

The Auditor-General
Audit Report No.6 2004–05
Performance Audit

Performance Management in the Australian Public Service

Australian National Audit Office

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of Australia 2004

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Canberra ACT
5 August 2004

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Performance Management in the Australian Public Service*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations/Glossary

ANAO	Australian National Audit Office
APS	Australian Public Service
APS Values	The APS Values are legislated in section 10 of the <i>Public Service Act 1999</i> . APS employees are required, under the Code of Conduct, to behave at all times in a way which upholds the APS Values. The APS Values and Code of Conduct are reproduced at Appendix 1.
APSC	Australian Public Service Commission
AWA	Australian Workplace Agreement
Business Plan	A business plan typically allocates resources against business objectives and provides performance measures for measuring the achievement of those objectives. The business plan may form part of the corporate plan.
CA	Certified Agreement
Capability	Capability includes the skills, knowledge and behaviours of an individual.
Cascading planning	The way in which the various business, operational and people plans are linked together in a logical sequence. Each lower level plan being influenced by and connected to the level of planning above.
CEO	Chief Executive Officer
CO	Central Office
Corporate Plan	Typically the Corporate Plan is an agency's highest level planning document. Although they vary in size and content, corporate plans outline agencies' vision and values and describe the strategies against which they will measure their performance.
CSFs	Critical Success Factors

DEWR	Department of Employment and Workplace Relations
EL	Executive Level (staff)
Formal under performance actions	When an agency takes formal action to deal with an individual's under performance by way of Performance Improvement Plans or the like.
Internal improvement objective	A performance objective that addresses a specific corporate priority such as improving communication, or developing a specific agency desired skill.
KPIs	Key Performance Indicators
L&D	Learning and Development
Management Advisory Committee (MAC)	The Management Advisory Committee is a forum of Secretaries and Agency Heads established under the <i>Public Service Act 1999</i> to advise Government on matters relating to the management of the APS.
Moderation	Any process aimed at assuring the consistent assessment of performance across an organisation.
Multi-Sourced Feedback (MSF)	In addition to feedback from the immediate supervisor, may involve upward feedback to managers and/or SES from staff or a 360 degree feedback process involving managers, peers, staff and clients/stakeholders (which may include Ministers).
Non-ongoing staff/Ongoing Staff	Non-ongoing APS staff are persons employed under section 22-2 of the <i>Public Service Act 1999</i> for a specified term, the duration of a specified task or for duties that are irregular or intermittent in nature. Ongoing staff are all other staff employed under the Act.
People Management Plan/Strategy	A plan for the development and implementation of policies and practices to enhance the effectiveness of the workforce in an agency. May or may not be a separate document.

Performance agreement/plan	An agreement between individual and supervisor that sets out an individual's key tasks, priorities and agreed measures for the performance period. Ideally it also covers capability and career development requirements.
Performance linked advancement (PLA)	An ongoing payment which generally involves progression to a higher pay point, or a percentage increase in salary, based on performance. This new amount becomes the employee's nominal salary and counts for all purposes, including superannuation. Where PLA payments are referred to in this report, these are annualised amounts.
Performance linked bonuses (PLB)	Payments that usually take the form of a one-off bonus payment in recognition of performance, but which do not become part of the employee's nominal salary package.
Performance linked remuneration (PLR)	PLR may comprise PLA or PLB or both. It excludes any payments to staff that were made on the basis of matters other than performance, such as promotion to a higher classification level, higher duties allowances and responsibility allowances.
Performance management plan	See Performance Agreements.
Performance management system	A formal and regular system for assessing and managing individual staff performance. ¹
Performance measures	Measures that can be used as the basis for assessing the performance outcomes of an individual. Better practice performance measures look at output, input, productivity, quality and employee behaviour.

¹ Where an agency had more than one type of performance management system to cater for different segments of the workplace, the questionnaire was answered with respect to the system that covers most staff.

Performance objectives	<p>Performance objectives consist of four components:</p> <ul style="list-style-type: none"> ◆ a result; ◆ a measure of the result; ◆ the conditions under which the performance must occur; and ◆ a time limit.
Performance outcomes/Performance standards	A statement of the conditions that exist when a job is being performed effectively.
Performance pay	Performance pay may include either performance linked advancements or performance bonuses.
PM&C	Department of the Prime Minister and Cabinet
Qualitative performance measures	Qualitative performance measures describe desired characteristics. For example, a qualitative measure may be 'reports are accurate, concise and useful to the committee'.
Quantitative performance measures	Quantitative performance measures have a numerical value. For example, a quantitative measure may be 'The average number of applications processed per day'.
Quotas or forced distribution systems	A forced distribution system is one in which performance ratings are forced to a preset distribution pattern (a 'bell curve' for instance). They are a form of quota system, whereby only a set percentage of staff will be awarded performance pay.
Retention bonus	A bonus paid to retain an employee for a specific period of time or for the duration of a project.
Satisfactory work performance	Level of performance which is valued and is consistent with the normal expectations of the individual's job.
SES	Senior Executive Service

Sign-on bonus	A bonus paid to an employee on joining the organisation.
SOSR	State of the Service Report (issued by the APSC).
The Requirements	The Requirements for Annual Reports (issued by PM&C)
Total wage bill	The total amount of direct salaries and wages paid to employees. This includes performance pay but excludes superannuation and other on-costs and agency overheads.

Summary and Recommendations

Summary

Background

1. Performance management provides a mechanism to systematically improve organisational performance by linking and aligning individual, team and organisational objectives and results. It also provides a means to recognise and reward good performance and to manage any identified under performance.
2. The Management Advisory Committee (MAC) reported on performance management in the Australian Public Service (APS) in late 2001.² This audit has made extensive use of that body of work and, where possible, has reflected the same structure in this report to facilitate cross-reference between the two documents.
3. Government policy on performance management in the APS is clearly set out in the relevant directions of the Australian Public Service Commissioner and the Department of Employment and Workplace Relations' (DEWR) policy parameters, requiring agencies to maintain a fair and open performance management system focussed on achieving results and guiding salary movements.
4. The audit identified 69 agencies that employed greater than 100 Australian Public Service Act staff as at 30 June 2002. This report considers the results arising from agency and staff surveys, conducted as part of the audit, and returned by 63 agencies, and staff of 68 of the 69 agencies, respectively.

Overall conclusions

5. All 63 APS agencies included in the audit reported that performance management was a specified goal in one or more of their planning documents and almost all included it in their certified agreements. Agencies are responsible for devising their own approaches to the management of performance and the payments associated with performance assessments.
6. The Australian National Audit Office (ANAO) concluded that the application of general better practice principles for performance management across APS agencies was quite variable. Consequently, the ANAO considers that some agencies have scope for improvement in demonstrating that their performance management systems, strategies and plans are consistent with the strategic framework set out in the MAC Report.

² Management Advisory Committee Report *Performance Management in the APS: A Strategic Framework*, September 2001.

7. The MAC Report framework nominated three critical success factors for performance management systems: **alignment**, **credibility** and **integration**.

8. The **alignment** of performance management systems with agencies' goals and organisational priorities is variable across the APS and, in many cases, appears to be driven more by the industrial relations processes than the business needs of agencies, and the outcomes sought by government. Many agencies do not have established systems that relate to, and support, their performance management systems. As well, little attempt has been made by agencies to assess the organisational impact of their performance management system. These are contributing factors in making it difficult for agencies to establish a strong link between the conduct of their performance management systems and improved performance of their organisations. Consequently, performance management cannot, as yet, be regarded as an effective contributor to achieving sound business outcomes in the APS.

9. Significant issues remain in establishing **credible** performance management systems in the APS. The perception of APS employees, reflected in survey responses obtained as part of the audit, is that there remains a substantial gap between the rhetoric and the reality. While staff generally could be expected to be less sanguine about achievements, there is a degree of uniformity in survey views across agencies with differing performance. Many staff considered that the distribution of performance pay in their agency was unfair; that there was bias and favouritism exhibited in performance reward decisions; that the rewards offered were not worth the extra effort involved; and that there was a lack of clarity for them on what constitutes good performance. Staff also did not see the performance management systems as effective in assisting them to evaluate, or to improve, their own performance. At the very least, the ANAO considers that there is an issue of staff perceptions that needs to be addressed.

10. Agencies are making progress in the **integration** of the performance management systems with the overall corporate management structure and in providing a clearer link for staff between their work and the goals of the organisation. However, agencies could make significant improvements in recognising and rewarding those who manage their staff effectively and by identifying and assisting those who do not. Agencies could also improve in the identification of learning and development needs of staff.

11. These are not issues that are easily rectified. Nevertheless, they need to be directly addressed by agencies if there is to be an improved level of effectiveness in performance management across the APS.

12. Sound administrative arrangements can contribute to the overall success of agencies' performance management systems. Agencies have set key objectives, produced relevant documentation and guidelines, and developed

formal agreements with staff. Some agencies have moderated performance ratings. Staff, however, reported shortcomings in these areas and are looking for better guidance, more quantitative measures for rating performance, better defined objectives, and greater fairness in the distribution of payments, as well as rewards that are sufficient to provide real incentives. Of particular importance, is that up to one-third of responding agencies do not take staff adherence to the APS Values, as well as the agency's own value systems, into account when assessing performance.

13. The audit found a high level of non-compliance with annual reporting requirements in relation to disclosing details about the performance bonuses paid by agencies during 2002–03. The lack of transparency created by this result is further compromised by numerous errors, omissions and inconsistencies found in relation to the data reported by agencies in their annual reports.

14. In 2002–03, the reported cost of performance linked remuneration in the agencies surveyed, included performance bonuses of \$39 million and performance linked salary advancements of \$75 million. However, the latter is understated as some agencies could not provide relevant data. In addition, some agencies made across-the-board performance payments, based on achieving organisational outcomes, ranging from one to five per cent of the respective agencies' total wages bill. A further \$4 million was paid in retention bonuses and \$28 000 in sign-on bonuses. Administrative and support costs of operating each agency's performance management system would also need to be included to determine a total cost for performance linked remuneration.

15. The ANAO concluded that, to date, this significant investment appears to be delivering only patchy results and uncertain benefits. Given that over 80 per cent of agencies advanced their staff through pay points for 'satisfactory' work performance, and 28 per cent of agencies awarded bonuses for 'satisfactory' work performance, the ANAO considers that a significant percentage of salary advancement payments, and even bonuses, are therefore unlikely to reflect 'superior' performance.

16. At a more detailed level, the surveyed agencies reported that only 22 per cent of staff were eligible for a performance bonus, and an even smaller group were actually paid bonuses. Furthermore, 86 per cent of the aggregate dollar amount of bonuses paid by APS agencies in 2002–03 went to Senior Executive Service (SES) and executive level staff. These figures provide some support for the perceptions reflected in the staff survey that there is a disconnect between the application of performance management systems and the recognition/reward mechanisms for staff generally. These results lend support to questioning of the credibility of performance management systems.

17. The ANAO considers that staff perceptions of the credibility of performance management systems would be greatly enhanced if staff who participate in the performance assessment process were eligible for rewards and recognition that are demonstrably more closely linked to the performance assessment process.

18. Similarly, analysis of the performance linked remuneration paid by agencies during 2002–03 suggests that staff concerns, raised during the audit, about the distribution of performance rewards may be well-founded. Agencies need to review the distribution of their performance related remuneration and address any bias detected.

19. In 2001, the MAC Report described performance management in the APS as a ‘work in progress’. It found that major challenges were still to be faced, especially on the issues of credibility and staff engagement. The ANAO considers that, in 2004, performance management in the APS can still best be described as ‘work in progress’ and these same two issues are still at the forefront of the major challenges that remain.

20. While this audit found that progress has been made in consolidating the processes of performance management, the ANAO concluded that there is scope for agencies to do more to establish that their systems are effective, and effectively contribute to organisational outcomes.

21. While there are differing views about the justification for, and provision of, performance bonuses and pay in the APS, they can be used as an effective element of a performance management system. On the other hand, they can be counter-productive where they are perceived to be, or are actually, implemented ineffectively. A focus on performance management and improvement has been integral to successive public service reforms and has been widely supported. The enduring imperative is to implement systems that are credible and that enlist the involvement and commitment of staff to an effective outcome.

Key Findings

a) Consistency with the Strategic Framework of the MAC Report

Alignment

22. Alignment with agency goals and strategic priorities was identified in the MAC Report as the first of three critical success factors for performance management systems. Although the results highlighted in this audit were mixed, and agencies and their staff had differing perceptions in a number of key areas, agencies surveyed have generally been effective in aligning their performance management systems with the agency's goals and organisational priorities. Most agencies took the APS Values into account and promoted them through their performance management systems. However, in many cases, the industrial process and the prevailing industrial climate were just as important in shaping performance management systems, particularly during their initial implementation phases.

23. Agency staff now seem to be more accustomed to performance management than they were at the time of the MAC Report. Accordingly, agencies could now shift their focus more towards achieving the outcomes sought by government for performance management. This can be facilitated by more consultation at the Ministerial/Parliamentary Secretary level, where relevant. However, agencies have not been as effective in aligning their performance management system to their own business models. To achieve this, agencies should consult adequately with their staff as part of an ongoing process of monitoring and review.

24. Most agencies have shown that they have learnt from their experiences with earlier performance management systems. However, many agencies still do not have established 'systems', as defined in the MAC Report, that relate to, and support, their performance management system. Consequently, it is reasonable to conclude that agencies have some way to go in establishing and strengthening assessment and monitoring of the links between an individual's performance and the improved performance of the organisation.

Credibility

25. Credibility of performance management systems was identified in the MAC Report as the second of the critical success factors. This audit report confirms that significant issues remain in establishing credible performance management systems in the APS. Responding agencies reported that they have undertaken reviews and attempted to simplify their systems. However, many

responding staff considered that the systems are not straightforward to administer and that they have not been adequately trained in how to use them.

26. The survey results indicate that the credibility of APS performance management systems is reduced by the patchy involvement of SES in performance appraisal and the use of quotas and forced distribution systems.³

27. The survey results also suggest that there exists a relatively low level of use of multi-sourced feedback on performance and effective use of the resulting outcomes. Even though gaining feedback from multiple sources has grown over time, in many cases this is a voluntary process. The survey indicates that agencies also may need to revisit their rationale for introducing team-based rewards, to ascertain whether they can be used more effectively in improving agency performance.

28. Of concern is that a large proportion of staff surveyed considered that their immediate supervisor and the SES do not show a commitment to performance management; that people management is not treated as a priority; and that the system is not effective in improving their own performance. There is significant scope for better assessing staff satisfaction with performance management systems, and to improve staff ownership of those systems, through staff surveys and effective follow-up action. Related to this issue is the survey findings that only a very small percentage of total APS staff are dealt with through the formal under performance processes, and that staff surveyed do not consider that under performance is effectively managed in agencies. The APS appears to continue to have a rhetoric-reality gap on these issues.

29. A number of agencies do collect relevant data and report on performance management. However, activities in this area show great variability across agencies in the types of data collected and used within agencies. The information that is collected is not disclosed to an adequate extent in annual reports, nor does it get widely reported to line managers and staff.

Integration

30. Integration was identified in the MAC Report as the last of the critical success factors for performance management systems. This audit found that agencies are making progress in providing a clearer link for staff between their work and the goals of the organisation. However, this result is undermined because, while agencies nominate people management skills as a priority, the survey results suggest that they are not recognising, or rewarding, those who

³ Forced distribution systems, for example, may include moderation of initial ratings to better reflect a 'normal' statistical distribution or predetermined pattern, such as the bell curve.

manage their people effectively and are not identifying and assisting those who do not.

31. Agencies surveyed are collecting information on learning and development (L&D) needs through their performance management systems and using this information in their overall L&D plans. However, nearly one-half of the agencies surveyed are not aggregating this information on an agency-wide basis to provide an overall perspective of their needs. Staff surveyed do not consider that the process is effective in identifying their L&D needs or in improving their capability levels. Hence, agencies may be missing out on a significant opportunity to gain from potential improvements in capability.

b) Administration of performance management

32. Sound administrative arrangements can contribute to the overall success of agencies' performance management systems. The audit found that agencies had established objectives for their performance management systems that were clear and well-focused on improving the agency's overall performance. It was also evident that the design of these systems adequately reflected the objectives that had been established.

33. Responding agencies considered that the documentation and guidelines on performance management prepared by them were of a high standard. However, staff surveyed had less positive views regarding a number of aspects of these documents.

34. In the vast majority of cases, staff performance has been assessed against a formal agreement or plan agreed between the staff member and his or her supervisor. However, establishing accurate and meaningful standards for measuring and/or assessing performance outcomes is central to an effective performance management system. Agencies use both qualitative and quantitative measures, but more quantitative measures are wanted by staff to provide clarity in their performance assessments.

35. A related issue is that many staff surveyed are not convinced that their supervisors are able to use their performance agreement to monitor staff work activity, nor do they feel able to use it to gauge their own performance. These are two primary reasons for implementing performance management, and, hence, are obvious areas for agency improvement.

36. Of particular importance is that a significant number of agencies surveyed are still to develop a values-based performance management system with clear linkages to capability standards. Staff responses reflected also that they were not consulted in setting desired capabilities.

37. A range of quality outcomes is evident in the development of performance agreements. A majority of responding agencies had at least 85 per cent of their staff on formal performance agreements. Both agency and staff responses indicate that there has been good progress in relation to the setting of objectives and priorities in agreements and the basis on which performance would be assessed. Although 75 per cent of staff considered the level of consultation in establishing their performance agreement was adequate, some did not. This suggests that agencies need to continue to maintain their efforts in this regard. To improve in this area, additional effort is needed to consult with staff when setting desired capability levels, as well as in training managers on how to conduct performance discussions and assess individual work performance.

38. Most responding agencies have applied a rating scale in measuring performance. As well, just over one-half undertake some moderation of the ratings. While staff surveyed generally agreed in-principle to linking pay to performance, only one-half indicated support for the performance pay systems. Just over one-quarter agreed that the distribution of performance pay was fair. However, even fewer indicated that it provided sufficient incentive to improve performance. Further, only a small number of agencies surveyed made any assessment as to whether performance pay had resulted in improved individual or agency performance. Taken together, these findings indicate a very disappointing result overall for the APS and are consistent with the findings in the 2002–03 State of the Service Report (SOSR) issued by the Australian Public Service Commission (APSC).

c) Compliance with the Requirements for Annual Reports

39. The reporting of performance payments in annual reports has been a mandatory requirement for APS agencies over the last decade. The audit found a high level of non-compliance with this requirement for the 2002–03 annual reporting of performance bonus information. This results in a lack of transparency in relation to these payments in the APS. This transparency is further compromised by the high level of errors, omissions and lack of consistency in the annual reporting of this information. Hence, Parliament and/or the public cannot obtain an accurate indication of the number and amount of bonuses paid for even a selection of agencies, let alone across the entire APS.

d) Estimated cost of performance linked remuneration across the APS

40. Responding agencies reported that, in 2002–03, just over 21 000 staff were eligible for performance bonuses; whereas more than 76 000 staff were eligible for performance related advancements. However, the latter is

understated as some agencies could not provide relevant data. Only about nine per cent of staff surveyed reported that they received both a bonus and ongoing salary advancement; whereas about seven per cent of staff advised that they were not eligible for either of these payments during the preceding 12 months.

41. Of the 63 agencies that responded to the ANAO survey, 50 paid performance bonuses in 2002–03. A total of \$38.6 million was paid in performance bonuses to 11 078 staff. A relatively small 22 per cent of staff were eligible for bonuses. Eligibility rose as classification increased and 86 per cent of the total bonus pool was paid to Executive and Senior Executive staff. Although male staff were more likely to be eligible for a bonus, a greater percentage of eligible female staff received a bonus at all classification levels except SES. However, greater total and average payments were paid to male staff, who received a disproportionately greater share of bonus payments at all classification levels except APS 1–2 and APS4. Because of the nature of Australian Workplace Agreements (AWAs), staff on AWAs were far more likely to be eligible and to receive a bonus than staff on Certified Agreements (CAs), as well as receive significantly higher average payments. As would be expected a similar, although not as pronounced, effect was observed for staff in Central Offices who were more likely to be eligible for and receive a bonus and to receive a higher average payment, than Non-Central Office staff.

42. A total of \$75.2 million was paid in performance linked advancements by 47 responding agencies to 44 792 staff. In contrast to the situation with bonuses, a relatively large 67 per cent of staff were eligible for these payments. Almost three-quarters of the total payments went to APS 1–6 staff. Overall, the total and average performance linked advancement payments to both male and female groups were very similar. While the bulk of this money was paid to staff on CAs, again staff on AWAs received significantly higher average payments. As well, as might be expected, Central Office staff fared better than Non-Central Office staff with greater proportions of those eligible receiving payments and receiving higher average payments.

43. In addition to the costs of performance linked remuneration outlined above, 16 agencies also reported making across-the-board performance payments that were based on achieving CA or organisational outcomes. These payments were also substantial in aggregate, ranging from less than one per cent, up to a maximum of five per cent, of the respective agencies' total wages bill. A further \$4 million was paid in retention bonuses and \$28 000 in sign-on bonuses.

44. Any estimate of the overall costs of performance management across the APS should also take into account the investment in administrative and support costs associated with: acquiring, operating, maintaining and reviewing agencies' performance management systems; dealing with the appeals

generated where staff consider that they are adversely affected by performance assessments; as well as costs associated with internal and external reporting. Such administrative costs were not quantified in this audit, but would also be substantial when aggregated across the APS.

45. The ANAO concluded that, to date, this significant investment appears to be delivering only patchy results and uncertain benefits. Performance linked advancements remains the dominant method of encouraging and rewarding performance in the APS. Given that over 80 per cent of agencies advance their staff through pay points for 'satisfactory' work performance and 28 per cent of agencies award bonuses for 'satisfactory' work performance, the ANAO considers that a significant percentage of bonuses, and even a high proportion of performance linked advancement payments, are therefore unlikely to reflect 'superior' performance. After more than a decade since this issue was first raised by the ANAO,⁴ debate continues about whether performance pay should be awarded for merely 'doing one's job' or should be reserved for rewarding above average and/or exceptional performance only.

46. In some agencies, the minimal amounts in bonuses and/or salary advancements paid to individuals would almost certainly be exceeded by the administrative costs of making such payments. The ANAO considers that agencies should assess the costs and benefits of their performance management systems and restructure them, where required, for more effective outcomes.

Agency responses

47. The majority of agencies responded positively to the proposed report. Detailed agency responses are included at Appendix 5.

⁴ ANAO Audit Report No.16 1993–94 *Pay for Performance: Performance Appraisal and Pay in the Australian Public Service*.

Recommendations

Set out below are the ANAO's recommendations aimed at improving the overall management and administration of performance management in the APS. The ANAO made two recommendations directed to the Australian Public Service Commission (APSC) and one recommendation was addressed to the Department of the Prime Minister and Cabinet (PM&C).

In responding to the report, most agencies also commented on the recommendations. The majority were supportive of the recommendations.

Summarised responses from the APSC and PM&C are shown following each recommendation in the report. Detailed responses and other agency comments on the recommendations are included at Appendix 5.

Recommendation No.1 Para 3.60

The ANAO recommends that the Australian Public Service Commission consider developing examples of key indicators for APS agencies to measure organisational performance, with clearly visible links between corporate and employee performance.

Abbreviated Response:
The APSC agreed in part.

Recommendation No.2 Para 6.87

The ANAO recommends that the Australian Public Service Commission take a lead role in developing a comprehensive Better Practice Guide for agencies on performance management, drawing together the:

- strategic framework as set out in the MAC Report;
- relevant policy parameters; and
- better practice administrative principles.

Abbreviated Response:
The APSC agreed in part.

Recommendation
No.3
Para 7.15

The ANAO recommends that, in relation to the Requirements for Annual Reports issued by the Department of the Prime Minister and Cabinet and approved by the Joint Committee of Public Accounts and Audit:

- consideration be given to enhancing the usefulness of the Requirements by clarifying the parameters of the data to be collected and promoting more standardised, comprehensive, comparable and accurate reporting of performance payment information by APS agencies;
- the Requirements be amended by the Department to require agencies to collect and report on the totality of performance linked remuneration (i.e. both performance linked advancements and performance linked bonuses); and
- APS agencies establish that they have appropriate mechanisms in place to assure the completeness and accuracy of their annual reporting on performance bonuses paid in compliance with the Requirements.

Abbreviated Response:

PM&C agreed to Parts 1 and 3 but disagreed with Part 2.

Audit Findings and Conclusions

1. Introduction

This chapter sets out the background to the audit, its objectives, scope and methodology and outlines the structure of this report.

Background

1.1 Managing staff performance efficiently and effectively is essential at all levels of an organisation and in all APS agencies. Performance management provides a means to systematically improve organisational performance by directly linking and aligning individual, team and organisational objectives and results. Performance Management also provides a means to recognise and reward good performance and to manage any identified under performance.

1.2 Under the *Public Service Act 1999* (the Act) and associated directions issued by the Australian Public Service Commissioner, agency heads now have a legislated requirement to maintain a fair and open performance management system, among other things to assist the agency to focus on achieving results and manage its performance, as well as guiding any salary movements in the agency.

1.3 To guide and assist APS agencies in meeting these requirements, the Management Advisory Committee (MAC) issued a report in 2001 titled *Performance Management in the Australian Public Service: A Strategic Framework*. (MAC Report).

Audit objectives

1.4 APS agencies have now had sufficient guidance and a reasonable period of time to implement and bed down their performance management systems in accordance with the MAC framework. The objectives of the audit were to:

- assess the extent to which agencies' performance management systems, strategies and plans are consistent with the strategic framework set out in the MAC Report as represented by the three critical success factors: Alignment, Credibility and Integration;
- provide assurance that the administration of performance management is being implemented efficiently and effectively in accordance with better practice principles;
- provide assurance that performance linked remuneration reported in annual reports complies with the Department of the Prime Minister and Cabinet (PM&C) *Requirements for Annual Reports*; and

- quantify the cost of performance linked remuneration, both performance linked bonuses and performance linked advancements (salary increments), across the APS.

Scope and methodology

1.5 The audit focussed on staff performance management and did not set out to form any conclusions about the actual performance of APS agencies.

1.6 Following the identification of issues during a preliminary study, as part of the audit approach, the ANAO developed a survey that was returned by 63 of the 69 APS agencies requested by the ANAO to complete the survey. These agencies were identified as employing more than 100 Australian Public Service Act staff as at 30 June 2002 (see Appendix 2). The agency survey responses covered around 65 per cent of all APS agencies and about 98 per cent of total APS staff.⁵ A staff survey was also completed by 4325⁶ randomly selected staff in 68 of those agencies (see Appendix 3 and Appendix 4).⁷ Both surveys were completed in the period mid-August to early September 2003 and aimed to collect data for the year ended 30 June 2003.

1.7 The Agency survey included 18 tables that sought information on the number and amount of performance linked bonuses (PLB) and performance linked advancements (PLA), paid to agency staff during 2002–03, disaggregated by classification level; gender; staff coverage under CA or AWA; and location (Central Office or Non-Central Office). Many agencies experienced difficulties in providing information on a timely basis that was complete, accurate, reliable and consistent. Five agencies could only provide part of the information requested and 14 agencies ultimately could not supply any data on their PLA payments made.

1.8 In addition to answering the survey questions, agencies were requested to provide copies of all relevant documentation underpinning their performance management systems, for desk review by the audit team.⁸ The audit results are based on the survey responses and supporting documentation received. No fieldwork was undertaken in individual agencies. The surveys

⁵ Based on the number of staff in 63 responding agencies and total APS staff of 131 711 in 97 agencies as at 30 June 2003. (Source: Australian Public Service Statistical Bulletin 2002–03, pp.3 and 87–88).

⁶ The survey was designed by the ANAO and ORIMA to be statistically reliable. However, participation by agency staff was voluntary. Some 9038 staff were invited to complete surveys, resulting in an overall response rate of about 48 per cent, which exceeded the overall minimum required for statistically valid results. Response rates in individual APS agencies ranged from 21 per cent to 73 per cent (see Appendix 3).

⁷ The Royal Australian Mint requested that its staff not be invited to participate at the time of the staff survey.

⁸ For example, the agency's Corporate Plan, Business Plan, Human Resources/People Plan, Certified Agreement, Performance Management Manual and other relevant staff instructions.

were conducted by ORIMA Research Ltd on behalf of the ANAO after pilot testing in selected agencies.

