there was overall a much smoother transition of employees between agencies.

This smoother transition was facilitated by the more streamlined and consolidated provisions set out in the PS Act and PS Regulations, especially in relation to the arrangements for determining the remuneration and other conditions of employment of employees affected by MoG changes. Generally speaking, an employee

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[6] *State of the Service Report 1998–99*, p.2.

who is moved between APS agencies as a result of a MoG change will become covered by the remuneration and other conditions of employment that apply in the gaining agency, although there are circumstances where the previous conditions of employment will continue to apply. Under the Regulations, however, the salary of an APS employees who is moved to another agency as a result of a MoG change is preserved if the salary that they would be entitled to in the gaining agency is less than they were previously receiving. In relation to other conditions of employment, the gaining agency's arrangements apply although the gaining Agency Head can make a determination that some or all of those conditions of employment that previously applied to the employee will continue to apply in the new agency until a new CA or AWA is made.

The APS Commission, in consultation with DEWR, issued comprehensive advice to agencies on the staffing and industrial implications of such changes in workplace (Circular 2001/7 dated 26.11.01) and a copy of this advice was included on the APS Commission's website. Feedback from agencies suggests the timely distribution of this comprehensive advice contributed to the smooth implementation of the changes.

MOVEMENTS BETWEEN THE APS AND OTHER COMMONWEALTH EMPLOYMENT

Recent experience has highlighted, however, that more complex issues can arise in cases where employees are being moved into or out of the APS, especially where the new body will be staffed by employees coming from a mixture of APS and non-APS sources. This is because a different regulatory framework applies to employees coming from non-APS areas of Commonwealth employment and the remuneration and other conditions of employment in these areas can vary more widely.

Experience has shown that, unless workplace relations and human resource management issues are identified early, they can create significant costs and administrative complexities, and significantly affect the overall success of a change.

SOME OBSERVATIONS

Agencies are making use of the greater flexibilities in the employment framework provided by the PS Act and Regulations, the *Workplace Relations Act 1996* and the *Policy Parameters for APS Agreement Making*. There is no evidence of any systemic problems in terms of 'casualisation' of the labour force or threats to the merit principle. There is a need, however, for agencies to have better systems to enable them to know the number and length of engagement of the various types of non-ongoing employees and of labour hires and other non-PS Act staff. Agencies might also consider systematic use of the incorporation of the APS Values and Code of Conduct in the letters of engagement or contracts of labour hire staff and other forms of non PS Act employment to assist in ensuring these staff are aware of their responsibilities in this regard.

In relation to agreement making there is scope for agencies to make more strategic use of AWAs and to ensure CAs encourage strong and direct employer/employee relations and staff alignment to corporate business directions. The flexibilities available to agencies regarding pay and conditions need to be managed carefully, with explicit and robust remuneration strategies. They should operate consistently with the Policy Parameters whose very existence acknowledges the broader labour market within which agencies operate. There is some concern about the quantum of some recent pay increases, and about the possible dangers of excessive overlap of pay ranges across EL2 and SES classifications.

This chapter examines some of the central issues confronting the APS in the pursuit of higher performance. Leadership and capability development are important keys to improved performance management. Each of these topics has seen significant external interest, scrutiny and comment during the year. The Management Advisory Committee (MAC) examined and reported on performance management; the ANAO undertook a performance audit of the management of learning and development and also published benchmarking results on people management across the APS; and the Senate Finance and Public Administration References Committee announced it would conduct an inquiry into APS recruitment and training.

Where reports have been completed, the findings have been taken into account in the analysis of the information provided by the Agency Questionnaire.

PERFORMANCE MANAGEMENT

> Performance management in the APS is the use of interrelated strategies and activities to improve the performance of individuals, teams and organisations. Its purpose is to enhance the achievement of agency organisational goals and outcomes for the government.

> Performance management is an essential component of a corporate governance framework, allowing boards, Ministers and committees to lead, monitor and respond to how an organisation delivers against its goals, mission and the outcomes required of it by the government.[1]

There has been a continuing focus on performance management as a tool to improve individual performance and organisational performance. The Parliament gave formal expression to this objective by including '*The APS focuses on achieving results and managing performance*' among the APS Values enacted in the *Public Service Act 1999*.

Consistent with the legislative requirements, APS agencies have worked to put in place their own performance management approaches in compliance with the policy and legislative framework. To assist agencies, the APS Commission issued a booklet in 2002 on performance management that set out the requirements of the framework that agencies must observe, and around which they should establish appropriate, agency–specific performance management arrangements.

Both the 1999–00 and 2000–01 State of the Service Reports reflected on performance management and noted both the work undertaken by agencies and the challenges that remained for the APS. In addition, performance management has also been the subject of various reviews during 2001, including reports on performance management by the MAC[2] and the Institute of Public Administration Australia (IPAA)[3]

The MAC report, which was published in September 2001, provided an overview of performance management in the APS. It identified what had worked for agencies and, recognising the diversity of approaches to performance management, it spelled out key good practice elements. These success factors for performance management systems were summarised as:

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[1] Management Advisory Committee Report, *Performance Management in the APS: A Strategic Framework,* September 2001, p.14.

[2] ibid.

[3] Institute of Public Administration Australia Report, *Performance Management: A Guide to Good Practice*, September 2001.

- Alignment—within a values–based framework that takes account of the organisational culture and business objectives.

- Credibility—applying across the organisation, and seen as fair, transparent and rigorous.

- Integration—integrating organisational objectives with the performance of teams and individuals.

The MAC report also identified a number of second order environmental factors that agencies would need to have regard to in designing, implementing and evaluating their performance management strategies to achieve a high performance organisation.

Table 5.1 Key elements of effective performance management systems

Alignment	Credibility	Integration
• Outcomes sought by government • Consistency with APS values and legislative framework • Nature of the business • Client and stakeholder expectations • History with performance management • Maturity of systems • Organisational values • Industrial climate	• CEO and Executive commitment • Review and simplicity • Fairness and trust • Multi-source feedback • Addressing the rhetoric—reality gap • Dealing with underperformance • Reporting of outcomes • Staff ownership of the system	• Line of sight between corporate and individual goals • Embedded in a system of organisational performance management • Link to training and career development • On-line delivery
Evolving factors • Integrating organisational values with output based performance • Achieving alignment in outsourced functions	**Evolving factors** • Constructing reward and recognition strategy —especially for teams	**Evolving factors** • Performance measurement and reporting

Source: Management Advisory Committee Report, *Performance Management in the APS: A Strategic Framework*, 2001, p.35.

Agencies can build organisational and individual performance by tailoring systems to meet the agency's needs through deliberate and strategic decision-making based on a clear understanding of the organisation's objectives, operating environment and culture.

The IPAA study identified good practice performance management principles and approaches from the collective experiences of 14 agencies. It found some common themes in the stated goals of agencies systems such as improving performance and developing a performance culture, aligning and clarifying performance expectations, communication and feedback. The study concluded that the increased focus on performance and effectiveness as a result of recent legislative changes has been a major driver of improvements to

performance management and has enabled agencies to have greater flexibility to tailor performance management processes to suit agency needs.

The MAC and IPAA studies shared some common findings including the need for performance management to be an evolutionary process as agencies' systems were at different stages of maturity of development and implementation. They also both noted that organisational environments vary and depend on a number of factors including the industrial climate and organisational culture.

The MAC report noted that, although significant progress has been made, APS agencies still faced a number of challenges, including assessing organisational performance, performance feedback systems, handling of underperformance, and reward and recognition strategies implemented within a values–based environment. This listing reflects closely the challenges that had been identified in the *State of the Service Report 1999–00*.[4] The IPAA report identified some challenges and inherent tensions for agencies, including managing poor performance, improving the quality of feedback discussions between managers and staff and performance pay. Some agencies identified that they need to provide a more comprehensive linkage to pay while some others indicated that they are considering removing the linkage to performance pay altogether.

This year's Agency Questionnaire asked agencies to comment on their progress in implementing those elements of performance management that were seen by commentators as needing further attention. Agencies were not asked for qualitative or quantitative data on the extent to which they had adopted the better practice principles outlined in the MAC report. This recognises that that report had only been released in September 2001. Importantly, it also recognises that many of the critical elements of a performance management strategy, and the way in which that is integrated into an agency's broader planning frame work, will be dependent on a range of internal policies and documents that will necessarily take time to redevelop and settle, let alone be adopted by staff and translate into an impact on performance culture. This chapter focuses on the extent to which agencies had started to work towards implementing better practice approaches.

The information provided by agencies has been supplemented with information from other sources that comment on agencies' progress in developing, implementing and reviewing performance management, including:

*   the 2001 National Institute of Labour Studies (NILS) survey of agreement making in the APS, undertaken for the DEWR

*   the 2002 ANAO audit report *Managing People for Business Outcomes*

*   the APS Commission examination of performance management arrangements in agencies' certified agreements, as at July 2002.

STATE OF PROGRESS

The ANAO audit report[5] on managing people for business outcomes rated workforce planning, performance management and organisational development as most critical to business success. The ANAO commented that the importance of performance management, inter alia, meant that agencies needed to perform at higher

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[4]
State of the Service Report 1999–2000, p.119–121.

[5]
ANAO Audit Report 61, 2001–2002, *Managing People for Business Outcomes*, p.10, 20.

levels in these priority areas to enable people to 'make a difference' to the agencies' business results.[6] The ANAO also commented on the importance of fully integrating, or embedding, people management practices across organisations.

Integration of performance management

The extent to which agencies have in place an integrated performance management framework varies across the APS. More than 80% reported having in place a framework that links corporate and business planning and processes to reporting to Government on outputs at the organisational level, as well as, performance appraisal linked to remuneration at the individual level. Fewer agencies have in place a fully integrated framework that aligns planning, people and performance management at all levels to corporate goals and evaluates the contribution of individual, team and organisational performance.

Both the MAC and IPAA studies emphasised the importance of ensuring performance management is well integrated into the business of the agency by ensuring a link between organisational and individual capability and planning and performance to deliver on desired objectives. Larger agencies clearly appreciate the importance of integrating all planning elements and are working towards that outcome. Medium to small agencies were less able to indicate that performance management was a critical and integral element of broader processes.

DIMIA sets its strategic directions in two key documents, Business Directions 2003, and Investing for 2005 and Beyond. These documents identify key priorities for the Department and set out strategies for ensuring that business processes are accessible to clients, transparent and add value, and are delivered in a way that is business like, cost effective and ensure that DIMIA is an employer of choice. The Portfolio Budget Statements and the Purchasing Agreement with Finance are key business framework documents that set broad directions in relation to the achievement of outcomes and outputs, and related resource requirements. The Department has a range of initiatives underway to improve business performance, including an Investing in People strategy that focuses on strategic workforce development and management, and a Performance and Learning Scheme focusing on individual performance. DIMIA has a Corporate Values Statement and a Code of Conduct, and is currently developing a Values Framework and a Core Capability Framework.

A rationale for performance management—agency approaches

Nearly all agencies (96%) commented that the underlying rationale for their performance management approach was better integration of individual performance with business goals. The 2001 NILS survey showed 93% of agencies consider the agency's performance management arrangements have contributed to improved individual and organisational performance through improved role accountability and work planning, increased alignment to agency outcomes and improved individual capability.

6
 ibid., p.13, 14.

The second order goal of developing performance management strategies was to allow pay flexibilities to reward high performers with the intent of recognising and embedding a culture of individual performance within an organisation. A significant number of medium and small agencies (40–45%) also saw performance management and the associated remuneration policy as an important factor in building and maintaining a greater focus on teamwork.

Despite the aspirations to integrate systems and promote performance, it is evident from agency responses that only a few agencies have been able to achieve the goal of a framework that aligns all elements of planning, people and performance management to corporate goals and then also measures the contribution to organisational performance.

This assessment is consistent with the findings of the ANAO report. On the basis of a study of 14 (unidentified) organisations, the ANAO found that most agencies had well-designed systems for individual performance management which established clear understanding of work roles and linkages between individual, business and agency goals. However, few agencies have in place a coherent integrated people management strategy. The report also emphasised that people planning and performance management was not integrated into business planning, resulting in specific challenges for line managers mainly in managing underperformance. The report viewed integrated planning activities as a priority area for agencies for informing decision-making, measuring and assessing performance.[7]

Approaches to performance appraisal

The MAC report highlighted the importance of having an appropriate balance between managing resources and achieving outcomes on the one hand and managing individual performance within a values–based environment on the other. Agencies need to ensure that performance review systems linked to remuneration are seen by management and staff as robust, fair and transparent, and as being consistent with APS values.

In assessing performance, 74% of agencies indicated that their approach to ensure that managers and employees demonstrate, and consistently apply, the APS Values relied on the assessment of values/behaviours as well as results in performance assessments. Less prevalent approaches used by agencies included assessment of skills and review of development plans (64% of agencies) and regular use of 360-degree assessments (16%). Large and medium size agencies indicated greater use of assessing values in their performance assessment (90% and 86%) than small agencies (63%). Medium agencies made greater use of assessing skills (76%) and use of 360-degree assessment (19%) than large (68% and 16% respectively) or small (58% and 15%) agencies. More detail on how agencies are embedding the APS Values in their workplace cultures can be found in Chapter 3 that deals with Values and Conduct.

During 2001–02 more than 20 agencies have entered into third round agency agreements. While most agencies have fully functioning performance management systems, some agencies have either committed to review their systems or have made refinements or modifications to existing systems based on operational experience as part of their certified agreement. Refinements have generally focused on meeting the requirements of the legislative and policy framework, making improvements to assessment processes and strengthening communication and performance feedback arrangements.

7
  ibid., p.38.

The performance feedback system first implemented by the Royal Australian Mint did not altogether meet the requirements of all staff. The scheme was subsequently modified in late 2001 to provide a simpler basis for assessment of performance but retained the existing 5-point rating scale. This resulted in improved supporting information being provided to assist supervisors in distinguishing between the levels of performance and therefore better feedback to staff.

Agencies identified one main factor impeding performance management as the credibility of performance review and feedback systems.

Establishing performance management systems which engage employees, and are rigorous and transparent can minimise staff concerns about the fairness of the system, performance ratings and willingness to address underperformance. Some agencies are tackling these issues through progressive implementation and review as a method to gain staff support and confidence, whereas, other agencies are seeking a better understanding of staff perceptions and concerns.

Agency responses show the more common approaches to capture comments from staff on the design, implementation and review of the performance management system are management–employee forums, agency agreement consultations, staff attitude surveys, evaluations and multi-source feedback.

The Commonwealth Rehabilitation Service uses staff surveys and forums to assist in evaluating the effectiveness of the agency's approach, as well as including key policy documents on the agency's intranet site and providing a quarterly newsletter on HR issues. The agency's 2001 staff survey included questions to assess the importance, and satisfaction levels of remuneration as well as non-financial benefits.

Centrelink has adopted an 'ideas bank' where employees can lodge ideas for improving any system or process in the agency including performance management and remuneration.

The Australian Greenhouse Office (AGO) has placed greater emphasis in performance-assessment and feedback on how managers and staff achieve results, and how business expectations are delivered. The Office has introduced an 'upward feedback system', for supervisors to improve communication between managers and staff.

The Department of Transport and Regional Services has expressed in its agency agreement, its commitment to the development and implementation of approaches that support and encourage better communication and feedback including 360-degree feedback.

The National Capital Authority has upwards feedback which does not contribute to individual performance ratings, whereas, in the ONA upwards feedback is taken into consideration in performance evaluation of all supervisors and managers.

A sizeable proportion of applications received by the Merit Protection Commissioner relate to performance appraisal matters. Applications for reviews, including review of promotion decisions are dealt with by the Merit Protection Commissioner under the review of action provisions (s.33) of the PS Act. Applications are generally made to the Merit Protection Commissioner only after an employee remains dissatisfied with the decision of an Agency Head.

Several cases considered by the Merit Protection Commissioner have highlighted the importance of accurate feedback, even when an employee is performing well. Some cases have involved employees, often with the tacit support of their immediate supervisor, being led to believe their performance was 'superior', and would be likely to achieve a bonus, resulting in significant dissatisfaction when this was not the case at the end of the appraisal process. A range of factors can be identified in contributing to problems with feedback. The first is where the Performance Plan is a bit 'soft', and although the employee exceeded the plan requirements during the year the employee's work performance is deemed to not be superior against reasonable expectations for the work level concerned. The second is where justified praise is given during the year for a job well done, without it being made clear that such performance is the normal expectation at the fully effective level, and may not signify superior performance. Such outcomes reinforce the need for clear understanding about expected performance levels, not only at the fully effective level, but also at superior levels. There is also an important role for the 'manager-once-removed' to ensure consistency in the application of performance standards, preferably before employees are advised of their assessment.

MANAGING UNSATISFACTORY PERFORMANCE

The MAC report highlighted that management of unsatisfactory performance remains a key challenge in the APS. The report noted:

> the challenge of handling under-performance is a key one for the overall credibility of performance management. Managers in the APS are conscious of this need and are starting to respond. Nonetheless, leaders need to give the management of under-performance high priority and ensure that results are achieved.[8]

The MAC report also suggested that one of the factors working against effective management of unsatisfactory performance may be the procedural or process frameworks established by agencies, noting that 'many agency certified agreements have provisions beyond what is necessary and create an overly cumbersome framework.[9]

These findings were consistent with an analysis undertaken by the APS Commission, in 2001, of the provisions included by agencies in their certified agreements. As a result, in consultation with a small group of agencies, the APS Commission developed a set of 'example clauses' that agencies may draw on when developing provisions for their agreements. The example clauses are intended to provide agencies with the option of a minimalist but effective approach that meets the requirements of procedural fairness and the unfair dismissal provisions of the Workplace Relations Act, without building in lengthy timelines and onerous or inflexible reporting requirements.

Several cases considered by the Merit Protection Commissioner strongly reinforce the dangers of overly complex procedures for performance and underperformance in Certified Agreements (CAs). For example,

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[8]
  Management Advisory Committee op.cit., p.12.

[9]
  ibid., p.28.

in cases where an employee is terminated on the grounds of unsatisfactory performance, even if the actions taken by an agency leading up to the termination are in themselves fair and reasonable, if the procedures set out in the agency's CA are not strictly followed the termination may still be considered unfair by the Industrial Relations Commission.

In response to the Agency Questionnaire, most agencies expressed the view that the legislative framework is adequate and sufficiently flexible for their needs and that the procedures they have established for managing unsatisfactory performance are effective. A small number of agencies noted that their procedures could be further streamlined, or remained overly cumbersome. Several agencies responded that they intended to review procedures. A number of small agencies have not had occasion to test their current procedures. While the APS Commission has observed that provisions in recent certified agreements are generally more streamlined than was previously the case, many still build in unnecessary complexities or reproduce provisions from previous agreements that are not required under the legislative framework and result in, for example, duplication of review processes.

During 2001–02 agencies reported that formal action in relation to unsatisfactory performance was commenced in 163 cases. Less than 10% of these actions involved remedial effort that resulted in a satisfactory standard of performance being attained and sustained. The major actions taken were termination of employment (18%) or instituting a development plan (16%), although a large proportion (44%) of actions were classified as 'other'. Table 5.2 shows the range of formal actions that agencies undertook.

Table 5.2 Outcomes resulting from formal processes undertaken during 2001–02

Outcome	Number
Satisfactory standard of performance attained and sustained	14
Development program instituted	26
Assigned other duties	14
Reduction in classification	5
Termination of employment	30
No further action	5
Other (resignation, transfer, voluntary retirement, extended leave, medical issues identified, further information being sought, process still in progress)	72

Note: Total may exceed 163, as agencies use multiple actions.

Several agencies commented that, while the procedures are effective when used, managers and supervisors are still reluctant to address the issue of unsatisfactory performance.

> The Attorney-General's Department (AGD) commented that the legislative framework is sound, but problems arise when managers do not address the issue early. Similarly, Insolvency and Trustee Service Australia commented that problems are not due to the legislative framework but to the reluctance of managers to address issues, mainly because of lack of confidence, the time required, and perceptions of a lack of support when undertaking action. The Commonwealth Grants Commission commented that the framework is effective but the difficult area is the will of participants. The Australian Broadcasting Authority confirmed this view, saying that procedures are satisfactory but implementation depends on managers' skill, knowledge and willingness to apply them.

The issue of managers' reluctance to tackle underperformance is not new. It has long been recognised that managing underperformance, particularly when the problems are serious enough to possibly warrant termination of employment, is a difficult task that requires commitment on the part of managers, with active support and leadership from senior management, to bring the matter to a satisfactory conclusion. Not only do agencies need to ensure that their formal procedures are streamlined and flexible, but they must also provide adequate support, training and assistance to managers who are required to deal with under performing staff.

As part of its Executive Level (EL) workshops and seminars series the APS Commission currently runs workshops on 'Managing underperformance in the workplace' to assist managers to develop their skills in this area. The APS Commission is intending to develop good practice advice to assist agencies in providing an appropriate level of support to managers and supervisors who are called on to conduct formal assessments to determine whether employees are performing satisfactorily.

The ANAO[10] concluded that a truly performance–based culture has not been achieved in the APS. This is because, amongst other things, high and low performers are not being clearly differentiated. 'Dealing with underperformance is possibly *the* most difficult people management task facing any manager—line and HR' which has not been handled well within the APS. The report suggests improving training for line and HR staff in how to identify and manage underperformance and providing variable pay and reward systems which differentiate between high and low performers.

REMUNERATION AND REWARDS

The APS Commission analysis of CAs at July 2002 shows that agencies continue to use a mix of wage increases and productivity bonuses, performance linked remuneration and cash/non-cash achievement awards as performance management tools to reward effective performance. Information on broad remuneration trends including average wage increases in CAs and trends in SES salaries and performance payments in 2001–02, is presented in Chapter 4 that deals with employment issues.

Virtually all agencies provide wage increases at set intervals during the term of their CA. In addition to wages increases, some agencies also provide an additional bonus payment on certification. Some agencies place conditions on accessing some or all of the wage increases in the agreement, as in the FaCS example below, whereas, other agencies provide for additional wage increases or bonuses (over and above the wage increases at set intervals) subject to productivity targets being met.

10
  ANAO op,cit., p.20, 23.

> FaCS' 1999–01 agreement linked the payment of the second salary increase (September 2000) to the proviso that a number of initiatives were progressed, including a proposal for a new classification structure, an integrated individual performance management system, as well as managers and staff completing the performance planning and feedback process for 1999–00. FaCS has included the requirement of participation in the performance management system for payment of the second and third salary increases in the Department's third round agreement (2002–05).

The legislative and policy framework requires the salary movement of employees to be linked to performance to ensure agencies have in place systems to recognise effective performance and manage poor performance. The analysis shows that in virtually all of the agreements examined, some correlation exists between individual performance achievement and salary movement but the details vary amongst agencies.

The most common approaches to performance-linked remuneration in CAs remain: salary advancement through multiple pay points within a classification or broadband of classifications or a percentage increase in base salary; performance bonus (commonly referred to as *performance pay*); or a combination of these approaches. By far the most common form in 94% of agencies is salary advancement through multiple pay points as the sole means or in combination with performance bonus for effective, and higher, performance. Sixty-eight agencies (74%) provide salary advancement of one pay-point for effective performance and, of those, 11 agencies provide advancement by two pay-points for higher performance.

> Employees who exceed most performance expectations in the AGD and the AGO can advance two pay-points, whereas, employees who meet all targets can advance one pay-point.

Twenty-four agencies (26%) provide both salary advancement for effective performance and a performance bonus to reward high performing staff covered by the CA rated superior or outstanding.

> The Australian War Memorial provides executive level employees enhancements in recognition of the significant responsibilities the Memorial, as a small agency, places on staff to deliver services seven days a week. As an example, subject to achieving satisfactory or higher performance, EL2s have access to an allowance of $5,000 pa and an additional 4% if at the top of the salary range.

