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Audit Report No.49 1998–99
Performance Audit

Staff Reductions in the Australian Public Service

Australian National Audit Office

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Canberra ACT
29 June 1999

Dear Madam President
Dear Mr Speaker

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

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Contents

Figures and Tables	7
Abbreviations	9
Terms and Definitions	10
Summary and Recommendations	
Summary	17
Background	17
Audit objectives and approach	18
Overall Conclusions	19
Key Findings	24
Staff reduction outcomes across the APS	24
Strategic planning across three APS agencies	27
Implementation of staff reductions across three APS agencies	28
The Government's guidelines	30
Agencies' responses	37
Recommendations	38
Better Practice Principles	42
Audit Findings and Conclusions	
1. Introduction	49
The framework for staff reductions across the APS	51
Audit scope and methodology	54
Introduction to the agencies selected for audit	55
Recommendations which impact on all APS agencies	59
2. Staff reduction outcomes across the APS	60
Reduction in APS numbers	60
Reductions by agency	64
Cost of staff reductions	67
Overall monitoring of staff reductions in the APS	76
3. Strategic planning across three APS agencies	92
Staff reduction strategies as part of longer-term corporate directions	94
Examination of the costs and benefits of alternatives to staff reductions	99
Evaluating the effects of staff reductions on agency performance	104
4. Implementation of staff reductions across three APS agencies	109
Implementation process	109
Assignment of responsibilities	123
Communications with staff and other parties	125
Retained staff	129

5. The Government's guidelines	132
Reduction in external recruitment	133
Strict control of temporary staff	137
Avoiding payment of higher duties allowances	140
Redeployment	142
Re-employment restrictions	153
Senior Executive Service	155
Impact of staff reductions on corporate knowledge and workplace diversity	155
Overall conclusion on adherence to the Government's guidelines	170
Appendices	
Appendix 1: Agency abbreviations and audit coverage	177
Appendix 2: Overview of the excess staff process	180
Appendix 3: Bibliography	181
Index	184
Series Titles	187
Better Practice Guides	191

Figures and Tables

Figures

Figure 1:

All APS staff 30 June 1989–30 June 1998
(permanent paid/non-paid + temporary) 61

Figure 2:

Appointments and separations of permanent APS staff, 1988–89 to 1997–98 63

Figure 3:

Number of separations from the APS, 1988–89 to 1997–98 65

Figure 4:

Permanent staff, 30 June 1995 to 30 June 1998, and wage
and salary expenses, 1995–96 to 1997–98 for 59 APS agencies 70

Figure 5:

Change in permanent staff in large APS agencies,
30 June 1996 to 30 June 1998 80

Figure 6:

Change in wages and salaries of permanent
staff in large APS agencies, 1995–96 to 1997–98 81

Figure 7:

Transfers, promotions and appointments into, and retrenchments,
other separations, transfers and promotions of permanent staff
from large APS agencies, 1996–97 to 1997–98 82

Figure 8:

Change in permanent staff in medium APS agencies,
30 June 1996 to 30 June 1998 84

Figure 9:

Change in wages and salaries of permanent staff
in medium APS agencies, 1995–96 to 1997–98 85

Figure 10:

Transfers, promotions and appointments into, and retrenchments,
other separations, transfers and promotions of permanent staff
from medium APS agencies, 1996–97 to 1997–98 86

Figure 11:

Change in permanent staff in small APS agencies,
30 June 1996 to 30 June 1998 88

Figure 12:

Change in wages and salaries of permanent staff
in small APS agencies, 1995–96 to 1997–98 89

Figure 13:

Transfers, promotions and appointments into, and retrenchments,
other separations, transfers and promotions of permanent staff
from small APS agencies, 1996–97 to 1997–98 90

Figure 14:

APS staff by employment category, 30 June 1989 to 30 June 1998 93

Figure 15: Age group of permanent staff as a percentage of total APS staff, 30 June 1989 to 30 June 1998	95
Figure 16: Length of service of permanent staff, 30 June 1989 to 30 June 1998	100
Figure 17: Percentage of women in the APS, 30 June 1989 to 30 June 1998	122
Figure 18: Staff reductions framework	138
Figure 19: Elements of a staff reduction strategy	158
Figure 20: Assessment of costs and benefits of alternatives to staff reductions	159
Figure 21: Model implementation process	168

Tables

Table 1: Factors relating to the selection of audited agencies	56
Table 2: Rate of retrenchment in the APS by pay centre location	62
Table 3: Transfers, promotions and appointments into, and retrenchments, other separations, transfers and promotions of permanent staff from large APS agencies, 1996–97 to 1997–98	83
Table 4: Transfers, promotions and appointments into, and retrenchments, other separations, transfers and promotions of permanent staff from medium APS agencies, 1996–97 to 1997–98	87
Table 5: Transfers, promotions and appointments into, and retrenchments, other separations, transfers and promotions of permanent staff from small APS agencies, 1996–97 to 1997–98	91
Table 6: APSLMAP's performance	119
Table 7: Rate of retrenchment in the APS by age group and length of service	152
Table 8: Rate of retrenchment in the APS by EEO group	160
Table 9: Age retirement and retrenchment of staff aged 55 and over	166

Abbreviations

(See Appendix 1 for agency abbreviations)

ABARE	Australian Bureau of Agricultural and Resource Economics
AFFA	Department of Agriculture, Fisheries and Forestry—Australia
AGSO	Australian Geological Survey Organisation
APS	Australian Public Service
APSLMAP	Australian Public Service Labour Market Adjustment Program
AQIS	Australian Quarantine and Inspection Service
ATO	Australian Taxation Office
BTCE	Bureau of Transport and Communications Economics
CRP	Continuous Record of Personnel
DoTRD	Department of Transport and Regional Development
DoTRS	Department of Transport and Regional Services
DPIE	Department of Primary Industries and Energy
EEO	Equal Employment Opportunity
LWOP	Leave without pay
NESB	Non-English speaking background
PSMPC	Public Service and Merit Protection Commission
SES	Senior Executive Service

Terms and Definitions

Agency running costs	Agency running costs include costs associated with salaries and related employment costs, superannuation, administrative items, property operating expenses and the purchase of goods and services.
Appointment	An appointment refers to the engagement or re-engagement of a staff member under the appointment provisions of the <i>Public Service Act 1922</i> .
Corporate knowledge	In this report, corporate knowledge (or human capital) has been used to refer to the general level of experience of agency staff. The ANAO acknowledges that corporate knowledge is a complex asset, both to measure and manage, but has used length of service data as one means of quantifying an agency's knowledge base. It should be noted, however, that this measure will not provide an indication of the quality or relevance of the knowledge gained through a staff members experience.
Continuous Record of Personnel (CRP)	The CRP collects staffing data from agencies employing staff under the <i>Public Service Act 1922</i> . Career history information is recorded for permanent staff and includes staff on leave without pay and other unpaid inoperative staff. Information extracted from the CRP and reported in the <i>State of the Service: Australian Public Service Statistical Bulletin</i> is current at the last day of the financial year.
Excess employee	<p>Excess employees are those employees who are considered excess to organisational requirements. Staff who are likely to become excess are identified as being potentially excess. Reasons why employees may become excess include:</p> <ul style="list-style-type: none">• belonging to a class of staff which comprises a greater number of staff than is necessary for the efficient and economical working of the agency;• the services of the staff member cannot be effectively used because of technological or other changes in the methods, or changes in the nature, extent or organisation of the functions of the agency; or

	<ul style="list-style-type: none"> • other changes in the methods or the duties of the staff member being performed at a different locality.
'Hands-up' process	Where a staff reduction target has been set and, in order to identify which staff are to be retrenched, general expressions of interest are sought from any staff interested in being considered for voluntary redundancy. This is a mainly voluntary process which involves little or no targeting of individual staff members by management.
Inefficient staff	Staff who have been identified as being inefficient and are being dealt with under the formal inefficiency provisions.
Inoperative staff	Staff who are absent from their agency for a period greater than 12 weeks. Such absences may be paid or unpaid, for example, staff on leave without pay, extended maternity leave or long service leave.
Job swaps	Intra- and inter-agency job swaps are arrangements where other employees of an agency outside the area affected by the retrenchments, or from another agency, are invited to express interest in voluntary redundancy where their retirement would permit the redeployment of an excess employee who does not wish to accept voluntary redundancy and who would otherwise remain excess.
Mobility provisions	Mobility provisions includes both voluntary and compulsory movements of staff to an authority covered by the mobility provisions of the <i>Public Service Act 1922</i> . These provisions are currently undergoing change.
Natural attrition	Where staff leave an organisation through any of the various methods of separation except retrenchment.
Non-retrenchment separations	Employees cease to be employed under the <i>Public Service Act 1922</i> through the various methods of separation (principally resignation, retirement and mobility) but not including retrenchment.
Redeployment	Transfer of an excess, or potentially excess staff member, to a suitable vacancy in the home or another agency.

Separation and redundancy expenses	Separation and redundancy expenses is the term used to refer to those costs arising directly as a result of voluntary redundancy ie. severance benefits (the number of weeks of salary paid for continuous service). It does not include those amounts which would normally be paid out on separation, such as accrued leave, as these would be payable regardless of the method of separation. Agencies were not required to report these expenses prior to the 1996–97 financial year.
Separation	<p>A separation occurs when an officer ceases to be employed under the <i>Public Service Act 1922</i>. Methods by which this can occur include:</p> <ul style="list-style-type: none"> • resignation; • age retirement; • retrenchment; • invalidity retirement; • inefficiency or disciplinary action; • termination of appointment; • Tier 2 mobility provisions; and • death.
‘Spill’ process	Where a staff reduction target has been set and, in order to identify which staff are to be retrenched, all positions at a classification level or in a functional area within an agency are declared vacant. The required number of positions (generally less than before) are then filled on a merit basis. Those staff who do not secure a position are identified as excess.
Staff movements	Staff movements include separations (including retrenchments), appointments, transfers between agencies and promotions during a given financial year.
Staff reduction	A decrease, by any means, in the number of APS staff. The decrease may have occurred as a result of separation, reductions in appointments or changes in the coverage of the <i>Public Service Act 1922</i> .

Targeted process	Where a staff reduction target has been set and, in order to identify which staff are to be retrenched, management decides which staff should be offered voluntary redundancy on the basis of some attribute.
Temporary employees	APS temporary employees are staff employed under Division 10 of Part III of the <i>Public Service Act 1922</i> . Provisions are made for several different categories of temporary employment under the Act. This report refers to staff employed on a temporary basis through a third party such as an employment agency as 'non-APS staff employed on a contract for service basis'.
Total APS staff	Total APS staff include permanent staff (paid and non-paid) and temporary staff.
Wages and salaries	Wage and salary expenses include performance pay, overtime and higher duties allowances accrued during the financial year but excludes separation and redundancy expenses.
Workplace diversity	Workplace diversity relates to gender, age, language, ethnicity, cultural background, sexual orientation, religious belief and family responsibilities. Equal Employment Opportunity (EEO) groups are a significant subset of workplace diversity.

Summary and Recommendations

Summary

Background

1. The Australian Public Service (APS) reform agenda has focused on improving efficiency and effectiveness in order to build a highly performing Public Service. The objective has been to focus the APS on its core activities, that is, policy development, legislative implementation and the contracting and oversight of service delivery. The reform agenda has involved reducing central controls and devolving greater decision-making authority to agencies, introducing more flexible workplace relations arrangements, placing a greater focus on outputs/outcomes and accountability for performance, and improving the delivery of services to customers and clients. The implementation of the reform agenda has involved organisational restructuring, re-engineering, outsourcing, commercialisation, privatisation and/or abandonment of functions. Staff reductions are a component of some or all of these measures.

2. The APS reduced from a peak of almost 178 000 staff at 30 June 1987¹ to just over 121 000 at 30 June 1998.² The APS covers only those staff employed under the authority of the *Public Service Act 1922* and forms less than half of total Commonwealth employment and a relatively small part of total public sector employment. The size of the APS has been reduced as it has become more focused on the efficient delivery of its core functions and as functions were privatised, outsourced or transferred to Commonwealth bodies outside the APS.³ An analysis of staff reductions between 1989 to 1998 showed that the number of APS staff reduced by almost 45 000 (or 27 per cent). However, almost half these reductions resulted from reduced coverage of staff employed under the Public Service Act in the wake of major changes which occurred in 1989–90 and 1994–95.⁴ Taking into account reduced coverage, the reduction in APS employment since 1989 becomes around 25 500 (or 17 per cent).⁵

¹ Public Service and Merit Protection Commission, (1997), *APS Staffing Statistics Report 1996*, Commonwealth of Australia, p.12.

² ANAO analysis of CRP data as at 30 June 1998.

³ Public Service and Merit Protection Commission, (1998), *State of the Service Report 1997-98*, Commonwealth of Australia, p.9.

⁴ Reductions in coverage in 1989-90 occurred largely as a result of the Civil Aviation Authority (7 200 staff) being removed from coverage under the Public Service Act. Similarly, reductions in 1994-95 also resulted from the Australian Capital Territory Government Service (7 200 staff) and several veterans hospitals (2 500 staff) being removed from coverage.

⁵ The net reduction takes into account the addition of 5 095 staff to the APS and the loss of 26 845 staff resulting from coverage changes over the period.

3. Staff reductions accelerated markedly from June 1995, largely due to reasons other than changes to coverage of the Public Service Act. Based on figures adjusted for changes to coverage, total APS staff numbers declined by some 23 700 between 30 June 1995 and 30 June 1998—of this net reduction, around 22 900 staff were retrenched. Some of the factors that have led to a significant reduction in APS staff numbers since 1996 include Government decisions about how services were to be delivered and agency decisions about the structure of their workforce, service delivery, the abolition of functions, and responses to budgetary pressures such as reduced running costs.

4. Consistent with devolved management arrangements, staff reductions were managed by agencies within the resources allocated to them. No staff reduction targets were set by the Government. Rather, agencies were advised in 1996 in information promulgated by the Public Service and Merit Protection Commission (PSMPC) that they were expected to implement a strategic approach to the management of staff reductions and to manage down staff numbers within a set of common, Service-wide guidelines. The guidelines included reducing external recruitment, strict control of the engagement of temporary employees, avoiding payment of higher duties allowances, an emphasis on redeployment, and restrictions on re-employment.

5. The Government established a committee of senior officials to oversee the process and to evaluate, at agreed intervals, the effectiveness of agency strategic plans. The Government's strategy for managing the staffing consequences of reductions in running costs was revised in December 1997 and promulgated to agencies in February 1998. There was less emphasis on restricting external recruitment and on restricting the use of temporary staff. The mandatory scrutiny of APS vacancies by the Australian Public Service Labour Market Adjustment Program (APSLMAP) was removed. As well, the committee of senior officials was disbanded leaving the PSMPC's reports to the Minister Assisting the Prime Minister for the Public Service as the principal vehicle for providing information on the management of staff reductions in the APS.

Audit objectives and approach

6. The Australian National Audit Office (ANAO) indicated its intention to audit staff reduction activities in the APS when publishing a better practice guide entitled *Managing APS Staff Reductions*, in June 1996.

7. The objective of this audit was to assess the extent to which staff reductions have been managed in a sound strategic and cost-effective manner consistent with the guidelines outlined by the Government and

the ANAO's better practice guide. The audit focused on the practices of three agencies (the Australian Taxation Office—ATO, the former Department of Primary Industries and Energy—DPIE, and the former Department of Transport and Regional Development—DoTRD) in relation to:

- strategic planning for staff reductions, analysis of the costs and benefits of alternatives to staff reductions, and evaluation of the reduction exercises;
- implementation of staff reductions including processes for identifying potentially excess staff, assignment of responsibilities, effective communication in administering the process and maintaining a focus on retained staff; and
- adherence to the Government's guidelines, as well as the maintenance of some youth recruitment, and monitoring the impact of staff reductions on corporate knowledge and the diversity of APS staff.

8. Determining how strategic the APS has been in managing staff reductions would require an in-depth assessment of the performance in all significant Government programs, an assessment which is beyond the scope of this audit. However, APS-wide data were considered where available in order to draw some overall conclusions.

Overall Conclusions

Across the APS

Adopting a strategic and cost-effective approach

9. Because the audit did not seek to consider, at a global level, the relationship between inputs and outputs/outcomes, no general conclusion can be drawn on just how strategic agency decision-making has been in managing staff reductions across the APS. However, in terms of cost-effectiveness, the ANAO found that the majority of staff reductions were achieved through retrenchment rather than through natural attrition. The ANAO acknowledges that increased natural attrition would have been difficult to achieve given the availability of voluntary redundancy packages and the pressure on agencies to achieve budget reductions quickly.

10. The ANAO also found that comprehensive information that integrates the cost of staff reductions and the number of staff accepting redundancy is not available for the APS as a whole, nor it is given much attention in agencies' annual reports. There would be benefit in all agencies systematically monitoring staff movements and associated expenditure to ensure that any change is the result of conscious strategic

decisions by management to achieve cost-effective outputs and outcomes as the main focus, rather than simply avoiding the discipline of performance management.

Adherence to the Government's guidelines

11. Responsibility for compliance with the Government's guidelines rested with the individual agencies. On the basis of available APS-wide data, the ANAO found that, consistent with the guidelines:

- overall external recruitment was reduced across the APS with appointment levels falling to their lowest level in almost 10 years at 30 June 1998;
- temporary staff numbers were controlled, decreasing by 23 per cent between 30 June 1995 and 30 June 1998; and
- the Senior Executive Service was not excluded from staff reductions.

Across the three agencies audited

Adopting a strategic and cost-effective approach

12. The ANAO's analysis and observations indicated that the ATO and the Australian Quarantine and Inspection Service (AQIS—which was part of DPIE at the time of audit) were particularly strategic in managing their staff reduction exercises. Both agencies had a robust corporate planning framework in place which was used to help ensure that staff reduction strategies were aligned with their longer-term corporate directions. Performance indicators developed by the two agencies indicated that performance levels were maintained or improved during the major period of staff reductions. In comparison, other parts of DPIE and DoTRD were not as well placed in 1996 to take a sound strategic approach to planning for staff reductions given the absence of a robust corporate or workforce planning framework or processes to measure performance.

13. In relation to minimising the cost of the reductions, the ANAO found that the majority of the staff reductions across the three agencies, as with the wider APS, occurred through retrenchment.

14. The primary focus in a number of the reduction exercises has been on operating within assigned budgets by reducing the required number of staff quickly, but with less obvious regard for the transitional and/or longer-term operational needs of the agency. The ANAO found little evidence to suggest that decisions on the number of retrenchments were always supported by:

- an assessment of the impact of staff reductions on the agency's ability to conduct its business in the transitional period and/or in the longer-term; and

- consideration of the most cost-effective ways of combining staff retention, retraining, redeployment, retrenchment, and recruitment decisions to achieve desired skills profile.

15. As well, the agencies had not sought to specifically evaluate the effectiveness of the reduction process in meeting their objectives and to determine what improvements could be made in the future.

Implementation of staff reductions

16. The reduction exercises examined across the three agencies were generally well managed with some examples of good practice. The processes used to implement the staff reductions normally relied on staff volunteering for redundancy. However, where a voluntary 'hands up' approach was used, the decision of which staff member to retain and which staff member to retrench may not always have reflected the transitional and/or longer-term needs of the agency. For example, in order to alleviate a short-term financial pressure, there is the potential for on-going agency performance to be put at risk and for essential corporate knowledge to be lost.

17. There is scope for the three agencies to develop implementation processes that reflect a more considered approach to retaining highly valued staff. This would help ensure such staff are retained, as necessary, for the benefit of the organisation and that the agencies' skills profile is compatible with future directions and requirements. While recognising that there may be a trade-off between equity and efficiency in such exercises, it is important that management is seen to be driving the identification of potentially excess staff not merely, for example, solving the problem with less friction by conforming to the wishes of individual officers. Within the more flexible workplace relations environment now available there is greater scope for better targeting of potentially excess staff.

18. The ANAO also found that the agencies could improve the level of support they provide to those staff members remaining in the organisation following a staff reduction exercise, to facilitate their adjustment to the changed environment.

Adherence to the Government's guidelines

19. Adherence to the Government's guidelines was satisfactory in most instances with the three agencies considering their actions in the light of operational imperatives. The guidelines focused on the treatment of staff during redundancy exercises and the management of the staff reduction process. Although not explicitly stated, when considered as a package, the Government's guidelines reflected a desire for the reduction

process to be cost-effective across the APS. The ANAO found that the three agencies tended to treat each guideline as a separate requirement rather than managing them as an integrated package.

Corporate knowledge and workplace diversity

20. In the ANAO's view, the apparently limited emphasis given to managing the agencies' human capital (or corporate knowledge) should be addressed as part of any future staff reductions process. The ANAO found that the three agencies audited had not developed specific strategies to align staff skills with corporate objectives and the 'hands up' approach of many reduction exercises resulted in the retrenchment of valued staff. A greater emphasis on identifying the existing skills profile and aligning it with the particular agency's needs over a longer time frame would result in more effective management of the staff reduction process and be beneficial in guiding agencies' subsequent recruitment activity.

21. The ANAO also found that monitoring the impact of staff reductions on the workforce skills and workplace diversity profiles was generally insufficient across the agencies audited. As well, expenditure on staff development fell during the period of staff reductions when there were considerable changes in the agencies' staffing profiles.

Recommendations which impact on all APS agencies

22. The ANAO's examination of twelve separate staff reduction exercises across the three agencies audited, highlighted the variety of factors influencing the need to reduce staff. The staff reduction exercises examined by the ANAO occurred as a result of agency decisions about the structure of their workforce, responses to budgetary pressures, the abolition of functions and Government decisions about how services were to be delivered. Despite this, a degree of overall consistency emerged in the audit findings. As a result, the majority of recommendations in this report are likely to have general application to all APS agencies and should, therefore, be considered as part of any future agency staff reductions.

23. However, the ANAO does not wish to suggest that 'one size fits all' and acknowledges that 'pressure cooker' situations will arise where agencies are required to reduce staff quickly in response to external factors. As a result, it is essential for agencies to tailor their staff reduction strategies to their particular circumstances. Nonetheless, the overarching principles for managing staff reductions embodied in the

recommendations contained in this report are intended to help guide agencies in managing staff reductions strategically and cost-effectively. They should also help focus management's attention on the importance of an agency's human capital as well as the need for clear leadership; open, sensitive and pro-active communication; and fair and ethical dealings during a staff reduction exercise.

Better practice principles

24. The ANAO has also developed a series of better practice principles relevant to all APS agencies. These principles have been drawn from issues raised during the course of this audit, and the ANAO's 1996 better practice guide.

Key Findings

Staff reduction outcomes across the APS (Chapter 2)

This chapter outlined the extent to which staff numbers have been reduced across the APS and within 59 agencies for which it was possible to obtain both staff numbers and financial data.

25. Unless otherwise stated, the staffing data used in this report is unadjusted for changes to coverage under the Public Service Act. The ANAO has based its analysis on unadjusted staff numbers because of the difficulties associated with making the necessary adjustments at the individual agency level. As well, unless otherwise stated, the ANAO's analysis refers to permanent staff only as temporary staff are not reflected in the staff movement data (eg. appointments, resignations, promotions, retrenchments etc.).

How and where the reductions were achieved

26. Based on figures adjusted for coverage change, total APS staff numbers (permanent and temporary) reduced from 144 927 at 30 June 1995 to 121 261 at 30 June 1998—a net decrease of some 23 700 or 16 per cent. Over the same period, 22 914 permanent staff were retrenched.

27. When disaggregated by location,⁶ the total number of permanent staff decreased in each state and territory in the last three years to 30 June 1998 (these figures are unadjusted for coverage change). The largest relative decreases occurred in the Northern Territory where 22 per cent of total APS staff employed in the Territory left the Service (ie. 406 staff members); Victoria (21 per cent or 5 152 staff); New South Wales (19 per cent or 5 713 staff); South Australia (19 per cent or 1 699 staff); Queensland (18 per cent or 2 455 staff); Western Australia (18 per cent or 1 365 staff); Tasmania (17 per cent or 476 staff) and the Australian Capital Territory (10 per cent or 4 114 staff).

28. The ANAO found that the reduction in APS staff numbers was generally achieved by a significant increase in retrenchments, particularly since 1996–97. This has been combined with comparatively low levels of appointments and decreasing rates of resignation and age retirement across the APS.

⁶ Location refers to the location of the pay area from which staff are paid. In some cases this is not necessarily the physical location of staff.

Cost of staff reductions

29. The ANAO endeavoured to obtain information for the APS as a whole but it was only possible to obtain both staff numbers and financial data for 59 of the 73 agencies employing staff under the Public Service Act. However, these 59 agencies constitute the bulk of the APS in terms of staff numbers and wage and salary expenses.

30. The ANAO's analysis of data from these agencies showed that:

- separation and redundancy expenses since 1996–97 totalled \$711 million which covered 19 637 retrenchments;
- wage and salary expenses, adjusted for 1998 dollar values, fell from \$5 554 million in 1995–96 to \$5 126 million in 1997–98, a decrease of \$428 million or 7.7 per cent over the three years. At the same time, permanent staff numbers decreased from 128 478 at 30 June 1996 to 108 784 at 30 June 1998, a decrease of 19 694 staff or 15.3 per cent;
- five agencies reduced staff at the same time as increasing their expenditure on wages and salaries; and
- 17 agencies have gone some way towards replacing retrenched staff. In these agencies, the total number of staff coming into the agency via appointment, transfer and promotion exceeded the number of non-retrenchment separations (ie. staff leaving the agencies through resignation, retirement mobility etc.), transfers and promotions out.

31. There remains a question as to whether agencies generally had sound strategic and operational reasons for increases in wages and salaries while staff numbers were falling and for the replacement of retrenched staff. Such checks as were possible for the ANAO to undertake suggested that there were.

32. The ANAO's quantitative analysis does indicate that, contrary to the Government's intention, the APS achieved little in the way of reduced staff numbers or cost savings through increased natural attrition. Rather, the majority of people leaving the APS were retrenched.

Better practice principle The ANAO considers that there would be benefit in agencies systematically monitoring changes in staff movements and associated expenditure to ensure that any change is the result of conscious strategic decisions by management to achieve cost-effective outputs and outcomes as the main focus.

Monitoring and reporting on staff reductions

33. The PSMPC has overall responsibility for monitoring the management of staff reductions across the APS through reports to the Minister Assisting the Prime Minister for the Public Service.⁷ Initially, these reports were based on surveys of agencies and were built around the structure of the Government's strategic framework for managing staff reductions. Following amendments to the framework in December 1997, the PSMPC reports six monthly using data derived from official statistics rather than agency surveys. The purpose of these reports is to monitor key indicators such as changes to total staff numbers, recruitment, redeployment and retrenchment to allow the Government to respond to any emerging trends as necessary.

34. However, the reports do not provide information on redeployment and only provide data on the other key staffing indicators for the last eighteen months (despite the availability of similar information over a longer time period) which is insufficient to identify trends in relation to APS staff movements. The ANAO also found that comprehensive information that integrates the cost of staff reductions with the number of staff accepting redundancy is not available for the APS as a whole, nor is it given much attention in agencies' annual reports. There would be benefit in the PSMPC providing more comprehensive information of this kind in its reports to the Minister Assisting the Prime Minister for the Public Service and making this information more readily available to the Government and the Parliament. This would enable a better assessment to be made on the overall effectiveness of the Government's strategic framework for managing staffing changes. It may also lead to improvements in public administration and help the PSMPC in discharging its responsibilities to assist the Government and agencies in managing reductions in APS staffing.

35. As indicated earlier, it is appreciated that the success or otherwise of staff reduction exercises will be reflected in agency outputs and outcomes and, consequently, in available performance information. But it would be necessary for the agencies to make the relevant connections.

⁷ The Commission's role includes assisting the Government and agencies to manage the reductions in APS staffing through overseeing the Government's strategic framework, issuing guidelines and circulars, conducting briefing sessions for agencies, assisting excess and surplus officers to find redeployment within the APS and providing advice on the human resource aspects of outsourcing.

Public Service and Merit Protection Commission, (1998), *Our Role*, p.viii.

Strategic planning across three APS agencies (Chapter 3)

This chapter examined the strategic planning for staff reductions across the three agencies audited.

Integration of staff reduction strategies in the broader context of longer-term corporate directions

36. Although the three agencies audited had formulated sound operational plans to implement staff reductions, the absence of a robust corporate planning framework in DPIE and DoTRD at the time meant that these two agencies were unable to link their staff reduction strategies to any longer-term corporate direction. Only the ATO had a mature corporate planning framework which was used to help ensure that the staff reductions strategies were directly aligned with its strategic directions. Both DPIE and DoTRD have since developed corporate plans and other mechanisms to enable future organisational structures, work/job design, and workforce skill requirements to be determined more readily in a more strategic framework. The AQIS reform process occurred after the development of the DPIE corporate plan and the quality of the planning in AQIS reflects this initiative.

Better practice principle The ANAO considers that there would be benefit in all APS agencies fully integrating their staff reduction strategies with their strategic planning frameworks to help identify and manage the impact of any future staff reductions on agency performance.

Examination of the costs and benefits of alternatives to staff reductions

37. There was very limited assessment by the three agencies of the cost-effectiveness of alternative strategies to achieve the desired workforce skills profile. The ATO and DPIE considered alternative cost saving measures that could have minimised staff reductions, for example reducing administrative expenditures and property operating expenses. However, only AQIS, as part of its approach to the reforms to the meat inspection program, specifically analysed the costs and benefits of the choices available to staff arising from the organisational reforms.

Better practice principle All APS agencies should ensure that they examine the most cost-effective ways of combining retention, retraining, redeployment, retrenchment, and recruitment decisions to achieve the desired skills profile in any future staff reduction exercises.

Evaluation of the impact of staff reductions on agency performance and the identification of any improvements to the strategy and processes

38. Monitoring the impact of staff reductions on agency performance was generally inadequate across the agencies audited. Although isolated examples of evaluation activity were observed, none of the three agencies evaluated the impact of staff reductions on their ability to perform their functions during the period of staff reductions and beyond. The ANAO also found that, with the exception of the ATO and AQIS which had developed objective and measurable agency-wide performance indicators, there was a marked absence of mechanisms in the agencies to identify the impact of staff reductions on agency performance. In addition, none of the three agencies comprehensively evaluated the staff reduction processes adopted to identify what improvements could be made in the future.

Better practice principle There would be benefit in all APS agencies monitoring and evaluating the progress of any future staff reduction exercises. Evaluation is a major tool in assessing the extent to which agencies are able to continue to deliver their services and meet their business objectives in the wake of staff reductions. It is also important to learn from previous experiences and make improvements to strategies and processes, where possible, in any future staff reduction exercises to ensure that agency performance is effectively managed during the period of staff reductions and beyond.

Implementation of staff reductions across three APS agencies (Chapter 4)

This chapter examined the implementation of staff reductions across the three agencies audited.

Processes adopted to identify potentially excess staff

39. The three agencies audited formulated operational strategies to implement staff reductions. However, the processes used to identify potentially excess staff relied on staff volunteering for redundancy. This is consistent with the PSMPC's observation that there was less active management and less targeting in the 1996 staff reductions than ever before and led to the Commission raising concerns about the extent of management control over such a voluntary process. The effectiveness of any strategy which relies on staff volunteering for redundancy is questioned because it may not always reflect the longer-term needs of the agency and there is the potential for agency performance to be put at risk and corporate knowledge to be sacrificed to alleviate short-term

financial pressures. Only the Australian Bureau of Agricultural and Resource Economics (ABARE) specifically excluded highly valued staff from their reduction exercise.

Better practice principle The use of exemption criteria focused on retaining staff with valuable skills demonstrates good practice. All APS agencies would benefit from excluding a wide range of valued staff from any future staff reductions—thus ensuring such staff are retained for the benefit of the organisation (to assist in the maintenance of its human capital). Agencies should look to the medium- and longer-term when identifying valued staff to be retained to ensure that the skills profile of retained staff is compatible with future directions and requirements.

Adequacy of the assignment of responsibilities

40. Responsibility for managing the reductions was assigned clearly and appropriately across the three agencies audited but, although the involvement of senior management in the staff reduction process was often clearly evident to all staff early in the process, it was not as visible as the staff reductions progressed and the process became more difficult.

Better practice principle All APS agencies should ensure that senior management is involved and visible at all stages throughout any future staff reductions process. This would demonstrate clear leadership and help to ensure that a consistent message is communicated across the agency; that commitments made to staff are fulfilled; and that staff are dealt with in a fair and equitable manner, including those who remain in the organisation following the reductions.

Effectiveness of the communication with staff and other parties

41. The ANAO considers that the three agencies audited were reasonably effective in providing good communication in relation to staff reductions.

Better practice principle There would be benefit in all APS agencies ensuring they have a communications strategy which is tailored to the specific circumstances of any future staff reductions. The development of specific communications strategies based on lessons learnt from previous experiences, and including information for staff with special needs as well as external stakeholders, would help ensure that the official advice is distributed in an accurate and timely fashion. The effectiveness of the strategy should then be tested during the course of the staff reductions process.

Extent of the attention given to the needs of retained staff

42. Apart from the efforts of the Australian Geographic Survey Organisation (AGSO), there was little evidence that, during the strategic planning for and implementation of staff reductions, consideration was given to the impact of the reductions process on the ability of retained staff to fulfil operational requirements, maintain their morale, or to tailor activities to assist them to deal with the changes under way in the workplace.

Better practice principle All APS agencies should ensure that support is provided to those that remain following any future staff reduction process and that the needs of these staff members are managed effectively. This will demonstrate that retained staff are valued and that they have a future in the organisation and help ensure their continued ability to fulfil operational requirements. The role of managers in assisting retained staff to cope with new working arrangements should also be emphasised.

The Government's guidelines (Chapter 5)

This chapter included an outline of the extent to which the three agencies audited adhered to the Government's guidelines. An examination of APS-wide data for those areas covered by the guidelines was also undertaken, where possible.

General adherence to Government's guidelines

Across the APS

43. Responsibility for compliance with the Government's guidelines rested with the individual agencies. On the basis of available APS-wide data, the ANAO found that external recruitment was reduced, APS temporary staff numbers were controlled and the Senior Executive Service was not excluded from staff reductions. This was consistent with the Government's guidelines. However, the ANAO was unable to identify the extent of redeployment across the APS beyond that achieved by APSLMAP due to the information not being recorded in the Continuous Record of Personnel (CRP). There was also anecdotal evidence that ex-APS staff were being re-employed, through a third party, on contract in the APS after receiving a voluntary redundancy package.

Across the three agencies audited

44. Overall, the ANAO found a high level of awareness of the Government's guidelines in each of the three agencies audited. The reduction strategies reflected the guidelines and staff were adequately informed of them.

45. The ANAO acknowledges that strict adherence to the guidelines was not appropriate in all cases due to operational imperatives. However, greater attention to the guidelines was noted in DPIE and DoTRD than in the ATO. Unlike the two smaller agencies, the use of temporary staff and the payment of higher duties allowances increased in the ATO. As well, there was evidence that external recruitment, coupled with voluntary redundancies, was used as a means of reshaping the staff profile in one business line. Although these increases were in line with operational imperatives, as discussed below in relation to the individual guidelines, they may also indicate that the ATO gave less consideration to the short-term costs involved than the other agencies. However, the ANAO recognises that this may also reflect the different factors which influenced the need to reduce staff in each agency. The principal driver for the staff reductions in the ATO was a management initiated program of restructuring and performance improvement. In contrast, the reductions in DPIE and DoTRD were in response to external factors such as reduced running costs, the abolition of a function and Government decisions about how services were to be delivered.

46. Only DPIE established a formal process to monitor progress against the agency's overall staff reduction strategy. At the time of audit, the ATO and DoTRD collected information on key staffing indicators on an agency-wide basis for internal management purposes. However, there was no indication that these observations were fed back into higher-level strategic planning. DPIE did not have systems in place to monitor and report on changes to its staffing profile during the period of major staff reductions apart from a program of staff surveys conducted at two yearly intervals.

Better practice principle There is scope for all APS agencies to monitor key staffing indicators, including those covered by the Government's guidelines. Agencies could make use of the information gathered through improved monitoring to inform subsequent staff reduction strategies and implementation processes. It would also enhance any future analysis of the costs and benefits of alternative strategies to minimise staff reductions and allow agencies to more effectively manage retention of their corporate knowledge, workforce skills profile and workplace diversity in the context of staff reductions.

Adherence to individual Government guidelines

Reduction in external recruitment

Across the APS

47. Appointment levels decreased in most agencies across the APS in 1996–97 and APS-wide appointments at 30 June 1998 were at the lowest level in almost 10 years. However, in a significant number of agencies, appointments increased in 1997–98 to exceed 1995–96 levels. The ANAO also found that the proportion of staff in the under-25 age group declined significantly in the last decade. This is of particular concern given it is a factor contributing to the overall ageing of the APS.

Across the three agencies audited

48. The three agencies audited developed appropriate recruitment management strategies and tailored their recruitment activities to meet operational imperatives effectively. Although the number of appointments in all three agencies decreased in 1996–97 after dissemination of the guideline, appointments in the ATO have since increased to exceed 1995–96 levels. The ANAO acknowledges that the ATO was re-modelling its workforce in light of its strategic and workforce plans. In addition, graduate recruitment was occurring to minimise longer-term workforce planning problems.

49. Graduate recruitment continued across the three agencies, with the exception of AGSO. However, as with the wider-APS, the proportion of staff aged less than 25 decreased in all three agencies between 30 June 1995 and 30 June 1998.

Better practice principle There would be benefit in all APS agencies ensuring that their staff recruitment is managed in light of longer-term workforce planning requirements.

Strict control of temporary staff

Across the APS

50. The overall number of temporary staff employed under the Public Service Act declined in line with reductions in permanent staff. Between 30 June 1995 and 30 June 1998, the overall number of temporary staff decreased by 23 per cent.

51. Data limitations meant that the ANAO was unable to ascertain the extent to which non-APS staff were being employed on a contract for service basis in the APS as a whole.

Across the three agencies audited

52. The use of temporary staff was considered in the light of organisational needs across the three agencies audited and was well managed in DPIE and DoTRD. However, although its use of temporary staff is small in comparison with that of other large APS agencies, maintenance of a strict control of temporary staff received limited attention in the ATO. There was a significant increase in the use of temporary staff in the ATO, particularly following the relaxation of the guideline in 1997–98. The ANAO recognises that it was considered more efficient and economical for the ATO to employ temporary staff for data processing than assigning permanent staff to it but, unlike DPIE and DoTRD, the ATO displayed no corporate monitoring or control of the engagement or termination of temporary staff. The ANAO considers that there would be benefit in the ATO reviewing the overall essentiality of temporary staff to ensure that they are being employed only in line with operational imperatives and that they are cost-effective.

**Better
practice
principle**

There would be benefit in all APS agencies:

- collecting data on the use of both temporary and contract staff, as well as for other contractors and consultants, to be considered as part of an assessment of the costs and benefits of alternative strategies to achieve the desired skills profile; and
- ensuring that temporary staff are used only where necessary for the efficient and effective operation of the agency.

Avoiding payment of higher duties allowances*Across the three agencies audited*

53. The ANAO found that the three agencies audited developed sound strategies for minimising the payment of higher duties allowances. Expenditure in this area has decreased steadily in DPIE and DoTRD since 1995–96. In comparison, higher duties expenditure fluctuated in the ATO—following a decrease in 1995–96 and 1996–97, expenditure increased in 1997–98 but, as a percentage of total salaries, remains less than the APS average. The ANAO acknowledges that the use of higher duties cannot be avoided in certain circumstances given the ATO's requirements regarding delegations.

Redeployment*Redeployment APS-wide*

54. The ANAO was unable to identify the extent of redeployment across the APS beyond that achieved by APSLMAP due to this information

not being recorded correctly in the CRP. However, the comprehensiveness of APSLMAP's redeployment data relies on agencies referring staff to the Program—a requirement that can be over-ridden in agency-specific agreements (Certified Agreements and Australian Workplace Agreements). As well, agencies are placing increasing emphasis on redeployment prior to formally declaring staff excess, thus reducing the number of formal referrals to APSLMAP. Information on redeployment activity across the APS is unlikely to improve as the new monthly survey, which replaces the CRP, will not collect redeployment statistics.

Re-employment of ex-APS staff on contract across the APS

55. The Government emphasised the importance of redeployment as it can provide substantial direct savings on redundancy, recruitment and training costs as well as providing indirect savings as the Commonwealth is able to retain the people with the skills and experience that it requires. However, there was anecdotal evidence that ex-APS staff were being re-employed, through a third party, on contract in the APS after receiving voluntary redundancy.

Extent of redeployment across the three agencies audited

56. The ANAO found that the three agencies audited had sound strategies and processes that reflected the Government's guidelines in relation to redeployment and inter- and intra-agency job swaps. Job swap arrangements were reasonably well managed in the ATO and DoTRD to the extent that fitness for task was a key criterion. However, greater consideration should be given to the costs and benefits of job swaps in the staff reduction strategy to ensure greater cost-effectiveness.

57. In the absence of information on the number and skills of excess staff wishing to be redeployed and whether they were successfully placed, the ANAO was unable to assess the extent to which greater redeployment could have been achieved across the agencies audited as well as across the APS.

Better practice principle

There would be benefit in all APS agencies:

- attempting to redeploy, rather than retrench, staff with marketable skills as well as those who are likely to be in demand in other agencies. The ANAO acknowledges that the devolved operating environment makes it more difficult to redeploy staff across the APS and that consideration needs to be given as to whether the staff member wishes to be redeployed. However, there is benefit in agencies undertaking detailed assessments of the redeployment prospects of potentially excess staff to determine whether

they have skills which would be more appropriately retained in the APS;

- considering the financial implications of job swaps; and
- monitoring the outcomes of redeployment activity to assess the effectiveness of their redeployment strategies, including the extent to which successful redeployment resulted in savings on separation and redundancy expenses, for any future staff reductions.

APSLMAP

APSLMAP's performance

58. It was noted that the measures used to identify the APSLMAP's redeployment success rate varied from year to year. This lack of consistency makes it difficult to identify trends and, consequently, to make any judgement on the APSLMAP's performance over time. In addition, the ANAO does not consider the various measures currently used by the APSLMAP to determine the redeployment success rate to be full measures of performance since they do not take into account all of the APSLMAP's clients or clients carried over from previous years.