1.9 Survey results, showing individual agency responses relative to all respondents, and including de-identified comments volunteered by each agency's staff,⁹ were provided to respective participating agencies progressively from December 2003 to March 2004 as various aspects of the survey data analyses were completed and data discrepancies resolved. A draft report was circulated for agencies' comments in May 2004. The audit was undertaken in accordance with ANAO auditing standards at a cost to the ANAO of \$390 000.

Previous audits

1.10 ANAO Audit Report No.16, 1993–94 *Pay for Performance: Performance Appraisal and Pay in the Australian Public Service* examined the early performance pay arrangements in the APS, often referred to as the 'Senior Officer Scheme.' The audit made recommendations for improvements to the scheme and suggested roles for centralised agencies in improved monitoring of performance management.

1.11 ANAO Audit Report No.13, 2000–01 *Certified Agreements in the Australian Public Service* examined CAs across the APS and included analysis of (then) current trends and practices in performance management and performance bonuses, making recommendations for closer monitoring of overall performance linked remuneration payments and performance management practices.

1.12 ANAO Audit Report No.61, 2001–02 *Managing People for Business Outcomes* examined nine practice areas of people management in the APS, including performance management; learning and development; and rewards and recognition. The audit rated the performance management practices of some agencies as poor and concluded that under performance has not been handled well in the APS.

Report structure

1.13 Much of this report reflects the MAC strategic framework for Performance Management in the APS. For ease of reference, Chapters 3, 4, and 5 therefore adopt a similar structure to the MAC Report in discussing the key success factors for good performance management. Chapters 6 and 7 then address selected administrative and reporting aspects of performance

⁹ The online staff survey provided an optional field in which staff could add any comments they wished to make about performance management.

management in the APS. Chapter 8 considers performance linked remuneration. The chapters are therefore as follows:

- Chapter 1: Introduction and background to the audit;
- Chapter 2: The strategic environment for good performance management;
- Chapter 3: Key Principle—Alignment, establishing performance management systems which work with the texture of the organisation;
- Chapter 4: Key Principle—Credibility, establishing performance management systems which engage people;
- Chapter 5: Key Principle—Integration, establishing performance management systems as part of organisational planning;
- Chapter 6: Good administration of performance management;
- Chapter 7: Reporting of performance linked remuneration in annual reports; and
- Chapter 8: Performance linked remuneration paid during 2002–03.

1.14 Unless stated otherwise, the survey results presented throughout this report reflect the percentage of respondents who answered the corresponding question in the ANAO survey, which may in some instances be less than the total number of agencies and/or staff indicated in para 1.6.¹⁰

¹⁰ Many survey questions gave participants the following response options: Strongly Agree; Agree; Neither Agree nor Disagree; Disagree; or Strongly Disagree. For the purposes of this report, Strongly Agree and Agree responses have been combined and reported as agreed, and Disagree and Strongly Disagree responses have been combined and reported as disagreed. Where the responses shown do not add to 100 per cent, in most instances the gap represents the percentage of respondents that answered Neither Agree nor Disagree.

2. The Strategic Environment for Good Performance Management

This chapter outlines performance management in general and within the APS context, explains the theoretical model, and summarises the framework adopted in the APS as a result of the underlying policy and legislative requirements. This chapter also discusses the Management Advisory Committee report and the key principles it identified for the design and review of agencies' performance management systems.

What is performance management?

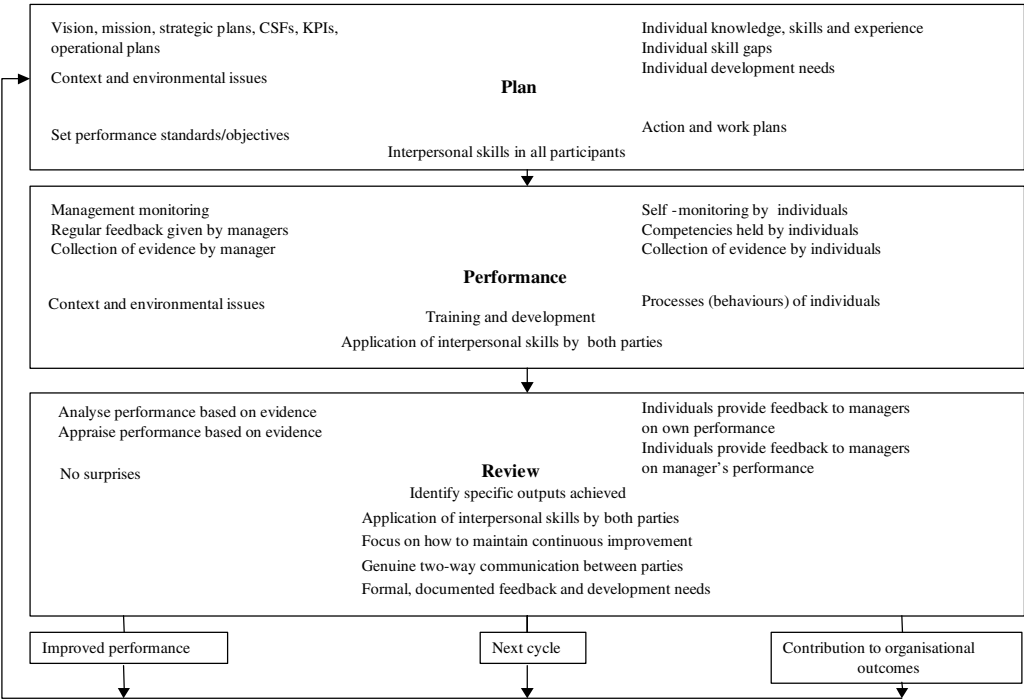
2.1 Performance management is about the arrangements organisations use to get the 'right things' done successfully.¹¹ In any organisation it tends to have three broad stages:

- Planning—agreeing on the performance required (setting standards);
- Performing—actioning the agreed performance; and
- Reviewing—comparing actual performance against the agreed performance standards.

Figure 2.1 expands on these concepts:

¹¹ *Managing Performance Improvement*, Michael D Tovey, Pearson Education Australia, Frenchs Forest, 2001, p.58.

Figure 2.1
Model performance management system



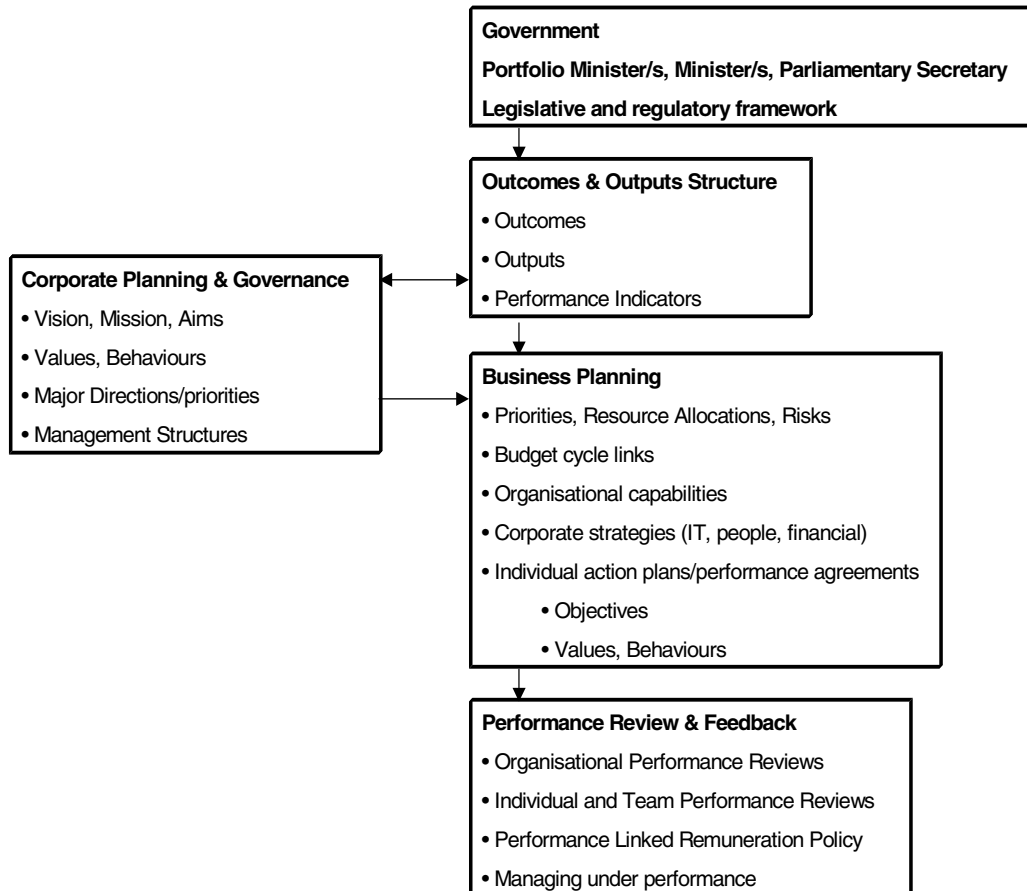
Source: Managing Performance Improvement – Michael D Tovey, 2001, p.60.

2.2 Performance management has been defined in the APS context as 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.¹²

2.3 In the context of this report, the term ‘performance management’ has been used as an all-embracing title covering anything that could be regarded as the management, policy, administration, implementation and remuneration for performance at an organisational, collective or individual level.

2.4 The performance management framework adopted in the APS is illustrated in Figure 2.2.

¹² Management Advisory Committee Report, op. cit., p.14.

Figure 2.2**A generalised performance management framework**

Source: Management Advisory Committee Report *Performance Management in the APS: A Strategic Framework*, September 2001, p.8.

Legislative and policy framework for performance management

2.5 The requirement for an effective performance management system derives from the APS Values set out in Section 10(1) of the Act. Agency Heads are required to uphold and promote all of the APS Values, one of which specifically requires the APS to be focussed on achieving results and managing performance (section 12 of the Act). The Australian Public Service Commissioner's Directions (specifically Direction 2.12) outline the minimum standards that Agency Heads and APS employees must meet in upholding and incorporating the APS Values.¹³

¹³ Australian Public Service Commission *Performance Management*, June 2002, pp.1–4.

2.6 Under Direction 2.12, an agency's fair and open performance management system must guide salary movement. This legislative requirement is reinforced by the policy parameters, issued by DEWR, which provide a broad framework for agreement making through CAs and AWAs in the APS.¹⁴ This has resulted in a variety of approaches to link salary movements to employee performance—commonly termed Performance Linked Remuneration (PLR).

2.7 PLR in the APS has taken two common forms:

- Performance Linked Advancements (PLA)—a base salary increase for satisfactory or higher performance, usually in terms of either incremental progression through pay points or a percentage increase; and/or
- Performance Linked Bonuses (PLB or performance pay)—usually a one-off bonus payment in recognition of higher than satisfactory performance.¹⁵

Management Advisory Committee Report

2.8 The Management Advisory Committee commissioned a study and report into performance management in late 2001, titled, *Performance Management in the APS: A Strategic Framework*. That report assessed the overall effectiveness of approaches to managing and rewarding performance in the APS. It made extensive recommendations for improving performance management in the APS and identified some better practice principles and case studies of effective performance management.

2.9 The Committee regarded performance management as an essential tool that is relevant at all levels in all APS agencies, providing a means to improve organisational performance by linking and aligning individual, team and organisational objectives and results. It also saw performance management as a means to recognise and reward good performance and to manage under performance.

2.10 The MAC Report provided:

- an outline of performance management in the APS (at that time);
- a model of environmental factors shaping performance management systems;

¹⁴ *Policy Parameters for Agreement Making in the APS*, Department of Employment and Workplace Relations, July 2002.

¹⁵ Some APS agencies also have arrangements whereby a specified percentage of the employee's fortnightly salary is linked to performance and is 'at risk' i.e. recoverable from the employee at the end of the appraisal period if performance is deemed to be unsatisfactory.

- key elements of good practice and implementation of performance management in the public sector; and
- a check list for the design and review of performance management systems.

The key principles outlined in the MAC Report are summarised in Figure 2.3.

Figure 2.3

Checklist for Design and Review of Performance Management Systems

Alignment	Credibility	Integration
Outcomes sought by government	CEO and Executive commitment	Line of sight between corporate and individual goals
Consistency with APS Values, agency values and legislative framework	Review and simplicity	Embedded in a system of organisational performance management
Nature of the business	Fairness and trust	Progressive and iterative approach
Client and stakeholder expectations	Management buy-in	Link to training and career development
History with performance management	Multi-source feedback	Online delivery
Maturity of systems	Addressing the rhetoric-reality gap	
Industrial climate	Dealing with under performance	
	Reporting of outcomes	
	Staff ownership of the system	
Evolving Factors	Evolving Factors	Evolving Factors
Integrating organisational values with output based performance	Constructing reward and recognition strategies for teams	Performance measurement and reporting

Source: Adapted from Management Advisory Committee Report *Performance Management in the APS: A Strategic Framework*, September 2001, pp.10, 35.

2.11 For ease of reference the key principle headings in Figure 2.3 have been used in the next three chapters of this report to group the audit findings, where applicable.

3. Key Principle: Alignment— Establishing Performance Management Systems which Work with the Texture of the Organisation

This chapter discusses the importance of alignment in designing APS performance management systems that are based on a detailed understanding of the outcomes sought by government, the APS Values, agency's values and the legislative framework, the nature of the business, client and stakeholder expectations, the agency's history with performance management, the maturity of its supporting systems and the prevailing industrial climate. Audit findings from the agency and staff surveys, in relation to how well APS agencies have aligned their performance management systems, are also discussed.

Alignment

3.1 The MAC Report identifies alignment as the first of three critical success factors for performance management systems. This includes aligning work objectives to corporate objectives, as well as aligning other linked programs with performance management.

3.2 To be fully effective, performance management systems should be based on a detailed understanding of the:

- outcomes sought by government;
- APS values, agency values and legislative framework;
- nature of the agency's business;
- agency's client and stakeholder expectations;
- agency's history with performance management systems;
- maturity of the agency's information and communication systems; and
- prevailing industrial climate.

3.3 Ideally, an agency's performance management system should be clearly aligned with the agency's goals and organisational priorities and a wide range of staff should be involved in this process. There are two common methods for aligning planning and performance management:

- the performance management system is linked to agency and work unit plans (cascading planning); and

- the performance management system is linked to internal improvement objectives, such as building capability or improving culture and communication.

3.4 Some examples of how this is put into practice include:

- generating individual work objectives from cascading agency or work unit plans;
- setting core agency-wide objectives or Key Result Areas for all performance agreements;
- setting agency priorities through corporate values, capabilities or behaviour statements for all performance agreements;
- staff involvement in this goal/value/behavioural setting and alignment process;
- appropriate timing of the setting of performance management objectives and feedback so that it is clearly seen as part of the annual flow of corporate planning processes; and
- where relevant, performance management career development/capability discussions that satisfy agency goals and strategic objectives.

Outcomes sought by government

3.5 The outcomes sought by government should drive the design of the performance management system and would normally be expected to be reflected in the agency's legislation, policy statements, corporate plans, mission and vision statements right through to its performance management system statements and documentation.

3.6 In developing objectives for, and designing, their performance management systems, agencies ideally should have:

- considered the relevant legislation and government policy applicable to them;
- consulted their Minister(s) and Parliamentary Secretary (where relevant);
- considered the relevant outcomes and outputs structure, including any relevant performance indicators; and
- considered their corporate and business plan requirements.

3.7 Legislation that may be relevant to an agency in developing its performance management system includes the:

- *Financial Management and Accountability Act 1997;*
- *Commonwealth Authorities and Companies Act 1997;*
- *Workplace Relations Act 1996;*
- *Public Service Act 1999;*
- Australian Public Service Commissioner's Directions under the Act; and
- Government Policy Parameters for Agreement Making in the APS, June 2002.

Audit Findings

Agency survey findings

3.8 About 60 per cent of responding agencies indicated that the government policy parameters for agreement making issued by DEWR were important factors in the development of the agency's current performance management system. However, nearly seven per cent of agencies regarded the parameters as not at all important, which suggests that an important MAC requirement, that government specified outcomes guide the development of APS performance management systems, may not have occurred or may not have been given the weight intended in some agencies.

3.9 Some 40 per cent of responding agencies indicated that there were other important factors in the development of the agency's current performance management system. These included: using performance management as a change management tool; the desire to use the system to both effectively identify L&D needs and appraise performance; the influence of major organisational changes; strong staff and management views against introducing bonuses; ease of implementation; costs; inclusiveness and realistic access to benefits for all staff; improving the way staff relate and talk to each other; and a desire to better integrate performance management with a range of other human resources systems, such as selection for promotions and transfers.

3.10 The MAC Report indicates that, in establishing performance management arrangements that focus on managing performance to meet the Government's required outcomes, agencies should consult with their Minister or Parliamentary Secretary when designing their performance management system. However, only around one-quarter of the relevant responding agencies reported that they had done so. This suggests that an important stakeholder input source was omitted from the development of many APS agencies' performance management systems, even allowing for those agencies

that have limited or no direct involvement with Ministers and Parliamentary secretaries.

3.11 Over 60 per cent of responding agencies reported that sound performance management was a specified goal in their corporate plan; 48 per cent reported that it was a goal in their business plan; 55 per cent reported that it was a goal in their people management plan; and almost all agencies (96 per cent) reported that it was a goal in their CAs. These responses suggest that around one-half of surveyed agencies have developed good links between various corporate documents and their performance management system information and/or documentation. The MAC Report saw this as a key requirement for good alignment of the performance management system.

3.12 Over 95 per cent of responding agencies indicated that staff were involved in the setting of goals for their current performance management system. Three agencies said that they were not. Over 80 per cent of responding agencies indicated that staff were involved in specifying desired values and behaviours for their current performance management system. Nine agencies said that they were not. Three agencies could not respond. This suggests that only a minority of agencies may not have a values system in place as part of their performance management system or may not have consulted staff in this regard.

3.13 About 40 per cent of responding agencies agreed that non-executive staff were adequately involved in agency goal setting. Nearly 18 per cent disagreed. Just over six per cent could not respond. About 64 per cent of responding agencies agreed that non-executive staff were adequately involved in goal setting at the workplace level. Nearly five per cent disagreed. Eight per cent could not respond. About 22 per cent of agencies neither agreed nor disagreed.

Staff survey findings

3.14 Only 26 per cent of responding staff considered that they were consulted over the goals set for the agency's performance management system; whereas more than 50 per cent of staff indicated that they were not consulted.¹⁶ Staff perceptions are in contrast with agency perceptions about the extent of consultation (see para 3.12), which suggests that agencies have considerable scope to improve the involvement of their staff in setting the goals for their performance management system. If staff do not consider that they are adequately consulted, their ownership of the performance management system, and hence its success, will be in doubt.

¹⁶ Within individual agencies, those who were not consulted ranged from 88 per cent of respondents in one agency down to 28 per cent in another agency, with no discernable trend in relation to size of agency.

3.15 Only 22 per cent of responding staff considered that they were consulted in specifying desired values and behaviours under their agency's performance management systems; whereas over 54 per cent of staff considered that they were not.¹⁷ Staff perceptions are again in contrast with agency perceptions about the extent of consultation (see para 3.12). Government policy and the Act reinforce the need to affirm the APS and agency values through performance management systems. The survey results suggest that agencies have significant scope to improve their consultation with staff in this important area.

3.16 Less than 15 per cent of responding staff considered that they were adequately involved in the overall goal setting process for their agency; whereas 62 per cent of staff considered that they were not.¹⁸ Agencies had more favourable perceptions about the consultation rate than staff (see para 3.13). Staff involvement in the setting of overall agency goals will contribute to staff understanding, identification and ownership of those goals. This should make it easier for staff to align their performance management objectives to the overall agency goals, thereby contributing to better agency performance outcomes.

3.17 Nearly 40 per cent of responding staff considered that they were adequately involved in the overall goal setting process for their workplace; whereas 35 per cent of staff considered that they were not.¹⁹ These results suggest that the goal setting process in agencies is working marginally better at the workplace level than at the agency-wide level. This is understandable, as goal setting and staff consultation are complex and costly exercises, particularly in large organisations. However, if staff views, and consequently their ownership of agency performance management systems are to improve, agencies need to have adequate staff involvement in setting agency goals.

3.18 Figure 3.1 highlights the significant discrepancies between agency and staff perceptions regarding key aspects of consultation and involvement in achieving *alignment* under the MAC Report.

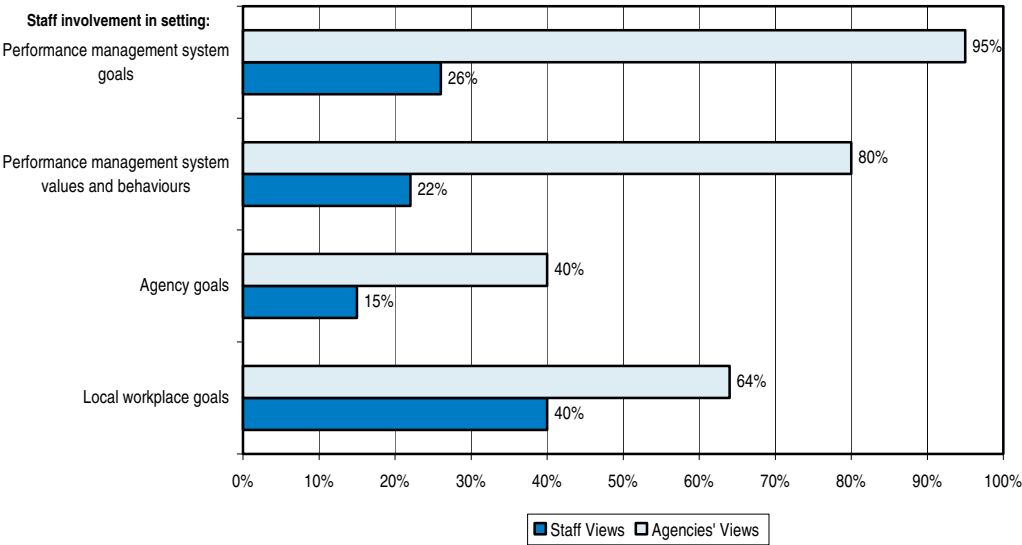
¹⁷ Within individual agencies, those that were not consulted ranged from 84 per cent of respondents down to 31 per cent, with no discernable trend in relation to size of agency.

¹⁸ Within individual agencies, those that were not involved ranged from 85 per cent of respondents down to 32 per cent, with generally less involvement as agency size increased. Involvement was higher as classification level increased and for Central Office staff.

¹⁹ Within individual agencies, those that were not involved ranged from 72 per cent of respondents down to 13 per cent, with generally less involvement as agency size increased. Involvement was higher as classification level increased and for Central Office staff.

Figure 3.1

Agency and staff views on the levels of staff consultation and involvement in setting goals, values and desired behaviours



Source: ANAO surveys of APS agencies and staff

Audit observations

3.19 Responding agencies have generally taken the various factors set out in the MAC Report into account in developing their performance management systems. However, the ANAO found that there was limited consultation at Ministerial/Parliamentary Secretary level, and that, generally, staff considered that they had inadequate involvement in the processes for setting agencies' performance management objectives and corporate goals. Survey responses indicated that agencies could also consult more effectively with their staff in specifying the desired values and behaviours under their performance management systems.

3.20 Agency corporate documents do highlight performance management to varying degrees, but it generally seems to predominate in CAs rather than in agencies' Corporate Plans, Business Plans and People Management Plans. This suggests that performance management design is being driven by the industrial process, rather than by the outcomes sought by the agency and/or the government.

Consistency with APS values, agency values and legislative framework

3.21 In order to satisfy this key principle, agencies should be able to show how the objectives for, and design of, their performance management systems reinforce the APS Values and the agency's own organisational values. Similarly, agencies should be able to demonstrate that their performance management systems include appropriate measures covering 'how' objectives are achieved as well as 'what' is being achieved.

3.22 A fundamental driver to the shape of a performance management system is the existence of a strong values-based culture in the organisation. Some organisations place much greater importance on having values as a component of measurement; whereas this may be less significant in the cultures of other organisations. APS agencies that include a strong values-based component in their performance management systems are complying with better practice and relevant government guidelines.

Audit Findings

Agency survey findings

3.23 About 63 per cent of responding agencies regarded the APS Values and Australian Public Service Commissioner's Directions as important in shaping the development of their performance management systems. This suggests that the important role of values in driving performance management system outcomes and design is being overlooked in some agencies.

3.24 Over 67 per cent of responding agencies agreed that their agency promotes the APS Values in their individual performance agreements. Four agencies disagreed. Two agencies could not respond. The MAC Report suggests that the active promotion of values in individual performance agreements means that performance outcomes are not assessed in isolation from consideration of how these objectives are being achieved. In addition, through this process, the APS Values and any agency derived values are also reinforced. Although most responding agencies seem to be complying with this better practice principle, one in every three agencies may not be, or are unsure of their situation.

Staff survey findings

3.25 Nearly 70 per cent of responding staff considered that the APS Values and the organisational values of their agency are promoted in their performance agreements. Over 12 per cent of staff considered that this was not the case. This suggests that most agencies are making good progress in reinforcing the APS and organisational values in their performance management systems. This is supported by the findings in the State Of the

Service Report (SOSR) released in November 2003, where a majority of staff indicated that their most recent performance assessment had included a discussion of behaviour.²⁰

Audit observations

3.26 The majority of responding APS agencies advised that they took the APS Values and the related Commissioner's Directions into account when designing their performance management systems and that they promoted these values through their performance management systems. Agency staff supported this view overall. However, some agencies did not take the Values and Directions into account or promote them, which suggests that there is still scope for further improvement in this area.

Nature of the business

3.27 Performance management systems will vary in style according to the nature of the business of the agency. They may be influenced by:

- whether the agency delivers policy/legislative outcomes or is more operationally focussed on service delivery and policy implementation;
- the measurability of outputs; and
- the particular skills and behaviours management wants to reward and develop.

3.28 Ideally, agencies should have considered these factors in the design of their performance management systems—the principle issue being that these factors should have informed the design in some way, rather than the agency just taking an 'off-the-shelf' approach.

Audit Findings

Agency survey findings

3.29 Over 46 per cent of responding agencies considered that the nature of their agency business, governing legislation or specific role/objective was important in shaping the development of their performance management systems. Nearly 19 per cent did not regard these as important.

Audit observations

3.30 The majority of responding agencies may not have taken into account the specific factors recommended in the MAC Report when designing their performance management systems. There may have been other factors that agencies drew upon to influence the design of their performance management

²⁰ Australian Public Service Commission, *State of the Service Report 2002–03*, p.157.

systems or agencies may instead have taken an 'off-the-shelf' design and adapted it to their particular circumstances. This suggests that some performance management systems are not as well aligned to their agencies' business models as they might be.

Client and stakeholder expectations

3.31 The MAC Report identifies that, in the initial design and in any future review or revision of their performance management systems, agencies should ideally be regularly surveying clients and stakeholders (including Ministers and agency staff) regarding their performance management systems.

Audit Findings

Agency survey findings

3.32 Only 42 per cent of responding agencies indicated that client and/or other stakeholder expectations of the agency were important factors in shaping the development of their performance management systems. Nearly 18 per cent did not regard these as important. These responses suggest that many agencies do not take client and/or stakeholder expectations into account.

3.33 About 55 per cent of responding agencies advised that they surveyed their clients and/or stakeholders to seek their views on the performance of the agency and its staff. However, nearly 20 per cent of agencies could not respond. These results imply that some agencies are missing out on vital feedback that could help them to perform better.

3.34 Nearly 68 per cent of responding agencies considered that staff attitudes towards various aspects of performance management were important in shaping the development of their performance management system. Nearly five per cent did not. Better practice reflected in the MAC Report suggests that staff input is the key to staff ownership and support for the performance management system.

3.35 Over 60 per cent of responding agencies advised that they conducted regular staff surveys (including surveys not specifically related to performance management). It is difficult to see how agencies that do not regularly survey their staff on performance management and other matters can effectively and methodically factor in any staff views into current or future performance management systems. Most of the responding agencies that conducted staff surveys advised that these covered the key topics important to performance management, including:

- the quality of supervisory feedback;
- the frequency of supervisory feedback on performance;

- staff satisfaction with the agency's performance management system;
- staff understanding of corporate values; and
- staff understanding of work area goals.

3.36 These responses suggest that agency staff surveys adequately collect data and input from staff as key stakeholders in the performance management system, which is in accordance with better practice where it occurs.