Twenty-eight per cent of agencies, a slight increase from 25% last year, provide a performance bonus as a method to reward employees covered by the CA whose performance is rated higher than satisfactory. The 2001 APS survey of non-SES remuneration[11] indicates that this translates into around 15% of employees covered by CAs being eligible to receive a performance bonus with only just under half of those eligible receiving such a bonus.

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[11]
  Department of Employment Workplace Relations and Small Business, *APS non-SES Remuneration Survey*, October 2001.

The bonuses received by those covered by CAs mostly comprise a one-off lump sum, either as a fixed amount or as a percentage of salary; in two cases, the bonuses involve ongoing increases in base salary which is separate from normal salary advancement. The size of performance bonuses for employees covered by CAs generally ranges from a fixed amount of between $500–$2000 or a percentage of base salary of between 1–15%, with the most common bonus being $1000–$2000 or a 1–5% lump sum.

While most non-SES staff are covered by CA's, a growing number have their terms and conditions set by Australian Workplace Agreements (AWAs). The 2001 survey of agreement making[12] indicates that there is a greater use of performance bonuses for non-SES employees covered by AWAs compared to those covered by certified agreements. Seventy per cent of the non-SES employees covered by AWAs in 2001 were eligible to receive a bonus with 61% actually receiving a bonus. In addition, the average bonus payments were significantly higher for non-SES staff on AWAs (in the order of three to five times higher depending on the classification). The 2001 survey of agreement making also found that those agencies with a higher coverage of employees on AWAs were more likely to have higher pay levels, performance pay, streamlined conditions and less job security.

The 2001 SES remuneration survey showed that performance bonuses were common for SES employees resulting in 85% of agencies providing performance pay for their SES, of which 71% of eligible SES employees actually received a bonus payment. Further information on salaries and bonus payments for SES employees is contained in Chapter 4, however, no updated remuneration survey information from that contained in last year's report on performance payments for non-SES employees on AWAs is available.

Nineteen agencies (21%), an increase from 14% last year, have addressed the issue of advancement of employees at the top of a salary range by introducing a notional extra pay point or providing an annual bonus payment.

The findings of the APS Commission analysis are consistent with those of the NILS survey that showed 85% of employees received salary advancement linked to performance and 29% of employees received a performance bonus for higher than satisfactory performance.

ACHIEVEMENT REWARDS

The MAC report noted that many agencies recognised the value and benefits of giving rewards and recognising excellence more immediately than is possible through the annual performance review cycle. Nearly two thirds of agencies reported in the Agency Questionnaire they have a policy in place to recognise and reward achievements of teams (62%) or of individuals (66%). Table 5.3 shows comparative agency approaches in rewarding teams and individuals.

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[12] National Institute of Labour Studies, *Agreement Making in the APS: Survey Results*, October 2001

Table 5.3 Rewards for teams and individuals by APS agencies

Method	% for teams	% for individuals
Awards	39	45
Certificates	32	37
Celebrations	26	–
Vouchers	17	21
Development programs	15	30
Conferences	13	27
Cash	13	39

Note: Agencies use multiple methods, percentages will add to more than 100%

The APS Commission has noted an increase in the number of agencies providing details of achievement rewards in third round agency agreements.

The AGO has retained its team based reward scheme as recognition of the importance of effective teamwork in delivering business outcomes and organisation well-being. Reward is given for high quality program or policy outcomes, exceptional team commitment, and team service to enhance the work environment and in outreach to the community.

Defence recognises and rewards the contribution of individuals and teams to work outcomes through exemplary standards of performance and behaviour through a system of formal awards and informal rewards. Formal awards include Commendations for Service, Secretary's Award for Achievement/Commendation, Joint Civilian and Service Awards, Australia Day Medallion. Workplace executives can also recognise the contribution of individual and teams through other formal and informal rewards such as small gifts, or publicity of achievements.

Reporting of Performance Outcomes

The 2000–01 report identified for continuing review the appropriate level of reporting of outcomes from performance assessment and pay processes, noting that an adequate level of reporting is important for meeting broader accountability requirements. It identified the challenge as ensuring accountability in agencies' arrangements without infringing on the privacy and confidentiality of individuals. The Requirements for Departmental Annual Reports were amended in June 2001 to require reports to present

information on performance pay. In 2001–02, agencies commented that they report on remuneration outcomes primarily to meet annual report requirements on performance pay and also to communicate information to staff on aggregate and/or average performance payments internally through memo or electronically via the intranet. Actual ratings and details of salary advancement and performance bonus payments are not disclosed by agencies to protect the privacy of individuals.

Continuing Challenges

The MAC report described performance management in the APS as 'work in progress'. This is clearly the case and agencies have made considerable progress in implementing performance management systems across the APS, with established corporate governance frameworks that provide some integration of planning, performance and reporting on outputs and systems to provide feedback to staff on performance linked to salary.

Continued work is needed by agencies to achieve the full integration of all elements of people, planning and performance management while preserving agency flexibilities to build organisational capability. The issues of fairness, transparency and accountability, with respect to performance-linked remuneration, also require continued attention across the APS and the broader public sector to ensure a balance between staff acceptance and ethical management.

Agencies need to ensure that performance management systems provide a balanced focus on the outputs (the 'what') as well as the behaviour exhibited by managers and employees in achieving outcomes (the 'how'). Agencies' responses to the survey indicated that an element of performance assessment is to test the application of the APS Values. This was common in large and medium agencies (86–90%) and somewhat less so in small agencies. A minority of agencies made use of 360-degree appraisal and feedback (large 16%, medium 19% and small 15%). A slightly larger minority of agencies are providing staff with training opportunities around the APS Values and Code of Conduct (large 32%, medium 43% and small 42%).

LEADERSHIP

The promulgation of the *Senior Executive Leadership Capability Framework* (SELCF) in 1999 heightened awareness across the APS of the central role of leadership in producing high performing organisations. The *SELCF* is an articulation of the crucial success factors for APS leadership, in particular, the behaviours that support high performance.

In the three years since, there has been considerable activity in many parts of the APS on building leadership capabilities ranging from the cross-Service Senior Executive Service development programs offered by the APS Commission to a growth in leadership initiatives being pursued by individual agencies. The common thread of these activities is not only to ensure that current APS senior executives maintain the capabilities to lead in a values–based service, but also to foster a future generation of leaders who are able to create a shared sense of purpose and a results culture, while preserving the impartiality, professionalism and ethical standards of the APS.

In the area of leadership, 2001–02 saw:

- relatively constant overall numbers in the SES, but an increasing proportion of women in the SES and the continued 'ageing' of the SES

- through consultation with Portfolio Secretaries, the reaffirmation of the *SELCF* as the key reference document for the selection, development and performance management of APS senior executives

- a continued high level of leadership development activity by the APS Commission and agencies

- a growing emphasis on identifying and responding to the development needs of staff in the senior executive feeder group.

DEMOGRAPHY OF THE SES LEADERSHIP GROUP

The SES constitutes the senior management and leadership group of the APS, comprising 1.6% of total APS employment at 30 June 2002. The size of the SES has remained relatively constant over the past decade, decreasing from 1763 in 1993 to 1541 in 1998, but increasing to 1630 in 2000, and returning to 1763 in 2002. Band 1 executives make up the largest proportion at 74.4%. Band 2 executives comprise 20.0%, and Band 3, 5.6%.[13] The proportion of females in the SES has increased steadily over the last decade from 15.4% in 1993 to 28.4% at June 2002. Figure 5.1 provides data on SES employment by classification over the past 10 years.

Figure 5.1 SES by classification and gender
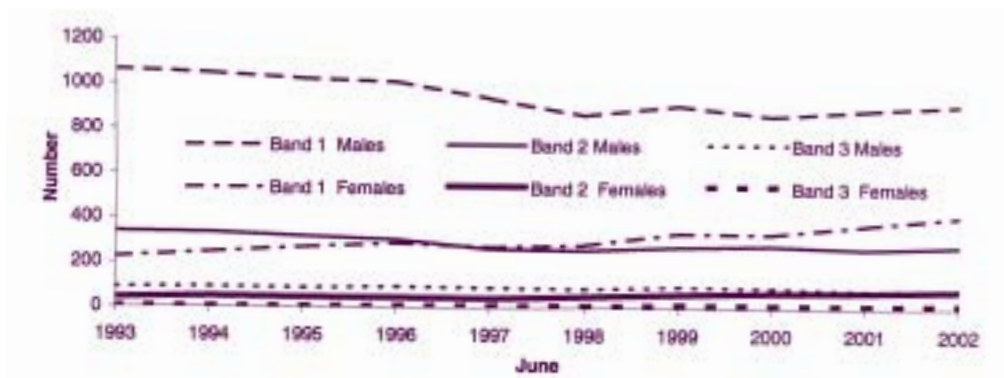
Source: APSED

Figure 5.2 indicates the changing age profile for the SES as a whole. The shift of the age profile between 1993 and 2002 indicates an aging of the SES workforce. Since 1993 the proportion of SES employees aged less than 45 has fallen. The largest age cohort of SES in 1993 was the 45–49 years age group; in 2002 this has risen to the 50–54 years age group.

13
   These figures exclude statutory office holders.

Figure 5.2 Changing age profile for SES
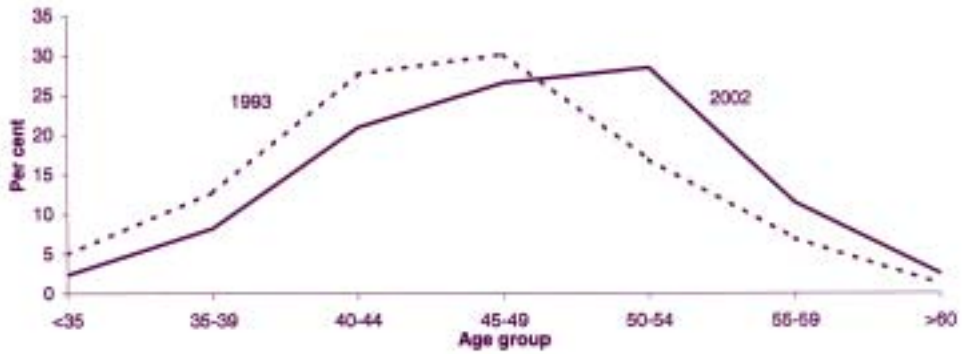
Table 5.4 indicates that the 45–49 and 50–54 years age groups are the most populous for all three SES Bands, with over half the SES (55%) in this age range. Currently 43 senior executives (2.4% of the SES) are aged over 60 years, 42 (2.4%) are aged less than 35 years. However, the youngest age group for Band 3 executives is 40–44 years, with 14% of total Band 3 executives in this age group.

Table 5.4 SES by age group, gender and classification at 30 June 2002

Age in years	Band 1			Band 2			Band 3			Total	
	M	F	Total	M	F	Total	M	F	Total		%
<30	3	–	3	–	–	–	–	–	–	3	0.2
30–34	19	19	38	1	–	1	–	–	–	39	2.2
35–39	86	50	136	6	3	9	–	–	–	145	8.2
40–44	191	108	299	41	14	55	12	2	14	368	20.9
45–49	230	109	339	70	32	102	19	6	25	466	26.4
50–54	257	95	352	89	23	112	30	5	35	499	28.3
55–59	96	24	120	53	6	59	18	3	21	200	11.3
60 & over	23	2	25	14	–	14	4	–	4	43	2.4
Total	**905**	**407**	**1312**	**274**	**78**	**352**	**83**	**16**	**99**	**1763**	**100**

The aging of the SES cadre raises important management issues for agencies. Larger proportions of the SES will reach possible retirement ages over the next decade than in the past. In addition, the financial incentive available to some members of the Commonwealth Superannuation Scheme (CSS) to resign before they turn 55 (the 54/11 issue) has been identified as a factor which may artificially accelerate the resignation of some APS employees in that scheme. Given the older age profile of the SES, the potential impact of the 54/11 issue on this group has significant implications for workforce planning. While any impact will vary between agencies consistent with the variable age profile of their SES, agencies will need to adopt a more strategic approach to the available options for retaining or reemploying mature aged staff. In particular this will require a more creative approach to flexible working arrangements for older workers, including part-time work, variable and part–year employment, project and mentoring work, phased retirement and telecommuting. The forthcoming MAC paper on organisational renewal will explore this issue in detail.

THE SENIOR EXECUTIVE LEADERSHIP CAPABILITY FRAMEWORK (SELCF)

Last year's report noted that the SELCF would be reviewed during 2001–02, in line with undertakings made when it was launched in 1999. The APS Commission sought views from all portfolio secretaries and benchmarked the SELCF against international practice.

All of the portfolio secretaries advised that the SELCF was proving successful in providing a strong focus for SES selection, development, and increasingly, performance assessment. They described the capabilities contained in the framework as relevant, comprehensive and useful. Some Secretaries indicated they were making more extensive use of the SELCF in developing those EL2 staff in their agencies that represent the SES feeder group.

While some suggested minor modifications, most portfolio secretaries preferred no change to the SELCF, particularly while its use and understanding was still consolidating across the APS. There was some interest in the APS Commission undertaking some further work to improve the practical application of the SELCF, especially for SES selection processes.

International research commissioned through the Corporate Leadership Council (CLC)[14] reinforced that the development of the SELCF had been rigorous, and the capabilities identified were relevant across many organisations. This assessment is based on the CLC's observations that the SELCF capabilities were developed after extensive research and consultation, and that the key leadership capabilities of the organisations profiled in their research aligned with those in the SELCF. The research also noted the importance of providing the validity of frameworks during development and, by way of example, cited a typical development process that closely mirrors that undertaken by the then PSMPC.

Since September 1999 the SELCF capabilities have been the core criteria for selection to the SES. The number of agency requests to the APS Commission for additional selection criteria for particular SES vacancies provides a useful barometer of the continued relevance of the SELCF.

Such requests have been comparatively few in number. The Public Service Commissioner agreed to 24 requests in 1999–00 (representing 13% of SES vacancies advertised), rising to 34 in 2000–01 (19% of vacancies), dropping again to 21 (10% of vacancies) in 2001–02. In the main, requests relate to the need for specific corporate/financial skills, specific taxation expertise, or legal skills.

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[14] The Corporate Leadership Council, a company based in the USA, provides best practices research to member organisations.

DEVELOPING LEADERSHIP

During 2001–02 the APS Commission and individual agencies continued to emphasise the importance of providing contemporary and innovative leadership development activities.

The Public Service Commissioner has a specific responsibility under the *PS Act 1999* to 'contribute to, and foster, leadership in the APS'. In practice, the APS Commission exercises this responsibility in close collaboration with agencies. In the area of development for senior executives, individual agencies are often best placed to undertake significant elements of leadership development in the context of their own cultures and organisational issues.

The APS Commission's expertise enables it to provide development on the core requirements of leadership in the APS as articulated in the SELCF[15] and the key cross-service challenges and skills requirements. These include achieving better governance, achieving strategic change and improving project management. This complements the leadership development work undertaken by agencies.

On the APS Commission's own programs during 2001–02, 25% of all senior executives, and 40% of senior executives located in Canberra, took part in one or more of the APS Commission's development opportunities. There is a marked preference for attending short programs, such as SES Breakfasts, SES Updates and Lunchtime Seminars. This preference also shows through in participation rates for the APS Commission's Orientation to the Senior Executive Service program (Orientation program).[16]

Previous reports have commented that just over half of the eligible SES employees attended the Orientation program. This trend continued in 2001–02, with around 54% of new entrants to the SES attending this key program. Typically, lack of available time is raised by those many senior executives who wished to attend but could not.

The importance of senior executives developing and maintaining their leadership capabilities is well acknowledged. The trends suggest individuals may have difficulty giving development activities sufficient priority against their day-to-day demands. The APS Commission will continue to schedule its programs to give senior executives the maximum opportunity to participate. Individuals and their agencies need to work together to ensure there is sufficient time to attend. The Public Service Commissioner considers that a high proportion of new entrants to the SES should attend the Orientation program, and a high proportion of the SES should attend the Executive Leadership Development Program[17] in the first two or three years as a senior executive.

For many agencies, an investment in their internal leadership development has remained a priority over the past year. Two examples are Treasury and Defence. These programs typically provide a mix of agency–specific business strategy and corporate management discussion, and leadership development activity consistently applied across the agency's senior staff. As such they contrast with and may complement the APS Commission's service-wide activities that provide more in-depth leadership development.

15
   The component capabilities of the *SELCF* are shapes strategic thinking; achieves results; cultivates productive working relationships; exemplifies personal drive and integrity; communicates with influence.

16
   The 'Orientation to the Senior Executive' program is a two–day course that is held every two months, with an average of 19 participants each time.

17
   The Executive Leadership Development program is an intensive program, which runs over eight days over a six–month period which aims to improve leadership ability.

Treasury Case Study

Treasury developed the Treasury Management Model (TMM) in 1998. The TMM has provided a framework for a range of organisational strategies including the Treasury management structure, role accountabilities and people management systems.

In order to complement the new management arrangements, a comprehensive EL2 Leadership Development Program was conducted throughout the Department and provided the opportunity for participants to familiarise themselves with the SELCF.

As a link between senior management (SES) and their own teams, EL2s play a pivotal role within the context of greater devolution of responsibilities. It has been important that there was development at that level to enhance strategic thinking and strengthen team leadership and personal effectiveness.

The Leadership Development Program has consisted of the following components:

- Induction and expectation setting seminar

- Use of the APS Commission Senior Executive Leadership Capability 360–degree feedback, team effectiveness and emotional intelligence instruments, as well as individual interviews and debriefing sessions

- Reading and research

- A strategic context seminar covering challenges for the agency, the APS reform agenda and strategic thinking and planning

- Action learning projects of a strategic nature

- A recall and project presentation session.

The program is designed to integrate individual, team and organisational development.

The organisational impact of the program has been to:

- Provide for an acknowledgement of the importance of leadership throughout the organisation

- Benefit the SES within the organisation as they are involved in critical components of the program through coaching and mentoring

- Provide an environment for active debate between EL2s and the SES with EL2s having increased expectations of the SES.

To build on the impact already experienced from the EL2 Leadership Development Program, Leadership and Management Modules are also being developed for the EL1 group so that they can enhance their team leadership skills and be better prepared for EL2 roles.

Defence Case Study

The White Paper Defence 2000 recognised new leadership challenges in managing a complex workforce and resource environment as well as the military environment. Strengthening organisational leadership is a key theme of the Defence organisational renewal agenda. The Defence Leadership Team meets twice annually and at these meetings developed a Defence People Leadership Model that has seen the Capstone program for SES Level 1 and 1 star military officers emerge. Capstone provides a values-based leadership learning experience in the context of contemporary Defence issues. It provides a safe forum for the exchange of ideas and interchange between participants and senior executives who deliver the sessions, mentor participants and sponsor Action Challenge Projects. This is the first in a planned set of activities to introduce different layers of Defence to the leadership component of the renewal agenda, which is based on the philosophy of Results through People.

The Defence People Leadership Model is built around the Defence Leadership Values and sets out the behaviours that leaders identified as exemplifying the kind of leadership needed for Defence to achieve its mission effectively while providing a working environment where people could do their best. The five leadership capabilities identified in the Leadership Model are to:

- Set the standard for performance

- Give meaningful direction

- Make communication a priority

- Create a climate for success

- Persist until the job is well and truly done.

The program comprises the 360-degree feedback component, a five day residential program, with each day seeing members of the Defence Committee acting as guest speakers to address one of the five leadership capabilities, an action project, and four recall sessions. The mentors provide ongoing advice to individuals and teams throughout. The Secretary and Chief of Defence Force have an active involvement and interest, and participate on each Capstone project.

The Capstone program is more than a developmental course, and the objective is to create long-lasting change. Seven Capstone programs have commenced since 2001 and participants in the first Capstone program completed formal components in June 2002.

Participant evaluations conducted to date indicate that Capstone is a valued leadership program. Defence plans to run a number of Capstone programs each year. Late in 2002, the method and design will be evaluated and suggestions for improvement will be incorporated in 2003 iterations.

DEVELOPING THE SENIOR EXECUTIVE SERVICE FEEDER GROUP

Last year's report commented on the increased attention to identifying the development needs of those EL staff who form the feeder group for the SES. This trend continued during 2001–02, as part of the focus on ensuring that the APS has sustainable leadership into the future.

The Career Development Assessment Centre (CDAC) continues to be a prime source of information on the strengths and development needs of high performing EL2 staff. By 30 June 2002, 347 participants had attended a CDAC. Agency participation and involvement in CDAC has increased to 27, up from the initial 15 agencies involved in December 1999.

Two evaluations undertaken for the APS Commission indicated that agencies regard CDAC as a highly suitable tool for the identification of development needs in relation to the SELCF, leadership development and as a strategy to complement their own succession management approaches and specific leadership development activity.

Further analysis of CDAC participant performance has reinforced the trends on areas of relative strength and weakness identified in last year's report. As a group, participants are strong on problem solving and dealing with the task at hand, but tend to lack a longer-term perspective. They need a greater strategic focus as well as the ability to inspire a sense of purpose and direction. Their capacity to guide, mentor and develop their staff is also an area for improvement.

More positively, attendance at the CDAC appears to have led to improved performance over time for the majority of participants. An evaluation of the performance change of CDAC participants undertaken during 2001–02 found that managers assessed that overall performance change had occurred in 70% of cases; and that performance had improved in areas identified in the CDAC as development needs. A recent evaluation[18] of the impact of CDAC on participant performance indicated that approximately 35% of participants attending the first 12 CDACs had already been promoted into the SES.

Similar trends in EL development needs also emerged from separate studies undertaken by the APS Commission during 2001–02. These involved structured programs of visits to agencies and feedback from APS Commission sponsored network meetings, and feedback from participants on APS Commission programs. The Band 2 survey conducted in May 2001 also identified similar executive level development needs for the period 2001–02.

Priority development areas for EL staff were consistently identified as the ability to take a broader view, think strategically, demonstrate leadership and manage people and performance. Development needs for the future were validated through a survey of Band 2 senior executives, focus groups of representatives from agencies and APS Commission research. Common areas for future development included understanding governance issues, integration of values, and ethics and accountabilities in management. In response to the priority development areas of EL staff and the identified areas for future, the APS Commission developed a series of short courses to specifically address these areas. The EL Series was launched in February 2002, and has consistently high attendance rates, reflecting the development needs of staff at this level.

Development in core areas of policy skills, and financial, contract and project management continues to be seen as important. There has, however, been a shift in focus in these areas reflecting the increasing

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[18] *Performance change and evaluation report*, PSMPC, 2000. This figure is based on 78 responses to a survey to all 137 participants of the first 12 CDACs.

complexity of the environment and the significance of building and maintaining relationships. Development in contract management, for instance, now needs to impart skills in identifying and specifying complex requirements and managing relationships with suppliers over the long term. Policy development programs need to encourage a more strategic and innovative approach that incorporates input from outside the public service and responds to increased competition from other providers of policy advice.

CAPABILITY DEVELOPMENT

To increase the realisation of its full potential, the APS will need to continue to develop and extend its organisational capability. Agencies need to understand the changing skill requirements for their business outcomes and the need to integrate their business priorities and people management.

Two key processes for building organisational capability are the identification of capability needs through workforce planning, and responding to these needs through effective strategies for the management of learning and development. Both of these processes were the subject of significant external scrutiny during 2001–02.

WORKFORCE PLANNING

The recently published ANAO benchmarking report,[19] involving 14 APS agencies, indicated that workforce planning is still a priority area for improvement. The ability of agencies to identify current and future skill needs, and put in place strategies to meet those needs is progressing, although it still requires attention. There is a MAC sub-committee investigating the challenge of building organisational capability which will report during 2002–2003. The sub-committee's findings will inform workforce planning initiatives in agencies and assist agencies to better identify workforce planning imperatives.