Use of the APSLMAP by the three agencies audited

59. The ANAO was advised that the three agencies audited generally referred those staff electing to be redeployed to the APSLMAP for assistance but the referral rate was very low, particularly in the ATO. Only 41 surplus and excess staff were referred to the APSLMAP from the entire Treasury portfolio between 1995–96 and 1997–98 when more than 1 000 staff were retrenched from the ATO alone.

Re-employment restrictions

Across the three agencies audited

60. The ANAO found that the three agencies generally adhered to the re-employment restrictions.

Better practice principle

There would be benefit in all APS agencies ensuring they have procedures to screen ex-APS applicants by checking with their previous APS employers to determine whether they have received a redundancy package in the last year. This will help ensure that the Government's re-employment restrictions are adhered to.

Senior Executive Service (SES)

Across the APS

61. The SES was not to be excluded from staff reductions. While the number of SES staff has been reduced, an analysis of APS-wide data shows that the proportion of SES remained stable at 1.3 per cent of total APS staff between 30 June 1995 and 30 June 1997. The proportion of SES increased slightly to 1.4 per cent of total APS staff at 30 June 1998.

Across the three agencies audited

62. The ANAO observed a similar degree of stability in the proportion of SES across the three agencies audited. DPIE and DoTRD developed specific strategies to reduce the number of SES staff, whereas the ATO achieved the necessary decrease through structural reform.

Impact of staff reductions on corporate knowledge and workplace diversity

Across the APS

63. The ANAO found that staff aged 40 and over and those with 10 or more years of service have increased as a proportion of total APS staff. In relation to retrenchment across the APS, proportionally more staff aged 50 years and over and more staff with 10 or more years of service are being retrenched. This is not unexpected given that these staff members are more likely to benefit financially from the severance pay component of a redundancy package than other groups. There has also been a higher rate of retrenchment among Aboriginal and Torres Strait Islander staff and those reporting disabilities—the representation of both these categories of staff across the APS has declined over the last two years.

Across the three agencies audited

64. The three agencies audited also have an ageing workforce with a higher representation of staff aged 40 and over in DPIE and DoTRD than in the wider-APS. Despite this, the workforce demographics were fairly stable in these agencies during the staff reductions. The reductions had more of an impact in the ATO where the shift in the age profile can be attributed to a decrease in the 20–34 age group which made up the majority of staff lost through natural attrition and the redundancy exercise. In relation to workplace diversity, the reductions had some impact in DoTRD where Aboriginal and Torres Strait Islanders and staff reporting disabilities were retrenched at a higher rate than their representation of total staff.

65. No category of staff should be excluded from offers of voluntary redundancy except on the basis of work performance. However, the ageing profile, the loss of experienced staff and the larger proportion of staff with less than two years' service observed across the three agencies audited has the potential to affect the ability of these agencies to conduct their business in the longer-term if these issues are not managed effectively.

66. The ANAO found no evidence that specific strategies had been developed across the three agencies to manage the impact of staff reductions on corporate knowledge; the workforce skills required by the agency; or on the workplace diversity profiles. The ANAO also had some concern that expenditure on staff development fell in these agencies during the period of staff reductions when there were considerable changes in the agencies' staffing profiles.

Better practice principle There would be benefit in all APS agencies monitoring the impact of staff reductions to identify any unintended effects on key staffing indicators. This information could be used to inform the development of business and people management strategies. It could also be used to feed into any future staff reduction strategies and implementation processes thus improving performance in these areas where necessary.

Agencies' responses

67. The three agencies audited and the PSMPC agreed with the recommendations in the report or agreed with qualification. The agencies generally welcomed the better practice principles and considered that they would be of value in any future staff reduction exercises.

68. Both the ATO and Department of Agriculture, Fisheries and Forestry—Australia (AFFA) commented that the report gives a balanced and fair account of the staff reduction process undertaken in the two agencies. The ATO noted that it provides some useful ideas on how the process might be improved in the future and AGSO identified a number of 'lessons learnt' based on their experience with the staff reduction processes in recent years. The latter have been included in the relevant sections of the report.

Recommendations

Set out below are the ANAO's recommendations with Report paragraph references and abbreviated responses from the three agencies audited and the PSMPC. Their more detailed responses are shown in the body of the report.

Recommendations 1 and 2 are addressed specifically to the PSMPC in an APS-wide context. The ANAO considers that priority should be given to Recommendation No. 1.

The other recommendations are addressed to the three agencies audited and could also have relevance to other APS agencies for consideration as part of any future staff reductions. The ANAO considers that priority should be given to Recommendation Nos. 2, 3, 4 and 9.

Recommendation No.1
Para. 2.43 The ANAO recommends that the PSMPC consider providing more comprehensive information on the effectiveness of the Government's strategic framework for managing staff reductions to enhance the usefulness of its six monthly reports to the Minister Assisting the Prime Minister for the Public Service.

PSMPC: Agreed with qualification.

Recommendation No.2
Para. 2.18 The ANAO recommends that, when reducing staff, agencies integrate their staff reduction strategies with their longer-term corporate directions, as reflected in their strategic planning frameworks, with a view to minimising any adverse impact of staff reductions on agency performance.

PSMPC: Agreed

AFFA: Agreed

AGSO: Agreed

ATO: Agreed

DoTRS: Agreed

Recommendation No.3
Para. 3.38 The ANAO recommends that, when adjusting to external imperatives, agencies should consider the cost-effectiveness of alternative strategies, such as retrenchment, redeployment, retention, retraining and recruitment, to achieve the desired workforce skills profile.

PSMPC: Agreed

AFFA: Agreed

AGSO: Agreed

ATO: Agreed

DoTRS: Agreed

Recommendation No.4
Para.4.22 The ANAO recommends that, in designing the methods to be used to identify excess staff, agencies should develop and apply suitable criteria that focuses on the retention of valued staff.

PSMPC: Agreed

AFFA: Agreed

AGSO: Agreed

ATO: Agreed with qualification

DoTRS: Agreed

Recommendation No.5
Para. 4.54 The ANAO recommends that, throughout all stages of the process of staff reductions, emphasis be given to ensuring the visibility of senior management to all staff. This will demonstrate clear leadership and help to ensure that:

- a consistent message is communicated across the agency;
- commitments made to staff are fulfilled; and
- all staff are dealt with in a fair and ethical manner, including those who remain in the organisation following the reductions.

PSMPC: Agreed

AFFA: Agreed

AGSO: Agreed

ATO: Agreed

DoTRS: Agreed

Recommendation No.6
Para. 4.71 The ANAO recommends that, as part of an overall staff reduction strategy, agencies should design a suitable communications strategy or tailor existing information strategies to reflect better the specific circumstances of each staff reduction exercise.

PSMPC: Agreed

AFFA: Agreed

AGSO: Agreed

ATO: Agreed

DoTRS: Agreed

Recommendation No.7
Para. 4.85 The ANAO recommends that, as part of their staff reduction strategy, agencies should develop ways to more effectively manage the needs of retained staff. These could include:

- change management workshops;
- staff surveys;
- individual development plans and training; and
- emphasising the role of managers in assisting retained staff to cope with new working arrangements.

PSMPC: Agreed

AFFA: Agreed

AGSO: Agreed

ATO: Agreed

DoTRS: Agreed

Recommendation No.8
Para. 5.67 The ANAO considers that the PSMPC, as part of its review of the APSLMAP, examine its current performance indicators to ensure that the redeployment success rate is reliably measured and reported to provide a sound basis for agency decision-making.

PSMPC: Agreed

Recommendation No.9 The ANAO recommends that agencies monitor their staff skills and workforce demographics to:

Para. 5.109

- highlight any unintended effects of staff reductions on the age and length of service profile and EEO groups; and
- inform the development of appropriate strategies to assist in the ongoing management of the agency's human capital, including corporate knowledge, as well as maintaining its workforce core skills, diversity profiles and succession planning capability.

PSMPC: Agreed

AFFA: Agreed

AGSO: Agreed

ATO: Agreed

DoTRS: Agreed

Better Practice Principles

The ANAO has identified a range of better practice principles in relation to staff reductions that have relevance to all APS agencies. These principles have been drawn from issues raised during the course of this audit and the ANAO's better practice guide Managing APS Staff Reductions, published in 1996. The following principles supplement those in the earlier guide and aim to assist agencies in the management of any future staff reductions. They should also help focus management's attention on the importance of an agency's human capital, including its preservation and best use, as well as the need for clear leadership; open, sensitive and pro-active communication; and fair and ethical dealings during a staff reduction exercise.

Strategic planning

Staff reduction strategies as part of longer-term corporate directions

- Fully integrate staff reduction strategies into the broader context of longer-term corporate directions, as reflected in the agency's strategic planning framework. This will help identify and manage the impact of staff reductions on agency performance.
- Develop appropriate strategies to assist in the ongoing management of the agency's human capital, including preservation of corporate knowledge, as well as maintaining workforce core skills, diversity profiles and succession planning capability in the longer-term.

Strategies for implementing staff reductions

- Assess the cost-effectiveness of alternative human resource management strategies to achieve the desired workforce skills profile that reflects the longer-term corporate directions. For example, consider whether to retrench, retain, recruit, retrain or redeploy staff to meet the new skills requirements. Such an assessment becomes an important strategic tool for responding efficiently and effectively to any further budget reductions but should include an assessment of the costs and business impacts of the various strategies.
- Review current and emerging functions and prospective workloads and develop criteria for identifying potentially excess staff against the agency's future skill requirements. This will help to ensure that appropriate staff, with skills profiles compatible with the agency's future directions, are retained for the benefit of that agency thus contributing to the maintenance of intellectual capital.

- Develop exemption criteria to exclude valued staff from the staff reduction process based on their compatibility with the agency's future skill requirements. These criteria should be developed at the beginning of any staff reduction exercise and communicated widely to all staff. The exemption of certain categories of staff is aimed at retaining valued staff who can make a significant contribution to the on-going ability of the agency in achieving its objectives.
- When considering options to achieve program goals within reduced budget allocations, examine all elements of program delivery costs to assess appropriate staff reduction strategies. For example, it may be more effective to reduce property operating costs and discretionary expenditure such as travel and other administrative costs, and encourage staffing flexibilities such as part-time work, 48–52 leave arrangements and leave without pay.

Implementation of staff reductions

- Identify potentially excess staff in light of the agency's longer-term corporate objectives and desired workforce skills profile.
- Ensure that the methods used to identify potentially excess staff are, and are perceived by staff to be, fair, equitable and transparent. A properly planned strategy that is widely communicated to staff and other key stakeholders from the outset is less likely to impact negatively on staff morale, particularly that of retained staff.
- Assign responsibilities for managing staff reduction exercises clearly and appropriately within agencies and ensure that staff and other key stakeholders are fully aware of the strategies and arrangements. It is important that senior management is seen to be involved throughout all stages of the process. Active and visible leadership and a consistent approach will help guide agencies, their management and staff through the process of staff reductions with minimum disruption, loss of morale and continuity of the agency's ongoing functions.
- Develop a specific communication strategy, or tailor existing communication strategies, to reflect the specific circumstances of each staff reduction exercise and the particular communication needs of specific groups, both within and external to the agency. Effective communication with staff and other key stakeholders is integral to any staff reduction exercise and a communication strategy can help ensure that official advice is distributed in an accurate and timely fashion.
- Make it clear that staff reductions are not a tool for solving managers' individual staff performance problems. To avoid any perception that

packages are rewards for poor performance, the number of voluntary redundancy packages offered to poor performers should be minimised and the identification of inefficient staff should be, and should be seen to be, independent of the identification of potentially excess staff.

- **Undertake detailed assessments of the redeployment prospects of potentially excess staff to determine whether they have skills which would be more appropriately retained in the wider-APS.** Although consideration needs to be given to whether the staff member wishes to be redeployed, successful redeployment of staff with marketable skills as well as those who are likely to be in demand in other agencies:
 - will ensure that the APS is able to retain valuable people;
 - will minimise the cost of staff reductions; and
 - may reduce the cost of re-employing ex-APS staff on contract through a third party.
- **Give special consideration to the management of inoperative staff and those aged 55 and over.** No particular category of staff should be excluded from offers of voluntary redundancy on the basis of their age, length of service or any other criteria except for work performance. However, the cost-effectiveness, in both the short and longer-term, of allowing staff on leave without pay to return to work and of offering voluntary redundancy packages to staff aged 55 and over should be included in an assessment of the costs and benefits of alternatives to staff reductions.
- **Effectively manage the needs of retained staff.** Considering the effects on, and needs of, such staff when planning for staff reductions and recognising the concerns of retained staff during the process itself, can help ensure their continued ability to fulfil operational requirements. Setting out to maintain and improve morale, providing development plans and training to those in re-engineered jobs and functions, and assuring staff of their value are ways in which agencies can demonstrate to remaining staff that they have a future role in the organisation.
- **Manage staff recruitment in light of longer-term workforce planning requirements.** Vacancies should only be filled in line with operational imperatives and the suitability of potentially excess staff should be tested before advertising externally.
- **Use temporary staff only where necessary for the efficient and effective operation of the agency.** Review the essentiality of temporary staff and use excess officers sensitively and where suitable to reduce the cost of voluntary redundancy payments.

- **Consider the financial implications of job swaps.** Although a useful tool in effective people management, agencies should analyse the costs and benefits of proposed job swap arrangements to ensure value for money from the perspective of the Commonwealth as a whole.

Monitoring and evaluation

- **Monitor the progress of staff reductions to assess compliance with the agency's staff reduction strategy and the Government's policy guidelines, and to determine whether the desired results are being achieved in an appropriate and cost-effective manner.** Systematic monitoring of any changes in staff movements and associated expenditure will also help to ensure that any change is the result of conscious strategic decisions by management to achieve cost-effective outputs and outcomes.
- **Evaluate the outcomes of staff reduction exercises to assess the short and longer-term impacts on agency performance and to identify areas for improvement in any future reduction exercises.** It is important for agencies to learn from previous experiences and improve strategies and processes, where possible, to ensure that agency performance is effectively maintained during the period of staff reductions and beyond.
- **Collect information on the number and skills profiles of excess officers electing to be redeployed and the placement outcomes.** Monitoring of this kind would allow agencies to assess the effectiveness of their redeployment strategies, such as the trial placement of officers in other agencies. It should also identify expenditure on activities designed to facilitate redeployment as well as any savings on separation and redundancy payments.
- **Collect information on the use of both temporary and contract staff, as well as other contractors and consultants.** This will help agencies determine whether these categories of staff are being employed because they are cost-effective or for other reasons such as to demonstrate savings on wages and salaries expenses or to by-pass recruitment restrictions. This information should also be considered as part of an assessment of the costs and benefits of alternative strategies to achieve the desired skills profile.
- **Adopt a risk management approach to screening appointments to ensure that the Government's re-employment restrictions are adhered to.** Previous APS employers of applicants who have left APS positions in the previous year should be contacted to ascertain whether the applicant received a redundancy payment.

- Monitor and report on any changes in workforce demographic factors, such as the age and length of service profiles and workplace diversity, to identify any unintended affects of staff reductions. Monitoring these indicators will:
 - assist agencies to develop business and people management strategies and to respond in a timely fashion to any adverse affects on workforce demographics;
 - guide subsequent recruitment activity thus improving agencies' succession planning capabilities;
 - provide an early warning of any potential impacts of staff reductions on longer-term agency performance; and
 - improve the strategies and implementation processes of any subsequent staff reduction exercises.

Audit Findings and Conclusions

1. Introduction

1.1 As a result of efforts by both the present and previous governments as part of a broader reform agenda to improve the efficiency of its public services, the Australian Public Service (APS) reduced from a peak of almost 178 000 staff at June 1987⁸ to just over 121 000 at 30 June 1998.⁹ The APS covers only those staff employed under the authority of the *Public Service Act 1922* and forms less than half of total Commonwealth employment and a relatively small part of total public sector employment. The size of the APS has been reduced as it has become more focused on the efficient delivery of its core functions and as functions have been privatised, outsourced or transferred to Commonwealth bodies outside the APS.¹⁰ An analysis of staff reductions between 1989 to 1998 showed that the number of APS staff reduced by almost 45 000 (or 27 per cent)—down from approximately 166 000 in 1989 to 121 000 in 1998. However, almost half these reductions resulted from reduced coverage of staff employed under the Public Service Act in the wake of major changes which occurred in 1989–90 and 1994–95.¹¹ Taking into account reduced coverage, the reduction in APS employment since 1989 becomes around 25 500 (or 17 per cent).¹²

1.2 The APS reform agenda has focused on improving efficiency and effectiveness in order to build a highly performing Public Service. The objective has been to focus the APS on the efficient delivery of its core activities, that is, policy development, legislative implementation and the contracting and oversight of service delivery. The reform agenda has involved devolving greater decision-making authority to agencies, introducing more flexible workplace relations arrangements, placing a greater focus on outputs/outcomes and accountability for performance, and improving the delivery of services to customers and clients. The implementation of the reform agenda has involved organisational

⁸ Public Service and Merit Protection Commission, (1997), *APS Staffing Statistics Report 1996*, *op. cit.*, p.12.

⁹ ANAO analysis of CRP data as at 30 June 1998.

¹⁰ Public Service and Merit Protection Commission, (1998), *State of the Service Report 1997-98*, *op. cit.*, p.9.

¹¹ Reductions in coverage in 1989-90 occurred largely as a result of the Civil Aviation Authority (7 200 staff) being removed from coverage under the Public Service Act. Similarly, reductions in 1994-95 also resulted from the Australian Capital Territory Government Service (7 200 staff) and several veterans hospitals (2 500 staff) being removed from coverage.

¹² The net reduction takes into account the addition of 5 095 staff to the APS and the loss of 26 845 staff resulting from coverage changes over the period.

restructuring, re-engineering, outsourcing, commercialisation, privatisation and/or abandonment of functions. Staff reductions are a component of some or all of these measures.

1.3 Since 1995–96, there has been little change to coverage under the Public Service Act but staff reductions have accelerated. Based on figures adjusted for coverage changes, net APS staff numbers declined by some 23 700—2 880 in 1995–96, 9 279 in 1996–97, and 11 507 in 1997–98. Around 22 900 staff were retrenched from the APS over these three years.

1.4 Some of the factors that have led to a significant reduction in APS staff numbers since 1996 include Government decisions about how services were to be delivered and agency decisions about the structure of the workforce, service delivery, the abolition of functions, and responses to budgetary pressures such as reduced running costs. Agency running costs include salaries and related employment costs, superannuation, administrative items, property operating expenses and the purchase of goods and services.¹³ The efficiency dividend, which causes running costs to be reduced cumulatively, must be incurred by all agencies unless they have been specifically exempted by Cabinet.¹⁴ The *Running Costs Arrangements Handbook* notes that the current efficiency dividend is generally one per cent a year.¹⁵ However, the efficiency dividend for individual agencies can vary from that figure. In addition to the efficiency dividend, other reductions in running costs were applied in 1995–96, when an additional one per cent reduction was made in running costs, and 1996–97, when the reduction was an additional two per cent. As staff costs represent the largest segment of running costs of APS agencies, staffing levels could be expected to be significantly affected by such reductions.

1.5 Consistent with devolved management arrangements, the way in which the reduction in running costs was to be achieved was managed at the agency level. No staff reduction targets were set by the Government. Rather, agencies were expected to implement a strategic approach to the management of staff reductions within a framework laid down by the Government.

1.6 The Australian National Audit Office (ANAO) indicated its intention to audit staff reduction activities in the APS in June 1996 as a result of completing a better practice guide on this topic. The ANAO

¹³ Department of Finance, (August 1997), *Running Costs Arrangements Handbook*, Commonwealth of Australia.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

recognises that staff reductions are a difficult management task but selected this issue as an audit topic because there are significant direct and indirect costs in staff reductions, particularly if they are executed poorly. The direct costs include separation and redundancy expenses, employment assistance programs, administration of the process, and the training and retraining of staff for redesigned jobs. The indirect costs can include the loss of corporate knowledge, expectations of more restructuring and the effects of the 'survivor syndrome'¹⁶ on the organisation, and a loss of confidence in management if staff reductions are frequent.

1.7 Importantly, the greatest challenge lies in ensuring that the organisation remains able to perform its functions and maintain efficient and effective delivery of services to clients throughout the period of staff reductions and beyond, and to maintain staff morale which is essential for the effective delivery of services.

The framework for staff reductions across the APS

1.8 Managers within the APS now operate within a more flexible workplace relations environment. In line with the Government's commitment to reducing central controls, agencies are being required to take greater responsibility for their actions. Devolution of employment powers, which has allowed agencies to tailor employment conditions to their specific business requirements, occurred through the *Workplace Relations Act 1996* and the Government's reforms of March 1998 which saw additions to the regulations made under the Public Service Act.¹⁷ The regulations also gave Agency Heads responsibility for a range of employment decisions, such as recruitment and selection of staff and the management of poor performance, which had previously been centrally prescribed.

1.9 The redeployment and retirement provisions of agency-specific agreements (Certified Agreements and Australian Workplace Agreements) made under the Workplace Relations Act must satisfy Government endorsed policy parameters about cost neutrality while not ruling out involuntary redundancy action. These provisions can modify the previous Service-wide redeployment and retirement arrangements (as outlined below) to the extent authorised by the policy parameters,

¹⁶ 'Survivor syndrome' is normally defined as the set of motions and behaviours exhibited by employees who remain in the organisation after the process downsizing. It can involve decreased motivation, commitment, morale and increased sense of job insecurity.

Littler, C. R., 'Downsizing organisations: the dilemmas of change' in *Human Resources Management Bulletin*. September, 1998, CCH.

¹⁷ These additions included the APS Values, the APS Code of Conduct, public interest whistleblowing and the State of the Service report by the PSMPC.

including consultation arrangements, retention periods, the requirement to refer excess staff to the Australian Public Service Labour Market Adjustment Program (APSLMAP), and commitments by the organisation to employment assistance programs and counselling. Although some agencies chose to over-ride the previous redeployment and retirement arrangements, other agencies have replicated these arrangements in their agency-specific agreements. There are also some agencies that continue to be covered by the Service-wide framework.

1.10 Prior to the introduction of agency-specific agreements, the Service-wide redeployment and retirement framework for non-Senior Executive Service (SES) staff consisted of the redeployment and retirement provisions of the *APS General Employment Conditions Award 1995*; parts of the *Continuous Improvement in the APS Enterprise Agreement 1995–1996*; and Division 8C of the Public Service Act.¹⁸ The majority of the staff reduction exercises examined by the ANAO were undertaken within this framework.

1.11 In April 1996, the Government established a strategic framework for managing the staffing consequences of a reduction in running costs. The framework included a set of overarching principles as follows:

- the downsizing in the APS will be managed in a professional and orderly way;
- it will take place within the redeployment and retirement framework negotiated between the public sector unions and the former Government;
- within that framework, the process will be in the hands of managers; and
- though the current arrangements provide for involuntary retirement, much of what is required will occur through natural attrition, voluntary redundancy, reduced levels of recruitment and reductions in temporary employees.¹⁹

¹⁸ Public Service and Merit Protection Commission, (1997), *Management of Excess Staff Situations in the APS: Principles, Guidelines, Good Practice*, AGPS, Canberra, p.xiv.

As a result of the introduction of agency-specific agreements:

- the *APS General Employment Conditions Award 1995* has been replaced by the *Australian Public Service Award 1998*;
- the *Continuous Improvement in the APS Enterprise Agreement 1995–1996*, together with the *Australian Public Service Award 1998*, only applies to agencies without agency-specific agreements; and
- Division 8C of the Public Service Act continues to apply to all APS agencies.

¹⁹ Public Service and Merit Protection Commission, (1996), *Circular 1996/7: Managing the Staffing Consequences of a Reduction in Running Costs*.

1.12 Agencies were advised, in information promulgated by the Public Service and Merit Protection Commission (PSMPC), that they were expected to implement a strategic approach to the management of staff reductions and to manage down staff numbers within a set of common, Service-wide parameters (the Government's guidelines). These guidelines included reducing external recruitment; strict control of the engagement of temporary employees; avoiding the payment of higher duties allowances; an emphasis on redeployment; and restrictions on re-employment (see Chapter 5).

1.13 Ministers were requested to provide the Minister Assisting the Prime Minister for the Public Service with a report on the strategy for managing staff reductions within their portfolios by the end of April 1996.²⁰ Subsequent reporting was coordinated by the PSMPC. Initially these reports were based on agency surveys and were built around the structure of the strategic framework.

1.14 The Government established a committee of senior officials to oversee the process and to evaluate, at agreed intervals, the effectiveness of agency strategic plans. This committee reviewed the quarterly reports the PSMPC prepared for the Minister Assisting the Prime Minister for the Public Service. However, the committee was disbanded after the Government amended the framework in December 1997 (the amendments were promulgated to agencies in February 1998).²¹ This leaves the PSMPC's reports to the Minister Assisting the Prime Minister for the Public Service as the principal vehicle for providing information on the management of staff reductions in the APS. The PSMPC does this by reporting six monthly using data derived from official statistics—the Continuous Record of Personnel (CRP)²² and the number of vacancies advertised in the *Gazette*.

1.15 The PSMPC is the main agency which reports on APS-wide staffing issues. It does this through the *State of the Service Report*, the *Workplace Diversity Report* and the *Australian Public Service Statistical Bulletin*. The *State of the Service Report* reports on the state of the APS during the year, including the management of staff reductions, and is provided by the Public Service Commissioner to the Minister Assisting the Prime Minister for the Public Service for presentation to the Parliament.

²⁰ *Ibid.*

²¹ Public Service and Merit Protection Commission, (1998), *Circular 1998/3: Managing Downsizing in the APS*.

²² The CRP collects data on agencies employing staff under the Public Service Act.

1.16 The PSMPC also advises agencies on request and provides guidance through a range of publications. It published *Management of Excess Staff Situations in the APS: Principles, Guidelines, Good Practice* in December 1996 which outlined the legal framework for staff reductions in the APS and provided advice on better implementation practice.

A function of the PSMPC is, *inter alia*, to assist:

‘... the Government and agencies in managing reductions in APS staffing, through overseeing the Government’s strategic framework, issuing guidelines and circulars, conducting briefing sessions for agencies, assisting excess and surplus officers to find redeployment within the APS, and providing advice on the human resource aspects of outsourcing ...’²³

Audit scope and methodology

1.17 The objective of this audit was to assess the extent to which staff reductions have been managed in a sound strategic and cost-effective manner consistent with the guidelines outlined by the Government and the ANAO’s better practice guide, entitled *Managing APS Staff Reductions*, published in June 1996.

1.18 Agencies selected for audit were the Australian Taxation Office (ATO), the former Department of Primary Industries and Energy (DPIE) and the former Department of Transport and Regional Development (DoTRD). In these three agencies, the audit considered:

- strategic planning for staff reductions, analysis of the costs and benefits of alternatives to staff reductions and evaluation of the reduction exercises;
- implementation of staff reductions including processes for identifying potentially excess staff, assignment of responsibilities, effective communication in administering the process, and maintaining a focus on retained staff; and
- adherence to the Government’s guidelines, as well as the maintenance of some youth recruitment, and monitoring the impact of staff reductions on corporate knowledge and the diversity of APS staff.

1.19 Determining how strategic the APS has been in managing staff reductions would require an in-depth assessment of the performance in all significant Government programs, an assessment which is beyond the scope of this audit. The audit did however consider APS-wide data where possible in order to draw some overall conclusions. The sources of data

²³ Public Service and Merit Protection Commission, (1998), *Our Role*, *op. cit.*, p.viii.

analysed included financial data provided by agencies, staffing figures included in the CRP and performance information from the APSLMAP. Unless otherwise stated, the staffing data used in this report is unadjusted for changes to coverage of the Public Service Act.

1.20 The audit criteria have been drawn from both the ANAO guide and the guidelines outlined by the Government and the PSMPC. Audits by the NSW Audit Office,²⁴ the Office of the Auditor General of Canada²⁵ and the General Accounting Office in the United States of America were also examined.²⁶

1.21 The ANAO engaged INTSTAT Australia Pty Ltd to help analyse data; PriceWaterhouseCoopers to review the audited agencies' staff reduction strategies; and Professor Craig Littler to review a draft of the report and to provide specialist advice.

1.22 The audit was conducted in accordance with the ANAO Auditing Standards and field work was undertaken between May and September 1998. The total cost was \$547 000.

Introduction to the agencies selected for audit

1.23 Throughout this report the agencies referred to are those that existed prior to the Administrative Arrangements Orders of 21 October 1998. Agencies which changed as a result of this are indicated in Appendix 1. Of those agencies selected as case studies, DPIE has been renamed the Department of Agriculture, Fisheries and Forestry—Australia (AFFA) and some functions including the Australian Geological Survey Organisation (AGSO), have been transferred to the Department

²⁴ Audit Office of New South Wales, (1997), *Redundancy Arrangements*, Performance Audit Report: April 1997.

²⁵ Office of the Auditor General of Canada, (1998), Chapter 1: Expenditure and Work Force Reductions in the Public Service, *Report of the Auditor General of Canada to the House of Commons—1998*, [Online], Available:

<http://www.oag.bvg.gc.ca/domino/reports.nfs/html/980lce.htm>, [4 November 1998].

Office of the Auditor General of Canada, (1998), Chapter 2: Expenditure and Work Force Reductions in Selected Departments, *Report of the Auditor General of Canada to the House of Commons—1998*, [Online], Available:

<http://www.oag.bvg.gc.ca/domino/reports.nfs/html/980lce.htm>, [4 November 1998].

²⁶ General Accounting Office, (1995), *Workforce Reductions: Downsizing strategies used in selected organisations*.

General Accounting Office, (1996), *Civilian Downsizing: Unit readiness not adversely affected, but future reductions a concern*.

General Accounting Office, (1995), *Workforce Reductions: Downsizing Strategies Used in Selected Organisations*.

General Accounting Office, (1996), *Federal Downsizing: Better workforce and strategic planning could have made buyouts more effective*.

of Industry, Science and Resources. DoTRD has been renamed the Department of Transport and Regional Services (DoTRS). Some functions have been transferred away from the ATO.

1.24 The ATO, DPIE, and DoTRD were selected for audit on the basis of their varying workforce sizes, the extent of their staff reductions and variations in the predominant features of the staff reduction exercises. Table 1 summarises these factors. A brief outline of the context in which the reductions occurred for each agency is set out below.

Table 1:

Factors relating to the selection of audited agencies

Agency	Australian Taxation Office	Department of Primary Industry and Energy	Department of Transport and Regional Development
Size of agency	<i>Large</i>	<i>Large</i>	<i>Medium</i>
Workforce size 30 June 1995: 30 June 1998:	18 470 17 159	3 402 3 548	1 260 832
Net reduction/increase	-1 311	+146	-672
Retrenchments 1995–96 to 1997–98	1 718	717	259
Predominant features of staff reduction exercise and factors influencing the need to reduce staff	<ul style="list-style-type: none"> • Reductions occurred as a result of management initiated decisions. • Continuation of earlier restructuring and improvements in reported agency performance measures. 	<ul style="list-style-type: none"> • Stable for a number of years. • Recent staff reductions occurring in some areas of the Department as a result of a reduction in running costs and Government decisions about how services were to be delivered. • Staff reductions occurred at the same time as growth in other areas. 	<ul style="list-style-type: none"> • Reduction in running costs. • Changes in mission, including the abolition of a function.

Source: ANAO analysis

Australian Taxation Office

1.25 The ATO has been engaged in major structural reform since the early 1990s. It has reorganised itself into business service ‘lines’ (which, in other agencies, might be called divisions). In 1995 the ATO embarked on a major business process improvement strategy within each line,

known as 'blueprinting'. The blueprints outlined the principles and procedures for managing the consequences of the process of improvement, including staff reductions, and was one of the factors that led to the ATO's Voluntary Separation Program in 1994–95. In April 1996, the ATO sought to reduce its total staff by 650 in order to achieve reductions in costs identified in *ATO—Business 2000* and has since reduced staff within various business lines. The ANAO examined the largest staff reductions undertaken between 1996 and mid-1998, including the agency-wide reduction in 1996 and those in Corporate Services in 1997 and 1998; Small Business Income in 1997; Individual Non-Business in 1997; and, to a lesser extent, Large Business and International in 1997.

1.26 The CRP indicates that the ATO employed 18 470 staff at 30 June 1995, which declined to 17 159 at 30 June 1998—a reduction of 1 311 and an average reduction of 437 a year. In the same period, separations totalled 3 281, including 1 718 retrenchments,²⁷ and 1 191 staff were appointed. The majority of appointments occurred in the Child Support Agency and in the Superannuation line.²⁸

Department of Agriculture, Fisheries and Forestry—Australia

1.27 The former DPIE had not experienced major change for a number of years prior to 1996. The Department consists of highly differentiated functional areas. The core operates as a traditional agency and the research bureaus operate in a highly specialised context with significant cost recovery.

1.28 The DPIE staff reductions were initiated in mid-April 1996 in response to the two per cent government-wide reduction in running costs announced in the context of the 1996–97 budget. This reduction was in addition to the continuing one per cent efficiency dividend and a pre-existing \$32.3 million one-off running cost reduction. Two of the groups examined by the ANAO, which were facing rationalisation of staff numbers in response to the reduction in running costs, were AGSO and the Australian Bureau of Agricultural and Resource Economics (ABARE).

1.29 The ANAO also examined the management of staff reductions in the Australian Quarantine and Inspection Service (AQIS). AQIS is a separately funded and fully independent entity that was undergoing significant administrative changes arising from a joint government and industry review of the delivery of meat inspection services during

²⁷ The ATO retrenched 32 staff during 1995–96. This increased to 704 in 1996–97 and 982 in 1997–98.

²⁸ ANAO analysis of ATO Annual Reports.

1996–97. Reductions in the Meat Inspection Division were driven by the need to improve the effectiveness and efficiency of the export meat inspection function. They began in September 1996 and the target is a total reduction of 862 positions to be achieved by 2000–01.

1.30 At 30 June 1995, DPIE employed 3 402 staff. This had increased slightly to 3 548 at 30 June 1998. In the same period the CRP shows that there were 1 051 separations, including 717 retrenchments²⁹ and 1 175 appointments. Appointments reached a peak of 728 in 1995–96, which coincided with a transfer of functions to AQIS.

Department of Transport and Regional Services

1.31 The former DoTRD was created in March 1996 when the Regional Development Division was transferred from the former Department of Housing and Regional Development. This integration represented a significant change of direction for the former Department of Transport and required the Department to assume considerable staffing, property management and program responsibilities and brought with it a regional office network. The former Bureau of Transport and Communication Economics (BTCE) was also part of the Department at the time the audit was conducted.

1.32 The ANAO examined three staff reduction exercises that occurred between April and December 1996. In addition to the two per cent reduction in running costs announced in the 1996–97 budget, the budget of the BTCE was reduced by 30 per cent in response to specific Government decisions and the Regional Development program was abolished in July 1996 while the Department was still in the process of completing the integration. Running costs for the Regional Development Division were only provided to the end of September 1996 and accordingly DoTRD was required to meet the redundancy expenses from within existing resources.

1.33 At 30 June 1995, DoTRD employed 1 260 staff; the number had declined to 832 by 30 June 1998 (including the loss of 220 in the abolition of the Regional Development Division). According to the CRP, separations totalled 362 in the same period, including 259 retrenchments.³⁰ DoTRD appointed 206 staff over the three years.

²⁹ DPIE retrenched 99 staff during 1995–96, 353 in 1996–97 and 265 in 1997–98.

³⁰ DoTRD retrenched 20 staff during 1995–96, 210 in 1996–97 and 29 in 1997–98.

Recommendations which impact on all APS agencies

1.34 The ANAO's examination of twelve separate staff reduction exercises across the three agencies audited highlighted the variety of factors influencing the need to reduce staff. This variation was not only evident between agencies, but also across business lines or divisions within agencies. As outlined in Table 1, the staff reduction exercises examined by the ANAO occurred as a result of agency decisions about the structure of their workforce, responses to budgetary pressures, the abolition of functions and Government decisions about how services were to be delivered.

1.35 Despite the variety of factors that influenced the reduction exercises examined, a degree of overall consistency emerged in the audit findings. As a result, the majority of recommendations in this report are likely to have general application to all APS agencies and should, therefore, be considered as part of any future agency staff reductions. The ANAO has also developed a series of better practice principles relevant to all APS agencies. These principles have been drawn from issues raised during the course of this audit and the ANAO's 1996 better practice guide.

1.36 However, the ANAO does not wish to suggest that 'one size fits all' and acknowledges that 'pressure cooker' situations will arise where agencies are required to reduce staff quickly in response to external factors. It is essential for agencies to tailor their staff reduction strategies to their particular circumstances. For example, the implementation strategy developed for the abolition of a function will, of necessity, be very different to one designed to deal with a running cost reduction. Nonetheless, the overarching principles for managing staff reductions embodied in the recommendations and better practice principles contained in this report are intended to help guide agencies in managing staff reductions strategically and cost-effectively. They should also help focus management's attention on the importance of an agency's human capital as well as the need for clear leadership; open, sensitive and pro-active communication; and fair and ethical dealings during a staff reduction exercise.

2. Staff reduction outcomes across the APS

This chapter includes an outline of the extent to which staff numbers have been reduced across the APS and within 59 agencies (including the three agencies audited) where data were available. It examines, to the extent possible, the cost of staff reductions and whether agencies adopted a strategic approach and minimised the cost of redundancies. The chapter ends with an examination of the adequacy of the PSMPC's monitoring of APS staff reductions and a recommendation that the PSMPC consider providing more comprehensive information in its reports to the Minister Assisting the Prime Minister for the Public Service.

2.1 Unless otherwise stated, the staffing data used in this report is unadjusted for changes to coverage under the Public Service Act. The ANAO has based its analysis on unadjusted staff numbers because of the difficulties associated with making the necessary adjustments at the individual agency level. As well, unless otherwise stated, the ANAO's analysis refers to permanent staff only as temporary staff are not reflected in the staff movement data (eg. appointments, resignations, retrenchments etc.).

Reduction in APS numbers

2.2 As indicated previously, between 1989 to 1998 total APS staff declined from 166 053 to 121 261—a net decrease of almost 45 000, or 27 per cent. About half of this decrease (25 468) resulted from reduced coverage of staff employed under the Public Service Act in the wake of major changes in 1989–90 and 1994–95.³¹

2.3 Staff reductions accelerated markedly since June 1995, largely due to reasons other than changes in coverage of the Public Service Act. Based on figures adjusted for coverage changes, the total number of people in the APS (permanent and temporary) declined from 144 927 at 30 June 1995 to 121 261 at 30 June 1998—a net decrease of some 23 700 or 16 per cent (Figure 1). Between 1995–96 and 1997–98, 39 924 permanent staff left the APS through the various methods of separation (eg. resignation, retrenchment and age retirement—see Figure 3). Of these, 22 914 staff (57 per cent of total separations) were retrenched—3 149 in 1995–96;

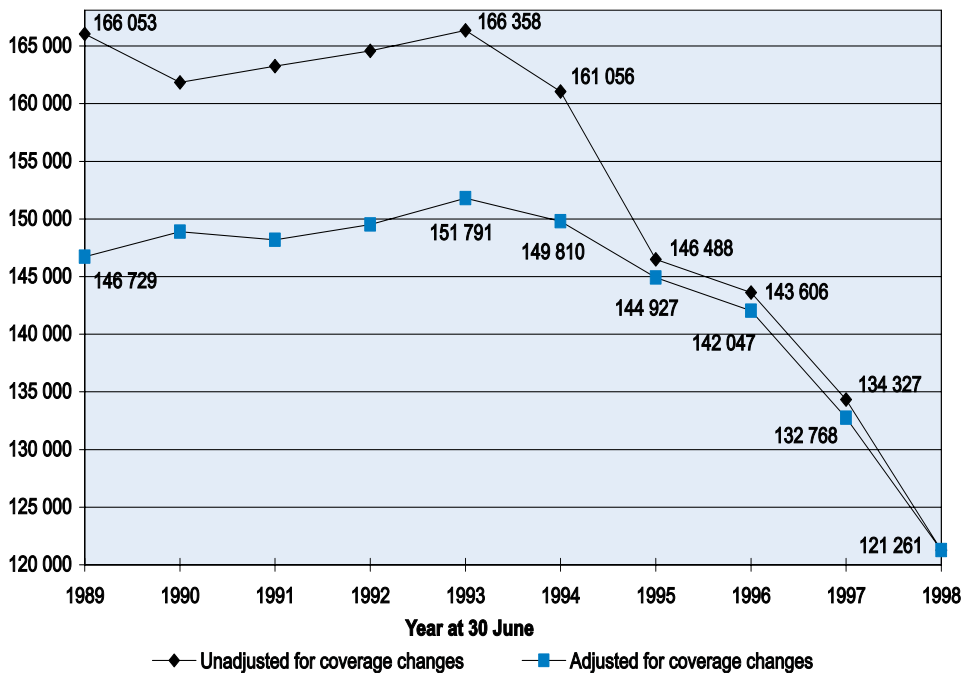
³¹ Reductions in coverage in 1989–90 occurred largely as a result of the Civil Aviation Authority (7 200 staff) being removed from coverage under the Public Service Act. Similarly, reductions in 1994–95 resulted from the Australian Capital Territory Government Service (7 200 staff) and several veterans hospitals (2 500 staff) being removed from coverage.

9 939 in 1996–97 and 9 826 in 1997–98. Over the same period, there were 18 358 appointments (Figure 2).

2.4 When disaggregated by location,³² the number of permanent staff decreased in each state and territory and in overseas postings between 1995–96 to 1997–98 (these are based on figures unadjusted for changes in coverage). The largest relative decreases occurred in the Northern Territory where 22 per cent of total APS staff employed in the Territory left the Service (ie. 406 staff members); Victoria (21 per cent or 5 152 staff); New South Wales (19 per cent or 5 713 staff); South Australia (19 per cent or 1 699 staff); Queensland (18 per cent or 2 455 staff); Western Australia (18 per cent or 1 365 staff); Tasmania (17 per cent or 476 staff) and the Australian Capital Territory (10 per cent or 4 114 staff).