Audit observations

3.37 A significant number of agencies either did not consult their clients and stakeholders as part of the initial design or subsequent review of their performance management systems or were unable to confirm that they had done so. A majority of agencies advised that they considered staff attitudes and conducted surveys, and where these occurred they tended to cover the relevant aspects of performance management. However, nearly 40 per cent of the responding agencies did not conduct regular staff surveys. These results indicate that further improvements are possible in this area.

History with performance management

3.38 Ideally, in developing their performance management system, agencies should have taken into account whether there are any negative or positive lessons to be learnt from any previous exposure they have had to performance management systems. It is important, particularly from the perspective of agency staff, that any negative perceptions arising from previous performance management systems are dealt with openly and with clear commitment. For example, earlier APS performance management arrangements, such as the Senior Officer Scheme of the early 1990s, left many APS staff with a strongly negative view of performance management, which needed to be addressed first before the success of any new scheme could be assured.²¹

Audit Findings

Agency survey findings

3.39 Over 60 per cent of responding agencies considered that past agency experiences with earlier performance management systems was important in shaping the development of their performance management system. Nearly 14 per cent did not regard it as important.

²¹ Management Advisory Committee Report, op. cit., p.23.

Audit observations

3.40 The majority of responding agencies advised that they used their past experience with performance management systems to influence their current one. However, a number of agencies did not, suggesting that this important aspect was neglected in their situations, perhaps impacting on the success of their current performance management systems.

Maturity of systems

3.41 Agencies are better placed to implement performance management systems quickly and effectively, if they have established systems for internal communication, personnel data analysis and management feedback, together with the capacity to collect and analyse data on individual staff performance. Ideally, agencies should also have considered these issues and any other system limitations in the pace of implementing their performance management system. The MAC Report noted that several agencies had refined their performance management systems through iterative steps as they built up alignment across their governance arrangements, business planning, staff appraisal and training and development systems.²²

Audit Findings

Agency survey findings

3.42 Over 38 per cent of responding agencies considered that the maturity of agency systems that directly relate to, and support, performance management were important in shaping the development of their performance management system. Nearly 32 per cent did not.

Audit observations

3.43 Only around one-third of responding agencies may have mature systems such as internal communication, personnel data analysis and management feedback and the capacity to collect and analyse data on individual staff performance, or at least regarded these matters as important. The absence of these factors could contribute to a lack of support for the performance management system within the agency; exacerbate poor alignment; and promote ineffective performance.

Industrial Climate

3.44 Ideally, agencies should have considered the prevailing industrial climate in their organisation in developing, and in setting the pace of,

²² Management Advisory Committee Report, op. cit., p.23.

implementation of, their performance management systems. The industrial climate may exert an influence on the:

- level of prescription in the performance management system documentation;
- attitudes of staff and their representatives to the linking of performance and remuneration; and
- complexity of grievance and moderation processes in the performance management system.

Audit Findings

Agency survey findings

3.45 About 63 per cent of responding agencies agreed that the industrial climate within the agency was important in shaping the development of their performance management system. Over 16 per cent did not regard it as important. The survey responses suggest that the prevailing industrial climate was an important shaping factor, as would be expected, particularly during any initial implementation of a performance management system. However, in many agencies, the prevailing industrial climate was not a significant issue, which suggests that staff generally may now be more comfortable with performance management than they were at the time of the MAC Report.

3.46 A majority of responding agencies advised that staff attitudes to various aspects of performance management were important factors in shaping the development of their current performance management system.

3.47 Some 60 per cent of responding agencies indicated that 90 per cent or more of their staff were covered by CAs. Only a few agencies advised that most of their staff were covered by AWAs. The survey results suggest that the majority of APS staff remain covered by CAs, which may provide comparatively less flexibility than AWAs in the design and implementation of their agencies' performance management systems.

3.48 Nearly 90 per cent of responding agencies advised that their performance management system is supported by an effective grievance system. It is of some concern that one agency could not respond and that 10 per cent of agencies surveyed did not consider that a process for properly handling performance management grievances was in place.

Staff survey findings

3.49 In contrast to agency views, only 57 per cent of responding staff considered that their agency had a grievance, appeal or review process in place in relation to performance management and performance pay. About 43 per cent of respondents (this ranged from 82 per cent to 12 per cent in individual

agencies) said either that there was no process in place or that they did not know, suggesting that agencies have some way to go in informing their staff that these mechanisms are available. In general, survey results were slightly better in smaller agencies than in larger agencies. The ANAO considers that maintaining a viable appeal process is important for staff to consider they are at ease with the performance management system. It also helps to maximise their ownership of it.

3.50 Nearly 44 per cent of responding staff considered that the grievance system in their agency was effective; whereas 25 per cent considered that it was not. Within individual agencies, those that considered the system ineffective, ranged from 74 per cent of respondents down to nine per cent, with no discernable trend in relation to size of agency.

Audit observations

3.51 The prevailing industrial climate was an important factor shaping the performance management system in responding agencies, as would be expected, particularly during the initial implementation phase of their performance management system. However, many agencies appear to have moved on since the time of the MAC Report, to a stage in the development of performance management where the employees and their representatives are more accustomed to performance management, and therefore, it is no longer such an important industrial issue.

3.52 Some agencies did not have grievance mechanisms in place to support their performance management systems. In addition, many of the agencies that do have grievance processes could take steps to improve the general level of staff awareness about them and staff perceptions of their effectiveness.

Evolving factors—Integrating organisational values with output based performance

3.53 The MAC Report acknowledged that individual performance should be assessed in the context of organisational performance. Therefore, a fundamental component of any performance management framework is the ability to measure performance at both the organisational and individual level. However, the Committee noted that the APS has limited ability to measure performance at the organisational level, which can hinder attempts to link performance management system outcomes to overall organisational performance.²³

3.54 Notwithstanding the acknowledged difficulties in measuring overall organisational performance, it would be expected that agencies are at least

²³ Management Advisory Committee Report, op. cit., p.36.

considering this important issue and making reasonable attempts to satisfy themselves that their performance management systems are resulting in improved performance both at the individual and agency-wide level.

Audit Findings

Agency survey findings

3.55 Nearly 56 per cent of responding agencies considered that their performance management system is an integral part of their agency's performance monitoring and reporting. However, only 11 per cent of agencies reported that they had assessed whether performance pay resulted in improved individual performance and desired behaviours and/or improved agency performance. Over 80 per cent said that they had not.

Audit observations

3.56 The audit found that the situation MAC observed in 2001 regarding limits in the ability of the APS to measure its performance at the organisational level had not significantly improved. Although individual agencies are addressing this important issue, progress may be hindered because no easily accessible APS-wide model of measuring organisational performance appears to exist. Nor is there a model available which links agency and individual/collective employee performance, or any process for establishing empirical or quantifiable links between individual/collective employee performance, and any PLR that an agency may be providing to its employees. It is relevant that many agencies do not conduct staff surveys, which can be a useful tool to assess a range of factors that may concern their staff, including matters relevant to performance management. Also, slightly less than one-half of responding agencies did not consider that their performance management systems were part of wider performance monitoring and reporting. Very few agencies assessed the costs and benefits of their performance management systems.

Conclusions—Alignment

3.57 Although the results highlighted in this audit were mixed, and agencies and their staff had differing perceptions in a number of key areas, agencies surveyed have generally been effective in aligning their performance management systems with the agency's goals and organisational priorities.

3.58 Agency staff now seem to be more accustomed to performance management. Accordingly, agencies could now shift their focus more towards achieving the outcomes sought by government for performance management.

3.59 Many agencies still do not have established 'systems', as defined in the MAC Report, that relate to, and support, their performance management

system. Consequently, it is reasonable to conclude that agencies have some way to go in establishing and strengthening the assessment and monitoring of links between an individual's performance and the improved performance of the organisation.

Recommendation No.1

3.60 The ANAO recommends that the Australian Public Service Commission consider developing examples of key indicators for APS agencies to measure organisational performance, with clearly visible links between corporate and employee performance.

Summary of agency responses

3.61 The APSC agreed in part and advised that it foresees difficulties in developing one APS-wide model of indicators to measure organisational performance that could be used by all agencies. It also notes that in accordance with the Act, it is ultimately the role of Agency Heads to determine the most effective and efficient performance management process for their organisation. However, it considers that some illustration of agency performance management systems to demonstrate alignment and the related use of performance indicators may be of assistance to agencies. The work that the APSC intends undertaking over the next 12 months related to identifying effective drivers of performance may assist agencies in better aligning individual performance with overall agency performance.

3.62 The majority of other responding agencies supported the ANAO's recommendation.

3.63 Full details of agency responses have been included in Appendix 5.

4. Key Principle: Credibility—Establishing Performance Management Systems which Engage People

This chapter discusses the importance of credibility in establishing APS performance management systems that engage and win the support of staff through simplicity, fairness, management commitment, the use of multiple sources of feedback, addressing the rhetoric-reality gap, managing under performance and transparent reporting of outcomes. Audit findings from the agency and staff surveys in relation to these issues are also discussed.

Credibility

4.1 Gaining the support of staff is crucial to the success of an agency's performance management system. Agencies should be able to show that they have addressed the key factors that influence the level of staff involvement in, and thereby their support for, the agency's performance management system. These include leading by example in setting an appropriate 'tone at the top'; establishing that the system is fair and trusted by staff; engages staff at all levels of the organisation; provides opportunities for upwards as well as downwards feedback on performance; and is uniformly and consistently applied.

CEO and executive commitment

4.2 The MAC Report noted that the performance management advocacy role played by an agency's Chief Executive Officer (CEO) is a key shaper of the organisation's performance management system. The CEO leadership role influences both the speed of its introduction and its style.²⁴

4.3 Agency heads must take a strong leadership role in the development, implementation and ongoing application of the agency performance management system. To maximise credibility, their commitment, coherence, consistency and style relating to dealing with performance management should be clearly observable to staff.

²⁴ Management Advisory Committee Report, op. cit., p.22.

Audit Findings

Agency survey findings

4.4 This audit did not specifically seek information that would enable the ANAO to form an opinion about the level of CEO commitment to performance management. However, CEO commitment was generally evident in the supporting documentation on agencies' performance management systems that was examined by the ANAO.

Review and simplicity (keeping the systems under review and moving to greater simplicity)

4.5 Ideally, agencies should have reviewed their performance management system at least once since its introduction, resulting in changes to improve the system where appropriate, including refinements to rating scales, performance descriptors and review processes.

4.6 Agencies should aim to keep their performance management system as simple as possible and should be progressively streamlining their system over time, rather than adding undue complexity. It would also be expected that managers would not see their agency's performance management system as a hindrance, but as an active aid to management of their staff.

Audit Findings

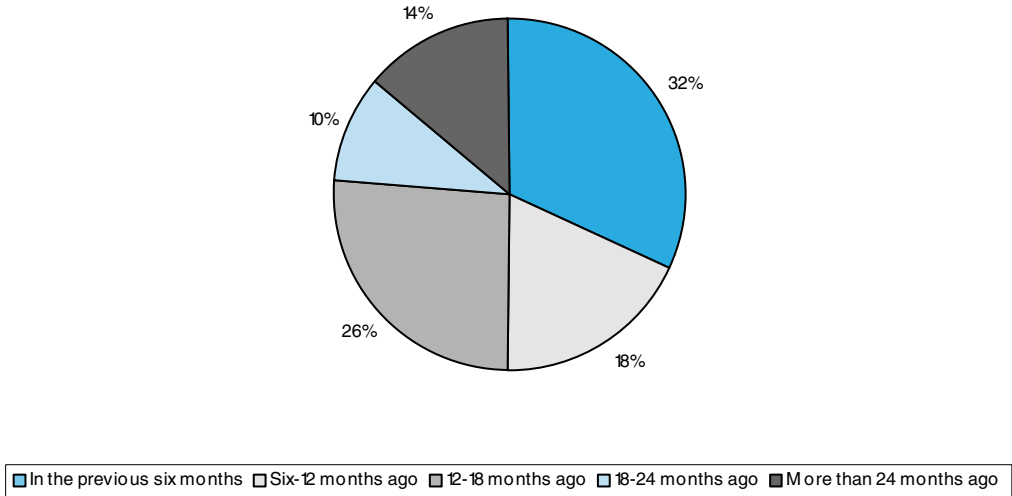
Agency survey findings

4.7 Over 82 per cent of responding agencies indicated that they regularly reviewed their performance management processes. This reflects better practice, which prescribes that conducting regular reviews of the performance management system is likely to improve its simplicity and ownership by stakeholders.

4.8 Of the 50 responding agencies that indicated when their performance management system was last reviewed, the ANAO found that about one-half had conducted a review within the preceding 12 months. Only 14 per cent said it was more than two years ago. (See Figure 4.1).

Figure 4.1

When was the most recent review of the agency's performance management system conducted?



Source: ANAO Survey of APS Agencies

4.9 In nearly 88 per cent of responding agencies, these reviews were externally conducted. Better practice suggests that this assists in improving the levels of transparency and acceptance of the review among staff.

4.10 Over 63 per cent of responding agencies considered that their performance management system is straightforward to administer, and that it had become easier to administer over time. Nearly 10 per cent disagreed.

Staff survey findings

4.11 Less than 30 per cent of responding staff considered that their agency's current performance management system is straightforward to administer; whereas over 35 per cent considered that this was not the case.²⁵ These results suggest that staff consider that agencies have significant scope for improving the simplicity of their systems and/or addressing staff perceptions about how easy the systems are to use.

4.12 Only 30 per cent of responding staff considered that their agency's current performance management system has become simpler to administer

²⁵ Within individual agencies, those that considered that the system was not straightforward ranged from 63 per cent of respondents down to four per cent. In general, perceptions were more favourable as classification levels increased, for Central Office staff and as agency size increased, but did not differ by gender.

over time; whereas nearly 33 per cent considered that it has not.²⁶ Overall, the survey results suggest that agencies still have more work to do to convince staff that their performance management systems are progressing to a simpler arrangement.

Audit observations

4.13 A majority of responding agencies advised that they regularly reviewed their performance management systems using external rather than internal processes of review. A majority also regarded their systems as becoming simpler and more straightforward to administer. However, a significant proportion of agencies and the majority of responding agency staff generally did not consider that the performance management systems are simple to use or are moving to greater simplicity. The ANAO considers that these responses indicate that agencies could do more to either streamline their systems to make them more user-friendly, or to better communicate how straightforward their systems are in practice.

Fairness and trust

4.14 Ideally, agency performance management systems (and any PLR) should be seen as fair by all who use the system. Staff should have high levels of trust in management and in the performance management system. Fairness should also be demonstrated by:

- consistent application of the performance management system across the agency;
- ongoing and systematic training (or support) of all parties, and review of managers' capabilities to apply the performance management system requirements; and
- a moderation or review process to help consistency in developing performance agreements and assessments.

4.15 If agencies use (or do not use) individual performance ratings in their performance management systems they should have decided on this by assessing the desired culture of their agency and the impact on this culture of a formal ratings system (or otherwise). Better practice principles include:

- the use of any moderation processes should precede any disclosure of ratings or related PLR outcome;

²⁶ Within individual agencies, those that considered that the system was not simpler to use ranged from 68 per cent of respondents down to 12 per cent. In general, staff perceptions were better in larger agencies than in smaller agencies.

- there should not be any perception of forced distribution of ratings or quotas being used across the agency;
- examples of the expected qualitative attributes and quantitative outcomes sought for each rating should be provided to managers and staff, along with training in their application, where appropriate; and
- appropriate avenues of appeal or independent review should be available when disagreements over ratings occur.

4.16 Regular refresher training of new and existing staff has a multiple effect. It improves trust in the performance management system through increased knowledge and skills; reinforces the importance of performance management to the staff; improves their skills; and lets newcomers know that performance management is a fundamental part of the work environment and culture in the agency. Staff also have an obligation to attend training where it is offered.

Audit Findings

Agency survey findings

4.17 While 25 agencies indicated that they do not use a quota or forced distribution system to apportion performance management system outcomes, only two agencies admitted that they did.²⁷ However, a majority of agencies did not answer this question. Using quotas and forced distribution systems could work against staff trust and perceived fairness in the performance management system. It is recognised, however, that agencies do need to manage their overall performance pay outcomes to achieve budget requirements.

4.18 About 54 per cent of responding agencies indicated that moderation occurs before ratings are disclosed to staff; whereas almost 35 per cent indicated that moderation occurred after staff were advised of their performance ratings. About 12 per cent of responding agencies could not answer the question.

4.19 Nearly 97 per cent of responding agencies indicated that they have a grievance, appeal or review process for staff to access in relation to a performance management and/or related pay outcome. Two agencies could not respond.²⁸

4.20 Nearly 64 per cent of responding agencies indicated that their staff are adequately trained in how to use the agency performance management system.

²⁷ Thirty six agencies did not answer this question.

²⁸ This correlates with the findings in para 3.48.

Only four agencies (six per cent) considered that their staff were not trained in this respect.

Staff survey findings

4.21 Almost 35 per cent of responding staff considered that they were adequately trained in their agency's current performance management system. Over 35 per cent considered that they were not.²⁹

4.22 Many staff volunteered comments, along with their survey responses, that give some insight into why they were dissatisfied with their agency's performance management system. Issues surrounding fairness and trust were among the most commonly raised matters, with frequent references to bias, favouritism, subjectivity, cronyism, jobs for the boys, bigotry, bullying, mistrust, personal interest, inconsistent and inequitable treatment; as well as assessments based on personalities, personal/social/cultural relationships and profile of the work, rather than on work performance.

Audit observations

4.23 Responding agencies reported in most cases that they do not use a quota or forced distribution system. However, they did moderate performance ratings across work areas (see paragraph 6.69). Many agencies did not respond to the ANAO's question on this matter.

4.24 Staff did not consider that they are adequately trained in the performance management system.

4.25 The responses suggest that, while quotas or forced distributions are not set in most APS agencies, moderation does occur in many agencies, although the high non-response rate casts uncertainty on this question. The training of staff is also not being handled as well as it could be in agencies.

Management 'buy-in'

4.26 The MAC Report noted that:

Performance management must be consistent from the top of an organisation to the bottom. Often staff consider (that they are) lectured on the benefits of performance appraisal by managers who are not seen as being appraised themselves. If management does not take part in the process, a discouraging message is sent to the rest of the organisation, and the system is unlikely to succeed.³⁰

²⁹ Within individual agencies, those that had not received training ranged from 80 per cent of respondents down to four per cent. The survey responses were more favourable as staff classification levels increased and for Central Office staff, but there was no discernable trend by gender or size of agency.

³⁰ Management Advisory Committee Report, op. cit., p.27.

4.27 Agencies must be able to show how:

- performance management is consistently applied from top to bottom in the agency;
- the whole leadership group comprehends the performance of the agency quickly and easily;
- the management team is clear about the objectives of the performance management system;
- performance management is fully integrated into day-to-day work and not seen as a distraction; and
- adequate time and resources have been allocated for performance management to be administered effectively.

Audit Findings

Agency survey findings

4.28 Less than two-thirds of responding agencies indicated that all their SES staff were covered by the agency's performance management regime. However, some caution may be required in interpreting this result.³¹ About 90 per cent of agencies indicated that their staff at non-SES levels were covered. Table 4.1 shows which categories of staff were covered.

Table 4.1

Staff categories covered under agency performance management arrangements 2002–03

Staff Covered	Number of Agencies	% Agencies
All SES or equivalent	39	62
All EL1-2 or equivalent	56	89
All APS 1-6 or equivalent (excluding graduate trainees)	56	89
All graduate trainees	31	49
All ongoing staff	55	87
Cannot Answer	5	8

Source: ANAO Survey of APS Agencies

³¹ Although 23 responding agencies indicated that 'All SES or equivalent' staff were not covered by the agency's performance management arrangements, the ANAO noted that 11 of these agencies had paid bonuses to at least some of their SES staff during 2002–03. Overall, some 1510 SES staff (80 per cent of the APS-wide total of 1872 SES staff) were reported as eligible for bonuses during 2002–03.

Audit observations

4.29 The survey findings indicate that some Senior Executive staff in about one-third of responding agencies and some non-SES staff in about 10 per cent of responding agencies were not subject to performance management arrangements. In agencies where performance management is not applied to all staff, non-participation by managers could signal to staff that the agency lacks commitment to performance management.

Multi-source feedback

4.30 The MAC Report noted that many APS agencies were using multi-sourced feedback (MSF - either 360 degree or upwards feedback mechanisms) for a variety of purposes. It could be expected that, in the intervening period since the MAC Report, the majority of agencies may have considered multi-source feedback mechanisms:

- as a way to collect perceptions about managers and staff behaviours and their impact on team and work activity;
- in regard to linking to pay or not doing so;
- for development purposes; and/or
- to include views of external stakeholders (i.e. Ministers).

Audit Findings

Agency survey findings

4.31 Some 33 responding agencies (52 per cent) indicated that they use MSF as part of their performance management system. This reflects an increase in the use of MSF since the MAC Report (where only 24 per cent of CAs referred to upward feedback and 17 per cent had an MSF tool) and suggests a greater degree of sophistication in the use of more advanced forms of performance management across the APS. This trend is expected to continue, as over 15 per cent of responding agencies indicated in the ANAO survey that they were planning to introduce MSF within the next 12 months.

4.32 Nearly 52 per cent of responding agencies stated that participation by staff in their MSF arrangements was voluntary. About 40 per cent said that it was mandatory.

4.33 Nearly 10 per cent of responding agencies applied their MSF arrangements once every two years, 21 per cent once a year, 51 per cent twice a year, and 18 per cent at other frequencies. With the majority of agencies applying their MSF at least twice a year, this suggests that the MSF is fully integrated into the normal performance management system and is being

applied via the mid-term and annual review processes. This reflects better practice.

4.34 The survey asked for the approximate percentage of staff that participated in the agency's MSF system. Only 15 agencies responded, reporting participation rates that ranged from five per cent to 100 per cent. This suggests that many agencies do not have adequate data on staff participation in their MSF system.

4.35 Agencies were also asked what they used their MSF information to determine. The responses indicated that it serves a variety of purposes, but is most commonly used as a source of input for performance ratings and for determining staff L&D requirements. However, it is of some concern that two agencies indicated that they did not use the MSF information they collected (see Table 4.2).

Table 4.2

What agencies used their MSF information to determine in 2002–03

MSF information used for:	Number of Agencies	% Agencies
Performance ratings	20	61
Access to L&D opportunities	20	61
Work objectives or targets	16	49
Salary increments	15	46
Performance bonuses	11	33
Other	7	21
Not used for anything	2	6

Source: ANAO Survey of APS Agencies

4.36 Over 30 per cent of responding agencies stated that MSF had been effective in contributing to improved performance in the agency; whereas nine per cent considered that it had not been effective. These results suggest that the evidence is inconclusive about whether MSF makes a contribution to improved performance. The MAC Report observed that MSF can be resource-intensive and suggested that consideration should be given to the frequency of such appraisals. Perhaps agencies need to revisit the rationale for their MSF; review how well it is being applied across the agency, and at what frequency; and determine whether there is scope to improve, cost-effectively, its contribution.

4.37 Over 30 per cent of responding agencies stated that MSF had been effective in contributing to improved individual capability levels; whereas 12 per cent considered that it had not been effective. Given that a majority of agencies stated that they were using MSF for development purposes, these

results are disappointing, as less than one-third of agencies saw MSF as effective in improving capability.

4.38 The high incidence of agencies that could not respond about the effectiveness of their MSF systems in the two questions discussed above (24 per cent and 27 per cent respectively), suggests that agencies may not have adequate information on which to make a judgement.

Staff survey findings

4.39 More than 96 per cent of responding staff received their formal individual feedback from their immediate supervisor. The next highest category was 12 per cent from a supervisor's supervisor, followed by about 10 per cent from peers, eight per cent from subordinates and four per cent from clients.³² These findings confirm good practice that the best feedback comes from the staff member's direct supervisor. The response rates indicating feedback was received from peers and subordinates, suggest that increased sophistication in the use of MSF is relatively widespread in the APS. The percentage obtaining feedback from clients suggests a further element of sophistication and good practice.

Audit observations

4.40 Over 50 per cent of responding agencies use voluntary MSF, mainly for development purposes. More are considering introducing this tool. Twice as many agencies now use MSF as did at the time of the MAC Report. However, around one-third of agencies stated that their MSF is not effective in improving agency performance or capability levels of staff. The likely high prevalence of voluntary MSF usage suggests that MSF may not be being used as effectively as it could be as a performance management tool. However, the fact that some agencies are using performance management for work objectives or targets, and also linking MSF to PLR, is a significant move (from what the MAC Report found) into more advanced areas of performance management.

Addressing the rhetoric-reality gap

4.41 The MAC Report noted that:

There is usually a gap between the supportive rhetoric of senior management regarding the importance of performance management, the values which are articulated in corporate plans and action or implementation on the ground.³³

4.42 The ANAO considers that agencies should be working to close this gap, where possible. This may be achieved by:

³² Responses add to more than 100 per cent as staff could receive feedback from a number of sources.

³³ Management Advisory Committee Report, op.cit, p.27.

- establishing that managers model and reward the values articulated in the agency corporate documents on performance management; and
- confirming that staff surveys support the view that management ‘walks the talk’ on performance management.

4.43 In particular, agencies could:

- establish that the agency people dimensions are considered effectively in addition to monitoring operational outputs and financials; and
- provide immediate follow-up and intervention in any important performance management related issue, such as under performance.

Audit Findings

Staff survey findings

4.44 While 47 per cent of responding staff considered that SES staff in their agency are committed to performance management, some 26 per cent considered that they were not.³⁴ These responses suggest that only around one-half of APS staff considered that their SES show a commitment to performance management that is beyond mere rhetoric. Further, significant percentages either considered that this was not the case or did not express a view. This suggests that there is scope for agency executive teams to improve their performance in addressing this rhetoric-reality gap, by adopting the various approaches discussed elsewhere in this report.

4.45 While 58 per cent of responding staff considered that their immediate supervisor is committed to performance management in their agency, about 21 per cent considered that this was not the case.³⁵ These responses suggest that there is a reasonably strong level of commitment displayed on the part of immediate supervisors to performance management in agencies. This reflects good practice, but should be matched by managerial levels above the direct supervisor. However, significant percentages did not share this view or did not express a view. This suggests that, in some agencies, there is also work to be done at the direct supervisory level in addressing the rhetoric-reality gap.

³⁴ Within individual agencies, those that did not consider that their SES staff were committed to performance management ranged from 71 per cent of respondents down to five per cent. Perceptions were less favourable as classification levels increased across APS and Executive level staff, but not surprisingly, were more favourable for SES staff. Perceptions were also slightly less favourable among Central Office staff and male staff and clearly tended to be more favourable as agency size increased.

³⁵ Within individual agencies, those that did not consider that their supervisor was committed to performance management ranged from 50 per cent of respondents down to eight per cent. Perceptions were similar across APS and Executive level staff, but were more favourable for SES staff. Perceptions were more favourable among Central Office staff and female staff, with no discernable trend in relation to size of agency.

4.46 Only 28 per cent of responding staff considered that their agency treats 'addressing the quality of people management skills' as a priority; whereas over 45 per cent considered that this was not the case.³⁶ These responses do not reflect good practice. Effective performance management requires agencies to treat the improvement of the overall quality of people management skills as a high priority. It is not sufficient for agencies to regard the quality of technical skills as the sole indicator of an effective manager; this must also be augmented by effective people management skills. Good people management skills will influence a range of issues related to effective performance management in an agency, such as: good feedback and counselling; career planning and management; and effective objective setting.

4.47 Only 23 per cent of responding staff considered that the agency's performance management system has been effective in improving their individual performance; whereas 50 per cent considered that this was not the case. These are very significant responses. Undoubtedly, there are other mechanisms beyond their performance management system available to APS managers to improve the performance of staff. However, it could be expected that a key purpose of the agency performance management system is to improve staff performance and, if relevant, award PLR of various types. Significant sums are spent in the APS annually on PLR on the basis of performance management systems (discussed in Chapter 8). However, if only a small percentage of staff consider that the systems have been effective in improving their performance, this should be a matter of some concern to the APS generally.³⁷

Audit observations

4.48 Around 50 per cent of responding agency staff considered that the SES, and (slightly more) their immediate supervisor, showed commitment to performance management. Less than one-third considered that people management is addressed adequately by their agency with less than one-quarter considering that the performance management system has been effective in improving their performance. There are significant gaps here on very important aspects related to performance management. Low commitment levels, poor treatment of people management, as well as performance management being seen by staff as ineffective in improving their performance,

³⁶ Within individual agencies, those that did not ranged from 80 per cent of respondents down to 23 per cent. Perceptions among non-SES staff were less favourable as classification levels increased, but were considerably more favourable for SES staff. Perceptions were slightly more favourable among Central Office staff but did not differ much by gender, with no discernable trend in relation to size of agency.