The 2000–01 report indicated that while there was a growing awareness across the APS of the ANAO's better practice guide, 'Planning for the Workforce of the Future' (released in March 2001), it was evident that only some aspects of the workforce planning guide were being used to address individual agency priorities. Last year's report did point to an increasing recognition of the importance of workforce planning, including linkages with business planning processes, the development of comprehensive capability plans, new systematic approaches to career planning, recruitment strategies and learning and development. Similarly, agencies reported that workforce planning had progressed not only in acceptance, but also in sophistication.

The ANAO report noted the State of the Service Report conclusions, but said more work is required:

> … The 2000–01 State of the Service Report suggests that agencies' thinking in relation to the use of strategic workforce planning techniques has progressed in the last 12 months. While this may be the case, there remains a clear requirement for further improvement in terms of designing well-integrated plans and translating them into practice to ensure that they play an integrated role in contributing to business outputs and outcomes.[20]

The ANAO report also commented that in most agencies people management planning was not integrated into business planning, and workforce planning was the lowest performing of all the people management

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[19] ANAO, op cit.

[20] ibid., p.25.

practice areas and requiring the largest improvement. Most agencies participating in the benchmarking study indicated that it was a clear area of focus in the short term, notwithstanding that it is a practice that is relatively new to most agencies. There is an apparent contradiction between what agencies were stating about their workforce planning in the *State of the Service Report 2000–01* and what the ANAO study actually found. This may have resulted from the wide range of approaches agencies have taken in defining and implementing workforce planning or from the different lines of inquiry pursued by the State of the Service Report and the ANAO.

The ANAO report suggests that 'agencies tend to focus more on short-term 'replacement management' rather than taking a medium to long term view of shaping the workforce to ensure that it is capable of delivering organisational objectives'.[21] Additionally, there is evidence that although line managers support workforce planning as a priority for agencies, they were not convinced that 'their agency's current workforce planning practices made any real contribution to agency performance'.[22] The workforce planning processes were lacking an integrated approach that incorporated people management with business priorities.

However, some progress is being made. A number of agencies have taken steps towards comprehensive workforce planning. Customs has an extensive workforce planning system in place, which includes sophisticated HR reporting tools. The data obtained is used to inform workforce planning imperatives. The Department of Education, Science and Training has identified some future skills and knowledge requirements and implemented accelerated learning and development strategies to meet these requirements. Geoscience Australia has undertaken extensive work in determining current skills needs and uses this data to inform recruitment and retention strategies.

Since 1999–00 the APS Commission has promoted an APS-wide succession planning approach to identify the broad skills required over the following three years across the SES Band 2 and 3 classifications to achieve agency outcomes. This includes an analysis of skills available and existing capability gaps, and plans for closing the development gaps. Many agencies are also implementing succession management strategies in other areas of their organisations in the context of workforce planning. A number of agencies are also using performance management processes to identify high performers and those with potential to compete for future vacancies. Some agencies have capability templates in place and use these as a basis for benchmarking the skills required for future vacancies and guiding learning and development.

With the changing nature of the APS and its workforce, agencies will need to take a deeper level of responsibility for effective workforce planning. Agencies need to understand their own demographic and workforce trends including the aging of the workforce. The demand for more varied hours of work arrangements, particularly by older workers, and changing career patterns, including the trend to more lateral recruitment need to be considered. The imperative continues for HR to focus on partnering with line managers to align business and people.

MANAGEMENT OF LEARNING AND DEVELOPMENT

In June 2002 the ANAO tabled the report of its Performance Audit of the Management of Learning and Development in the APS. The audit was based on a survey of all agencies with more than 100 staff, and

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[21] ibid., p.24.

[22] ibid., p.23.

detailed fieldwork in six agencies. The audit estimated that total expenditure on formal learning and development in the APS during 2000–01 was around $160 million, or an average of $1616 per full-time ongoing employee.

The ANAO found that, while agencies had made significant efforts to ensure that learning and development strategies were properly aligned with the business needs identified in their corporate plans, they were unable to demonstrate the efficiency and effectiveness of their investment in learning and development and its contribution to organisational effectiveness. In particular:

- While the majority of agencies indicated they had learning and development performance indicators as part of their performance information frameworks, they were generally measures of activity rather than effectiveness.

- Across the service, the collection of data on expenditure on learning and development and staff training days was patchy.

- In general, agencies were not evaluating learning and development strategies, and were consequently not in a position to determine how successful learning and development outcomes had been in assisting agencies to achieve their business outcomes.

The ANAO made three recommendations concerning the role of the APS Commission:

- The APS Commission should better target its facilitation efforts on learning and development in the APS, including through the development of better practice principles.

- The APS Commission should assist agencies in evaluating the organisational impact of learning and development.

- the APS Commission should regularly assess the value for money provided by its services and implement an evaluation strategy.

The APS Commission agreed with all recommendations and is working in conjunction with the ANAO and with an interagency reference group, to produce a Better Practice Guide on the Management of Learning and Development in the APS. The Better Practice Guide will encourage and support agencies in developing a more strategic approach to planning, delivering and evaluating learning and development to meet organisational goals and deliver best value for money. The APS Commission is also developing its own evaluation strategy for delivery of learning and development programs.

While recognising that the assessment of the organisational impact of learning and development remains the responsibility of each agency—the APS Commission will produce a framework to assist agencies in evaluating learning and development early in 2003. This is to promote ongoing business practices that will assist agencies in developing a comprehensive approach to assessing the value gained and encouraging ongoing improvement for future learning and development. The Better Practice Guide provides managers with key guiding principles, whereas the evaluation framework will provide a more substantial tool for practitioners to actually develop targeted evaluation strategies.

In March 2002 the Senate Finance and Public Administration References Committee announced it would conduct an inquiry into APS recruitment and training. The learning and development aspects to be

examined by the Committee include: trends in expenditure and value for money; methods for identifying training needs; evaluation; extent of accredited and articulated training; and adequacy of learning and development opportunities in regional areas. The Committee is due to report by December 2002.

Examples of how three agencies manage their learning and development activities are set out below. Each agency operates within a different organisational environment and has adopted a different approach to the management of learning and development. Centrelink has developed a unique approach to delivering accredited training to all staff, regardless of their geographic location. The Centrelink Virtual College combines the benefits offered by technology with targeted training to develop staff as they pursue their career objectives. The Department of Foreign Affairs and Trade has a large staff with a worldwide presence and diverse skilling requirements. Conversely, the AGO is a small agency that has adopted the Investors in People standard as a framework for its organisation.

Case study: Centrelink Virtual College

Agencies manage their learning and development in different ways to suit their organisational circumstances, such as geographic spread and the nature of work, as well as to meet current and emerging skills requirements, using a variety of delivery mechanisms. The Centrelink Virtual College (CVC) has been developed to provide maximum flexibility in the delivery of learning to all staff, regardless of their geographic location.

Rather than being a place or a building, the CVC is a team of highly experienced and qualified learning specialists. The CVC delivers training to address work performance requirements, assists employees gain nationally recognised qualifications, and thereby creates career paths. The CVC also includes the Centrelink Education Network (CEN) and the Indigenous cadetships and scholarships. The CEN is an interactive distance-learning environment that fully integrates video, voice and data, giving all Centrelink Employees access to live, real time training, regardless of their location.

The CVC also is responsible for providing guidance across the organisation to ensure standardisation and consistency in the development and delivery of all training. The CVC currently offers training towards 10 nationally recognised qualifications, including certificates and diplomas in business from the Community Services Training Package, certificates and diplomas from the Business Services Training Package, the certificate IV in telecoms (call centres) from the Telecommunications Training Package, and the certificate IV in government (fraud prevention and detection) from the Public Services Training Package. The college also offers qualifications from National Training packages working closely with Industry Training Advisory Bodies to develop competencies that best suit the needs of Centrelink staff. There are currently 3000 employees enrolled, up from 270 in 2000.

Access to the CVC is available to all Centrelink staff whose learning and development needs, as identified in their Individual Learning Plan, can be met by the courses offered through the CVC. Training is free to all Centrelink employees, and the Centrelink Development Agreement provides staff in call centres with 10 hours for Learning and Development time per month and staff in Customer Service Centres with 12 hours for Learning and Development per month.

Case Study: Department of Foreign Affairs and Trade (DFAT)

DFAT is dependent on highly skilled and flexible staff to deliver the outcomes expected of it by the Government and other clients. They have identified that an efficient and effective training and development strategy, integrated with a broader HR program, which marshals and builds on the diversity of skills, experiences and qualities of DFAT staff, is crucial to the continued achievement of their objectives. The department's approach to the planning for, delivery and evaluation of, learning and development is an integral part of the department's overall business processes.

Learning and development is a key component of DFAT's overall HRM strategy, and is linked to the DFAT performance management system to help identify key areas of need, including individual underperformance and 'skill gaps' at the corporate level. Mechanisms requiring all work units (divisions, state and territory offices and overseas posts) to provide annual staff training and development forecast plans have been put in place to ensure all managers embrace and support training. At the end of each year, the Senior Executive reviews the extent to which those training plans have been fulfilled.

Key objectives of the learning and development strategy are to be relevant, focussed and cost-effective; all training is clearly aligned with the achievement of corporate goals. Training is also accessible to all staff worldwide, including locally engaged staff. The three key training priorities are: leadership and management, professional knowledge skills, and foreign languages.

Training is delivered through four specific programs: graduate training programs, development and professional skills programs, language studies, and external studies assistance.

Learning and development is evaluated at several levels. Training priorities are reviewed annually to ensure that workforce planning information is being incorporated. Participants are surveyed for their satisfaction in having their identified needs met; and delivery is rigorously assessed as part of the departmental evaluation review process. Evaluation and review findings are key inputs to ongoing planning and improvement initiatives within the department.

Case Study: Australian Greenhouse Office

The AGO was established to provide whole of government advice on greenhouse, and to administer greenhouse programs.

The AGO's Performance Management, Recognition and Development Scheme (PMRDS) is the fundamental driver of its values based culture. The PMRDS gives equal weight to 'How I deliver' and 'What I deliver'. The 'How' is assessed against the AGO and APS Values, which include professionalism in the coaching and development of AGO people The AGO recognises, through its Certified Agreement, the continuing need to invest in the skills, training and career development of its people, to enhance their performance in the organisation and to provide a more flexible and rewarding workplace. The Investors in People (IiP) standard provides the framework for the AGO.[23]

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[23] The IiP standard ensures that learning and development efforts are aligned to corporate goals, fully integrated with the people strategy, whilst efficiently and effectively delivered, and evaluated regularly. The IiP Standard is a framework of four principles, containing 23 indicators, making up the requirements leading to best practice for effective development of all employees within organisations. It is not a training standard or program.

The AGO corporate plan identifies the need to create a culture of teamwork where staff feel valued, giving them the opportunity to contribute to their maximum potential, and to foster continual improvement by evaluating, developing, rewarding and managing performance in order to deliver to government. The AGO 'people strategy' guides staff in the planning, undertaking and evaluating all people management activities.

Learning and development needs for teams/individuals, are identified through the performance management process (Personal Advancement Plans and the Statements of Skills), with equality of access to opportunities ensured by using a wide range of opportunities. As an example, the AGO offers, on demand, a suite of nearly 20 "AGO In-House Development Activities"(IHDAs). These activities are AGO specific. They are delivered in-house, reflecting AGO realities, e.g. AGO language, forms, policies, procedures, Chief Executive's Instructions etc. Examples range from 'hard skills' like Managing Complex Contracting Issues and Financial Management, through to Writing Skills and Management Development activities. These activities are subject to internal charging, averaging around $200 per person per day.

AGO people can also choose to attend external development activities, and are encouraged and supported to continue with tertiary education. The AGO budget for learning and development is fixed at 4% of base payroll, and the money is devolved to team level.

The AGO provides quarterly reports on learning and development to the Executive. The report for the quarter April/June 2002 showed that the average number of days AGO people spent at learning and development activities in that quarter was 1.4 days. Average spent in the quarter was $370.

The AGO employs a variety of methods to assess the effectiveness of its learning and development strategy. These include application of the IiP Standard, PMRDS assessments; and feedback from exit surveys.

The evaluation of the AGO's Training and Development Program for 2001 showed that 90% of AGO people either agreed (71%) or strongly agreed (19%) that the Program met its objectives.

SOME OBSERVATIONS

The achievement of higher performance has been a major area of interest during 2001–02. Performance management, learning and development, and benchmarking of people management have all been subjected to external scrutiny. This external attention has provided a snapshot of current practices and achievement, as well as providing significant focus for future efforts in the continued improvement of performance and its contribution to organisational effectiveness.

The MAC report on performance management provides a strategic framework for agencies to continue with refining performance management. Major challenges for the future were identified as establishing the credibility and engagement of staff. In addition, dealing with underperformance should be an immediate focus for managers and leaders. Effective performance management requires performance review and

feedback to individuals as well as establishing relevant links from the individual to organisational performance goals. The APS Commission is intending to increase its focus on performance management in 2002–03 through various activities and good practice examples to assist agencies to build organisational performance.

Leadership development continues to be a major focus of both agencies and the APS Commission. It is certainly no longer viable to expect that individuals can somehow learn to become leaders once they have entered the SES. The APS needs to identify potential leaders at an early stage in their Public Service careers, and, within a structured succession management process and in accordance with APS Values, ensure that these people have access to opportunities (both on and off-the-job) that will enable them to develop their leadership capabilities. During 2002–03 the APS Commission will develop an integrated leadership strategy designed to assist agencies with principles, approaches and options.

There has been increasing attention on workforce planning in 2001–02 but there needs to be an even greater focus in the future. The MAC report on organisational renewal may provide impetus given current demographic trends. Effective workforce planning must go beyond tracking age profiles and demographics and take a strategic look at the workforce requirements of the future, and initiatives to meet those demands, such as the most appropriate ways of buying and developing skills and knowledge. Agency HR practices need to be redesigned and aligned to ensure that they will support the creation of the workforce required for future capability.

The management of learning and development will continue as an area for refinement, with emphasis on evaluation supported by reliable data being an immediate priority. It is apparent the APS needs to do more to ensure that its significant investment in learning and development is not only an effective use of resources, but also ensures that staff are developing the capabilities actually needed to deliver agency outcomes. The strategic connections between workforce planning, judicious use of learning and development activities and individual needs have emerged as priorities requiring more formal attention. During 2002–03 the APS Commission will be collaborating with ANAO on the development of a Better Practice Guide for the Management of Learning and Development, and will itself be developing a new framework for the evaluation of learning and development activities.

This chapter covers a range of issues relating to accountability. The implementation of the still relatively new financial management reforms is discussed, including developments in the outputs and outcomes framework, accrual budgeting, agency management of the GST and devolved banking arrangements. The outcome of the external scrutiny of accountability issues relating to contract management during 2001–02 is also covered. An assessment of agencies' compliance with the amended privacy legislation is presented.

In light of the rapid move to electronic records and the recordkeeping issues raised in the Senate Inquiry into a Certain Maritime Incident, agencies' recordkeeping activity and systems are examined. The chapter also looks at the incidence of fraud in the APS. Other issues that arise with agencies' relationships with the Parliament and with Ministers and ministerial offices are examined in Chapter 3 which deals with Values and Conduct.

FINANCIAL MANAGEMENT REFORMS

The past year has seen further consolidation of the budgeting framework, which was implemented in 1999. In addition, Finance advises that they have been reviewing financial management arrangements and aiming to simplify them where possible.

Progress with the consolidation of financial reforms has been supported by three major external reviews. The Management Advisory Committee (MAC) commissioned a project on the Budgeting and Resource Management Framework during 2001–02. A draft report based on the views of agencies on the budgeting framework was prepared before the 2002–03 Budget and influenced some changes at that time aimed at simplifying aspects of the framework and clarifying some accounting issues. The project has been overtaken by the more substantial Budget Estimates and Framework Review that the Government has asked Finance and Treasury to undertake.

The Joint Committee on Public Accounts and Audit (JCPAA) tabled the report of their review of the accrual budget documentation.[1] The JCPAA concluded that the overall structure of the accrual budget documentation is sound and acknowledged that with any new system there will be a period of adjustment. The JCPAA encouraged agencies to develop greater cross-portfolio information. The report was critical of the lack of consistency where outputs span several years of funding, and also of the inadequacy of agency performance information in providing a basis against which performance can be measured. The JCPAA was satisfied that agencies had endeavoured to achieve consistency, and found there was still room for improvement.[2]

The ANAO undertook an audit of performance information in Portfolio Budget Statements (PBS)[3] in 10 selected agencies, and reconciled this information with annual reports. They reported that the agencies had placed considerable emphasis on developing useful performance information but that nevertheless such information could be improved.

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[1] JCPAA (2002) Report 388: *Review of the Accrual Budget Documentation*, June, Canberra.

[2] ibid., p.iii.

[3] ANAO (2001) Report No.18, 2001–2002: *Performance Information in Portfolio Budget Statements (PBS)*.

THE OUTCOMES AND OUTPUTS FRAMEWORK

The outcomes and outputs framework was first introduced in the 1999–00 Commonwealth Budget in conjunction with the move to full accrual budgeting and accrual appropriations. It built on the program budgeting framework introduced in the 1980's with its emphasis on program objectives and managing for results. The framework was designed to help answer three fundamental questions: What does the Government want to achieve? (i.e. outcomes). How does it achieve this? (i.e. outputs and administered items). How does it know if it is succeeding? (i.e. performance reporting). Two of the objectives of the Framework are to improve agencies' corporate governance and to enhance public accountability.[4]

The PBS are a major component of the operation of the outcomes and outputs framework. They are forward-looking documents that identify funding for the coming year to support the delivery of specific outputs and administered items to identified performance standards. The information in the PBS must be sufficient to explain the agency's resourcing and proposed performance in relation to their effective contribution to outcomes and efficient delivery of outputs.[5] Agency outcomes may be revised by portfolio additional estimates statements (PAES) during the year.

At the conclusion of the financial year Agency Heads are required to prepare annual reports to support their accountability to Ministers, and through them to Parliament, on the actual performance of their agency over the previous year in achieving the performance standards identified in the PBS. Requirements for annual reports[6] are promulgated by PM&C, and approved by the JCPAA. In 2001–02 there was continued refinement of outcomes and outputs structures by some agencies. Finance advised that, in the main, these structures have remained relatively constant since their introduction in 1999, enabling better comparison of performance across years by stakeholders and other interested parties.

The JCPAA[7] noted the criticality of links between outcomes and outputs, and also between PBS and annual reports. It raised concerns[8] that there were difficulties in tracking accountability information provided by agencies throughout the budgetary cycle from the PBS to PAES to the annual report and then to the PBS of the following year. The JCPAA concluded that, while many agencies were making progress in achieving consistency, it 'is determined that all agencies achieve consistency in all Budget related reporting'.[9] Finance agreed that 'there is room for improvement at a practical level in the PBS, in places and in parts'.[10]

Finance reports that effective budgeting, performance and financial management systems require periodic review. A review by Finance and Treasury of the timeliness and accuracy of the budget estimates process will be completed in late 2002. This review will provide recommendations and strategies for extracting further benefits from the Framework and identifying and addressing any shortfalls in the current implementation.

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[4] Finance (2000) *The Outcomes & Outputs Framework Guidance Document,* November [www.finance.gov.au/aboutus/outcomesoutputs.html].

[5] Finance (2002) *Guidelines for the preparation of Portfolio Budget Statements 2002–03, part 1.*

[6] Department of the Prime Minister and Cabinet (2002) R*equirements for Annual Reports,* June. [www.pmc.gov.au/publications.cfn].

[7] JCPAA (2002) *op.cit.,* p13

[8] ibid.

[9] ibid., p.14, para 2.34.

[10] ibid., p.14 para 2.31.

Consistency in Budget related reporting

Relative consistency of reporting across years and between agencies is important for the Parliament and other stakeholders to establish performance and accountability trends as part of the scrutiny process. The JCPAA indicated that it was satisfied agencies were endeavouring to achieve consistency, but were concerned that some outcomes statements were too broad and some output descriptions difficult to comprehend. The Committee noted that often where outputs spanning several years of funding had changed, only a simple statement in the documentation notified these changes with little explanation. The JCPAA found the low level of explanation provided for some changes was 'insufficient and unacceptable' and making it more difficult for Parliament to properly monitor changes across financial years. The report indicated that agencies need to explain the change, the underlying reason, the basis for comparison, and implications for the funding of agency programs. The JCPAA also identified the need for agencies with highly aggregated outcome statements to identify intermediate outcomes to provide sufficient detail for Parliament to adequately assess proposed resource allocation and performance.

Finance reports that there has been a growing trend over the past year of the introduction of more outcomes by agencies that previously had a more aggregated approach, and this trend is expected to continue. Finance has also been progressively assisting some agencies with improving their outcome statements when a change is made.

The JCPAA also requested agencies to provide more disaggregated output information to support transparency and accountability for performance, and encouraged Finance to make available better practice examples where agencies have provided appropriately disaggregated outcomes and output information in a cost-effective way.[11] The JCPAA concluded that:

> …if agencies do not embrace such identified better practice, it may be necessary to implement such a practice as a requirement rather than as a guideline[12]

and tasked Finance with reporting where agencies appear not to be adopting better practice.

The JCPAA highlighted it's ongoing interest in consistency of outputs and outcomes, flagging that it will maintain a watching brief to ensure its delivery in the longer term.[13]

Adequacy of performance information

Both the JCPAA[14] and the ANAO[15] [16] examined and reported on the importance and adequacy of performance information in supporting accountability for outcomes, and made recommendations for their improvement. The ANAO examined the performance information of 10 agencies and found limitations with performance information in all agencies; most frequently that effectiveness indicators did not measure outcome performance. The ANAO also identified that PBS performance information frequently did not have targets, or that the targets were vague and/or ambiguous. Consequently, the ANAO recommended[17]

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11 ibid., p.iv-v.

12 ibid., p.30, para 3.47.

13 ibid., p.vi.

14 ibid.

15 ANAO (2001), op.cit.

16 ANAO (2002) *Performance Information in Portfolio Budget Statements: Better Practice Guide*, May.

17 ANAO (2001), op.cit., p.19.

that agencies review their performance information to ensure that effectiveness indicators focus on contribution to outcomes, and that output indicators measure designated characteristics to the extent practicable. The ANAO also recommended the development of appropriate performance targets for the performance information to ensure that there is a basis for assessing performance in the achievement of outcomes and outputs. The ANAO has produced a better practice guide[18] on performance information to support agencies. The agencies examined in the audit generally supported the thrust of the report and found it a useful contribution to how best to present performance information meaningfully. Many indicated they would address any limitations with their performance information as a result of the audit findings.[19] The ANAO found the agencies generally had adequate organisational arrangements to support the PBS performance information and reporting.

The JCPAA was emphatic about the need to develop targets or standards for PBS performance measures, recommending that:

> [a]gency performance measures identified in the portfolio budget statements must always be accompanied by a comparative standard. Agencies should report their performance against this comparative standard in their annual reports, with a discussion if actual performance significantly varied from that expected.[20]

Significantly, the JCPAA took the unusual step of including 'must' in this recommendation to emphasise the strength of it's conviction.

The JCPAA was satisfied that both Finance and the ANAO were providing the appropriate level of guidance to agencies. However, objective indicators of whether this guidance is adopted or has other positive outcomes are not available. Consequently, the JCPAA recommended that both Finance and the ANAO develop performance measures with appropriate targets, for the advice they provide to agencies, and to discuss these in their annual reports.