Figure 1:

All APS staff 30 June 1989–30 June 1998 (permanent paid/non-paid + temporary)



Source: ANAO analysis of CRP as at 30 June 1998

2.5 All States and Territories had greater retrenchment rates in 1996–97 and 1997–98 than in 1995–96 (Table 2). Only Victoria had a retrenchment rate that was equal to or higher than the APS average over the three years.

³² Location refers to the location of the pay area from which staff are paid. In some cases this is not necessarily the physical location of staff.

2.6 The reductions by individual agencies are discussed later in this chapter.

Table 2:

Rate of retrenchment in the APS by pay centre location

State/Territory	Retrenchment rate (%)		
	1995–96	1996–97	1997–98
<i>Australian Capital Territory</i>	2.6	8.5	6.8
<i>New South Wales</i>	2.3	7.3	8.4
<i>Victoria</i>	2.9	7.7	10.7
<i>Queensland</i>	2.1	7.3	8.5
<i>South Australia</i>	2.3	7.4	8.7
<i>Western Australia</i>	1.7	8.4	7.8
<i>Tasmania</i>	1.9	5.2	8.1
<i>Northern Territory</i>	1.6	4.9	6.6
<i>Overseas</i>	0.1	1.1	2.1
Total APS	2.4	7.7	8.2

Source: ANAO analysis of CRP as at 30 June 1998

Note: Retrenchment rate calculated as retrenchments in the 12-month period divided by total permanent staff at the beginning of the period (30 June).

Pay centre location refers to the location of the pay area from which staff are paid. In some cases this is not necessarily the physical location of staff.

Rates in bold indicate a retrenchment rate larger than the Australia-wide APS rate.

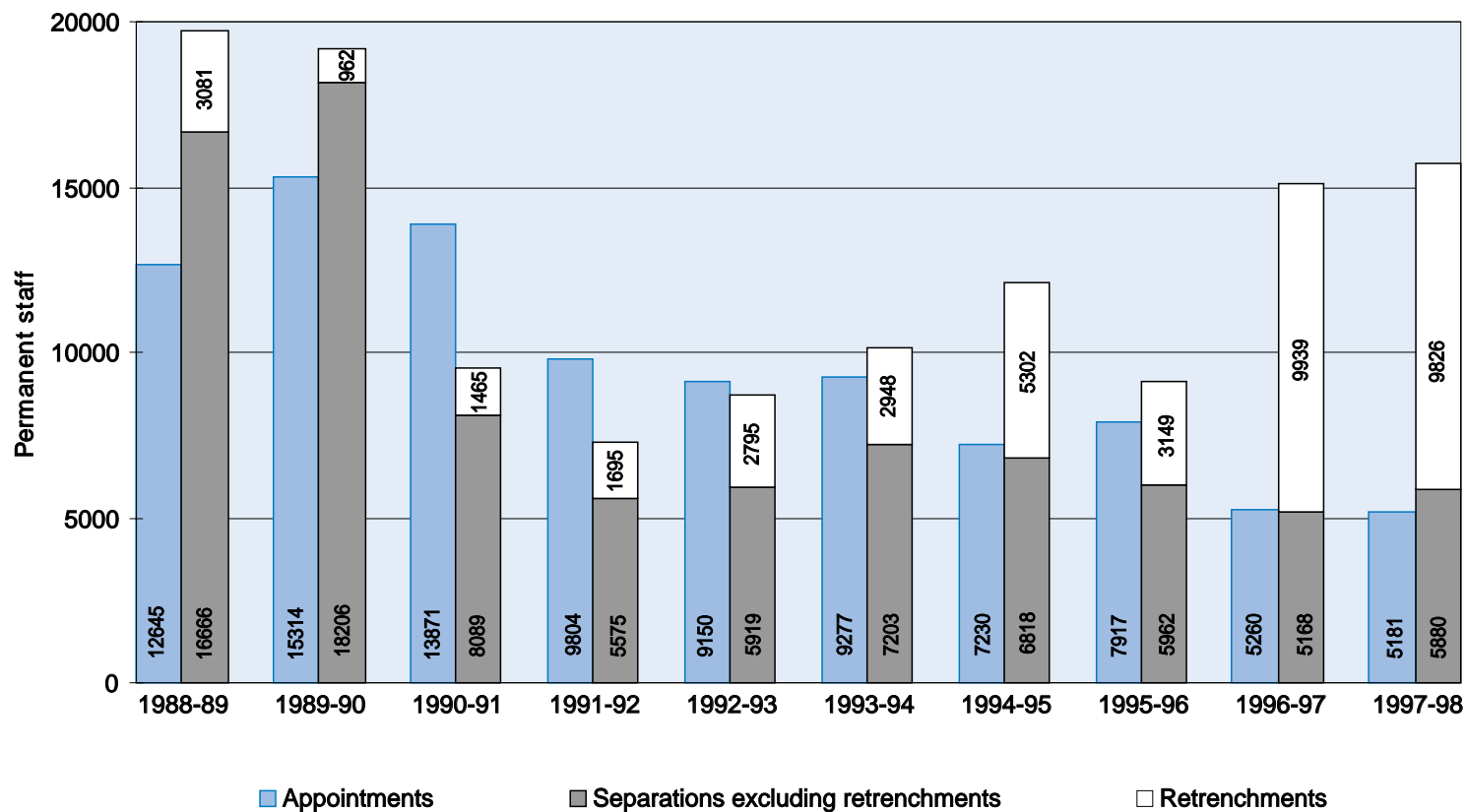
How is the reduction being achieved across the APS?

2.7 As previously indicated, staff reductions accelerated markedly from June 1995. Since that time, total APS staff numbers have declined by some 23 700. Although the net APS reductions prior to 30 June 1995 were mainly the result of reduced coverage of the Public Service Act, the more recent reductions have resulted from low levels of appointments and high levels of retrenchments. These two significant drivers operated in 1996–97 and 1997–98 when:

- appointments fell to the lowest level since 1988–89, down to about 5 000 in each of these years and representing about a third of separations (Figure 2); and
- retrenchments exceeded appointments for the first time. There were almost 10 000 retrenchments in the APS in each of these years, that is, approximately eight per cent of APS staff (Figure 2). This was almost twice as many as in any previous year. For example, retrenchments made up 63 per cent of separations in 1997–98 against 35 per cent in 1995–96.

Figure 2:

Appointments and separations of permanent APS staff, 1988–89 to 1997–98



Source: ANAO analysis of CRP as at 30 June 1998

2.8 The percentage of staff leaving the APS via the various methods of separation excluding retrenchment has been fairly stable since 1991–92 (Figures 2 and 3) at about four to five per cent of permanent staff. However, there has been a continuous trend of decreasing resignations and retirements as shown in Figure 3. The number of resignations has decreased since 1995–96 to the lowest point observed since 1988–89 (3 402). Similar levels were observed in the early 1990s but at a time when the overall number of separations was at its lowest point. Age retirement numbers, too, declined consistently—from about 1 500 in 1988–89 to 500 a year in 1997–98 with the decrease accelerating since 1995–96 (Figure 3).

Reductions by agency

2.9 The ANAO endeavoured to obtain information for the APS as a whole but it was only possible to obtain both staff numbers and financial data for 59 (18 large, 18 medium and 23 small)³³ of the 73 agencies employing staff under the Public Service Act.³⁴ However, these 59 agencies constitute the bulk of the APS in terms of staff numbers and wage and salary expenses. Throughout this report, the agencies referred to are those that were in existence prior to the Administrative Arrangement Orders of 21 October 1998. Agency abbreviations and those affected by changes to the administrative arrangements are included in Appendix 1.

2.10 The ANAO's analysis took account of staff changes due to significant structural change, including transfer of functions and corporatisation. However, with the exception of the ATO, DoTRD and DPIE, a detailed examination was not undertaken of individual agencies. As such, it was not possible to identify the impact of outsourcing on APS staff numbers.

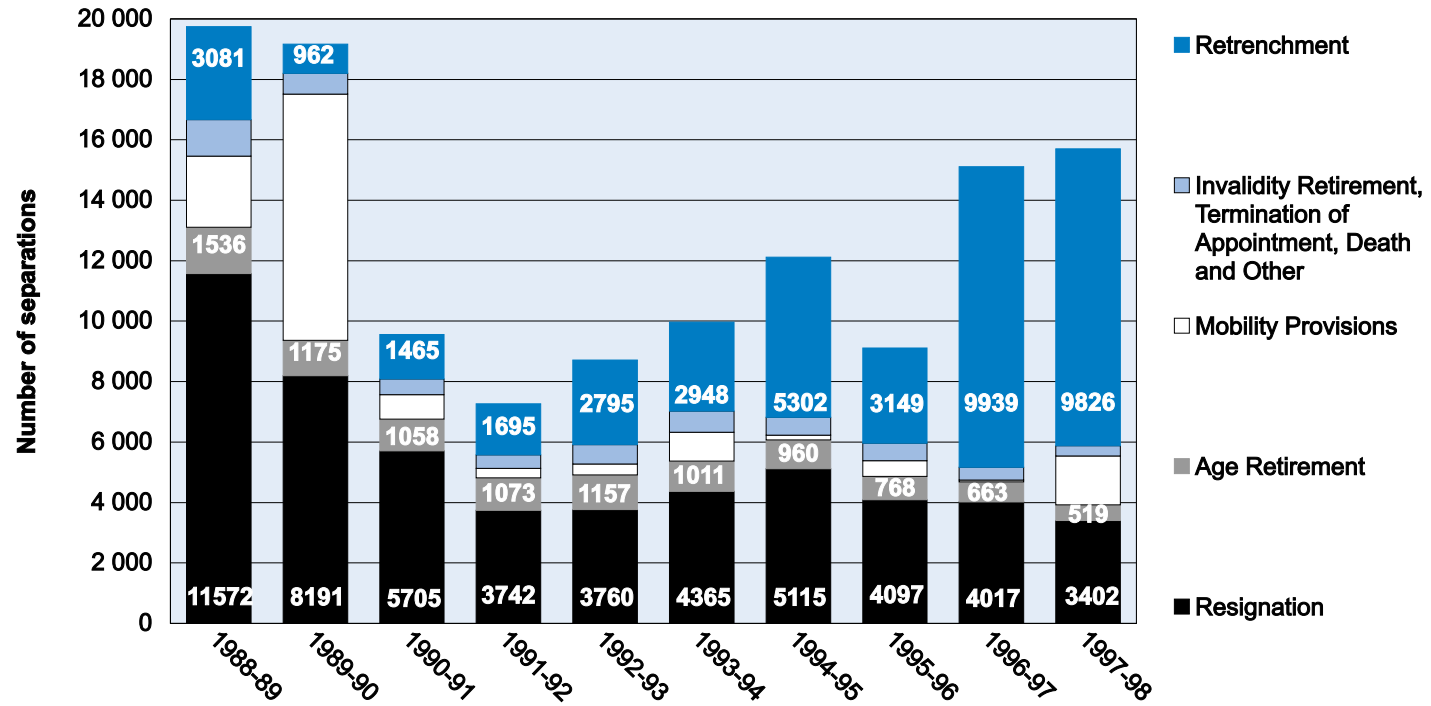
2.11 Those agencies that experienced decreases in the number of permanent staff resulting from significant structural change between 1995–96 and 1997–98 included:

- the Department of Social Security, reflecting the creation of Centrelink;

³³ Large, medium and small agencies are classified as those with more than 1 000 permanent staff; 250—1 000 permanent staff; and fewer than 250 permanent staff respectively as at 30 June 1998.

³⁴ The list of agencies has been compiled from a list of Commonwealth Public Sector Agencies and the CRP and has been verified by the PSMPC. Fourteen agencies have been excluded from this list as data on staff numbers could not be readily obtained. The excluded agencies are listed in Appendix 1.

Figure 3:
Number of separations from the APS, 1988–89 to 1997–98



Source: ANAO analysis of CRP as at 30 June 1998

- the Department of Employment, Education, Training and Youth Affairs (DEETYA), reflecting the creation of Centrelink and Employment National;³⁵
- the Department of Finance and Administration (DoFA), reflecting the restructuring and reduction of the former Department of Administrative Services and the transfer of functions to the Department of Industry, Science and Tourism (DIST), the Department of the Prime Minister and Cabinet, and the ATO;
- the Department of Defence as a result of the Defence Reform Program and Commercial Support Program;
- the Department of Health and Family Services as a result of the corporatisation of Health Services Australia and new organisational arrangements for the Australian Hearing Service;³⁶
- the Department of the Environment (DoE) as a result of the transfer of functions to DIST and DoTRD; and
- DoTRD reflecting the abolition of the Regional Development function, the loss of Marine Transport and Shipping and the addition of Territories and Local Government.

2.12 The ANAO's analysis of staffing information included in the CRP indicated that most agencies decreased permanent staff numbers between 30 June 1996 and 30 June 1998 as illustrated in Figures 5, 8 and 11 at the end of this chapter. The major exceptions were:

- Centrelink, which was being created;
- DIST as a result of some functions transferred from DoFA and DoE;
- the Australian Competition and Consumer Commission as a result of new responsibilities acquired from the States arising from competition policy reform;
- the Department of Workplace Relations and Small Business, which assumed responsibility for Marine Transport and Shipping and the Office of Small Business; and
- the National Native Title Tribunal as a result of expansion of its services.

³⁵ In 1997-98, 718 staff from DEETYA moved to Employment National under the mobility provisions rather than being retrenched. Staff that moved to Centrelink were transferred.

³⁶ As a result of legislative changes in 1997-98, 851 staff from Health Services Australia and Australian Hearing Service moved out of coverage of the Public Service Act. These movements occurred under the mobility provisions.

Cost of staff reductions

2.13 As mentioned in Chapter 1, all APS agencies were subject to a reduction in running costs from 1995–96. Since staff costs represent the largest segment of running costs of APS agencies, and staffing levels could be expected to be significantly affected by such reductions, the ANAO analysed changes in wages and salaries expenses³⁷ and permanent staff numbers for 59 of the 73 agencies for which comprehensive data were available. The ANAO also examined the movement of staff in and out of agencies to determine the extent to which staff reductions were achieved by natural attrition and whether staff movements were based on sound strategic and operational decisions.

2.14 Information on permanent staff numbers was extracted from the CRP.³⁸ The ANAO sought information on wage and salary expenses for 1995–96, 1996–97 and 1997–98 directly from individual agencies because a dissection of remuneration³⁹ to show wage and salary expenses is not given in publicly available sources. The ANAO also requested separation and redundancy expenses⁴⁰ for 1996–97 and 1997–98 (agencies were not required to report these expenses prior to the 1996–97 financial year). However, a breakdown of the other costs associated with staff reductions was not readily available from agencies.

2.15 As part of its quality assurance process, the ANAO sought to resolve any material inconsistencies that arose between the financial data provided by agencies and the information contained in publicly available sources. Despite these efforts, the data presented in this report should be interpreted with some caution for the following reasons:

- wage and salary expenses are calculated over an entire financial year

³⁷ For the purposes of this report, wage and salary expenses includes wages and salaries, performance pay, overtime and higher duties allowance accrued during the financial year.

³⁸ The information extracted from the CRP and reported in the *State of the Service: Australian Public Service Statistical Bulletins* is current at the last day of the financial year. Staff movement data refers to movements (eg. appointments and separations, including retrenchments) during the financial year.

³⁹ The guidelines for preparing Financial Statements of Commonwealth Departments issued by the Minister for Finance define remuneration as including wages and salaries, accrued superannuation and the cost of motor vehicles, housing, allowances and fringe benefits tax included in remuneration agreements.

⁴⁰ Separation and redundancy expenses is the term used to refer to those costs arising directly as a result of voluntary redundancy, ie. severance benefits (the number of weeks of salary paid for continuous service). Separation and redundancy expenses does not include those amounts which would normally be paid out on separation, such as accrued recreation and long service leave as these would be payable regardless of the method of separation.

Australian National Audit Office, (1997), *Illustrative Financial Statements for the Year Ended 30 June 1997: AMODEL Department*, Better Practice Guide—September 1997, Commonwealth of Australia, p.46.

whereas total staff numbers are taken at a point in time, in this case, 30 June each year;

- there is some inconsistency in the definitions of the data sources used. Wage and salary expenses include payments to permanent staff as well as to temporary staff employed under the Public Service Act. Separation and redundancy expenses apply to both permanent and temporary staff employed under the Public Service Act for more than 12 months. Retrenchments and overall changes in the number of staff refer to permanent staff only;
- although the ANAO requested wage and salary expenses, some agencies provided data on remuneration for services provided. For those agencies that provided wage and salary expenses, some included statutory officers who are not employed under the Public Service Act. In addition, when comparing separation and redundancy expenses with the number of retrenchments, it became apparent that some agencies included accrued long service leave and recreation leave as part of separation and redundancy expenses. However, given the differences are not material in relation to total APS expenditure in these areas, and in order to provide a timely report to the Parliament, the ANAO did not ask agencies to adjust the figures;
- combining staff numbers with financial costs produces some inconsistencies. Under accrual reporting, the expense for the separation and redundancy may be incurred either in the financial year prior to the actual departure of the staff member, in the same year as the departure, or in the year after the departure of staff. This can lead to a misalignment of numbers and costs. For example, there may be no retrenchments recorded in the CRP for a given period but separation and redundancy expenses might be recorded;
- the lag in reporting in the CRP can result in an underestimation of a given year's retrenchments;⁴¹ and
- discrepancies between the data included in the CRP and the internal records kept by some of the 59 agencies for which comprehensive data were available. The ANAO notes that information on the CRP is provided by agencies and, at the time of audit, was linked to the

⁴¹ All the staffing information included in this report is based on data extracted from the CRP and is current as at 30 June 1998. The CRP is continually updated and there are various lags for inputting certain types of information. Therefore, it is important to use the most recent extractions, rather than figures published in previous *State of the Service: Australian Public Service Statistical Bulletins*. It is also important to note that the June 1998 figures should only be considered estimates, especially at the agency level but the magnitude of the inaccuracy is unlikely to mask the underlying trends in the figures at the overall APS level.

Department of Finance Pay System. Any discrepancies identified by agencies highlight the importance of providing accurate information to the CRP and the need for agencies to take responsibility for ensuring that information supplied is consistent with their own records. This will be especially important following the implementation of the new APS Employment Database currently being developed by the PSMPC to replace the CRP. There would be considerable advantages if that database were electronically based with direct input by agencies.

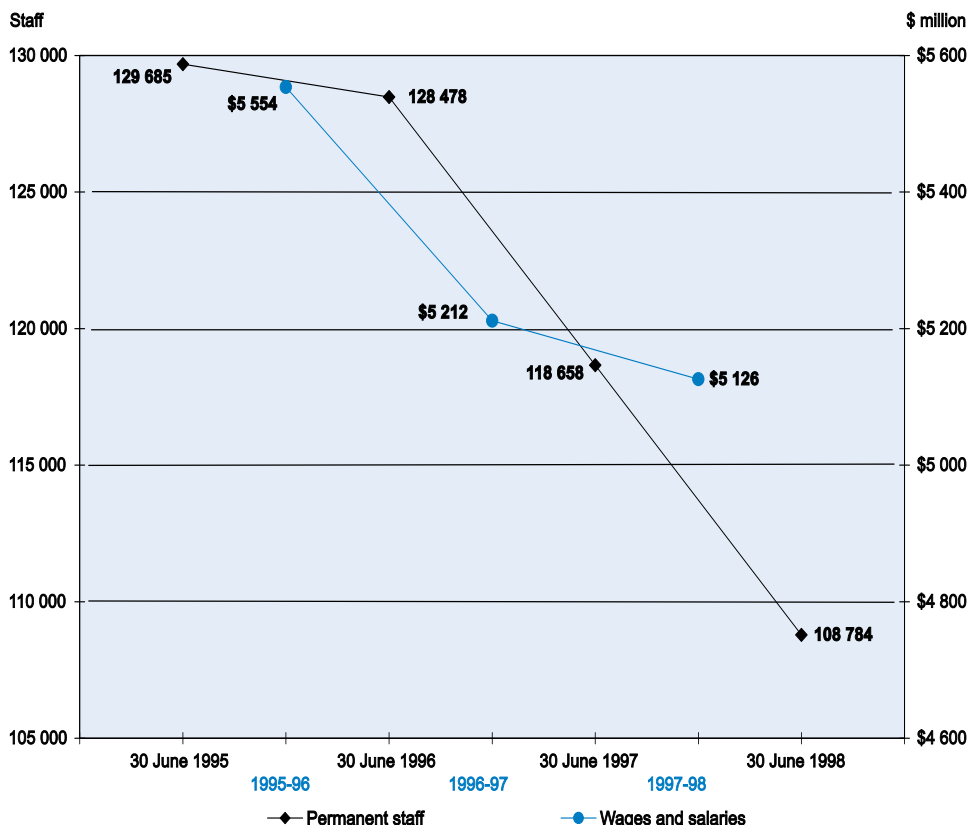
2.16 These factors make any analysis of staff numbers and costs difficult to undertake. To alleviate this situation to the extent possible within the limitations of available data, the ANAO combined the figures for the financial years available with costs adjusted to 1998 dollar values. Any future analysis should try to better align reductions in staff numbers with the actual costs involved to lessen the impact of any misalignment of staff numbers and costs on interpretation of the data.

2.17 Despite these difficulties, it is possible to make some general observations with a degree of confidence. The ANAO found that total separation and redundancy expenses in the 59 agencies were \$396 million in 1996–97 and \$315 million in 1997–98, a total of \$711 million. This covered 19 637 retrenchments over the two years. Four large agencies—the ATO, DEETYA, DoFA and Defence—account for about 68 per cent (\$486 million) of total expenses and 58 per cent (11 353) of total retrenchments.

2.18 When adjusted to June 1998 dollars, wages and salaries for the 59 agencies fell from \$5 554 million in 1995–96 to \$5 126 million in 1997–98 (a decrease of \$428 million or 7.7 per cent over this period). At the same time, as shown in Figure 4, permanent staff numbers in these agencies decreased from 128 478 in 30 June 1996 to 108 784 in 30 June 1998 (a decrease of 19 694 staff or 15.3 per cent).

Figure 4:

Permanent staff, 30 June 1995 to 30 June 1998, and wage and salary expenses, 1995–96 to 1997–98, for 59 APS agencies



Source: ANAO analysis of CRP as at 30 June 1998 and wages and salaries data supplied by agencies

Note: Wage and salary expenses have been adjusted to June 1998 dollar values.

2.19 As would be expected given the overall decrease in staff numbers, wage and salary expenses have fallen in the agencies examined. However, the decrease in wages and salaries slowed in 1997–98, while permanent staff numbers continued to decline at a steady rate. Despite the difficulties associated with comparing wage and salary expenses calculated over an entire financial year with total staff numbers taken at a point in time, there are two possible explanations for the slow down in the rate of decrease in wage and salary expenses during 1997–98:

- pay increases associated with the introduction of agency-specific agreements. During 1997–98, agreements were completed for 56 per cent of large agencies, 65 per cent of medium agencies and 35 per cent of small agencies. The pay increases ranged from two to five per cent, in addition to a number of sign-on bonuses and other one-off cash payments; and

- there had been a shift in classification profile with a slight increase in the proportion of staff employed above the former Administrative Service Officer grade three level with a corresponding decrease in the proportion of lower level staff.

2.20 However, the ANAO's analysis also showed that several agencies increased their expenditure on wages and salaries at the same time that their staff numbers were falling. Excluding those agencies that increased staff as a result of significant structural change,⁴² the ANAO's analysis shows that 51 agencies recorded a net reduction in staff between 30 June 1996 and 30 June 1998.⁴³ However, of these 51 agencies, five (10 per cent) increased their wage and salary expenses between 1995–96 and 1997–98 while staff numbers were falling (see Figures 6 and 12 at the end of this chapter—agencies meeting this condition are shaded. Figure 9 shows the change in wages and salaries for medium size agencies). It should be noted that the increase in the two small agencies (the Commonwealth Ombudsman and the Great Barrier Reef Marine Park Authority) was less than \$50 000 respectively.

2.21 Over this period, the increase in wage and salary expenses for these five agencies was \$10.4 million (adjusted to June 1998 dollar values). The separation and redundancy expenses for these agencies in 1996–97 and 1997–98 totalled \$15 million.

2.22 The ANAO also compared the total number of staff coming into the agencies via appointment, transfer and promotion with the total number of staff leaving the agencies via the various methods of separation, including retrenchment, as well as transfers and promotions out. The analysis showed that, excluding those agencies that increased staff as a result of significant structural change mentioned above,⁴⁴ 17 agencies (31 per cent of the remainder) have gone some way towards replacing retrenched staff. These agencies, where the number of staff coming into the agency exceeded the number of non-retrenchment separations,⁴⁵ transfers and promotions out, are shown in Figures 7, 10 and 13 at the end of this chapter.

⁴² The five agencies which increased staff are indicated on Figures 5, 8 and 11 and are discussed in paragraph 2.12.

⁴³ The Australian War Memorial and the Administrative Appeals Tribunal recorded no net change in staff and the overall increase in the Family Court of Australia was only four staff. These agencies advised that the increase in wages and salaries was based on sound strategic and operational reasons.

⁴⁴ The agencies listed in paragraph 2.12.

⁴⁵ Non-retrenchment separations are where employees cease to be employed under the Public Service Act through the various methods of separation (principally resignation, retirement and mobility) but not including retrenchment.

2.23 The ANAO invited the agencies identified above to comment on why there were increases in wage and salary expenses while staff numbers were falling and on the replacement of retrenched staff. There remains a question as to whether agencies generally had sound strategic or operational reasons for the increases. Such checks are were possible for the ANAO to undertake suggested that there were. A number of agencies were 'refreshing' their workforce by employing staff with skills more compatible with the agency's future requirements. Other agencies were subject to functional reorganisation and had taken on additional responsibilities thus requiring extra staff to meet operational imperatives. For example:

- the 1996 Census of Population and Housing resulted in a significant increase in wage and salary expenses in the Australian Bureau of Statistics;
- the use of part-time work increased in the Australian Customs Service as a means of addressing workload peaks;
- external recruitment increased in DPIE in response to recommendations made in the Nairn Report on Quarantine; and
- the Defence Reform Program commenced with its associated workforce changes.

2.24 However, there may be situations in individual agencies where wage and salary expenses increased while staff numbers were falling and where the replacement of retrenched staff raises questions about whether staff reductions have been strategic and cost-effective. For example, unintentional 'classification creep' may have occurred. It is also possible that some agencies retrenched too many staff or staff with skills more appropriately retained by the agency for the longer-term and, as a result, needed to recruit additional staff to redress a negative impact on agency performance. The ANAO considers that there would be benefit in the PSMPC and individual agencies monitoring changes in staff movements and associated expenditure to ensure that any change is the result of conscious strategic decisions by management to achieve cost-effective outputs and outcomes.

Adopting a strategic and cost-effective approach across the APS

2.25 Determining how strategic the APS has been in managing staff reductions would require an in-depth assessment of the performance in all significant Government programs, an assessment which is beyond the scope of this audit.

2.26 The ANAO's quantitative analysis does, however, cast some doubt on the extent to which the cost of staff reductions has been minimised in

some agencies across the APS. As mentioned in Chapter 1, the Government anticipated that much of the necessary reductions would be achieved through natural attrition, voluntary redundancy, reduced levels of recruitment and a reduction in temporary employees. For the purposes of this audit, natural attrition is defined as the rate of non-retrenchment separation (ie. staff leaving the APS through resignation, retirement, mobility etc.). For reductions to occur as a result of natural attrition, appointment levels need to fall in comparison to non-retrenchment separations.

2.27 The ANAO's analysis indicates that the APS achieved little in the way of reduced staff numbers or cost savings through natural attrition. The natural attrition rate remained at around four to five per cent since 1991–92. During the major period of staff reductions, the ANAO found that there were approximately equal rates of non-retrenchment separations and appointments in 1996–97 and 1997–98, rather than increasing rates of natural attrition. As discussed previously, while appointment levels were falling across the APS, they only reached a level below that of non-retrenchment separations in 1997–98 (Figure 2) indicating that agencies were generally replacing those staff leaving through non-retrenchment separations.

2.28 In relation to costs, the ANAO found that there was little variation between the average cost of retrenchment (\$36 035)⁴⁶ and the average cost of reducing the APS by one person⁴⁷ over the period 1996–97 and 1997–98. The similarity in the figures is because the total number of retrenchments in the 59 agencies for which the ANAO was able to obtain comprehensive data over this period (19 637) is very similar to the net reduction in staff in these agencies (19 694). This indicates that APS staff reductions did not occur through natural attrition, rather, the majority of people leaving the APS were retrenched. However, the ANAO acknowledges that an increase in natural attrition is not easily achieved in an atmosphere where voluntary redundancy packages are on offer and agencies are under pressure to achieve budget reductions quickly.

⁴⁶ The average is \$36 035 and the median is \$35 307 (in June 1998 dollars). Based on separation and redundancy expenses of \$711 million since 1996–97 and 19 637 retrenchments between June 1996 and June 1998, the average cost of retrenchment equals total separation and redundancy expenses divided by total number of retrenchments.

⁴⁷ The average cost of reducing the APS by one person is \$36 114. Based on a net staff reduction of 19 694 staff between June 1996 and June 1998 in the 59 agencies for which financial data were available, the average cost of reducing the APS by one person equals total separation and redundancy expenses divided by net APS reduction. To the extent possible with the available data, accrued leave and other entitlements have not been included in this formula as they are payable regardless of whether the person leaves through redundancy or natural attrition.

Adopting a strategic and cost-effective approach across the three agencies audited

2.29 The ANAO's analysis and observations in the three agencies audited indicated that the ATO and AQIS were particularly strategic in managing their staff reduction exercises. As discussed in Chapter 3, these agencies integrated their staff reduction strategies with their longer-term corporate directions and established measurable and objective indicators to assess agency performance over time. In comparison, other parts of DPIE and DoTRD were not as well placed in 1996 to take a strategic approach to planning for staff reductions given the absence of a robust corporate or workforce planning framework. In addition, DPIE had no agency-wide performance indicators during the period of staff reductions and DoTRD did not undertake any agency-wide or division level performance monitoring.

2.30 Although the ATO has not evaluated the impact of staff reductions on agency or business line performance since 1995, the ANAO found that the ATO's performance indicators showed performance levels were maintained during the major period of staff reductions in 1996. The quality of the AQIS operations improved during a period of major reform implementation and workforce disruption.

2.31 Although the audit work undertaken in the three agencies highlighted the variety of factors influencing the need to reduce staff, the staff reduction exercises examined in the three agencies were generally well managed. However, the ANAO found that the primary focus in a number of the reduction exercises has been on operating within assigned budgets by achieving the required number of staff reductions in a timely fashion but with less obvious regard for the transitional and/or longer-term needs of the agency. It was common to determine the number of retrenchments required on the basis of budget constraints in a given year. The ANAO acknowledges the time imperatives associated with staff reductions but found that decisions on the number of retrenchments were not always supported by an assessment of the:

- impact of staff reductions on the agencies' ability to conduct their business in the transitional period and/or in the longer term (refer Chapter 3);
- most cost-effective ways of combining staff retention, retraining, redeployment, retrenchment, and recruitment decisions to achieve the desired skills profile (refer Chapter 3); or
- impact on corporate knowledge, the workforce skills profile, succession planning or the workplace diversity profile (refer Chapters 4 and 5).

2.32 As with the wider APS, the ANAO found that the majority of staff reductions in the three agencies audited occurred via retrenchment. The ANAO acknowledges that some staff reductions have been influenced by specific Government decisions, including the abolition of functions. As discussed in Chapter 5, appointment levels decreased in the three agencies in 1996–97 but increased again in 1997–98, most noticeably in the ATO where the number of appointments exceeded 1995–96 levels but remain less than non-retrenchment separations (Figure 7—the situation in the ATO is discussed in more detail in Chapter 5).

2.33 Total appointments for 1996–97 and 1997–98 were higher than total non-retrenchment separations over the same period in both DPIE and DoTRD (Figures 7 and 10), with DPIE appointing more staff than it retrenched during 1997–98. As mentioned above, DPIE underwent a large recruitment exercise to expand the number of quarantine staff in response to the Nairn Report. The Department also advised that a significant number of appointments, transfers and promotions are attributable to new policy initiatives such as the Natural Heritage Trust and the Advancing Australia in Agriculture Programs.

Conclusion

2.34 Because the audit did not seek to consider, at a global level, the relationship between inputs and outputs/outcomes, no general conclusion can be drawn on just how strategic agency decision-making has been in meeting the Government's overarching principles for managing the staffing consequences of a reduction in running costs. The ANAO considers that there would be benefit in all APS agencies systematically monitoring staff movements and associated expenditure to ensure that any change is the result of conscious strategic decisions by management to achieve cost-effective outputs and outcomes as the main focus rather than simply avoiding the discipline of performance management.

2.35 The ANAO's analysis does indicate that, contrary to the Government's intention, the APS achieved little in the way of reduced staff numbers or cost savings through increased natural attrition. Rather, the majority of people leaving the APS were retrenched. The ANAO acknowledges that an increase in natural attrition is not easily achieved in an atmosphere where voluntary redundancy packages are on offer and agencies are under pressure to achieve budget reductions quickly. Although appointment levels have decreased to the lowest point in almost 10 years, as discussed in Chapter 5, the ANAO found that appointments increased in 1997–98 to exceed 1995–96 levels in 28 per cent of large agencies, 50 per cent of medium agencies and 17 per cent of small agencies. The ANAO acknowledges that external recruitment into the APS

continued in line with operational imperatives. However, there would be benefit in all APS agencies ensuring that their staff recruitment is managed in light of longer-term workforce planning requirements.

2.36 The ANAO's analysis and observations in the three agencies audited indicated that the ATO and AQIS were particularly strategic in managing their staff reduction exercises. Performance indicators developed by the two agencies indicated that performance levels were maintained or improved during the major period of staff reductions. In comparison, other parts of DPIE and DoTRD were not as well placed in 1996 to take a strategic approach to planning for staff reductions given the absence of a corporate or workforce planning framework or processes to measure performance. As with the wider APS, the ANAO also found that the majority of the staff reductions in the three agencies audited occurred via retrenchment rather than an increase in natural attrition.

Overall monitoring of staff reductions in the APS

2.37 As mentioned earlier in this report, the Government set a strategic framework for managing the staffing consequences of a reduction in running costs in April 1996. It also established mechanisms to evaluate the effectiveness of agency's strategic plans for managing staff reductions. However, following amendments to the framework promulgated in February 1998, the PSMPC's regular reports to the Minister Assisting the Prime Minister for the Public Service became the principal vehicle for obtaining information on the management of staff reductions in the APS. Prior to the amendments, these reports were based on surveys of agencies and built around the structure of the Government's strategic framework. They focused on providing information on whether staff numbers had been managed down in accordance with the common, Service-wide guidelines outlined in the Government's framework.⁴⁸

2.38 Following amendments to the framework, the PSMPC reports six monthly to the Minister Assisting the Prime Minister for the Public Service using data derived from official statistics rather than agency surveys. The PSMPC indicated that it would monitor key indicators such as changes in total staff numbers, recruitment, redeployment and retrenchment to allow the Government to respond to any emerging trends as necessary.

2.39 Although the current reports provide quantitative information in relation to the majority of the key indicators outlined above, they do not

⁴⁸ Chapter 5 provides an outline of the extent to which the three agencies audited adhered to these guidelines and, where possible, an examination of APS-wide data for those areas covered by the guidelines.

provide any information on redeployment. As well, data are only provided for the last eighteen months which is not sufficient to identify emerging trends. The ANAO considers that there is scope for the PSMPC to provide data over a longer time frame—from at least 1994–95, the period immediately prior to the recent staff reductions—to enable trends to be identified. This information is available from the CRP.

2.40 The ANAO also found that the PSMPC made only limited attempts to consolidate the information provided in its reports to the Minister Assisting the Prime Minister for the Public Service to determine the overall effectiveness of the Government's strategic framework for managing staff reductions. The ANAO acknowledges that Government reforms have reduced central agency control and greater responsibility has been devolved to agencies. However, the PSMPC continues to have a role in overseeing the Government's strategic framework for managing staff reductions.

2.41 The ANAO considers that there would be benefit in the PSMPC, as part of its whole of Government responsibilities for staffing issues, to identify areas of good practice in relation to staff reductions as well as any anomalies at the individual agency level that may have influenced the APS-wide results. There is also scope to undertake further analysis (on an exception basis) to identify why anomalies are occurring in particular agencies. Of course, such analysis comes at a cost which has to be weighed against the potential benefits of improved administration.

Information on the cost of staff reductions

2.42 There is a lack of comprehensive information that integrates the number of staff accepting voluntary redundancy and the cost of staff reductions readily available to the Government and the Parliament at the current time. Although this information is available separately through a number of data sources,⁴⁹ there has been no detailed analysis of the cost of staff reductions similar to that provided in this report. The limited availability of integrated information of this kind lessens public accountability by agencies for the cost-effectiveness of their staff reduction exercises and limits the extent to which the PSMPC can effectively monitor these activities.

⁴⁹ The number of staff taking voluntary redundancy is included in the CRP; a general overview of the changing size and composition of the APS is included in the State of the Service report; basic financial data can be extracted from agencies' Annual Reports and the new monthly survey to collect APS employment data which replaces the CRP will collect information on gross remuneration; and, in its 1996 reports to the Minister Assisting the Prime Minister for the Public Service, the PSMPC included some calculations to determine the average cost of severance benefits, accrued entitlements and superannuation costs per thousand redundancies.

2.43 The limited availability of information was accentuated during the audit fieldwork by the fact that it was very difficult to align staff numbers obtained from agencies' human resource management information systems with those provided in publicly available sources. Only limited information was included in the agencies' annual reports on staff reduction exercises, their outcomes and impacts on the particular agencies.

Conclusion

2.44 Comprehensive information that integrates information on the cost of staff reductions and the number of staff accepting redundancy is not available for the APS as a whole, nor are the outcomes and impacts of staff reduction exercises given much attention in agencies' annual reports. Further, the PSMPC reports on staff reductions to the Minister Assisting the Prime Minister on the Public Service do not contain any information on redeployment and there are insufficient data to identify trends in relation to APS staff movements.

2.45 There would be benefit for improved public administration if the PSMPC provided more comprehensive information in the reports to the Minister and made this information available to the Government and the Parliament. This could include the identification of areas of good practice in relation to staff reductions as well as any anomalies at the individual agency level to provide a greater understanding of APS-wide trends. Such an analysis will also enable a better assessment to be made of the effectiveness of the Government's strategic framework for managing staffing changes and may also lead to, as indicated, improvements in public administration. More comprehensive information may also assist the PSMPC in discharging its responsibilities to assist the Government and agencies in managing reductions in APS staffing.

2.46 As indicated earlier, it is appreciated that the success or otherwise of staff reduction exercises will be reflected in agency outputs and outcomes and consequently in available performance information. But it would be necessary for agencies to make the relevant connections.

2.47 It should be noted that, to alleviate the distorting effects of the allocation of separation and redundancy expenses across different financial years, information on the cost of staff reductions and the number of staff accepting redundancy needs to be better aligned. In relation to redeployment, the ANAO discusses the difficulties in obtaining data on redeployment within the APS (apart from that provided by the APSLMAP) in Chapter 5 and suggests that there would be benefit in individual agencies monitoring the outcomes of redeployment activity. This

information could then be consolidated by the PSMPC and used to assess the effectiveness of redeployment strategies and the extent to which successful redeployment may have resulted in savings on separation and redundancy payments.

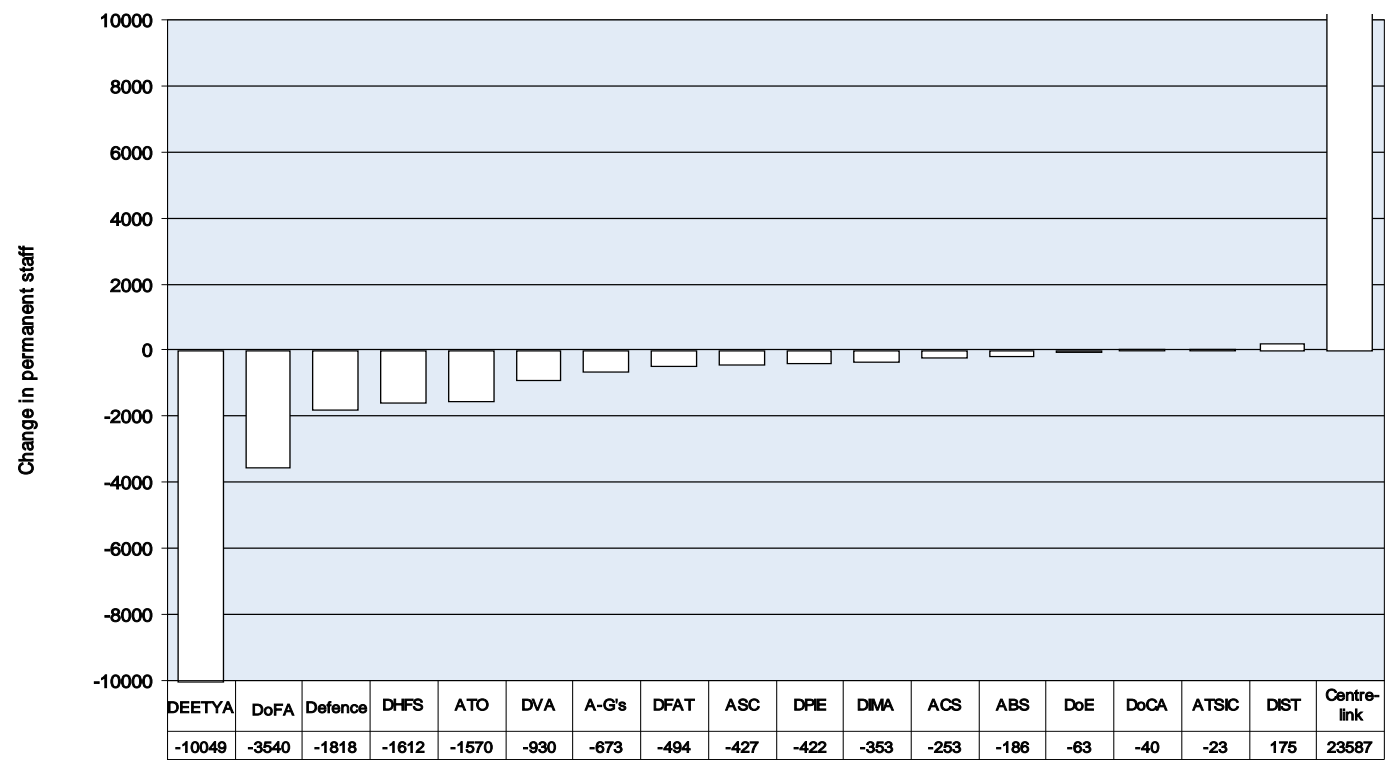
Recommendation No.1

2.48 The ANAO recommends that the PSMPC consider providing more comprehensive information on the effectiveness of the Government's strategic framework for managing staff reductions to enhance the usefulness of its six monthly reports to the Minister Assisting the Prime Minister for the Public Service.