³⁷ Within individual agencies, those that did not consider that the agency's performance management system had been effective in improving their individual performance ranged from 82 per cent of respondents down to 23 per cent. Perceptions were less favourable among APS 5–6 and EL1–2 staff, Non-Central Office staff and male staff, with no discernable trend in relation to size of agency.

suggests significant scope exists for minimising the rhetoric-reality gap on the part of agencies. It is also noteworthy that the SOSR found that low percentages of staff agreed that their most recent performance assessment would help them perform well.³⁸

Managing under performance

4.49 Agencies need to understand that poor handling of under performance directly affects the credibility of their performance management system. Agencies should therefore have a simple, robust and comprehensive process for dealing with poor or under performance that may, or may not, be separate from the performance management system.

4.50 Agencies can be expected to provide under performance systems which link to overall people management skills improvement strategies, and build confidence and skills in dealing with under performance at an early stage, such as:

- identifying the root causes of under performance;
- discussing under performance problems openly and with sensitivity; and
- choosing effective solutions to under performance problems.

4.51 For instance, in the agency under performance processes, the ANAO considers that there should be:

- simple and quick procedures for handling under performance which give adequate procedural fairness to the employee;
- shorter employee performance monitoring and reporting periods once an employee is in a formal under performance process;
- simple processes for the decision-maker to decide post any final under performance assessment; and
- the intention to re-visit and reform any cumbersome under performance processes in future CA negotiations.

Audit Findings

Agency survey findings

4.52 Over 98 per cent of responding agencies indicated that they have a system for identifying and dealing with under performance. One agency could not answer this question. However, responding agencies reported that

³⁸ Australian Public Service Commission, *State of the Service Report 2002–03*, p.157.

191 formal under performance actions commenced during 2002–03, which represents about one in every 650 employees.

4.53 Nearly 48 per cent of responding agencies indicated that they considered that the processes for managing under performance was straightforward in their agency. Just over 11 per cent disagreed and one agency could not answer the question.

4.54 Over 35 per cent of responding agencies indicated that they considered that under performance was effectively managed in their agency. Over 22 per cent disagreed, and two agencies could not answer the question.

Staff survey findings

4.55 Only 18 per cent of responding staff considered that the processes for managing under performance in their agency are straightforward. Nearly 60 per cent considered that this was not the case.³⁹ These responses suggest that under performance processes in agencies are perceived by staff not to be straightforward. If this perception is correct, it implies that staff will be reluctant to use the under performance processes and, therefore, under performers will not be dealt with effectively.

4.56 In contrast to the agency survey, only 11 per cent of responding staff considered that under performance is effectively managed in their agency. Nearly 70 per cent considered that this was not the case.⁴⁰ A number of staff, in their comments, indicated that under performance is effectively ignored in their agency.

4.57 These findings were similar to those in the SOSR, where 50 per cent of employees indicated that they felt that an employee in their immediate work area had consistently under performed.⁴¹

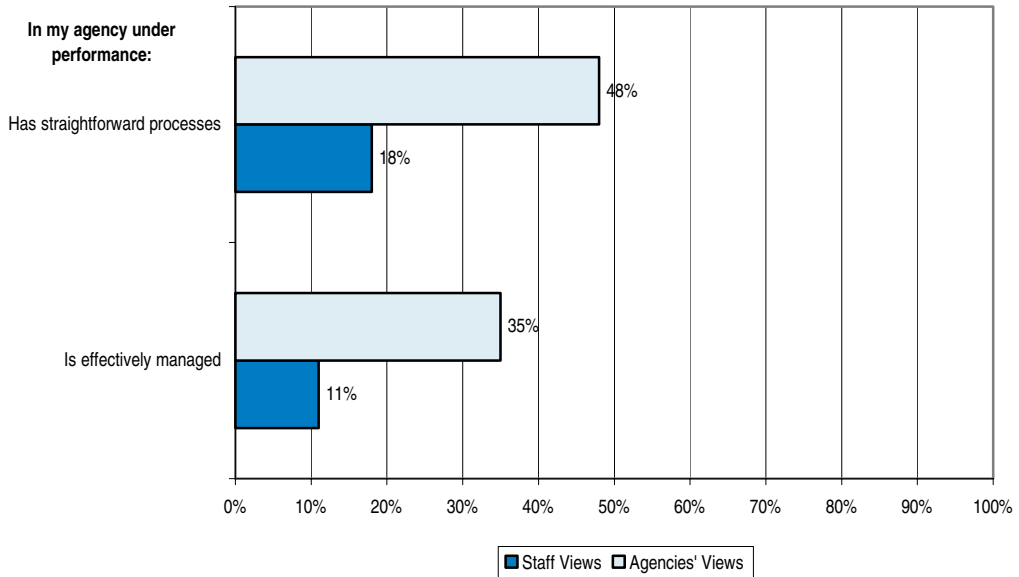
³⁹ Within individual agencies, those that considered that the agency's processes were not straightforward ranged from 87 per cent of respondents down to 29 per cent. Perceptions among non-SES staff were less favourable as classification level increased. Non-Central Office staff also held less favourable views. However, perceptions did not differ much by gender and there was no discernable trend in relation to size of agency.

⁴⁰ Within individual agencies, those that did not ranged from 88 per cent of respondents down to 30 per cent. Perceptions were less favourable among APS 5–6 and EL1–2 classification levels, Non-Central Office staff and female staff, with no discernable trend in relation to size of agency.

⁴¹ Australian Public Service Commission, *State of the Service Report 2002–03*, pp.163–4.

Figure 4.2

Agency and staff views on under performance management



Source: ANAO surveys of APS agencies and staff

Audit observations

4.58 These findings in relation to under performance are a cause for concern within the APS. A large majority of APS staff surveyed considered that under performance is not effectively managed in agencies. While this is not a new finding, reinforcing as it does the views of others (e.g. APSC), it is an issue that should be addressed by agencies.

4.59 Responding agencies reported that there were 191 formal under performance processes underway as at 30 June 2003, representing a small percentage of APS staff. Although the majority of responding agencies have systems in place for dealing with under performance, the majority of staff responses indicated that they did not consider these processes to be straightforward or effectively managed in agencies. A number of staff, in their comments, suggested that under performance is effectively ignored in their agency. Staff also suggested that salary increments are automatically awarded unless a formal under performance action is underway.

Reporting of outcomes

4.60 Management information on the performance management system should be collected, reported and acted upon. Record-keeping procedures for

the performance management system should comply with relevant standards, particularly in terms of privacy.

4.61 Agencies should help develop the credibility of their performance management system by reporting on the outcomes of performance management to their staff as a normal part of accountability and transparency. This reporting could include:

- overall employee PLR related outcomes; and
- aggregate results of the agency-wide performance management assessments/ratings, whilst maintaining employee privacy.

4.62 Ideally, agencies should be gathering comprehensive data on the outcomes of their performance management systems, such as:

- the percentage of staff who have performance agreements;
- the timeliness of performance discussions;
- the content of performance agreements;
- personal L&D options identified as part of the performance assessment;
- the distribution of performance ratings;
- the aggregate pay outcomes in terms of bonuses and salary increases;
- the distribution of performance pay;
- costs of administering the performance management system; and
- contribution of the agency's performance management system to overall agency performance.

Audit Findings

Agency survey findings

4.63 Agency responses regarding performance management information collected and reported upon are summarised in Table 4.3. The responses indicate that only one-quarter to one-third of responding agencies report information on the distribution of performance ratings to managers and staff, with even fewer agencies reporting on aggregate pay outcomes and the distribution of performance pay to this group. The responses also indicate that some agencies are not collecting data that may be useful in managing their performance management systems; whereas some other agencies are collecting data that they subsequently do not use.

Table 4.3

Performance management system information collected and reported in 2002–03

PM system Information	Collected?		Annual Report?		Reported to Executive?		Reported to line managers?		Reported to staff?	
	Yes %	No %	Yes %	No %	Yes %	No %	Yes %	No %	Yes %	No %
% staff with agreements	67	33	9	91	47	53	35	65	20	80
Timeliness of performance discussions	47	53	0	100	40	60	34	66	17	83
Content of performance agreements	21	79	0	100	8	92	17	83	9	91
L&D options identified	65	35	7	93	40	60	46	54	32	68
Distribution of performance ratings	53	47	13	87	47	53	33	67	26	74
Aggregate pay outcomes	55	45	42	58	44	56	16	84	7	93
Distribution of performance pay	56	44	40	60	43	57	15	85	13	87
Cost of performance management	2	98	2	98	2	98	2	98	2	98
Contribution to agency performance	12	88	6	94	14	86	10	90	8	92

Source: ANAO survey of APS agencies

4.64 Over 92 per cent of responding agencies considered that they could assure the confidentiality and privacy of their performance management system's records were in accordance with Commonwealth record-keeping guidelines.

Audit observations

4.65 Agencies collect data on performance management and PLR, but it does not feature in Annual Reports. It also does not get widely reported to line managers and staff. However, for some aspects of the data, this may be the result of a conscious decision by agencies because of privacy concerns. The ANAO considers that there is scope for more comprehensive and much wider

reporting of performance management information within agencies, without compromising individual privacy. This will help to improve the overall transparency of the performance management system for agency staff. Collecting, reporting and using such information should also be vital to those persons responsible for the effective and efficient management of the agency's performance management system.

Evolving factors—Constructing reward and recognition strategies for teams

Audit Findings

Agency survey findings

4.66 The MAC Report stated that '... team based rewards were not widely practised except in some agencies.'⁴² Nearly 50 per cent of responding agencies stated that they provided team based rewards, which indicates that team based rewards are now more common in the APS.

4.67 Nearly 32 per cent of responding agencies stated that they saw team based rewards as effective in improving agency performance. Nearly seven per cent stated that they did not. These responses suggest that a significant number of agencies are either unsure whether team based rewards are effective in improving agency performance or perhaps do not know the answer to this question due to a lack of information.

Staff survey findings

4.68 In contrast to what agencies reported, only 14 per cent of responding staff reported that they had received a team based performance reward in the preceding 12 months. However, almost 52 per cent of responding staff considered that team based rewards are effective in promoting improved agency performance. Some 22 per cent of staff considered that they were not. These responses suggest that the use of team based rewards is viewed favourably by a majority of staff in terms of promoting improved performance. There may be lessons here for a number of agencies.

Audit observations

4.69 While 50 per cent of agencies provide team based rewards, only one-third saw them as effective in improving agency performance. Staff generally favoured team based rewards more and saw them as effective. However, only 14 per cent of staff surveyed actually received them. Agencies may need to revisit the issues surrounding team based rewards to ascertain that they are not missing out on the potential these may offer for improving agency

⁴² Management Advisory Committee Report, op. cit., p.45.

performance where such reward systems are well designed and properly implemented.

Conclusions—Credibility

4.70 This audit report confirms the MAC Report finding that significant issues remain in establishing credible performance management systems in the APS. The ANAO considers that there is significant scope for better assessing staff satisfaction with performance management systems, and to improve staff ownership of those systems, through agency staff surveys and effective follow-up action. The ANAO also notes the audit survey findings that only a very small percentage of total APS staff are dealt with through the formal under performance processes, and that staff surveyed do not consider that under performance is effectively managed in agencies. The APS appears to continue to have a rhetoric-reality gap on these issues.

5. Key Principle: Integration— Establishing Performance Management Systems as Part of Organisational Planning

This chapter discusses the importance of integrating performance management into the overall corporate management structure of APS agencies, establishing that there is clear 'line of sight' for staff between their responsibilities and the objectives of the agency, progressive implementation of systems and adequate links to training and development. Audit findings from the agency and staff surveys in relation to these issues are also discussed.

Integration

5.1 The MAC Report envisages that performance management should be, and be seen to be, an integral part of the agency's overall corporate and people management strategies, such as: workforce planning, recruitment, retention, capability development, learning and career development, communication, improving trust and leadership.

People management

5.2 The ANAO considers that the agency should ideally have a comprehensive and integrated approach to people management, with the performance management system being seen as one element supporting this. To be well integrated, the performance management system should recognise and reward those who manage their people effectively and support those who do not, with appropriate training, counselling and other assistance as required. Examples to achieve this include:

- addressing and reviewing the quality of people management skills and practices in the agency;
- identifying and articulating expectations of SES in people management and performance management;
- holding management staff accountable for both task achievement and effective people management; and
- analysing the costs of poor people management based on key people management indicators such as absences, staff turnover and recruitment and taking effective steps to resolve any issues arising there from.

Audit Findings

Agency survey findings

5.3 Over 79 per cent of responding agencies said that they treat the quality of people management skills as a priority in their agency. Nearly seven per cent said they did not. However, only 42 per cent of responding agencies said that they recognised and rewarded managers who managed their people effectively. Nearly 16 per cent said they did not. Only 32 per cent of responding agencies considered that they identify and support managers who do not manage their people effectively. Nearly 20 per cent did not.

5.4 Nearly 56 per cent of responding agencies considered that they articulate their expectations in relation to people management skills of their SES staff. Around 11 per cent did not. Nearly 70 per cent considered that they articulate their expectations in relation to the commitment to performance management of their SES staff. Nearly 10 per cent did not.

Staff survey findings

5.5 Only 28 per cent of responding staff considered that their agency treats the quality of people management skills as a priority. Over 45 per cent considered that their agency did not.⁴³ Even fewer staff (19 per cent) considered that their agency recognises and rewards managers who manage their people effectively. Over 50 per cent considered that their agency did not.⁴⁴ These responses suggest that the majority of staff perceive that insufficient priority is given to effective people management skills and that managers exhibiting such skills are not recognised and rewarded in their agency.

5.6 Only 10 per cent of responding staff considered that their agency identifies and appropriately trains and supports managers who do not manage their people effectively. Over 68 per cent considered that this was not the case.⁴⁵ A large majority of staff surveyed did not consider that their agency takes the necessary steps to address the situation where managers have poor people management skills.

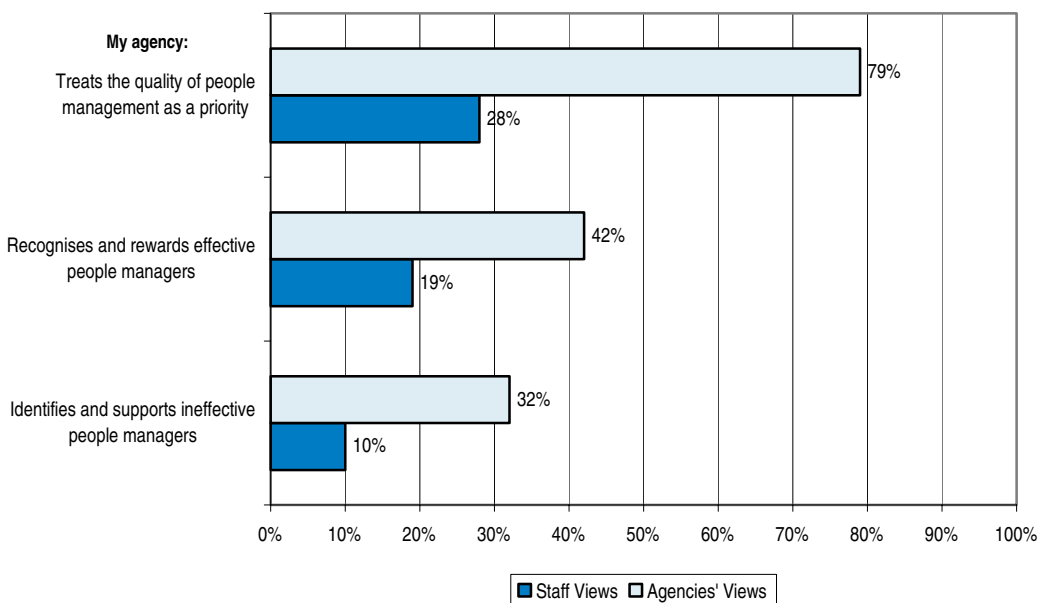
⁴³ As previously discussed at para 4.46.

⁴⁴ Within individual agencies, those that did not ranged from 87 per cent of respondents down to 21 per cent. Perceptions were slightly less favourable among APS 5–6 and EL1–2 classification levels, Non-Central Office staff and female staff, and also generally tended to be less favourable as size of agency decreased.

⁴⁵ Within individual agencies, those that did not ranged from 88 per cent of respondents down to 41 per cent. Perceptions were slightly less favourable among APS 5–6 and EL1–2 classification levels, non-Central Office staff and female staff but there was no discernable trend in relation to size of agency.

Figure 5.1

Agency and staff views on people management



Source: ANAO surveys of APS agencies and staff

Audit observations

5.7 Better practice integration set out in the MAC Report envisages that performance management is part of an overall people management strategy, which in turn is treated as a high priority by the agency. Also, managers who administer the performance management process ideally have good people management capabilities. The survey results indicate that, while agencies nominate this area as a priority, they are not recognising, or rewarding, those who manage their people effectively, nor supporting and training those managers who do not. Staff surveyed tended to have a very negative view of this aspect generally, particularly female staff. Agencies could do more to articulate their expectations in this regard to all staff with supervisory roles.

Line of sight between corporate and individual goals

5.8 The MAC Report observed that: 'Performance management systems will work when staff can see a clear link between their work and the goals of the organisation.'⁴⁶

⁴⁶ Management Advisory Committee Report, op. cit., p.31.

5.9 The ANAO considers that agencies should ideally be able to show:

- that staff can see a clear link between their individual work area goals and those of the agency;
- a clear articulation of agency objectives and how performance agreements and assessments link to them; and
- a two-way process—corporate priorities are clear to staff and staff activities are clear to managers.

Audit Findings

Agency survey findings

5.10 Over 85 per cent of responding agencies used cascading planning as the preferred method of linking individual/team objectives to corporate goals and objectives. Nearly 28 per cent used internal improvement objectives, seven per cent do not link these factors at all and five per cent had other unspecified methods of linking.⁴⁷ These responses suggest that the majority of agencies use cascading planning. This is in keeping with better practice. However, the relatively significant percentage of agencies using internal improvement objectives suggests an increasing sophistication in directly linking key agency objectives to performance management system objectives.

5.11 Nearly 70 per cent of responding agencies considered that their managers are able to use performance agreements to monitor staff work activity. Only six per cent disagreed.

Audit observations

5.12 The majority of responding agencies use cascading planning. This is in keeping with good practice. However, the relatively significant percentage of agencies using internal improvement objectives suggests an increasing sophistication in directly linking key agency objectives to performance management system objectives. Agencies surveyed considered that their managers are able to use performance agreements to monitor staff work activity. This implies that line of sight is reasonably well established in the APS.

Make implementation progressive and iterative

5.13 Agencies should ideally have implemented their performance management systems progressively, establishing that the fundamentals are in

⁴⁷ Agency responses add to more than 100 per cent as agencies may use more than one method of linking individual/team objectives to their corporate goals and objectives.

place and working well and that a genuine exchange on performance occurs. Agencies should have:

- built trust in the performance management system;
- developed the skill of all participants in the performance management system;
- evolved their systems with regular reviews of effectiveness; and
- conducted staff surveys questioning the regularity and quality of feedback and understanding of corporate and work area goals.

Audit findings on these aspects were discussed in the previous two chapters of this report.

Link to training and career development

5.14 Performance management systems should facilitate staff development. Agencies should ideally have a personal development component as part of their performance management system. This component should, for example, have an annual 'capability analysis process' to provide skills for current and future roles and should see L&D within the agency as an integral part of performance management and vice versa.

5.15 The agency should ideally have put in place a range of performance management implementation strategies and processes (not just training) that should support both the introduction and ongoing use of performance management. Examples could include:

- formal initial and ongoing training in the performance management process and in the skills to participate;
- coaching for managers in how to develop agreements and conduct discussions; and
- management meetings to discuss ratings, standards and the overall agency and work unit performance.

Audit Findings

Agency survey findings

5.16 All responding agencies reported that they identified L&D needs as part of the agency performance management process. However, only 53 per cent of responding agencies collected this information on an agency-wide basis. Four agencies (seven per cent) could not answer this question. Over 90 per cent of responding agencies that collected this information used it as input for their overall L&D plan.

Staff survey findings

5.17 Only 39 per cent of responding staff considered that their agency's performance management system is effective in identifying their L&D needs. Over 35 per cent disagreed.⁴⁸ These results suggest that agency performance management systems are not yet as effective in identifying staff L&D needs as they could be.

5.18 Only 28 per cent of responding staff considered that their agency's performance management system is effective in improving their capability level (i.e. the ability to perform their role). Over 44 per cent did not consider this to be the case.⁴⁹ Staff do not consider they are being provided with the opportunity to improve their capability levels through the performance management system. Comments volunteered by staff also indicated that there was often no further action taken when their L&D needs were identified, mainly because of budgetary constraints.

Audit observations

5.19 All agencies identified L&D needs through their performance management systems and most used this information in their higher level L&D planning. This is in line with better practice and should enable collective staff capability gaps to be addressed through agency-wide L&D initiatives. However, nearly one-half of agencies were either not collecting the necessary data on an agency-wide basis through their performance management system or had some other method of identifying their L&D needs. These agencies should instigate a process to establish that staff L&D needs are being addressed to the greatest extent possible in order to fully realise staff potential to improve their performance.

5.20 Only relatively low percentages of staff considered that their agency's performance management system is effective in identifying their L&D needs or improving their capability levels. Learning and development is an important bi-product of performance management systems and a significant opportunity for improvement is being overlooked in many agencies.

Conclusions—Integration

5.21 The audit found that agencies are making progress in providing a clearer link for staff between their work and the goals of the organisation.

⁴⁸ Within individual agencies, those that disagreed ranged from 81 per cent of respondents down to 12 per cent. Perceptions were more favourable among EL1–2 and SES classification levels, Central Office staff and female staff but generally were less favourable as agency size increased.

⁴⁹ Within individual agencies, those that did not ranged from 72 per cent of respondents down to 22 per cent. Perceptions were less favourable among the middle classification levels, non-Central Office staff and male staff but there was no discernable trend in relation to size of agency.

6. Good Administration of Performance Management

This chapter discusses the administrative aspects of performance management that, if correctly established and consistently applied, can contribute to the overall success of agencies' performance management systems. Audit findings from the agency and staff surveys in relation to objectives, design, documentation, standard setting, defining expectations, developing the agreement, conducting performance discussions, use of ratings and their moderation, and the implementation of the systems are also discussed.

How well is performance management working in agencies?

6.1 The MAC Report found that performance management in APS agencies was still in its early development. It considered that:

... the public sector has also made significant strides in dealing with performance management issues in a sophisticated way. The public sector has always had to work harder to define measures of performance and at its best can be subtle and creative in this endeavour.

All of this said, performance management in the APS could be described as "work in progress."⁵⁰

6.2 Some three years on, it could reasonably be expected that performance management in the APS has improved steadily in line with the expectations and better practice comments set out in the MAC Report.

Diversity of performance management systems

6.3 There is no single system of performance management in place across APS agencies, although there is a range of comparable administrative elements. This is to be expected, as agencies strive to build their performance management systems to fit their individual cultural requirements and business needs.

6.4 However, drawing on the MAC Report and other sources of better practice in performance management, the challenge for this audit was to find a set of sufficiently comparable administrative elements and assessment/measurement indicators that would be relevant in any agency that had a performance management system in place. How well the administrative elements of performance management are actually being applied in agencies is

⁵⁰ Management Advisory Committee Report, op. cit., p.19.

critical to its success, as this is the area where agency staff are most directly and closely involved.

Objectives of the performance management system

6.5 The ANAO considers that, ideally, the objectives of the performance management system should be clear, communicated, understood and well supported across the agency. Every agency should have a simple set of clear objectives for their performance management system that is linked to important agency goals or objectives. Some examples include:

- clarifying expectations of staff;
- improving communication and feedback;
- identifying training and career development;
- recognising and rewarding performance;
- improving performance (achieving agency outcomes);
- creating a performance culture; and
- aligning individual and organisational goals.

6.6 The ANAO considers that there should be only a few (say two or three) objectives for the performance management system, which should not be in conflict with each other and should be simply expressed. Staff should have been closely involved in the setting of these objectives, not just on the merits of the design features of the performance management system (such as whether there should be a three level or a five level rating scale).

6.7 Staff should clearly understand the objectives of the performance management system, which the ANAO considers should be:

- grounded in reality and not rhetoric;
- accepted by the majority of managers and staff as important and meaningful;
- clear and valuable (i.e. should be seen to help improve performance and achieve agency objectives);
- reflective of the agency's performance environment; and
- inclusive of specific agency growth objectives.

Audit Findings

6.8 Objectives for performance management systems were assessed through a review of a number of agency documents (such as

corporate/business/people plans, CAs and performance management information kits) provided by agencies as part of this audit. These documents showed a range of objectives for their performance management systems, located in a variety of places, but usually contained in CAs. In a minority of cases, agencies' objectives for their performance management systems were also contained in higher-level documents such as people plans or business plans.

6.9 The number of objectives for performance management systems varied across the agency documentation reviewed, as would be expected, reflecting the different agendas of the agencies. These ranged from only one objective in the documentation for one agency, up to eight objectives in the documentation for another agency.

6.10 In the majority of cases reviewed, the objectives were clear, focussed on improving the agency's overall performance or outcomes and gave guidance to staff. Examples of the performance management objectives for two agencies are shown below:

Examples of performance management objectives

Australian Public Service Commission

The purpose of performance appraisal in the Commission is to improve agency performance and achieve corporate outcomes by fostering a performance culture that:

- integrates corporate, group and individual planning and performance management;
- identifies the standards of performance expected from people;
- improves communication within and between groups;
- provides regular feedback on performance to all employees;
- encourages learning and skills development for improved performance;
- addresses under performance; and
- recognises and rewards effective and high performance and determines remuneration.⁵¹

Department of Defence

Defence recognises that people will do their jobs when they understand their work and how it supports the Defence outcome, receive regular and honest dialogue on their performance and know that good performance is recognised and valued.⁵²

⁵¹ *Building our Capability: People and Performance*, Australian Public Service Commission Certified Agreement 2003–06, p.53.

⁵² Defence Employees Certified Agreement 2002–03, p.7.

Design of the performance management system

6.11 The design of the performance management system reflects the system's objectives. The ANAO considers that agencies should achieve consistency between their performance management system objectives and the actual design of the performance management system. Fewer objectives should help achieve this consistency. In the ANAO's view, good performance management system design features include:

- documentation that is simple and quick to complete;
- a focus on good performance while providing a clear signal if under performance is a problem, in which case relevant procedures are triggered;
- a focus on performance improvement not on pay outcomes (where relevant);
- understandable to and equally applicable to all categories of staff in all agency locations;
- resourced adequately for objectives that are set (i.e. development, training and support);
- perceived as relevant for all managers and staff to motivate participation; and
- congruent with other agency human resources initiatives and policies.

Audit Findings

6.12 The designs of performance management systems were assessed through a review of agency documents. In the majority of cases, the designs were found to adequately reflect the system objectives, such as: linking work activities to corporate objectives, providing a formal mechanism for employee/supervisor communication over performance management and identifying capability improvement or L&D needs.

Documentation and guidelines on the performance management system

6.13 Documentation and guidelines should accurately and comprehensively detail the implementation of performance management in accordance with government policy and better practice. This generally includes three types of documentation:

- guidelines or policy statements issued by the agency management;

- supportive material on the performance management system for managers and staff;⁵³ and
- templates or online forms to be used in the performance management system.

The documentation should be simple, and accepted as such, by managers and staff.⁵⁴

Audit Findings

Agency survey findings

6.14 All responding agencies advised that they have produced documentation and guidelines on the implementation of their performance management systems. This meets better practice. In the majority of responding agencies (80 per cent), this documentation is available to staff in both an electronic and hardcopy form and consists of:

- a performance management policy statement;
- instructions for managers;
- instructions for staff; and
- performance management forms or templates.

6.15 However, only 18 per cent of responding agencies reported that they also included relevant government policy on performance management in their documentation.

6.16 Over 95 per cent of responding agencies provided detailed advice in their performance management system documentation on preparing performance agreements. These results reflect better practice. Over 87 per cent of responding agencies indicated that this documentation provided detailed advice on setting performance objectives for staff and on leading and participating in performance management discussions. All except one agency also provided detailed advice on the roles of managers and staff in the performance management process.