The Auditor-General raised the dilemma of performance information potentially being weakly correlated with actual performance, and yet any significant experimentation with new forms of performance information to remedy this may lead to discontinuities and monitoring issues.[21]

The Senate Finance and Public Administration Legislation Committee (SFPALC) also examined and reported on the quality and consistency of targets and performance information in its examination of annual reports.[22] The SFPALC noted the occasional absence of targets for performance measures, the absence of explanations for variations between budgeted and actual figures, the difficulties of providing a performance assessment of policy advising functions, and the lack of detail to support some performance targets. The SFPALC commented on the need for agencies to provide an explanation whenever performance targets are not met, and outline a strategy to improve performance. Special note was made by the SFPALC of the limited use of targets for demand driven activities. However, consistent with concerns about the stability of the reporting framework, the SFPALC made clear their expectation that future changes would be minimal, commenting:

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[18] ANAO (2002), op.cit.

[19] ANAO (2001) op.cit., p.15.

[20] JCPAA (2002), op cit., p.54.

[21] Barrett AM, PJ (2002) *External scrutiny of government decisions – trends and lessons learnt,* address by the Auditor-General for Australia to the IPAA ACT Division, 31 May.

[22] SFPALC (2002) *Scrutiny of Annual Reports No.1 of 2002,* March. Agencies oversighted include Parliament, PM&C and Finance.

> The Committee appreciates that there may be some modifications to performance indicators over time, particularly in only the second year of full performance reporting from the Portfolio Budget Statements to the annual report. While the Committee anticipates that these types of changes will lessen as the new framework settles down, in the meantime it expects clear explanations of such changes … in annual reports.[23]

The pressure for continued improvement in performance information and reporting should not be seen as a reflection of limited progress to date. Indeed the improvement over the last 20 years has been enormous, and the Institute of Public Administration Australia (IPAA)[24] again noted improvement in the quality of performance reporting. While it expressed concern that much reporting was still activity based and not always well related to outcomes and outputs and the PBS, IPAA also noted improvements in the presentation of information including through specially designed Internet versions of annual reports.

Implementation and guidance

The JCPAA and ANAO have highlighted agency progress with implementation of aspects of the framework, including the variation in implementation by agencies and the need for continuous refinement of the framework, which may take a number of years.[25] Finance sees continual refinement as a necessary and important factor in enabling the public sector and stakeholders to continue to gain full and continuing benefits. Improvements will be supported by guidance issued by Finance, as well as through continued annual scrutiny by Parliamentary committees, the ANAO and other bodies, such as IPAA's annual assessment of agency annual reports.

During 2001–02 Finance made available various guidance for agencies. The Minister for Finance and Administration released Performance Management Principles,[26] which gave guidance to agencies about utilising performance information. The *State of the Service Report 2000–01* flagged the proposed development by Finance of a better practice guide on mapping changes in the framework.[27] This was met by the better practice guide on performance information[28] prepared by ANAO, in consultation with, and the support of, Finance; to be used in conjunction with information provided on the Finance website. Guidance on the specification of outcomes is now web-based,[29] and is structured around the main elements of the framework—outcomes, outputs and administered items—together with the performance information aspects of the framework.

ACCRUAL–BASED BUDGETING

The accrual budget documentation supports the accrual-based outcomes and outputs framework, and aims to link information in the budget papers with the PBS, PAES, and annual reports of agencies. This is designed to provide transparency in the full cost of delivering outcomes and outputs. Prior to the 1999–00

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[23] ibid., p.15.

[24] IPAA (2002) *Report of the Judges on the 2000–01 Annual Reports of Commonwealth Departments and Agencies Reporting under the FMA Act 1997.*

[25] JCPAA (2002), op.cit., p.18.

[26] http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_management_princip.html

[27] PSMPC (2001) *State of the Service Report: 2000–01*, p.86.

[28] ANAO (2002), op.cit.

[29] http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_overview/specifying_outcomes__examples.html

Budget, a cash-based accounting system was in place. Accruals and cash-based accounting systems differ in that accrual accounting recognises revenue and expenses in the period in which they occur, regardless of when cash associated with the transaction is paid or received. Accrual-based budgeting may, therefore, better support accountability for resource management, permitting a reconciliation of costs and benefits for the period. Cash accounting continues to remain an important part of the resource management framework, not only to assist cash management but also because of the unique characteristics of public sector revenue raising and program management, and the Government's macroeconomic policy role.

Both the JCPAA and the ANAO reported on aspects of accrual based budgeting during the year. Finance advised that the structure and format of Portfolio Budget Statements remained relatively constant during the year, with the JCPAA Report not recommending major changes to the current format.

The JCPAA report[30] noted that the JCPAA has been a long time supporter of the move towards full accrual financial management by Commonwealth agencies. The JCPAA[31] found that the overall structure of documentation remained sound.[32] However, it identified areas of concern, including the need for portfolios to provide clear and unambiguous information on discrete organisations in an agency PBS, such as Coastwatch, and acknowledged the legitimacy of criticisms that expenditure on particular programs is no longer able to be tracked.[33]

In addition, the JCPAA noted two key issues relating to the continuity of accrual budget documentation information, the delay between the provision of the PBS at budget time and subsequent annual reporting; and the lack of year by year continuity of comparative information, especially where agencies change their outputs and outcomes structures.

The JCPAA also explored the current basis of cash management, and concluded that there was no compelling reason to discontinue the present system of appropriations on a full accrual basis.

The ANAO examined the internal budgeting practices of a number of agencies[34] and found that while accrual information was being used widely at the agency level, this was not always the case for program managers. The ANAO explained this was not entirely unexpected, as many Commonwealth programs are transfer payments and therefore there is little difference between cash and accrual measures as defined under the accrual budgeting framework.

Nevertheless, agencies still report that further refinement is necessary to bed down the new arrangements and to reap the potential benefits of accrual budgeting. This includes information systems at program level and training of staff.

During the 2002–03 Budget, the Government announced that the calculation of the Capital Use Charge[35] would be streamlined, which should give more certainty to agencies.

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[30]
JCPAA (2002, op.cit., p.2.

[31]
ibid., p.67.

[32]
ibid.

[33]
ibid., p.3, 41,43.

[34]
ANAO (2002) *Report No.52, 2001–2002: Internal budgeting.*

[35]
The Commonwealth introduced, as part of the accrual budgeting reforms in 1999–2000, a Capital Use Charge (CUC). The CUC is paid annually by general government sector agencies on their net assets. The CUC was implemented to improve agency resource allocation, by ensuring that the full cost of competing activities are shown and the cost of capital is reflected in the pricing structures of equivalent outputs produced by the public or private sectors. The Government reduced the CUC levied on agencies' net assets from 12 per cent to 11 per cent on 1 July 2001, reflecting movements in domestic capital and equity markets. The Government has reaffirmed this rate for 2002–03 and agreed to simplify CUC payment arrangements. The annual CUC payment will now be based on the agency's opening net asset position rather than the closing position. [www.finance.gov.au].

AGENCY MANAGEMENT OF THE GST

The 2001–02 financial year was the second year that agencies managed the requirements of The New Tax System (TNTS). Having overseen the successful implementation of the TNTS, Finance's GST implementation unit was decommissioned in October 2000. Government segment teams are now operating within the ATO to ensure that Commonwealth agencies fully understand and comply with their TNTS obligations.

The ANAO undertook a performance audit of GST administration by Commonwealth organisations,[36] which was tabled in Parliament in May 2002. The purpose of this audit was to determine whether organisations had implemented adequate control frameworks and processes to mitigate the risks associated with GST obligations and transactions. The audit focused on all aspects of GST processing relating to the revenue and expenditure accounting cycles in six Commonwealth organisations. The ANAO noted that, while Commonwealth entities are not liable to pay the GST, '…it is the Parliament's intention that the Commonwealth and Commonwealth entities should be notionally liable to pay GST payable under this Act and be notionally entitled to input tax credits arising under this Act'.

Accordingly, the Finance Minister's (A New Tax System) Directions 2000 require each organisation, subject to the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act), to manage its affairs as though it is subject to the GST. This includes: registering for the GST; paying the GST on taxable supplies and taxable importations; claiming input tax credits where appropriate; and remitting the GST on taxable supplies of goods and services. The ANAO found that, for many Commonwealth organisations, the GST represents the first occasion they have had to manage significant indirect tax obligations as part of their normal reporting, revenue and expenditure cycles.

The ANAO audit found that organisations that have not implemented adequate processes to ensure timely compliance face a number of risks including overpayment and/or underpayment of tax, and potential cash flow issues. The ANAO also found that organisations had not focused on the continuous improvement of GST processing, and that most do not undertake formal testing of transactions. Only two agencies had used internal audit to examine aspects of GST, and none maintained formal error logs.

The ANAO made several recommendations where agencies could improve their management of GST. These included more comprehensive risk assessments, clearly assigned responsibility and accountability for management, providing focused and ongoing training for relevant staff, strengthening controls surrounding the Business Activity Statement (BAS) preparation and reporting process, and increasing continuous improvement activity.

The adoption of ANAO's recommendations by all agencies would be advisable given the Government's and community's justifiable expectation that APS organisations be exemplars of good practice in complying with their taxation obligations.

AGENCY MANAGEMENT OF DEVOLVED BANKING ARRANGEMENTS

The Government introduced private sector competition for the transactional banking services of FMA Act agencies from 1 July 1999. Agencies are able to choose the transactional banker that best suits their business

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[36] ANAO Performance Audit Report No. 53 2001–2002: Goods and Services Tax Administration by Commonwealth Organisations.

needs in terms of cost and quality of service. Prior to 1 July 1999 the Reserve Bank of Australia was generally the sole provider of transactional banking services for FMA Act agencies. The number of FMA Act agencies that had completed market testing increased from 26 to 51 (out of a possible 75) over the 12 months to 30 June 2002. A further three agencies have indicated that they expected to complete market testing by December 2002.

The new arrangements have not been without their difficulties, and agencies have had to develop and buy expertise outside their previous areas of program and financial management, and senior management has had to direct some of its attention from portfolio policy matters to ensure appropriate management of the risks involved in agency banking.

During the year the ANAO tabled two audit reports related to transactional banking.

Management of bank accounts by agencies

The first report was an assurance and compliance audit.[37] It examined whether agencies had implemented appropriate risk management strategies for the new banking arrangements that came into operation on 1 July 1999. It also looked at whether cash funds were being managed in accordance with the appropriate legislation, the Commonwealth's agency banking guidance and generally accepted accounting practices.

The ANAO found the management of bank accounts in the Commonwealth has been construed as a simple low risk process. This was reasonable when the Commonwealth's banking arrangements were centrally managed and controlled. However, with the introduction of the new arrangements agencies were faced with new risks associated with managing the opening and closing of bank accounts, investment of available monies, the relationship with their banker and the fees and charges associated with the operation of bank accounts. Furthermore, the audit found that most agencies had not undertaken process level risk assessments following the introduction of the new banking arrangements, such that there was the risk that management lacked adequate information to make decisions about cash-flow needs and future investments. In addition, in some agencies, the fraud control plan had not been revised to address the risks associated with the new banking arrangements.

The ANAO made a number of recommendations including that agencies review and strengthen risk management frameworks addressing process level risks and ensure their frameworks are supported by appropriate internal documentation and procedures. The ANAO also suggested that agencies review their management and computer control activities, rationalise bank accounts to balance administration efficiency, bank fees and better cash management and enhance their cash forecasting systems and processes.

Transactional banking practices

The ANAO's second report was a performance audit.[38] This audit reviewed selected agencies' implementation and ongoing management of contractual banking arrangements; tendering for the procurement of banking services; and identification of practices that have improved administrative arrangements.

The audit concluded that agencies desirably should have an effective risk management plan that covers banking processes. Only one agency, the Department of Education, Science and Training (DEST), had taken steps to ensure banking arrangements were addressed in its agency risk management plan at the time of implementation.

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[37] ANAO, Audit Report No.10 2001–2002: *Management of Bank Accounts by Agencies*.

[38] ANAO, Audit Report No.41 2001–02: *Transactional Banking Practices in Selected Agencies*.

Findings also showed there has been a substantial net transfer of benefits under the cash management incentive scheme[39] to agencies in the two year period ended 30 June 2001 of some $114 million in cash terms, rather than the Budget neutral approach envisaged for the new banking arrangements. Following the 2002–03 Budget, steps were taken to ensure the budget neutrality of the Agency Banking Incentive Scheme. Under this scheme, some agencies are able to earn interest on departmental funds held in their own bank accounts.

The ANAO report recommended that agencies regularly review their internal control processes and relevant documentation, and their risk assessments and management planning. Agencies should also improve the monitoring of compliance with core banking requirements, and ensure formal written agreements are executed prior to services being commenced.

Furthermore the audit found the responsibility for managing banking operations lies primarily with agency Chief Executives, with Finance having an overarching monitoring role.

In 2001–02 as part of Finance's central role associated with maintaining the framework[40] Finance revised banking delegations[41] and agency guidance materials to clarify the requirements under the framework of the core banking protocols. Finance also conducted information sessions to assist agencies to further implement and improve their understanding of the transactional banking framework.

ACCOUNTABILITY AND CONTRACT MANAGEMENT

Public sector contract management was subject to wide–ranging external scrutiny in 2001–02. The 'Humphry Review'[42] recommendations led to the establishment of an IT Outsourcing body in Finance, the ANAO reported on both the engagement of consultants and compliance with the Senate Order of 20 June 2001 and the Government responded to two Committee inquiries into contract management. In addition, Finance issued revised procurement guidelines in February 2002 to assist agencies in meeting their accountability requirements. More detail on outsourcing and on the Humphry Review and subsequent activity is set out in Chapter 7.

COMMONWEALTH IT OUTSOURCING INITIATIVE

In response to recommendation 6[43] of the 'Humphry Review', the Government decided that Finance was available to advise agencies, at their request, about managing the transition of IT functions to the private sector. This assistance has been available on a commercial, fee-for-service basis since January 2001. During the 2001–02 financial year Finance had five enquiries from agencies. However, no agency formally engaged Finance to provide assistance. Presumably this is reflective of the existence of increased expertise in agencies, and a more mature market where agencies can source these services.

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[39]
The cash management incentive scheme implemented by Finance in 1999–2000 along with devolved banking, allows agencies to accrue interest on their departmental bank account balances and term deposits.

[40]
Section 44 of the FMA Act imposes on agency Chief Executives a duty to manage Commonwealth resources effectively, efficiently and ethically. This, along with other provisions of the FMA Act, FMA Regulations, FMA Orders, the related delegations and Chief Executive's Instructions, comprises the statutory framework governing transactional banking.

[41]
Finance Circular 2001–02.

[42]
Review of the 'Whole of Government Information Technology Outsourcing Initiative'.

[43]
Recommendation 6 of the Humphry Report stated that 'There is a need for agencies to receive support from a separate organisation in managing transition of implementation of IT outsourcing. It is essential that such a supporting body adopt the nature of a service organisation, acting as a central repository of skill and knowledge, accessible to agency heads or governing bodies in implementing IT outsourcing. Consideration should be given to the portfolio location of such a body. This group could draw on OASITOs experience'.

UPDATE ON PROCUREMENT GUIDELINES

New Commonwealth Procurement Guidelines (CPGs) and a better practice guide were released in October 2001. These Guidelines require agencies to consider on a case by case basis what might be commercial-in-confidence when designing any contract, and to include a provision in contracts to provide the ANAO with access to contractors' records and premises for audit purposes.

Finance is responsible for the development and maintenance of this framework. It provides policy support to both the Information Technology Outsourcing (ITO) program and the Market Testing and Contracting Out (MTACO) program. Agency Chief Executives are responsible for the implementation of both the ITO program and the MTACO program.

Finance also manages the Purchasing Advisory and Complaints Service. This service aims to improve communication between suppliers and buyers and to provide impartial advice to help resolve any complaints about Commonwealth purchasing processes, including competitive tendering and contracting out processes. During 2001–02, the Purchasing Advisory and Complaints Service received 928 calls. The majority of the calls were inquiries about how to do business with Government, including the Government's procurement framework, with only 13 calls raising concerns. This represents less than 1.4% of total calls.

There is a requirement[44] for all agencies to report on compliance with the CPGs in their annual reports. The Minister for Finance and Administration issued revised procurement guidelines in February 2002. The key changes to the CPGs included their layout, the inclusion of value for money as the core principle governing Commonwealth procurement, increased emphasis on public accountability requirements, including disclosure to Parliament and its Committees, policy requirements for outsourced service providers and inclusion of the Commonwealth Payment Policy and Private Financing Policy.

AGENCY MANAGEMENT OF CONTRACTING

During the year the ANAO reviewed both the process of engaging consultants and compliance with the Senate Order of 20 June 2001. The Government responded to the JCPAA report on contract management in the APS, and the Senate Finance and Public Administration References Committee report, *Commonwealth Contracts: A New Framework for Accountability*.

Engagement of consultants

The ANAO reviewed the process of engaging consultants in four Commonwealth agencies for compliance with relevant procurement policies and procedures, and the delivery of value for money in government procurement.[45]

The areas identified for improvement by agencies covered all aspects of the engagement of consultants. The ANAO identified agencies' strengths in their current practices, and made general recommendations for agencies to improve current management practices. Key findings underpinning the recommendations included that agencies were not consistently complying with established guidelines. These included the CPGs, Chief Executive Instructions, and other internal procedures concerning advertising opportunities on the Government advertising website. Nor were they adequately documenting the reasons for not complying

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[44] Department of the Prime Minister and Cabinet, *Requirements for Annual reports for departments, executive agencies and FMA Act bodies, Approved by the JCPAA* June 2002. www.pmc.gov.au/publications.cfm

[45] ANAO Audit Report No.54 2000–01: *Engagement of Consultants*.

with those guidelines. Furthermore, agencies were not operating effectively regarding the requirements for entering and reporting on gazette consultancies in their annual reports.

The audit also found that the level of documentation maintained for some contracts was insufficient for accountability purposes while the monitoring and review of performance prior to payment for services provided, was not adequate. Final reviews and evaluations of performance were also not being undertaken.

Senate Order of 20 June 2001

The Senate Order of 20 June 2001 requires the biannual tabling by Ministers of confirmation that all agencies within their portfolios had listed all contracts of $100 000 or more on their websites. Amongst other things, the list was to indicate whether the contracts contained any confidentiality provisions. In addition, the Auditor-General was asked to examine a number of contracts listed and indicate whether there had been any inappropriate use of confidentiality provisions. The Order was amended on 27 September 2001, requiring additional information for listing including the amount of consideration and a statement of the method used to make the estimate of the cost of complying. The population of the FMA agencies required to comply with the order was 68.

The ANAO[46] identified that, as at 21 March 2002, 65 agencies had listed details of relevant contracts on the Internet. Forty-eight of these agencies compiled the listing in accordance with the Order at 20 June 2001 and 17 agencies compiled the listing in accordance with the Order at 27 September 2001. Two of the other agencies do not enter contracts in their own right, and the third advised that it did not have any contracts of $100 000 or more, and therefore, were not required to provide a listing on the Internet. The ANAO found that most had placed their lists on the Internet either by, or shortly after, the due date.

The ANAO selected six agencies for review in detail. In relation to these six agencies, the ANAO concluded that the Internet listings were generally complete in terms of the total number of contracts listed and accurate in terms of content. In addition, most of the six agencies had taken steps to ensure that contractors were aware of the new accountability requirements of the Commonwealth through their RFTs and contracts.

Further, the ANAO considered that only nine of the 56 contracts entered into by the six agencies reviewed were appropriately classified as confidential if criteria endorsed by the Senate Finance and Public Administration References Committee (SFPARC) were retrospectively applied to these contracts. The ANAO concluded that this high proportion of contracts classified inappropriately was not unexpected, given that the majority of contracts were entered into by agencies before they had started to address the requirements of the new accountability framework.

Contract management in the APS

In November 2000 the JCPAA tabled a report into Contract Management in the APS that identified systemic problems in contract administration and provided better practice standards to support detailed scrutiny of contracts that APS agencies may enter into. The Government Response[47] to this report endorsed recommendations to extend the jurisdiction of the *Ombudsman Act 1976* to include government contractors who provide goods and/or services to the public. This reaffirmed the need for the Auditor-General to have access to contractors' premises, and emphasised the importance of the mandatory reporting requirement for

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46
   ANAO Audit Report No.8 2002–03: *The Senate Order for Departments and Agency Contracts (September 2002)*, Across Agency.

47
   tabled 22 April 2002.

Commonwealth agencies to publicly gazette all contracts[48] with a value of $2000 or more in the *Commonwealth Purchasing and Disposals Gazette*. The Government flagged that it will be issuing further guidance material that will better clarify how agencies should assess contracts to determine what should be classified as commercial in confidence.

The SFPARC report *Commonwealth Contracts: A New Framework for Accountability* was tabled in the Senate on 26 September 2001. The report aimed to provide a mechanism for accountability to the Senate in relation to Government contracts. The Government response to the Committee's report[49] had the effect of amending the Senate Order of 20 June 2001, changing the Gazette Publishing Systems (GaPS) so that a departmental secretary or agency head may decide to exclude a contract from notification in GaPS, and agreeing in principle that all parties to a government contract must be informed that contracts and related material may be requested by Parliament and must be provided. The Government did not agree to require FMA agencies to provide additional accountability information in annual reports.

COMPLIANCE WITH THE AMENDED PRIVACY LEGISLATION

The protection of personal information in the possession of federal government departments and agencies is covered by the *Privacy Act 1988*. The 11 Information Privacy Principles (IPPs) in the *Privacy Act 1988* apply to all public service organisations. These principles relate to the collection, storage and disclosure of personal or confidential information.

The *Privacy Amendment (Private Sector) Act 2000* (the Privacy Act 2000)[50] amended the *Privacy Act 1988*. The Privacy Act 2000 covers most private sector organisations, including contractors working for a government department or agency. The amendments contained in the Privacy Act 2000 now makes it mandatory for a contractor working for a government department or agency to comply with the IPPs.

Under the new provisions for contracted service providers[51] agencies entering into outsourcing contracts are required to have provisions in contracts that ensure that the contractor does not engage in acts or practices that would breach the IPPs. A contract between an agency and a contractor (or between a contractor and any subcontractor for such a contract) is the primary source of the contractor's obligations in relation to the personal information collected or handled for the purpose of performing the contract. Consequently, agencies continue to have contractual remedies against a contractor that breaches a privacy clause in a contract. However, the amendments in the Privacy Act also give the Privacy Commission power to investigate complaints about acts or practices of a contracted service provider and undertake own motion investigations of their acts and practices.

CONTRACTOR COMPLIANCE WITH THE NEW ACT

Agencies have had since December 2001 to implement methods to inform contractors of their privacy obligations when working under the IPPs. In the agency questionnaire agencies were asked to comment on their use of three main methods used to ensure contractors' compliance with privacy obligations. These methods were: specification in the contract, non-contractual arrangements, and regular reporting/scrutiny.

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[48] with limited exceptions, such as national security.

[49] Tabled 5 June 2002.

[50] *Privacy Amendment (Private Sector) Act 2000*, which was passed on 6 December 2000 and took effect on 21 December 2001.

[51] as set out in s95B of the *Privacy Act 1988:* Requirements for Commonwealth contracts.

Eighty-seven per cent specified privacy obligations in employment contracts, while two percent used non-contractual arrangements, and eight percent used 'reporting and/or scrutinising regularly' as a method, with 10% also indicating they used 'other' methods. The 10% of agencies that did not report using any methods[52] to inform contractors of their privacy obligations were all small agencies.

Several agencies provided substantial details in relation to the methods used, including the related legislation and/or policies both APS-wide and agency specific. Some agencies also provided details on who monitors them specifically in relation to privacy. The ATO for example, was monitored by the Privacy Commission, the Attorney-General's Department (AGD), and by their own internal measures.