PSMPC's response

2.49 Agreed with qualification. The PSMPC recognises its responsibility to keep Ministers fully briefed and it will continue to discharge that responsibility. The current reporting arrangements were put in place following consultation and reflect the Government's current information needs. The costs and benefits of any downsizing is a matter for the Government and agencies to assess.

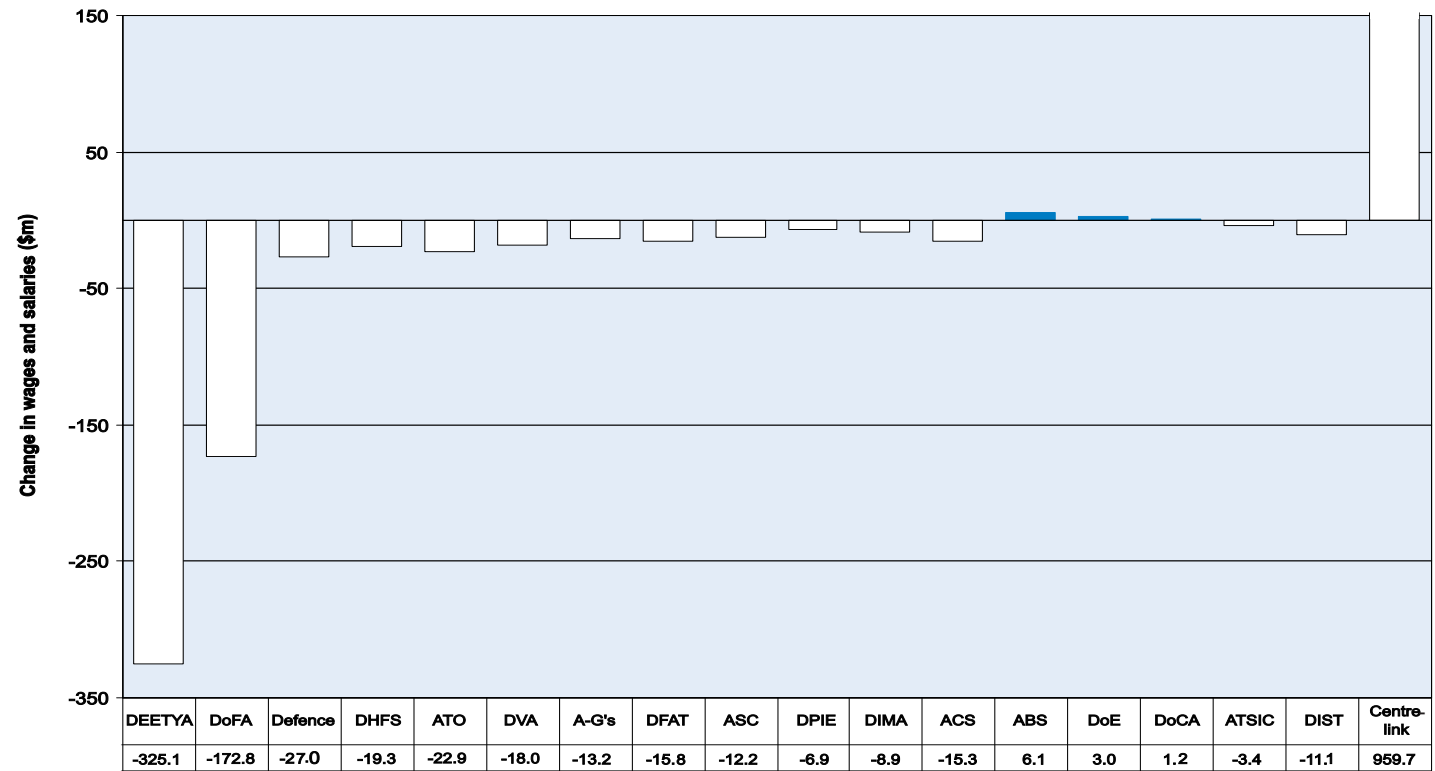
Figure 5:
Change in permanent staff in large APS agencies, 30 June 1996 to 30 June 1998



Source: ANAO analysis of CRP as at 30 June 1998

Note: Changes in DEETYA and Centrelink are due to restructuring in these agencies and the increase in DIST is a result of the transfer of functions from other agencies. Data DoE includes the Bureau of Meteorology. Large agencies are classified as those with more than 1 000 staff at 30 June 1998.

Figure 6:
Change in wages and salaries of permanent staff in large APS agencies, 1995–96 to 1997–98

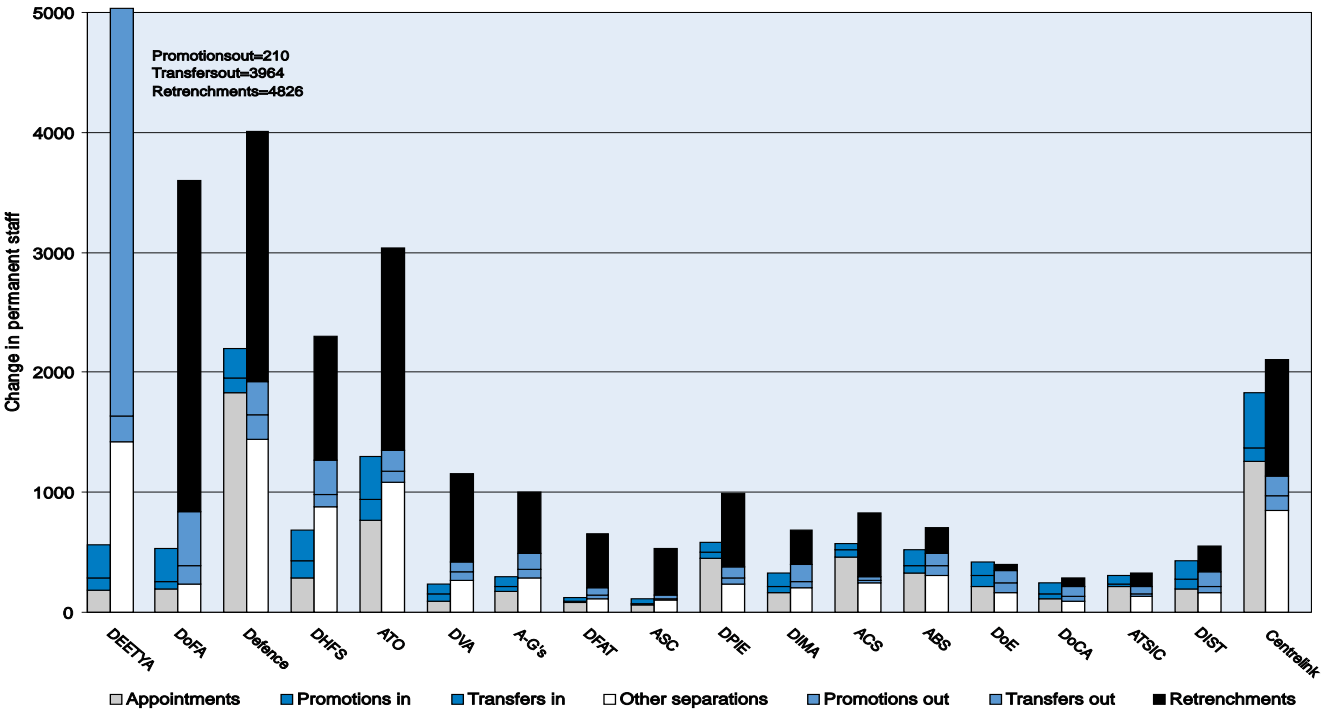


Source: ANAO analysis of wage and salary expenses provided by agencies

Note: Wages and salaries are expressed in terms of 1998 dollars.

Shading indicates agencies which increased their wages and salaries at the same time as recording a net reduction in staff.

Figure 7:
Transfers, promotions and appointments into, and retrenchments, other separations, transfers and promotions of permanent staff from large APS agencies, 1996–97 to 1997–98



Source: ANAO analysis of CRP as at 30 June 1998

Note: Changes in DEETYA and Centrelink are due to restructuring in these agencies and the increase in DIST is a result of the transfer of functions from other agencies.
Data for DoE includes Bureau of Meteorology.
Large agencies are classified as those with more than 1 000 staff at 30 June 1998.

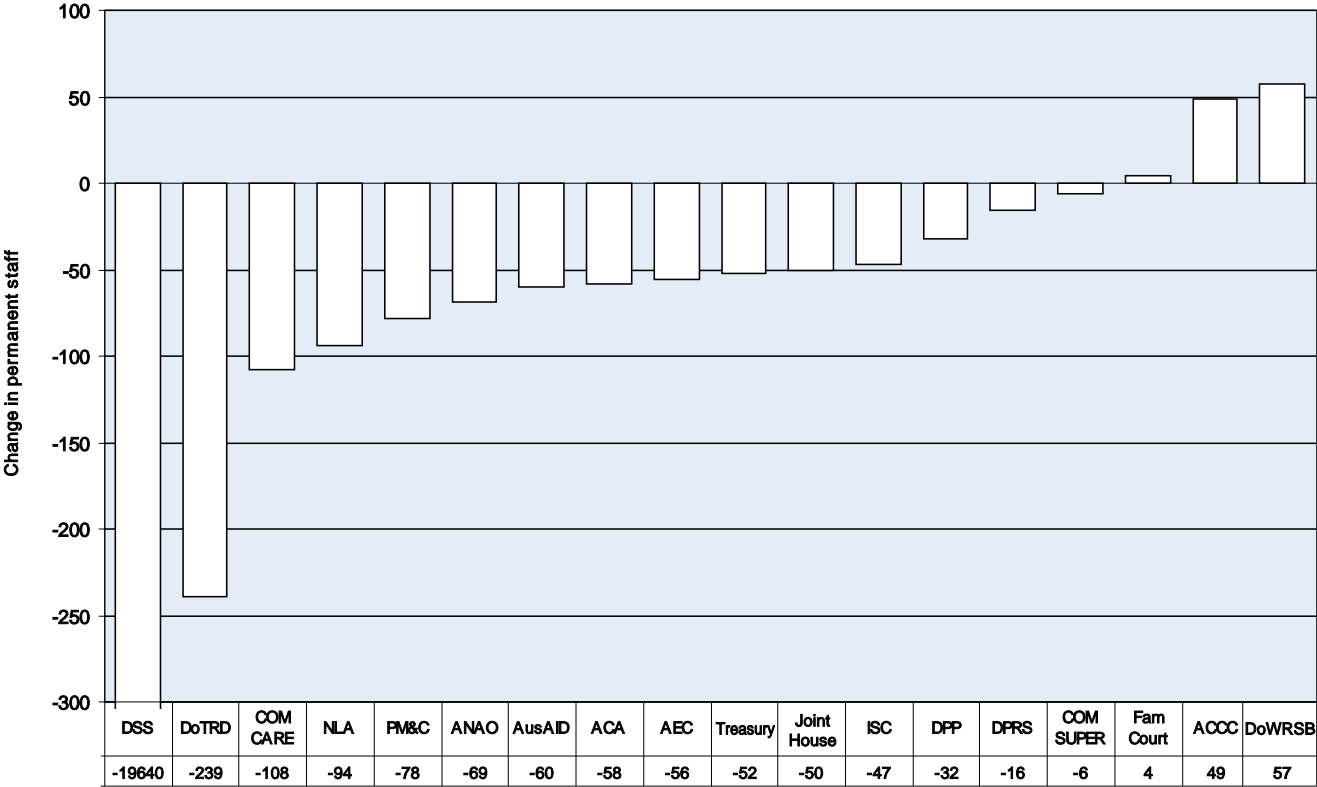
Table 3:

Transfers, promotions and appointments into, and retrenchments, other separations, transfers and promotions of permanent staff from large APS agencies, 1996–97 to 1997–98

Agency	Appointments	Transfers In	Promotions In	Other separations	Promotions out	Transfers out	Retrenchments
DEETYA	185	280	102	1 424	210	3 964	4 826
DoFA	192	273	67	238	150	453	2 760
Defence	1 826	239	129	1 442	200	281	2 081
DHFS	291	260	138	876	107	288	1 029
ATO	771	366	166	1 081	96	176	1 686
DVA	90	78	67	269	68	87	734
A-G's	175	84	41	285	77	124	514
DFAT	86	31	10	111	33	57	453
ASC	59	34	17	101	14	28	393
DPIE	447	78	58	235	55	85	618
DIMA	166	117	49	200	60	141	288
ACS	456	44	69	245	25	25	533
ABS	324	132	65	306	80	103	216
DoE	214	112	89	160	87	103	48
DoCA	111	96	43	94	40	76	80
ATSIC	212	68	22	130	20	60	115
DIST	194	148	86	159	59	117	219
Centrelink	1 261	458	108	845	128	157	978

Source: ANAO analysis of CRP as at 30 June 1998

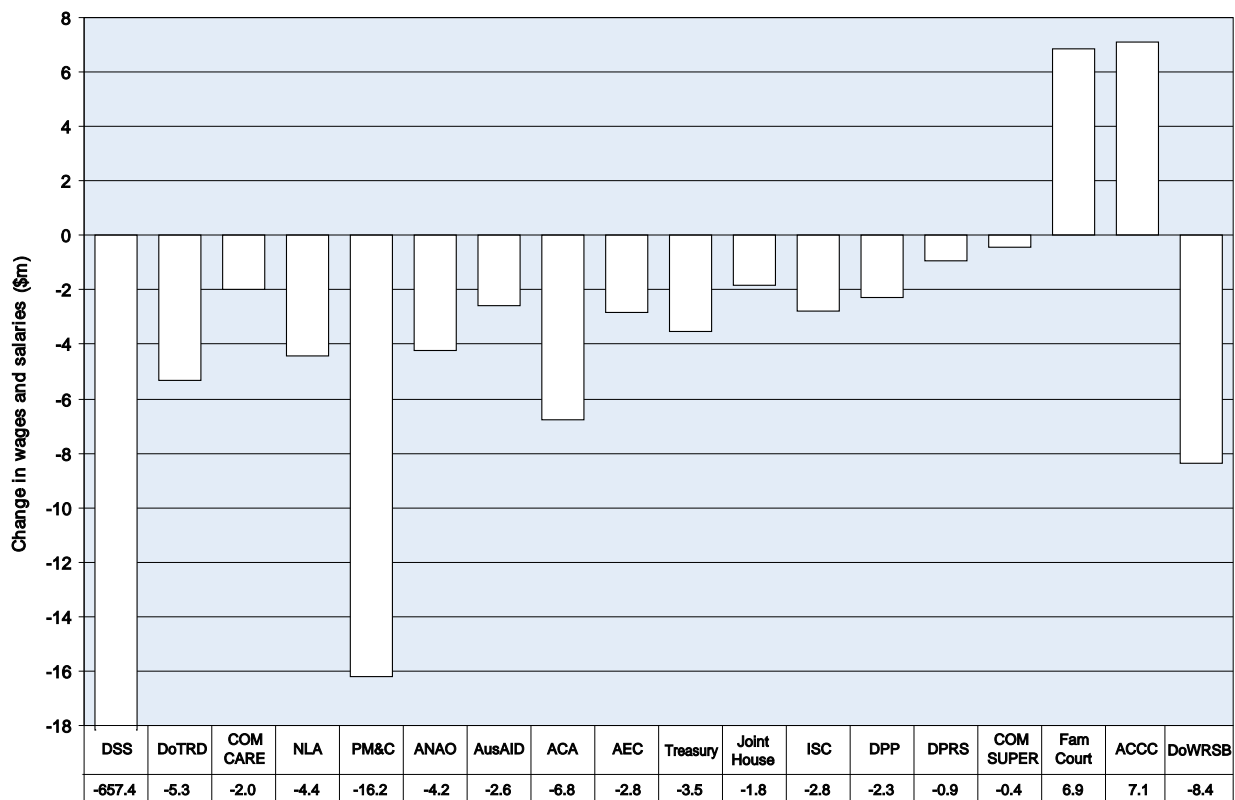
Figure 8:
Change in permanent staff in medium APS agencies, 30 June 1996 to 30 June 1998



Source: ANAO analysis of CRP as at 30 June 1998

Note: Changes in DSS are due to restructuring and changes in ACCC and DoWRSB are due to a transfer of functions.

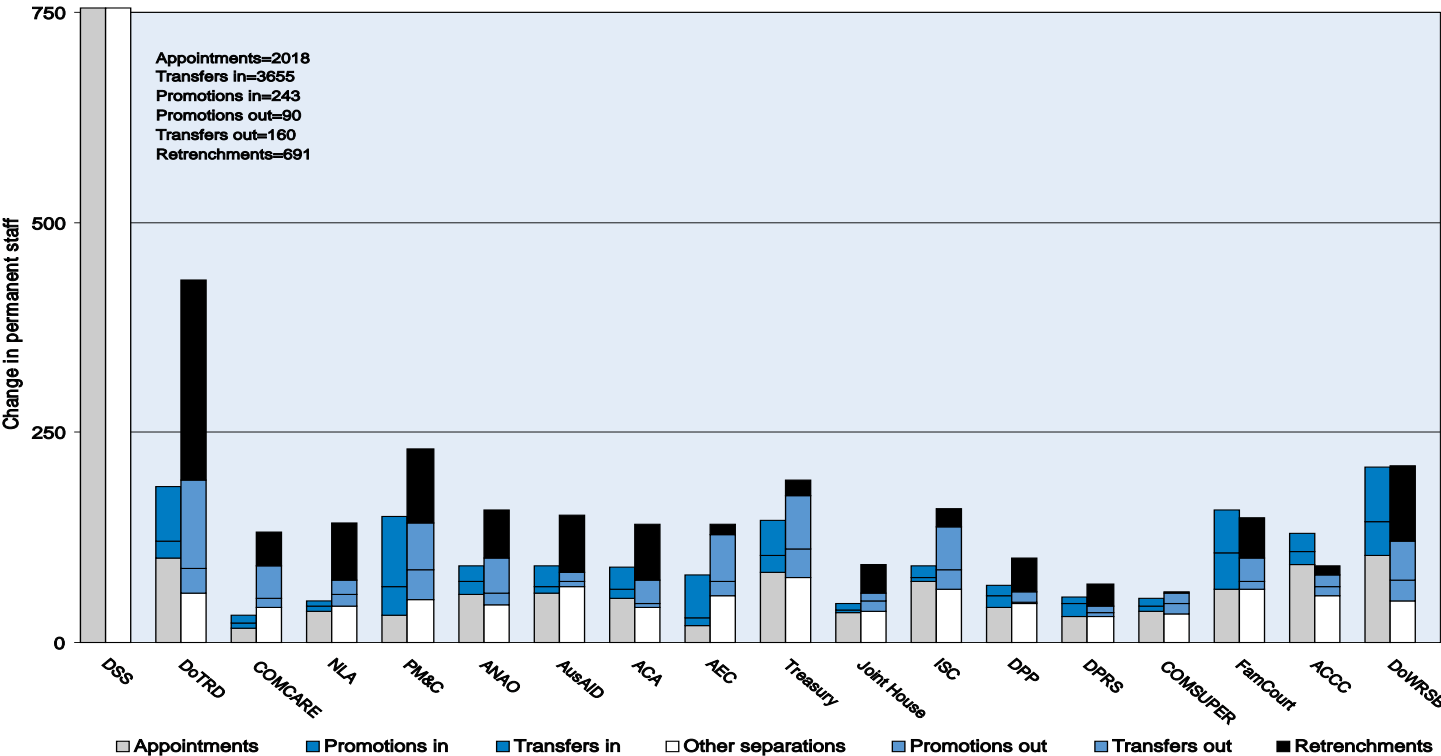
Medium agencies are classified as those with 250–1 000 staff at 30 June 1998.

Figure 9:**Change in wages and salaries of permanent staff in medium APS agencies, 1995–96 to 1997–98**

Source: ANAO analysis of wage and salary expenses provided by agencies

Note: Wages and salaries are expressed in terms of 1998 dollars.

Figure 10:
Transfers, promotions and appointments into, and retrenchments, other separations, transfers and promotions of permanent staff from medium APS agencies, 1996–97 to 1997–98



Source: ANAO analysis of CRP as at 30 June 1998

Note: Changes in DSS are due to restructuring and changes in ACCC and DoWRSB are due to a transfer of functions.
Medium agencies are classified as those with 250–1 000 staff at 30 June 1998.

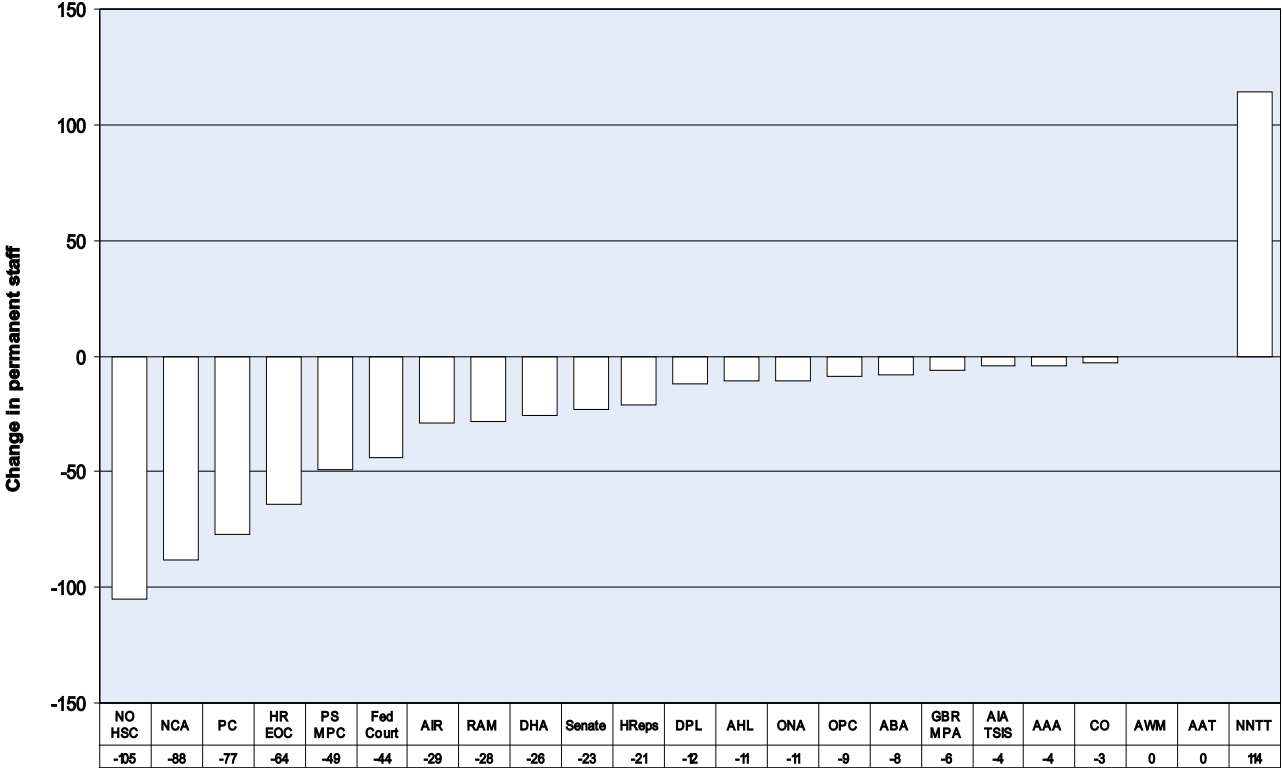
Table 4:

Transfers, promotions and appointments into, and retrenchments, other separations, transfers and promotions of permanent staff from medium APS agencies, 1996–97 to 1997–98

Agency	Appointments	Transfers In	Promotions In	Other separations	Promotions out	Transfers out	Retrench- ments
DSS	2 018	3 655	243	964	90	160	691
DoTRD	100	65	21	59	29	105	239
COMCARE	17	10	6	41	12	39	39
NLA	37	6	6	44	13	17	68
PM&C	33	84	33	51	35	56	88
ANAO	57	18	16	45	13	42	57
AusAID	7	59	25	66	6	12	68
ACA	52	26	12	41	6	28	65
AEC	20	52	9	56	16	57	12
Treasury	83	42	20	77	34	63	19
Joint House	35	7	4	37	13	8	35
ISC	72	13	6	63	24	50	23
DPP	42	13	13	47	1	12	41
DPRS	31	7	16	31	4	9	25
COMSUPER	37	10	6	34	12	12	3
FamCourt	63	51	44	64	9	27	49
ACCC	93	22	15	56	10	15	11
DoWRSB	104	65	40	50	25	45	91

Source: ANAO analysis of CRP as at 30 June 1998

Figure 11:
Change in permanent staff in small APS agencies, 30 June 1996 to 30 June 1998

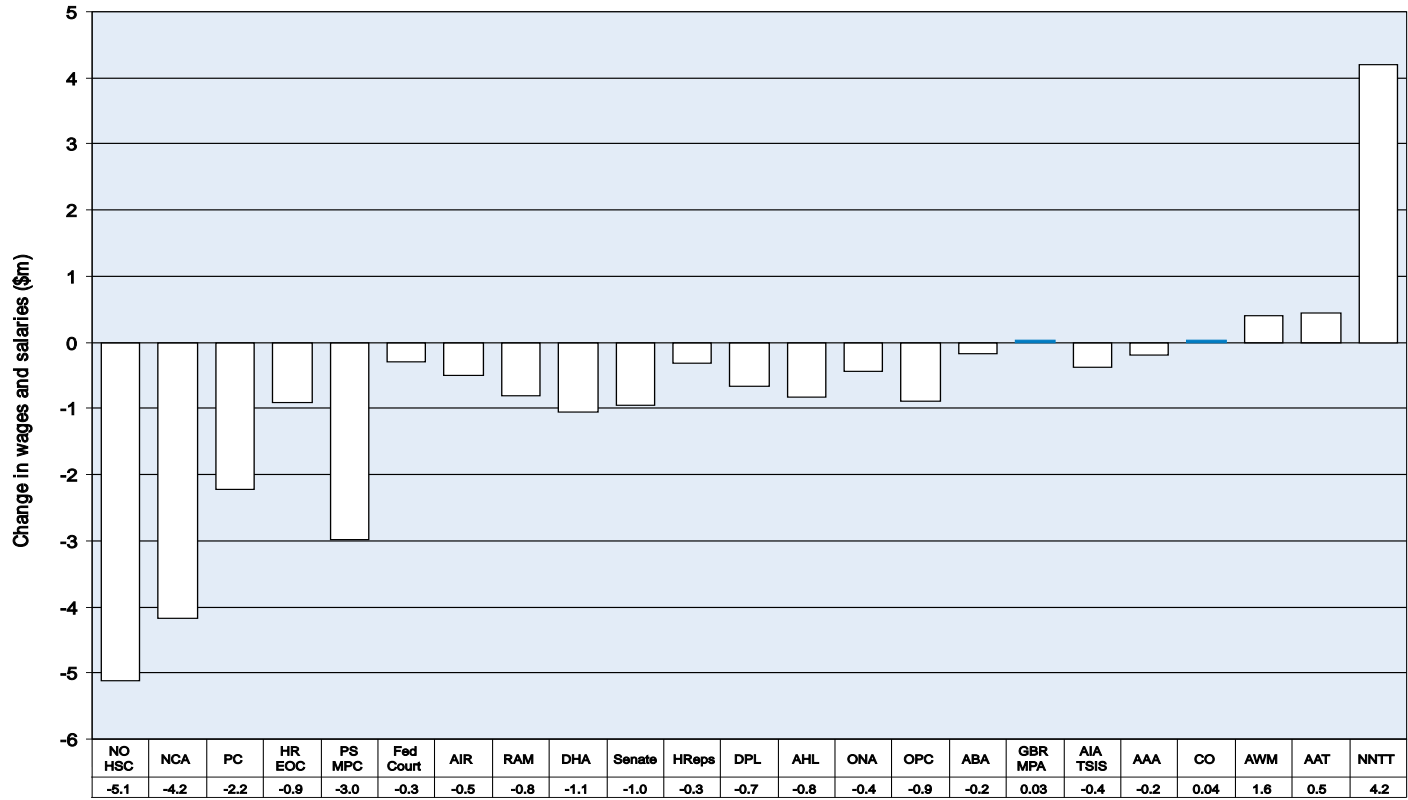


Source: ANAO analysis of CRP as at 30 June 1998

Note: Change in NNTT due to an expansion of functions.

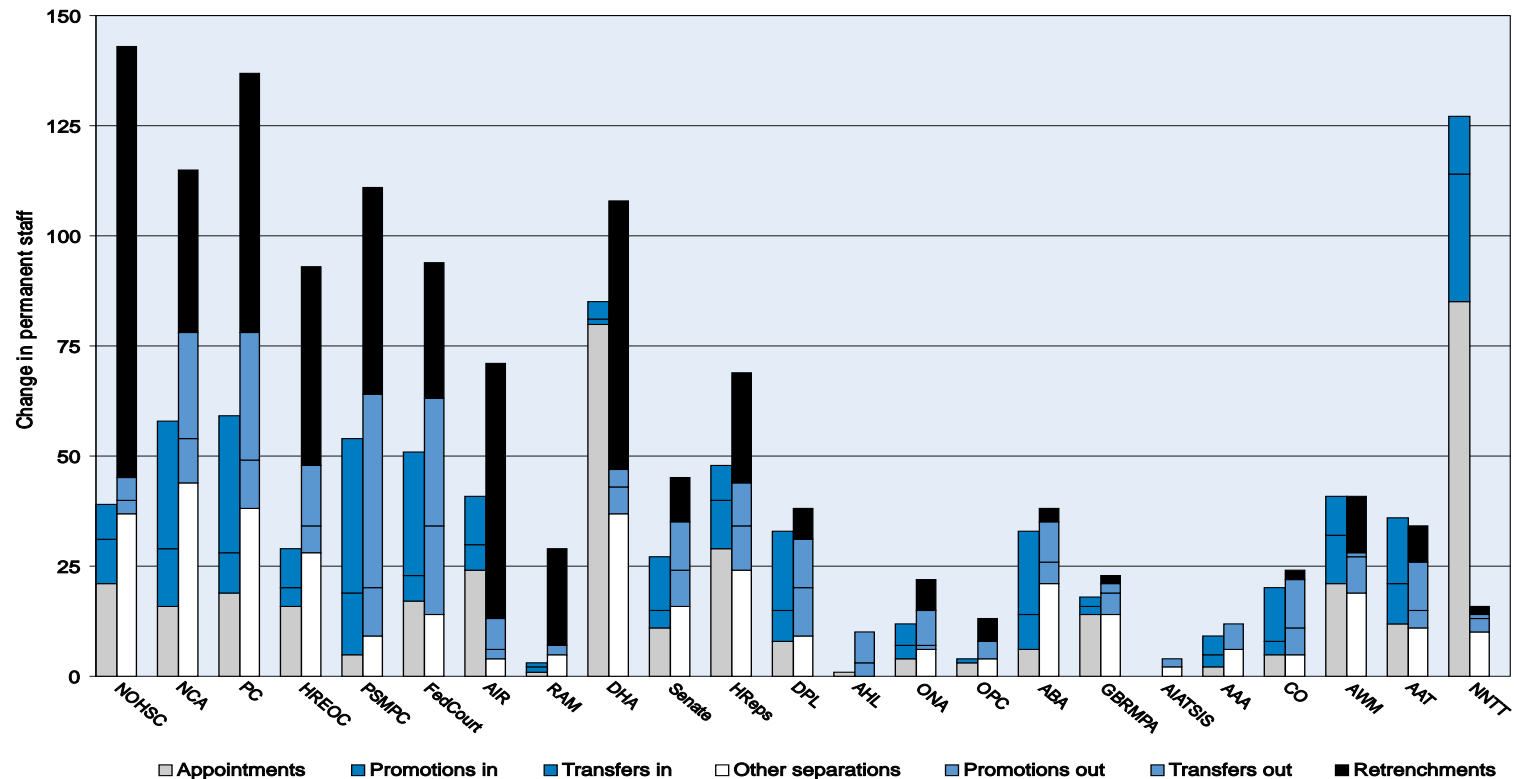
Small agencies are classified as those with fewer than 250 staff at 30 June 1998.

Figure 12:
Change in wages and salaries of permanent staff in small APS agencies, 1995–96 to 1997–98



Source: ANAO analysis of wage and salary expenses provided by agencies
 Note: Wages and salaries are expressed in terms of 1998 dollars.
 Shading indicates agencies which increased their wages and salaries at the same time as recording a net reduction in staff.

Figure 13:
Transfers, promotions and appointments into, and retrenchments, other separations, transfers and promotions of permanent staff from small APS agencies, 1996–97 to 1997–98



Source: ANAO analysis of CRP as at 30 June 1998

Note: Change in NNTT due to an expansion of functions.

Table 5:

Transfers, promotions and appointments into, and retrenchments, other separations , transfers and promotions of permanent staff from small APS agencies, 1996–97 to 1997–98

<i>Agency</i>	<i>Appointments</i>	<i>Transfers In</i>	<i>Promotions In</i>	<i>Other separations</i>	<i>Promotions out</i>	<i>Transfers out</i>	<i>Retrench- ments</i>
<i>NOHSC</i>	21	8	10	37	3	5	98
<i>NCA</i>	16	29	13	44	10	24	37
<i>PC</i>	19	31	9	38	11	29	59
<i>HREOC</i>	16	9	4	28	6	14	45
<i>PSMPC</i>	5	35	14	9	11	44	47
<i>FedCourt</i>	17	28	6	14	20	29	31
<i>AIR</i>	24	11	6	4	2	7	58
<i>RAM</i>	1	1	1	5	0	2	22
<i>DHA</i>	80	4	1	37	6	4	61
<i>Senate</i>	11	12	4	16	8	11	10
<i>HReps</i>	29	8	11	24	10	10	25
<i>DPL</i>	8	18	7	9	11	11	7
<i>AHL</i>	1	0	0	0	3	7	0
<i>ONA</i>	4	5	3	6	1	8	7
<i>OPC</i>	3	1	0	4	0	4	5
<i>ABA</i>	6	19	8	21	5	9	3
<i>GBRMPA</i>	14	2	2	14	5	2	2
<i>AIATSI</i>	0	0	0	2	2	0	0
<i>AAA</i>	2	4	3	6	0	6	0
<i>CO</i>	5	12	3	5	6	11	2
<i>AWM</i>	21	9	11	19	8	1	13
<i>AAT</i>	12	15	9	11	4	11	8
<i>NNTT</i>	85	13	29	10	3	1	2

Source: ANAO analysis of CRP as at 30 June 1998

3. Strategic planning across three APS agencies

The ANAO's better practice guide outlined that, for the successful management of a staff reduction exercise, it is essential to develop a reduction strategy in the context of an agency's longer-term corporate directions and to review and evaluate the reductions process continually. As indicated earlier, ANAO reviews were undertaken in the ATO, DPIE and DoTRD. This chapter examines the strategic planning for staff reductions across these agencies and focused on the:

- *development and integration of staff reduction strategies in the broader context of longer-term corporate directions;*
- *examination of the costs and benefits of alternatives to staff reductions; and*
- *specific evaluation of the impact of staff reductions on agency performance and the identification of any improvements for future staff reduction strategies and processes.*

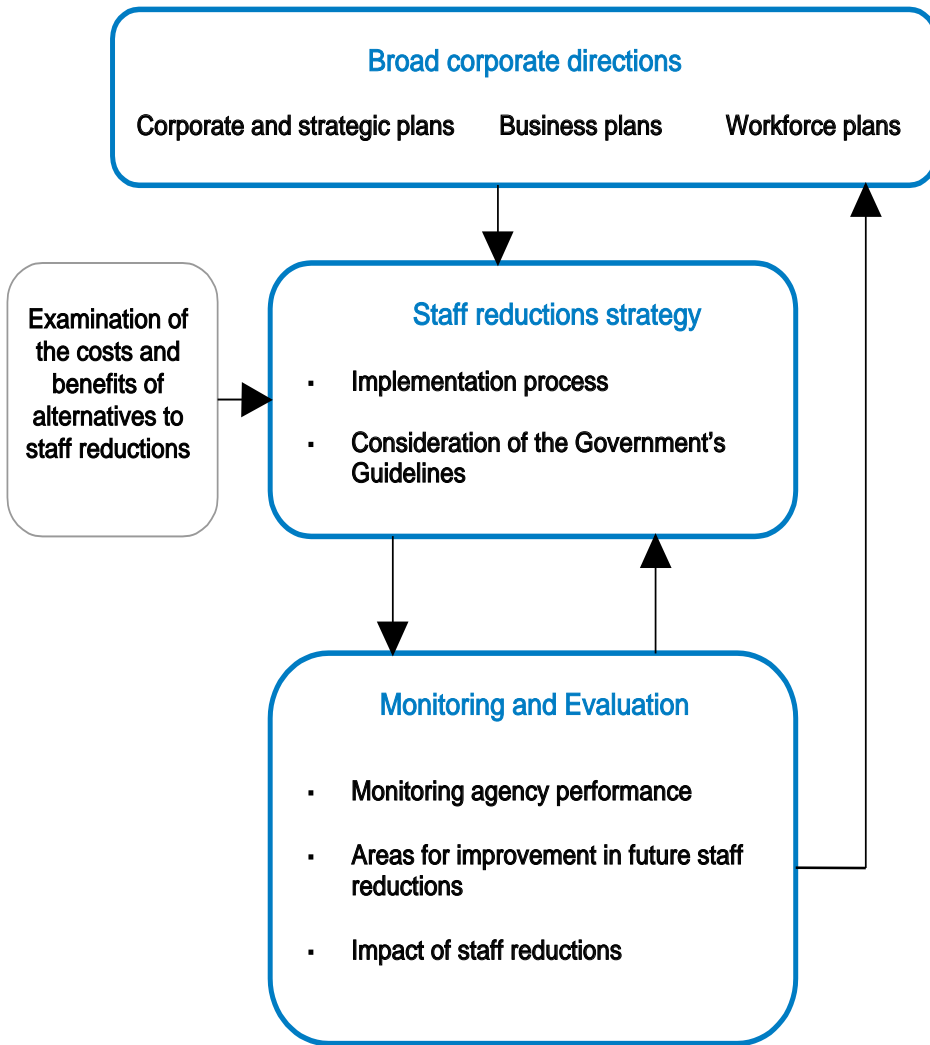
It is likely that the recommendations in this chapter will have general application to all APS agencies and should, therefore, be considered as part of any future staff reduction exercise.

3.1 A strategic framework, analysis of the relative costs and benefits of alternatives to staff reductions and evaluating outcomes are important contributions to the continued and, if possible, enhanced performance of an agency. Figure 14 provides an overview of the framework for developing and implementing a staff reductions strategy as discussed in this chapter.

3.2 PSMPC circulars, requiring each APS agency to produce a staff reduction strategy and outlining the guidelines that each was expected to consider in its strategy, were distributed in mid-April 1996. The staff reductions examined in each of the three agencies were initiated in April 1996 or later. The better practice guide produced by the ANAO was available in June 1996 and guidance produced by the PSMPC was available in December of that year.⁵⁰ As a consequence, it is important to note that this guidance was not available at the start of the staff reduction process in all cases.

⁵⁰ This guidance was in the PSMPC's 1997 publication *Management of Excess Staff Situations in the APS: Principles, Guidelines, Good Practice*.

Figure 14:
Staff reductions framework



Key considerations for any staff reduction process

- maintenance of agency performance during the period of staff reductions and in the longer term;
- strategic and cost effective management of staff reductions; and
- maintenance of corporate knowledge, workforce skills profile and workplace diversity.

Staff reduction strategies as part of longer-term corporate directions

3.3 To maintain its performance in a period of staff reductions it is essential that an agency has a well understood strategic direction and clearly defined performance goals, and that the planning and implementation of any staff reduction exercise take place in this broader context. This requires that corporate, business and workforce plans exist to guide reduction strategies and, in particular, to decide organisational structures, work/job design, and skills requirements. Agencies can use these frameworks to ensure that their tactical decision making is aligned with their strategic directions and that they do not lose their capacity to maintain high levels of program performance and service delivery.