⁵³ This could include: suggestions on how to take each step in the documentation successfully; detailed guides for preparing a performance agreement and leading or participating in a performance discussion; examples of completed documentation or forms that are relevant and accurate; and face to face support available where required.

⁵⁴ It generally will be regarded as simple if it: is short, well-organised, effectively indexed and non-repetitive; uses plain English and is free of jargon and legalese; uses technical terms correctly; includes frequently asked questions; distinguishes procedural elements from supporting advice about the performance management system; and is up to date, in electronic and hard copy and easily available to all staff.

6.17 Over 93 per cent of responding agencies indicated that their performance management system documentation provided detailed advice on reviewing the performance outcomes of individual staff. Four agencies (seven per cent) did not. Over 85 per cent of responding agencies provided detailed advice on determining performance ratings for individual staff. Nine agencies (15 per cent) did not.

6.18 Over 60 per cent of responding agencies considered that their performance management system documentation is short, well organised, effectively indexed and non-repetitive. Nearly 10 per cent disagreed. Nearly 80 per cent indicated that their documentation uses plain English and is free of jargon. Two agencies (three per cent) disagreed. Some 73 per cent indicated that their documentation covers frequently asked questions (five agencies or eight per cent disagreed) and is up to date (six agencies or nearly 10 per cent disagreed). However, 92 per cent of responding agencies indicated that their documentation is easily accessible to all staff. Only five agencies (nine per cent) disagreed.

6.19 Only 38 per cent of responding agencies indicated that their documentation provides advice on implementing performance management in line with relevant government policy. Over 30 per cent did not and one agency could not answer the question.

Staff survey findings

6.20 Nearly 33 per cent of responding staff considered that the information about their agency's performance management system is short, well organised, effectively indexed and non-repetitive. Almost 32 per cent considered that this was not the case.⁵⁵ Nearly 44 per cent of responding staff considered that the information uses plain English and is free of jargon. About 27 per cent considered that this was not the case.⁵⁶

6.21 Nearly 38 per cent of responding staff considered that the information about their agency's performance management system answers their questions. Almost 28 per cent considered that it did not.⁵⁷

6.22 Over 52 per cent of responding staff considered that the information about their agency's performance management system was up to date. Nearly

⁵⁵ Within individual agencies, those that did not ranged from 63 per cent of respondents down to five per cent, with no discernable trend in relation to size of agency.

⁵⁶ Within individual agencies, those that did not ranged from 55 per cent of respondents down to four per cent, with no discernable trend in relation to size of agency.

⁵⁷ Within individual agencies, those that did not ranged from 52 per cent of respondents down to eight per cent. Perceptions were generally more favourable as staff classification levels increased. They were also more favourable for Central Office staff but did not differ much by gender and there was no discernable trend in relation to size of agency.

18 per cent considered that it was not. Nearly 63 per cent of responding staff considered that the information is easily accessible to them. Only just over 12 per cent considered this it was not.

Audit observations

6.23 Agencies have reported that their documentation and guidelines on the performance management system were present to a high standard, with the only weakness being the lack of inclusion of relevant government policy on performance management. Responses to the staff survey, however, indicate that many do not share this view, reporting in relatively high numbers, on areas of shortcomings. This is not a satisfactory outcome for agencies if staff are to support and own the performance management system.

Establishing accurate and meaningful standards for measuring performance outcomes

6.24 Agencies should have considered how well their performance standards or measures are defined in performance agreements and what criteria they use to measure success. Ideally, agencies should have well thought out and publicised views on the relevant style of performance measures in their performance management system—the success criteria.⁵⁸

6.25 To assist managers and staff in developing their performance measures, the ANAO considers that agencies should give examples of relevant measures in their agency context, such as:

- Financial—budget, income, rate of return or costs;
- Output—units processed, throughput, new accounts developed; and
- Outcome—attainment of standards of quality or service levels, changes in behaviour, completion of work, levels of take-up of service or innovation.

Audit Findings

Agency survey findings

6.26 Nearly 75 per cent of responding agencies indicated that they used a mixture of qualitative and quantitative performance measures, with 21 per cent

⁵⁸ For instance, agencies should have considered:

- how many measures are sufficient/excessive and how well they relate to the business strategy or key success factors;
- do the measures relate clearly to the individual's work and focus on outputs, accomplishments and ranges of behaviour that can be clearly defined and assessed, yet are also within their control; and
- are the measures understood, accepted and evidence-based; while providing a sound basis for feedback and action.

stating that they only used qualitative measures. One agency used only quantitative measures. The ANAO suggests that the use of quantitative measures should be maximised where possible to provide greater clarity for staff.

6.27 Nearly 75 per cent of responding agencies considered that their staff are able to use the performance management system to gauge their own performance; whereas two agencies disagreed. However, 50 per cent considered that the performance measures they use are well understood by their staff. Eight agencies (12 per cent) disagreed.

6.28 Over 58 per cent of responding agencies considered that staff accept the performance measures in their performance agreements. Two agencies disagreed and nearly 10 per cent could not respond. Nearly 78 per cent considered that their performance measures provide a sound basis for supervisory feedback to staff. Two agencies disagreed and one agency could not respond.

6.29 Over 57 per cent of responding agencies considered that they are able to use individual performance measures to target desired corporate outcomes, 10 agencies (17 per cent) disagreed and five agencies could not respond.

6.30 These responses indicate that agencies generally are adopting better practices, but there remains scope for improvement in some agencies.

Staff survey findings

6.31 Over 70 per cent of responding staff considered that they understand and accept their individual performance measures contained in their performance agreements. About nine per cent considered this is not the case. These responses suggest that, overall, staff generally understand their individual performance agreements. This is a good outcome and meets better practice.

6.32 Over 45 per cent of responding staff agreed that their individual performance measures included appropriate quantitative measures; whereas nearly 29 per cent considered that this was not the case.⁵⁹ Over 57 per cent of responding staff considered that their individual performance measures include appropriate qualitative measures in their performance agreements. Nearly 18 per cent considered this was not the case. These results suggest that quite large numbers of staff question the appropriateness of the measures in their agreements. In particular, less than one-half of staff surveyed were satisfied about the level of quantifiable measures in their agreements. The

⁵⁹ Within individual agencies, those that did not ranged from 50 per cent of respondents down to nine per cent. Perceptions were less favourable as staff classification levels increased and as size of agency decreased, but did not differ much by gender or office location.

wider use by agencies, where this is practicable, of more quantifiable measures is wanted by staff to provide clarity and certainty in their performance management arrangements.

6.33 These responses suggest that staff are generally happy with the level of qualitative measures, but there is some room for improvement on the part of agency management.

6.34 Over 61 per cent of responding staff accepted that their individual performance measures provide a sound basis for feedback from their supervisor. Nearly 17 per cent considered that they did not. This is again close to a better practice outcome but with some scope for improvement.

6.35 Over 31 per cent of responding staff agreed that their supervisors are able to use their performance agreement to monitor staff work activity. However, nearly 40 per cent considered that this was not the case.⁶⁰ These responses suggest that a majority of staff do not see their performance agreement as a valid tool to monitor their work. Obviously there are other methods by which work activity is monitored in the workplace. However, such a significant majority of disagreeing staff suggests that a primary reason for implementing performance management, i.e. to monitor staff work performance, is not as successful or useful as it perhaps should be to reflect better practice.

6.36 Over 33 per cent of responding staff considered that they are able to use the performance management system to gauge their own performance. Almost 40 per cent considered that this was not the case.⁶¹ These responses indicate that staff do not see the performance management system as a valid tool to gauge their own performance. This suggests that a primary role for performance management systems in agencies, for staff to be able to gauge their own performance over the planned period, is not considered useful. Agencies would do well to investigate this situation further.

Audit observations

6.37 The majority of responding agencies considered that there was an adequate mix of both quantitative and qualitative measures in performance agreements. Staff were not as convinced, with more quantitative measures being sought by staff, suggesting that there is a need to provide greater clarity

⁶⁰ Within individual agencies, those that did not ranged from 87 per cent of respondents down to 15 per cent. Perceptions were less favourable among APS 5–6 and EL1–2 classification levels and for Non-Central Office staff but did not differ much by gender and there was no discernable trend in relation to size of agency.

⁶¹ Within individual agencies, those that did not ranged from 83 per cent of respondents down to 13 per cent. Perceptions by male staff and non-Central Office staff were less favourable but did not differ much by classification level and there was no discernable trend in relation to size of agency.

and certainty in their performance agreements. A majority of agencies and staff considered that performance measures are acceptable to staff, are understood by staff, and provide a sound basis for supervisory feedback. However, in the main, staff considered that their performance agreements provided limited capacity for supervisors to monitor their work activity or for staff to gauge their own performance. The findings in the SOSR reinforce this, in that 77 per cent of staff reported in that survey that they did not understand the standards used to evaluate their performance.⁶²

Defining expectations

6.38 Expectations of staff in the performance management system should be clearly defined by the agency. These expectations are included in performance agreements, are often job-related and the result of discussions between a staff member and their immediate supervisor. Therefore, the agency's ability to influence the expectations set in a performance agreement is often an indirect one. However, the agency has the ability to establish the style and type of expectations that will be relevant in the agency, and also to establish any internal improvement objectives (performance objectives that address a specific corporate priority, such as improving communication or developing a specific agency-desired skill).

6.39 Ideally, agencies should have taken steps to establish that expectations reflected in the performance agreements entered into by their staff address the following criteria:

- SMART (i.e. Specific, Measurable, Agreed, Realistic and Time bound);
- consistent with corporate values and objectives;
- precise, clear and well-defined;
- challenging to stimulate high performance; and
- teamwork-oriented (where relevant).

6.40 Agencies should also have defined the results expected from performance agreements in broad terms, for example:

- meeting defined service delivery standards;
- illustrating a change towards desired behaviours;
- responding to the reactions or opinions of clients, customers or stakeholders;
- meeting any value standards; or

⁶² Australian Public Service Commission, *State of the Service Report 2002–03*, p.157.

- meeting any defined standards of accuracy, quality or timeliness.

6.41 Ideally, agencies should use the performance management system for development through a capability assessment, as this will address any gaps that impact on performance achievement. They should exhibit the following:

- clearly defined and relevant capability statements linked to jobs and levels;
- clear and well developed processes in place to utilise the capability assessment outcomes for staff at both the individual and collective level; and
- confidence that managers are capable of assessing performance against the defined capabilities.

Audit Findings

Agency survey findings

6.42 Over 65 per cent of responding agencies indicated that staff were involved in setting the desired capability levels under their current performance management system. About 24 per cent said that staff were not involved. Nearly 10 per cent could not answer this question. This suggests that a minority of agencies may not have established capability requirements or consulted staff in this regard. Capability standards, linked to performance management systems, make it easier for staff to improve their skill, expertise and attributes, and hence improve their performance.

Staff survey findings

6.43 In contrast to agency views, only 18 per cent of responding staff considered that they were consulted in setting desired capability levels under agency performance management systems. Over 58 per cent considered that they were not.⁶³ Adequate consultation assists staff ownership and understanding of these desired capabilities, and thereby feeds into improved individual and agency performance.

6.44 Over 89 per cent of responding staff agreed that, in their most recent formal performance discussion, their performance was assessed against a formal performance agreement or work plan agreed between them and their supervisor. Only just over 10 per cent disagreed.⁶⁴ Better practice suggests that

⁶³ Within individual agencies, those that were not consulted ranged from 81 per cent of respondents down to 30 per cent, with generally less consultation as agency size increased. Agency setting of capability levels provides guidance to staff regarding what constitutes successful behaviour and performance in the agency.

⁶⁴ Within 51 individual agencies, those that did not agree ranged from 72 per cent of respondents down to about three per cent.

staff should have a formal agreement or plan in place and these responses suggest that this is generally the case. A formal plan or agreement assists in defining and codifying expectations for staff.

Audit observations

6.45 A significant number of agencies are still to develop a values-based performance management system with clear linkages to capability standards. However, a large percentage of responding staff considered that they were not consulted in setting desired capability levels. Staff surveyed indicated that their performance was assessed against a formal performance agreement or work plan agreed between them and their supervisor.

Developing the performance agreement or plan

6.46 The centrepiece of a good performance management system is provided by the performance agreement (also commonly known as the performance and development agreement or plan, or plan-on-a-page). The agreement establishes priorities, such as the key aspects of the job, the basis on which performance is to be measured, and the evidence that will be used to establish levels of performance and capability (where relevant). Agency guidelines, documentation and support should show how the performance management plan is to be developed.

6.47 Agencies should ideally have the following as a minimum.

- A formal agreement (or plan) exists on actions to sustain and improve performance and capability, (the agreement should ideally be linked to a personal development plan).
- The plans are jointly prepared/agreed and show the areas for performance improvement.
- The plans set out clearly what is to be achieved, how it is to be achieved and by when.
- The plans set out clearly how progress is monitored and achievements measured.
- Managers encourage staff to come up with ideas for objectives and development.
- Managers empower staff to take control of, and responsibility for, their performance outcomes.
- Agreements should be in place for all staff, including senior executives, part-time staff, non-ongoing staff and contractors (where applicable).

Audit Findings

Agency survey findings

6.48 About three-quarters of responding agencies had at least 85 per cent of their staff on formal performance agreements. More than one-half of agencies had 94 per cent. Over one-quarter of agencies had 100 per cent of their staff on formal agreements. However, nine agencies could not respond. Four agencies had no staff or very few staff on agreements.

6.49 Over 80 per cent of responding agencies considered that staff were adequately consulted in establishing their individual performance agreements; the agreements clearly established individual work priorities, identified the key aspects of an individual's job and specified the basis on which performance will be assessed. Nearly 60 per cent considered that their staff were satisfied overall with the performance objectives in their performance agreements. About 20 per cent could not, or did not, respond.

Staff survey findings

6.50 Nearly 75 per cent of responding staff considered that they were adequately consulted in establishing their performance agreement. Nearly eight per cent considered that they were not. The findings suggest that staff consultation in establishing their performance agreement, a key measure of good practice, is being met. However, a not insignificant percentage of staff disagreed or were unsure, suggesting some scope for improvement on this very important principle of better practice.

6.51 Nearly 80 per cent of responding staff considered that their performance agreement identifies the key tasks of their job. Only just over eight per cent considered that it did not. These responses suggest that staff are satisfied with the link between their performance management agreement and their key job tasks. This is an important better practice principle that appears to be being satisfied by the findings here.

6.52 Nearly 60 per cent of responding staff considered that their performance agreement clearly establishes which of their job tasks are most important. Just over 18 per cent considered that it did not. The responses again suggest that this is a good result. However, there is scope for improvement, as tasks must be clearly prioritised to assist staff to perform the most important ones well.

6.53 Over 66 per cent of responding staff were satisfied with the performance objectives in their performance agreement and that their agreement specifies the basis on which their performance will be assessed. Only about 12 per cent considered that this was not the case. This result suggests that better practice principles are generally being met, with

agreements specifying the performance assessment basis adequately—a key component of a good plan or agreement.

Audit observations

6.54 A majority of responding agencies had at least 85 per cent of their staff on formal performance agreements. This is supported by the findings in the SOSR, where 93 per cent of employees who received feedback in the last year had done so against a formal agreement or work plan.⁶⁵ Agencies considered that staff were adequately consulted in establishing these agreements, that the agreements established work priorities clearly, identified key aspects of an individual's job, specified the basis on which assessments would be made and that staff were satisfied with the objectives set. The majority of staff surveyed agreed with these findings, suggesting that better practice is occurring and that this is an area where good quality outcomes are in evidence. This was supported by the findings in the SOSR, where 72 per cent of staff surveyed also agreed that the links between their agency's business and their work had been made clear in the development of their performance agreement.⁶⁶

Quality of performance discussions

6.55 The performance discussion (interaction between the staff member and their supervisor) is critical to the success or failure of performance management, therefore a good quality discussion is important. Such discussions are generally regarded as the most valuable element of the performance management system. Ideally, agencies should focus specifically on the quality of discussions occurring between managers and their staff. This should include establishing that managers have the capacity to undertake effective performance discussions, and that these occur on a continuing basis, rather than being an annual event.

6.56 Good quality discussions should focus on developing the performance agreement and clarifying the staff member's role, work standards and how they will be assessed. Feedback should be factual and sensitively given. There should also be adequate time set aside for the discussion, which should analyse performance not personality; keep the whole period in perspective, rather than focusing on recent events; adopt a 'no surprises' approach; recognise achievements; and reinforce strengths.

⁶⁵ Australian Public Service Commission, *State of the Service Report 2002–03*, p.156.

⁶⁶ *ibid.*, p.156.

Audit Findings

Agency survey findings

6.57 Over 48 per cent of responding agencies considered that managers are adequately trained in conducting performance discussions. Almost 18 per cent disagreed and one agency could not respond. Only 39 per cent of responding agencies considered that staff were satisfied with the conduct/content of their performance discussions. However, two agencies disagreed and 11 agencies could not, or did not, respond.

6.58 Nearly 34 per cent of responding agencies indicated that the quality of performance discussions was a mandatory element of the performance agreement of managers in their agency. However, nearly 63 per cent indicated that this was not the case. Three agencies could not, or did not, respond.

6.59 Some 75 per cent of responding agencies indicated that formal performance discussions were conducted twice a year, nearly 20 per cent three times a year, five per cent once a year and one agency quarterly.

Staff survey findings

6.60 Over 81 per cent of responding staff had received formal individual performance feedback (a performance discussion) in the preceding 12 months. Only just over 18 per cent had not.⁶⁷ Overall, these results are generally positive, but there is a significant percentage of staff who did not receive formal feedback. This suggests that there is considerable scope for improvement in meeting this basic principle of performance management.

6.61 About 65 per cent of responding staff considered that their supervisor is adequately trained in how to assess their work performance and conduct performance discussions. Nearly 16 per cent considered that this was not the case.⁶⁸ Although the majority of staff surveyed were satisfied that supervisors met this criterion, a substantial percentage of staff disagreed or were unsure. These findings suggest that there is considerable scope to improve the level of training of supervisors.

6.62 About 64 per cent of responding staff were satisfied with the conduct and content of their performance discussions. Nearly 17 per cent were not.⁶⁹

⁶⁷ Within 65 individual agencies, those that had not received feedback ranged from 95 per cent of respondents down to about two per cent. The percentage of staff who had not had feedback tended to increase with the size of the agency.

⁶⁸ Within individual agencies, those that did not agree ranged from 44 per cent of respondents down to six per cent. Perceptions were more favourable as classification level increased but did not differ much by gender or office location and there was no discernable trend in relation to size of agency.

⁶⁹ Within individual agencies, those that were not satisfied ranged from 37 per cent of respondents down to five per cent. Perceptions were slightly less favourable among APS 5–6 and EL1–2 classification levels but did not differ much by gender or office location and there was no discernable trend in relation to size of agency.

Again, the majority were satisfied, but a sizeable percentage either disagreed or were unsure, which suggests that there is considerable scope to improve the conduct and content of performance discussions.

6.63 Over 65 per cent of responding staff advised that they were confident that their agency maintains the privacy and confidentiality of their personal performance information. Just over 13 per cent considered that this was not the case. There was only one agency out of 68 where staff did not indicate that they had concerns about maintaining privacy.⁷⁰ These responses suggest that staff were generally satisfied with the level of privacy and confidentiality. However, a not insignificant percentage were unhappy or unsure, which suggests that agencies have some room for improvement in this area.

Audit observations

6.64 A majority of staff had received formal individual performance feedback (a performance discussion) in the last 12 months. This is supported by the findings in the SOSR, where 79 per cent of employees received formal individual performance feedback in their current agency in the last 12 months.⁷¹ Just under one-half of agencies in the ANAO survey considered that their managers are adequately trained in assessing performance. Although staff indicated that they had slightly more positive views on this aspect, these findings suggest that there is scope for improvement. This is supported by the findings in the SOSR, which concluded that:

Given the need for agencies to improve perceptions of performance management systems, particularly the links with performance pay, mandatory training on performance assessment systems may be a useful strategy. Another useful strategy is to clarify the role of a supervisor's supervisor, to promote consistency and quality in the assessment process and to ensure feedback addresses longer-term career development issues, as well as immediate performance.⁷²

6.65 More agencies should also consider the inclusion of the quality of performance discussions in the performance agreements of managers, given its quite low rate of occurrence at present.

Assessing the performance outcomes—use of rating systems for performance management and moderation and appeal processes

6.66 In developing their performance management systems, agencies should have considered how they will ensure the consistent measurement of

⁷⁰ Within individual agencies, concerned staff ranged from 37 per cent of respondents down to three percent, with no discernable trend in relation to size of agency.

⁷¹ Australian Public Service Commission, *State of the Service Report 2002–03*, p.157.

⁷² *ibid.*, p.160.

performance outcomes across the agency (usually by applying ratings scales) in addition to any options for staff to seek a review or appeal of the outcomes of their performance assessment.

6.67 Performance achievements can be assessed without a rating system. However, rating systems are often used where there is a link to pay. Ideally, agencies should have decided if a ratings system is important for their performance management system, taking into account:

- whether a ratings scale will be applied consistently and objectively across different jobs and for different levels of performance;
- the degree of difficulty in relating the ratings to the actual performance;
- the need for a ratings scale if no performance pay is used; and
- trust levels and how well staff will see managers' attempts to set effective performance measures and ratings.

6.68 Agencies should have considered ways to promote fairness and consistency in the distribution of ratings across the agency, such as:

- meetings of SES prior to the allocation of ratings to review overall agency performance, equitable distribution of ratings and 'reality-test' what an individual is rated, thereby guiding performance management decision-makers;
- cascading this process down the agency; and
- providing appeal or moderation processes.

Audit Findings

Agency survey findings

6.69 Some 81 per cent of responding agencies applied a rating scale in measuring individual performance. About 16 per cent did not. Two agencies could not answer the question. Nearly 53 per cent of responding agencies moderated performance ratings across work areas to provide consistency; whereas 45 per cent did not. Thirteen agencies could not answer the question. However, only 47 per cent of responding agencies considered that their managers were adequately trained in assessing the individual performance of staff. Ten agencies (about 16 per cent) disagreed and two agencies could not, or did not, respond.

Audit observations

6.70 Most responding agencies applied a rating scale to measure individual staff performance. Just over one-half moderate these ratings across work areas. However, less than one-half of the responding agencies considered that their

managers had received adequate training on how to assess the performance of their staff and apply the rating scales used.

Performance pay—implementation and processes (How was the performance pay system implemented and how is it managed?)

6.71 Ideally, agencies should have considered the following key points when developing their performance management system's performance pay aspects:

- performance standards should be clear and measured objectively, so that good pay decisions can be made;
- the decision-making process should be transparent to all, for there to be perceptions of fairness, equity and consistency;
- individuals and teams should have clear and accepted targets and standards that they are required to meet, and should know what they will receive in the form of performance pay if they achieve them;
- the performance pay reward should be clearly and closely linked to the achievement or effort and must be considered worth trying to get;
- individuals and teams must consider that they are fairly rewarded for their efforts; and
- opportunities must exist for individuals and teams to influence their performance, change their behaviour and improve their capability—hence becoming eligible for performance pay.

Audit Findings

Agency survey findings

6.72 Only 11 per cent of responding agencies reported that they assessed whether performance pay resulted in improved individual performance and desired behaviours and/or improved agency performance. Over 80 per cent did not and five agencies could not respond. However, nearly 47 per cent of responding agencies considered that their staff supported the PLR system in their agency. Around 14 per cent disagreed and 11 per cent could not answer this question.

6.73 Of the 51 responding agencies that had made performance bonus payments during 2002–03, some 22 per cent considered that their staff perceive the distribution of performance pay as fair, about 35 per cent neither agreed nor disagreed, 20 per cent disagreed, and about 25 per cent could not answer this question.

Staff survey findings

6.74 Almost 62 per cent of responding staff considered that a part of their pay (bonus or advancement) was linked to an assessment of their performance. Over 38 per cent did not, which suggests a possible lack of understanding of the question on the part of staff surveyed, as it is government policy that all salary movement in APS agencies be guided by performance.⁷³

6.75 Based on staff comments volunteered as part of the survey, the ANAO considers it likely that any respondents that have reached the top pay point of their salary band, and who do not have access to bonuses, may have answered in the negative, as they may consider that their pay is no longer directly linked to their performance. However, it is of some concern that so many APS staff apparently perceive that there is currently no link between their pay and their performance.

6.76 Almost 68 per cent of responding staff agreed in-principle with the idea of linking pay to performance; whereas only around 16 per cent did not.⁷⁴ Only 49 per cent of responding staff said that they support the performance pay system in their agency; whereas over 28 per cent said that they did not.⁷⁵ Although almost one-half of staff surveyed supported their agency's performance pay system, an equal number of staff disagreed or were unsure. This suggests that there is considerable scope for agencies to improve their performance pay systems and staff perceptions of them. There is likely to be a variety of reasons for this lack of staff support. However, it is beholden on agencies to investigate the cause(s) and to take remedial action, where necessary.

6.77 Only 28 per cent of responding staff agreed that the distribution of performance pay in their agency was fair; whereas almost 46 per cent considered that it was not.⁷⁶ These survey results suggest that substantial percentages of staff either do not see the distribution of performance pay as fair or are unsure. Agencies have considerable scope for improving this

⁷³ Within individual agencies, staff that did not perceive a link between their pay and performance ranged from 98 per cent of respondents down to two per cent. The percentage of staff who perceived a link between their pay and performance increased as classification levels increased and was higher for AWA staff, male staff and Central Office staff, with no discernable trend in relation to size of agency.

⁷⁴ Within individual agencies, those that did not ranged from 37 per cent of respondents down to five per cent. The level of support generally fell as classification level increased and as agency size decreased, but did not differ much by gender or office location.

⁷⁵ Within individual agencies, those that did not ranged from 75 per cent of respondents down to five per cent. The highest support was at APS 3-4 and lowest at APS 5-6 classification levels. Male staff and Central Office staff were less supportive but there was no discernable trend in relation to size of agency.

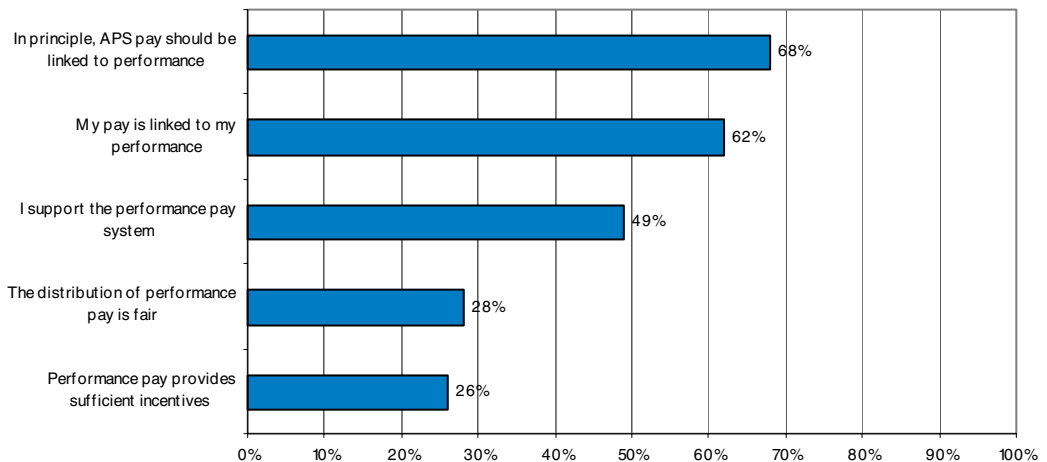
⁷⁶ Within individual agencies, those that did not ranged from 95 per cent of respondents down to 12 per cent. Female staff were more inclined to perceive the distribution of performance pay as unfair but there was no discernable trend in relation to size of agency.

situation and, in turn, raising staff support for the agency 's performance pay system.

6.78 Only 26 per cent of responding staff considered that the performance pay in their agency provides sufficient incentive to improve performance; whereas over 51 per cent considered that it did not.⁷⁷ These results suggest that substantial percentages of staff are not being motivated by the prospect of receiving a bonus because they see it as too small for the effort involved. Agencies need to deal with these perceptions. It would be unrealistic to suggest that all staff are going to be happy with the levels of performance pay. However, such a low level of support suggests that performance pay may not be meeting one of the key better practice principles for its introduction, i.e. it is seen by staff as a sufficient incentive to encourage higher performance.