OFFICE OF THE FEDERAL PRIVACY COMMISSIONER AUDITS

Audits of protection of personal information and outsourcing conducted by the Office show that managers charged with the responsibility of entering into outsourcing arrangements focus their attention too heavily on contractual outputs such as number of personal computers delivered. Many ignore the method by which these deliverables are achieved, particularly the level of compliance of the outsourced provider's practices with the requirements of the IPPs.

Common findings from Privacy audits included: inadequate physical and logical security controls of contracted service providers; lack of contractual arrangements in place with outsourced providers whose functions involved in the handling of personal information on behalf of those agencies; employees of contracted service providers and their subcontractors not having entered into deeds of confidentiality as required by Commonwealth contract; and personal information collected and stored by a contracted service provider on behalf of agencies is not returned to the agencies at the end of the contractual period.

The Privacy Commission made recommendations on these issues and in general the agencies involved undertook appropriate remedial action to protect personal information.

Ten of the 92 agencies responding to the agency survey had undergone an audit relating to outsourcing by the Privacy Commission during the year. Eight of these agencies were large agencies. They were: Customs, DIMIA, the ABS, the Department of Industry, Tourism and Resources (ITR), DVA, DEWR, DEST and ATSIC. The other agencies audited were the APS Commission and the Australian Electoral Commission (AEC).

DIMIA, ABS, the APS Commission and DEST all had security/privacy issues relating to websites identified by the audits, and have responded accordingly based on the Privacy Commission's recommendations. Comcare, who was audited in November 2001, reported that it has implemented the majority of the recommendations made.

Some agencies reported that they are still awaiting the completion of their audit reports, including Customs and DVA. ITR indicated that they received the audit report in June 2002, and will respond accordingly. AGD indicated they had also undergone an audit. However, the audit did not relate to outsourcing. ATSIC and the AEC stated they received no major recommendations after having been audited.

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  Total methods used will add to more that 100% as some agencies identified multiple methods.

RECORDKEEPING SYSTEMS

The APS Values embodied in the *Public Service Act 1999* provide, inter alia, that the APS is openly accountable for its actions, within the framework of ministerial responsibility to the Government, the Parliament and the Australian public.

In that context, it is of significant importance that an agency is able to demonstrate that due process has been followed in its actions and decisions, including through the existence and maintenance of good recordkeeping systems.

The ANAO has identified that there have been significant changes to public sector management over the past 15 years that have affected recordkeeping in Commonwealth organisations and that developments in information and communication technology have led to the need for recordkeeping controls to undergo fundamental change.[53]

Currently, the public sector has a three-tiered hierarchy of records comprising hardcopy documentation, electronic or digitally based information and oral communications that may or may not be supported with notes. The Auditor-General has commented that:

> While the format in which information is gathered may change, the accountability obligations of public service officers do not... Records are consulted as proof of activity by senior managers, auditors, members of the public or by anyone inquiring into a decision, a process or the performance of an organisation or an individual.[54]

Nevertheless, the speed and informality of modern communications is presenting a major challenge to agencies, and traditional approaches to files and file notes cannot be expected to be maintained. The Auditor-General recognised this in his advice in the performance audit of Magnetic Resonance Imaging Services in 1999–00:

> Often it is considered that maintaining paper or electronic records is too burdensome. This is especially so in an environment where there are time and resource constraints. However, as mentioned earlier, such considerations may be substantially lessened by a soundly based corporate governance framework that is set up to deal with such demands. Perversely, it is just such a constrained environment that often requires adequate documentation for accountability purposes. In this context, sound public administration requires key deliberations, decisions and resolutions to be recorded.[55]

In its report on the Assurance and Control Assessment Audit on Recordkeeping, the ANAO recommended that agencies examine initiatives covering a range of issues including the assessment of recordkeeping needs, the control environment, records capture and classification, disposal and preservation, development of recordkeeping skills and awareness and the promotion of continuous improvement through monitoring and review.[56]

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[53] ANAO, Audit Report No.45 (2001–02), *Recordkeeping*, p.11.

[54] P J Barrett AM, Auditor-General for Australia, International Quality and Productivity Centre Seminar, *Achieving Better Practice Corporate Governance in the Public Sector*, 26 June 2002.

[55] ANAO, Performance Audit, Audit Report No 42, (1999–2000), *Magnetic Resonance Imaging Services—effectiveness and probity of the policy development processes and implementation*, p.49.

[56] ANAO, op cit, p.21–23.

The Agency Questionnaire explored agencies' initiatives and experiences across a range of issues, with a particular focus on those identified in the ANAO Report. The findings reported and the views expressed in this report are based on agency responses to the Agency Questionnaire.

THE CONTROL ENVIRONMENT

Eighty-six per cent of agencies reported that they had either formal corporate polices or guidelines in place addressing the responsibilities and procedures for making and keeping full and accurate records of administrative actions and decision-making processes.

One large agency reported that there were no policies or guidelines in place, as did 11 of the 52 small agencies. Seven of those small agencies advised that work had commenced or was in the planning phase.

Eighty-four per cent of agencies reported that they had undertaken some form of review of recordkeeping needs and procedures during 2001–02. Of the 15 who had not (14 of which were small agencies), nine indicated that plans are in place to review recordkeeping requirements during 2002–03, or a review was intended following acquisition of the necessary resources to undertake the task.

Thirty-one agencies reported specifically that they had assessed or are currently assessing their recordkeeping needs in consultation with the National Archives of Australia (NAA) using the Designing and Implementing Recordkeeping Systems (DIRKS) methodology promulgated by the NAA as one of the management tools available to assist agencies in establishing a recordkeeping infrastructure.[57]

Agencies reported the use of a variety of formats for the presentation of policies and guidelines including formal policy documents or manuals, management instructions or administrative circulars, and information sheets addressing particular aspects of recordkeeping and training materials.

The corporate policy document for Environment Australia is in both hard copy and on the intranet. The policy was reviewed in February 2002 when the Chief Executive Instruction on Recordkeeping was being prepared. Several updated sections of the guidelines were uploaded in May 2002.

The Professional Services Review has specific policies on electronic messaging and Internet usage, with a Chief Executive Instruction on Information Management and Recordkeeping setting out the responsibilities of staff to create and retain records. Training in the implementation of the new electronic records system incorporates best practice recordkeeping procedures.

The intranet is the main avenue for communication of policies and guidelines. Of the 79 agencies with policies or guidelines in place, 52 (66%) reported that the agency intranet is, or will be, utilised for that purpose. Training courses, including induction training, and online newsletters and bulletins were identified as other main avenues for promotion of recordkeeping procedures.

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[57] DIRKS, A Strategic Approach to Managing Business Information, National Archives of Australia, 2001. The DIRKS methodology is based on and expands the best practice approach outlined in the Australian Standard AS 4390–1996, *Records Management* and International Standard ISO 15489, *Records Management* and the accompanying technical report http://www.naa.gov.au/recordkeeping/dirks/dirksman/dirks.html

DEVELOPMENT OF RECORDKEEPING SKILLS AND AWARENESS

Agencies were asked to identify initiatives in place for the training and development of staff to meet their responsibilities for recordkeeping. The most prevalent of the strategies employed covered self-nominating training programs and presentations (53% of agencies), induction training (66%) and circulars/operating instructions (64%). Mandatory training programs and presentations for relevant staff were identified by 32% of agencies surveyed. Fourteen agencies (15%) reported that they utilise each of those four strategies, while 23 agencies (25%) employ three of the four mentioned.

Five agencies (one large, one medium and three small) reported that there are no specific initiatives in place for the training and development of staff in recordkeeping, although some noted that the issue of training is to be addressed in reviews of recordkeeping, including as part of the DIRKS methodology.

> Centrelink provides records management training to all new Customer Service Officers as part of their induction training. Training is also conducted as each new Records Management Unit is opened, while the Records Management Team in National Support Office conducts regular briefings about proper records management procedures.
>
> The Department of Foreign Affairs and Trade (DFAT) maintains an active training and communications program for staff to enhance recordkeeping skills and awareness through statements of policy and guidelines, regular training sessions, a help line service and maintenance of professional knowledge for corporate records staff.

The NAA has advised that it provides a range of recordkeeping training for information and recordkeeping staff within Commonwealth agencies. This currently includes training in the DIRKS methodology, records management including sentencing and transfer to the NAA, and the use of AGLS metadata. The NAA is also developing a range of training and awareness products aimed at giving basic recordkeeping advice to record creators, that is, everyone behind a desk in the APS.

MANAGEMENT OF ELECTRONIC RECORDS

The ANAO report noted that the electronic recordkeeping environment is composed of diverse applications such as email, databases and information systems, websites, and other electronic documents in various versions and workplace locations. The report went on to note that a critical factor in organisations' management of the transition to better recordkeeping was for the organisation to view recordkeeping strategically, as part of information management more broadly, and develop its recordkeeping accordingly.[58]

The Auditor-General, commenting on an increasingly rapid move toward electronic, rather than paper, records, coupled with an increasing tendency for policy and administrative decisions to be communicated and confirmed through e-mail, has noted that:

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[58] ANAO, op cit., p.14.

As we move towards an era of e-government, ensuring creation and maintenance of appropriate electronic records will be equally important as ensuring appropriate security and privacy in electronic transactions between governments, citizens and the business community. This is necessary for the confidence of all stakeholders, and particularly for the Parliament.[59]

In addition, NAA guidelines note that all digital data created or received in the conduct of Commonwealth business are Commonwealth records under the *Archives Act 1983* and need to be managed in accordance with the Archives Act.[60] The ANAO report recommended that organisations develop procedural and other controls to ensure capture of electronic records such as from websites, management information systems, email correspondence and documents in personal and shared workspace.[61] Guidelines published by the ANAO note that, in order to comply with relevant provisions of the *Electronic Transactions Act 1999*, agencies must put in place electronic records management systems to ensure electronic records are managed with the same diligence as paper records.[62] The guidelines note also that electronic records are subject to requests under the *Freedom of Information Act 1982*.

The Agency Questionnaire sought information on systems and procedures to incorporate electronic records into the broader management structure, strategies for the recording and retention of email records, initiatives in place for recording web-based activity under the *Government Online* strategy and recordkeeping infrastructures for core business information systems and databases.

From the information supplied, it appears that agencies are at various stages in respect of the introduction of systems and procedures to incorporate electronic records into the broader management structure. Several agencies advised of current planning or activity around the implementation of electronic documents and record management systems (EDRMS), procedures in place for the backup of website material, including secure storage to facilitate ready retrieval, and the review of corporate information systems to ensure that procedures are in place to meet NAA guidelines.

A number of smaller agencies have interim approaches in place, pending more detailed analysis of requirements as part of EDRMS reviews and the development of a business case for enhanced records management systems.

Agencies reported a range of applications, in addition to traditional paper based files, for the recordkeeping infrastructure for core business information systems and databases. Thirty-one agencies (34% of agencies surveyed) reported the use of one particular proprietary file management system as part of their infrastructure. The degree to which relevant business applications are linked appears to vary across agencies, with several agencies reporting that examination of appropriate systems for the management of electronic records is currently in progress or planned for the foreseeable future.

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[59] P J Barrett AM, op cit.

[60] Electronic Records, Digital Information as Records, NAA website,
http://www.naa.gov.au/recordkeeping/er/manage_er/summary.html

[61] ANAO, op cit., p.22.

[62] Legal Considerations for Government Internet Service Delivery, Internet Delivery Decisions – Component 7, A Government Program Manager's Guide, Australian National Audit Office, April 2001.

Overall, it would appear that many agencies have embarked upon, or have plans in place for, the development, implementation and refinement of strategies for incorporating electronic records into broader records management systems. From the information provided, it would be expected that substantial progress should be achieved in 2002–03, though the level of training and cultural change necessary to ensure new systems of electronic recordkeeping are fully utilised should not be underestimated.

Management of email records

Agencies were asked, in particular, to report on policies and procedures in place for the management and retention of e-mail records. All of the large agencies surveyed reported some measures in place, or about to be promulgated. These measures range from a formal statement of policy to a requirement for the printing and filing of business related emails.

Similarly, 95% of medium size agencies reported measures in place, or projects currently underway, for the treatment of email records. The data in respect of small agencies is not as encouraging. Of the 52 small agencies surveyed, 21 (40%) do not currently have measures in place in respect of the management of email records, although eight of those agencies reported that the matter was being looked at or under development.

Overall, 22 agencies (24%) have reported that a 'print to paper' rule is in place, in a number of cases pending the development of full electronic document management systems and procedures.

Recording web-based activity

The Commonwealth Government's strategy, *Government Online*, requires agencies to make and keep records that accurately document public websites over time, to satisfy business and accountability

requirements and community expectations.[63] The ANAO report notes that to fully meet the guidelines, organisations should systematically document their recordkeeping needs in respect of web-based activity and should keep the analysis under review as their use of websites develops.[64]

The NAA has published a policy document on the status and management of Commonwealth Government websites and other online resources as Commonwealth records to assist agencies in establishing internal mechanisms for creating, managing and retaining web-based records, for as long as those records have value.[65] The policy is complemented by guidelines offering specific strategic and technical advice on how agencies can comply with the policy.[66]

The NAA policy document notes that while both internal and public websites contain copies of records that might already exist in formal recordkeeping systems, content is increasingly being created for direct placement on websites.

The NAA guidelines provide that agencies must identify records which exist on their website(s) or which are about to be placed online. Further, agencies must ensure that these records are captured into a formal recordkeeping system, along with sufficient metadata[67] documenting the content and structure of the records and their placement on the website.

Responses to the Agency Questionnaire indicate that agencies have initiated activity to various degrees to implement strategies for recording their web-based activity in accordance with the *Government Online* strategy. While some agencies provided specific examples of work undertaken, others identified that relevant work is part of broader activities or limited their responses to stating that back up procedures are in place or that measures are in place which satisfy requirements.

Geoscience Australia archives superseded Internet pages when changes are made to a page. A database is also maintained which describes the nature, timing and approval procedure for changes to each intranet page. The organisation is able to reconstruct what any Internet page looked like on any given date.

DVA has progressed a number of strategies, including weekly archival of the website that includes recording all changes made and their date of effect, security measures to maintain the integrity of information on the site, as well as projects designing system specifications and business processes in accordance with advice from the NAA.

On the other hand, some agencies reported that currently information held on their websites is static, or that web activities are very limited, with no specific policy having been implemented.

63
  Government Online, The Commonwealth Government's Strategy, National Office for the Information Economy, April 2000.
64
  ANAO, op cit., p.16.
65
  Archiving Web Resources: A Policy for Keeping Records of Web-based activity in the Commonwealth Government, National Archives of Australia, 2001 http://www.naa.gov.au/recordkeeping/er/web_records/intro.html
66
  Archiving Web Resources: Guidelines for Keeping Records of Web-based activity in the Commonwealth Government, National Archives of Australia, 2001 http://www.naa.gov.au/recordkeeping/er/web_records/intro.html
67 The Recordkeeping Metadata Standard for Commonwealth Agencies describes the basic set of twenty metadata elements (data about data) (8 of which are mandatory) that the NAA recommends should be captured in the recordkeeping systems used by Commonwealth government agencies. http://www.naa.gov.au/recordkeeping/control/rkms/summary.htm

Disposal of records

Ninety agencies (98%) indicated that they either had in place, or were developing appropriate procedures for the disposal of records, including Records Disposal Authorities approved by the NAA. While agencies are at various stages in the development of procedures, a common theme in the work being undertaken involved consultation with the NAA and use of the DIRKS methodology to incorporate disposal arrangements as part of their overall records management strategies.

Monitoring and review

Agencies were asked whether to date they had undertaken an assessment of the effectiveness of the systems and procedures for the management of electronic records including email and web-based records, as well as the overall recordkeeping infrastructure. Of the 92 agencies surveyed, 25 (27%) reported that some reviews had been undertaken, 20 agencies (22%) noted that planning was in hand for a review, while 42 agencies (46%) indicated that no review has been conducted to date and five agencies (five percent) did not respond to that particular question.

The NAA has undertaken a post implementation review of their recordkeeping system following methodologies in the DIRKS manual. This will result in a sound intellectual framework in which records can be created, will identify specific requirements for the measurement of the effectiveness of current systems and practices, including databases that support core functions and produce key recordkeeping tools.

Defence reports that all scheduled internal audits include a recordkeeping component. The Directorate of Records Management Policy has also reviewed Defence recordkeeping against the ANAO report and has introduced products to raise the profile of recordkeeping as a fundamental strategic and capability tool.

Several agencies noted that the effectiveness of systems and procedures would be undertaken within the scope of their activities as part of implementation and evaluation using the DIRKS process. While the majority of agencies who had not, as yet, undertaken some form of assessment simply responded in those terms, a number noted that they were still in the developmental phase in respect of their electronic records management systems.

Of the 92 agencies surveyed, 84 (91%) indicated that they had taken steps or had reviews planned or underway to identify requirements, to comply with the NAA's guidelines on e-permanence and/or the International Standard for Records Management, AS/ISO 15489. Thirty-one agencies (34%) noted specifically that work is in progress utilising the DIRKS methodology to identify recordkeeping system requirements, with a further 22 agencies (24%) indicating that a review of procedures was in train or in the planning/investigation phase.

The review and implementation for the new Records Disposal Authority for the ABS was based on the DIRKS methodology outlined in the e-permanence guidelines and ISO 15489. Features of the recordkeeping attributes of the ABS Workgroup database were designed in accordance with AS4390-1996 (the precursor to ISO 15489)

The ATO is incorporating both a review of ISO 15489 and the NAA Guidelines on e-permanence as part of their 'business as usual' functions.

OVERALL ASSESSMENT

There appears to be a growing level of awareness of modern recordkeeping requirements and the need to manage information and records strategically to meet business and accountability requirements. In view of the fact that standards for modern best practice recordkeeping have only emerged in recent years, it is reasonably encouraging that many large and medium sized agencies are taking steps to review their recordkeeping arrangements, training initiatives and the integration of electronic records into corporate records management systems. Some agencies, on the other hand, appear to be not as well advanced, and will need to recognise and address their recordkeeping requirements. From information provided, this is especially true for many of the small agencies. It is also likely to be true that recordkeeping across the APS for a period of years was very poor, particularly in terms of electronic records and oral communications.

A commitment to review recordkeeping arrangements is, of course, only the first step in a lengthy process of transition and modernisation. Agencies also need to be prepared to commit adequate attention and resources to following through on the findings of their reviews to institute systems, processes and behaviours that ensure the making and keeping of full and accurate records of government activity.

The Agency Questionnaire results indicate that the need for staff awareness of recordkeeping responsibilities has been addressed mostly through traditional avenues such as induction training and operating instructions. However, for agencies to fulfil their recordkeeping responsibilities fully, they need to pursue active and targeted staff training and development strategies that focus on raising the profile of records management and the importance of sound and effective records management practices. Good recordkeeping systems on their own will not achieve the necessary outcomes without adequate attention being given to staff training and awareness issues.

The results of the Agency Questionnaire on recordkeeping support the thrust of the ANAO Report recommendations in identifying key issues for agencies in respect of their recordkeeping requirements. The ANAO is planning to conduct further audits of recordkeeping in Commonwealth organisations over the next few years.[68] The NAA will also be conducting a survey across agencies, with a view to measuring progress toward sound recordkeeping in the APS.

PREVENTING FRAUD

Fraud is increasingly a crime unconstrained by geographical or jurisdictional boundaries. The development of new technologies has increased the opportunities for fraud and made the prevention, detection and investigation of fraud more challenging both for the public and private sectors.

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[68] ANAO, op cit.

In May 2002, the Government endorsed new fraud control guidelines for Commonwealth agencies. The *Commonwealth Fraud Control Guidelines* (the Guidelines) were released by the AGD. They have updated the Commonwealth's approach to fraud control by providing a framework for fraud risk management and control which incorporates the latest developments in corporate governance, modern business practices and fraud control initiatives.

Some of the features of the Guidelines include:

• facilitating the integration of fraud risk management into corporate and business risk management strategies

• greater specification of fraud control arrangements for outsourcing

• the introduction of mandatory training qualifications for fraud investigators

• improved fraud reporting to Government

• establishment of a Fraud Trend Information Network.

The Fraud Trend Information Network will be established and maintained by the AGD, in conjunction with the AFP. The Network will act as a forum for agencies to meet and report on the nature and extent of fraud against their agencies and against the Commonwealth in general. The AGD will report on the activities of the Network in its annual report on fraud control to the Minister for Justice and Customs.

The Guidelines require Chief Executive Officers of Commonwealth agencies to certify in their annual reports that their agencies comply with the requirements of the Guidelines. They affect all agencies covered by the FMA Act and agencies subject to the CAC Act that receive 50% or more of their operating costs from the Commonwealth or a Commonwealth agency.

Although figures are not available for 2001–02, statistics for the previous financial year indicate that fraud can result in significant losses to the Commonwealth. In the 2000–01 financial year the AFP accepted 214 fraud cases for investigation for Commonwealth agencies. The total dollar value of the cases was almost $117 million. Of that total, the dollar value of fraud committed by Commonwealth employees was around $8.5 million.

In addition to effective fraud control arrangements, agencies can reduce the incidence of fraud by ensuring that both employees and people outside the APS who are undertaking work on behalf of the Commonwealth understand the requirements of the Values and the Code of Conduct. Chapter 7 of this report describes in more detail how this contributes to stringent contract management, in particular for outsourced arrangements.

SOME OBSERVATIONS

The continued consolidation of the new budgeting framework has benefited from comprehensive external scrutiny during the year. The JCPAA, the ANAO and the MAC examined aspects of the outcomes and outputs framework and accrual-budgeting documentation. A common theme in the evaluations of the accrual-based budget documentation was that, while agencies were endeavouring to achieve consistency over time of the reported outcomes in PBS and annual reports, there was still room for improvement. Another common theme was the finding that performance information in PBS required the development of

comparative standards with performance measures and the inclusion of performance targets. The JCPAA made recommendations for agencies to ensure that outcomes are provided at an appropriate level to support scrutiny of their performance from year to year, providing intermediate outcomes as necessary.

The IPAA reported that, in the main, the quality of agency reports was good, with agencies responding effectively to the challenge of providing the necessary information while keeping their reports intelligible and accessible. IPAA also commented on the further improvement in performance reporting in 2000–01 annual reports, compared to the previous year.[69]

In a number of other areas many agencies have considerable scope to improve their practices including in relation to their management of the GST and devolved banking arrangements, their engagement of consultants and also in their compliance with the amended privacy legislation.

On a positive note, it appears that agencies are complying with requirements to list relevant contracts on the Internet. It would be expected that other accountability issues in contract management such as what should be classified as commercial-in-confidence are likely to be more consistently addressed in the future. There also appears to be a growing level of awareness of modern recordkeeping requirements in agencies with 84% of agencies reporting some form of review of their recordkeeping in 2001–02. The rapid move to electronic records highlights the need for fundamental reviews of recordkeeping methods and significant activity in this area would be expected in 2002–03.

69 FMA Departments and Agencies Annual Report Awards: 2002 Report of the panel of judges appointed by the Council of the Institute of Public Administration (ACT Division) to examine the 2000–01 Annual Reports of Commonwealth departments and agencies reporting under the FMA Act 1987.

Outsourcing refers to an arrangement where an APS agency has an activity, function or service, which was previously undertaken in-house, performed by a private sector provider. Outsourcing usually involves market testing through a competitive tendering and contracting process. Under these outsourced arrangements the original agency retains overall responsibility and accountability for the activity, function or service.

APS agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) are required to market test all relevant activities and services as part of the Government's management reforms to foster a more competitive environment within the public sector. This commitment to Competitive Tendering and Contracting (CTC) was reaffirmed in 1999. The major emphasis of CTC has been on corporate services. This includes the outsourcing of human resource (HR) management, budget management, financial services, internal audit, office services, records management, property management, legal services, library services, printing and publishing and learning and development.