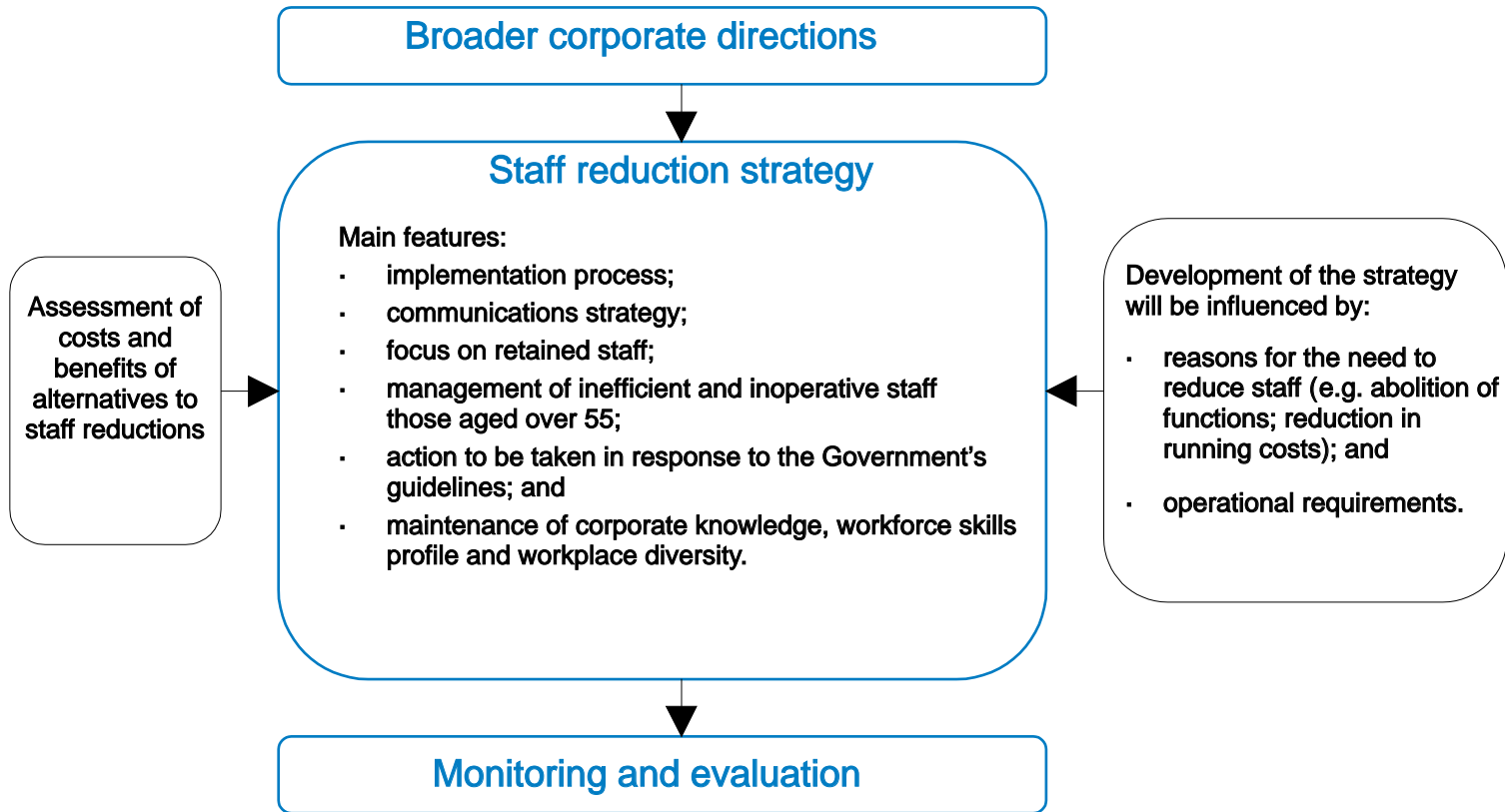
3.4 The individual elements of a staff reduction strategy, and the framework in which it should be developed, are outlined in Figure 15. Each element is discussed in more detail in Chapter 4 (Implementation of staff reductions across three APS agencies) and Chapter 5 (The Government's Guidelines).

3.5 The ATO has robust corporate and business planning frameworks that are integrated with other plans and directions, including certified agreements, business risk assessments and specific plans such as the Fraud Control Plan. The major directional statement of early 1996, *ATO—Business 2000*, provided a comprehensive statement of the future nature of ATO business; resource allocations reflecting priorities between business lines; and directional statements for each business line, providing a framework for identifying skill needs. The strongest features of the processes adopted were:

- creating a vision for the ATO over three to five years through major planning frameworks;
- agreeing a framework for realising that vision through the use of certified agreements and other internal planning mechanisms;
- allowing business service lines some flexibility about how the vision was to be achieved within targets and timetables; and
- integrating other cost saving measures with staff reduction strategies, particularly the property management strategy. Property management is an important and costly element of managing a workforce but is often overlooked or underestimated. The ATO identified its significance for service delivery, workforce accommodation and cost reduction and established an appropriate strategy to deal with it.

3.6 The ATO has further strengthened its planning process for managing staff reductions by producing guidelines outlining the principles to be followed agency-wide.

Figure 15:
Elements of a staff reduction strategy



3.7 In contrast, DPIE did not have a corporate plan at the time of the staff reductions in 1996 although one has since been developed. In April 1996 a set of clear business directions was given in a letter from the then Minister. At the end of April 1996 the then Secretary published a staff reduction strategy that devolved responsibility for achieving the necessary reductions to the business groups and required individual group strategies to be produced within a fortnight. Groups were to deliver their reductions within a set of corporate principles and each group examined in DPIE produced a strategy for dealing with the staff reductions against its future workforce needs within the prescribed timeframe. Although AGSO and ABARE did not have formal business plans at the group level, the project orientation of their work helped to identify where resources might best be reduced while maintaining organisational performance.

3.8 The AQIS reform process occurred later in 1996, by which time a DPIE corporate plan was available. AQIS reductions were driven by a separate government policy for dividing AQIS into a regulatory body and a service delivery agency and making the meat inspection function contestable. In establishing its framework, AQIS had the advantage of undertaking its business planning after the first stage of DPIE's corporate plan had been completed and was able to develop a comprehensive business plan that took into account future workforce skills needs, human resource strategies, and costs and benefits. AQIS developed a certified agreement tailored to its own reform needs which included an accelerated separation clause that assisted it to manage costs.

3.9 As with DPIE, DoTRD did not have a corporate plan at the time of the 1996 staff reductions. However, a corporate planning framework was established in 1997–98 that included a strategic corporate plan and business plans and incorporated performance indicators. The Department has also established the Investors in People program and a service charter, which should help the agency respond strategically to future staff reductions by linking the management of staff directly with business objectives.

3.10 During 1996, DoTRD took a devolved approach to managing the staffing consequences of the reduction in running costs. Divisions were directed to examine functions and structures and decide on staff reductions accordingly. A strategy for managing staff reductions was produced but, as it had only an operational focus, it did not guide the Department's broader strategic direction and consequential workforce needs. Divisional reviews provided a framework for staff reductions at the divisional level without reference to agency-wide priorities, which would have enabled relative assessments of staff skills to be made thus ensuring

that the skills balance in each area aligned with over-all organisational requirements. Without such a yardstick, the agency cannot be confident that individual managers are making these assessments consistent with over-all agency priorities.

3.11 The BTCE was better equipped to assess its workforce priorities when dealing with its budget reduction given the project based nature of its work.

3.12 The abolition of the Regional Development program was dealt with at a process level and there was limited scope for strategic decisions to be made. The ANAO recognises that DoTRD was experiencing considerable change during 1996. As noted in Chapter 1, the Regional Development program was transferred from the former Department of Housing and Regional Development in March 1996. The Department was still in the process of integrating the Regional Development program when the Government announced that it would be abolished from 17 July 1996. DoTRD had responsibility for dealing with 220 excess staff; disposing of property and assets as a result of the closure of 22 regional offices; the wind-up of the financial affairs as well as some continuing program responsibilities. As a result of the withdrawal of running cost cover and the need for DoTRD to fund the net cost of redundancy payments from existing resources, the Department set itself a ten week timeframe in which to achieve these tasks.

3.13 The ANAO considers that the pragmatic approach taken by DoTRD in managing the staff reductions associated with the abolition of the Regional Development program was understandable given the circumstances. The lack of a corporate plan during the period of major staff reductions made it difficult for the Department to adopt a more strategic approach.

Conclusion

3.14 The ANAO found that the three agencies audited had formulated sound operational plans to implement staff reductions. However, only the ATO had a mature corporate planning framework which was used to help ensure that the staff reductions strategies were directly aligned with its corporate directions. In contrast, DPIE and DoTRD were not well placed in 1996 to take a strategic approach to planning for staff reductions given the absence of a robust corporate or workforce planning framework. As a result, these two agencies were unable to link their staff reduction strategies to any longer-term corporate direction, although, since that time both agencies have created corporate plans and other mechanisms to enable workforce needs to be determined more readily in a more strategic framework. The ANAO considers that there

would be benefit in all APS agencies fully integrating their staff reduction strategies with their strategic planning frameworks to help identify and manage the impact of any future staff reductions on agency performance.

3.15 The key good practice features of the ATO's strategic planning framework are the creation of a vision, the integration of corporate and business plans with other plans and directions thus providing a framework to achieve the vision, and the integration of other cost saving measures with staff reduction strategies. The two other agencies, DPIE and DoTRD, lacked the ATO's planning's depth and rigour.

3.16 Of the two, DPIE compensated for the lack of a corporate plan by its rapid development of statements of strategic direction and principles at the agency and group level. Features such as priority setting statements by the Minister, clear articulation of directions to the Group Executive Directors and all staff by the then Secretary, and Group Executive Directors' setting their own directions within that context, indicate that directions were clearly established and cascaded from over-all agency priorities to individual work area priorities. Within DPIE, the AQIS reform process occurred after the development of the DPIE corporate plan and the quality of planning in AQIS reflects this initiative.

3.17 The DoTRD strategy for staff reductions had a strong operational focus, reflecting the Department's devolved management approach. The ANAO found that staff reductions were well managed at the divisional level. However, in the absence of a strategic planning framework, it was difficult to determine whether the implementation of staff reductions in each division was consistent with agency-wide priorities and longer-term workforce needs. DoTRD argues that the number of redundancies required by the reduction in running costs was relatively small and did not warrant intensive strategy development and that the decision to abolish the Regional Development program did not allow a strategic approach to be taken. The ANAO considers that the Department's strategic planning framework established in 1997-98, which linked the management of staff directly with business objectives across the agency, should help DoTRD respond more strategically to any future staff reductions.

Recommendation No.2

3.18 The ANAO recommends that, when reducing staff, agencies integrate their staff reduction strategies with their longer-term corporate directions, as reflected in their strategic planning frameworks, with a view to minimising any adverse impact of staff reductions on agency performance.

*Agencies' responses***PSMPC**

3.19 Agreed.

AFFA

3.20 Agreed. The Department recognises the benefits of adopting such an approach as indicated in this report, while there was an absence of a corporate planning framework in DPIE at the time, a higher quality result was achieved in the later AQIS reform process once this framework was developed.

AGSO

3.21 Agreed.

ATO

3.22 The ATO strongly supports the recommendation.

DoTRS

3.23 Agreed. The report's comments in relation to the Department's particular circumstances, relating to the downsizing of the Regional Development Division, are noted.

Examination of the costs and benefits of alternatives to staff reductions

3.24 The ANAO acknowledges that staff costs represent the largest segment of running costs in APS agencies. However, when looking at options to achieve program objectives within budget allocations, agencies would be expected to consider any cost saving measures that may minimise staff reductions. Such analysis could include, for example, reducing property operating costs and discretionary expenditure as well as encouraging staffing flexibilities that reduce costs. Within the constraint of a reduced budget, agencies must consider the final workforce size and skills composition, as well as the direct cost of redundancies, to achieve the revised structure.

3.25 The assessment of the cost-effectiveness of alternative strategies to achieve the desired skills profile is perhaps the most difficult. The elements that could usefully be part of such an assessment include consideration of whether to retrench, retain, recruit, retrain or redeploy staff to meet an agency's new skills requirements. Agencies should be aware not only of the financial costs and benefits of these options, but also of the cost of the loss of corporate knowledge in retrenching experienced staff. Agencies would be expected to be able to demonstrate consideration of the costs and benefits in selecting their strategy.

Figure 16:

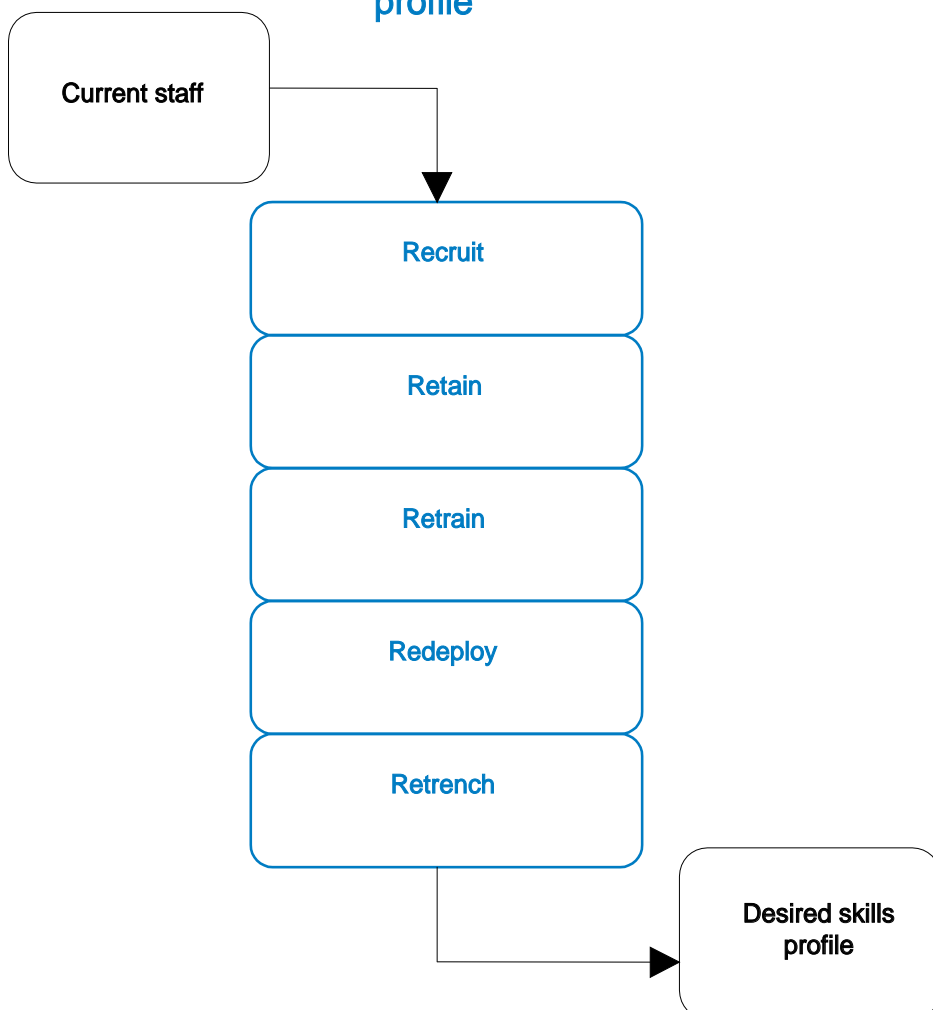
Assessment of the costs and benefits of alternatives to staff reductions

Cost savings to minimise staff reductions

In accordance with agency objectives, consideration could be given to:

- reducing property operating expenses and discretionary expenditure such as administrative costs; and
- introducing more flexible leave and staffing arrangements such as purchased leave, part-time employment, and leave without pay.

Cost-effective alternatives to achieve the desired skills profile



3.26 Figure 16 outlines the factors to be considered when assessing the costs and benefits of alternatives to staff reductions. The ANAO acknowledges that the abolition of a function reduces the need to undertake a detailed analysis of any cost savings that may minimise staff reductions. However, consideration still needs to be given to the costs and benefits associated with retraining and/or redeploying staff within the agency or the wider APS.

3.27 *ATO—Business 2000* provided a financial plan for achieving an appropriate workforce skills profile and discussed a ‘reinvestment’ strategy, which indicated that although reductions were planned, large reinvestments were also planned. In this context the ATO demonstrated a consideration of:

- strategies for achieving the savings required including rationalising property operating costs, better management of discretionary expenditure such as administration costs, business process improvement (which enabled an assessment of workforce needs to be made) and greater use of cost reduction strategies such as purchased leave and limiting the payment of higher duties, overtime and other allowances; and
- the cost of staff reductions in terms of the over-all cost of voluntary redundancy packages and how they would be funded. This included plans for repaying internal borrowings; the timing of payments to reduce overall costs; the cost of making long serving staff redundant; and consideration of the ease of administration of various options.

3.28 However, the ATO did not assess the cost-effectiveness of alternative strategies to achieve the desired skills profile. The detailed planning undertaken, the re-engineering of business processes and the redesign of individual jobs resulted in the ATO having an in-depth understanding of its staffing and skills requirements. Despite this knowledge, the ATO proceeded to retrench and recruit without adequate assessment of other options, such as retraining and redeployment. The ANAO was advised that informal assessments were made of the benefits of retraining staff with only limited skills sets, and that some staff in affected areas sought to find new employment before any formal redeployment process could be initiated.

3.29 In themselves, these factors are not an adequate rationale for not undertaking an assessment of the costs and benefits of alternative strategies to achieve the desired skills profile. The ANAO also notes the decline in expenditure on professional development in the ATO (expenditure in this area fell \$1.1 million or 12 per cent between 1995–96 and 1997–98) and the significant increase in the use of contract staff and

consultants (expenditure on non-Information Technology consultants increased by 183 per cent over the same period)⁵¹ as additional evidence of a lack of focus on retraining in this context. Had there been a strategy focused more clearly on selecting the best alternative for achieving the desired skills profile, the costs in redundancy and severance payments—\$58.3 million in the period 1996–97 to 1997–98—might have been reduced significantly. The ANAO could not establish any evidence of such consideration.

3.30 DPIE considered other running cost economies such as process improvements at the group level and reviewing property operating and training expenditure. Staff were given the opportunity to suggest ways of achieving economies. However, as a whole it had no documented assessment of costs and benefits of alternative strategies to minimise staff reductions. At the level of the business groups:

- ABARE made an assessment at the end of 1995, before the running cost cuts, of various options for its organisational structure in terms of program delivery, and used it in response to the need to reduce staff. It did not formally consider cost saving measures with a view to minimising staff reductions; and
- AGSO formally considered a number of staff suggestions for reducing running costs other than staff reductions, but there is no evidence that this resulted in fewer job losses.

3.31 Only AQIS comprehensively analysed the various costs and benefits of a number of options and selected the appropriate approach on its merits. Three organisational forms were considered for effecting the split between the meat inspection program and the rest of AQIS and for separating the regulatory and service delivery functions. As part of this process, AQIS analysed each of three options staff could take in response to the reforms: to accept an offer of employment with a meat processing company; to seek redundancy; or to seek redeployment/retraining. Costs were assessed against projections of how many staff would choose each option.

3.32 DoTRD did not document any consideration of strategies to minimise staff reductions at agency level, although the abolition of the Regional Development program reduced the need for such an analysis in that case. Although divisions within the Department and the BTCE were responsible for their own review processes, only the BTCE considered more than one option for reducing staff. However, that was restricted to

⁵¹ Expenditure on non-Information Technology consultants increased from \$3.5 million in 1995-96 to \$9.9 million in 1997-98.

different ways of facilitating staff reductions rather than ways to minimise job losses or alternative strategies for achieving the desired skills profile.

3.33 Of course, management information systems need to be able to generate appropriate reports to facilitate such analysis. Requests for data in the course of the audit indicated some variation in the ability of agencies to extract relevant information from their systems. In many cases it was not possible to easily obtain specific reports of relevance to the issue. The ANAO considers that the provision of relevant workforce planning data could usefully be included in any review of the adequacy of agencies' management information systems.

Conclusion

3.34 The ATO and DPIE, but not DoTRD, considered cost saving measures with a view to minimising the extent of the staff reductions. These measures included managing a range of discretionary administrative expenditure, managing accommodation costs when significant staff reductions were undertaken, and encouraging more flexible work arrangements. There were also examples of costing of voluntary redundancy packages in the light of reduced budgets.

3.35 However, there was very limited assessment by the three agencies of the cost-effectiveness of alternative strategies to achieve the desired workforce skills profile. Such an assessment becomes an important strategic tool for continuing to respond efficiently and effectively to any further budget reductions and should include an assessment of the costs and business impacts of various strategies. The only exception was AQIS which, as part of its consideration of a number of organisational forms as part of the reforms to the meat inspection program, specifically analysed the costs and benefits of the choices available to staff as a result of the reform process.

3.36 The ANAO acknowledges that staff costs represent the largest segment of running costs in APS agencies and staffing levels could be expected to be significantly affected by the running costs reductions. However, the ANAO considers that there would be benefit in all agencies examining the most cost-effective ways of combining retention, retraining, redeployment, retrenchment and recruitment decisions to achieve the desired skills profile in any future staff reduction exercises.

3.37 Although not specifically considered by the audit, difficulties encountered in obtaining data and specific reports of relevance suggest that improvements are required in the ability of agencies' management information systems to support the proposed cost and benefit

assessments. Agencies will almost certainly need to refine their management information reports and, in the longer-term, their management information systems to provide management with the information necessary to effectively plan and assess any future staff reduction strategies. These are matters which could usefully be included in any review of the adequacy of agency management information systems and required management reports.

Recommendation No.3

3.38 The ANAO recommends that, when adjusting to external imperatives, agencies should consider the cost-effectiveness of alternative strategies, such as retrenchment, redeployment, retention, retraining and recruitment, to achieve the desired workforce skills profile.

Agencies' responses

PSMPC

3.39 Agreed.

AFFA

3.40 Agreed.

AGSO

3.41 Agreed.

ATO

3.42 Agreed. The ATO strongly supports the recommendation.

DoTRS

3.43 Agreed.

Evaluating the effects of staff reductions on agency performance

3.44 The use of monitoring and evaluation mechanisms throughout the reduction exercise will enable an agency to determine whether the reduction is progressing as planned; whether the desired results have been achieved in a timely and cost-effective manner; and whether there is compliance with approved policies and guidelines.⁵² Evaluating the outcomes of a staff reduction exercise will also enable an agency to assess what impact the program has had on its performance and what improvements could be made, if necessary, in future reduction exercises to ensure that agency performance is maintained.

⁵² Office of the Auditor General of Canada, (1998), Chapter 2, *op. cit.*, paragraph 2.66.

3.45 Topics that the ANAO considers that an agency could examine in any such evaluation include: whether the agency has maintained its performance; whether it is likely to satisfy future skills requirements; the impact on staff; whether the objective of the reductions exercise was achieved and the cost. Not only would such reviews be useful to minimise potentially negative impacts on performance from any future reductions and to maximise the return on investments in the development of the workforce, but they also represent an essential part of ensuring the accountability of the agency to the Government and Parliament.

3.46 The ATO developed a set of 14 objective and measurable performance indicators at the agency level which were comparable over time. Although the relationship between staff reduction and performance cannot be isolated, the performance indicators showed no reduction in performance during the period of major staff reductions in 1996. Two of the indicators directly related to agency productivity actually showed improvements over this time. For example, the net cost to collect \$100 of tax dropped from \$1.00 to 92c and the number of taxpayers per tax officer grew from 600 in 1992 to 750 in 1997.⁵³

3.47 The ATO evaluated its staff reduction process at the end of 1995 and some recommendations were carried into the 1996 process. However, the plan for a detailed evaluation as agreed in the 1994–95 and 1995–96 Enterprise Agreements was not implemented. The plan included evaluation criteria and had the potential to provide valuable suggestions for business improvements. Except for the 1995 evaluation of the staff reduction process, no evaluation has been conducted of the impact of staff reductions on agency or business line performance or on any aspect of workforce effectiveness.

3.48 DPIE had no agency-wide performance indicators in place during the staff reduction period. However, performance was monitored at the group level and, because of their partial cost recovery regime and project focus, AGSO and ABARE were able to track performance on this limited basis.

3.49 AQIS included a comprehensive business risk assessment and a risk mitigation response in its business plan to ensure that it achieved its performance objectives during the reform process. These objectives were articulated clearly in the business plan and reports on progress were provided to the AQIS management forum (the Finance and Business Committee). As a gross measure of performance, the reduced rate of

⁵³ Australian Taxation Office, (1997), *Commissioner of Taxation Annual Report 1996-97*, AGPS, Canberra, p.x.

It should be noted that this information has not been the subject of an independent audit.

rejection of Australian meat exports to the USA showed that the quality of AQIS' operations improved during a period of major reform implementation and workforce disruption.⁵⁴ Because of this framework, AQIS is well placed to monitor and manage its activities to ensure high and improving performance.

3.50 Although no evaluation of staff reduction impacts had been conducted, DPIE included in its July 1996 staff survey specific questions on the adequacy of the strategic planning for staff reductions and the implementation process. DPIE demonstrated good practice by including in the survey issues of relevance to retained staff (including questions on workloads, job security and promotion prospects) and assessments of agency/group/branch/section performance. This was the only example observed in the course of the audit that contained material of relevance to an assessment of the impact of staff reductions. The results should be useful, particularly in providing feedback to management on any future staff reduction processes as well as providing an indication of any potential risks to on-going performance due to increased workload or low morale.

3.51 The survey concluded that there has been a small improvement in job satisfaction and commitment to the Department and noted that, given the survey was undertaken at the peak of managing staff reductions, this result was encouraging.

3.52 DoTRD had no agency-wide or division level performance monitoring during the period of staff reductions. While there were ongoing progress reports to the Department's executive, there was limited evaluation of the staff reduction process apart from several SES leadership project reports and an internal audit report on staff separation payments, which could be used to inform future processes. There was no evaluation of the impact of staff reductions on program performance—DoTRD indicated their expectation that the small number of retrenchments would have little effect on agency performance overall.

⁵⁴ Rejection rates for contamination, processing deficiencies, unsound condition and pathology have been substantially reduced (from a high of around 0.6 per cent in January 1995, through consistent improvement to a low of about 0.2 per cent in October 1998).

⁵⁵ The survey included all staff except AQIS field staff working in food processing and quarantine establishments. A total of 1 326 useable questionnaires were returned, representing a response rate of 51 per cent. A follow-up of non-respondents indicated that the survey results may have a small positive bias.

⁵⁶ Survey results indicated that approximately 70 per cent satisfaction with obtaining a sense of accomplishment from doing their job and satisfaction with the independence of thought and action staff can exercise on the job. This is supported by high ratings by staff of the overall quality of work done in the agency and the provision of services to clients as well as observations made during the course of the audit, for example, of staff acting in higher positions without monetary compensation.

An example of better practice in evaluation of the impact of staff reductions through a survey of staff in DPIE conducted in July 1996⁵⁵

The regular DPIE staff survey contained specific questions on the staff reduction strategy developed, the process used and issues of relevance to retained staff. The survey was implemented professionally and the findings should be interpreted in the context of a highly committed group of staff.⁵⁶ The results of the survey relating specifically to staff reduction activities indicated that respondents:

- were fairly equally divided on satisfaction/dissatisfaction with the strategic planning processes in developing the staff reduction strategies for DPIE even though, in contrast, most rated as satisfactory the over-all effectiveness of strategic planning in the agency (83 per cent); with the information provided about the savings strategies and their impact on staff (approximately 30 per cent each way); and with consultation concerning cost savings that had been implemented by DPIE;
- rated the workload negatively, almost 70 per cent indicating that additional unpaid work was completed each week, between one and 10 hours a common estimate; and significantly fewer staff satisfied with their level of job security (41 per cent in 1996 compared with 62 per cent in 1994). Staff also expressed concern about job prospects in the Department—the survey report concluding that staff demonstrated ‘severely reduced advancement expectations and a high degree of career uncertainty, and many considering leaving the Department and the APS’. Another notable result was ‘the increase in interest in career advancement possibilities outside the APS’; and
- were clearly more satisfied with the services and support provided to staff who might be leaving (33 per cent) than to staff who would remain in the organisation (18 per cent).

One of the main principles of the DPIE staff reduction process was attention to the fair and equitable treatment of staff. This was tested in the staff survey and indicated that a fairly large percentage (between 40 and 50 per cent) indicated that they were neither satisfied nor dissatisfied with this feature—the further down the agency/group/branch/section hierarchy the respondent, the more positive the response. One interpretation of this result might be that staff find fairness and equity of treatment very difficult to assess. If this interpretation is correct, it reinforces the view that agencies need to ensure that processes are not only fair and equitable but are *seen* to be so, and that the more distant staff are from where decisions are taken the more important it is for their treatment to be considered.

Conclusion

3.53 The ANAO found that monitoring the impact of staff reductions on agency performance was generally inadequate in the agencies audited. Although isolated examples of evaluation activity were observed, no agency evaluated the impact of staff reductions on its ability to perform its functions. Objective and measurable performance indicators existed only in the ATO and AQIS. DPIE was able to measure performance for AGSO and ABARE because of the project based nature of their work but only in the simple terms of the completion of projects. The usefulness of the other performance indicators in measuring the specific impact of staff reductions on agency performance was limited. When measurable and longitudinal performance indicators are not in place and no assessment of performance impacts is available, it is not possible to establish a correlation between sound strategy and maintenance of agency performance.

3.54 The ANAO considers that there would be benefit in all APS agencies monitoring and evaluating the progress of any future staff reductions. Although the point has been made that work pressures make undertaking evaluations unrealistic, it is in the agencies' interest to know how well they are able to continue to deliver their services in the wake of staff reductions as well as the effect on productivity and staff morale. Evaluation is a major tool for assessing these impacts.

3.55 There are examples of the evaluation of some aspects of the staff reduction process in the agencies audited, however, no agency comprehensively evaluated the process used to determine whether improvements could be made in the future. Despite the inclusion of comprehensive evaluation criteria in its enterprise agreements, the ATO conducted a process evaluation at the end of 1995 but none since. DPIE activities were restricted to monitoring some aspects of the process and workforce impacts through its regular staff surveys and a progress report to the Executive Board. Evaluation activities in DoTRD consisted of several SES leadership project reports and on-going information provided to the Department's executive. It is important for agencies to learn from previous experiences and make improvements to strategies and processes, where possible, in any future staff reductions to ensure that agency performance is effectively managed during the period of staff reductions and beyond.

4. Implementation of staff reductions across three APS agencies

This chapter examines the implementation of staff reductions across the three agencies audited. The areas of interest were the specific processes adopted to implement the reductions in each agency as well as the adequacy of the assignment of responsibilities, the communication undertaken in relation to the reductions, and the attention given to the needs of the retained workforce. It is likely that the recommendations in this chapter will have general application to all APS agencies and should, therefore, be considered as part of any future staff reduction exercise.

Implementation process

4.1 In implementing a staff reduction exercise, it is important for an agency to consider how to deal with a possible mismatch between organisational needs and staff preferences. Issues such as dealing with too few or too many expressions of interest in voluntary redundancy (referred to as under- or over-subscription) or the wrong people expressing interest in redundancy; special needs groups; and dealing with grievances all require consideration.

4.2 Implementation strategies were developed in all three agencies audited by the ANAO although practices varied considerably. Some agencies called for general expressions of interest from all staff in voluntary redundancy (the 'hands up' approach) whereas others targeted specific positions.

4.3 The ATO adopted a similar process in each of the reduction exercises examined by the ANAO. After seeking and confirming expressions of interest in voluntary redundancy from staff, the ATO used a phased approach to select the exact classifications and locations to be affected by the reductions. Phase One involved making offers to staff where there was a match or under-subscription between the number of excess positions and expressions of interest received from staff. Phase Two involved selecting excess staff where there was over-subscription and/or identifying additional excess staff in areas that were under-subscribed. During this second phase, independent committees carried out assessments based on the relative efficiency of staff to determine who would receive voluntary redundancy offers. The selection criteria developed was based on the ATO's competency model.

4.4 Several improvements were observed in the processes implemented by the ATO since 1996. For example, rather than calling for a general expression of interest in voluntary redundancy, specific positions were targeted as being no longer required alongside the number of excess positions at each level. The practice of allowing staff to 'self assess' their performance as part of the selection process was also abandoned due to staff downgrading their performance in order to obtain voluntary redundancy.

4.5 In contrast, the Executive Board of DPIE decided that there would be no general offer of voluntary redundancies. In the different groups:

- AGSO made offers of voluntary retrenchment to staff in specific positions or to a group of staff working at a specific level in a particular section of a program;
- ABARE operated two separate exercises. In the first, selected specialist positions such as statisticians, economic modellers, survey analysts, and those on ABARE scholarships were excluded from the process. Expressions of interest in voluntary redundancy were then sought from the remaining research staff at specific levels. As there were insufficient expressions of interest (under-subscription), a selection process was used to determine potentially excess staff at specific classification levels.

The second exercise involved only support staff. Reductions were required following an assessment of the functions and activities administered by these staff and consideration of more cost-effective ways of continuing to provide support services; and

- AQIS sought expressions of interest in voluntary redundancy from potentially excess field staff. Where there was an under-subscription, a selection process was used based on a process and criteria outlined in the Meat Program Certified Agreement.

4.6 For the two per cent cut in running costs in DoTRD, expressions of interest were sought from selected staff after consultation with program managers. In the BTCE a general expression of interest was sought and a 'spill' process was conducted where insufficient expressions of interest were received.⁵⁷ Staff in the abolished Regional Development Division were canvassed as to their preferences for voluntary redundancy or redeployment.

⁵⁷ A 'spill' process is where a staff reduction target has been set and, in order to identify which staff are to be retrenched, all positions at a classification level or in a functional area within an agency are declared vacant. The required number of positions (generally less than before) are then filled on a merit basis. Those staff who do not secure a position are identified as excess.

Voluntary nature of redundancies

4.7 In a report on staff reductions to the Minister Assisting the Prime Minister for the Public Service, the PSMPC observed that there appeared to be less active management and less targeting Service-wide in the 1996 staff reductions exercise than ever before. Concerns were also raised about the use of general expressions of interest instead of identification of excess staff through some degree of targeting and about the extent of management control over such a voluntary process. The ANAO's analysis of the processes adopted in the agencies audited supported the PSMPC's concerns.

4.8 The voluntary nature of redundancies is reflected in the low number of staff who have been involuntarily retired. In 1996–97 and 1997–98 respectively, the PSMPC gave approval for 31 and 38 involuntary retirements to proceed⁵⁸ at a time when 9 939 and 9 826 staff accepted voluntary redundancy. The Office of the Auditor General of Canada noted that the results of a largely voluntary process include: the creation of false expectations among employees; a mismatch between those volunteering to leave and the reduction required; and/or the organisation losing the best performers, who usually have the least difficulty finding suitable employment elsewhere.⁵⁹ Where an agency has designed methods to identify excess staff which are, and which are perceived by staff to be, fair, equitable and transparent, it is less likely to negatively impact on staff morale, particularly that of retained staff.

4.9 The ATO sought expressions of interest from all staff within classifications where excess positions were identified. The ANAO was advised that the agency generally experienced significant over-subscription. Although, as noted above, the agency had a selection process to deal with this, the ATO recognises that it lost good staff and experienced significant morale problems among those who had requested, but were not offered, voluntary redundancy. The ATO informed staff that if they had particular skills of value to the agency they would not be offered a voluntary redundancy and developed criteria to be used in selection processes. However, these initiatives were not put into practice to the extent necessary to manage expectations, retain good staff and communicate to those not offered redundancy their value to the office as

⁵⁸ Public Service and Merit Protection Commission, (1997), *Annual Report 1996-97*, *op. cit.*, p.47.
Public Service and Merit Protection Commission, (1998), *Public Service Commissioner Annual Report 1997-98*, Commonwealth of Australia, p.40.

⁵⁹ Office of the Auditor General of Canada, (1998), Chapter 2, *op. cit.*, paragraph 2.45.

a whole. It is important for agencies to develop specific strategies focusing on retained staff to address such issues as low morale (see Retained Staff section later in this chapter).⁶⁰

4.10 For the two per cent reduction in running costs, divisions within DoTRD reviewed their functions and staffing needs and canvassed interest in voluntary redundancy from selected individuals. Where the staff member wished to take redundancy, an offer was made, otherwise no further action was taken. However, this method of targeting, where individual officers are 'tapped on the shoulder' following an assessment by management, is not transparent. In the absence of selection criteria, divisions adopted different methods of identifying potentially excess staff. For example, one division targeted their marginal performers whereas another undertook a review of its functions and prospective workloads and identified potentially excess officers against future skill requirements. The ANAO considers the latter to be an example of good practice. In contrast, targeting marginal performers for offers of voluntary redundancy may have had a negative impact on the morale of retained staff as it could be seen as a reward for under-performance. Inefficiency provisions are discussed in the following section.

4.11 In comparison, in the BTCE, a general expression of interest was sought. A 'spill' process, based on merit selection, was then conducted at levels where an under-subscription occurred. The ANAO considers that this process is more equitable than that adopted for the reduction in running costs outlined above and avoids the perception of targeting poor performers. However, the process could have been improved further by applying exemption criteria at the outset to retain valued staff, similar to the process used by ABARE as discussed below.

4.12 DoTRD had less flexibility in dealing with the staff reductions resulting from the abolition of the Regional Development program. Following the Government's announcement, all staff working in the program were potentially excess to the Department's requirements. However, the group of staff affected was considered highly skilled and motivated and the Department advised that over 30 staff were transferred to other divisions of the Department and another 90 obtained positions in other APS agencies.

⁶⁰ Professor Craig Littler advised that skill transfer agreements can be useful in response to morale problems among those staff who indicated a preference for, but who are not given, voluntary redundancy. When staff are retained due to the organisation valuing their skills, such agreements can outline the manner and timeframe in which skills are to be transferred to another member of staff. This will enhance the potential for those staff opting for voluntary redundancy to receive one at a future date.

4.13 As mentioned above, DPIE decided that there would be no general offer of voluntary redundancies. As a result, over-subscription did not become an issue in any of the staff reduction exercises examined. The ANAO considers that DPIE's approach allowed management to maintain a higher level of control of the process than what was observed in the other agencies examined.

4.14 However, developing a fair and manageable way of retaining highly valued staff was one of the most vexed parts of the staff reductions process. As AGSO pointed out, this was especially difficult when the valued staff were in areas targeted for reduction as part of the overall staff reduction strategy developed in the context of the longer-term corporate directions of the agency. In considering the various options for identifying potentially excess staff, AGSO found that although a 'spill' within areas directly affected by the reduction strategy prior to any offers of voluntary retrenchment gives agencies the most control over the process, it can have a serious impact on work performance, staff morale and increases the likelihood of involuntary retrenchment. Alternatively, although offering voluntary redundancy to staff in areas directly affected by the reductions prior to a 'spill' is less disruptive and demoralising and reduces the pool of excess staff, it can result in the loss of valued staff.

4.15 The ANAO considers that the balance between staff volunteering for redundancy versus targeting by management was best struck by ABARE where specialists and other valued staff were excluded from the staff reduction process from the outset (refer paragraph 4.5). Such exemptions could usefully be extended beyond those with specialist skills. Other possible exemption criteria could include, but are not restricted to, staff who have recently been recruited, promoted or are receiving payment of a higher duties allowance, or staff who have recently completed a program of training or professional development (such as participation in Senior Women in Management or the Executive Development Scheme). These people represent an investment by an agency and would be expected to be capable of making valuable contributions to that agency.

4.16 Within the more flexible workplace relations environment now available, there is greater scope for agencies to address the issue of identifying potentially excess staff through the consultative arrangements or other mechanisms included in agency-specific agreements. For example, in the longer-term and allowing for natural justice considerations, it may be possible to use the results of performance assessment to identify valued staff to be excluded from any future staff reduction exercise.

4.17 The ANAO considers that there is benefit in all APS agencies pursuing the development of criteria to exclude valued staff from staff reduction exercises. The exemption of certain categories of staff from the process is aimed at retaining valued staff who can make a significant contribution to the on-going ability of the agency to achieve its objectives. It also reduces the pool of potentially excess officers and, therefore, the administrative cost of the implementation process. In order to effectively identify those staff to be retained, agencies should look to the medium- and longer-term and ensure that the skills profile of its retained staff is compatible with future directions and requirements.

Conclusion

4.18 All three agencies audited made it clear that, although staff could submit expressions of interest in voluntary redundancy, the final decision on who would receive a package rested with management. Although a range of implementation practices were observed in the three agencies, they all relied (to varying extents) on staff volunteering for redundancy to achieve the required numbers. Where a 'hands up' approach occurred, the decision of which staff members to retain and which to retrench did not always reflect the transitional and/or longer-term operational needs of the agency. The effectiveness of any strategy which relies on staff volunteering for redundancy is questioned because, amongst other things, there is the potential for on-going agency performance to be put at risk and for required corporate knowledge to be sacrificed to alleviate short-term financial pressures. While recognising that there may be a trade-off between equity and efficiency in staff reductions, it is important that management is seen to be driving the identification of potentially excess staff and not, for example, merely solving the problem with less friction by conforming to the wishes of individual officers.

4.19 The three agencies audited formulated operational strategies to implement staff reductions. However, the ANAO considers that these strategies would have benefited from the development of a process reflecting a more considered approach to retaining highly valued staff. Assessment criteria were used by the BTCE, ABARE, AQIS and the ATO in cases of over- and under-subscription. However, only one of the staff reduction exercises examined, ABARE, specifically excluded highly valued staff from the process as a first step. The ANAO acknowledges the difficulties associated with developing a fair and manageable way of retaining highly valued staff but considers that ABARE's use of exemption criteria focused on retaining staff with valuable skills demonstrates good practice and could usefully be adopted and enhanced by other agencies

to exclude a wide range of valued staff from any future staff reductions—thus ensuring such staff are retained, as necessary, for the benefit of the organisation (the maintenance of its human capital).

4.20 In order to effectively identify valued staff, agencies should look to the medium- and longer-term and ensure that the skills profile of retained staff is compatible with future directions and requirements. Effective workforce plans will assist in this process. There is also greater scope for better targeting of potentially excess staff through mechanisms now available through the more flexible workplace relations environment.

4.21 The ANAO considers that there would be benefit in all APS agencies ensuring they have criteria in place to exclude valued staff from any future staff reduction process based on their compatibility with the agency's future skill requirements. This will help to actively manage staff expectations by communicating to all staff that, first and foremost, redundancies will be offered on the basis of agency needs. Within that context, staff that are interested may be offered voluntary redundancy. This not only provides a means of minimising administrative expenditure on the selection of staff for redundancy but, most importantly, allows agencies to indicate to the majority of their staff that they are valued and would not be considered for voluntary redundancy in all but exceptional circumstances. It is particularly important, however, that attention is paid to the needs of those staff members remaining in the organisation. This is discussed further in the section on retained staff later in this chapter.

Recommendation No.4

4.22 The ANAO recommends that, in designing the methods to be used to identify excess staff, agencies should develop and apply suitable criteria that focuses on the retention of valued staff.

Agencies' responses

PSMPC

4.23 Agreed.

AFFA

4.24 Agreed. AFFA noted the favourable ANAO comments relating to the use of exemption criteria in ABARE, which was focused on retaining staff with valuable skills.

AGSO

4.25 Agreed.

ATO

4.26 Agreed with qualification. The ATO commented that the recommendation states what may be an ‘ideal’. In identifying excess staff in practice, judgement may need to be exercised as to whether it would be better in the longer-term to allow the loss of a small number of ‘valued staff’ rather than cope with the after effects of selection processes (‘spill’ process) leading to involuntary redundancies.

DoTRS

4.27 Agreed. DoTRS notes the report’s comments in relation to the former DoTRD’s efforts in securing on-going positions for a significant number of staff from the Regional Development program within the Department and other APS agencies through job swap arrangements and transfers.