Figure 6.1

Staff views on performance pay



Source: ANAO staff survey

6.79 As noted above, relatively low proportions of staff considered that their performance pay systems are fair. These results are supported by the findings in the SOSR, where the views of staff were sought in relation to the operation of performance pay (see Table 6.1).

⁷⁷ Within individual agencies, those that did not ranged from 88 per cent of respondents down to 23 per cent. The highest dissatisfaction levels were expressed by staff at the APS 5–6 and EL1–2 classification levels, female staff and Non-Central Office staff, with no discernable trend in relation to size of agency.

Table 6.1**SOSR staff views on the operation of performance pay, 2002–03**

	Agree %	Neither agree nor disagree %	Disagree %
Operates fairly and consistently	40	26	31
Acts as an incentive to perform well	41	27	30
Ensures performance assessment is managed systematically and regularly	51	23	24
Accurately reflects differences in individuals' performance	22	26	48
Provides appropriate rewards for top performers	25	24	27
Contributes to a workplace which upholds APS Values	34	38	39
Contributes to a workplace culture in which individuals work together effectively	24	35	39

Source: Table 9.1: SOSR, p.158.

6.80 The SOSR notes that linking pay to performance continues to present a major challenge in the APS and that these staff perceptions do need to be considered carefully.

6.81 The SOSR reinforces that rewards and recognition are important issues and that perceived fairness of the performance pay system is a critical factor in the credibility of the performance management systems in use in agencies. The SOSR also raises the question of whether dissatisfaction with performance pay reflects a culture in the APS that still needs to shift to greater acceptance of individualised pay outcomes reflecting differences in rewarding individual performance outcomes.

Audit observations

6.82 Overall, the results of the ANAO survey and the SOSR suggest that there is considerable scope to improve the rationale for, and the application of, performance pay in the APS.

6.83 The MAC Report provides a useful strategic framework against which agencies can develop good quality performance management systems. The policy framework for performance management is also clear to agencies and set out in the APSC's *Performance Management Booklet* issued in June 2002. However, the ANAO considers that a gap exists in the information and guidance available to agencies in the area of better practices, particularly in the practical application and administration of performance management. The ANAO considers that the APSC should develop a guide that draws together

the essential elements needed for agencies to achieve better practice implementation of performance management in the APS.

Conclusions—Administration of performance management

6.84 The audit found that agencies had established objectives for their performance management systems that were clear and were focused on improving the agency's overall performance.

6.85 The ANAO noted that agencies use both qualitative and quantitative measures, but more quantitative measures are wanted by staff to provide clarity in their performance assessments.

6.86 The ANAO considers that additional effort is needed to consult with staff when setting desired capability levels, as well as in training managers on how to conduct performance discussions and assess individual work performance.

Recommendation No.2

6.87 The ANAO recommends that the Australian Public Service Commission take a lead role in developing a comprehensive better practice guide for agencies on performance management, drawing together the:

- strategic framework as set out in the MAC Report;
- relevant policy parameters; and
- better practice administrative principles.

Summary of agency responses

6.88 The APSC agreed in part, noting that existing publications cover some of the points set out in the recommendation. The APSC advised that it will consider how best to provide further (flexible and principles based) advice in relation to better practice administrative principles within its priorities and resources. The work the APSC intends to undertake over the next 12 months on employee retention will include preparation of information and advice to assist line managers with their people management responsibilities, and could incorporate some of the elements set out in the recommendation.

6.89 The majority of other responding agencies supported the ANAO's recommendation.

6.90 Full details of agency responses have been included in Appendix 5.

7. Reporting of Performance Linked Remuneration in Annual Reports

This chapter discusses agency compliance with the presentation requirements for annual reports issued by the Department of the Prime Minister and Cabinet in relation to performance pay and the completeness and accuracy of agency reporting on performance bonuses paid.

Compliance with the Requirements for Annual Reports

7.1 Under the then most recent amendments to the Requirements for Annual Reports issued by the Department of the Prime Minister and Cabinet (PM&C) in 2002, agencies must report on the outcomes of their performance pay systems. APS agencies' annual reports must include information on the:

- number of APS employees at each classification level who received performance pay;
- aggregated amount of such performance payments at each classification level;
- average bonus payment and the range of such payments at each classification level; and
- aggregated bonus payment for the agency as a whole.⁷⁸

7.2 There is currently no requirement to report details of sign-on payments, retention payments or performance linked advancements. Statutory Authorities and Commonwealth Companies (CAC Act Bodies) are not required to report on bonuses paid. (The ANAO noted, however, that a number of CAC Act Bodies also engage staff under the *Public Service Act 1999* and that some of these entities had paid bonuses to their APS employees during 2002–03).

Audit findings

7.3 Of the 63 APS agencies that responded to the ANAO survey, the ANAO examined the annual reports issued by those 50 agencies that paid performance bonuses in 2002–03. The ANAO found that, of the 47 agencies

⁷⁸ Department of the Prime Minister and Cabinet *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, June 2002, p.10. To ensure that payments to individuals cannot be identified, the Requirements permit a lesser disaggregation in the case of a small agency, or a small number of officers at each classification level, such as five or less. The Requirements were approved by the Joint Committee of Public Accounts and Audit under subsection 63(2) and 70(2) of the *Public Service Act 1999*.

subject to the reporting requirements, only 24 fully complied.⁷⁹ Many agencies either did not report the required information, or only reported results that had been grouped together for two or more staff classification levels (even though more than five employees at each classification level received bonuses). Table 7.1 summarises the reporting omissions noted by the ANAO.

Table 7.1

Areas of non-compliance with annual report requirements, 2002–03

Annual report requirement	Number of agencies where not shown	Number of agencies where grouped results shown
Number of APS employees at each classification level who received performance pay	7	9
Aggregated amount of bonus payments at each classification level	8	10
Average bonus payment at each classification level	13*	8
The range of bonus payments at each classification level	16	7
Aggregated bonus payment for the agency as a whole	5	-

Source: ANAO analyses of Agencies' 2002–03 Annual Reports

* Note: In four agencies, sufficient information was reported to enable the reader to calculate the average bonus amount paid.

7.4 In terms of presentation, the ANAO also observed that many of the agencies that reported on performance bonuses paid during 2002–03, did not include a suitable cross-reference to this information in the index to their respective annual reports.

7.5 With only minor modifications to the details over the years, the mandatory requirement for APS agencies to report on performance pay has been in existence for the last decade.⁸⁰ Agencies should therefore be well aware of the requirements and cannot elect to opt out of reporting on bonus payments.

7.6 It should also be noted that the letter of transmittal in the front of agency annual reports, signed by the Head of the Agency, implicitly (and in many cases explicitly) certifies that the report has been prepared in accordance

⁷⁹ Three Statutory Authorities were exempt from the reporting requirements. Seven of the 24 APS agencies assessed by the ANAO as fully complying were permitted under the Reporting Requirements to aggregate their results because five officers or less had received performance bonuses at a particular classification level or in total for the agency.

⁸⁰ The March 1994 *Annual Reporting Guidelines* state that 'Departments should include charts or summary statements with the staffing overview which indicate the quantum and distribution of performance pay.'

with the requirements under s.63 of the Act.⁸¹ Whether inadvertent or not, the widespread and generally high level of non-compliance with the reporting requirements for performance pay found during the audit, not only challenges the integrity of these certifications, but also only serves to compound the lack of transparency about performance bonus payments in the APS.

How reliable is the information on bonus payments reported by agencies?

7.7 Complete and accurate reporting by APS agencies is a fundamental principle underpinning both internal (agency) and external (public) accountability. It was beyond the scope of this audit to verify every one of the more than 11 000 performance bonuses paid in the APS during 2002–03. However, the ANAO sought to assess the general accuracy of APS agency reporting, by cross-checking the information provided in the ANAO’s Agency Survey to the numbers and amounts of performance bonuses reported in the respective agencies’ annual reports.

Audit findings

7.8 Two responding agencies that reported bonus payments in the ANAO survey did not include any information on bonuses in their respective 2002–03 Annual Reports. The Annual Report for another agency that reported bonus payments to the ANAO in the survey stated that individual performance bonuses were not paid during 2002–03. Another agency advised the ANAO in the survey that it did not pay any bonuses, but the ANAO found that it had reported figures for bonus payments in its Annual Report.

7.9 The ANAO also sought clarification from a further 25 agencies where there were inconsistencies noted in the number and/or amount of bonuses paid between those figures shown in the ANAO survey and the agency’s Annual Report. Twenty agencies had higher figures in their Annual Reports and 11 agencies had lower figures.⁸² Six agencies agreed that their annual reports were inaccurate. Thirteen agencies indicated that their Annual Reports were accurate and five of these provided revised figures on bonus payments for the ANAO survey.

⁸¹ Subsection 2 of Section 63 states that the (annual) report must be prepared in accordance with the guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit.

⁸² The ANAO did not seek clarification from six agencies because the discrepancies were inconsequential or the reasons for the differences were ascertained from information already provided to the ANAO or included in the agency’s annual report.

7.10 Several agencies did not explain the reasons for the differences in the figures provided. However, other agencies provided a variety of explanations, including that the reported results:

- did not include staff who had left the agency during the year;
- did not include staff from one of the agency's Divisions;
- excluded bonuses paid during 2002–03 to non-ongoing employees and staff on extended leave as at 30 June 2003;
- related to the performance appraisal cycle for the previous financial year;
- included some bonuses accrued during 2002–03 but not paid until after 30 June 2003;
- included bonuses for some non-APS statutory appointees;
- included retention bonuses and/or job loading/responsibility allowances;
- disclosed the number of bonus payments made, rather than the number of APS employees who received performance pay;
- excluded some Executive Level equivalent professional staff; and
- disclosed the results prior to the moderation of ratings.

7.11 Overall, the ANAO concluded that many agencies could pay greater attention to establishing the completeness, accuracy and APS-wide uniformity of their annual public reporting on the performance bonuses they pay. These results would also suggest that there is a need for much clearer definitions about what is to be reported by agencies.

7.12 In view of the findings of this audit, the ANAO considers that it is also perhaps timely for PM&C to re-examine the rationale for reporting only on performance bonuses, given that:

- the total annual cost of performance linked salary advancements is more than twice that of performance bonuses in the APS (see Chapter 8);
- about one in every five APS agencies do not pay bonuses;
- there is an increasing trend led by some central agencies to fold back performance bonuses into base salaries; and
- there are limitations in examining salary bonuses in isolation from the other components that comprise the total remuneration package received by APS employees.

7.13 The ANAO suggests that, to improve transparency and accountability, PM&C consider whether other components of the total remuneration packages provided to APS employees should be disclosed in agencies' annual reports.

Conclusions

7.14 The audit found a high level of non-compliance with the mandatory reporting requirements for the 2002–03 annual reporting of performance bonus information. The reporting is further compromised by the high level of errors, omissions and lack of consistency in the annual reporting of this information.

Recommendation No.3

7.15 The ANAO recommends that, in relation to the Requirements for Annual Reports issued by the Department of the Prime Minister and Cabinet and approved by the Joint Committee of Public Accounts and Audit:

- consideration be given to enhancing the usefulness of the Requirements by clarifying the parameters of the data to be collected and promoting more standardised, comprehensive, comparable and accurate reporting of performance payment information by APS agencies;
- the Requirements be amended by the Department to require agencies to collect and report on the totality of performance linked remuneration (i.e. both performance linked advancements and performance linked bonuses); and
- APS agencies establish that they have appropriate mechanisms in place to assure the completeness and accuracy of their annual reporting on performance bonuses paid in compliance with the Requirements.

Summary of agency responses

7.16 PM&C agreed to Parts 1 and 3 but disagreed with Part 2 of the recommendation. It questions whether reporting on salary advancements will add significant value and considers that significant reporting requirements already exist, which can place a high demand on the resources of smaller agencies over the relatively short timeframe for annual reporting.

7.17 The majority of the other responding agencies were supportive of, or agreed in principle to, the recommendation.

7.18 Full details of agency responses have been included in Appendix 5.

8. Performance Linked Remuneration Paid During 2002–03

This chapter sets out the results of the ANAO's survey in relation to the number and cost of performance linked bonuses and performance linked salary advancements paid by APS agencies during 2002–03. The survey results are also summarised by various categories of APS staff including classification level, gender, agreement type and office location. Across the board payments, sign-on bonuses and retention bonuses in the APS are also discussed, although in most cases these latter types of bonuses are not directly linked to an employee's performance.

What are the estimated total costs of performance linked payments?

Audit Findings

Agency survey findings

8.1 Of the 63 responding agencies, 50 agencies (79 per cent) paid performance bonuses in 2002–03. The total amount paid was \$38.6 million. The total amount of PLA reported by 47 agencies for 2002–03 was \$75.2 million.⁸³

8.2 In addition to these payments, some agencies make a general or 'across-the-board' payment to all staff, usually based on achieving certain organisational-wide outcomes specified in a Certified Agreement. For example, an agency may pay a one per cent salary increase to all staff, conditional on the agency reducing its absenteeism rates by a certain amount.

8.3 Of the 63 responding agencies, 16 agencies (26 per cent) reported that they provided across-the-board performance based payments during 2002–03 that were based on achieving CA or organisational outcomes. These ranged from less than one per cent up to a maximum of five per cent of the agencies' total wages bill. Such payments were not the main focus of this audit and hence only limited details about them were sought from APS agencies completing the survey. The ANAO did not seek to quantify or aggregate these payments.

8.4 In 2002–03, a large number of staff were eligible for performance related advancement (76 217) whereas a much smaller number of staff were eligible for bonuses (21 143). Only about nine per cent of staff reported that they received both a bonus and ongoing salary advancement; whereas about

⁸³ If PLA was paid at the same average rate in other agencies as those that provided data for the ANAO survey, the APS-wide cost of PLA during 2002–03 could be up to \$90 million.

seven per cent of staff advised that they were not eligible for either of these payments during the preceding 12 months.⁸⁴

Other bonuses

8.5 There are at least two other types of bonus payments that may occur in the APS: retention bonuses and sign-on bonuses.

8.6 A retention bonus may be paid as an inducement for an employee to remain with their employing agency for a specific period of time, which may be based, for example, on the anticipated duration of a particular task or project. One rationale for the use of retention bonuses is that a particular employee's skills and/or technical expertise are highly valued by the agency and are not easily replaced. As such, retention bonuses can be used to dissuade staff from accepting offers made by competing employers. Of the 63 responding agencies, 22 agencies (35 per cent) provided retention bonuses totalling over \$4 million for 735 APS employees during 2002–03. The maximum individual retention bonus reported was \$29 000, the minimum was \$523 and the average was about \$5450.

8.7 A sign-on bonus may be offered by employers as a recruitment aid and usually takes the form of a one-off bonus paid to an employee on joining an organisation. Such payments are not strictly related to an employee's performance, but are a component of the total remuneration packages received by a small number of APS employees. Of the 63 responding agencies, only two agencies (three per cent) provided sign-on bonuses, which totalled around \$28 000 for three APS employees during 2002–03. The maximum individual sign-on bonus reported was \$15 049 and the minimum was \$1600.

PLR payments to staff for 'satisfactory' work performance

8.8 Previous ANAO audits on performance pay (ANAO Audit Report No.16, 1993–94 *Pay for Performance: Performance Appraisal and Pay in the APS* and ANAO Audit Report No.13, 2000–01 *Certified Agreements in the APS*) discussed the issue of making PLR payments to staff for 'satisfactory' work performance. Satisfactory work performance has been defined for the purposes of this audit as a level of performance that is valued and is consistent with the normal expectations of the individual's job.

8.9 Agency performance rating scales have a number of rating points to illustrate the range of performance achieved during the planned assessment period. Normally, the rating range includes a point or points for superior

⁸⁴ Of 2480 staff who answered both questions. However, it may also be assumed that the 1832 staff (42 per cent of total respondents) who did not answer either of the questions also did not receive a performance bonus or a performance linked salary advancement during this period. Overall, the survey indicates that up to 61 per cent of participants did not receive either type of payment.

achievement, satisfactory work performance and a point where performance is judged to be unsatisfactory or in need of improvement. This latter point may or may not trigger an under performance mechanism. An example of a four tier rating scale is shown below, in which ‘satisfactory’ work performance equates to ‘fully effective’.

‘unsatisfactory’—will not be eligible for the next salary increase available under the Certified Agreement and will be placed on a Performance Improvement Plan;

‘fully effective’—will be eligible for a salary increase plus a 5 per cent lump sum payment;

‘more than fully effective’—will be eligible for a salary increase plus a 10 per cent lump sum payment; and

‘outstanding’—will be eligible for a salary increase plus a 15 per cent lump sum payment.

8.10 The earlier ANAO audit reports discussed whether it was appropriate for APS agencies to make PLR payments for what could be regarded as ‘doing one’s job’. It could be argued that if the basic (not at risk) pay rate or salary for the position or job was intended to adequately remunerate the employee for the work performed, then there is no need for any additional payment. The counter-argument is that a payment for fully-effective or satisfactory work performance is needed as an encouragement for employees to actively engage in the performance management system.

8.11 The ANAO considers that in the context of this audit, payment of bonuses for satisfactory work performance should be able to be explicitly rationalised within the parameters of each agency’s performance management system. Based on the comments volunteered by staff who participated in the ANAO survey for this report, this practice is still viewed by respondents as one of the many areas presently contributing to the relatively high levels of staff dissatisfaction with APS agencies’ performance management systems.

Audit Findings

Agency survey findings

8.12 Of the 50 responding APS agencies that paid performance bonuses in 2002–03, 14 agencies (28 per cent) reported that they awarded such bonuses for ‘satisfactory’ work performance. These agencies, however, accounted for 50 per cent of all bonus payments made; one of these agencies accounted for over one-fifth of all bonus payments.

8.13 Similarly, there were 51 agencies (81 per cent) who said that they advance staff through pay points for ‘satisfactory’ work performance. These agencies accounted for 92 per cent of PLA payments; three of them accounted for over 60 per cent of all PLA payments.

8.14 While not all bonus and advancement payments made in these agencies were for satisfactory (rather than superior) work performance, it does suggest that a potentially significant percentage of such payments are made on this basis. The ANAO considers that this is a topic that continues to warrant further study.

Categories of staff receiving performance linked remuneration

8.15 As discussed earlier in this report, not all responding agencies paid performance bonuses to their staff during 2002–03. Even in those agencies that did award bonuses, there may be certain categories of staff that, for various reasons, were not eligible to participate in the agency's performance pay arrangements. The survey sought data to gain a picture of which staff were eligible for and paid PLR.

Audit Findings

Agency survey findings

Bonuses

8.16 Overall, responding agencies reported that some 21 000 staff (representing 22 per cent of total staff in those agencies) were eligible for performance bonuses during 2002–03, of which some 11 000 (representing 52 per cent of those eligible and 12 per cent of total staff in those agencies) received bonuses.

8.17 Results from responding agencies indicated that staff eligibility for performance bonuses generally rose as staff classification levels increased and that staff covered under AWAs were more likely to be eligible than staff covered under CAs (see Table 8.1).

Table 8.1**Categories of APS staff eligible for performance bonuses, 2002–03**

Staff Eligible	% Agencies
All SES or equivalent	68
All EL1-2 or equivalent	34
All APS 1-6 or equivalent (excluding Graduates)	17
AWA staff	53
CA staff	17
All ongoing staff	15
All non-ongoing staff	7
Cannot Answer	19

Source: ANAO Survey of APS Agencies

8.18 Table 8.2 presents a variety of information collected on bonuses by classification level including total amounts paid, averages and ranges at each classification level.

8.19 In general, Table 8.2 reinforces that eligible staff were more likely to receive a bonus as their classification level increased. The average bonus ranged from \$455 at APS1 to \$7612 at SES level, with an overall average of \$3483. The smallest bonus paid was \$10 and the largest was \$34 000.

8.20 Over 85 per cent of the total bonus ‘pool’ was paid to Executive and Senior Executive level staff. This may, in part, reflect a legacy from the days of the Senior Officer Scheme, or that managers are seen to be more responsible or accountable for output/outcome achievement. However, it does not help with perceptions held by lower level staff that performance pay is irrelevant to them because it is only available to managers or is generally unattainable.

8.21 The variation in practices by agencies is quite stark. In 33 agencies, less than 15 per cent of all staff received bonuses; whereas in five agencies, more than 75 per cent of all staff received bonuses. In 13 agencies, all eligible staff received bonuses; whereas in two agencies, less than five per cent of eligible staff received bonuses.

Table 8.2
Performance linked remuneration paid during 2002–03

Classification	Total number of staff	Number eligible	% total staff eligible	Number who received	% eligible who received	Smallest payment \$	Largest payment \$	Average payment \$	Lowest agency average \$	Highest agency average \$	Number of agencies	Total cost \$m	% Total cost
Bonuses													
APS1	2 103	129	6	102	79	23	1 495	455	212	860	4	0.0	0.1
APS2	4 438	983	22	347	35	28	5 157	571	332	1 533	9	0.2	0.5
APS3	15 621	3 404	22	616	18	10	5 157	806	382	2 459	11	0.5	1.3
APS4	22 829	1 527	7	506	33	28	8 500	860	412	3 429	13	0.4	1.1
APS5	12 421	2 900	23	1 161	40	27	11 400	1 385	450	4 000	12	1.6	4.2
APS6	16 298	3 749	23	1 864	50	30	13 600	1 444	500	9 458	18	2.7	7.0
EL1	11 911	2 844	24	1 765	62	38	22 000	3 433	966	10 502	31	6.1	15.7
EL2	6 849	4 097	60	3 352	82	68	20 000	4 971	500	15 000	41	16.7	43.2
SES	1 619	1 510	93	1 365	90	404	34 000	7 612	880	16 038	42	10.4	26.9
All staff	94 131	21 143	22	11 078	52	10	34 000	3 483	212	16 038	50	38.6	100
PLA													
APS1	2 899	1 321	46	1 117	85	5	3 127	1 023	24	1 619	19	1.1	1.5
APS2	6 778	4 240	63	3 617	85	6	2 753	1 059	46	2 119	34	3.8	5.1
APS3	18 262	11 504	63	6 977	61	5	7 665	1 039	275	3 960	37	7.3	9.6
APS4	24 957	20 989	84	8 635	41	5	12 309	1 572	187	3 966	41	13.6	18.1
APS5	16 081	11 896	74	7 402	62	4	21 000	1 510	321	4 640	36	11.2	14.9
APS6	20 933	14 581	70	10 025	69	1	14 460	1 788	502	5 795	44	17.9	23.8
EL1	14 210	7 295	51	4 887	67	15	20 513	2 377	326	8 649	40	11.6	15.4
EL2	7 923	3 974	50	2 234	56	23	31 628	2 955	739	10 217	38	6.6	8.8
SES	1 570	417	27	286	69	222	47 772	7 252	2 440	18 889	17	2.1	2.8
All staff	113 612	76 217	67	45 180	59	1	47 772	1 664	24	18 889	49	75.2	100

Source: ANAO survey of APS agencies. Note: Two agencies provided incomplete PLA data that excluded amounts paid.

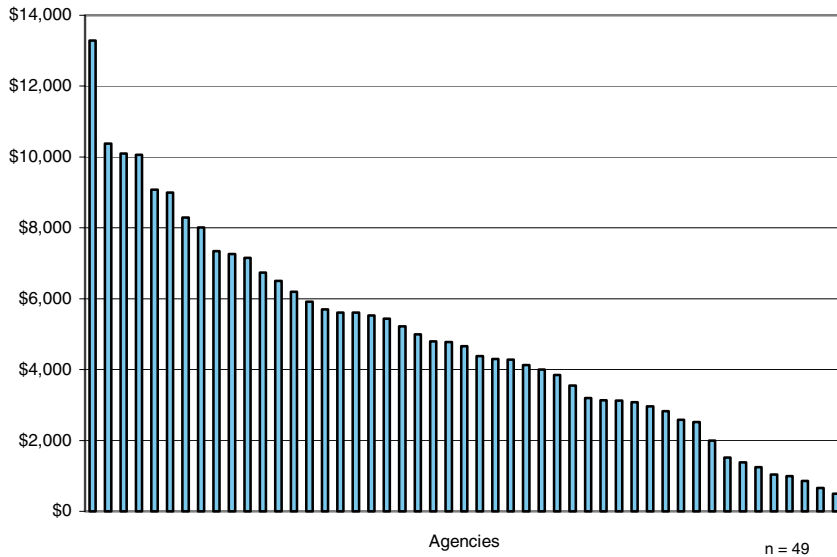
ANAO Audit Report No.6 2004–05
Performance Management in the Australian Public Service

8.22 Over 57 per cent of the \$38.6 million in total 2002–03 bonus payments reported in the ANAO survey was paid by just five agencies. A further four agencies each paid more than \$1 million in aggregate bonus payments during 2002–03.

8.23 The average bonus paid in each agency during 2002–03 ranged from \$13 282⁸⁵ down to \$500 (see Figure 8.1).

Figure 8.1

Average 2002–03 bonus, by agency



Source: ANAO survey of APS agencies

⁸⁵ In an agency with a low number of recipients of bonuses.

Gender

Table 8.3

Bonuses by gender, 2002–03

Gender	Total number of staff	Number eligible	% total staff eligible	Number who received	% eligible who received	Smallest bonus \$	Largest bonus \$	Average bonus \$	Total cost \$m	% total cost
Male	39 866	11 601	29	5 780	50	21	34 000	4 035	23.3	62
Female	52 972	9 433	18	5 201	55	10	30 000	2 791	14.5	38
Total	92 838	21 034	23	10 981	52				37.8	100

Source: ANAO survey of APS agencies

Note: Data on bonus payments by gender was supplied by 47 agencies.

8.24 The total amount of bonuses paid across all staff classification levels to male staff was \$23.3 million (62 per cent) and to female staff was \$14.5 million (38 per cent). The average bonus paid from these amounts to male staff was \$4035 and to female staff was \$2791. On average, male staff received 31 per cent more than female staff. The average bonus paid to male staff exceeded the average bonus paid to female staff for APS3 and all classification levels from APS5 to SES.

8.25 The average bonus paid to male staff exceeded the average bonus paid to female staff in 30 agencies; whereas the average bonus paid to female staff exceeded the average bonus paid to male staff in 16 agencies. In two agencies male staff and female staff received the same average amount of bonuses.⁸⁶

8.26 Of 10 981 staff who received a bonus, 5780 (53 per cent) were male staff and 5201 (47 per cent) were female staff. Within individual agencies, of those staff who received a bonus, the proportion that were male staff ranged from 100 per cent down to 18 per cent. More males than females received a bonus in 36 agencies; whereas there were nine agencies where more females than males received a bonus.

8.27 Across responding agencies, the number of female staff who received a bonus exceeded the number of male staff who received a bonus at all classification levels up to APS6; whereas the number of male staff who received a bonus exceeded the number of female staff for all classification levels from EL1 to SES.

8.28 Although 52 per cent of all eligible staff received a bonus, 50 per cent of eligible male staff and 55 per cent of eligible female staff

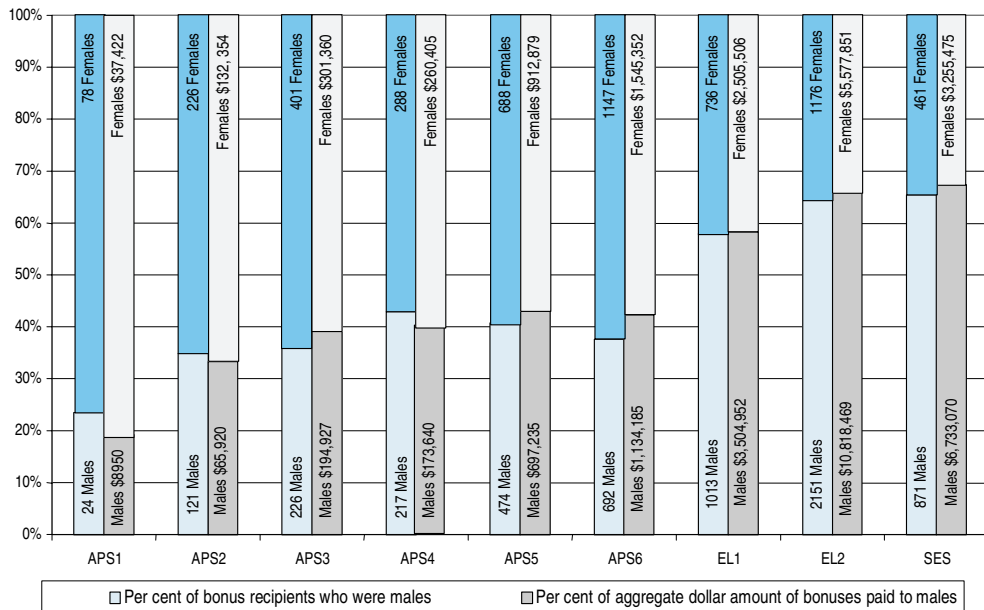
⁸⁶ These were not the two agencies that reported using a forced distribution system. However, one agency paid a flat rate bonus.

received a bonus. Across responding agencies, the percentage of eligible female staff who received a bonus exceeded the percentage of eligible male staff who received a bonus at all classification levels except SES.