Prior to the Government's 1999 re-commitment to market testing was the requirement to outsource information and communication and technology (ICT) services, previously commonly known as information and technology (IT) services. Introduced in the 1997–98 Budget, the IT Outsourcing Initiative (the Initiative) was designed to reduce tender costs, increase rationalisation and standardisation across the APS, provide significant savings and promote efficient contract management. Agencies were expected to operate in groups or clusters to maximise the benefits of outsourcing. It was also expected that the Initiative would generate employment opportunities in the Australian IT industry.

REVIEW OF ICT IMPLEMENTATION

The implementation of ICT outsourcing has received considerable attention. The Senate Finance and Public Administration References Committee (SFPARC) tabled its first report, *Contracting out of government service—First Report: Information technology* in November 1997. The Auditor-General followed this report with *Implementation of Whole of Government IT and Infrastructure Consolidation and Outsourcing Initiative 2000–01*. The Government then commissioned an independent review by Mr Richard Humphry AO, *Review of Whole of Government Information Technology Outsourcing Initiative* in December 2000 (the Humphry Review). The subject was again taken up by the SFPARC reporting *Re-booting the IT Agenda in the Australian Public Service* in August 2001. The Government has not yet responded to this Senate Committee report.

The key results of the major reviews are briefly summarised below to provide relevant background for this chapter.

ANAO PERFORMANCE AUDIT—IMPLEMENTATION OF THE WHOLE OF GOVERNMENT INFORMATION TECHNOLOGY INITIATIVE 2000–01 (SEPTEMBER 2000)

ANAO sought to review the overall management of the implementation of the IT Initiative undertaken by the Office of Asset Sales and IT Outsourcing (OASITO). ANAO reviewed the tendering process of the first four major group tenders completed within the APS. The review focused on the application of the evaluation criteria set out in the relevant requests for tender (RFT) and the assessment of tenderers against Government objectives as set out in the RFT.

The audit reported that six of the 12 planned tenders were completed, placing the Initiative two years behind schedule. The report identified shortfalls in expected industry capacity and participation as a significant factor. Tendering costs were observed at nearly three times as much as was originally budgeted.

The ANAO did not make any precise assessment of savings contributed by the Initiative, concluding that the effectiveness would be determined by the long-term benefits over the length of the contract.

REPORT BY RICHARD HUMPHRY AO OF REVIEW OF WHOLE OF GOVERNMENT INFORMATION TECHNOLOGY OUTSOURCING INITIATIVE (DECEMBER 2000)

The main task of the Humphry Review was to report on the implementation risks of transferring in-house services to an external provider. The Humphry Review and the Government's response concluded that the market testing of ICT should be based on agency business needs and consequently that approaches to the scope and process of market testing and outsourcing should reflect arrangements best suited to these needs.

The Government supported most of the 10 recommendations made by the review, giving agencies more autonomy to manage their market testing and outsourcing contracts as individual entities rather than clusters or groups. Responsibility for implementation was devolved to agency Chief Executives or Boards and the outcomes of implementation were included in the performance assessment of Agency Heads. The appropriate model for market testing and outsourcing would be determined by each individual agency and agencies would be free to seek economies of scale through groups at their own discretion when their contracts expire. The emphasis on OASITO was reduced, with assistance provided only at the request of Agency Heads.

SENATE COMMITTEE INQUIRY—REBOOTING THE IT AGENDA IN THE AUSTRALIAN PUBLIC SERVICE (AUGUST 2001)

The Senate Committee supported the Initiative but reported that the size of the implementation task was ambitious. The Committee reported that OASITO's role could be replaced through better planning in order to deliver a simpler and less costly process. The Committee also revealed that the imposition of groups and centralised control of the contracting process did not receive unqualified support from agencies. Projected cost savings had not been fully achieved and agencies experienced several difficulties in the transition phase.

The Committee recommended improvements to contract management and probity, data security, and savings and intellectual property management. Accountability and transparency considerations were also emphasised.

MONITORING THE ONGOING IMPLEMENTATION OF OUTSOURCING

In response to the various recommendations made by the Humphry Review, the Government decided that progress with implementation of ICT outsourcing would be monitored and reported annually by the Public Service Commissioner in the State of the Service Report. The Commissioner would continue to look at the transition and implementation risks, including accountability issues, while also monitoring value for money and operational efficiencies.

Last year was the first time that the progress agencies had made with implementing the ICT Initiative was reported on in the State of the Service report. This year's report continues the review of progress with the implementation of ICT outsourcing, and also reviews the progress with the implementation of outsourcing corporate services.

Information on agency progress with market testing and outsourcing corporate services and ICT has been collected for the period from December 2000 to end June 2002. This extends beyond the standard reporting period for this report of July 2001 to June 2002 because it corresponds with the period following the Humphry Review.

The Humphry Review and the Government's response were critical in moving away from the 'once size fits all' approach to outsourcing of ICT that had been centrally driven by OASITO. While the Humphry Review addressed outsourcing of ICT, it was anticipated that it might have some impact on the scope and pace of market testing of corporate services. Accordingly, the extended reporting period enables observations to be made on the scope, pace and processes adapted to market testing and outsourcing following the review and the Government's response.

An outcome of this approach is that it is not always possible to make correlations between this data and some of the information collected on specific issues in relation to the 2001–02 year.

PROGRESS WITH IMPLEMENTATION

The Agency Questionnaire assessed progress on the basis of analysing the nature of market testing and outsourcing activities, rather than attempting to estimate the dollar value of these processes. This was preferred because there are challenges in seeking to establish consistent approaches across agencies in estimating the value of activities. The limitation of this approach is that it does not enable identification of the monetary proportion of services outsourced against the worth of services retained in-house.

CORPORATE SERVICES

Since December 2000, 51 of 92 agencies (13 large, 14 medium and 24 small) reported that they pursued the outsourcing of corporate and other services, excluding ICT, with the major focus being on internal audit, printing, legal services, and HR services (see Figure 7.1). This suggests that while agencies have been actively outsourcing, they have tended to outsource corporate services that have a lesser market value compared to the type of transactions retained in-house. Thirty-one agencies reported no market testing or outsourcing of corporate services, while nine agencies reported market testing but no outsourcing. Most agencies that conducted market testing proceeded to some degree of outsourcing. One agency did not respond to this question.

Since December 2000, Environment Australia (EA), the Department of Transport and Regional Services (DOTARS) and the National Competition Council (NCC) reported the highest levels of market testing with 12 services (of the 14 corporate services available for market testing) being tested. The NCC reported the highest levels of outsourcing (10 corporate services) while Centrelink outsourced eight corporate services of the 14 available.

Figure 7.1 Corporate services (excluding ICT) market tested and outsourced since December 2000

Note: The number of outsourced arrangements also includes extensions to existing contracts that were re-tendered without additional market testing.

For the majority of the 17 agencies (four large, two medium and 11 small) that outsourced HR services, their experiences have typically been on a partial basis, such as the administration of payroll and recruitment, while retaining aspects like strategic HR. The Agency Questionnaire did not elicit the proportional dollar value of such partial outsourcing.

The approach to HR is typical of agency approaches to outsourcing corporate services generally where the administration of processes and transactions is outsourced and the strategic elements are generally kept in-house.

In contrast, Finance has, as part of its overall strategy to improve operating efficiencies, outsourced strategic HR policy development and organisational change initiatives.

Where corporate services have been retained in-house, agencies identified value for money and baseline costs as the major factors for retention. Other contributing factors included retaining strategic control over the service because the service is central to an agency's core business, quality of technical services and agency culture. These reasons have particularly contributed to the in-house retention of financial services, record keeping, office services, learning and development and strategic HR.

Future plans

All agencies were asked to identify the corporate services they are planning to market test during 2002–03. Forty-one of 92 agencies (10 large, nine medium and 22 small), reported that they are planning to market test at least one corporate service. The most common services proposed for market testing are HR services,

financial services, internal auditing and property services (see Figure 7.2). The majority of these 41 agencies commented that the decisions to market test during 2002–03 are determined selectively on a case-by-case basis as business needs arise.

Figure 7.2 Corporate services outsourced since December 2000 and planned for market testing during 2002–03
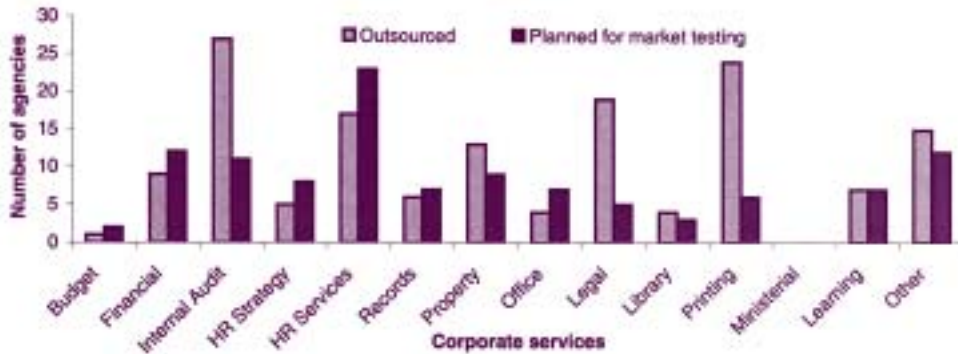
INFORMATION AND COMMUNICATION TECHNOLOGY SERVICES

Since December 2000, 41 agencies have been involved in the market testing of various ICT functions. Agencies commonly market tested wide area network services (WAN), voice and data facilities, and desktop and mainframe infrastructure. The remaining 51 agencies have not reported any market testing of ICT functions since December 2000. The Australian War Memorial commented that while its questionnaire results show that they have engaged in little market testing in recent months, this is a reflection of mature contract and outsourcing arrangements rather than an indication that market testing is not a consideration.

As a direct result of the market testing of ICT services, 21 agencies of the 41 involved in market testing, seven being large, five medium and nine small, engaged an outsourced provider to deliver the functions market tested. However 16 agencies including some of the 21 agencies above, four being large, four medium and eight small, advised that they engaged in some partial outsourcing of the functions market tested. Nine agencies (three large, one medium and five small) reported that they retained the ICT functions in-house after market testing. And a total of 59 agencies reported no contracting out of ICT functions since December 2000, while one agency did not respond.

The agencies reporting outsourcing of ICT functions indicated that they are selectively outsourcing components of ICT services. They are generally favouring the outsourcing of desktop services, Internet services, telecommunications, local area network/wide area network (LAN/WAN) and applications development and maintenance services (ADM).

Since December 2000, the Australian Transaction Reports and Analysis Centre (AUSTRAC) reported the outsourcing of 10 ICT functions of the possible 11 functions to outsource, and the NCC reported the outsourcing of eight ICT functions. The Child Support Agency (CSA) and the Equal Opportunity for Women in the Workplace Agency (EOWA) reported the outsourcing of seven ICT functions.

The average length of ICT contracts is 3.4 years. The range has varied between one and five years and the majority of agencies have advised that the provision exists to extend the life of the contract.

Generally agencies are retaining strategic planning and policy, research information systems, and cross platform and mid-range services. While desktop services, ADM and LAN/WAN services have been outsourced by many agencies, these services have also been retained by a significant number of other agencies. The decision to retain these services, as with corporate services, has related to the strategic control of critical services in-house, where no value would be added by outsourcing the function. In some cases, security concerns were identified as a contributing factor to retaining these services in-house.

Figure 7.3 Agency ICT functions outsourced or retained since December 2000

Legend
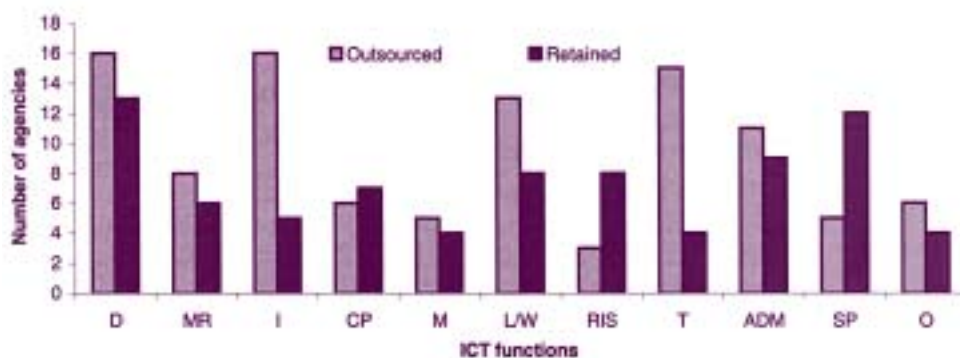
D Desktop	**L/W** LAN/WAN
MR Midrange	**RIS** Research information systems
I Internet services	**T** Telecommunications services
CP Cross-platform services	**ADM** Applications development and maintenance
M Mainframe	**SP** Strategic planning and policy
O Other	

DIMIA, reported that the Cluster 3 grouping[1] had voice and data services delivered via the Cluster3/CSC contract for the period July 1998 to 30 June 2001. The Cluster released a tender to the market in January 2001 and subsequently entered into a four-year contract with Optus for the delivery of voice and data services, commencing from July 2001.

Centrelink extended its contract with IBM during June 2002, covering some elements of its ICT for four years.

While outside the reporting period, it is noteworthy that three members of Cluster 3 (DIMIA, Australian Electoral Commission and IP Australia) elected in August 2002 to exercise the extension provisions in their contract with CSC for a period of four years, based on a value for money assessment. Otherwise, most agencies did not undertake large–scale market testing or outsourcing since December 2000.

[1] The members of Cluster 3 are reported in Table 7.1 ICT operating groups, under the sub-heading of 'Contract Management' later in this Chapter.

Future plans

Agencies were asked to identify the ICT functions they are planning to market test during 2002–03. Fifty-four agencies have been considering the ICT functions that might benefit from market testing and reported that they are planning to market test at least one ICT function. The more common functions identified for market testing were desktop services, LAN/WAN, telecommunications, mid-range services and Internet services.

Figure 7.4 ICT functions outsourced since December 2000 and planned for market testing during 2002–03
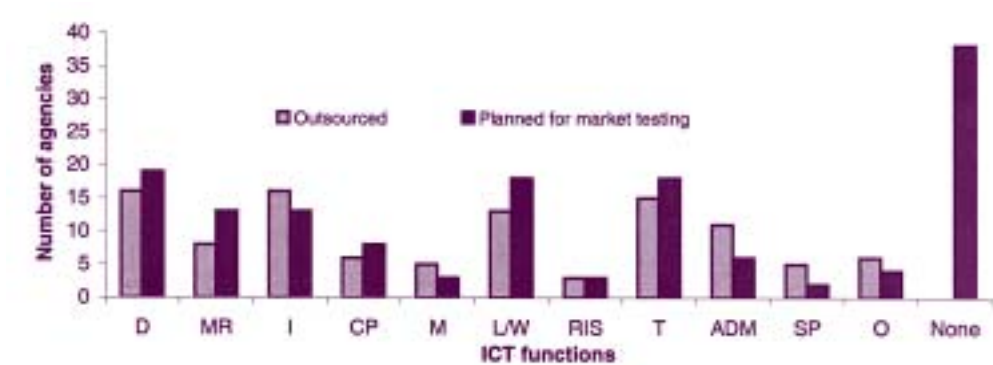
Thirty-eight of all agencies (four large, 10 medium and 24 small) indicated they are not planning to market test any ICT functions during 2002–03. In the case of agencies that outsourced ICT prior to December 2000, consolidation and refinement of arrangements is the primary goal.

MAJOR ISSUES

Essential to evaluation in a devolved environment, this section addresses the broader issues surrounding outsourcing, such as contract management, accountability, effectiveness, people management, strategic planning, interoperability and information management.

CONTRACT MANAGEMENT

Contract management continues to be a fundamental part of agencies' capacity to manage outsourced arrangements. The Agency Questionnaire explored the management arrangements of agencies including the skills required for managing outsourced arrangements, resources dedicated to contract management, and the difficulties experienced with implementing contracts.

Management Arrangements

The majority of agencies specified that they manage their own outsourced services for both corporate services and ICT functions, often through two separate in-house contract management teams. Smaller agencies commented that individual contract managers manage outsourced contracts with support from corporate and legal services units.

Agencies are not typically operating as groups or clusters for either the outsourcing of corporate services or ICT functions, and therefore group contracting is not significant. However, in relation to ICT functions the groups that do currently exist reflect those that were in operation prior to the Humphry Review.

Table 7.1 ICT operating groups

ICT operating groups	Group members
Cluster 3	Department of Immigration and Multicultural and Indigenous Affairs Department of Finance and Administration (Electoral Office Services) Australian Electoral Commission IP Australia Australian Government Analytical Services Australian Surveying and Land Information Group (will disengage at end 2002) Ionospheric Prediction Service Commonwealth Grants Commission (reported as part of Cluster 3 for some IT and communication services)
Group 5	Department of Transport and Regional Services Australian Competition and Consumer Commission Department of the Prime Minister and Cabinet Department of Communications, Information Technology and the Arts Department of Industry Science and Resources National Office for the Information Economy
Health Group	Department of Health and Ageing Health Insurance Commission Medibank Private Ltd
Group 8	Civil Aviation Safety Authority Australian Communications Authority Environment Australia Agriculture, Fisheries and Forestry—Australia Australian Public Service Commission Aboriginal and Torres Straight Islander Commission Australian Broadcasting Authority

In response to the Humphry Review, the Government decided that Finance should be available to advise agencies in managing the transition of IT functions to the private sector. Finance has advised that agencies

have not been active in using these fee-for-service facilities offered by the department. Agencies have preferred utilising market resources.

Following the findings of the Humphry Review, the Department of Education, Science and Training (DEST) withdrew from group arrangements with DEWR (and three other agencies), preferring to implement ICT outsourcing on a 'segment-by-segment' approach. DEST identified this approach as addressing the implementation risks identified in the Humphry Review.

Skills for management

Agencies were asked to identify the additional skills or capabilities required to manage their outsourced services. All agencies identified the need for general contract management skills, negotiation and partnering skills to manage and develop contractual arrangements as significant. Typically agencies facilitated these skills through in-house or on-the-job training to existing employees. The need for interpersonal skills and purchasing skills was also a common thread among agencies. Five agencies reported that they sought to recruit experienced individuals with adequate contract management skills rather than develop the skills of their existing employees.

A number of agencies, like last year, also identified a strong need for specific specialist skills to better analyse the technical nature of ICT contracts, for example in telecommunication services. Centrelink, Customs, EA, ATSIC and the ACCC all identified the need for technical specialist skills in ICT, including ICT infrastructure, ICT security, and business analysis.

Resources

Agencies were asked to estimate their annual allocation of resources to manage outsourced services. On average, for all agencies, 4.6% of the total cost of all contracts is dedicated to contract management. Included in this estimation are the costs of contract management staff, costs for tender and consultancies, and other administrative costs.

Table 7.2 Agency resources associated with outsourced provisions

Agency size	Average estimated annual cost of managing outsourced provisions (%)	Range (%)
Large >1000 ongoing staff	4.2	1– 10
Medium 250–1000 ongoing staff	4.5	0.5 – 20
Small < 250 ongoing staff	5.2	1– 20

Note: Average annual cost is estimated as a percentage of the total costs of all contracts. Figures represent the combined cost for corporate services and ICT functions.

Table 7.2 identifies the average estimated annual costs to large, medium and small agencies of managing outsourced provisions. There is significant variation in the costs amongst agencies, though there is perhaps a pattern depending on the size of the agency. Generally, the smaller the agency the greater the proportion of annual resources as a percentage of the total costs for all contracts is dedicated to managing a contract. The average one percent higher cost for small agencies over large agencies is however within the context of variations of up to 20% in the costs amongst all agencies.

These results are not comparable with the figures available from last year's report, because last year's data related to ICT functions only. In addition, a significant number of agencies commented on the accuracy of such data. For example, DVA commented that it is difficult to estimate the resources dedicated to contract management since contract management is now widespread and integrated with the agency's core business. Seventeen other agencies also reported on the difficulty in systematically isolating the costs of contract management from general management.

Difficulties with implementation

Agencies were asked to identify the main issues that they experienced when managing their outsourced contracts since December 2000. Common difficulties identified by all agencies, related to the performance issues of contractors such as skills of staff, delivery and compliance, quality of service, and measurement, evaluation and reporting. For example, Health explained that its main issues have related to contractor performance in terms of deliverables and quality, pricing and contract scope.

Difficulties also relate to the capability of contract management staff to manage the contractual arrangements and manage the effectiveness of service delivery. Defence and Finance expressed some concern with the impact of high staff turnover and the turnover of contract managers, resulting in loss of corporate knowledge and workforce skill levels, thereby reducing the timely delivery of services. Agency responses therefore indicate a growing focus on relationship management as a complement to service-levels management.

In December 2000, the Humphry Review reported that one of the major factors limiting successful implementation was agency resistance.

> There has been a general lack of buy-in by senior management and an unwillingness to accept that the Initiative is the most appropriate approach to IT outsourcing. This lack of buy-in is by far the most significant risk factor for implementation management. The lack of acceptance by agencies has presented the initiative with difficulties at every stage.[2]

Although this year's responses related to both ICT outsourcing and corporate services, resistance to cultural change seemed far less prevalent than it was when reported in December 2000. Cultural change, while still identified as an important issue by some agencies, was listed as seventh in order of importance.

Where the Humphry Review looked at clusters that included agencies which had yet to implement the ICT Initiative [3], it appears that the reduction in the resistance to cultural change is closely related to the fact that agencies have been given both the responsibility and the time to complete and implement their outsourcing contracts with external providers.

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[2] *Review of the Whole of Government Information Technology Outsourcing Initiative*, Richard Humphry AO, December 2000, p.10.

[3] Joint Committee Public Accounts and Audit, Report No.383, *Review of Auditor General Reports 2000–2001*, First Quarter, June 2001, p.23.

ACCOUNTABILITY

In response to the Humphry Review, considerable attention has been focused on agencies' ability to maintain sufficient control over outsourced arrangements to enable them to meet their accountability responsibilities under the *Public Service Act 1999* and the FMA Act. This includes issues such as managing contractors according to the requirements of the APS Values and Code of Conduct, the ethical management of outsourcing and conflict of interest, managing intellectual property issues, attention to privacy concerns, risk management and audit activity.

APS Values and Code of Conduct

Regardless of the means by which an agency service is provided, agencies remain accountable for that service. For outsourced services, accountability is usually focussed on contracted outputs and outcomes, including service standards, rather than on the process through which the services are delivered. Indeed, the more limited process constraints may contribute to the relative efficiency of the outsourced arrangements over in-house management. Nonetheless successful outsourcing arrangements depend upon the outsourced provider understanding the requirements of the APS employees with whom they deal, and may also depend upon the outsourced provider maintaining similar standards of conduct.

It is the responsibility of Agency Heads, where non-public servants are involved in service delivery to the public (for example Job Network providers), or in providing in-house services to agencies (such as desktop IT services) or are working as consultants on particular projects within agencies, to ensure that the non-public servants are aware of the expected standards of conduct in the APS and to determine whether the standards set out in the APS Values and the Code of Conduct should apply in full or in part. A greater part of the Values and Code might, for example, apply to a Job Network provider than to a company providing IT help desk services to an agency.

Last year's report found that, in the agencies that had outsourced functions, the extent to which contractors were required to meet the standards set out in the APS Values and Code of Conduct was addressed by some through the inclusion of specific clauses in their contractual arrangements.

