

The Auditor-General  
Audit Report No.13 2000–2001  
Performance Audit

## **Certified Agreements in the Australian Public Service**

Australian National Audit Office

© Commonwealth  
of Australia 2000  
ISSN 1036-7632  
ISBN 0 642 44309 2

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth, available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to:

The Manager,  
Legislative Services,  
AusInfo  
GPO Box 1920  
Canberra ACT 2601  
or by email:  
[Cwealthcopyright@dofa.gov.au](mailto:Cwealthcopyright@dofa.gov.au)

Canberra ACT  
4 October 2000

Dear Madam President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in 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 *Certified Agreements in the Australian Public Service*.

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

Yours sincerely



P. J. Barrett  
Auditor-General

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

## AUDITING FOR AUSTRALIA

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

Auditor-General reports are available from Government Info Shops. Recent titles are shown at the back of this report.

For further information contact:  
**The Publications Manager**  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**

**Telephone** (02) 6203 7505  
**Fax** (02) 6203 7798  
**Email** [webmaster@anao.gov.au](mailto:webmaster@anao.gov.au)

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

### Audit Team

Amanda Brown  
Lesley Jackman  
Renée Gopal  
Mike Lewis

# Contents

---

Abbreviations	7
<b>Summary and Recommendations</b>	
Audit Summary	11
Background	11
Audit objectives and scope	12
Overall conclusions	13
Agency Responses	15
Key Findings	17
APS wage outcomes—Chapter 2	17
The link between wage increases and productivity gains—Chapter 3	18
Funding arrangements—Chapter 4	20
Reporting and accountability arrangements—Chapter 5	21
Role of central coordinating agencies—Chapter 6	23
Performance management and performance-linked remuneration—Chapter 7	24
Recommendations	26
<b>Audit Findings and Conclusions</b>	
1. Introduction	31
Background	31
Legislative and policy framework for agreement making in the APS	32
Audit objectives	37
Audit scope	38
Audit methodology	38
Other work being undertaken in relation to agreement making	40
Report outline	41
2. APS Wage Outcomes	42
Background to analysis of wage outcomes	42
Wage outcomes across the APS	43
Comparisons between the APS and the broader public and private sectors	45
Conclusion	53
3. Links Between Wage Increases and Productivity	55
Background	55
What is productivity?	56
Productivity as a factor in certified agreements	58
Were wage increases contingent on productivity achievements?	61
Better practice principles for agreement making	68
Conclusion	77

4.	<b>Funding Arrangements for Agreement Making</b>	79
	Background	79
	Compliance with the funding policy parameter	80
	Financial planning for certified agreements	80
	Funding certified agreements	81
	Sources of funding for certified agreements	83
	Financial monitoring	86
	Conclusion	87
5.	<b>Reporting and Accountability Arrangements</b>	89
	Introduction	89
	Objectives for agreement making	90
	Monitoring and reporting on outcomes	92
	Monitoring and reporting on implementation	98
	Conclusion	100
6.	<b>Roles of the Central Coordinating Agencies</b>	103
	Background	103
	Reviewing agencies' certified agreements	104
	Enhancing DEWRSB's advisory role	111
	Issues for the future	117
	Conclusion	120
7.	<b>Performance Management and Performance-linked Remuneration</b>	122
	Introduction	122
	Performance management arrangements	123
	Performance-linked remuneration	128
	Conclusion	134
	<b>Appendices</b>	
	Appendix 1: Measuring productivity in the APS	139
	Appendix 2: Agreement making arrangements in selected State and Territory governments	158
	<b>Index</b>	162
	<b>Series Titles</b>	164
	<b>Better Practice Guides</b>	165

# Abbreviations

---

AAWI	Average Annualised Wage Increase
ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
ACTPS	ACT Public Service
AFFA	Department of Agriculture, Fisheries and Forestry—Australia
AIRC	Australian Industrial Relations Commission
ANAO	Australian National Audit Office
APS	Australian Public Service
AQIS	Australian Quarantine Inspection Service
ATO	Australian Taxation Office
AWA	Australian Workplace Agreement
BSL	Business and Service Lines (in the ATO)
CMD	Chief Minister’s Department (ACT)
CSA	Child Support Agency
CSIP	Customer Service Improvement Plans
CSM	Client Service Manager (in the Department of Employment, Workplace Relations and Small Business)
Customs	Australian Customs Service
DEA	Data Envelopment Analysis
DETYA	Department of Education, Training and Youth Affairs
DEWRSB	Department of Employment, Workplace Relations and Small Business
DIR	The former Department of Industrial Relations
DOFA	Department of Finance and Administration
DOPLAR	Department of Productivity and Labour Relations (Western Australia)
EFQM	European Foundation for Quality Management
EL	Executive Level

Family Court	Family Court of Australia
FTE	Full-time Equivalent
HDA	Higher Duties Allowance
IiP	Investors in People
IRS	Internal Revenue Services (United States)
KPI	Key Pay Indicator
KRA	Key Result Area
MAB/MIAC	Management Advisory Board and its Management Improvement Advisory Committee
OECD	Organisation of Economic Cooperation and Development
PSMPC	Public Service and Merit Protection Commission
SES	Senior Executive Service
Treasury	Department of the Treasury
UK	United Kingdom
US	United States
VBA	Veterans' Benefit Association (United States)
WAD	Workplace Agreements Database