8.29 Male staff received a disproportionately greater share of bonus payments at all classification levels except APS 1-2 and APS4 (see Figure 8.2).

Figure 8.2

Share of bonuses by male and female staff, by classification level, 2002–03



	APS1	APS2	APS3	APS4	APS5	APS6	EL1	EL2	SES
% Eligible Males who received a bonus	75	25	13	29	32	38	60	81	92
% Eligible Females who received a bonus	80	44	24	37	49	61	65	84	88
Males Average Bonus \$	373	545	863	800	1 471	1 639	3 460	5 030	7 730
Females Average Bonus \$	480	586	752	904	1 327	1 347	3 404	4 743	7 062

Source: ANAO survey of agencies

CA/AWA

Table 8.4

Bonuses by AWA/CA, 2002–03

Basis of employment	Total number of staff	Number eligible	% total staff eligible	Number who received	% eligible who received	Smallest bonus \$	Largest bonus \$	Average bonus \$	Number of agencies	Total cost \$m	% total cost
AWA	8 314	6 439	77	5 374	83	38	34 000	4 867	46	26.1	68
CA	84 040	14 620	17	5 637	39	10	21 459	2 143	17	12.1	32
Total	92 354	21 059	23	11 011	52					38.2	100

Source: ANAO survey of APS agencies

8.30 The total amount of bonuses paid across all staff classification levels to AWA staff was \$26.1 million (68 per cent) and to CA staff was \$12.1 million (32 per cent). The average bonus paid from these amounts to AWA staff was \$4867 and to CA staff was \$2143. On average, AWA staff received 127 per cent more than CA staff. The average bonus paid to AWA staff exceeded the average bonus paid to CA staff for all classification levels except EL2, where they were roughly equal.

8.31 The average bonus paid to AWA staff exceeded the average bonus paid to CA staff in 13 agencies; whereas the average bonus paid to CA staff exceeded the average bonus paid to AWA staff in only one agency. In one agency CA staff and AWA staff received the same bonus.⁸⁷

8.32 Of 11 011 staff who received a bonus, 5637 (51 per cent) were CA staff and 5374 (49 per cent) were AWA staff. Within individual agencies, of those staff who received a bonus, the proportion that were on AWAs ranged from 100 per cent down to two per cent. Although 31 agencies paid bonuses only to AWA staff, 15 agencies paid bonuses to both CA and AWA staff and two agencies paid bonuses only to CA staff. More CA staff than AWA staff received a bonus in 12 agencies; whereas there were three agencies where more AWA staff than CA staff received a bonus.

8.33 Across responding agencies, the number of CA staff who received a bonus exceeded the number of AWA staff who received a bonus at all classification levels except EL1 and SES.

8.34 Although 52 per cent of all eligible staff received a bonus, 39 per cent of eligible CA staff and 83 per cent of eligible AWA staff received a bonus. Across responding agencies, the percentage of eligible AWA

⁸⁷ This agency paid a flat rate bonus.

staff who received a bonus exceeded the percentage of eligible CA staff who received a bonus at all classification levels except APS 1-2.

Office location

Table 8.5

Bonuses by office location, 2002–03

Location	Total number of staff	Number eligible	% total staff eligible	Number who received	% eligible who received	Smallest bonus \$	Largest bonus \$	Average bonus \$	Number of agencies	Total cost \$m	% total cost
CO	29 114	9 257	32	5 366	58	36	34 000	4 670	42	24.0	70
Non-CO	60 935	9 927	16	3 406	34	10	24 000	2 979	26	10.1	30
Total	90 049	19 184	21	8 772	46					34.1	100

Source: ANAO survey of APS agencies

8.35 The total amount of bonuses paid across all staff classification levels to Central Office staff was \$24.0 million (70 per cent) and to Non-Central Office staff was \$10.1 million (30 per cent). The average bonus paid from these amounts to Central Office staff was \$4670 and to Non-Central Office staff was \$2979. On average, Central Office staff received 36 per cent more than Non-Central Office staff. The average bonus paid to Central Office staff exceeded the average bonus paid to Non-Central Office staff for all classification levels from APS2 to SES.

8.36 The average bonus paid to Central Office staff exceeded the average bonus paid to Non-Central Office staff in 20 agencies; whereas the average bonus paid to Non-Central Office staff exceeded the average bonus paid to Central Office staff in four agencies. In two agencies, Central Office staff and Non-Central Office staff received the same average amount of bonuses.⁸⁸

8.37 Of 8772 staff who received a bonus, 5366 (61 per cent) were Central Office staff and 3406 (39 per cent) were Non-Central Office staff. Within individual agencies, of those staff who received a bonus, the proportion that were in Central Office ranged from 98 per cent down to 12 per cent. More Central Office staff than Non-Central Office staff received a bonus in 19 agencies; whereas there were only five agencies where more Non-Central Office staff than Central Office staff received a bonus.

8.38 Across responding agencies, the number of Non-Central Office staff who received a bonus exceeded the number of Central Office staff

⁸⁸ One agency paid a flat rate bonus. The other agency applied a forced distribution system.

who received a bonus at all classification levels up to APS6; whereas the number of Central Office staff who received a bonus exceeded the number of Non-Central Office staff for all classification levels from EL1 to SES.

8.39 Although 46 per cent of all eligible staff received a bonus, 58 per cent of eligible Central Office staff and 34 per cent of eligible Non-Central Office staff received a bonus. Across responding agencies, the percentage of eligible Central Office staff who received a bonus exceeded the percentage of eligible Non-Central Office staff who received a bonus at all classification levels except APS6, EL2 and SES.

Performance Linked Advancements

8.40 Overall, responding agencies reported that some 76 000 staff (67 per cent) were eligible for PLA during 2002–03, of which some 45 000 (60 per cent) received advancements. This represents approximately 40 per cent of all staff. However, this understates the APS-wide position, as 16 agencies did not provide the ANAO with data on PLA.

8.41 Table 8.2 presents a variety of information collected on PLA by classification level including total amounts paid, averages and ranges at each classification level.

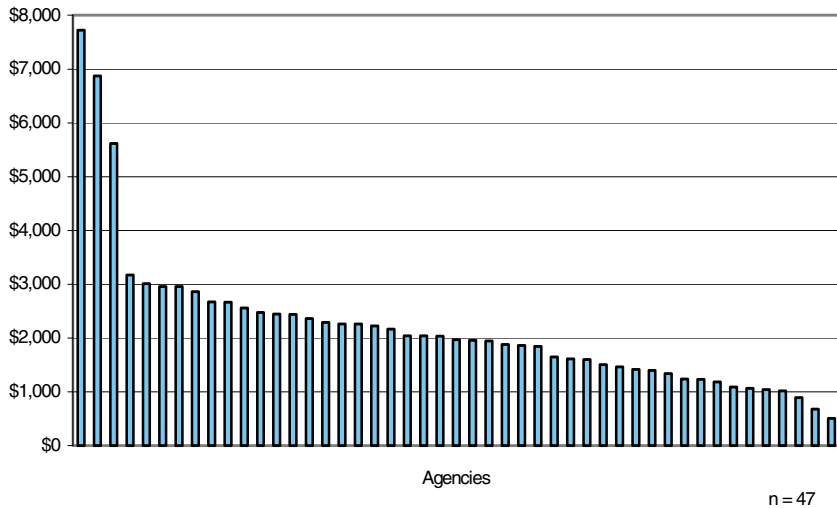
8.42 In contrast to bonuses, the percentage of eligible staff paid PLA did not show a trend across classifications. The average PLA ranged from \$1023 at APS1 to \$7252 at SES level, with an overall average of \$1679. The smallest PLA was \$1 and the largest was \$47 772.

8.43 Of the \$75.2 million in total PLA paid, APS 1-6 staff received about \$54.9 million (73 per cent) and EL1-2 and SES staff received \$20.3 million (27 per cent). Nearly 57 per cent of the total was paid to APS 4-6 level staff.

8.44 The variation in practices between agencies is again quite stark. In 10 agencies, more than 60 per cent of all staff received PLA; whereas in another 10 agencies, less than 20 per cent of all staff received PLA. In 15 agencies, all eligible staff received PLA; whereas in seven agencies less than 30 percent received PLA.

8.45 Over 72 per cent of the \$75.2 million in total 2002–03 PLA payments reported in the ANAO survey was paid by just five agencies. A further five agencies each paid more than \$1 million in aggregate PLA payments during 2002–03.

8.46 The average PLA paid in each agency during 2002–03 ranged from \$7725 down to \$510 (see Figure 8.3).

Figure 8.3**Average 2002–03 PLA by agency**

Source: ANAO survey of APS agencies

Gender**Table 8.6****PLA by gender, 2002–03**

Gender	Total number of staff	Number eligible	% total staff eligible	Number who received	% eligible who received	Smallest PLA \$	Largest PLA \$	Average PLA \$	Total cost \$m	% total cost
Male	51 767	34 811	67	22 179	64	4	47 772	1 640	36.4	49
Female	61 435	41 194	67	22 926	56	5	39 046	1 680	38.5	51
Total	113 202	76 005	67	45 105	59				74.9	100

Source: ANAO survey of APS agencies

Note: Data on PLA payments by gender was supplied by 45 agencies.

8.47 The total amount of PLA paid across all staff classification levels to male staff was \$36.4 million (49 per cent) and to female staff was \$38.5 million (51 per cent). The average PLA paid from these amounts to male staff was \$1640 and to female staff was \$1680. The average PLA paid to female staff exceeded the average PLA paid to male staff at all classification levels from APS4 to EL2.

8.48 The average PLA paid to male staff exceeded the average PLA paid to female staff in 34 agencies; whereas the average PLA paid to female staff exceeded the average PLA paid to male staff in 11 agencies.

8.49 Of 45 105 staff who received PLA, 22 179 (49 per cent) were male staff and 22 926 (51 per cent) were female staff. Within individual agencies, of those staff who received PLA, the proportion that were male staff ranged from 70 per cent down to 18 per cent. More females than males received PLA in 34 agencies; whereas there were 10 agencies where more males than females received PLA.⁸⁹

8.50 Across responding agencies, the number of female staff who received PLA exceeded the number of male staff who received PLA at classification levels APS 2-4; whereas the number of male staff who received PLA exceeded the number of female staff for all classification levels from APS5 to SES.

8.51 Although 59 per cent of all eligible staff received PLA, 64 per cent of eligible male staff and 56 per cent of eligible female staff received PLA. Across responding agencies, the percentage of eligible male staff who received PLA exceeded the percentage of eligible female staff who received PLA at all classification levels.

CA/AWA

Table 8.7

PLA by AWA/CA, 2002–03

Basis of employment	Total number of staff	Number eligible	% total staff eligible	Number who received	% eligible who received	Smallest PLA \$	Largest PLA \$	Average PLA \$	Number of agencies	Total cost \$m	% total cost
AWA	6 890	2 987	43	1 651	55	85	47 772	4 867	31	8.1	11
CA	108 247	74 532	69	44 048	59	1	33 033	1 530	47	67.4	89
Total	115 137	77 519	67	45 699	59					75.5	100

Source: ANAO survey of APS agencies

8.52 The total amount of PLA paid across all staff classification levels to AWA staff was \$8.1 million (11 per cent) and to CA staff was \$67.4 million (89 per cent). The average PLA paid from these amounts to AWA staff was \$4867 and to CA staff was \$1530. On average, AWA staff received 218 per cent more than CA staff.

8.53 The average PLA paid to AWA staff exceeded the average PLA paid to CA staff for all classification levels (except APS1, where no staff

⁸⁹ In one agency an equal number of males and females received PLA.

on AWAs received PLA and SES, where no staff on CAs received PLA). The average PLA paid to AWA staff exceeded the average PLA paid to CA staff in 28 agencies; whereas the average PLA paid to CA staff exceeded the average PLA paid to AWA staff in only two agencies.

8.54 Of 45 699 staff who received PLA, 44 048 (96 per cent) were CA staff and 1651 (four per cent) were AWA staff. Within individual agencies, of those staff who received PLA, the proportion that were on AWAs ranged from 100 per cent down to two per cent. Although 50 agencies paid PLA, 19 agencies paid PLA only to CA staff, 29 agencies paid PLA to both CA and AWA staff and two agencies paid PLA only to AWA staff. More CA staff than AWA staff received PLA in 47 agencies; whereas there was only one agency where more AWA staff than CA staff received PLA.

8.55 Although 59 per cent of all eligible staff received PLA, 59 per cent of eligible CA staff and 55 per cent of eligible AWA staff received PLA. Across responding agencies, the percentage of eligible CA staff who received PLA exceeded the percentage of eligible AWA staff who received PLA at all classification levels (except APS1 and SES, as previously explained).

Office location

Table 8.8

PLA by office location, 2002–03

Location	Total number of staff	Number eligible	% total staff eligible	Number who received	% eligible who received	Smallest PLA \$	Largest PLA \$	Average PLA \$	Number of agencies	Total cost \$m	% total cost
CO	32 705	20 637	63	13 162	64	1	47 772	2 076	40	27.3	40
Non-CO	72 527	53 087	73	28 556	54	5	22 372	1 442	30	41.2	60
Total	105 232	73 724	70	41 718	57					68.5	100

Source: ANAO survey of APS agencies

8.56 The total amount of PLA paid across all staff classification levels to Central Office staff was \$27.3 million (40 per cent) and to Non-Central Office staff was \$41.2 million (60 per cent). The average PLA paid from these amounts to Central Office staff was \$2076 and to Non-Central Office staff was \$1442. On average, Central Office staff received 44 per cent more than Non-Central Office staff.

8.57 The average PLA paid to Central Office staff exceeded the average PLA paid to Non-Central Office staff for all classification levels from APS5 to SES. The average PLA paid to Central Office staff

exceeded the average PLA paid to Non-Central Office staff in 24 agencies; whereas the average PLA paid to Non-Central Office staff exceeded the average PLA paid to Central Office staff in six agencies.

8.58 Of 41 718 staff who received PLA, 13 162 (32 per cent) were Central Office staff and 28 556 (68 per cent) were Non-Central Office. Within individual agencies, of those staff who received PLA, the proportion that were in Central Office ranged from 98 per cent down to 12 per cent. More Central Office staff than Non-Central Office staff received PLA in 18 agencies; whereas there were only 12 agencies where more Non-Central Office staff than Central Office staff received PLA.

8.59 Across responding agencies, the number of Non-Central Office staff who received PLA exceeded the number of Central Office staff who received PLA at all classification levels up to APS6; whereas the number of Central Office staff who received PLA exceeded the number of Non-Central Office staff for all classification levels from EL1 to SES.

8.60 Although 57 per cent of all eligible staff received PLA, 64 per cent of eligible Central Office staff and 54 per cent of eligible Non-Central Office staff received PLA. Across responding agencies, the percentage of eligible Non-Central Office staff who received PLA exceeded the percentage of eligible Central Office staff who received PLA at all classification levels except APS 3-5 and SES.

Summary

8.61 Responding agencies reported that, in 2002–03, just over 21 000 staff were eligible for performance bonuses; whereas more than 76 000 staff were eligible for performance related advancements. However, the latter is understated as some agencies could not provide relevant data.

8.62 Of the 63 agencies that responded to the ANAO survey, 50 paid performance bonuses in 2002–03. A total of \$38.6 million was paid in performance bonuses to 11 078 staff. Only 22 per cent of staff were eligible for bonuses. Eligibility rose as classification level increased and 86 per cent of the total bonus pool was paid to Executive and Senior Executive staff.

8.63 A total of \$75.2 million was paid in PLA by 47 responding agencies to 44 792 staff.⁹⁰ In contrast to the situation with bonuses, a relatively large 67 per cent of staff were eligible for these payments.

⁹⁰ This total differs to Table 8.2 because two agencies provided incomplete PLA data that excluded amounts paid.

Conclusions

8.64 The ANAO concluded that, to date, the significant investment in performance management appears to be delivering only patchy results and uncertain benefits. Performance linked advancements remains the dominant method of encouraging and rewarding performance in the APS. The ANAO considers that a significant percentage of bonuses, and even a high proportion of PLA payments, are unlikely to reflect 'superior' performance.

Canberra ACT
4 August 2004



P. J. Barrett
Auditor-General

Appendices

Appendix 1: APS Values and Code of Conduct

APS Values

The APS:

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

Source: Section 10, *Public Service Act 1999*.

APS Code of Conduct

APS employees are required, under the Code of Conduct, to behave at all times in a way which upholds the APS Values.

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.

Appendix 2: Responding agencies

The 63 agency survey responses were received from:

Aboriginal and Torres Strait Islander Commission
Aboriginal Hostels Ltd
Administrative Appeals Tribunal
Australian Radiation Protection and Nuclear Safety Agency
Attorney-General's Department
AusAID
Australian Broadcasting Authority
Australian Bureau of Statistics
Australian Communications Authority
Australian Competition and Consumer Commission
Australian Crime Commission
Australian Customs Service
Australian Electoral Commission
Australian Greenhouse Office
Australian Industrial Registry
Australian Institute of Health and Welfare
Australian National Audit Office
Australian National Maritime Museum
Australian Protective Service
Australian Public Service Commission
Australian Securities and Investments Commission
Australian Taxation Office
Australian War Memorial
Bureau of Meteorology
Centrelink
Child Support Agency
Comcare
ComSuper
CRS Australia
Department of Agriculture Fisheries and Forestry – Australia
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 Environment and Heritage
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
Family Court of Australia
Federal Court of Australia
Foodstandards Australia
Geoscience Australia
Insolvency and Trustee Services Australia
IP Australia
Migration Review Tribunal
National Archives of Australia
National Library of Australia
National Museum of Australia
National Native Title Tribunal
National Office for the Information Economy (now Australian Government Information Management Office)
National Occupational Health and Safety Commission
Office of the Director of Public Prosecutions
Productivity Commission
Refugee Review Tribunal
Royal Australian Mint
Screensound Australia (now Australian Film Commission)

Three agencies did not respond to the agency survey or subsequent follow-ups: the Defence Housing Authority, Great Barrier Reef Marine Park Authority and the National Science and Technology Centre.

Responses covering three agencies were consolidated: the Australian Bureau of Agricultural and Research Economics and the Australian Quarantine and Inspection Service were included in the Department of

Agriculture Fisheries and Forestry - Australia's agency survey and the Therapeutic Goods Administration was included in the Department of Health and Ageing's agency survey.

Appendix 3: Staff survey response rates

Agency	Sent	Required	Received	Response rate %
Aboriginal and Torres Strait Islander Commission	132	66	70	53
Aboriginal Hostels Ltd	99	62	21	21
Administrative Appeals Tribunal	94	47	51	54
Agriculture Fisheries and Forestry – Australia	130	65	67	52
ARPANSA	94	47	30	32
Attorney-General's Department	128	64	42	33
AusAID	126	63	63	50
Australian Broadcasting Authority	92	46	42	46
Australian Bureau of Agricultural and Research Economics	100	50	42	42
Australian Bureau of Statistics	138	69	61	44
Australian Communications Authority	120	60	57	48
Australian Competition and Consumer Commission	124	62	90	73
Australian Crime Commission	114	57	79	69
Australian Customs Service	138	69	50	36
Australian Electoral Commission	130	65	76	58
Australian Greenhouse Office	104	52	63	61
Australian Industrial Registry	106	53	70	66
Australian Institute of Health	102	51	34	33
Australian National Audit Office	112	56	52	46
Australian National Maritime Museum	88	44	45	51
Australian Protective Service	132	66	32	24
Australian Public Service Commission	98	49	66	67
Australian Quarantine and Inspection Service	136	68	59	43
Australian Securities and Investments Commission	134	67	67	50
Australian Taxation Office	142	71	50	35

Agency	Sent	Required	Received	Response rate %
Australian War Memorial	116	58	76	66
Bureau of Meteorology	134	67	33	25
Centrelink	700	71	221	32
Child Support Agency	136	68	51	38
Comcare	116	58	77	66
ComSuper	120	60	64	53
CRS Australia	134	67	56	42
Defence Housing Authority	128	64	74	58
Department of Communications, Information Technology and the Arts	126	63	56	44
Department of Defence	500	70	260	52
Department of Education Science and Training	134	67	77	57
Department of Employment and Workplace Relations	136	68	91	67
Department of Environment and Heritage	134	67	43	32
Department of Family and Community Services	136	68	76	56
Department of Finance and Administration	130	65	82	63
Department of Foreign Affairs and Trade	136	68	69	51
Department of Health and Ageing	138	69	77	56
Department of Immigration and Multicultural and Indigenous Affairs	138	69	71	51
Department of Industry Tourism and Resources	134	67	76	57
Department of the Prime Minister and Cabinet	118	59	48	41
Department of the Treasury	128	64	65	51
Department of Transport and Regional Services	132	66	75	57
Department of Veterans Affairs	136	68	67	49
Family Court of Australia	128	64	57	45
Federal Court of Australia	120	60	52	43

Agency	Sent	Required	Received	Response rate %
Foodstandards Australia	90	45	60	67
Geoscience Australia	124	62	59	48
Great Barrier Reef Marine Park Authority	100	50	56	56
Insolvency and Trustee Services Australia	110	55	75	68
IP Australia	130	65	78	60
Migration Review Tribunal	102	51	31	30
National Archives of Australia	122	61	74	61
National Library of Australia	124	62	56	45
National Museum of Australia	75	53	37	49
National Native Title Tribunal	112	56	49	44
National Office for the Information Economy (now Australian Government Information Management Office)	100	50	45	45
National OHS Commission	90	45	62	69
National Science and Technology Centre	102	51	34	33
Office of the Director of Public Prosecutions	122	61	45	37
Productivity Commission	106	53	44	42
Refugee Review Tribunal	98	49	37	38
ScreenSound Australia (now Australian Film Commission)	108	54	44	41
Therapeutic Goods Administration	122	61	62	51
Total	9 038	4 088	4 321	48

Note: The Royal Australian Mint was not included in the staff survey.

Figures in the column headed 'Required' show the minimum number of responses required to maintain statistical validity of the sample.

Appendix 4: Profile of staff survey respondents

Demographic	Category	%
Age	Less than 25	4
	25-34	24
	35-44	29
	45-54	35
	55 or more	8
Gender	Female	51
	Male	49
Location	Central Office	43
	Non-Central Office	57
Classification	APS 1-2 (or equivalent)	10
	APS 3-4 (or equivalent)	30
	APS 5 -6 (or equivalent)	34
	Executive Level 1-2 (or equivalent)	25
	Senior Executive Service (or equivalent)	1
Length of Service in the APS	Less than 1 year	4
	1-5 years	23
	6-10 years	15
	11-15 years	23
	16-20 years	14
	Over 20 years	22
Length of service at current agency	Less than 6 months	4
	6 months to less than 1 year	6
	1-5 years	32
	6-10 years	18
	11-15 years	19
	More than 15 years	22

Demographic	Category	%
Basis of employment	Certified Agreement	86
	Australian Workplace Agreement (AWA)	12
	Employment contract (other than an AWA)	3
Currently working	On a part-time basis	7
	On a full-time basis	93
Currently employed as	Ongoing staff	96
	Non-ongoing staff	4
Currently supervising other staff	Yes	39
	No	61

Source: ANAO staff survey

Appendix 5: Agency comments on draft report

Agencies' comments on the draft report are shown in alphabetical order by agency name. Comments have been edited to remove salutations and to reflect subsequent changes made to the report.

Aboriginal and Torres Strait Islander Commission

It is a comprehensive report which will provide a useful benchmark for performance management in the APS.

Administrative Appeals Tribunal

In respect of Recommendation 1, of development of key indicators, the Tribunal sees benefit in having such indicators as a resource for the APSC and for each agency to gauge its system's effectiveness.

In respect of Recommendation 2, of the development of a Better Practice Guide for agencies, there is clearly value in having such a resource. The ability for very small agencies to readily access the experiences of others in developing performance management systems is of great benefit. The value of experience is in others being able to learn from it.

In respect of Recommendation 3, in respect of Annual Reporting arrangements:

- clarification of reporting requirements is welcomed if the information sought is specified in a more detailed way;
- both advancements and bonus arrangements can be reported on if that is to be required; and
- the mechanisms will be demonstrated if required against clear compliance guidelines.

Attorney-General's Department

Recommendation No.1

Many of the Department's activities involve complicated one-off matters. The Department's work priorities are regularly discussed and agreed with the Attorney-General and the Minister for Justice and Customs. However, even with this prioritisation process the urgent and important workload of the Department continues to increase.

Due to these changing priorities, corporate planning is not formally conducted within the Department in a way that provides for linkages between employee and organisational performance. The development

of an APS-wide model would be useful as a reference for this Department but would not necessarily be implemented in its entirety.

Recommendation – Not agreed.

Recommendation No.2

A comprehensive Better Practice Guide for agencies on performance management would be of great assistance to agencies when preparing performance management policies and procedures.

Recommendation – Agreed.

Recommendation No.3

The Department has the capability to provide the comprehensive reporting that this recommendation requires. However, serious consideration will need to be given in the review of the Requirements for Annual Reporting to ensure that:

- the enhancements to the Requirements do not create additional work for a limited outcome;
- the additional reporting does not result in breaches of privacy provisions, and
- the reporting does not duplicate existing reporting through the APSC's State of the Service Report.

It seems unlikely that increased reporting requirements on performance pay information by APS agencies will resolve the issue, highlighted in the Report, of a high-level of non-compliance with current mandatory reporting requirements.

Recommendation – Not agreed.

AusAID

Having read the proposed report, I am satisfied that it accurately reflects the information provided by AusAID as part of the audit process. I look forward to receiving the final version of the report and exploring the implications of the recommendations for the performance management systems in AusAID.

Australian Bureau of Statistics

Overall, I found the draft report to be comprehensive and quite detailed. I note that the draft report provides considerable guidance for agencies on how they might go about improving their overall approach to performance management.

In relation to Recommendation 1, I support APSC developing examples of key indicators to assist agencies to measure their own organisational performance, where possible and reasonable, linking corporate and employee performance.

I would like to see a stronger focus on the behavioural aspects of performance management. While a Better Practice Guide along the lines of Recommendation 2 could be a valuable additional resource for agencies, even the best system is unlikely to produce the desired outcomes if it is not supported by appropriate behaviours of managers and staff.

Some very sound points are made throughout the report, however, I feel that the report itself demonstrates the complexity of the subject matter and the diversity in design of performance management systems across the APS. For example, the terms 'performance management' and 'performance management system' seem to be used interchangeably on occasion, when in fact they are separately defined. This leads to some confusion about whether the report is referring to the means (the system) or the ends (the desired outcomes) at various times throughout the report, and the focus on performance management systems detracts from the wider implications and effectiveness of performance management in the APS.

Our own conclusion, from work we have done on evaluating the effectiveness of our own performance management system, is that a well designed system is a necessary but not sufficient condition for achieving desired outcomes. We are strongly of the view that behaviours and cultures need to change before performance management will consistently demonstrate improved organisational performance. That is, the way in which the system is operationalised by managers and staff is the key to successful outcomes. Paragraph 4.46 addresses these matters but there perhaps needs to be a greater focus throughout the report.

I think it is important to keep in mind that agencies and employees are necessarily reflecting different perspectives on performance management, so it is not surprising that often their views are at odds.

Some specific comments follow:

- a) assumptions appear to be made about the effectiveness of monetary reward as an incentive to perform (see for example paragraphs 12 and 38); evidence of the incentive effect of monetary awards is mixed (eg at para 38 the ANAO has noted that only one-half of staff surveyed indicated support for performance pay systems), and the issue of incentives and motivation is complex and in many ways agency-specific;

- b) the first sentence of paragraph 16 seems to contradict the conclusion drawn in paragraph 15;
- c) paragraphs 28 and 30 refer to staff perceptions about the effectiveness of their performance management systems. Again this may not be a function of the systems, but rather the behaviour of managers (and staff) in supporting the system; and
- d) some survey questions may have been ambiguous. Staff perceptions discussed in paragraphs 4.47 and 5.18, for example, could reflect their interpretation of the questions to mean the 'system' rather than the people management practices employed in supporting the system.