This reporting period, more agencies advised that they had adopted a similar approach. Fifty-six agencies (13 large, 16 medium and 27 small) reported the use of general contract clauses and 16 agencies (seven large, six medium and three small) reported the use of specific contract clauses. However some agencies have gone further. For example, DIMIA provided details of its policy, indicating that:

> [R]elevant contractual clauses [are] inserted in all contracts, requiring the contractor to comply with departmental procedures relating to occupational health and safety; *Equal Employment Opportunity for Women in the Workplace Act 1999*; DIMIA Workplace Diversity Program and the Workplace Behaviour Strategy; Section 16 of the *Public Service Act 1999*; and the APS Code of Conduct, specifically, to provide all reasonable assistance to the Commonwealth with any investigation of a report by an APS employee of a breach of the APS Code of Conduct. The relevant contract clauses only apply to the contractor's delivery of services to DIMIA. DIMIA contracts differ in the extent to which the APS Code of Conduct is applied. In some cases the contractor agrees to be bound by all provisions of the Code. In others the obligation on the contractor is to provide reasonable assistance to the Commonwealth with investigations of breaches of the Code of Conduct.

EA advised that they use both a general clause and a specific clause. The specific clause is a deed signed by each individual employee of their outsourced provider working on their account. CSA includes the APS Values and Code of Conduct in full in all contracts.

Fourteen agencies (one large, one medium and 12 small) reported that they do not have any arrangements in place to ensure contractors understand the extent to which they must observe the requirements of the APS Values and Code of Conduct.

Agencies were asked to describe the arrangements they have in place for evaluating the adequacy of their contractual arrangements in ensuring that contractors meet the required behavioural standards. The most common evaluation methods used by agencies were audits, assessment against key performance indicators (KPIs), review by managers, inspections and monitoring, and through complaints records. Regular feedback and staff surveys were also common methods. At least one of these methods was reportedly used by a third of all agencies. Twenty agencies reported having no evaluation methods or did not respond to the question, the majority of which have not outsourced functions since December 2000.

It is difficult to assess whether such arrangements are appropriate, considering it is not possible to isolate those agencies that do not have evaluation methods from those that do not have arrangements to evaluate, or from those agencies that have not outsourced.

ATO assessed the effectiveness of their ICT contracts by undertaking audits. Defence advised that compliance is evaluated against KPIs, which is specified in the contract, and in customer surveys. Health similarly commented that its contract management unit continually reviews their ICT provider's performance against key performance indicators including the APS Values.

EA described how its specific clauses allow them to manage and control staffing issues with external providers. It advised that one incident has occurred since December 2000, where a contractor's employee did not meet Code of Conduct obligations, and contractual arrangements facilitated the external provider taking appropriate action with the individual.

Ethical management of outsourcing—probity issues

Certain provisions of the APS Values and the Code of Conduct are directly relevant to outsourcing exercises and to the handling of the human resource management aspects of outsourcing. For example, the APS Values require the highest ethical standards and commitment to accountability arrangements while the Code of Conduct requires APS employees to behave honestly and to disclose, and take reasonable steps to avoid, real or apparent conflicts of interest. It also prohibits the improper use of inside information by employees to gain a benefit for themselves or any other person.

The APS Commission's publication *Outsourcing—Human Resource Management Issues* (June 2002) includes advice on the ethical management of outsourcing exercises and provides advice on the measures that agencies can adopt to assist in ensuring the probity of the outsourcing process.

The APS Commission encourages agencies to include specific contractual provisions in tender documentation and services contracts which restrict key decision makers in an outsourcing process from being employed or engaged by the successful contractor within six months of the completion of the tendering process, or from being engaged by a tenderer during the RFT process.

It is not intended that these provisions should affect in-scope staff who may in the normal course of events seek and/or be offered employment with the successful tenderer. These provisions are clearly aimed at persons in authority in a tender process who are influential in selecting who will be the successful tenderer.

Conflict of interest

Agency responses from last year's Agency Questionnaire revealed that views on probity requirements were narrow. Agencies were merely reliant on privacy, fraud, performance and security clauses in their contractual arrangements. This reporting period, 43 agencies (13 large, 12 medium and 18 small) advised that their agencies have provisions that prevent a tenderer during the RFT process from soliciting or engaging key agency personnel involved in the tender process. Thirty-three agencies (nine large, 11 medium and 13 small) indicated they have provisions in place that prevent the contractor for a period of six months after the Services Agreement is signed from soliciting or engaging key agency personnel involved in the tender process.

For ICT outsourcing contracts, the Department of Industry, Tourism and Resources (ITR) reported that its contracts prohibit soliciting the engagement of personnel for the entire life of the contract.

Both the National Office for the Information Economy (NOIE) and DCITA address conflict of interest under two clauses in the RFT, one which prevents the successful tenderer from approaching Group agency staff about employment until after the Services Agreement is executed, and the other which states the contractor, its agents, subcontractors and related corporations must not, without prior written consent of the Group delegate, entice any employee of the Group or Group member.

Agencies were asked how the key agency personnel are identified in the RFT and Services Agreement. Customs, the APS Commission, DIMIA, Health, AFFA and the Attorney-General's Department (AGD) advised that key agency personnel are defined in the terms and conditions of the tendering document, identifying key agency personnel as: members of a steering committee or evaluation committee for the RFT evaluation process; team leaders for the evaluation process for the RFT; the evaluation co-ordinator for the services agreement; and personnel in a position of substantial influence in relation to the evaluation process.

EA advised that its agency personnel are listed by name for corporate services and by function in relation to ICT services outsourced. ITR, ATSIC, the Royal Australian Mint, and Australian Securities and Investment Commission also advised listing key personnel by name. AusAID reported that it lists names and job titles. NOIE, DCITA and the ACCC reported that the RFT documentation covers any agency employee, not just key personnel.

The majority of all agencies reported on other approaches and policies to ensure conflict of interest is well managed. For corporate services, a common response was the use of probity plans, including specialist probity advisers and auditors. These methods were also common for ICT functions. For example, EA reported using a conflict advisor and a conflict register throughout the RFT process. DFAT advised that it has appointed a probity manager to scrutinise its mainframe tender process.

Only six agencies (two medium and four small) reported that they have neither RFT documentation nor alternative measures to prevent conflict of interest. However, consistent with the APS Commission Guidelines, more agencies should adopt contractual provisions that seek to prevent the contractor for a period of six months after the Services Agreement is signed from soliciting or engaging key agency personnel involved in the tender evaluation process.

Intellectual property

In relation to ICT functions outsourced, 64 agencies reported that specific contract clauses vest intellectual property ownership to the Commonwealth. In one such case, DIMIA advised that the contract awards the contractor a license to use the intellectual property in order to provide services. Many agencies also use licences to access pre-existing intellectual property brought to the agency by the contractor. Several agencies reported that any original intellectual property developed by the outsourcer during the course of delivering services would become the property of the Commonwealth.

Some 16 agencies (five large, five medium and six small) reported their contractors as the owners of the intellectual property rights, but with provisions to allow free access by the Commonwealth.

AFFA commented that it has sometimes engaged in shared funding with its contractors to generate intellectual property. AGD also advised of combined arrangements on a case-by-case basis, taking into account security, privacy and value for money. For example, ownership of data is seen as core business and so any related intellectual property is retained by the agency.

Agencies need to judge carefully the appropriate management of IP generated by contract management. Full Commonwealth ownership is not necessarily the best option, particularly if some ownership by the contractor allows a substantially lower contract price (it may also encourage more development and broader application of the IP by Australian industry). The focus needs to be on overall value for money, and provisions allowing free access by the Commonwealth may provide sufficient protection in many cases.

Privacy and the protection of personal information

As reported in Chapter 6, dealing with accountability issues, 80 agencies indicated that they incorporated a general provision in their contracts to ensure contractors' compliance with privacy obligations in accordance with the Privacy Act. One large and one small agency reported reliance on a non-contractual arrangement such as a confidentiality agreement or audit.

AGD commented that for the outsourced arrangement of their internal audit, the contractor's personnel are required to sign a 'Deed of Undertaking' in relation to personal and confidential information. In relation to the outsourcing of recruitment services, Customs reported that it has undertaken security inspections of the service provider's premises, inspecting physical security and storage of documents.

As reported last year, the ATO advised that its Services Agreement provides stringent privacy protection of taxpayers' personal information. The agreement enables the ATO to monitor privacy compliance and indemnifies the ATO for compensable loss by reason of a breach of privacy. Secrecy provisions in taxation laws also apply to any external provider.

In relation to managing outsourced ICT services, EA specify privacy obligations in contracts as well as requiring each employee of the outsourcer to sign a privacy deed. The agency reserves the right to commission independent security audits of the contractor. Health relies on their Services Agreement where privacy obligations are routinely considered in the context of infrastructure changes.

The disclosure of personal information between government agencies and the private sector in the context of outsourcing contracts was an area of particular interest for the Office of the Federal Privacy

Commissioner (the Office) in 2001–02. Ten agencies (eight large, one medium and one small) advised that they have been subject to an audit by the Office. The Office sought to ensure that agencies that have entered into outsourcing arrangements, which involve the collection, use, storage and disclosure of personal information comply with the requirements of the information privacy principles (IPPs).

Generally, audits conducted by the Office in this area show that managers charged with the responsibility for entering into outsourcing arrangements focus their attention too heavily on contractual outputs such as number of PCs delivered and installed by an outsourced provider to an agency, without focusing sufficiently upon the method by which these deliverables are achieved, notably the extent to which the outsourced provider's acts and practices comply with the requirements of the IPPs.

The audits assessed the physical and logical security controls of contracted service providers as inadequate. Some agencies did not have contractual arrangements in place with outsourced providers whose functions involved the handling of personal information on behalf of those agencies. The audits also commonly found that employees of contracted service providers and their subcontractors do not enter into deeds of confidentiality as required by Commonwealth contract. Finally the audit observed that personal information collected and stored by a contracted service provider on behalf of agencies is not returned to the agencies at the end of the contractual period.

The Office made recommendations on these issues and in general the agencies involved undertook appropriate remedial action to protect personal information.

Risk management

Agencies were asked what risk management assessments have been undertaken in relation to all outsourcing during 2001–02. In particular, agencies were asked what risks have been identified in relation to their outsourcing through fraud risk assessments and business continuity assessments.

Thirteen agencies (two large, two medium and nine small) reported that no risk assessment had taken place during 2001–02. Another 13 agencies did not answer the question; some of these have no outsourced functions. A majority of the remaining agencies described similar risk management assessment methods, though some take a more comprehensive approach than others to assessing risks and methods of addressing them.

DIMIA advised that risk is assessed at every stage of the market testing process, including contract negotiation and the management of the contract. The formal evaluation process includes a risk assessment as part of the overall value for money assessment. The risk management approach is deployed in accordance with international industry best practice and is linked to DIMIA's strategic outcomes. DIMIA reported that a risk management plan is in operation for the provision of its office services and a review is planned for November 2002.

Health reported that for outsourced corporate services and ICT functions, no significant fraud risks were identified through its risk management plan. As outsourcing arrangements continue to change, fraud risks are continually reviewed.

EA advised that it conducted an internal audit of their ICT functions as part of their fraud risk assessment. The audit identified one management risk: the potential for contractor staff to manipulate, distribute or misuse Commonwealth information.

The Australian Communications Authority (ACA) commented that risks were identified as part of its general risk management strategy, including potential business failure, management of quality and lack of skilled resources. The Defence Housing Authority and the National Native Title Tribunal (NNTT) commented that their risk assessments identified the need for contingency planning and disaster recovery planning respectively.

Audit

Since the last report agencies have reported an increase in the frequency and range of audit activity. Thirty-seven percent of all agencies (12 large, seven medium and 15 small) engaged in some audit assessment of their outsourced services and functions during 2001–02, particularly financial services, property services and records management. In relation to ICT functions outsourced, seven agencies of the 34 agencies engaged in audit activity, two being large, two medium and three small reported that they had audited their ICT security, back up and recovery systems.

The majority of these 34 agencies, in relation to both corporate services and ICT functions, identified contract management, and privacy and confidentiality concerns as the key areas of audit.

DVA was subject to audit by the ANAO on the management of their IT outsourcing contract. The audit identified strategic and operational issues that would lead to the improvement of the department's contract management. The audit was critical of DVA's alignment between their strategic plan and the contract and concluded that risk management attention was insufficient. The report did however commend DVA's approach to managing the contract, including meetings with the supplier, monitoring of service difficulties, and working with the supplier to increase and improve technology services.[4]

EFFECTIVENESS OF OUTSOURCING

Agencies were asked if they have undertaken any evaluation (other than audits) of the effectiveness of outsourced contracts during 2001–02. Twenty agencies (five large, five medium and 10 small) reported that they had undertaken some performance evaluation of outsourced corporate services, while 44 agencies reported that they had not. Twenty-eight agencies did not respond to the question, some of which have no outsourced arrangements.

Nineteen agencies (four large, six medium and nine small) reported that they had undertaken some performance evaluation of their ICT functions during 2001–02, while 54 reported that they had not. Nineteen agencies did not respond to the question, some of which have no outsourced arrangements.

DVA commented that evaluation is a standard element of the contract management environment. Evaluations are mandatory when contracts are due for renegotiation and the results are automatically fed into the new arrangement.

ANAO described a comprehensive method of evaluation where contracts for the outsourcing of financial statement audits are part of the ANAO's quality assurance program. The results are then processed into changes in the contractual arrangements.

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[4] Australian National Audit Office, Audit Report No.46 2001–02, *Management of an IT Outsourcing Contract*, May 2002.

The Australian Bureau of Statistics relied on statistical data to compare historical and actual service costs, as well as examining market trends, in order to evaluate its non-IT services. The Australian and New Zealand Food Authority commented that it has used the ongoing assessment of complaints to evaluate their outsourced payroll services.

The Australian Industrial Registry (AIR) systematically ensures that all corporate related services provided by external contractors are regularly reviewed and evaluated by both AIR managers and a contracts committee. The committee then make adjustments to the contractual arrangements to improve the delivery of contracted services.

In relation to ICT functions, performance evaluation methods varied. The Federal Court of Australia identified that ICT providers are monitored by ICT staff to ensure performance in accordance with service level requirements. The Australian Broadcasting Authority (ABA) relied on contract management staff to provide evaluation reports. Evaluation through results of staff surveys and monitoring of service levels were other commonly identified techniques.

PM&C, Finance, DVA and the ANAO reported that they benchmark prices and charges in order to reduce the costs of services before extending or renewing contractual arrangements.

Product suppliers to the AIR are scrutinised to ensure that they are authorised partners of the original equipment manufacturer and that authorised representatives are available in the cities where services are required.

The Commonwealth Rehabilitation Service (CRS) reviewed their ICT facilities management contract during 2001–02. As a result of the review, a reduction in scope is being negotiated in the contract extension. The CRS claims that these changes will reduce duplication of some in-house services and will provide greater flexibility in relation to ICT strategic advice.

The Office of the Employment Advocate reported that evaluation has led to the introduction of penalties for when a supplier fails to provide continuity of their key staff. Furthermore they have insisted upon either a fixed-price contract or penalties for failure to deliver services on time.

Access to skills and service

Agencies were asked to comment on the effectiveness of outsourced services relative to their experiences with in-house provision and, in particular, whether the arrangement had given them access to a broader rage of skills, provided a better level of service and whether the external provider provided the same level of service to all areas of the agency, including regional offices.

A majority of agencies reported that they do have access to a broader range of skills. Small agencies in particular reported that they get access to a broader and deeper level skills set for both corporate services and ICT functions, primarily because they do not have the numbers of staff and the capacity to provide the expertise in-house.

In relation to ICT functions, 10 agencies reported that they do not receive access to broader expertise. For example, the Bureau of Meteorology (BOM) reported that external providers could not provide any more breadth in skills than the highly skilled nature of their own workforce, who have high-level knowledge of the technical systems they work with. This has made it similarly difficult for external providers to maintain the level of service once provided by in-house staff.

In contrast, in relation to ICT services, DFAT reported that contractors provided 24-hour mainframe operation, and minimised risks that could not be overcome in-house. DFAT also reported better levels of service for their corporate services outsourced as a consequence of the contractor's broader levels of expertise.

Only three agencies reported lesser service levels for corporate services. DIMIA stated that while its office services contractor provided equivalent service, the outsourcing of office services has meant that there is less flexibility in meeting seasonal peaks and new work demands. Twelve agencies reported lesser service levels in relation to ICT functions. For example, the NNTT reported operational improvements in the level of service, but poor delivery in provision of strategic direction and flexibility in a changing environment.

Agencies were divided on whether outsourced providers achieved the same level of service to regional areas. Some agencies, particularly small agencies, reported that outsourced arrangements provided better support for their regional offices with access to local service providers—resources they had not previously accessed. Health claimed that its ICT outsourced arrangements do provide a greater level of support for their remote sites.

Eleven agencies (in relation to ICT functions) and only two (in relation to corporate services) complained that services had not yet been fully implemented in their regional offices. Several other agencies reported that they contract for lower levels of service in their regional areas. They commented that they had tiered arrangements, which deliver different levels of service to different parts of the organisation according to business priorities.

Generally agencies indicated that a definitive assessment of effectiveness in relation to skills and service was difficult to determine.

Several agencies reported it difficult to make any comparison because outsourcing arrangements had been in place for a number of years and benchmarking data was therefore unavailable, or conversely that arrangements had not been in place long enough, or the services were additional, and consequently not possible to make any meaningful comparisons.

For example, Customs indicated that the services of the external provider differed from the services previously provided in-house:

> [S]ome areas of service being of a lesser standard (agreed in the contract) and other specialist services (e.g. psychometric testing and assessment) being outside the scope of previous in-house services.

PM&C observed that the very nature of the outsourcing relationship influences user and management perceptions:

> An external provider is much easier to criticise than an in-house team. This can be compounded by moving the service provision to a strict commercial basis with full exposure of costs (even though these may be lower than the full cost attributed to in-house service delivery). The change in perception that occurs due to the nature of the outsourcing relationship needs to be borne in mind when interpreting any comparison of pre and post-outsourcing satisfaction.

Value for money

Agencies were asked if they believed that their outsourced arrangements had provided value for money, taking into account all the factors involved, including costs, resource allocation and levels of service. Agencies generally were more positive in reporting that they achieved value for money compared with 2000–01.

Forty-nine of all agencies reported that their outsourced arrangements provide value for money for their non-ICT services, with forty-seven agencies reporting the same response for ICT functions. These respondents specified that outsourcing has enabled greater access to a range of services and expertise and better value for money. Five agencies did specify however, that although arrangements have represented value for money, this was not as significant as estimated during the outsourcing process.

DEWR reported that for HR services, the results to date have met or exceeded expectations. PM&C provided a detailed account in relation to the provision of corporate services, indicating a reduction from approximately 21% of the departmental allocation in 1996–97 to 12% in 2000–01. PM&C advised that this is in part due to the outsourcing of a range of corporate services and, in addition, market testing acted as a catalyst for re-engineering remaining services and thereby achieving productivity improvements.

DEST commented:

> Value for money is the principal criterion for engaging a service provider. In the event that 'value for money' is not delivered as required by the contract and attendant service level agreements, DEST can seek the remedy of cancelling the arrangement.

In relation to corporate services, AusAid was critical of the savings identified from outsourced providers, commenting that the costs of market testing outweighed the savings.

Nine agencies observed that determining value for money is complex and therefore difficult to assess. In relation to ICT functions DCITA commented that changes to departmental size and services makes a comparison difficult to determine:

> [T]he standard operating environment has changed from Banyan to NT, and the Department has grown by 10%. Therefore such a comparison is not like system with like system.

ATSIC similarly advised, in relation to ICT outsourcing, that changes in technology needs have made it impossible to compare accurately the cost of pre-outsourcing provisions with the full cost of services later being provided by an external provider. ATSIC's assessment, as a member of a group contract, was that unit costs have increased for ICT infrastructure services and that better value could be obtained through selective outsourcing as a single agency rather than participating in the group.

In relation to ICT functions outsourced, seven agencies reported that they did not receive value for money. The ACA and the ACCC both commented that value for money is not evident because the costs have increased with no improvement to service levels, functionality and performance, and because service levels are not always met. The ABA similarly reported the failure of the contractor to deliver adequate services in critical areas including technical advice, back-up and restore services, software and asset management. The AIR returned its Financial Management Information Systems (FMIS) bureau service in-house when the external provider fell short of providing value for money.

PEOPLE MANAGEMENT

Consistent with its responsibilities for human resource management (HRM) policy in the APS, the APS Commission, in consultation with DEWR and Finance, has developed advice for agencies on managing the staffing implications of a decision to outsource an activity or function. The latest version of this advice, *Outsourcing—Human Resource Management Issues* (June 2002) is available on the APS Commission's website.

A key message contained in this advice is that it is important for agencies to develop a carefully planned, structured and executed people management strategy for each outsourcing exercise. This will assist in achieving positive outcomes for the Government, the APS agency, the new service provider and clients, as well as fair outcomes for employees affected by outsourcing decisions.

There are two discrete approaches which address the staffing and workplace relations aspects of outsourcing—the *Clean Break* approach and the *Phased* approach. These approaches apply in all outsourcing exercises, including IT outsourcing and corporate services outsourcing.

The Clean Break approach and the Phased approach

Under the Clean Break approach staff currently performing the function are managed under the relevant redeployment, reduction and retrenchment (RRR) provisions operating in the agency. Generally this means staff have a choice between seeking redeployment in the agency or elsewhere in the APS or accepting voluntary retrenchment (VR). Those who accept VR are not precluded from seeking employment with the new service provider—the APS agency does not however broker jobs and/or terms and conditions of employment for its staff with the new service provider.

Under the Phased approach, the APS agency takes a more active role in negotiating employment opportunities and terms and conditions of employment for its existing staff with the new service provider and staff resign from the APS to accept employment with the new service provider. Employees who are not offered, or who do not accept, a job with the successful tenderer are dealt with under the relevant RRR provisions in operation in the agency. Contractual provisions are included in the Services Contract which requires the payment of a specified amount by the new service provider if the provider engages a person who has accepted a VR benefit from the APS agency within six months of taking up the contract.

APS agencies have the option of using either the Clean Break approach or the Phased approach when outsourcing an activity or function. Agencies were asked which staffing approach was used in each of the functions they identified as being outsourced since December 2000. They were also asked why they adopted the particular staffing approach and to identify any particular problems/difficulties experienced in implementing either approach.

In relation to the outsourcing of corporate and other services, the Clean Break approach was used, or has been specified in request for tender documentation as the approach that will be used, in by far the majority of cases.

Agencies expressed a preference for the clean break approach because it ensures continuity of business whilst minimising disruption to staff and provides a process that is administratively simpler, less resource intensive and can be implemented in a reasonably short time frame.

The responses from agencies indicated that the Phased approach was used on only five occasions. The NCC used the Phased approach for three of the functions that it outsourced and indicated it did so because it wanted confidence in the new system.

It needs to be noted however that a number of agencies indicated that it was not necessary to choose either staffing option in many of the functions that were being outsourced during the period in question. In a number of cases this was because the current project involved the re-tendering of an existing outsourced arrangement and there were no existing APS employees performing the function. In other cases agencies reported that it was clear at the outset that it would be possible to absorb any employees currently performing the function into other areas of the organisation without resorting to formal redundancy processes.

Agency responses indicated that only 68 employees separated from their respective agencies as a direct result of outsourcing of corporate services and ICT functions during 2001–02. The most significant reductions occurred in DEWR (18 including two who were redeployed to other APS agencies), DFAT (15), DIMIA (14) and Defence (14).

Of the 68 employees that separated from their respective agencies, agencies estimated that a total of 27 of their former employees accepted jobs with the agency's outsourced provider at the time of outsourcing corporate and ICT functions. However, over 50% of this number can be attributed to a single outsourcing exercise in Defence where all 14 employees accepted employment with the successful tenderer. In the other cases identified above, DEWR estimated that six of its employees accepted employment with the new service provider, while the figures for DIMIA and DFAT were three and zero respectively.