# **Summary and Recommendations**



# Audit Summary

---

## Background

1. Changing the workplace relations arrangements governing the Australian Public Service (APS) is a major element of the Government's ongoing APS reform agenda. The Government's broad workplace relations agenda was articulated in the 1996 policy document *Better Pay for Better Work* and its successor *More Jobs, Better Pay*. The *Workplace Relations Act 1996* (the Workplace Relations Act) provides the legislative framework within which the Government's workplace relations reforms are implemented for both the public and private sectors.
2. The Government is aiming to develop a culture which fosters and rewards high performance by encouraging APS agencies to negotiate wage outcomes and conditions at the workplace level that have the support of staff; are linked to improved productivity; and are tailored to achieve the organisational goals and agreed outcomes and outputs. Agreement making—the negotiation of Certified Agreements and Australian Workplace Agreements (AWAs)—is the principal tool for achieving these aims.
3. The Government's approach to agreement making in the APS is embodied in *Policy Parameters for Agreement Making in the APS* (the Policy Parameters) that were first issued in 1997. The Policy Parameters seek to further the Government's interests as the ultimate employer while continuing the process of devolving responsibility for agreement making to individual agencies. The Policy Parameters were revised in 1999, in March 2000 and again in April 2000—a common feature being that improvements in pay and conditions should be linked to productivity gains and be funded from within agency appropriations.
4. Agency Heads were required to ensure that their agreements were consistent with the Policy Parameters. However, the Department of Employment, Workplace Relations and Small Business (DEWRSB), as the key policy adviser with respect to APS agreement making, had primary responsibility for clearing agreements prior to their certification by the Australian Industrial Relations Commission (AIRC).
5. Almost all APS employees were covered by certified agreements following the first round of agreement making between May 1997 and July 1999. One hundred and one first round agreements were certified by the AIRC, covering over 98 per cent of APS staff. As at mid-September 2000, there were 47 second round agreements in place in

the APS. Some agencies have developed separate certified agreements for different categories of staff based on either classification level or work group.

## Audit objectives and scope

6. The ANAO has examined a range of issues relating to the development of certified agreements in the APS with particular emphasis on the link between improved pay and conditions and increased productivity, and the funding of agreements. The objectives of the audit were to:

- provide an overview of the range of wage outcomes included in the first round of APS certified agreements;
- identify the administrative arrangements agencies have in place to measure any improvements in productivity that were linked to pay increases;
- determine how agencies funded their certified agreements;
- review the reporting and accountability arrangements agencies have in place to monitor progress and to evaluate the outcomes of their certified agreements;
- determine the extent to which agencies complied with the employment terms and conditions outlined in their certified agreements that contributed to paying for their agreement or measuring and/or assessing improvements in productivity; and
- examine the role of central coordinating agencies in reviewing agencies' certified agreements.

7. The audit also touched on issues relating to performance management in light of the Senate Finance and Public Administration References Committee's interest in this area. The ANAO sought to provide an overview of the performance management arrangements in the APS and the extent to which they have been implemented in individual agencies. Issues relating to performance-linked remuneration are also discussed.

8. The audit examined those certified agreements covering staff employed under the *Public Service Act 1999* (the Public Service Act) that were negotiated as part of the first round, of agreement making in the APS. Towards the end of this round, several agencies certified replacement agreements which are considered part of the second round of agreement making. There is limited discussion of second round agreements in the report. The audit findings were based on a survey of all APS agencies supplemented by a detailed examination of 10 agencies. The ANAO did not examine the introduction of AWAs into the APS.

## Overall conclusions

### Wage outcomes included in first round agreements

9. The APS wage outcomes have been moderate when compared with those in the broader public and private sectors. The average annual wage increase across all first round APS certified agreements was 3.4 per cent. When adjusted for the number of employees involved, the weighted figure becomes 3.8 per cent, compared with those of the broader public and private sectors at 3.6 per cent and 4.0 per cent respectively. However, the measure used—that is, the Average Annualised Wage Increase (AAWI)—has some limitations in providing a useful basis for comparison. There is scope for DEWRSB to make other meaningful comparisons between the APS and the broader public and private sectors. The ANAO acknowledges the difficulties associated with determining a common basis for comparison within and between employment sectors but there is scope to align APS remuneration costs more closely with the private sector by APS agencies considering total remuneration rather than salary costs alone. Although internal APS comparisons remain useful, this may encourage APS agencies to look also to relevant organisations external to the APS when negotiating wage outcomes.

### Measuring improvements in productivity

10. The ANAO recognises that productivity is difficult to define and measure in largely policy and administrative environments such as the public sector, especially for agencies that primarily provide policy advice. In this context, productivity encompasses both improvements in agency outputs and outcomes as well as efficiency gains generated through cost reductions. The ANAO has looked at both aspects in the course of the audit and found that, although improvements in agency effectiveness can reflect an increase in agency productivity, they do not necessarily provide tangible savings to fund wage rises or other improvements in employment conditions.