Use of inefficiency provisions

4.28 At the other end of the performance spectrum, the PSMPC cautioned Secretaries to be confident that the employees involved in staff reduction exercises were indeed excess employees and would not be managed more appropriately under the inefficiency or disciplinary procedures.⁶¹ The ANAO’s better practice guide *Managing APS Staff Reductions* pointed out that choosing candidates for voluntary redundancy offers needed to be handled carefully to avoid singling out inefficient staff. To avoid perceptions that packages rewarded poor performance, which could negatively impact on the morale of retained staff, the number of packages offered to poor performers should be minimised.⁶²

⁶¹ Public Service and Merit Protection Commission, (1997), *Management of Excess Staff Situations in the APS*, *op. cit.*, page 3. The Service-wide ‘Improved Handling of Inefficiency in the APS’ is outlined in Attachment B—Schedule 2 of the *Continuous Improvement in the APS Enterprise Agreement 1995-96*.

⁶² Australian National Audit Office, (1996), *Managing APS Staff Reductions*, Better Practice Guide—June 1996, Commonwealth of Australia, p.34.

Use of inefficiency and disciplinary provisions in the ATO and DPIE

The ANAO found two examples of better practice in relation to the use of inefficiency and disciplinary provisions:

- as part of the procedures developed for the 1996 redundancy exercise, the ATO clearly stated that staff reductions were not a tool for solving managers' individual staff performance problems. It was widely disseminated that staff subject to inefficiency or disciplinary counselling would not be offered voluntary redundancy. A list of staff offered, or to be offered, voluntary redundancy was provided to the Internal Assurance Branch to see if any disciplinary processes were pending; and
- the reduction strategy developed by the Headquarters Group in DPIE included specific information for managers regarding the inappropriateness of using the redundancy process to deal with genuine under-performance or disciplinary issues.

4.29 Despite the ATO's established procedures, the early strategy documents for the 1996 staff reductions in the Individual Non-Business line indicated that there were 'under-performers' whom they would like to 'move out' in the first round of separations. Although there is no evidence that these staff would have been more appropriately dealt with under the inefficiency procedures, offering voluntary redundancy packages to under-performing staff could be perceived to be a reward for poor performance and have a negative impact on the morale of the staff left in the area.

4.30 The ANAO was also informed that, as part of the workforce planning associated with identifying potentially excess employees during the 1998 redundancy exercise, the ATO's Individual Non-Business line identified those staff at risk of being declared inefficient and who should be excluded from offers of voluntary redundancy. Although it is important to minimise expenditure on separation and redundancy payments, the ANAO considers that planning for staff reductions is not the appropriate forum for the identification of potentially inefficient staff. While there is no doubt that work performance will impact on longer-term workforce planning, the identification of inefficient staff should be, and should be seen to be, independent of the identification of potentially excess staff who may be offered voluntary redundancy.

4.31 No formal inefficiency action had been taken by DoTRD since 1993-94. The ANAO observed one case of under-performance where the staff member was appropriately transferred to another area of the Department and was performing satisfactorily at a lower classification level.

Conclusion

4.32 Overall, the ANAO found that appropriate use was made of the inefficiency provisions in the reductions exercises examined, primarily in relation to those staff that were formally declared inefficient prior to the commencement of the staff reduction exercise. Several examples of good practice were noted in which agencies clearly stated that staff reductions were not a tool for solving performance management issues and where an under-performing officer was appropriately transferred to a lower-level elsewhere in the organisation.

4.33 However, in two instances, agencies viewed voluntary redundancy as an opportunity to 'move out' under-performing staff. Offering voluntary redundancy packages to such staff could be perceived as a reward for poor performance and could have a negative impact on the morale of retained staff. In another case, one business line in the ATO identified those staff at risk of being declared inefficient as part of the workforce planning associated with identifying potentially excess staff. Although it is important to minimise expenditure on separation and redundancy payments, planning for staff reductions is not the appropriate forum for the identification of potentially inefficient staff.

4.34 The ANAO notes that there were difficulties in implementing the previous Service-wide inefficiency provisions. However, there is now considerable flexibility in the way individual agencies can manage under-performing staff since the inefficiency procedures were open for negotiation as part of the process of developing agency-specific agreements.

Retrenchment levels among staff aged 55 and over

4.35 The ANAO's data analysis shows that a high proportion of staff who were eligible for age retirement received voluntary redundancy. This suggests that insufficient consideration may have been given to the costs and benefits associated with the retrenchment of staff aged 55 and over. Although the retrenchment of staff in this age group does not contravene the Government's guidelines, the ANAO observed only one instance where a recommendation was made against approving the voluntary retrenchment of an officer because he was due for age retirement.

4.36 The increasing trend of retrenching staff in the 55 and over age category is shown by the ANAO's analysis of data from the CRP. There are fewer staff aged 55 and over in the APS than at anytime since 30 June 1989. As indicated in Table 6, the number of age retirements in this age group has decreased significantly and there has been an increase in the

number of retrenchments. The ANAO found that staff aged 55 and over are being retrenched at a proportionally higher rate than staff in any other age group. For example, the retrenchment rate for staff aged 55 and over ranged from 18 to 20 per cent compared to three to 11 per cent for the other age groups—see Table 8, Chapter 5.

4.37 This shift from resignations and retirements to retrenchments is a particular issue in relation to costs incurred by agencies and may reflect an increased expectation amongst staff of receiving voluntary redundancy. The ANAO notes that the flexibilities offered by the new workplace relations framework provide opportunities for agencies to introduce innovative employment arrangements that can meet the needs of staff aged 55 and over who may wish to reduce their working hours or responsibilities without the cost to the taxpayer associated with offering voluntary retrenchment. This may also help reduce the loss of corporate knowledge.

Table 6:

Age retirement and retrenchment of staff aged 55 and over

	<i>1988–89</i>	<i>1997–98</i>
Total permanent staff	8 086	6 614
Age retirements	1 536	519
Retrenchments	841	1 294

Source: ANAO analysis of CRP as at 30 June 1998

Note: Total permanent staff as at 30 June 1989 and 30 June 1998.

Conclusion

4.38 The ANAO observed an increase in the number of retrenchments among staff aged 55 and over and a corresponding decrease in the number of age retirements across the APS. While no particular category of staff should be excluded from offers of voluntary redundancy on the basis of their age, length of service or any other criteria with the exception of work performance, the management of staff aged 55 and over requires special consideration by agencies in any analysis of costs and benefits of alternatives to staff reductions. The flexibilities offered by the new workplace relations framework provide opportunities for agencies to introduce employment arrangements which have the potential to reduce the number of staff aged 55 and over taking voluntary redundancy. This may help reduce the loss of corporate knowledge.

Management of inoperative staff

4.39 Consideration also had to be given to the management of inoperative staff during the period of staff reductions. The PSMPC publication *Management of Excess Staff Situations in the APS: Principles, Guidelines, Good Practice* states that voluntary redundancy should not be offered to staff on leave without pay (LWOP) because they are not excess to requirements. Staff in this category should not be invited to elect to be retired voluntarily until they have returned to work because their prospects of redeployment cannot be reasonably assessed while they are absent.⁶³

4.40 All three agencies audited by the ANAO made it clear which staff would be eligible to participate in the staff reduction exercises. Parts of DPIE required staff on LWOP to participate in a selection process whereas the ATO and DoTRD decided to assess each person on their return to work.

4.41 DoTRD in particular maintained good control of inoperative staff during the period of staff reductions with on-going monitoring of numbers and consideration of placement options as the staff members returned to work. However, the ANAO noted some inconsistencies in the information provided to staff on LWOP in the ATO. The ATO's staff information bulletins indicated that staff on LWOP could apply for an early return to work to enable an assessment to be made of their redeployment prospects thus allowing them to be considered for voluntary redundancy. However, the ANAO was advised that letters were not sent consistently to all staff on LWOP and, where letters were sent, they did not include the option of applying for an early return to work. One reason given for this was that it was considered inappropriate to offer these staff members the option of participating in the redundancy exercise when the rationale was to reduce running costs.

Conclusion

4.42 The management of inoperative staff in staff reduction exercises requires special consideration. The cost-effectiveness, in both the short- and longer-term, of allowing them to return to work should be included in any assessment of the costs and benefits of alternatives to staff reductions. Consideration will also need to be given to ensuring equity in treatment between inoperative and operative staff to ensure both categories of staff are fully informed of any staffing issues that may affect them.

⁶³ Public Service and Merit Protection Commission, (1997), *Management of Excess Staff Situations in the APS*, *op. cit.*, page 87.

4.43 In dealing with inoperative staff, the audited agencies either required staff on LWOP to participate in a selection process or dealt with them on their return to work. The ANAO acknowledges that the approach taken to managing inoperative staff will depend on the specific circumstances of the agency, but considers that it is important for management to articulate and communicate clearly and consistently how it intends to deal with both operative and inoperative staff.

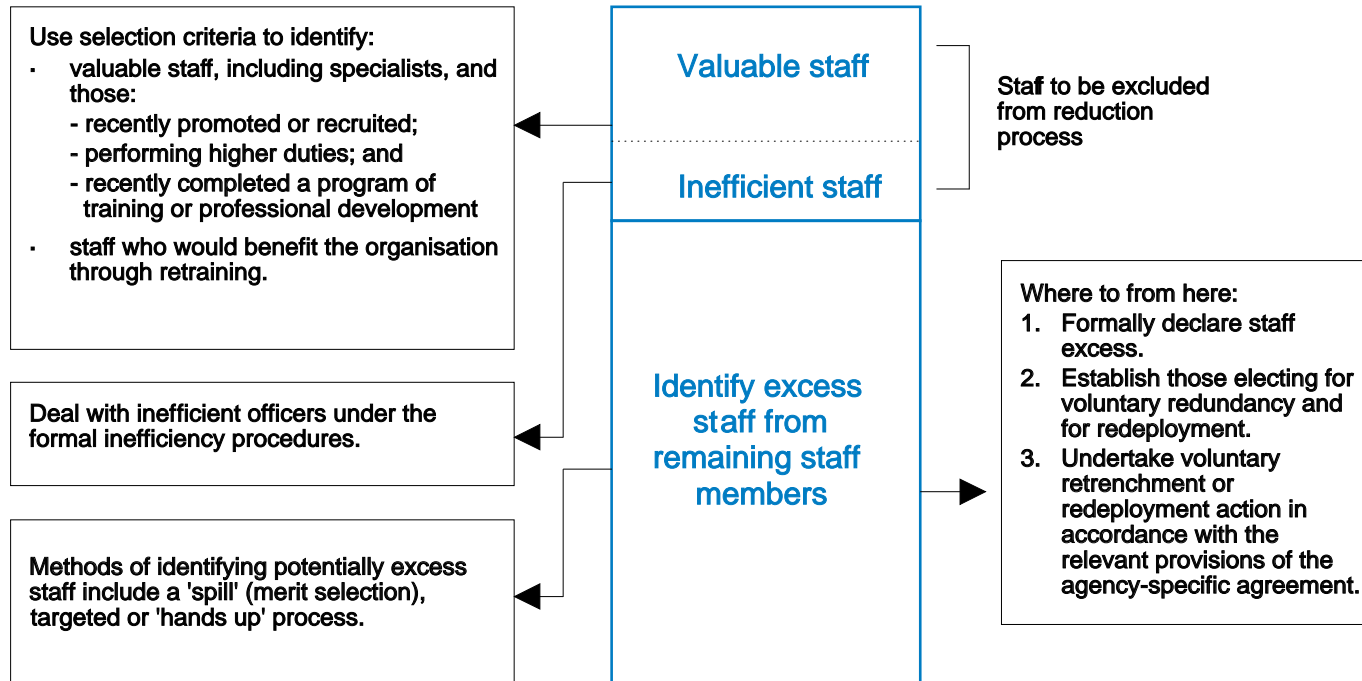
Grievances

4.44 DoTRD and the ATO reviewed their grievance processes prior to the implementation of their reduction exercises. Staff were informed of the changes made. DoTRD established procedures to respond to instances where staff questioned the decision that they were potentially excess or were not successfully redeployed within the Department. In the ATO Corporate Services 1997 staff reductions exercise, all the grievances were handled as part of the one review. A selection of the resulting reports were reviewed by an officer from outside the business line to ensure objectivity. The ANAO found no evidence that a similar review of grievance processes was undertaken in DPIE. It is appropriate during a staff reductions exercise for agencies to ensure that their grievance processes are up-to-date and communicated to all staff.

Model implementation process

4.45 Figure 17 outlines the ANAO's model process for implementing staff reductions. Particular reference is made to the identification of excess staff as well as the use of selection criteria to identify valued staff to be excluded from any reduction process.

Figure 17:
Model implementation process



Assignment of responsibilities

4.46 Active and visible leadership will help an agency, its management and staff through the process of staff reductions. Assigning responsibilities clearly and appropriately to different layers of management and implementing strategies to ensure consistency across the organisation are also important in managing the process effectively. A focus on fulfilling commitments to staff should be evident as well.

4.47 Agencies have generally moved away from a centralised approach towards devolving responsibility for the management of staff reductions to the business lines in recognition of the importance of the input of managers where the day-to-day work is conducted. The ANAO did not observe that there were particular advantages or disadvantages to either approach.

4.48 Responsibility for ensuring that the reduction processes were undertaken in accordance with the agreed corporate approach and legislation was devolved to the individual groups in DPIE, the BTCE and in the reduction exercises conducted in the ATO after 1996. In addition, responsibility was allocated on a regional basis when the agency had a regional presence.

4.49 The ANAO found that:

- the human resources section in each of the three agencies coordinated the agency-wide aspects of the staff reduction exercises and helped with human resource management. This included providing advice on the processes to be used and liaising with unions and central agencies. This was necessary, given the specialised knowledge required;
- managers were trained to undertake the reduction process; and
- within agencies, consistent approaches were applied within each of the reduction exercises examined. This was achieved by nominating coordinators, circulating information on the process to all staff and making commitments to staff. A good practice feature was observed in AGSO where a script for heads of divisions was prepared to help ensure that a consistent outline of the reductions strategy was provided to all staff.

4.50 There is evidence of the involvement of senior management in the reduction exercises examined in the three agencies. This included the agency head, the Board of Management and the Minister in some cases. However, the ANAO found that, in many cases, this involvement was not as visible as it could have been throughout the process. Senior management signed the initial announcements that reductions were to

occur and, in some cases, issued bulletins on staff reductions, but thereafter operated largely behind the scenes. This may be a function of the devolved process.

4.51 The major exception to this was in AGSO where the executive helped to ensure that a consistent message was communicated across all areas by attending 62 meetings with staff and the team responsible for the process over a two month period. This included weekly briefing sessions to which all staff were invited. The effectiveness of this is supported by the results of the DPIE survey, which showed that 58 per cent of AGSO staff were satisfied and only 23 per cent were dissatisfied with the information provided—a significantly better result than for any other group in DPIE.

Conclusion

4.52 In the staff reduction exercises examined by the ANAO, the assignment of responsibilities for managing the staff reduction exercises were clearly and appropriately assigned and communicated to staff. In the majority of cases, and particularly the more recent exercises, responsibility was devolved to the business lines and steps were taken to ensure that there was consistency across the areas where staff reductions were occurring. Although the involvement of senior management in the staff reduction process was often clearly evident to staff early in the process, it was not as visible as the staff reductions progressed and the process got more difficult.

4.53 The ANAO considers that there would be benefit in all APS agencies ensuring that senior management is involved and visible at all stages throughout any future staff reduction process. This will demonstrate clear leadership and help to ensure that a consistent message is communicated across the agency; that commitments made to staff are fulfilled; and that all staff are dealt with in a fair and ethical manner, including those who remain in the organisation following the reductions.

Recommendation No.5

4.54 The ANAO recommends that, throughout all stages of the process of staff reductions, emphasis be given to ensuring the visibility of senior management to all staff. This will demonstrate clear leadership and help to ensure that:

- a consistent message is communicated across the agency;
- commitments made to staff are fulfilled, and
- all staff are dealt with in a fair and ethical manner, including those who remain in the organisation following the reductions.

Agencies' responses

PSMPC

4.55 Agreed.

AFFA

4.56 Agreed.

AGSO

4.57 Agreed. AGSO strongly endorses this recommendation.

ATO

4.58 Agreed.

DoTRS

4.59 Agreed.

Communications with staff and other parties

4.60 Effective communication with staff and other parties is integral to any staff reduction exercise. As part of the implementation strategy, a communications strategy can help an agency identify the communication needs of key stakeholders, consider what information is required by different groups and determine the most suitable mechanism for disseminating information. Communications should be timely, provide contextual and process explanations as well as opportunities for recipients to seek clarification or provide feedback. Agency clients who are likely to require information should also be identified and consulted.

4.61 The agencies audited by the ANAO used existing internal newsletters, meetings with staff, hot-lines, special staff reduction bulletins and, in the case of DPIE, the Department's intranet to inform staff. Communication was timely and explained the context in which reductions were occurring; the specific strategies and processes to be used, including those the agency was required to implement; and what opportunities there were to seek clarification. In these respects, the agencies audited handled communications effectively. Some of the lessons learnt from AGSO's experience are outlined below. In particular, AGSO found that open and honest communication as well as readily available information can help reduce the negative impact of staff reductions.

Lessons learnt from staff reductions in AGSO

In AGSO's experience, there are two factors which are of critical importance in reducing the negative impact on an organisation's performance both during and after the process and in reducing the likelihood of involuntary redundancy. These are:

- openness and honesty about the reason for, and the process of, staff reductions including a communications strategy which makes the same information available in different ways and provides many opportunities for staff to have direct contact with senior management. The weekly meetings with AGSO's Executive Director, which were open to all staff, worked very well and were a key aspect in the success of the strategy; and
- allowing staff to have sufficient time to adjust to what is happening, obtain information to assist with decision making and to explore options for their future all helps to reduce involuntary retrenchments. Making the information staff need readily available by running seminars and workshops and setting up special units to provide information on entitlements and respond to individual questions assists this process.

4.62 However, the ANAO also identified some shortcomings with the communications processes across the three agencies audited. These are addressed below. One of the major areas for improvement involves agencies' ensuring they have a specific communications strategy when planning for the implementation of staff reductions.

Communications strategies

4.63 Only three of the reduction exercises examined by the ANAO gave explicit consideration to the communications strategies to be employed. The ATO's 1996 reduction exercise included a communications framework that identified the groups to be notified, methods of communication and the information that needed to be disseminated. The 1997 ATO Large Business and International line reduction exercise identified methods of communication and the points at which it was needed. AGSO identified ways to deliver information within the group. The importance of having an effective communications strategy to ensure that the official message is distributed in an accurate and timely fashion is highlighted by the DPIE 1996 staff survey. The survey showed that staff considered rumour and the informal network to be as effective in providing information about the most recent developments affecting them as the formal mechanisms such as supervisors, electronic mail and section meetings.

4.64 There was limited testing of the effectiveness of the communications approach used in the reduction process examined. DPIE tested staff satisfaction with the information they were given by different levels of the agency after the event through the Departmental staff survey. However, only DoTRD demonstrated good practice by testing during the process whether the Regional Development staff thought their information needs were being met. The ANAO considers that this benefited the Department by allowing it to identify what modifications would improve its communications approach.

Information needs of specific groups

4.65 In relation to the information needs of specific groups of staff, only the ATO made special efforts. It held separate information sessions for hearing impaired staff and consideration was given to the need for separate sessions for other EEO group members. The ATO also demonstrated an awareness of the needs of regional staff by producing a videotape to provide information from the Comsuper sessions as part of its 1996 reduction exercise. However, consideration of the needs of other groups in special circumstances, such as those on LWOP and part-time employees, were rarely evident in the three agencies audited.

4.66 The ANAO also found that AGSO, AQIS and the Regional Development Division in DoTRD consulted external clients and stakeholders about the possible impact the staff reductions could have on them.

Documenting staff reduction exercises

4.67 Although documenting the decisions made and procedures used as part of a staff reduction process is important from an accountability perspective, there are other benefits. Documentation of strategies and processes of previous reduction exercises can enable an agency to learn for the future and capitalise on previous experience. In the absence of documentation, agencies might not be as well placed to go through any future staff changes.

4.68 An example of the usefulness of documenting past large scale staffing changes was found in DoTRD. As a result of referring to documentation produced when the former Department of Transport and Communications was split in two, DoTRD was relatively well placed to handle the abolition of the Regional Development Division. Similarly, AGSO prepared for the staff reductions by consulting several agencies that had been through the process recently.

5.69 Staff information bulletins were developed for the 1996 reductions exercise in the ATO and this material was available to staff

during the business line reductions of 1997. However, the ATO may have lost an opportunity and duplicated considerable effort by not updating and using these bulletins more widely in 1997 and subsequently. The communications framework developed for the 1996 reduction exercise could also have been modified for each subsequent reduction exercise.

Conclusion

4.70 The ANAO considers that the three agencies were reasonably effective in providing good communication in relation to staff reductions. However, there would be benefit in all APS agencies ensuring they have a communications strategy for each staff reduction exercise. A specially developed strategy, tailoring existing strategies, to reflect the specific circumstances of each staff reduction exercise can help to ensure that official advice is distributed in an accurate and timely fashion. Just as there are efficiencies in building on past experiences when developing a staff reductions strategy or process, similar benefits are to be gained when determining how to undertake the communications side of the process. The lessons of previous experiences, both the agency's own and those of others, would represent valuable input. Areas for improvement in the three agencies audited are in providing information to groups of staff with special needs as well as external stakeholders, and in testing the effectiveness of the communications approach used during the course of the process.

Recommendation No.6

4.71 The ANAO recommends that, as part of an overall staff reduction strategy, agencies should design a suitable communications strategy or tailor existing information strategies to reflect better the specific circumstances of each staff reduction exercise.

Agencies' responses

PSMPC

4.72 Agreed.

AFFA

4.73 Agreed.

AGSO

4.74 Agreed. AGSO strongly endorses this recommendation.

ATO

4.75 Agreed.

DoTRS

4.76 Agreed. The Department believes that it had an effective communication strategy in place for the staff reductions undertaken during 1996.

ANAO comment

4.77 The ANAO notes that, although DoTRD did not have a formally documented communication strategy in place during the period of staff reductions, the work undertaken in evaluating the extent to which the information requirements of certain staff were met, consulting with external clients and stakeholders, and documenting the lessons learnt from previous staff reduction exercises all helped ensure the Department had an effective communications approach.

Retained staff

4.78 As noted in the ANAO's better practice guide, although a reduction exercise is focused on the departure of staff, it should also encompass those who are retained and give attention to their needs. Considering the effects on, and needs of, such staff in the strategic planning for staff reductions can help an agency ensure its continued ability to fulfil operational requirements. Setting out to maintain and improve morale, providing development plans and training to those in re-engineered jobs, and assuring staff of their value to the organisation are ways in which agencies can demonstrate to retained staff that they have a future in the organisation. Managers have an important role to play in this context. Continuing monitoring and evaluation of staff reductions is also essential in ensuring agencies are aware of the needs of retained staff.

4.79 The importance of supporting retained staff was not identified in the staff reduction strategies of any of the agencies audited, although AGSO identified the issue of retained staff as having a potential impact on the organisation's continuing operations. In AGSO's experience, because offers of voluntary redundancy are highly prized, it could be very demoralising for those who missed out on a package (many of whom remain in the organisation) as they feel less valued.

4.80 There is little evidence that agencies devised activities tailored to the needs of retained staff. Some new training initiatives, which would have benefited retained staff, were introduced and conducted in DoTRD and DPIE. However, training programs were not modified specifically. Limited exceptions to this were AQIS' transition courses, AGSO's change workshops and the ATO Personnel Business Unit's implementation

workshops in 1997. Some specific activities were set up for staff in the former Regional Development Division who transferred within DoTRD.

4.81 The ANAO's observations are consistent with overseas experience. In an audit of workforce reductions in selected departments, the Office of the Auditor General of Canada found that departments generally placed less emphasis on the needs of retained employees. When such staff did receive support, it took the form of surveys to identify staff concerns and obtain employee input and ideas, the creation of career centres and the conduct of special seminars for remaining staff.⁶⁴

4.82 In evaluating its 1995 Voluntary Separation Program, the ATO identified that there existed a perception that insufficient support was offered to staff who did not receive a voluntary redundancy package. Although this finding was circulated in April 1996, there is little evidence of consideration of this issue in any subsequent staff reduction exercises in the ATO.

4.83 As part of its 1996 staff survey, DPIE sought feedback on whether staff were satisfied with the support given to retained staff and issues of concern to them. Specific concerns identified by staff were in managing workloads and the effects of staff reductions on career plans. As a result, ABARE developed a process where any staff member who considered they were unfairly burdened with extra workload could bring it to management's attention. An additional example of good practice observed by the ANAO was AGSO's use of exit surveys covering such issues as the job, pay, job security, training, career development and management.

Conclusion

4.84 The ANAO considers that the three agencies audited can improve the level of support they provide to retained staff in any future staff reductions, to facilitate their adjustment to the changed environment. Apart from the efforts of AGSO, there was little evidence in the agencies audited that, during the strategic planning for and implementation of staff reductions, consideration was given to the impact of the reductions process on the ability of retained staff to fulfil operational requirements, their morale, or to tailoring activities to assist them to deal with the changes under way in the workplace. The three agencies could improve the management of retained staff by providing greater support to those that remain following a reduction process. Ways in which agencies can demonstrate to such staff that they have a future in the organisation

⁶⁴ Office of the Auditor General of Canada, (1998), Chapter 2, *op. cit.*, paragraphs 2.64 and 2.65.

could include setting out to maintain and improve morale, providing development plans and training to those in re-engineered jobs, and assuring such staff of their value to the organisation.

Recommendation No.7

4.85 The ANAO recommends that, as part of their staff reduction strategy, agencies should develop ways to more effectively manage the needs of retained staff. These could include:

- change management workshops;
- staff surveys;
- individual development plans and training; and
- emphasising the role of managers in assisting retained staff to cope with new working arrangements.

Agencies' responses

PSMPC

4.86 Agreed.

AFFA

4.87 Agreed. AFFA noted that, notwithstanding the identified examples of good practice in AQIS, AGSO and ABARE, the Department agrees that further improvements can be made on the level of support provided to retained staff in any future staff reductions.

AGSO

4.88 Agreed. AGSO strongly endorses this recommendation.

ATO

4.89 Agreed.

DoTRS

4.90 Agreed.

5. The Government's guidelines

This chapter includes an outline of the extent to which the three agencies audited by the ANAO adhered to the Government's guidelines. The ANAO undertook, where possible, an examination of APS-wide data for those areas covered by the guidelines. The impact of staff reductions on corporate knowledge and workplace diversity was also considered. It is likely that Recommendation No. 9 at the end of this chapter will have general application across all APS agencies and should, therefore, be considered as part of any future staff reductions.

5.1 The Government directed agencies to adopt a strategic approach to the management of staff reductions and to manage down staff numbers within a set of common, Service-wide guidelines. These were outlined in PSMPC Circular 1996/7 *Managing the Staffing Consequences of a Reduction in Running Costs*, promulgated in April 1996. Although not explicitly stated, the issue of ensuring cost-effectiveness underpinned the guidelines, which included:

- a reduction in external recruitment (although no freeze was imposed);
- strict control on the engagement of temporary employees and the termination of contracts;
- avoiding payment of higher duties allowances;
- filling vacancies (both substantive and long-term temporary) with excess staff;
- use of the APSLMAP for officers seeking redeployment;
- restrictions on re-employment within 12 months; and
- that the Senior Executive Service (SES) not be excluded.

5.2 Revisions to the Government's strategy for managing the staffing consequences of reductions in running costs were outlined in PSMPC Circular 1998/3 promulgated to agencies in February 1998. This reduced the emphasis on restricting external recruitment and on the use of temporary staff and removed the mandatory scrutiny of APS vacancies by the APSLMAP.

5.3 The guidelines focused on the treatment of staff during redundancy exercises and the management of the staff reduction process. While it is important to consider each individual guideline as part of the day-to-day process of managing staff reductions, the ANAO considers they should also be treated in a more correlated manner as a totally integrated and coherent package to achieve overall cost-effectiveness.

5.4 The ANAO examined adherence to the guidelines within the ATO, DPIE and DoTRD but acknowledges that strict compliance with individual guidelines was not appropriate in all cases due to operational imperatives. In order to provide an indication of whether the guidelines were followed across the APS, Service-wide data were also examined where possible. Staff reductions undertaken in AQIS as part of the government reform process were not considered in this section because the context in which they were undertaken and operational imperatives made adherence to many of the guidelines inappropriate.

5.5 In addition to the areas covered in the guidelines, there are other issues which need to be considered as part of a strategic and well managed reduction exercise. Some of these are highlighted in the guidance material produced by the ANAO and PSMPC. Specifically, the ANAO sought to determine whether agencies maintained a level of youth recruitment and gave consideration to the impact of staff reductions on corporate knowledge and workplace diversity across the APS.

Reduction in external recruitment

5.6 Agencies' strategic plans for managing staff reductions were required to include a reduction in recruitment from outside the APS. Any recruitment was to be confined to essential jobs and external advertising was to occur only in exceptional circumstances. This was consistent with the Government's intention to maximise the redeployment of excess staff before advertising externally. Although the Government did not impose an APS-wide recruitment freeze, it was open to individual agencies to impose their own freezes.⁶⁵

5.7 The guideline was revised in February 1998. The Government acknowledged that external recruitment was required to meet a number of broad objectives, including recruiting staff with specialist skills and minimising longer-term workforce planning problems. The revised guideline permitted vacancies to be filled externally when the Secretary believed it necessary for the efficient and effective operation of the agency.⁶⁶

5.8 As noted in the ANAO analysis earlier in this report, appointments across the APS during 1997–98 were at the lowest point in almost 10 years. Analysis of appointments by agency showed that it was common for appointment levels to decrease in 1996–97 after dissemination of the Government's guidelines. Since that time, however, the level of

⁶⁵ Public Service and Merit Protection Commission, (1996), Circular 1996/7, *op. cit.*

⁶⁶ Public Service and Merit Protection Commission, (1998), Circular 1998/3, *op. cit.*

appointments have been higher than separations and retrenchments in some agencies. The ANAO also found that, in 28 per cent of large agencies, 50 per cent of medium agencies and 17 per cent of small agencies, appointments increased in 1997–98 to exceed 1995–96 levels.

5.9 The three agencies audited had developed similar strategies for managing staff recruitment. For example, staff vacancies could be filled only with the approval of the senior management concerned. All three agencies indicated that once it had been determined that a vacant position should be filled and whether temporarily or permanently, they would consider the suitability of excess staff before advertising externally.

5.10 In the context of constraints on outside recruitment, the ANAO found that the agencies tailored their recruitment activities to meet operational imperatives. For example:

- although ABARE froze recruitment in areas affected directly by the staff reductions, recruitment of specialist staff and graduate research officers continued as required in other areas;
- graduate recruitment continued in the ATO, DoTRD and DPIE (except in AGSO); and
- to facilitate continued external recruitment in AGSO in the light of concerns that appointments were proceeding in a period of staff reductions, a mechanism was established whereby the appropriateness or otherwise of external recruitment could be thoroughly tested.

5.11 On the other hand, there was evidence that external recruitment, coupled with voluntary redundancies, was used as a means of reshaping the staff profile in one business line in the ATO. The 1996 Small Business Income workforce planning scenario included annual recruitment of about 50 staff to reflect the changing profile of the business line and ensure that suitably qualified staff were available to suit operational requirements. To accomplish this in a context of budget constraints, the Small Business Income line increased the total number of redundancies by 36 per cent (85 positions), from the 150 required to balance the budget, to 235 to accommodate the annual recruitment target.

5.12 As in the wider APS, appointment levels across all three agencies decreased in 1996–97 after dissemination of the Government's guideline. However, the number of appointments to the ATO has since increased to exceed 1995–96 levels. The ANAO acknowledges that the ATO-wide strategic planning and the workforce planning undertaken as part of the identification of potentially excess staff provided the individual business lines within the ATO with an opportunity to re-model their workforces. In addition, the ATO's workplace planning demographics indicated that

a significant number of the higher level specialist staff were approaching retirement age and that the ageing workforce would have an impact on the agency's ability to maintain internal capability next century. The ATO advised that, without the ability to bring graduates into the organisation to replace the specialist staff over time, the long term ability of the ATO to deliver to the Australian community would be eroded. The March 1998 *Workplace Planning Demographics* bulletin indicated that the number of graduates employed by the ATO has doubled since 30 June 1996.

Youth recruitment

5.13 As mentioned above, the Government was concerned that agencies maintain some recruitment to minimise longer-term workforce planning problems. General APS recruitment is covered above, but the ANAO was also interested to ascertain whether agencies were maintaining some youth recruitment (that is, staff under-25 years of age).

5.14 Across the APS, the ANAO found that the proportion of permanent staff aged less than 25 declined steadily, from 13 per cent at 30 June 1989 to four per cent at 30 June 1998. The ANAO's analysis showed that the retrenchment rate for youth is lower than for any other age group (Table 8 later in this chapter). Therefore, the reduction appears due to a decline in young people as a percentage of total appointments (down from 35 to 26 per cent in the last decade except for a peak in recruitment activity in 1994). In addition, an upward trend in resignations as a proportion of total youth since 1992 is evident.

5.15 Although graduate recruitment does not necessarily equate with youth recruitment, the ATO and DoTRD both made a commitment to maintain graduate recruitment during the period of staff reductions. As mentioned above, the number of graduates employed by the ATO has doubled since 30 June 1996. Although the strategic planning documents developed by DPIE made no mention of graduate issues, graduate recruitment did continue, albeit at reduced levels. However, based on data from the CRP, the proportion of staff aged less than 25 decreased in all three agencies audited between 30 June 1995 and 30 June 1998.

Conclusion

5.16 Although external recruitment into the APS continued in line with operational imperatives during the period of staff reductions, appointment levels decreased in most agencies in 1996–97 in accordance with the guideline to reduce outside recruitment. APS-wide appointments at 30 June 1998 were at the lowest level in almost 10 years. However, some agencies had a higher number of appointments compared to

separations and retrenchments in 1997–98; and, in a significant number of agencies, appointments in 1997–98 exceeded 1995–96 levels.

5.17 The ANAO recognises the ‘softening’ of the Government’s guideline and the PSMPC’s observation that agencies experienced difficulties in obtaining suitably qualified staff from the existing pool of APS staff. In addition, as mentioned in Chapter 2, many of these agencies had sound strategic or operational reasons for increasing appointments in 1997–98. However, agencies should always consider their recruitment activities in the context of longer-term workforce planning requirements.

5.18 All three agencies audited developed appropriate recruitment management strategies and tailored their recruitment activities to meet operational imperatives effectively. However, the number of appointments in the ATO in 1997–98 increased to exceed 1995–96 levels.

5.19 The ANAO acknowledges that the ATO was re-modeling its workforce in light of its strategic and workforce plans and that graduate recruitment was occurring in order to minimise longer-term workforce planning problems. However, the approach taken by the Small Business Income line, in which staff reductions were increased significantly to facilitate a reshaping of the workforce by external recruitment, did not indicate an analysis of the costs and benefits of the strategy. In addition, it was undertaken at a time when the Government’s guidelines emphasised a focus on natural attrition and redeployment and sought to minimise outside recruitment. As outlined in Chapter 3, the ANAO considers that there would be benefit in all APS agencies examining the most cost-effective ways of combining retention, retraining, redeployment and recruitment decisions to achieve the desired skills profile in any future staff reduction exercises.

5.20 Graduate recruitment continued in the three agencies audited (with the exception of AGSO) during the period of staff reductions. However, across the APS as a whole, the ANAO found that the proportion of permanent staff in the under-25 age group declined significantly over the last decade (although retrenchment rates are lower than for any other age group). This is of particular concern given it is a factor contributing to the overall ageing of the APS which is discussed later in this chapter. The PSMPC, which has had carriage of implementing the recommendations from the Review of Barriers to the Employment of Young People in the APS, is currently working to develop APS-wide strategies to identify and promote opportunities for youth recruitment.

Strict control of temporary staff

5.21 The Government's guidelines required agencies to maintain strict control of the engagement of temporary employees⁶⁷ and to terminate contracts as appropriate to their specific circumstances.⁶⁸ After a review in 1998, the guideline was reduced to provide for the use of temporary staff when the Secretary believes that it is necessary for the efficient and effective operation of the agency.⁶⁹ Despite this change, there is still benefit in agencies' examining ways of minimising the use of temporary staff during periods of staff reduction, to maximise the redeployment of excess staff and reduce the cost of voluntary redundancy payments. The ANAO examined the use of APS temporary staff employed under the Public Service Act. Due to data limitations, we were unable to ascertain the extent of employment of staff on a contract for service basis, for example, staff employed on a temporary basis through employment agencies.

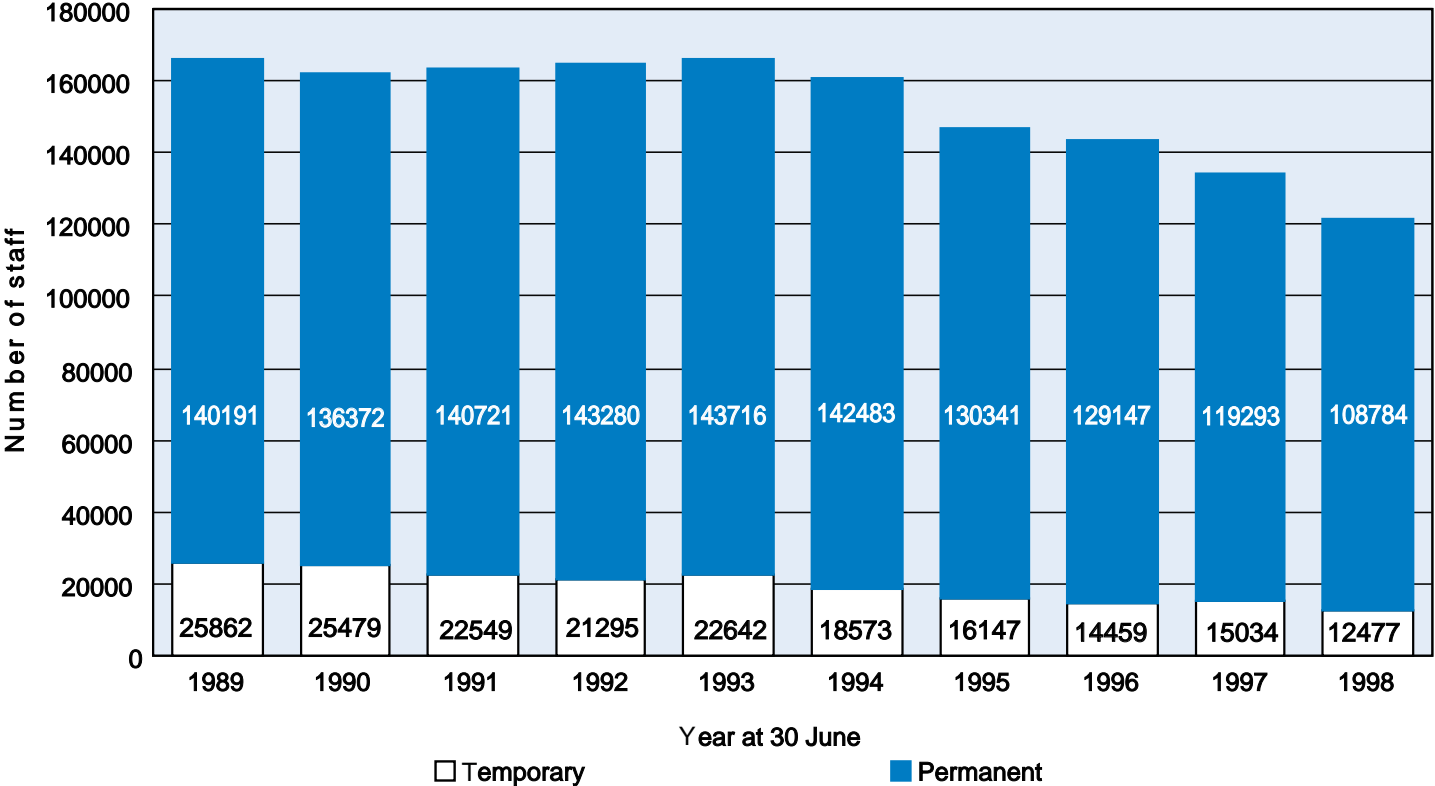
5.22 Since the introduction of the Government's guidelines in 1996 the number of APS temporary staff declined in line with reductions in permanent staff. The proportion of temporary staff to total APS staff has fluctuated between 10 and 11 per cent since 1995, the latest figures available indicating that it was 10 per cent at 30 June 1998. As indicated in Figure 18, the overall number of temporaries declined from 16 147 at 30 June 1995 to 12 477 at 30 June 1998—a decline of 23 per cent.

⁶⁷ Temporary employees are staff employed under Division 10 of Part III of the Public Service Act. Provisions are made for several different categories of temporary employment.

⁶⁸ Public Service and Merit Protection Commission, (1996), Circular 1996/7, *op. cit.*

⁶⁹ Public Service and Merit Protection Commission, (1998), Circular 1998/3, *op. cit.*

Figure 18:
APS staff by employment category, 30 June 1989 to 30 June 1998



Source: ANAO analysis of CRP as at 30 June 1998

5.23 The ANAO found that the control of APS temporary staff was well managed in DPIE and DoTRD during the period of staff reductions. Some of the strategies developed to achieve this included reviewing the essentiality of temporary staff and requiring high-level approval of engagement of additional temporaries. The ANAO considers that the re-examination of the use of temporary staff by AGSO in 1998 is an example of good practice in terms of on-going adherence to the guidelines.