Australian Customs Service

Customs welcomes the draft report. Progress in implementing recommendations which impact on Customs will be reported through the Audit Committee which the ANAO attends.

The audit of Performance Management has been beneficial and the opportunity to comment, both consultatively throughout the audit and with this draft reporting phase is appreciated.

Recommendation No.1

Agreed.

Recommendation No.2

Agreed. Customs notes that the APSC has pamphlets on performance management which could serve as a useful base to developing a better practice guide.

Recommendation No.3

Agreed-in-principle. Privacy issues and different agency arrangements for performance pay may continue to make comparisons of data difficult, no matter how comprehensive the information may be.

Australian Electoral Commission

The report provides a very useful guide to agencies such as AEC to assist us with the administration and management of the productivity and performance goals for our employees and for the outcomes of our agency as a whole.

AEC notes that the recommendations are directed at the APSC and PM&C.

Nonetheless, the recommendations will have an indirect effect on all levels of the APS both strategic and operational if implemented. It is with this in mind, that we offer the following comments.

Recommendation No.1

AEC gives cautious support to this recommendation. While development of key indicators to measure organisational performance could be beneficial, implementation would need to be considered in the light of other reporting requirements to avoid duplication and create additional value. The AEC would expect that the APSC would develop this proposal, using appropriate expertise and involve APS agencies in a consultative process to ensure its success.

Recommendation No.2

The AEC supports this proposal. We believe that by developing a guide for all agencies, the results would be beneficial as well as a cost effective use of resources. Again agencies such as the AEC would like to be consulted in the development of any guide to ensure that it is flexible enough to adapt to the requirements of small, medium and large agencies.

Recommendation No.3

The AEC supports this proposal as well. We believe that the increased clarification proposed by the Report will enable all agencies to report accurately and completely on these matters. We would be pleased to offer any assistance to implement the conclusions and recommendations.

Australian Greenhouse Office

I generally agree with the conclusions and recommendations contained in the Report. I note that the data provided by the ANAO shows that the AGO consistently ranked in the top dozen or so agencies in terms of the percentage of positive responses to the questions asked in the survey. The AGO has recently negotiated its third enterprise agreement. The agreement provides for further improvements in the effectiveness of the AGO's performance management systems. The changes will enhance consistency against the "Alignment, Credibility and Integration" criteria contained in the MAC Report.

Australian Government Information Management Office

As you are aware, effective 8 April 2004, the National Office for the Information Economy (NOIE) was renamed the Australian Government Information Management Office (AGIMO).

NOIE's response to the Performance Management in the APS survey was prepared in September 2003 and was based on the previous paper based manually driven performance management system. The response mentioned that development of a new online system was well underway. The latter was implemented within NOIE during October 2003 and details of the new system were provided to the ANAO.

The online system enables staff and managers to create a Performance Agreement including a L&D Plan as well as providing a structured process for review of performance and progress throughout the year. A feature of the new system is the linkages it provides to relevant corporate documents and in particular to specific project deliverables contained in the annual business plan. Through this process, AGIMO staff have a clearer understanding of how their individual responsibilities and performance is linked to implementation of AGIMO's annual business plan and thus, achievement of AGIMO's Portfolio Budget Statement outcome/output. As part of the 2004–05 performance management cycle, it is proposed to incorporate a 360 degree feedback module covering all staff levels from APS1 to SES.

From an AGIMO view, it is considered that the new online system addresses a number of issues and associated recommendations raised in the ANAO draft report.

Australian Public Service Commission

The proposed Report provides a very useful overview of experience in relation to performance management in the APS.

The Report makes clear the variety of approaches adopted to performance linked remuneration, particularly bonuses and PLA. Clearly the use of bonuses is more common for employees at more senior levels (and for those on AWAs) and PLA the more common approach for lower classifications and certified agreement staff. A number of agencies operate with a mix of approaches for different categories or levels of employee. The impact of classification and the type of approach applied could be made clearer in certain parts of the Report (eg in relation to gender, bonus size and distribution). Otherwise the results could be seen and used in a misleading way. Other factors may also be relevant (eg the incidence of flat vs percentage payments and the different performance criteria and levels used in different systems).

As the Commission informed the ANAO, the APSC is considering undertaking work over the next 12 months in relation to employee retention which would include performance management. This would result in the preparation of information and advice to assist Agency

Heads and line managers with their people management responsibilities and could incorporate some of the elements set out in Recommendations 1 and 2. We will certainly take the Report's findings into account in the development of this work.

Recommendation No.1

Agree in part.

The development and reporting of appropriate performance information are key elements of the APS accountability framework.

The MAC Report promoted an integrated approach to applying such information, encouraging agencies to draw on their outcomes/outputs framework and corporate governance framework for detailed business planning and performance management review and feedback.

The Commissioner reported in his 2002–03 State of the Service Report that all agencies had some form of organisational performance management framework albeit not all used the outcomes/output budget framework as their main tool for regular monitoring.⁹¹ Agencies also used corporate business planning, project planning and monitoring and, for a minority of agencies, the 'balanced scorecard'.

In broad terms these frameworks are consistent with the MAC model, with the outcomes/outputs framework providing the formal accountability framework to Ministers and Parliament and the corporate planning framework focusing on the strategies needed to deliver the desired results.

As part of the 2002–03 SOSR, agencies said they used a range of indicators in their performance management frameworks, with business results being cited most often, followed by financial management, customer relations, human resource and various aspects of information technology.⁹² This is consistent with the devolved employment environment operating in the APS and the MAC recommendations in relation to customising and developing systems to meet specific business, cultural and organisational requirements. It is also consistent with the current policy and legislative scope for agencies to tailor their approaches to managing performance (at the organisational and individual levels) to best suit the needs of their organisations. Indeed, while there may be some common elements across agencies, performance management frameworks are diverse, and what works best in a particular organisation will depend on a range of factors such as leadership, nature of the business and culture,

⁹¹ Australian Public Service Commission 2003 *State of the Service Report 2002-03*, p.149.

⁹² *op cit* p.149.

organisational history, the maturity of performance measurements and systems and the workplace relations climate.

In this context it is difficult to see how one APS-wide model of indicators to measure organisation performance could be developed that could be used by agencies in a meaningful way.

Having said that, the APSC concurs that performance management works better when staff can see a clear link between their work and the goals of the organisation. The evidence suggests that this is starting to occur.

In 2003, about three-quarters of APS employees agreed that the links between their agency's business and their work had been made clear in the development of their performance agreement.⁹³ For these employees there was a clear line of sight between business plans and corporate strategies and their performance agreements. Whether it is possible to extrapolate the extent to which individual performance can be directly linked to organisational performance or outcomes in a public sector environment, however, is less clear. Some illustration of agency performance management systems to demonstrate alignment and the related use of performance indicators may be of assistance.

While the APSC recognises that agencies still face some serious challenges in relation to performance management, it remains our view that in accordance with the PS Act it is the role of Agency Heads to determine the most effective and efficient performance management process for their organisation. The need for a tailored approach is also recognised by the ANAO in this recent report.

The APSC would see benefit in further exploring these issues with the ANAO to ascertain how best to address the issues raised in this Report and assist agencies in better aligning individual performance with overall organisational performance. These considerations will be informed by work the APSC is looking to undertake over the next 12 months related to identifying effective drivers of performance.

Recommendation No.2

Agree in part.

In June 2002, the APSC issued a publication titled *Performance Management* which was part of a series of guides published following the passing of the *Public Service Act 1999*. This booklet sets out the basic requirements of the legislative and policy framework which agencies

⁹³ op.cit, pp.156-7.

must observe and around which they should establish appropriate agency-specific performance management arrangements.

The advice provided in the booklet is set out around the MAC performance management strategic framework, the minimum requirements set out in the Public Service Commissioner's Directions⁹⁴ and the government's policy parameters.⁹⁵ As such, it meets some of the points set out in Recommendation 2. The Commission will give consideration to how best to provide further advice in relation to better practice administrative principles within its priorities and resources, noting that the development of such guidance would require further research and consultation.

Any such work would be in the context of the need, as stressed by the ANAO, to avoid adoption of "off the shelf" systems. In addition given the emphasis in both the MAC Report and this ANAO report, that agencies are better placed to implement performance management systems,⁹⁶ any such better practice guidance would have to be sufficiently flexible and principles-based.

The APSC is considering undertaking work over the next 12 months in relation to employee retention. As previously mentioned, part of this work would include an analysis of the drivers of performance. It would result in the preparation of information and advice to assist line managers with their people management responsibilities and could incorporate some of the elements set out in Recommendation 2. The key findings and recommendations of the ANAO will be drawn on in the development of this work. They will also be drawn on in any future consideration by the Commission of the links between performance management and rewards.

Australian Securities and Investments Commission

I have reviewed the report and recommendations, particularly in light of the three critical success factors identified by the MAC Report: alignment, credibility and integration.

In terms of alignment, ASIC's performance management system was negotiated with the union. However, we have been able to develop strong links between the performance management process and business outcomes via the business and strategic planning process. We

⁹⁴ Public Service Commissioner's Amendment Directions 2000 (No.1) Direction 2.12.

⁹⁵ Policy Parameters for Agreement Making in the APS, 2000.

⁹⁶ op cit, p.33.

are continually working to strengthen these links. The APS Values were a key consideration in developing the scheme.

ASIC is working to build the credibility of our performance management system through improving staff and management skills and understanding of the process. ASIC's most recent CA links some pay increases to the achievement of organisation wide objectives, which was not part of our system in the period covered by the audit.

ASIC is also constantly building on the integration of the performance management system with the overall corporate management structure in order to provide clearer links for staff between their roles and the overall objectives of the organisation.

We are also developing the integration of the performance management and staff development processes, in particular through the development of a capability identification process, in consultation with staff, to assist in more effective identification of development needs. ASIC-wide development needs analysis is conducted annually, based on the individual development planners of staff, and development opportunities are provided based on the needs identified. The current CA ties across the board pay increases to the achievement of staff development targets.

ASIC will consider the audit findings, along with the recommendations of the MAC Report, in the ongoing process of reviewing and building upon our performance management system.

Australian Taxation Office

The proposed report appears to accurately reflect the audit findings, and the conclusions and recommendations made are in line with Australian Taxation Office's views.

Bureau of Meteorology

To a very large degree, the Bureau is in accord with the key findings and conclusions of the Audit Report. Moreover, we are in agreement with the three recommendations aimed at improving the overall management and administration of performance management in the APS, and we look forward to what further assistance the APSC can provide for agencies in this important area of Human Resources Management.

Centrelink

Overall, Centrelink agrees with the recommendations made.

In recommendation one, where you suggest the APSC consider developing examples of key indicators to measure organisational performance, Centrelink would expect that any key indicators had the capacity and flexibility to accommodate existing models, particularly where they are consistent with the aim of improving alignment between employee performance and organisational performance. Many agencies such as Centrelink have invested significant resources into developing suitable agency key indicators to measure organisational performance.

Centrelink would welcome recommendation two, that the APSC take a lead role in developing a comprehensive Better Practice Guide for agencies on performance management and we would be prepared to provide assistance to the APSC in the development of that Guide.

In relation to recommendation three, Centrelink agrees that clarification around the requirement for Annual Reports in relation to the reporting of performance payment information would be useful for agencies. Experience from participating in this audit highlighted the need to ensure that reporting parameters are consistent and can accommodate the full range of performance related remuneration currently in existence in the APS.

Thank you for the opportunity to provide comments and congratulations on an excellent report.

Comcare

Comcare does not have any substantive comment to make in response to the recommendations of this report.

Department of Agriculture, Fisheries and Forestry - Australia

The Department notes and supports the recommendations in the report.

Department of Communications, Information Technology and the Arts

The Department agrees with the recommendations of the report.

The information will be useful in informing the internal review of the Department's Performance Management System which is to be undertaken during the next twelve months.

Department of Defence

Defence agrees with the three proposed recommendations.

Department of Education, Science and Training

I am very pleased that the ANAO enabled DEST to participate in this review. DEST sees effective performance management as a key mechanism in improving organisational performance. The involvement of a large number of agencies in the review, along with a good response rate from the associated staff survey has provided another source of data that DEST can use to continue to enhance the effectiveness of performance management in our agency.

While the first two of the three key recommendations arising from the review are supported, we do have some concerns about one element of the third recommendation.

DEST has some concern about the second dot point which recommends the Requirements for Annual Reports be amended to require agencies to report on PLA as well as performance bonuses. The inclusion of PLA in the formal reporting requirements will place a significant impost on Departmental resources to provide such information.

Department of Environment and Heritage

The Department is pleased to take the opportunity to participate in these audits and to benchmark our systems against other APS agencies.

While having no specific comments on the report, I note that there are a number of findings that will help guide us in any further refinements to our performance management system. Although the results of the audit confirm that our approach to performance management is relatively robust, there is always room for improvement. In that regard, I am supportive of the recommendations for the APSC to play a lead role in developing key indicators to measure organisational performance and in developing a Better Practice Guide on performance management.

Department of Family and Community Services

FaCS welcomes this across agency audit and endorses the findings, which are consistent with our own experience and the finding's of the ANAO's two year benchmarking study.

However, the level of disparity between staff agency and staff perceptions is a significant concern, and while indications are that progress has been made across the APS, there is still a long way to go before performance management can be considered a fully integrated part of APS planning and management.

Recommendation No.1.

FaCS supports the recommendation and is looking forward to working with the APSC in the development of the indicators.

The indicators must not lose sight of agency outcomes and therefore needs to link with agency outcomes statements under the appropriation bills and supporting outcome and output performance indicators. Similarly, agency statutory obligations must also be catered for. Agency goal displacement is a risk to be managed in developing the indicators.

The link from organisational performance to employee is ideal but only likely to be practical at the agency level and not drill down to team or individual level in the first few years of implementation. A staged implementation over several years is required.

The indicators will also need APS-wide investment and an APS-wide performance management desktop tool set to enable efficient implementation and operation and to support functional transfers across organisations.

Recommendation No.2

Strongly supported. Lack of consistency across agencies can be a real issue, impacting on staff mobility as well as adding to individual agencies administrative costs. We would want to ensure that agencies are closely consulted by the APSC.

Recommendation No.3

Conditionally supported. FaCS would want to be confident that proposed changes to reporting requirements took account of individual agencies performance management arrangements, and did not simply impose a standardised model without consultation. (Note that it is our understanding that FaCS' 2002–03 annual report complied with reporting requirements).

Department of Finance and Administration

The Department of Finance and Administration (Finance) has considered the draft report in line with our responsibilities under section 19 of the *Auditor-General Act 1997*, and believes that it provides a valuable analysis of current practices in performance management in the APS.

It is noted that the draft report's conclusions support the approach that Finance has already taken to enhance its Performance Management Framework. These enhancements were made with reference to the MAC Report.

Department of Foreign Affairs and Trade

The department has noted the report's recommendations. I have some questions about the proposed development of key indicators to measure organisational performance, as well as a comprehensive better practice guide for agencies on performance management.

The department has used to good effect the flexibility available under the devolved APS management environment to build a performance management system that fits our particular business and organisational needs. Our approach is strongly aligned with the Government's philosophy on these issues, as reflected in the *Workplace Relations Act 1996*. In particular I draw your attention to Part 1 Section 3 which sets out the purpose of the Act, which is to provide a framework for cooperative workplace relations by, inter alia:

ensuring that the primary responsibility for determining matters affecting the relationship between employers and employees rests with the employer and employees at the workplace or enterprise level; and

enabling employers and employees to choose the most appropriate form of agreement for their particular circumstances.

The design of our workplace encourages close consultation between management and staff. Our current performance system, which was endorsed by staff through our Certified Agreement, is delivering real improvements in staff performance across almost 100 different workplaces, taking into account our overseas posts and state and regional offices.

I would be concerned if our ability to implement a performance system which best suits our needs were to be compromised by the imposition of service-wide guidelines.

In regard to recommendation three, I am pleased to advise that the department is introducing improved reporting mechanisms aimed at ensuring the completeness and accuracy of our annual reporting on performance bonuses.

The proposed audit report suggests that the use of quotas or forced distribution systems may run counter to performance management better practice principles. I would emphasise that this department uses an absolute measure, where staff are initially assessed as Fully Effective, Effective or Unsatisfactory. All those who are assessed as being Fully Effective are entitled to performance rewards. We then provide additional rewards to the top 10 per cent of staff (Outstanding)

and the next 20 per cent of staff (Superior) according to a comparative rating system across broadbands and work units.

This rigorous approach also ensures that higher ratings (and consequential performance rewards) are equitably distributed across different classification levels and work units. Our experience with earlier appraisal processes in the department has shown that systems which do not ensure an equitable distribution of ratings tend to lack credibility and result in a large number of unrealistically high performance ratings and the clustering of higher ratings at more senior classification levels.

The department continually strives to improve procedures and address any flaws in the performance process. I note that, in accordance with the department's Certified Agreement 2003–06, a review of the department's performance appraisal system will be undertaken after the 2004–05 performance cycle. The audit report will serve as a useful reference for the department when considering ways to improve the effectiveness of our current performance system.

Department of Health and Ageing

Recommendation No.1

The Department agrees with the recommendation and notes that many agencies have already developed, or are in the process of developing, tools to measure organisational performance, such as balanced scorecards.

Recommendation No.2

The Department agrees. This would be very useful for the Department. The APSC should ensure that there are firm links between capability frameworks such as the SES Leadership Capability Framework and the APS Leadership Capability Development Pathway when developing the Guide.

Recommendation No.3

The Department agrees. The Department supports the development of a compliance framework to assist the disclosure of details of performance payments in annual reports.

Department of Immigration and Multicultural and Indigenous Affairs

This department introduced a new Performance Management System in September 2003, which postdates the audit exercise conducted by the ANAO earlier in the year. The findings of the audit, as they relate to

this department, are therefore not entirely reflective of our current system.

We believe that with the introduction of the new PMS some of the concerns raised by our staff have been or are being addressed.

One of the major improvements of our new PMS is a more effective process for managing under performance. The department has identified resources to assist in the implementation of the new process which includes training and coaching of supervisors in the management of under performance. Training of all employees in relation to their performance management responsibilities now occurs on an ongoing basis.

We are closely examining the findings of the report and implementing the recommendations where possible.

Department of Industry Tourism and Resources

Recommendation No.1

DITR would support such an initiative provided that extensive consultations are undertaken to identify the parameters of such indicators to ensure that they build value onto the Department's current activities.

Recommendation No.2

DITR concurs with this recommendation and looks forward to an opportunity to assist the APSC in the development of the Guide mentioned.

Recommendation No.3

Agree.

Department of the Prime Minister and Cabinet

PM&C is currently reviewing its Performance Management Scheme following an internal staff survey. A taskforce has been established to review the scheme and address the issues raised by staff. There are a number of conclusions from the ANAO audit that are relevant to this project and once the proposed report is finalised I look forward to sharing it with the taskforce members. I am confident that this report will assist staff and management in their consideration of how to improve the management of people across the department.

Recommendation No.1

PM&C agrees in principle with the recommendation that the APSC develop key indicators to measure organisational performance, with

observable links between corporate and employee performance, noting that considerable material has already been developed by the ANAO and the Department of Finance and Administration on organisational performance information and annual reporting.

The nexus between organisational performance and individual performance evaluation measurement is an important area for further development. In particular the development of a framework for people management and performance that could draw together key performance indicators that enable or are lead indicators for organisational excellence.

Recommendation No.2

PM&C agrees in principle with the recommendation that the APSC take a lead role in developing a comprehensive better practice guide for agencies on performance management, drawing together the: strategic framework as set out in the MAC Report; relevant policy parameters; and better practice administrative principles, noting that considerable material is already available and should be drawn upon in the development of any better practice guide.

A better practice guide that draws together all the different elements of a performance management system would be beneficial. There are a number of important issues addressed in the MAC Report, the Institute of Public Administration (IPAA) Performance Management – a guide to good practice (issued August 2001), and the APSC Performance Management Booklet No. 10 (issued June 2002). These publications should all be drawn upon in developing a better practice guide.

I note that the audit report focuses largely on the administration and systems associated with performance management. In my view there is a risk in over-emphasising these aspects of performance management, as they can detract from the more important day-to-day aspects of giving and receiving feedback. Performance management should focus on articulating, identifying and rewarding good performance on a daily basis to effect behavioural change.

The effective management of individual performance can affect organisational performance and outcomes, although establishing the strength of correlation is complex.

Recommendation No.3

Part 1

PM&C agrees that consideration be given to enhancing the usefulness of the Requirements by clarifying the parameters of the data to be collected and promoting more standardised, comprehensive,

comparable and accurate reporting of performance payment information by APS agencies.

Part 2

PM&C does not agree with the recommendation to collect and report on the totality of performance linked remuneration (i.e. both PLA and performance bonuses).

Significant reporting requirements already exist. PM&C is not convinced that reporting on the number of employees who have received salary advancement (pay progression or increments) as a result of a performance rating will add significant value to the Annual Report data. PM&C does not consider that the introduction of additional reporting requirements would be likely to improve agencies' compliance but will review that position in the light of experience following the clarification of the reporting requirements referred to above.

As you would be aware agencies are required to provide data for their Annual Report, the APSC State of the Service Report and financial statement reporting within a relatively short timeframe. For smaller agencies the resource demand can be high on a small number of staff during this period. My preference would be to focus on Recommendation 2 as a starting point, rather than increasing the reporting requirements at this stage.

Part 3

PM&C agrees that APS agencies should establish that they have appropriate mechanisms in place to assure the completeness and accuracy of their annual reporting on performance bonuses paid in compliance with the Requirements.

Department of Transport and Regional Services

DOTARS generally supports the recommendations included in the report. We feel that performance management is quite legitimately variable across agencies depending on a range of cultural factors that influence the objectives of formal arrangements. It is important that agencies retain the flexibility to be able to amend arrangements to suit their own cultural factors. Your recommendation for the APSC to develop a better practice guide rather than impose mandatory arrangements that would force all agencies to put in place the same processes is supported.

At DOTARS we are currently putting considerable effort into our performance management arrangements to improve the alignment of individual and organisational performance, to ensure consistent

performance standards and to refocus assessment from just measuring output to also assessing behaviour. Successful implementation will see a system that more closely meets the needs of managers and employees of DOTARS.

Department of the Treasury

The report contains a good detail of information and makes a large number of observations and assertions relating to the operations of performance management systems in the APS. The conclusions drawn are in many cases, perhaps of necessity, at a highly generalised level. As recognised by the report, performance management is complex and, in many cases, contentious topic. (With respect to the latter point, the report's use of staff survey responses is of interest, but is not without the usual difficulties surrounding the reliability and objectivity of survey results.)

Treasury accepts, in principle, the report's first and second recommendations, which may provide a logical follow-up to the 2001 MAC Report. However, both recommendations would appear to have potentially significant resource implications and so progressing these recommendations would be a matter for the APSC to determine in light of its other priorities.

The report's third recommendation is also accepted in principle; more complete and consistent information in this area should assist the transparency and, perhaps the credibility, of performance management systems. However, given the diversity of performance appraisal and remuneration schemes used across the APS, the successful implementation of this recommendation will require very careful attention to the definitions and instructions to ensure that they can be applied consistently across the different schemes. In this context, I note that Treasury's performance management framework has a remuneration advancement scheme that uses performance outcomes to inform decisions for certain classes of employees, but, in the absence of a clear direction, there could be some debate as to whether it would fit the definition of a performance advancement scheme.

Department of Veteran's Affairs

The report makes some interesting observations, particularly in its comparisons with the earlier MAC Report from 2001. The three success factors that were identified – alignment, credibility, and integration – can be difficult to measure. Equally, any performance management system can take time to become part of business culture. DVA has recently conducted a staff attitude survey, and that will provide us with valuable information about the degree to which our performance

management system is embedded in the organisation, and any improvements we have made since the last survey.

Recommendation No.1

DVA supports this recommendation and agrees that it may assist some agencies to have access to examples of key indicators that assists in measuring organisational performance, provided the examples are flexible and not prescriptive. Some of the agencies that are more advanced in this area would clearly be a reasonable place to start. However, it will need to take the variations between operational and policy-orientated agencies into account. It would also be useful if the examples included not only key indicators, but also suggestions on mechanisms to best measure these.

Recommendation No.2

DVA supports this recommendation. In particular, it would assist agencies if the proposed guide provided “better practice” examples and case studies, whether APS-specific or drawn from a wider field. Some State government agencies have made advances in this field in recent times, and could usefully be included.

Recommendation No.3

Part 1

DVA supports this part of the recommendation and considers that this would be helpful in undertaking its annual reporting process.

Part 2

DVA supports in principle the amendments to the Requirements to collect and report on totality of PLR and notes such a report might reflect a fuller picture of the situation in agencies. DVA would favour separate reporting of PLA and performance bonuses. Agencies would need criteria that define how the performance linked salary progressions are to be reported, as these amounts are not paid as one or two amounts per year. If a salary progression occurs during the year, then the amount would be less than for a full financial year. In addition, salary progressions are superannuable salary amounts, while bonuses are not.

Part 3

DVA supports the annual reporting on performance bonuses and compliance with Requirements and notes that a response to recommendation two of this report, will clarify for Agencies what would be required to establish that they have appropriate mechanisms in place.

Geoscience Australia

Geoscience Australia welcomes the ANAO audit report. Many of the issues raised are consistent with what Geoscience Australia is dealing with.

The first recommendation suggests that the APSC develop examples of key indicators to measure organisational performance, with observable links between corporate and employee performance. The organisations performance could be measured based on the generic model as well as the unique performance framework for each agency as outlined in mandatory external reporting requirements.

The second recommendation suggests that the APSC take a lead role in developing a Better Practice Guide for agencies on performance management. The third recommendation relates to the reporting requirements for Annual Reports and Geoscience Australia would support this. Geoscience Australia already provides high quality performance information in relation to the Requirements for Annual Reports.

IP Australia

I have limited comment to make as overall the report is well written and considered and makes worthwhile recommendations.

Recommendation No.1

IP Australia welcomes examples of key indicators for APS agencies to measure organisational performance with observable links between corporate and employee performance. Examples of key indicators could be a useful starting point for discussion with staff and stakeholders in the review of organisational performance measures at the individual and corporate level. In order to achieve the critical success factors for performance management systems (alignment, credibility and integration) there needs to be some discussion of the examples and their application or relevance in the specific organisational context if there is to be commitment and ownership by staff.

Recommendation No.2

IP Australia welcomes a comprehensive Better Practice Guide for agencies on performance management in order to ensure that the outcomes sought by government and the business needs of agencies are met. IP Australia is in the process of developing the Certified Agreement for 2005–2007 and has flagged a review of performance management in the CA negotiations, so that it can better meet IP Australia's business needs and the outcomes sought by government.

Recommendation No.3

IP Australia agrees that standardized, comprehensive, comparable and accurate reporting of performance payment information across agencies will be useful in both setting reasonable expectations for public service employees and at the same time achieving transparency for the public and Parliament. Standardisation of data, however, may result in IP Australia maintaining additional information. The costs of maintaining performance management systems and PLR need to be factored into organisational operating costs and linked to overall organisational performance. Data on bonuses paid in isolation from organisational productivity improvements may not be helpful, but hopefully a new reporting framework will address this issue.

In summary, IP Australia welcomes the recommendations that the APSC develops some Service-wide performance indicators and guides. IP Australia also supports the development of a new reporting framework that will assist IP Australia in identifying Service relevant information for managing and reporting against.

National Archives of Australia

The Archives shares the general observations of the report. We have recognised similar issues in the Archives and are addressing them in a review of our own performance management scheme, including the creation of clear links to corporate objectives in performance agreements, assessment of performance against work expectations and APS values, and the revision of guidelines to provide improved support for participants.

In addition, the Archives would like to suggest that, in light of Recommendations 1, any APS model for measuring performance against key indicators should be flexible enough to be adapted to suit organisational circumstances.

You might be interested to know that, as a result of our review of performance management, the Archives has decided to capture L&D needs identified in individual performance agreements to better inform planning for L&D in the organisation.

National Library of Australia

The Library has previously provided comments in respect on earlier draft of the report and it is noted that these comments have been taken into account in the preparation of the current version.

The findings are noted and the Library will be further refining its performance management arrangements in the light if there.

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