Last year's report indicated substantially higher numbers of staff who separated and higher numbers of former employees who accepted jobs with the contractor at the time of outsourcing. The reasons that these numbers are relatively small may reflect higher re-tendering activity, and partial outsourcing decisions where existing staff have continued to perform other APS duties while the outsourced provider absorbs the additional processes without recruiting new employees.

There were no significant differences between approaches adopted by agencies for the outsourcing of corporate services or ICT functions.

The information supplied by agencies also shows that the number of employees who have separated from the APS as a result of the outsourcing of corporate and ICT functions during the period in question is quite small and represents less than one per cent of total separations during 2001–02.[5]

STRATEGIC MANAGEMENT CAPABILITIES

Agencies were asked to identify responsibility for the strategic planning of their outsourced services, specifically in relation to corporate services and ICT.

Most agencies expressed a strong preference for managing their strategic planning of outsourced services in-house, while several agencies reported that they have engaged in a combination of both in-house and third party advisors for strategic planning.

Agencies are typically reluctant to source strategic planning from their outsourced service provider, with only three agencies reporting that they have used their prime contractor for the purposes of strategic

[5] Representation made on an assessment of figures provided by agencies and the Australian Public Service Employment Database (APSED).

planning and policy since December 2000. Two agencies reported the use of other contractors (other than their prime contractor) for strategic planning advice and policy.

DIMIA and the Royal Australian Mint suggested they had used a combination of in-house, outsourced provider and third party advisors. Customs identified that they had used in-house advice only for the planning of their HR services, yet used a combination of in-house advice and advice from their outsourced provider for the planning of their ICT functions.

INTEROPERABILITY

Last year's report generally showed that larger agencies had extensive requirements for interoperability,[6] while other agencies were satisfied with basic requirements. This year, a number of medium and small agencies have recognised the importance of considering interoperability with other Government agencies, particularly for email and document exchange.

A significant number of agencies including DIMIA, ATO, AFFA and National Archives of Australia reported that interoperability is a key component of their systems architecture and standards, while ITR reported interoperability with other portfolio agencies, and ATO and Customs, is considered as part of their ICT strategy process. Similarly to last year, several agencies noted their interaction with NOIE, the Commonwealth Office of Spatial Data Management, and Defence Signals Directorate to ensure interoperability with other agencies is built into their ICT strategies.

As expected, agencies generally considered interoperability a high level consideration where agency systems are an integral part of their core business or a requirement of a specific project.

Attention to issues of interoperability will also act as an important building block for future e-Government developments. In May 2002, a draft of the framework, entitled *Interoperability Framework for the Commonwealth Government*, was released for comment. It sets in place a consultative process to assist agencies in further developing policies and standards to promote interoperability. Incorporating existing Australian standards on metadata, privacy, security and authentication, it specifies technical standards that will enable IT systems to exchange data.

INFORMATION MANAGEMENT

In the contemporary environment, the broader arrangements for agencies to manage their information needs are an emerging priority. The Management Advisory Committee (MAC) is seeking to get beyond the focus on information and communication technology and focus on business related information needs (including across agencies and across government) to consider ICT in the context of supplying these needs.

Forty-two per cent of agencies (10 large, 10 medium and 19 small) indicated that they had an information management plan in place. Fifty-one per cent of agencies (8 large, 10 medium and 29 small) reported that they did not have an information management plan. This figure however also included agencies that are currently developing a plan, including DFAT, BOM, DEWR, DEST and the ACA.

Overall, 61% (56) agencies reported that they had no information committee, with 36% (33) stating they did. Large agencies had the strongest representation with 11 of the 19 agencies having such a committee.

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[6] Interoperability refers to the ability to transfer and use information across multiple organisations and systems.

There did not appear to be a correlation between agencies having an information management plan and an information management committee.

Over 60% of agencies reported a Chief Information Officer (CIO) was established or was currently being recruited. Several of these agencies advised that their CIOs were a current initiative, with some recently being appointed, currently being appointed and other agencies reported that they were currently separating the role from their IT officers.

Where CIOs were in place they were responsible for the delivery of technology services, and for the oversight of information and knowledge management strategies, including the operational and strategic responsibilities for ICT within their agencies.

SOME OBSERVATIONS

In comparison to last year's report, agencies have generally reported a more positive experience with outsourced corporate and ICT services. This is in part a reflection of maturing relationships with service providers, but also the changes that have been made to the arrangements for market testing and outsourcing whereby agencies determine the approach and scope that best meets their business needs.

Typically agencies have selectively outsourced individual or specific corporate services, with a preference for lower value, more routine transactions processing e.g. salaries and leave, rather than whole functions. In relation to ICT, agencies have again favoured partial and selective outsourcing. Control and accountability still rests within agencies.

In general agencies appear to have increased their level of awareness of accountability issues in outsourcing, particularly in regard to probity. Conflict of interest issues are better managed through RFT documentation, now in use by nearly 50% of agencies, improving the ethical handling of the human resource aspect of outsourcing. Privacy issues however do require greater attention. Commonly, physical and logical security controls need to be enhanced in order to protect the privacy of personal information.

In the majority of agencies, arrangements to determine how the APS Values and Code of Conduct should apply to contractors and to ensure that contractors understand and meet their obligations in this regard are relatively passive and generally not tailored to the various types of contract arrangements used by agencies. Agencies' commonly address contractors' understanding through the use of general rather than specific contract clauses.

It is important to judge the appropriate extent to which contractors themselves should be required to abide by the APS Values and Code of Conduct. It is also important that contractors appreciate the obligations of the APS employees with whom they deal to abide by the Values and Code of Conduct. Contractors providing services to the public on behalf of an agency, might reasonably be expected to abide by Values concerning accountability, relations with the public, and personal ethical behaviour but might not be bound directly by all those Values and Code provisions relating to workplace relations. Contractors providing services to agencies might reasonably be expected to abide by the Values and Code provisions concerning personal ethical behaviour (accountability should also be covered by the contract). Building into contracts more onerous requirements might unnecessarily add to costs and/or be difficult to oversight.

Agencies might also consider various options for promoting the application of relevant Values and Code of Conduct provisions by contractors. Apart from contract requirements, options include the development of

complementary ethical codes promoted by relevant industry associations, and shared ethical awareness training. There would be benefit in drawing from the recent experience of agencies some practical advice on the appropriate level of compliance with APS Values and Code of Conduct by different types of contractors, and the appropriate mechanisms for achieving this.

While implementation and transition of business to outsourced providers is becoming better managed and cultural resistance to market testing and outsourcing appears to have subsided, contract management continues to present challenges. Many agencies have acknowledged the need for general contract management skills and development of expertise in order for agencies to better negotiate and partner their contractual arrangements. The large variation in contract management costs evident in Table 7.2 underlies the importance of contracting skills, and of getting the tender process and contract right up front. Evaluation skills and managing the accountability of external providers also remains a priority for agencies, particularly in order to assess contractor performance. Agencies are now emphasising the importance of relationship management as complementary to the management of service standards and penalties for unsatisfactory performance.

Determining value for money is a still a complex issue. While there is consensus on the difficulty of agencies measuring savings of contracts, particularly since baseline costs are not always accurately forecast, the majority of agencies report that value for money is largely being achieved. Most agencies have experienced better levels of service and access to skills not otherwise available in-house. Agencies consider that choosing the right mix of outsourcing and the extent of outsourcing ultimately determines value for money.

Agencies are retaining their strategic planning in-house, however they have been willing to collaborate with third-party external advisers, particularly in relation to ICT functions. The alignment of contracts to the achievement of corporate strategic goals, rather than simply specifying the services to be supplied, is becoming increasingly important to agencies in achieving a sharper focus on business outcomes. This approach to contracting is also consistent with the trend towards a partnering approach to contracting and contract management.

INFORMATION MANAGEMENT

An emerging challenge for agencies is to have better overall arrangements for managing their information linked to business and client needs. Agencies may need to consider broadening and expanding the scope of what they receive from their external providers.

It is clear from this year's report that a number of agencies have established or are establishing chief information officers, information committees and information plans. Some of these initiatives are largely ICT driven, whereas some are emerging as part of a broader approach to managing information and knowledge in support of their business objectives.

Another emerging challenge for agencies is how ICT can best contribute to the delivery of cross-agency services, for example, welfare reforms called for a collaborative approach for service delivery across agencies where there was no shared ICT platform. The growing need for collaborative approaches between agencies towards the development of policy and the delivery of services will further emphasise this challenge and highlight issues of interoperability. In particular, will be the challenge for all agencies to

acknowledge the value of interoperability and engage in collaborative approaches across agencies to the management of ICT in order to develop the potential of e-Government.

The need for ICT governance frameworks to deliver cross-agency services is a critical issue and is the subject of a current project by the Management Advisory Committee.

Central to striking the right balance between devolved management and strengthened accountability is the way agencies promote and uphold the Values. Ensuring that the Values do in fact provide the enduring framework for the APS as a whole, and for each agency, will remain a key challenge in the coming year. The APS Commission intends to provide further guidance to agencies and to all APS employees through revised Guidelines on Official Conduct, and a good practice guide on agency systems and procedures that help to embed the Values and Code of Conduct. It is particularly important for APS leaders to 'walk the talk' and to promote open discussion, including around dilemmas where the Values may need to be balanced. It is also important for the Values to be appreciated across the whole workforce including non-ongoing employees, and also by those with whom APS employees frequently work such as labour hires and contractors, and ministerial advisers.

There is a particular challenge around recordkeeping and the Value of open accountability. With assistance from the National Archives of Australia and the ANAO, agencies should be looking to how ICT might contribute to solving the problem that it seems to have contributed to over the last decade or so.

The pressure for continued improvement in performance and organisational capability will continue. As the MAC report suggests, performance management is an evolutionary process, and agencies should be looking to constantly improve and build upon their systems, learning from others as they proceed. Areas for further improvement include more strategic use of agreement-making; building learning and development and career planning more systematically into performance management processes; enhancing HR strategic capability; and using performance measurement and evaluation tools such as balanced scorecards to drive corporate agendas that deliver improved program performance and increased organisational capability.

In this context, workforce planning will take on increased importance. The MAC report on Organisational Renewal will provide impetus to agency efforts to improve workforce planning, highlighting the challenges of an ageing workforce and changing attitudes to work and careers. Agencies will need to make better use of older workers, offering flexible arrangements more in line with their preferences for balancing work and external activities and responsibilities, and managing their performance appropriately. They will also need to enhance succession planning processes and develop other measures to ensure corporate knowledge and expertise is transferred as older workers leave. Graduate recruitment and development also warrants careful consideration in order to address business continuity and longer term capability building. Learning and development generally may need to be more structured to take into account different career aspirations and a more mobile workforce. Agencies may also need to look again at youth employment to ensure there are suitable alternative career pathways for school leavers, including disadvantaged groups such as Indigenous Australians, notwithstanding their increased reliance on graduates and lateral recruits. The APS Commission intends to play a role here, working with agencies to identify good practice and whether any new across-APS strategies need to be adopted.

More attention may also need to be given to whole-of-government requirements for policy development and service delivery, and for issues management. The MAC report on ICT governance will provide some guidance on whole-of-government interoperability. Experience with particular challenges such as welfare reform and salinity might also provide lessons for broader applications to other announced Government priorities such as Indigenous development, work and family and intergenerational challenges. It is likely that this will be a major theme for next year's report. In the meantime, a particular contribution can be drawn from continued efforts in leadership development across the APS, emphasising leadership capabilities such as cultivating productive working relationships, shaping strategic thinking and communicating with influence, which all require the ability to work across organisational boundaries. The proposed Australian and New Zealand School of Government also has the potential to enhance shared leadership development across jurisdictions and further improve whole-of-government capability.

Aboriginal and Torres Strait Islander Commission

Aboriginal Hostels Ltd

Administrative Appeals Tribunal

Agriculture, Fisheries and Forestry—Australia

Attorney-General's Department

AusAid

Australia New Zealand Food Authority

Australian Antarctic Division

Australian Broadcasting Authority

Australian Bureau of Statistics

Australian Centre for International Agricultural Research

Australian Communications Authority

Australian Competition and Consumer Commission

Australian Customs Service

Australian Electoral Commission

Australian Greenhouse Office

Australian Industrial Registry

Australian Institute of Aboriginal and Torres Strait Islander Studies

Australian Institute of Family Studies

Australian Institute of Health and Welfare

Australian National Audit Office

Australian National Maritime Museum

Australian Office of Financial Management

Australian Protective Service

Australian Public Service Commission

Australian Radiation Protection and Nuclear Safety Agency

Australian Research Council

Australian Securities and Investment Commission

Australian Taxation Office

Australian Transaction Reports and Analysis Centre

Australian War Memorial

Bureau of Meteorology

Centrelink

Child Support Agency

Comcare

Commonwealth Director of Public Prosecutions

Commonwealth Grants Commission

Commonwealth Ombudsman

Commonwealth Rehabilitation Service

Comsuper

Crimtrac Agency

Defence Housing Authority

Department of Communications, Information Technology and the Arts

Department of Defence

Department of Education, Science and Training

Department of Employment and Workplace Relations

Department of Family and Community Services

Department of Finance and Administration

Department of Foreign Affairs and Trade

Department of Health and Ageing

Department of Immigration and Multicultural and Indigenous Affairs

Department of Industry, Tourism and Resources

Department of the Prime Minister and Cabinet

Department of the Treasury

Department of Transport and Regional Services

Department of Veterans' Affairs

Environment Australia

Equal Opportunity for Women in the Workplace Agency

Family Court of Australia

Federal Court of Australia

Federal Magistrates Service

Geoscience Australia

Great Barrier Reef Marine Park Authority

Human Rights and Equal Opportunity Commission

Insolvency and Trustee Service, Australia

Inspector-General of Intelligence and Security

IP Australia

Migration Review Tribunal

National Archives of Australia

National Capital Authority

National Competition Council

National Crime Authority

National Library of Australia

National Museum of Australia

National Native Title Tribunal

National Occupational Health and Safety Commission

National Oceans Office

National Office for the Information Economy

National Science and Technology Centre (Questacon)

Office of Film and Literature Classification

Office of National Assessments

Office of Parliamentary Counsel

Office of the Employment Advocate

Office of the Federal Privacy Commissioner

Office of the Renewable Energy Regulator

Productivity Commission

Professional Services Review

Refugee Review Tribunal

Royal Australian Mint

ScreenSound Australia

Social Security Appeals Tribunal

Torres Strait Regional Authority

1922 PS Act	*Public Service Act 1922*
AAWI	Average Annualised Wage Increase
ABA	Australian Broadcasting Authority
ABN	Australian Business Number
ABN-DSC	Australian Business Number—Digital Signature Certificate
ABS	Australian Bureau of Statistics
ACA	Australian Communications Authority
ACCC	Australian Competition and Consumer Commission
ADM	Applications and Development Systems
AEC	Australian Electoral Commission
AFFA	Agriculture Fisheries and Forestry—Australia
AFP	Australian Federal Police
AGD	Attorney-General's Department
Agency Questionnaire	the Agency Questionnaire for the *State of the Service Report 2001–02*
AGO	Australian Greenhouse Office
AIHW	Australian Institute of Health and Welfare
AIR	Australian Industrial Registry
ANAO	Australian National Audit Office
ANZFA	Australia New Zealand Food Authority
APS Commission	Australian Public Service Commission
APS	Australian Public Service
APSED	Australian Public Service Employment Database
ASIC	Australian Securities and Investment Commission
ATO	Australian Taxation Office
ATSIC	Aboriginal and Torres Strait Islander Commission
AusAID	Australian Agency for International Development
AUSTRAC	Australian Transaction Reports and Analysis Centre

AWA	Australian Workplace Agreement
AWM	Australian War Memorial
BAS	Business Activity Statement
BOM	Bureau of Meteorology
CA	Certified Agreement
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CDAC	Career Development Assessment Centre
CEI	Chief Executive Instructions
CIO	Chief Information Officer
CLC	Corporate Leadership Council
Code	APS Code of Conduct embodied in s.13 of the *Public Service Act 1999*
Commissioner's Directions	Public Service Commissioner's Directions
CPGs	Commonwealth Procurement Guidelines
CPM	Comparative Performance Monitoring
CRS	Commonwealth Rehabilitation Service
CSA	Child Support Agency
CTC	Competitive Tendering and Contracting
Customs	Australian Customs Service
CVC	Centrelink Virtual College
DCITA	Department of Communications, Information Technology and the Arts
Defence	Department of Defence
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DEWRSB	Department of Employment, Workplace Relations and Small Business
DFAT	Department of Foreign Affairs and Trade
DHA	Defence Housing Authority
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DIRKS	Designing and Implementing Recordkeeping Systems

DOTARS	Department of Transport and Regional Services
DSC	Digital Signature Certificate
DSD	Defence Signals Directorate
DVA	Department of Veterans' Affairs
EA	Environment Australia (the Department of the Environment and Heritage)
EDRMS	Electronic Documents and Records Management Systems
EL	Executive Level
EOWA	Equal Opportunity for Women in the Workplace Agency
FaCS	Department of Family and Community Services
Finance	Department of Finance and Administration
FMA Act	*Financial Management and Accountability Act 1997*
FMIS	Financial Management Information Systems
GaPS	Gazette Publishing System
Gazette	Commonwealth of Australia Gazette
GBE	Government Business Enterprise
GST	Goods and Services Tax
Health	Department of Health and Ageing
HIC	Health Insurance Commission
HR	Human Resources
HREOC	Human Rights and Equal Opportunity Commission
HRM	Human Resource Management
Humphry Review	Review of Whole of Government Information Technology Outsourcing Initiative—Richard Humphry AO—December 2000
ICT	Information and Communications Technology
IiP	Investors in People.
IPAA	Institute of Public Administration Australia
IPPs	Information Privacy Principles
ISAC	Independent Selection Advisory Committee
IT	Information Technology

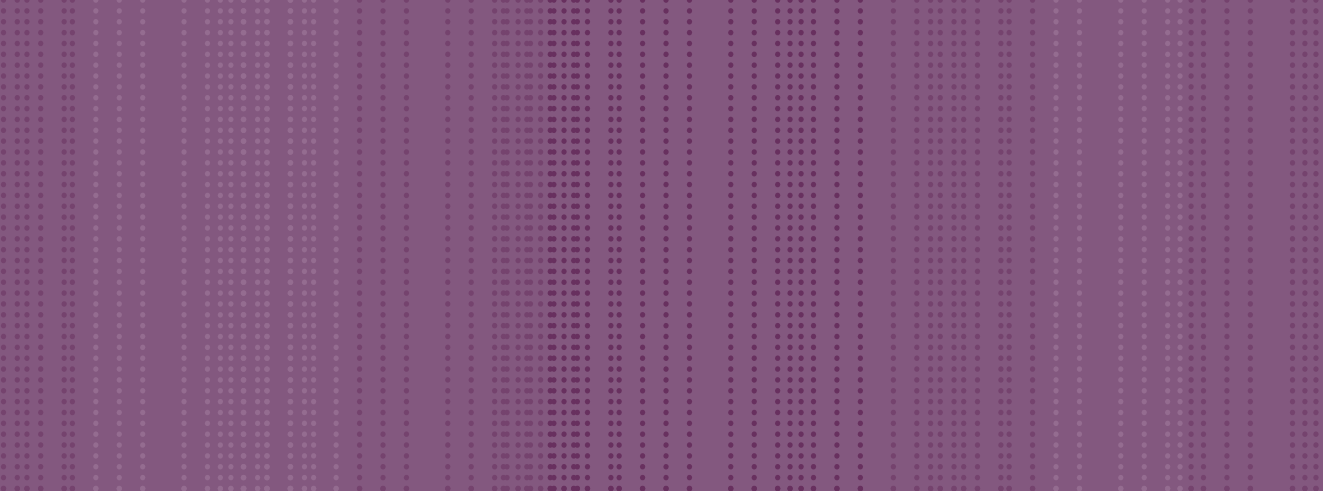|	
ITAG	Information Technology Architecture and Governance
ITO	Information Technology Outsourcing
ITR	Department of Industry, Tourism and Resources
JCPAA	Joint Committee on Public Accounts and Audit
JSC	Joint Selection Committee
KPI	Key Performance Indicators
LAN/WAN	Local Area Network and Wide Area Network
LDN	Leadership Development Network
MAC	Management Advisory Committee
MoG	Machinery of Government
MRT	Migration Review Tribunal
MTACO	Market Testing and Contracting Out
NAA	National Archives of Australia
NCA	National Crime Authority
NCC	National Competition Council
NED	Nominal Expiry Date
NILS	National Institute of Labour Studies
NLA	National Library of Australia
NNTT	National Native Title Tribunal
NOIE	National Office for the Information Economy
NPPs	National Privacy Principles
OASITO	Office of Asset Sales and Information Technology Outsourcing
OEA	Office of the Employment Advocate
OECD	Organisation for Economic Cooperation and Development
OFPC	Office of the Federal Privacy Commissioner (the Privacy Commission)
OH&S	Occupational Health and Safety
OHS (CE) Act	*Occupational Health and Safety (Commonwealth Employment) Act 1991*
ONA	Office of National Assessments

OPC	Office of Parliamentary Counsel
OSDM	Commonwealth Office of Spatial Data Management
PAC	Promotion Appeal Committee
PAES	Portfolio Additional Estimates Statement
PBS	Portfolio Budget Statements
PC	Productivity Commission
PCO	Privacy Contact Officers
PECTA	*Public Employment (Consequential and Transitional) Amendment Act 1999*
PM & C	Department of the Prime Minister and Cabinet
Policy Parameters	Policy Parameters for APS Agreement Making
PRC	Promotion Review Committee
Privacy Act	*Privacy Act 1988*
PS Act	*Public Service Act 1999*
PSMPC	Public Service and Merit Protection Commission (now the APS Commission)
Regulations	Public Service Regulations
RFT	Request for Tender
RRT	Refugee Review Tribunal
SELCF	Senior Executive Leadership Capability Framework
SES	Senior Executive Service
SFPALC	Senate Finance and Public Administration Legislation Committee
SFPARC	Senate Finance and Public Administration References Committee
SMEs	Small and medium enterprises
SRC Act	*Safety, Rehabilitation and Compensation Act 1998*
TMM	Treasury Management Model
TNTS	The New Tax System
Treasury	Department of the Treasury
Values	APS Values embodied in s.10 of the *Public Service Act 1999*
VR	Voluntary Retrenchment

> **APS CODE OF CONDUCT**

The Code of Conduct requires that an employee must:

- behave honestly and with integrity in the course of APS employment;

- act with care and diligence in the course of APS employment;

- when acting in the course of APS employment, treat everyone with respect and courtesy, and without harassment;

- when acting in the course of APS employment, comply with all applicable Australian laws;

- comply with any lawful and reasonable direction given by someone in the employee's Agency who has authority to give the direction;

- maintain appropriate confidentiality about dealings that the employee has with any Minister or Minister's member of staff;

- disclose, and take reasonable steps to avoid, any conflict of interest (real or apparent) in connection with APS employment;

- use Commonwealth resources in a proper manner;

- not provide false or misleading information in response to a request for information that is made for official purposes in connection with the employee's APS employment;

- not make improper use of:

  a. inside information, or

  b. the employee's duties, status, power or authority,

  in order to gain, or seek to gain, a benefit or advantage for the employee or for any other person;

- at all times behave in a way that upholds the APS Values and the integrity and good reputation of the APS;

- while on duty overseas, at all times behave in a way that upholds the good reputation of Australia; and

- except in the course of his or her duties as an APS employee or with the Agency Head's express authority, not give or disclose, directly or indirectly, any information about public business or anything of which the employee has official knowledge.