5.24 However, maintenance of a strict control of APS temporary staff received limited attention in the ATO, although its use of temporary staff is small in comparison with that of other large APS agencies. The ANAO recognises that in some cases it was inappropriate for agencies to strictly comply with the 1996 guideline because of operational imperatives. For example, the ATO's Individual Non-Business line considered employing temporary staff for data processing to be more efficient and economical than assigning permanent staff to it. However, unlike DPIE and DoTRD, the ATO displayed no corporate monitoring or control of the engagement or termination of temporary staff. The ANAO found that the ATO employed 90 APS temporary staff in 1995–96 which increased to 422 in 1997–98. In addition, expenditure on consultants increased in 1996–97 and subsequent years.⁷⁰

5.25 The Office of the Auditor General of Canada observed similar trends in the use of 'temporary assistance' and expenditure on contractors and/or consultants. After an initial reduction, the number of casual and temporary employees increased as did expenditure on 'temporary assistance'. From 1994–95 to 1996–97, costs for contracting or consulting services also increased relative to wages and salaries. The Canadian Auditor General concluded that:

*the situation needs to be monitored and studied to determine whether casual and term employment, temporary assistance, consulting and contracting are used in specific areas because they are cost-effective or for purposes that may not be cost-effective such as to demonstrate savings in salary and wages...or to bypass restrictions on hirings.*⁷¹

⁷⁰ Expenditure on contractors and consultants (other than information technology) increased from \$3.5 million in 1995–96 to \$5.8 million in 1996–97 and \$9.9 million in 1997–98.

⁷¹ Office of the Auditor General of Canada, (1998), Chapter 1, *op. cit.*, paragraphs 1.59 to 1.61.

Conclusion

5.26 The overall number of APS temporary staff employed under the Public Service Act declined in line with reductions in permanent staff, producing a stable proportion of APS staff since 1995. In the three agencies audited, the ANAO found that the use of temporary staff was considered explicitly in the light of organisational needs.

5.27 The control of temporary staff was well managed in DPIE and DoTRD but there was a significant increase in the use of temporary staff in the ATO, particularly following the relaxation of the guideline in 1997–98. Although its use of temporary staff is small in comparison with that of other large APS agencies, the ATO displayed no corporate monitoring or control of the engagement or termination of temporary staff unlike DPIE and DoTRD. The ANAO recognises that the Individual Non-Business line employs a large number of temporaries to process seasonal data but there would be benefit in the ATO reviewing the overall essentiality of temporary staff to ensure that they are being employed only in line with operational imperatives and that they are cost-effective. This would be consistent with the Government's guideline and the *ATO (General Employees) Agreement 1998*.

5.28 Data limitations meant that the ANAO was unable to ascertain the extent to which non-APS staff were being employed on a contract for service basis in the APS. The ANAO considers that there would be benefit in all APS agencies collecting data on the use of both temporary and contract staff, as well as for other contractors and consultants, to be considered as part of an assessment of the costs and benefits of alternative strategies to achieve the desired skills profile.

Avoiding payment of higher duties allowances

5.29 Another of the Government's guidelines for agencies to consider as part of the management of staff reductions was to avoid paying higher duties allowances as far as possible. Agencies were required to consider whether it was necessary to temporarily fill vacant positions and to explore the use of other options to keep temporary performance to a minimum.⁷²

5.30 All three agencies developed strategies for minimising the use of higher duties allowance. These included subjecting proposals to high level approval, exploring other options for filling vacancies and restricting the performance of higher duties to shorter periods. DPIE prepared a

⁷² Public Service and Merit Protection Commission, (1996), Circular 1996/7, *op. cit.*

discussion paper which informed the development of corporate guidelines concerning the payment of higher duties allowance and DoTRD routinely monitored the number of staff on higher duties.

5.31 The ANAO found that expenditure on higher duties decreased steadily in DoTRD and DPIE (data were not available for AGSO).⁷³ Higher duties expenditure fluctuated in the ATO but decreased as a percentage of total salaries until 1996–97. Since that time expenditure has increased slightly from \$6.7 million in 1996–97 to \$7.4 million in 1997–98, although it remains at less than 1 per cent of total salaries. The PSMPC analysis showed that expenditure on higher duties as a percentage of total salaries across the APS decreased from 2 per cent in 1994–95 to 1.8 per cent in 1996–97.⁷⁴

5.32 In its reports to the Minister, the PSMPC noted the future irrelevance of higher duties allowances in the new workplace relations environment. Although the ANAO acknowledges that the payment of higher duties allowance was open for negotiation in developing agency-specific agreements under the Workplace Relations Act, all three agencies audited have retained the in-principle payment of a higher duties allowance.

Conclusion

5.33 The ANAO found that the three agencies audited developed sound strategies for minimising the payment of higher duties allowances. Expenditure in this area decreased steadily in DPIE and DoTRD since 1995–96. However, since 1996–97 higher duties expenditure has increased slightly in the ATO but, as a percentage of total salaries, remains less than the APS average. The ANAO acknowledges that the use of higher duties allowances cannot be avoided in certain circumstances given the ATO's requirements regarding delegations, but considers that there would be benefit in each of the ATO's business lines monitoring the use of higher duties in the light of the recent increase.

⁷³ It was not possible to obtain data on higher duties expenditure in AGSO between 1993–94 and 1995–96.

⁷⁴ This is the most recent APS-wide data available and was obtained from the PSMPC agency survey. These surveys are no longer conducted as a result of the change in reporting arrangements.

Redeployment

5.34 After an agency has identified which staff members are excess to requirements, it must determine who among the affected employees wants voluntary redundancy immediately and who wants redeployment. A flow chart providing an overview of the process of managing an excess staff situation under the Service-wide redeployment and retirement framework, which applied until agency-specific arrangements were developed, is set out in Appendix 3. Many of the provisions contained in this framework were open for negotiation as part of the process of developing agency-specific agreements.⁷⁵ This has the potential to impede the ability of individual agencies to facilitate redeployment across the APS. However, the PSMPC advised that they are attempting to ensure that those agencies that are committed to redeployment retain links with the APSLMAP.

5.35 In 1996 the Government emphasised the redeployment of potentially excess staff within the Service wherever possible.⁷⁶ This was re-emphasised in 1998:

*Redeployment provides substantial direct savings on redundancy and recruitment and training costs, both to the APS agency and to the taxpayer, and provides indirect savings because the Commonwealth is able to retain the people with the skills and experience that it requires.*⁷⁷

5.36 The Government's guidelines and the associated redeployment and retirement framework outlined a number of requirements to assist in the effective redeployment of excess staff. Agencies were required to fill both substantive and long-term temporary vacancies with excess staff and refer officers seeking redeployment to the APSLMAP.⁷⁸ There was also the provision to transfer excess staff within and between agencies through 'job swaps'⁷⁹ and, subject to the efficient administration of the agency, excess staff could be retrained⁸⁰ and given first consideration for placement opportunities.⁸¹

⁷⁵ For example, the treatment of excess staff in isolation for vacant positions and referral of staff to the APSLMAP is discretionary and retention periods are being shortened or eliminated.

⁷⁶ Public Service and Merit Protection Commission, (1996), Circular 1996/7, *op. cit.*

⁷⁷ Public Service and Merit Protection Commission, (1998), Circular 1998/3, *op. cit.*

⁷⁸ Public Service and Merit Protection Commission, (1996), Circular 1996/7, *op. cit.*

⁷⁹ Public Service and Merit Protection Commission, (1996), *Circular 1996/14: Voluntary Retrenchment—Staff Movement (Job Swaps) within and between APS Agencies and the Taxation Treatment of Subsequent Redundancy Payments.*

⁸⁰ Public Service and Merit Protection Commission, (1996), *Management of Excess Staff Situations in the APS*, *op. cit.*, page 45.

⁸¹ Public Service and Merit Protection Commission, (1998), Circular 1998/3, *op. cit.*

5.37 The PSMPC noted that the use of job swaps to secure redeployment has some benefits in providing a means to retain good staff.⁸² These arrangements could be arranged only at the discretion of the Secretary or Secretaries concerned and should be made on operational grounds and on the basis that the employee to be retained is able to effectively perform the duties of the position.⁸³ However, the PSMPC cautioned that:

job swaps tend to be driven by people with considerable service who prefer voluntary redundancy to retirement rather than excess staff seeking redeployment⁸⁴...Job swaps, if they create the expectation that voluntary retrenchment will be the normal way of leaving the APS, could create a negative impact on natural attrition, the capacity of management to involuntarily retire staff and on the cost of staff reductions.⁸⁵

Redeployment APS-wide

5.38 The ANAO was unable to determine the extent of redeployment across the APS beyond that achieved by the APSLMAP (as discussed later in this section). The data recorded in the CRP is incorrect due to the majority of APS agencies not recording information on redeployment using the 'redeployment—excess officer' code. Only 7, 13 and 4 excess staff were recorded as redeployed within the APS in 1995–96, 1996–97 and 1997–98 respectively. The PSMPC advised that data on the number of excess staff redeployed to other APS agencies may well have been recorded as an ordinary transfer in the CRP. There were 6 600, 8 664 and 5 981 'ordinary transfers', corresponding to 5, 7 and 5 per cent of total permanent staff, over the same three year period. While this data may show some impact for redeployment activity in 1996–97, it does not appear to for the latest year.

5.39 Hence data on redeployment activity across the APS is restricted to that available from the APSLMAP. However, the comprehensiveness of the APSLMAP data relies on agencies referring staff to them and the requirement to refer excess staff to the APSLMAP can be over-ridden by agency-specific agreements. As well, some agencies have recently placed

⁸² Under Subparagraph 11.4.12.(b) of the *APS General Employment Conditions Award 1995* a Secretary may invite other employees of the agency from outside the affected area to express interest in voluntary retrenchment where their retirement would permit the redeployment of an excess employee who does not wish to accept voluntary retrenchment and would otherwise remain excess. The ANAO has referred to these arrangements as 'job swaps'.

⁸³ Public Service and Merit Protection Commission, (1996), Circular 1996/14, *op. cit.*

⁸⁴ The ANAO considers the issue of staff at retirement age being eligible for voluntary redundancy in Chapter 4.

⁸⁵ PSMPC report to the Minister Assisting the Prime Minister for the Public Service in December 1996.

a greater emphasis on redeploying staff prior to formally declaring them excess thus reducing the number of formal referrals to the APSLMAP. Information on redeployment activity across the APS is unlikely to improve as the new monthly survey to collect APS employment data which replaces the CRP will only record transfers—no specific recording of redeployment is planned.

Ex-APS staff being re-employed on contract

5.40 The ANAO has anecdotal evidence that ex-APS staff are being re-employed, through a third party, on contract in the APS after receiving voluntary redundancy. Although this is not in direct contravention of the PSMPC guideline concerning the re-employment restrictions (discussed in the following section), it goes against the spirit of the guideline.⁸⁶ One example where an agency has taken action to curb the re-employment of ex-APS staff is in the Department of the Prime Minister and Cabinet:

the Secretary does not endorse the short term employment of such a person [who has been retired under the APS under section 76W of the Public Service Act and who has received a retrenchment severance benefit] within twelve months of the date of retirement through a contract with an employment agency.⁸⁷

5.41 The re-employment of ex-APS staff on contract suggests that there is benefit in agencies considering to the potential demand in the wider APS for the skills and expertise of potentially excess staff. Although agencies were required to assess the staff member's redeployment prospects before they could be offered voluntary redundancy,⁸⁸ there was little evidence that detailed assessments were undertaken across the three agencies audited. The ANAO considers that there would be benefit in all APS agencies ensuring they undertake detailed assessments of the redeployment prospects of potentially excess staff to determine whether they have skills which would be more appropriately retained in the APS. Although consideration needs to be given to whether the staff member wishes to be redeployed, successful redeployment will minimise the cost of staff reductions.

⁸⁶ Public Service and Merit Protection Commission, (1996), *Circular 1996/13: Restrictions on the Appointment and Temporary Employment of People who have Accepted Voluntary Retrenchment from the APS*.

Public Service and Merit Protection Commission, (1998), *Circular 1998/4: Restrictions on the Appointment and Temporary Employment of Persons who have Accepted Voluntary Retrenchment from the Australian Public Service (APS)*.

⁸⁷ Internal policy advice, Department of Prime Minister and Cabinet, April 1998.

⁸⁸ Job Security and redeployment provisions at Attachment B—Schedule 2 of the *Continuous Improvement in the APS Enterprise Agreement 1995-96*.

Redeployment across the three agencies audited

5.42 Although the three agencies audited were committed to redeployment, they suggested that there were a number of factors which impacted on the likelihood of successful placement for those excess staff seeking redeployment. For example, staff reductions were occurring in a number of agencies across the APS and there was a perception that, as a result of the high number of referrals to the APSLMAP, the effectiveness of their service would be reduced. There were also difficulties associated with placing certain categories of staff due to either limited skill sets or the specialist nature of their work. Coordinating both intra- and inter-agency redeployment was complicated with a number of different agencies undertaking staff reductions but with different timeframes. This made it difficult for agencies to anticipate the requirement for additional staff and they were conscious of the risks associated with taking on additional staff and then being faced with an excess staff situation.

5.43 Despite these factors, the ANAO found that:

- the Government's requirements in relation to redeployment were widely disseminated in the three agencies audited;
- in the ATO and DPIE various strategies, including teams and/or case managers and/or registers, were used to act as 'brokers' to coordinate redeployment opportunities. DoTRD maintained a list of all staff on mobility provisions and surplus officers which was intended to be reviewed prior to advertising positions. Program managers were required to consult the list for suitable people when a vacancy occurred; and
- fitness for task was one of the principal criteria for placing excess staff seeking redeployment in the ATO and DoTRD.

5.44 Although systems were established to assist with redeployment, the ANAO was unable to accurately assess the extent to which excess staff were used to fill substantive and long-term temporary vacancies due to the absence of any systematic monitoring of vacancies and outcomes of redeployment efforts. The three agencies advised that all staff members seeking redeployment were placed, however, the ANAO was unable to verify this claim. Data were available on staff movements from the agencies' responses to the PSMPC's quarterly survey but these only covered a very limited timeframe.⁸⁹ While the numbers are very small for the ATO and DPIE, the redeployment of 148 staff by DoTRD reflects the efforts by the agency in redeploying staff.

⁸⁹ The surveys were conducted over 15 months between 1/4/1996 and 30/7/1997. The ATO redeployed 62 staff within the agency or elsewhere in the APS over this period whereas DPIE redeployed 16.

5.45 DoTRD advised that, of the 220 Regional Development staff declared potentially excess to requirements, 32 were placed elsewhere in the Department and 90 obtained positions in other APS agencies through a combination of job swap arrangements and transfers. The ANAO acknowledges that the redeployment of excess staff following the abolition of a function can be more successful than redeploying staff declared excess as a result of other drivers such as a reduction in running costs or internal restructuring. A certain amount of stigma can be attached to staff declared excess under the latter circumstances which can make successful redeployment difficult. Nonetheless, the ANAO considers that the measures undertaken by DoTRD to place staff from the Regional Development program represent good practice. These measures included:

- writing to selected agencies seeking potential job swaps and transfers;
- ensuring senior management followed up any correspondence and utilised personal contacts in an effort to secure positions; and
- using the newsletter produced specifically for staff in the Regional Development program to provide staff with information on employment opportunities. Two categories of jobs were identified—positions where the current occupant had indicated interest in voluntary redundancy in an attempt to secure job swaps (although these were dependent on the person actually deciding to take voluntary redundancy); and transfers/promotions within DoTRD and other agencies.

5.46 DoTRD also maintained a spreadsheet which tracked the final destination of all Regional Development staff and provided information on their method of separation (eg. resignation, voluntary redundancy, involuntary redundancy, transfer or promotion), whether they were redeployed or participated in job swap arrangements.

5.47 The ANAO considers that, in any future staff reductions, there would be benefit in all APS agencies obtaining information on the number of excess officers electing to be redeployed and the placement outcomes. Monitoring of this kind would allow agencies to assess the effectiveness of their redeployment strategies, including expenditure on activities designed to facilitate redeployment and allow an APS-wide assessment to be made on the savings on redundancy costs resulting from successful redeployment action.

Job swaps

5.48 Job swaps were seen as one way of ensuring the APS retained valuable staff. Job swaps were permitted in the three agencies audited, but it was clearly stated that they would only occur subject to operational

imperatives. Fitness for task criteria were also applied in DoTRD and the ATO. Although not in place for the staff reductions examined as part of this audit, DPIE subsequently included the fitness for task criteria in its certified agreements to ensure that job swap arrangements were available only to those who could effectively perform the duties of the position.

5.49 However, the ANAO found that cost considerations were not a component of the criteria for entering job swap arrangements in any of the agencies audited. Although this is relevant to internal job swaps, it is particularly important in arranging inter-agency job swaps and where a reasonably large number of swaps are sought, as occurred in DoTRD. The ANAO considers that there would be benefit in all APS agencies considering the financial implications of job swaps. This could include an analysis of the costs and benefits of the arrangement to ensure value for money from the perspective of the Commonwealth as a whole.

Good practice job swap arrangements

In the course of the 1996 staff reductions, the ATO developed detailed guidelines on intra- and inter-agency job swap arrangements and distributed them to all managers concerned. The agreement of managers from both work areas involved in the proposed job swap was required for it to proceed. The accepting manager had to ensure that the staff member wishing to remain in the ATO had the skills to become fully effective in a reasonable time. The manager releasing the person wishing to leave the ATO had to ensure that he or she was eligible to participate in the job swap arrangements and did not have skills the ATO wished to retain. Further, in the ATO's Small Business Income line, the announcement of any likelihood of job swaps was delayed until late in the 1997 redundancy exercise when more was known about whether there would be a discrepancy between the number of staff electing to take voluntary redundancy and the number of packages available. The aim was to limit the scope for job swap requests, thus reducing the workload involved, and to manage staff expectations.

Conclusion

5.50 The ANAO was unable to identify the extent of redeployment across the APS beyond that achieved by the APSLMAP due to agencies not recording this information correctly in the CRP. However, as a measure of redeployment activity in the APS, the usefulness of the APSLMAP data is limited due to a reliance on agencies to refer staff to the APSLMAP when they are no longer required to do so (the requirements can be over-ridden in agency-specific agreements). In

addition, agencies are placing increased emphasis on redeployment prior to formally declaring staff excess thus reducing the number of formal referrals to the APSLMAP. Information on redeployment activity across the APS is unlikely to improve as the new monthly survey which replaces the CRP does not collect redeployment statistics.

5.51 Anecdotal evidence of the re-employment of ex-APS staff on contract through a third party suggests that there would be benefit in all APS agencies considering the redeployment rather than retrenchment of staff with marketable skills as well as those who are likely to be in demand in other agencies. The ANAO acknowledges that the devolved operating environment makes it more difficult to redeploy staff across the APS. However, the Government has emphasised the importance of redeployment in helping to ensure that the APS as a whole retains valuable people and is more economical—redeployment can provide direct savings on redundancy, recruitment and training costs. As a consequence, there would be benefit in all APS agencies undertaking detailed assessments of the redeployment prospects of potentially excess staff to determine whether they have skills and expertise that would be more appropriately retained in the APS. Although consideration needs to be given as to whether the staff member wishes to be redeployed, successful redeployment would help ensure that the APS is able to retain valuable people and be more economical.

5.52 The ANAO found that the three agencies audited had sound strategies and processes that reflected the Government's guidelines in relation to redeployment and inter- and intra-agency job swaps. Job swap arrangements were reasonably well managed in the ATO and DoTRD to the extent that fitness for task was a key consideration. DoTRD also maintained a spreadsheet which provided information on the final destination of staff from the Regional Development program and their method of separation, including redeployment, transfer and job swaps. However, the ANAO considers that there would be benefit in all APS agencies considering the financial implications of job swaps to ensure value for money from the perspective of the Commonwealth as a whole.

5.53 In the absence of detailed information within each of the agencies audited on the number and types of skills of excess staff wishing to be redeployed and whether they were successfully placed, the ANAO is unable to assess the extent to which greater redeployment could have been achieved within the agencies audited as well as across the APS. There would be benefit in all APS agencies monitoring the outcomes of redeployment activity to assess the effectiveness of their redeployment strategies, including the extent to which successful redeployment may have resulted in savings on separation and redundancy payments, in any future staff reductions.

APS Labour Market Adjustment Program

5.54 The APSLMAP was established on 1 July 1994 to provide nationally coordinated redeployment services of non-SES surplus and excess officers in the APS and the wider employment market. It operated on a partial cost recovery basis until budget funding ceased on 30 June 1997, and now operates on a full cost recovery basis.⁹⁰ The ANAO has been advised by the PSMPC that a review of the APSLMAP is being undertaken in 1999.

5.55 The Commonwealth was required to carry out the functions of the APSLMAP under the *Continuous Improvement in the APS Enterprise Agreement 1995–96* and agencies were required to refer all excess officers who elect to be redeployed.⁹¹ The mandatory scrutiny of vacancies by the APSLMAP before advertising in the *Gazette* was removed in 1998. However, agencies are required to refer excess staff to the APSLMAP as long as the relevant provisions in the Enterprise Agreement continued to operate or until it is specifically over-ridden in agency-specific agreements. Slightly more than half the APS agencies are expected to retain the use of the APSLMAP services⁹² but, given the Government's continued support for the effective redeployment of excess staff, agencies not covered by the Service-wide redeployment and retirement provisions are encouraged by the PSMPC to continue working with the APSLMAP.

Use of the APSLMAP by the three agencies audited

5.56 The three agencies audited disseminated widely the requirement to refer excess staff seeking redeployment to the APSLMAP for assistance with redeployment in the APS. The ANAO was advised that this generally occurred where relevant. It should be noted that staff are only referred to the APSLMAP after they have rejected an offer of voluntary redundancy.

5.57 However, the official referral rates were only very small in comparison to the number of staff accepting voluntary redundancy. For example, only 41 surplus and excess staff were referred to the APSLMAP from the Treasury Portfolio between 1995–96 and 1997–98 when more

⁹⁰ Total revenue generated by the APSLMAP in addition to the referral and placement fees includes revenue from sessional counselling and seminar presentations. The APSLMAP is recovering its costs.

⁹¹ Referral of excess officers incurs a fee of \$1500. Officers identified as surplus (ie. potentially excess) can ask their departments or agencies to contact the Program for assistance, incurring a referral fee of \$2 000. An additional placement fee of \$2 500 is payable on successful redeployment.

⁹² Based on an analysis of 86 certified agreements conducted by the PSMPC in early 1999, 35 agreements carry reference to the referral of excess officers to the APSLMAP. A further 12 agreements provide for the use of the APSLMAP or another agreed external employment service provider for redeployment.

than 1 000 staff were retrenched from the ATO alone. The low rate of referral to the APSLMAP may be an indication of a general lack of staff interest in redeployment, an observation supported by the over-subscription of many of the reduction exercises in the ATO. There was also a lack of consistency in awareness of the requirement to refer staff to the APSLMAP across the ATO's business lines.

5.58 Although the three agencies referred excess staff to the APSLMAP (with the exception of one business line in the ATO), there was a perception of limited opportunities for redeployment because of widespread staff reductions across the APS. Organisations such as AGSO found the APSLMAP to be of limited use in the redeployment of specialist staff due to limited opportunities in the APS. On the other hand, ABARE and others found the APSLMAP to be useful in giving staff a sense of security and providing a stabilising influence after the disruptive process of reducing staff.

5.59 In recognition that the APSLMAP would have a large workload resulting from a number of APS agencies reducing staff concurrently, the three agencies supplemented the services of the APSLMAP with a range of internal and external assistance in an attempt to improve the redeployment prospects of excess staff. For example, ABARE assigned each excess officer a case manager at an appropriate level during the retention period and AGSO approached other public- as well as private-sector organisations, including universities, that required expertise similar to AGSO or which may have been aware of possible employment opportunities.

APSLMAP's performance

5.60 As noted earlier in this section, the ANAO was unable to determine the extent of redeployment across the APS beyond that achieved by the APSLMAP. Although the APSLMAP had a high success rate in its first year of operation, it has since declined to lower levels. The APSLMAP claimed a redeployment success rate of about 40 per cent in 1996–97 based on the number of placements as a percentage of excess staff referrals (Table 7). If the same measure is used to calculate the success rate for 1997–98, the figure drops to 11 per cent.⁹³

5.61 However, the ANAO does not consider the basis on which the APSLMAP's success rate is calculated to be a full measure of

⁹³ Public Service and Merit Protection Commission, (1997), *Public Service Commissioner Annual Report 1996-97*, AGPS, Canberra, page 45.

The number of placements between 1 July 1996 and 30 June 1997 (351) as a percentage of excess staff referrals (835) over the same period, provides a success rate of 42 per cent.

performance. While the APSLMAP's claims are calculated correctly, the measure does not provide a complete indication of performance since it does not take account of surplus staff (the APSLMAP's other clients) or clients carried over from previous years. The ANAO considers the most appropriate gauge of success to be the number of clients placed as a percentage of total active clients in each year. This performance gauge indicates a success rate ranging from 38 per cent in 1994–95 to 7 per cent in 1997–98 (Table 7).

5.62 There should also be more concern that the measures used to determine the APSLMAP's redeployment success rates varied from year to year. As mentioned above, the APSLMAP's reported success rate in 1996–97 was based on the number of placements as a percentage of excess staff referrals. However, in 1997–98 performance was measured as the number of placements as a percentage of total number of staff referred over the life of the program. The lack of consistency in the performance measures used makes it difficult to identify trends and to make any judgement on the APSLMAP's performance over time.

5.63 An APSLMAP promotional brochure also claims that the redeployment of staff through the APSLMAP saved Australian taxpayers more than \$18 million in redundancy costs between July 1994 and September 1997. On the other hand, the ANAO's analysis estimated that direct savings were actually only \$15.3 million for the three years 1 July 1994 to 30 June 1997 and \$15.4 million for the four years 1 July 1994 to 30 June 1998 (the net savings to the taxpayer were only \$177 500 in 1997–98—Table 7). These estimates take into account referral fees paid by agencies and the cost of administering the APSLMAP. The combination of significantly lower rates of redeployment, larger fees and larger administration costs of the APSLMAP have contributed to this result.

Conclusion

5.64 The ANAO was advised that the three agencies audited generally referred those excess staff electing to be redeployed to the APSLMAP for assistance. However, the referral rate was very low, particularly in the ATO, indicating a general lack of interest in redeployment and/or lack of awareness of the requirement to use the APSLMAP. Agencies are required to refer excess staff to the APSLMAP as long as the relevant provisions in the *Continuous Improvement in the APS Enterprise Agreement 1995–1996* continue to operate or until the requirement is over-ridden in agency-specific agreements.

Table 7:
APSLMAP's performance

	1994-95	1995-96	1996-97	1997-98	1994-98
Total active clients each year #	304	663	1 364	1 052	
Excess staff	243	367	835	644	
Surplus staff	11	141	267	62	
Total referred	254	508	1 102	706	2 570
Placed	116	130	351	69	666
Other resolution	137	378	727	324	1 566
Total resolved	253	508	1 078	393	2 232
Unresolved cases	1	0	24	313	338

Performance measures (%)

Per cent placed/ excess referrals only*	48	35	42	11	
Per cent placed/ all referrals	46	26	32	10	26
Per cent placed/resolved	46	26	33	8	
Per cent placed / total active clients in each year	38	20	26	7	

Savings to the taxpayer (\$)

Direct saving of VR	4 560 000	3 930 000	10 680 000	2 940 000	
Less referral fees paid by agencies	88 760	168 560	450 380	1 462 500	
Less administration costs of APSLMAP	1 200 000	1 000 000	1 000 000	1 300 000	
Net savings to taxpayer	3 271 240	2 761 440	9 229 620	177 500	15 439 800

Source: ANAO analysis

There may be some double counting across years as officers may be clients of the APSLMAP over consecutive financial years.

*APSLMAP's reported performance.

Note: The shaded cells relate to APSLMAP's reported performance referred to in the text.

5.65 However, there should be more concern that the measures used to identify the APSLMAP's redeployment success rate varied from year to year. This lack of consistency makes it difficult to identify trends and consequently to make any judgements on the APSLMAP's performance over time. In addition, the ANAO does not consider the various measures currently used by the APSLMAP to determine the redeployment success rate to be full measures of performance since they do not take into account all the APSLMAP's clients or clients carried over from previous years. As a result, the ANAO considers that the percentage of total clients placed by the APSLMAP is a more appropriate gauge of success than the percentage of excess referrals placed.

5.66 Accurate performance indicators are important to inform the PSMPC's decision-making regarding the future of APSLMAP and to allow individual agencies to judge the effectiveness of APSLMAP in redeploying excess employees when choosing an employment service provider.

Recommendation No.8

5.67 The ANAO considers that the PSMPC, as part of its review of the APSLMAP, *examine its current performance indicators to ensure that the redeployment success rate is reliably measured and reported to provide a sound basis for agency decision-making.*

PSMPC's response

5.68 The PSMPC agreed with the recommendation.

Re-employment restrictions

5.69 People who have accepted voluntary redundancy from the APS are ineligible to apply for appointment or fixed-term temporary employment within 12 months. As discussed in the previous section, ex-APS staff do return as contractors or consultants, however, such staff are not appointed under the Public Service Act. Although their employment does not directly contradict the guideline, it raises issues about the extent to which agencies have given consideration to redeploying rather than retrenching staff with skills that are needed by the APS.

5.70 Staff and managers in the agencies audited were informed of the 12 month restriction on re-employment. The documentation given to staff who expressed interest in voluntary redundancy included reference to the restriction and staff were required to sign forms indicating that they understood the condition.

5.71 The ANAO observed a range of strategies for ensuring that the re-employment restrictions were adhered to. In DPIE, and some business lines in the ATO, the appointment paperwork required applicants to indicate whether they had received an APS redundancy payment in the last year. Other areas of the ATO checked with past employers to satisfy themselves that applicants have not received voluntary redundancy within 12 months. Overall, the ANAO found that re-employment restrictions were generally enforced in the three agencies audited.

5.72 However, to meet operational imperatives the ATO National Office employed, as APS temporaries, a small number of people who had recently taken redundancy packages from other APS agencies. Although under the guideline the action taken by the ATO is permissible where the Secretary or equivalent is satisfied that any such short term employment is essential because of the nature of the duties to be performed and having regard to the person's skills, experience and/or qualifications,⁹⁴ the approval of the Commissioner for Taxation was not sought on the occasions noted above. The ANAO understands the reasoning behind the employment of these temporaries but considers that the ATO should be mindful of the established guideline and obtain appropriate approval beforehand.

5.73 The ANAO also considers that there would be benefit in all APS agencies adopting a risk management approach to screening appointments. This should involve checking with previous APS employers of applicants who have left APS positions in the previous year to ascertain whether they received a redundancy payment.

Conclusion

5.74 The ANAO found that agencies generally adhered to the re-employment restrictions. However, to fulfil operational imperatives, the ATO employed, as APS temporaries, a small number of people who had recently taken voluntary redundancy packages from other APS agencies without the necessary approval of the Commissioner for Taxation. Some areas screened ex-APS applicants by checking with their previous APS employers whether they had received a redundancy payment in the last year and the ANAO considers that there would be benefit in all APS agencies adopting this practice where considered appropriate.

⁹⁴ Public Service and Merit Protection Commission, (1996), *Circular 1996/13*, *op. cit.*

Senior Executive Service

5.75 The 1996 Guidelines specified that the SES was not to be excluded from the staff reductions.

5.76 The ANAO found that SES numbers did reduce over the period in question, indicating that agencies had adhered to the guideline. However, an analysis of APS-wide data shows that the proportion of SES remained stable at 1.3 per cent of total staff between 30 June 1995 and 30 June 1997, increasing to 1.4 per cent of total staff at 30 June 1998.

5.77 The ANAO observed a similar degree of stability in the proportion of SES in the three agencies audited. DPIE and DoTRD developed specific strategies to achieve the necessary reductions in the number of SES staff. AGSO paid particular attention to ensuring that the SES was reduced proportionately, and DoTRD spilled all SES Band 1 positions and held a formal interview process to help ensure that the best performing officers were retained. In comparison, the ATO made no reference to the guideline in the information disseminated to staff in relation to the excess staff situation but achieved the necessary decrease in the number of SES staff through structural reform.

Impact of staff reductions on corporate knowledge and workplace diversity

Impact of staff reductions on age and length of service profiles

5.78 The ANAO considers that it is good practice for agencies to monitor and manage any changes in workforce demographic factors such as the age, classification and length of service profiles as well as staff movements.⁹⁵ Monitoring these indicators would assist agencies to develop business and people management strategies and may also provide an early warning of any potential impacts of staff reductions on longer-term agency performance.

5.79 The ANAO focused its analysis on two key indicators, age and length of service, in the three agencies audited as well as across the APS as a whole to determine if they had been affected by the staff reductions. The age profile was considered an important indicator as it relates to succession planning—although it is not always the case, but changes in the age profile have the potential to negatively impact on an agency's ability to conduct its business in the longer-term if the change is not managed effectively. The length of service profile was examined because

⁹⁵ Staff movements include separations (including retrenchments), appointments, transfers between agencies and promotions during a given financial year.

it can provide some insight into an agency's knowledge base. Knowledge management is about using information which creates value. Organisational knowledge can be enhanced through information management and organisational learning. An agency's knowledge base consists of:

- tacit knowledge, which is information which is in people's heads and which is gained through experience; and
- explicit knowledge, which is more tangible as it is gained through formal processes, databases, manuals and so on.⁹⁶

3.80 The ANAO recognises that the knowledge base is a complex asset, both to measure and to manage, but length of service data is one quantitative indicator that can be used to measure the general level of experience of agency staff (referred to in this report as corporate knowledge or human capital). It should be noted, however, that it will not provide an indication of the quality or relevance of the knowledge gained through that experience.

Changes to the APS-wide age and length of service profiles

5.81 The ANAO considered the age and length of service profiles in the wider APS based on data from the CRP and found that:

- the APS is continuing to age, having fewer younger staff and proportionally more older staff. As shown in Figure 19, the proportion of total staff aged 40 and over increased from 36 per cent in 1989 to 51 per cent in 1998 while the under-40 group declined correspondingly;⁹⁷
- the length of service profile in the APS mirrored the age trend. Between 1989 and 1998 the proportion of permanent staff with 10 or more years' experience increased from 38 to 50 per cent with a corresponding decline in the number of staff with fewer than 10 years' experience (Figure 20). The proportion of staff with less than two years' service has halved—from 18 per cent in 1991 to 9 per cent in 1998;⁹⁸ and
- the retrenchment rate by age group, calculated as a percentage of total staff in each category, indicates that retrenchment is proportionally higher for staff aged 50 and over. The retrenchment rate by length of service, also calculated as a percentage of total staff in each category, indicates that retrenchment is proportionally higher for staff with more than 10 years' service (Table 8).

⁹⁶ Public Service and Merit Protection Commission, (1998), Knowledge Management, [Online] Available: <http://www.psmpc.gov.au/hi/km.htm>, [11 February 1999].

⁹⁷ Within these broad categories the greatest increase is observed in the 45-59 age group and the greatest decrease in the under 30s.

⁹⁸ Within these broad categories the greatest increase is observed in those with between 10 and 15 years' experience and the greatest decrease in those with less than five years' experience.

5.82 Staff aged 40 and over and those with 10 or more years of service have increased as a proportion of total APS staff since July 1989. The ANAO also found that proportionally more staff aged 50 years and over and staff with 10 or more years of service are being retrenched. This is not unexpected given that these staff members are more likely to benefit financially from the severance pay component of a redundancy package than others.⁹⁹

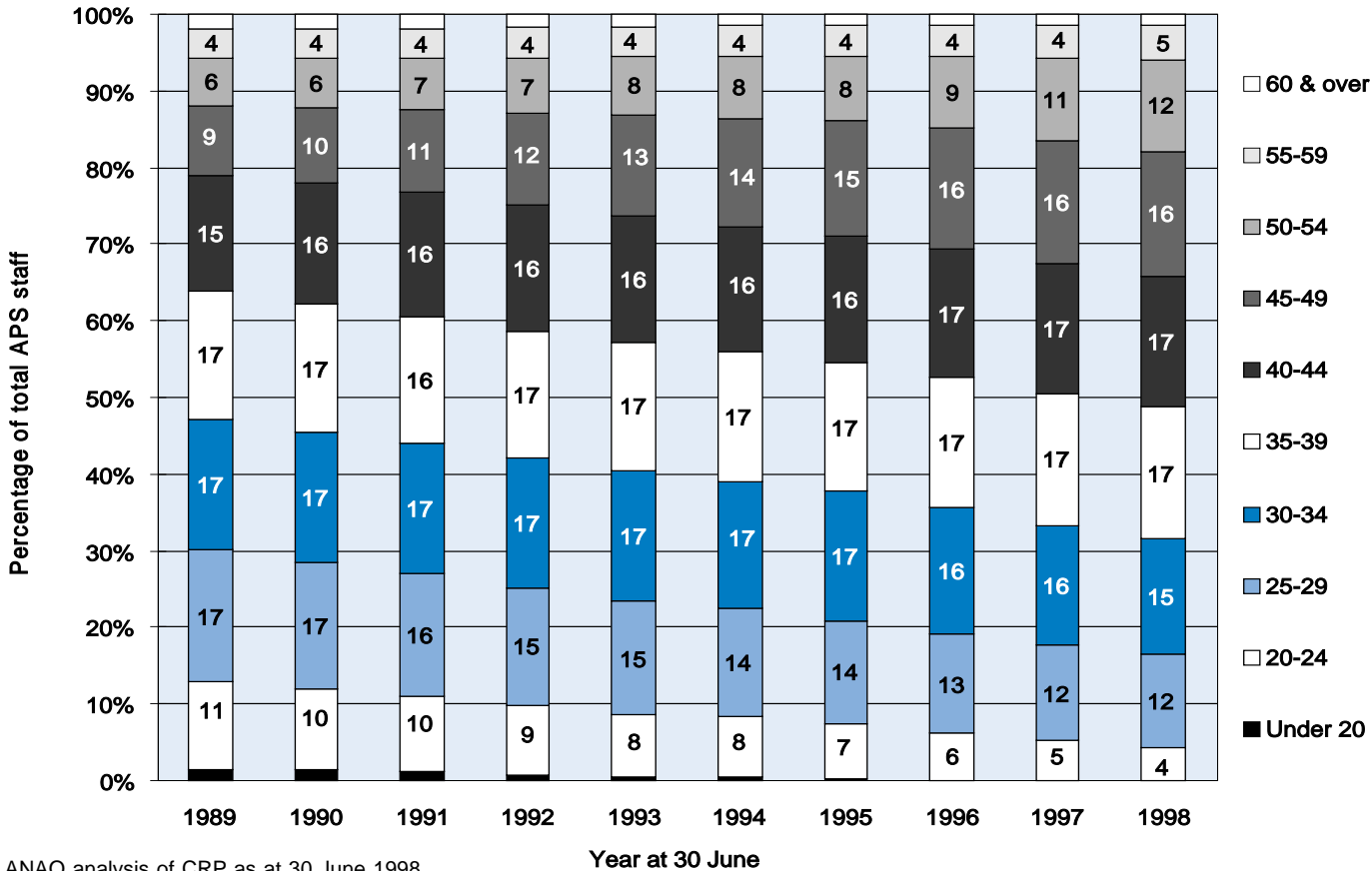
5.83 These observations are consistent with overseas experiences. The Office of the Auditor General of Canada found that, 'as a group, the public service is now more middle-aged and ... the change in the age profile represents a significant challenge for the future, notably the need to address succession planning and recruitment.'¹⁰⁰ The report identified the need to 'address rejuvenation and renewal issues if the public service is to have people with the skills and experience required for the next century while compensating for the loss of experienced professionals and corporate memory.'¹⁰¹

⁹⁹ Under Clause 11.4.7 of the *APS General Employment Conditions Award*, staff accepting voluntary redundancy were entitled to be paid a severance benefit equal to two weeks salary for each completed year of service, plus a pro rata payment for completed months of service since the last completed year of service (maximum of 48 weeks salary).

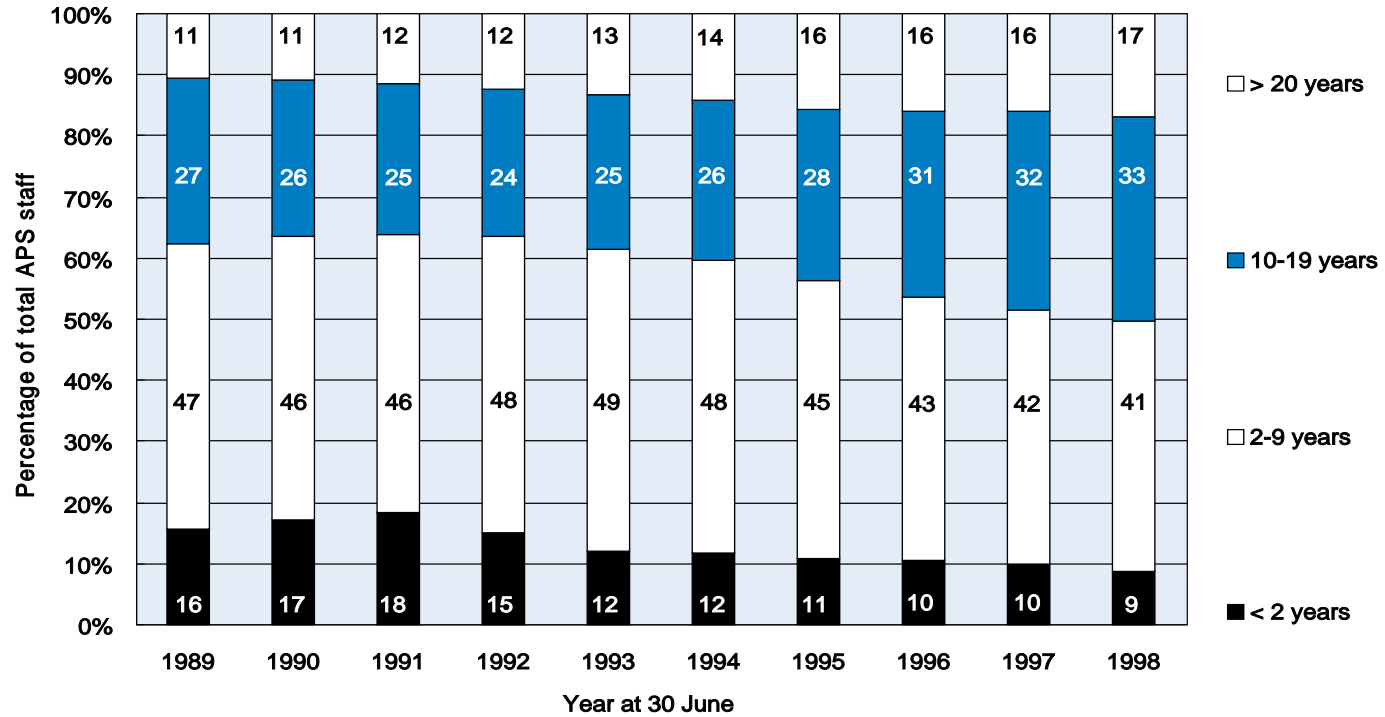
¹⁰⁰ Office of the Auditor General of Canada, (1998), Chapter 1, *op. cit.*, paragraph 1.58.

¹⁰¹ *Ibid.*, paragraph 1.68.

Figure 19:
Age group of permanent staff as a percentage of total APS staff, 30 June 1989 to 30 June 1998



Source: ANAO analysis of CRP as at 30 June 1998

Figure 20:**Length of service of permanent staff as a percentage of total APS staff, 30 June 1989 to 30 June 1998**

Source: ANAO analysis of CRP as at 30 June 1998

Table 8:**Rate of retrenchment in the APS by age group and length of service**

	<i>Retrenchment rate (%)</i>		
	<i>1995–96</i>	<i>1996–97</i>	<i>1997–98</i>
Age group			
<25	0.5	2.0	3.1
25–29	1.2	5.1	5.6
30–34	1.5	7.7	7.7
35–39	2.1	7.3	7.6
40–44	2.2	7.5	7.8
45–49	2.9	7.2	8.1
50–54	4.2	10.3	10.7
55–59	7.4	17.9	18.3
60+	11.0	22.2	20.3
Length of service			
<2 years	0.3	1.0	1.1
2–9 years	1.7	5.4	7.1
10–19 years	3.1	10.3	9.7
>20 years	4.7	13.3	12.6
APS-wide retrenchment rate	2.4	7.7	8.2

Source: ANAO analysis of CRP as at 30 June 1998

Note: Retrenchment rate calculated as retrenchments in the 12 month period divided by total permanent staff in each category at the beginning of the period (30 June).

Rates in bold type if larger than the APS total rate.

Changes to the age and length of service profiles across three agencies

5.84 The three agencies audited also have an ageing workforce with a higher representation of staff aged 40 and over in DoTRD and DPIE than in the broader APS. However, the workforce demographics were fairly stable in DoTRD and DPIE during the staff reductions. The result in DoTRD was not unexpected given the majority of retrenchments were due to the abolition of the entire Regional Development function. There has, however, been a slight increase in younger staff in DPIE—the staff surveys indicated that, between 1994 and 1996, staff aged 25 and under increased from 8 to 10 per cent of total staff. Data from DPIE's personnel management information system showed that all the staff lost through the reduction process were aged over 25. This, coupled with increased graduate recruitment prior to the 1996 staff reductions, may help explain the increase.

5.85 Staff reductions had more of an impact in the ATO. The shift in the age profile can be attributed to a decrease in the 20–34 age group which made up the majority of staff lost through attrition and the

redundancy exercises. These changes could be a result of insufficient monitoring of which categories of staff received offers of voluntary redundancy (the ATO relied heavily on staff volunteering for redundancy), and may have consequences for longer-term succession planning.

5.86 Changes in the length of service profiles was greatest among staff with medium years' experience. There was a disproportionate loss of staff with five to nine years' service in the ATO and staff with between two and ten years' service in DoTRD. The DPIE staff surveys indicated that between 1994 and 1996 there was a reduction in staff with three to five years' experience, coupled with a significant increase in staff with less than two years' service. Data from DPIE's personnel management information system showed that 70 per cent of retrenched staff had more than 10 years' experience.

Management of changes to the age and length of service profiles across three agencies

5.87 Overall, the ANAO found that the three agencies audited had not developed formal strategies for managing the impact of staff reductions on the age and length of service profiles.

5.88 In terms of attempting to minimise the impact of staff reductions on transitional and/or longer-term agency performance, the ANAO noted examples (Chapter 4) where agencies' developed methods of identifying potentially excess staff which took account of operational imperatives and, to some extent, job performance. It is important to emphasise that no particular category of staff should be excluded from offers of voluntary redundancy on the basis of their age, length of service or any other criteria with the exception of work performance. However, agencies need to ensure that they retain a sufficient number of efficient and effective staff to enable them to continue conducting their business throughout the period of staff reductions and beyond. All three agencies audited made it clear that, although staff could submit expressions of interest in voluntary redundancy, the final decision on who would receive a package rested with management. However, the majority of reduction exercises examined by the ANAO relied heavily on staff volunteering for redundancy, only ABARE excluded specialist staff from the staff reduction process to help ensure the retention of skills and expertise in specialist areas in which recruitment can be difficult.

5.89 While these examples went some way towards assisting the maintenance of corporate knowledge, they do not go far enough in actively managing this important resource. On-going monitoring of staff

skills and workforce demographics to identify any unintended consequences of staff reductions as well as realigning training and development activities to focus on the needs of retained staff should also be considered.

Monitoring staff skills

5.90 As outlined in Chapter 3, only the ATO and AQIS had a strategic framework in place during the staff reduction exercises examined by the ANAO. The existence of robust corporate, business and workforce plans enabled these agencies to decide on their organisational structures, work/job design and skills requirements. However, the ANAO found that monitoring the impact of staff reductions on the workforce skills profile and whether that profile was likely to satisfy future skills requirements was generally insufficient in the agencies audited.

5.91 There would be benefit in all APS agencies monitoring their skills profile on an on-going basis, especially after significant staffing changes. If undertaken in the context of longer-term corporate directions, this can help ensure that future workforce skills needs are satisfied and the skills balance in each area aligns with overall requirements. Succession planning is an integral part of the process.

Monitoring workforce demographics

5.92 The ANAO found only two of the three agencies collect information on key staffing indicators, including age and/or length of service, for internal management purposes. DoTRD's *State of the Department* report is produced quarterly and is a useful tool for monitoring changes in the workforce, although it could be further improved by collecting information on length of service. The ATO produced a *Workforce Planning Demographics* bulletin in June 1996 and March 1998, the latter providing the first opportunity to undertake a comparative analysis of changing demographics. The intention is to produce similar demographic information twice a year but only if there is sufficient demand. Although the ANAO was advised that some monitoring is undertaken in individual Business Lines, we support the more timely provision of this information for the ATO as a whole as it will be of value in developing strategies to manage any future changes in staff demographics. There was no evidence that DPIE had systems to monitor and report on changes in its staffing profile apart from a program of staff surveys conducted at two yearly intervals.

5.93 Both the DoTRD and ATO reports noted the effect of staff reductions on specific categories of staff. However, consideration of these demographic trends was absent from agencies' strategic planning and overall monitoring of staff reductions.

Training and development

5.94 Expenditure on training and development is one element of an agencies' approach to managing its corporate knowledge. The ANAO found that expenditure on staff development in the ATO and DPIE decreased as a proportion of wages and salaries expenses between 1995–96 and 1996–97 although it has since increased in both agencies. In contrast, there was a slight increase in training and development expenditure as a proportion of wages and salaries in DoTRD between 1995–96 and 1996–97 but this has since fallen to previous levels.¹⁰²

5.95 It is acknowledged that the reduction in expenditure might not necessarily indicate that the agencies are placing less emphasis on training and development. For example, continuing professional development, external study programs and tertiary education are encouraged in the ATO, and DPIE made a commitment to proceeding with a leadership course for senior staff during the staff reductions. However, the reduction in expenditure may reflect less attention to issues relating to change management and the skills needs of the organisation.

5.96 The ANAO also found that expenditure on training and development declined at a time when there were:

- considerable changes in the agencies' staffing profiles resulting in the need to retrain staff for redesigned jobs and/or changing business needs; and
- continuing appointment of staff who require some form of training.

5.97 Furthermore, one agency (DPIE) advised that training and development expenditure was reduced in an attempt to bring down running costs and minimise the number of potentially excess staff.

Conclusion

3.98 Staff aged 40 and over and those with 10 or more years of service have increased as a proportion of total APS staff since July 1989. In relation to retrenchment across the APS, the ANAO found that proportionally more staff aged 50 years and over and staff with 10 or more years of service are being retrenched. The high retrenchment rates amongst staff in these categories can be expected given that these staff members are

¹⁰² Between June 1996 and June 1997 expenditure decreased in the ATO from \$7.1 million (1 per cent of wages and salaries) to \$6 million (0.8 per cent) and in DPIE from \$4.7 million (3.7 per cent of wages and salaries) to \$3 million (1.7 per cent). Unlike the other agencies, actual expenditure increased slightly in DoTRD from \$1.4 million (2.7 per cent of wages and salaries) in 1995-96 to \$1.5 million (2.8 per cent) in 1996-97. Expenditure has since fallen to almost \$1.3 million (2.7 per cent of wages and salaries) in 1997-98. It should be noted that the 1995-96 training expenditure for DoTRD only related to the Department of Transport staff and did not include staff in the Regional Development Division.

more likely to benefit financially from the severance pay component of a voluntary redundancy package.

5.99 The ANAO found that the three agencies audited had not developed formal strategies for managing the impact of staff reductions on the age and length of service profiles and hence on corporate knowledge and the workforce skills profile. In the absence of such strategies, the aging profile, the loss of experienced staff and the larger proportion of staff with less than two years' service has the potential to affect the agencies' ability to conduct their business in the longer-term if these issues are not managed effectively. The ANAO also found that expenditure on staff development fell during the period of staff reductions when there were considerable changes in the agencies' staffing profiles.

5.100 Monitoring the impact of staff reductions on the workforce skills profile and whether that profile was likely to satisfy future skills requirements was generally insufficient in the agencies audited. And, at the time of audit, only the ATO and DoTRD collected information on key staffing indicators such as age and/or length of service for internal management purposes. The ANAO considers that there would be benefit in all APS agencies monitoring and reporting on changes in the skills profile and workforce demographics as well as training and development expenditure to identify any unintended effects of staff reductions. This information could then be fed back into any future staff reduction strategies and implementation processes to improve performance in these areas. It would also assist agencies to develop business and people management strategies and be beneficial in guiding subsequent recruitment activity thus improving agencies' succession planning capabilities.

Impact of staff reductions on workplace diversity

5.101 The diversity of those who work in the APS is one of its greatest strengths. Workplace diversity relates to gender, age, language, ethnicity, cultural background, sexual orientation, religious belief and family responsibilities.¹⁰³ Equal Employment Opportunity (EEO) groups remain a significant subset of workplace diversity and provided the focus for the ANAO's examination of the impact of staff reductions on diversity. Although there was no specific guideline to avoid a disproportionate

¹⁰³ The guidelines are the expression of Government policy in respect of Workplace Diversity programs and outline the requirements for EEO programs referred to in section 22B of the Public Service Act.

Public Service and Merit Protection Commission, (1998), *Public Service Commissioner Guidelines: Managing Workplace Diversity*, Commonwealth of Australia, p. 3.

impact on EEO groups in staff reductions, one of the good practice principles disseminated by the PSMPC was that fairness and equity were to be considered.¹⁰⁴

Impact on EEO groups APS-wide

5.102 The ANAO's analysis of data from the CRP showed that staff reductions affected EEO groups in a variety of ways. Outlined in Table 9 is the retrenchment rate for each EEO group as a proportion of permanent staff in that category. However, it should be noted that the EEO data included in the CRP is based on the willingness of individual staff members to identify as members of EEO groups. Therefore, the CRP is only as complete and accurate as employee preparedness to contribute voluntarily and the ANAO found that the percentage of staff not providing EEO information has increased since 1995–96.

5.103 Based on the data available, the ANAO found that the rate of retrenchment was:

- higher for men than women in two of the last three years, despite the representation of women in retrenchments increasing from 36 per cent in 1995–96 to 46 per cent in 1997–98. The percentage of women among permanent APS staff is continuing to rise, having reached 48 per cent in 30 June 1998, and is increasing significantly in the temporary category (Figure 21);
- higher for permanent staff nominating as Aboriginal and Torres Strait Islander in two of the last three years, and for staff reporting disabilities in all three years. As a proportion of total permanent staff, Aboriginal and Torres Strait Islanders represented 2.2 per cent at 30 June 1996, declining to 2 per cent at 30 June 1998. There has been a similar decline in the representation of staff with disabilities, from 5 to 4.5 per cent of permanent staff in the same period; and
- lower for permanent staff reporting non-English speaking backgrounds (NESB). This category of staff also shows a lower rate of overall retrenchments. The same pattern was observed for both Group 1 and Group 2 classifications.¹⁰⁵ The representation of staff from non-English speaking backgrounds has increased slightly as a proportion of total staff from 15 per cent at 30 June 1996 to 15.3 per cent at 30 June 1998.

¹⁰⁴ Public Service and Merit Protection Commission, (1996), *Management of Excess Staff Situations in the APS*, *op. cit.*, p.xiv.

¹⁰⁵ NESB Group 1 are those born overseas whose first language is not English. NESB Group 2 are those who were born overseas and their first language was not English but they arrived in Australia before turning five or they were born in Australia of NESB Group 1 parents.

5.104 Retrenchments have had a disproportionate impact on Aboriginal and Torres Strait Islander staff and amongst staff reporting disabilities with representation levels declining between 30 June 1996 and 30 June 1998. Such effects have the potential to impact negatively on the diversity of staff within the APS and its ability to capitalise on those diverse skills to enhance service delivery and the provision of policy advice. The ANAO notes that the PSMPC has made a commitment to investigate retention rates for people with disabilities during 1997–98. The purpose of this investigation is to identify any emerging trends in retention for people with disabilities and to seek to identify good practice examples from agencies that have been successful in maintaining careers for people with disabilities.¹⁰⁶

Table 9:

Rate of retrenchment in the APS by EEO group

EEO group	Retrenchment rate (%)		
	1995–96	1996–97	1997–98
Gender			
Women	1.9	7.7	7.9
Men	2.9	7.7	8.6
Aboriginal and Torres Strait Islanders			
Indigenous	2.8	8.3	8.2
Non-indigenous	2.3	7.7	8.1
Unknown	2.8	7.7	8.9
People with disabilities			
Disability	3.3	9.8	10.1
No disability	2.2	7.5	7.9
Unknown	2.8	7.7	8.8
NESB			
NESB Group 1	2.3	6.2	7.5
NESB Group 2	2.1	7.1	7.9
Non-NESB	2.3	7.9	8.1
Unknown	2.8	7.7	8.8
APS-wide retrenchment rate	2.4	7.7	8.2

Source: ANAO analysis of CRP as at 30 June 1998

Note: Retrenchment rate calculated as retrenchments in the 12 month period/total permanent staff in each EEO category at the beginning of the period (30 June).

Rates in bold type if larger than the APS total rate.

NESB Group 1 are those born overseas whose first language is not English.

NESB Group 2 are those born overseas and their first language was not English but they arrived in Australia before turning five, or they were born in Australia of NESB Group 1 parents.

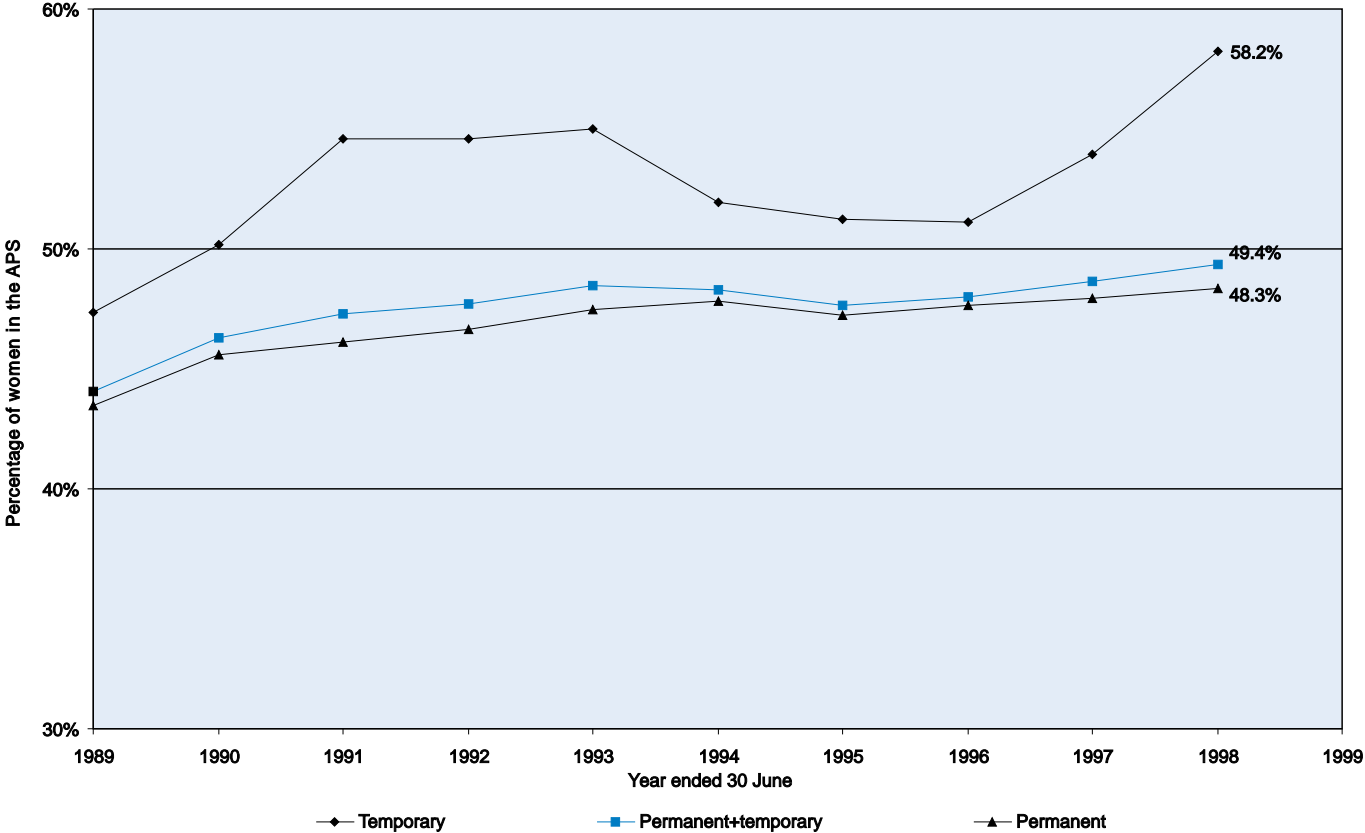
¹⁰⁶ Public Service and Merit Protection Commission, (1998), *State of the Service: Workplace Diversity Report 1997-98*, Commonwealth of Australia, p.27.

Impact on EEO groups across three agencies

5.105 The degree to which the three agencies audited emphasised the issues of fairness and equity in their staff reductions varied. The then Secretary of DPIE communicated to all staff that he was committed to a fair and equitable process. This principle was reflected in the strategies developed to manage the staff reductions, but there was no specific reference to the impact of staff reductions on EEO categories. The ANAO found that DoTRD gave the impact of staff reductions on EEO only limited attention in its strategy formulation. In comparison, in its 1996 redundancy exercise, the ATO clearly stated that the process should ensure that there was no discrimination against employees who were in EEO categories, or those who might be at risk of being discriminated against on the basis of age or permanent part-time arrangements. One of the strategies to achieve this was to give adequate information and reasonable help to staff in EEO categories, including specially tailored information sessions.

5.106 Using the information obtained from the personnel management information systems in each of the three agencies, the ANAO found that staff reductions had some impact on EEO representation in DoTRD. During the peak in retrenchment activity in 1996–97, Aboriginal and Torres Strait Islanders and staff reporting disabilities were retrenched at a higher rate than their representation of total staff. However, the ANAO found no evidence that DoTRD took action in response to the impacts on EEO representation resulting from staff reductions. In comparison, the overall retrenchment rates of EEO groups in the ATO and DPIE were generally lower than their representation of total staff.

Figure 21:
Percentage of women in the APS, 30 June 1989 to 30 June 1998



Source: ANAO analysis of CRP as at 30 June 1998

Conclusion

5.107 APS-wide there has been a higher rate of retrenchment among men, Aboriginal and Torres Strait Islander staff and those reporting disabilities—the representation of all these categories of staff has declined over the last two years. No particular category of staff should be excluded from offers of voluntary redundancy. However, it is important for all APS agencies to monitor their diversity profiles to identify any unintended consequences of staff reductions.

5.108 As with age and length of service, the ANAO found no evidence that any of the three agencies audited had developed specific strategies to monitor the impact of staff reductions on the representation of EEO groups. Again, the internal management reports produced by DoTRD and the ATO recorded changes in EEO groups and noted any impact of the staff reductions. However, the ANAO found no evidence that this information had been fed back into strategies to address the consequences of the reductions such as through external recruitment. As a result there is a risk that these agencies will not respond in a timely way to any adverse impacts on the representation of EEO groups. The ANAO considers that there would be benefit in all agencies monitoring the impact of staff reductions to identify any unintended effects on key staffing indicators, inform subsequent staff reduction strategies and to implement processes to improve performance in these areas where necessary.

Recommendation No.9

5.109 The ANAO recommends that agencies monitor their staff skills and workforce demographics to:

- highlight any unintended effects of staff reductions on the age and length of service profile and EEO groups; and
- inform the development of appropriate strategies to assist in the ongoing management of the agency's human capital, including corporate knowledge, as well as maintaining its workforce core skills, diversity profiles and succession planning capability.

Agencies' responses

PSMPC

5.110 Agreed.

AFFA

5.111 Agreed.

AGSO

5.112 Agreed.

ATO

5.113 Agreed.

DoTRS

5.114 Agreed.

Overall conclusion on adherence to the Government's guidelines

Across the APS

5.115 Responsibility for compliance with the Government's guidelines rested with the individual agencies. On the basis of available APS-wide data, the ANAO found that, consistent with the guidelines:

- overall external recruitment was reduced across the APS with appointments levels falling to their lowest level in almost 10 years at 30 June 1998;
- temporary staff numbers were controlled, decreasing by 23 per cent between 30 June 1995 and 30 June 1998; and
- the Senior Executive Service was not excluded from staff reductions.

5.116 However, the ANAO was unable to identify the extent of redeployment across the APS beyond that achieved by APSLMAP due to this information not being recorded correctly in the CRP. There was also anecdotal evidence that some ex-APS staff were being re-employed, through a third party, on contract in the APS after receiving voluntary redundancy.

5.117 In relation to the impact on corporate knowledge and workplace diversity, the ANAO found that:

- staff aged 40 and over and those with 10 or more years of service have increased as a proportion of total APS staff;
- proportionally more staff aged 50 years and over and more staff with 10 or more years of service are being retrenched; and
- there was a higher rate of retrenchment among Aboriginal and Torres Strait Islander staff and those reporting disabilities—the representation of both these categories of staff across the APS has declined over the last two years.

Across the three agencies audited

5.118 Overall, the ANAO found a high level of awareness of the Government's guidelines in each of the three agencies audited. The reduction strategies reflected the guidelines and staff were adequately informed of them.

5.119 Although not stated explicitly, cost-effectiveness is a significant driver behind the Government's guidelines. The ANAO acknowledges that strict adherence to the guidelines was not appropriate in all cases due to operational imperatives. However, greater attention to the Government's guidelines was noted in DPIE and DoTRD than in the ATO. Unlike the two smaller agencies, the use of temporary staff and the payment of higher duties allowances increased in the ATO and there was evidence that external recruitment, coupled with voluntary redundancies, was used as a means of reshaping the staff profile in one business line. Although these increases were subject to operational imperatives—for example, the ATO's Individual Non-Business line regarded the employment of temporary staff for seasonal data processing to be more efficient than assigning permanent staff to the task—they may also indicate the ATO gave less consideration to the short-term cost than the other agencies. However, the ANAO recognises that this may reflect the different factors which influenced the need to reduce staff in each agency. The principal driver for the staff reductions in the ATO was a management initiated program of restructuring and performance improvement. In contrast, the reductions in DPIE and DoTRD were in response to external factors such as a reduction in running costs, the abolition of a function and Government decisions about how services were to be delivered.

5.120 In the absence of information relating to the extent of redeployment, the ANAO was unable to determine the extent to which vacancies were filled by excess staff in any of the agencies audited. However, the re-employment of ex-APS staff through a third party on contract suggests that there is benefit in all APS agencies undertaking detailed assessments of the redeployment prospects of potentially excess staff to determine whether they have skills and expertise which would be more appropriately retained in the Service.

5.121 In addition to the areas covered in the guidelines, the ANAO considered a number of other issues which are important elements of a strategic and well managed reduction exercise. The ANAO found that graduate recruitment continued in the majority of agencies audited throughout the period of staff reductions. However, the proportion of permanent staff in the under 25 age group declined significantly across the APS as a whole in the last decade. The ANAO also found that the three agencies did not systematically monitor the impact of staff reductions on the age and length of service profiles or the representation of EEO groups. Monitoring of this kind can provide a basis for informing future strategies to deal with any unintended consequences of staff reductions on agency performance.

5.122 Monitoring progress against the Government's guidelines was not common in the agencies audited. Only DPIE established a formal monitoring process. A progress report on action taken against the staff reduction strategy was to have been provided to the Executive Board on a quarterly basis. A report was tabled in August 1996 and the ANAO was advised that the redundancy exercise was finalised the following quarter making the requirement to submit a further report unnecessary.

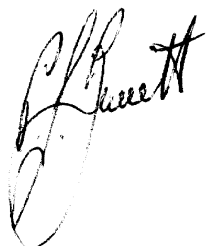
5.123 The ANAO considers that there is scope for the three agencies audited to improve their performance in relation to monitoring key staffing indicators, including the Government's guidelines. As mentioned above, strict compliance with the guidelines may not be appropriate in all cases, however, as a package they reflect a desire for the reduction process to be cost-effective. The ANAO found that the agencies tended to treat each guideline as a separate requirement and gave less attention to managing them together in a more correlated manner to achieve the cost-effectiveness goal, while continuing to ensure their capacity to deliver services into the future. While it is important to give consideration to the individual guidelines as part of the day-to-day process of managing staff reductions, the ANAO found little attention was given to considering the guidelines as a totally integrated and coherent package to ensure effective use of available resources. Collecting information in relation to key staffing indicators and the Government's guidelines would allow agencies to:

- enhance the analysis of the costs and benefits of alternatives to staff reductions; and
- achieve more effective management of their corporate knowledge, workforce skills profile and the diversity of the workforce in the context of staff reductions.

5.124 The ATO and DoTRD already collect information on key staffing indicators on an agency-wide basis for internal management purposes. Both reports noted the impact of staff reductions on specific categories of staff where relevant but there was no indication that these observations were fed back into higher-level strategic planning. There was no evidence that DPIE had systems in place to monitor and report on changes to its staffing profile apart from a program of staff surveys conducted at two yearly intervals. There is scope for all APS agencies to monitor the impact of staff reductions and to use of this information to inform subsequent staff reduction strategies and implementation processes.

5.125 All APS agencies would also benefit from identifying their existing skills profiles as part of any future staff reductions and aligning them with the agency's particular needs over a longer-time frame. The ANAO acknowledges that this can be difficult, especially when faced with the abolition of a function, but considers that it would contribute to more effective management of the staff reduction process and may lead to a reduction in APS separation and redundancy expenses. It would also be useful in guiding the agency's subsequent recruitment activity.

5.126 The ANAO notes that no particular category of staff should be excluded from offers of voluntary redundancy on the basis of their age, length of service or any other criteria with the exception of work performance. However, all APS agencies need to ensure that they retain a sufficient number of efficient and effective staff to enable them to continue conducting their business throughout the period of staff reductions and beyond. While recognising that there may be a trade-off between equity and efficiency in staff reduction exercises, it is important that management is seen to be driving the identification of potentially excess staff not, for example, merely solving the problem with less friction by conforming to the wishes of individual officers.

A handwritten signature in black ink, appearing to read 'P.J. Barrett', is positioned above the printed name and title.

Canberra ACT
29 June 1999

P.J. Barrett
Auditor-General

Appendices

Appendix 1

Agency abbreviations and audit coverage

AAA	Affirmative Action Agency
AAT	Administrative Appeals Tribunal
ABA	Australian Broadcasting Authority
ABS	Australian Bureau of Statistics
ACA	Australian Communications Authority
ACCC	Australian Competition and Consumer Commission
ACS	Australian Customs Service
AEC	Australian Electoral Commission
A-G's	Attorney-General's Department
AHL	Aboriginal Hostels Limited
AIATSIS	Australian Institute of Aboriginal and Torres Strait Islander Studies
AIR	Australian Industrial Registry
ANAO	Australian National Audit Office
ASC	Australian Securities Commission (now Australian Securities and Investment Commission)
ATO	Australian Taxation Office
ATSIC	Aboriginal and Torres Strait Islander Commission
AusAID	Australian Agency for International Development
AWM	Australian War Memorial
Centrelink	Centrelink
CO	Commonwealth Ombudsman
COMCARE	Comcare Australia
COMSUPER	ComSuper
Defence	Department of Defence
DEETYA	Department of Employment, Education, Training and Youth Affairs (now the Department of Education, Training and Youth Affairs)
DFAT	Department of Foreign Affairs and Trade (includes data for the Australian Agency for International Development)

DHA	Defence Housing Authority
DHFS	Department of Health and Family Services (now the Department of Health and Aged Care)
DIMA	Department of Immigration and Multicultural Affairs
DIST	Department of Industry, Science & Tourism (now the Department of Industry, Science & Resources)
DoCA	Department of Communications and the Arts (now the Department of Communications, Information Technology and the Arts)
DoE	Department of the Environment (includes data for the Bureau of Meteorology) (now the Department of the Environment and Heritage)
DoFA	Department of Finance and Administration
DoTRD	Department of Transport and Regional Development (now the Department of Transport and Regional Services)
DoWRSB	Department of Workplace Relations and Small Business (now the Department of Employment, Workplace Relations and Small Business)
DPIE	Department of Primary Industries and Energy (now the Department of Agriculture, Fisheries and Forestry—Australia)
DPL	Department of the Parliamentary Library
DPP	Office of the Director of Public Prosecutions
DPRS	Department of the Parliamentary Reporting Staff
DSS	Department of Social Security (now the Department of Family and Community Services)
DVA	Department of Veterans' Affairs
Fam Court	Family Court of Australia
Fed Court	Federal Court of Australia
GBRMPA	Great Barrier Reef Marine Park Authority
HREOC	Human Rights and Equal Opportunity Commission
HReps	Department of the House of Representatives
ISC	Insurance and Superannuation Commission (since abolished)
Joint House	Joint House Department

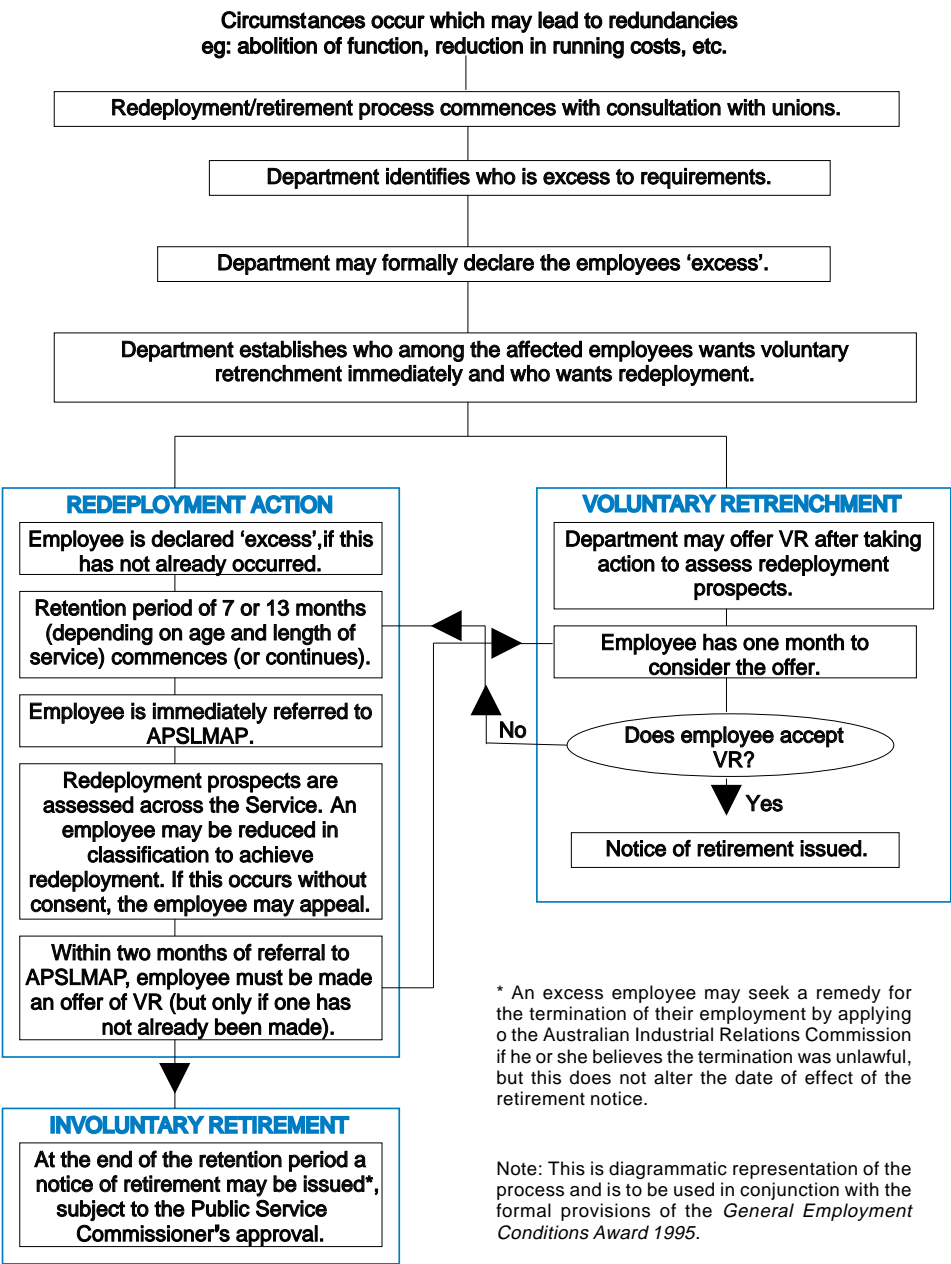
NCA	National Crime Authority
NLA	National Library of Australia
NNTT	National Native Title Tribunal
NOHSC	National Occupational Health and Safety Commission
ONA	Office of National Assessments
OPC	Office of the Parliamentary Counsel
PC	Productivity Commission
PM&C	Department of the Prime Minister and Cabinet
PSMPC	Public Service and Merit Protection Commission
RAM	Royal Australian Mint
Senate	Department of the Senate
Treasury	Department of the Treasury

The following agencies employ staff under the *Public Service Act 1922* but are not included in analysis conducted in this report due to difficulties in obtaining data.

- Australian and New Zealand Food Authority
- Australian Centre for International Agricultural Research
- Australian Institute of Family Studies
- Australian Institute of Health and Welfare
- Australian National Maritime Museum
- Australian Transactions Reports & Analysis Centre
- Employment Service Regulatory Authority
- National Capital Authority
- National Competition Council
- National Museum of Australia
- Office of Film and Literature Classification
- Office of Professional Services Review
- Office of the Inspector-General of Intelligence and Security
- Torres Strait Regional Authority

Appendix 2

Overview of the excess staff process



Source: Public Service and Merit Protection Commission

Note: This is the Service-wide redeployment and retirement framework which applied until agency-specific arrangements specifically over-rode these provisions. The majority of the staff reduction exercises examined by the ANAO were undertaken within this framework.

Appendix 3

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Index

A

Aboriginal and Torres Strait Islander
36, 165-167, 169, 170, 177, 187
age profile 36, 155, 157, 160
agency-specific agreements (Certified
Agreements and Australian
Workplace Agreements) 34, 51,
52, 70, 128, 131, 141-143, 147,
149, 151
ANAO Better Practice Guide,
Managing APS Staff Reductions
18, 19, 23, 42, 50, 54, 59, 67, 92,
116, 131, 181
APS reform agenda 17, 49
ATO- Business 2000 57, 94, 101
Auditor General of Canada 55, 104,
111, 130, 139, 157, 182
Australian Bureau of Agriculture
and Resource Economics
(ABARE) 29, 57, 96, 102, 105,
108, 110, 112-115, 130, 131, 134,
150, 161
Australian Capital Territory 17, 24,
49, 60, 61, 62
Australian Geological Survey
Organisation (AGSO) 30, 32,
37-41, 56, 57, 96, 99, 102, 104,
105, 108, 110, 113, 116, 123-131,
134, 136, 139, 141, 150, 155
Australian Public Service Labor
Market Adjustment Program
(APSLMAP) 18, 30, 33-35, 40,
52, 55, 78, 132, 142-145, 147-153,
170
Australian Quarantine Inspection
Service (AQIS) 20, 27, 28, 57, 58,
74, 76, 96, 98, 99, 102, 103, 105,
106, 108, 110, 114, 127, 129, 131,
133, 162

Australian Taxation Office (ATO)
18-20, 26-28, 31-41, 54, 56, 57,
64, 66, 69, 74-76, 83, 92, 94,
96-99, 101, 102-105, 108-111, 114,
116,-118, 120, 121, 123, 125-131,
133-136, 139-141, 145, 147, 148,
150, 151, 154, 155, 160-164, 167,
169-172, 177, 179
– Corporate Services 57, 121
– Small Business Income 57,
134, 136, 147
– Individual Non-Business 57,
117, 139, 140, 171
– Large Business and
International 57, 126
– Child Support Agency 57
– superannuation 10, 50, 57, 67,
77, 178

B

Bureau of Transport and
Communication Economics
(BTCE) 58, 97, 102, 110, 112, 114,
123

C

corporate directions 20, 27, 38, 42,
74, 92, 94, 97, 98, 113, 162
corporate knowledge 19, 21, 22, 28,
31, 36, 37, 41, 42, 51, 54, 74, 99,
114, 119, 132, 133, 155, 156, 161,
163, 164, 169, 170, 172

D

Department of Agriculture, Fisheries and Forestry - Australia (AFFA) 37-41, 55, 66, 97, 99, 104, 115, 125, 128, 131, 169, 178

Department of Primary Industry and Energy (DPIE) *see also Department of Agriculture, Fisheries and Forestry - Australia (AFFA)* 19, 20, 27, 31, 33, 36, 54-58, 64, 72, 74-76, 83, 92, 96-99, 102, 103, 105-108, 110, 113, 117, 120, 121, 123-127, 129, 130, 133-135, 139-141, 145, 147, 154, 155, 160-163, 167, 171, 172, 178
– Regional Development 19, 54, 58, 66, 9-99, 102, 110, 112, 116, 127, 130, 163

Department of Transport and Regional Development (DoTRD) *see also Department of Transport and Regional Services (DoTRS)* 19, 20, 27, 31, 33, 34, 36, 54, 56, 58, 64, 66, 74-76, 87, 92, 96-98, 102, 103, 106, 108, 110, 112, 116, 117, 120, 121, 127, 129, 130, 133-135, 139-141, 145-148, 155, 160-164, 167, 169, 171, 172, 178

Department of Transport and Regional Services (DoTRS) 38-41, 56, 99, 104, 116, 125, 129, 131, 170

E

Equal Employment Opportunities (EEO) 41, 127, 164, 165, 166, 167, 169, 172

G

graduate recruitment 32, 134, 135, 136, 160, 171

H

higher duties allowance 18, 31, 33, 53, 67, 101, 113, 132, 140, 141, 171

human capital 22, 23, 29, 41, 42, 59, 115, 156, 169

I

Implementation of staff reductions
– hands up 21, 22, 109, 114
– spill 110, 112, 113, 116, 155
– targeted 109, 110, 112, 113
– under-subscription 109, 110, 112, 114
– over-subscription 109, 111, 113, 150

inefficiency provisions 112, 116-118
– poor performers 44, 112, 116

inoperative staff 44, 120, 121

involuntary redundancy 51, 126, 146

L

length of service profile 41, 46, 155, 156, 160, 161, 164, 169, 172

M

Minister Assisting the Prime Minister for the Public Service 18, 26, 38, 53, 60, 76, 77, 79, 111, 143

monitoring and evaluation 45, 104, 129, 139, 140, 141, 145, 146, 148, 155, 161-164, 169, 172

N

natural attrition 19, 25, 36, 52, 67, 73, 75, 76, 136, 143

New South Wales 24, 55, 61, 62, 181

Non-English speaking background (NESB) 165, 166

Northern Territory 24, 61, 62

P

people with disabilities 36, 165-167, 169, 170

Public Service Act 1922 17, 49, 179
– changes to coverage under the Act 177

Public Service and Merit Protection Commission (PSMPC) 18, 26, 28, 37-41, 51, 53-55, 60, 64, 69, 72, 76-79, 91, 92, 99, 104, 111, 115, 116, 120, 125, 128, 131-133, 136, 141-145, 149, 153, 156, 165, 166, 169, 179, 183

Q

Queensland 24, 61, 62

R

Re-employment of ex-APS staff on contract in the APS 30, 34, 44, 139, 144, 148, 170, 171

retained staff 19, 29, 30, 40, 43, 44, 54, 106, 107, 111, 112, 114-116, 118, 129-131, 162

S

Senior Executive Service (SES) 18-22, 24-28, 31, 33-35, 37-39, 42-46, 50-52, 54, 56, 58, 59, 61, 62, 64, 66-74, 76-79, 81, 85, 89, 92, 94, 96, 97, 99-118, 120, 121, 123-133, 136, 139, 140, 144-146, 148-150, 152, 153, 156, 161-164, 167, 169, 171-173, 179, 180

separation and redundancy expenses 25, 35, 51, 67-69, 71, 73, 78, 173

skills profile 21, 22, 27, 29, 31, 33, 39, 42, 43, 45, 74, 99, 101-104, 114, 115, 136, 140, 162, 164, 172, 173

T

Tasmania 24, 61, 62

V

Victoria 24, 61, 62

W

wages and salaries expenses 7, 25, 45, 67, 69, 70, 71, 81, 85, 89, 139, 163

Western Australia 24, 61, 62

Women 113, 165, 166, 168

workforce planning 20, 32, 44, 74, 76, 97, 103, 117, 118, 133, 134, 135, 136, 162

Workplace Relations Act 1996 51, 141, 178

workplace diversity 132, 133, 155, 164, 166, 170, 183

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