11. Overall, agency certified agreements did identify a link between wage increases and productivity improvements, as required by the Government's Policy Parameters. However, most links were not explicit and involved a general reference only to the achievement of corporate goals, previous productivity gains and/or commitments to future potential productivity improvements. The majority of agencies did not make the payment of wage increases conditional on the actual achievement of improvements in productivity, nor did they develop and monitor outcome measures that related specifically to their particular agreement.

## **Funding certified agreements**

12. All Budget-funded APS agencies reported that they met the cost of their certified agreements from within their appropriations, as required. Although there was no requirement for certified agreements to be 'self-funded', efficiency savings and/or productivity improvements were used as a means of funding 97 per cent of APS certified agreements. However, these measures were not sufficient to meet the cost of the wage increases in one-third of agreements. The ANAO found that agencies funded their agreements from a variety of sources, with savings from previous staff reductions a major contributing factor.

## **Reporting and accountability arrangements**

13. Although APS agencies monitor and report externally on their overall business performance, there is little evidence of specific monitoring of the impact of their certified agreements. External reporting in annual reports is, on the whole, limited to reporting on the processes associated with agreement making rather than agreement making outcomes.

## **Compliance with employment terms and conditions**

14. The majority of agencies examined had implemented, or were in the process of implementing, the employment terms and conditions in their certified agreements. Delays had occurred in the original implementation schedule for approximately one-third of agencies involved in the first round of agreement making. The most common delays were in relation to the introduction of performance management arrangements and revised staff classification systems.

## **Role of central coordinating agencies**

15. The Public Service and Merit Protection Commission (PSMPC) fulfilled its responsibilities under the Policy Parameters in relation to reviewing agencies' certified agreements, as did DEWRSB with the exception of some minor issues. While their expertise and technical advice was generally valued by agencies, a lack of consistent advice from DEWRSB was an issue for a small group of agencies.

16. DEWRSB's advisory role could be further enhanced by:

- considering how it might further support agencies to identify and measure improvements in productivity, possibly through its consultancy arm. This would help prevent, or at least limit, unnecessary duplication of such effort across agencies;

- undertaking analysis of APS wage outcomes over the longer-term. Given there is a perception in the APS that those agencies unable to fund competitive wage outcomes may experience difficulty in attracting and retaining high performing staff, such an analysis could help identify trends and enable any anomalies to be investigated; and
- providing—in conjunction with DOFA—more information to assist agencies' workplace relations/human resource management areas better understand the implications of the accrual budgeting framework for funding certified agreements.

## **Performance management and performance-linked remuneration**

17. Although there were some delays, the majority of APS agencies now have performance management arrangements in place, many of which include provision for performance-linked remuneration—ie. performance-linked advancement or performance-linked bonus payments. The ANAO found that the additional increases staff are eligible to receive based on performance are significant, sometimes greater than the wage increases included in the certified agreement. Despite this, there was little evidence that the agencies audited had established systems to monitor and report on the results of performance assessments and the amount of performance-linked remuneration received by staff in their annual reports. However, it is acknowledged that the majority of agencies were yet to complete a performance assessment cycle at the time of audit.

## **Agency responses**

18. Overall, the agencies audited responded positively to the report—generally agreeing or agreeing with qualification with the four recommendations contained therein. A number of agencies indicated that the report would assist in further improving agreement making in their agencies.

19. The ANAO considers that Recommendation Nos.2 and 3 are likely to be applicable to all APS agencies and should be considered in future agreement making processes. On the whole, the agencies audited agreed with the intent of the two recommendations—acknowledging that they reflect what is 'good practice' in agreement making and are consistent with the approach to output pricing under the accrual budgeting framework. However, a number of agencies had reservations about the implementation of the recommendations. The ANAO has reflected these concerns in the relevant sections of the report.

20. The ANAO acknowledges that there are challenges associated with identifying and measuring productivity improvements, and establishing a causal link between productivity improvements and the certified agreement when monitoring the outcomes of agreement making. Nonetheless, the Government has a stated requirement that improvements in pay and conditions should be linked to productivity gains and agencies are accountable for the efficient, effective and ethical nature of their operations, including agreement making. Therefore, it is important for agencies to measure and/or assess, even at a broad level, whether the Government's policy requirements have been met.

# Key Findings

---

## APS wage outcomes—Chapter 2

21. The average wage increase across all first round APS certified agreements (May 1997 to July 1999) was 3.4 per cent, with more than half of the agreements paying average annual increases of between 3.0 and 4.0 per cent (based on the *AAWI per agreement* measure.) This narrow band of outcomes supports DEWRSB's analysis, in its Review of Agreement Making in the APS, which identified the emergence of an 'internal market' where APS agencies were adopting comparative wage setting processes to determine wage increases.

22. An analysis of wage outcomes on the basis of agency characteristics, such as size and agency function, did not establish any significant relationships between any of them. However, the average size and range of wage outcomes for policy agencies was smaller than for program management/service delivery agencies and agencies with both policy and service delivery functions.

23. The APS wage outcomes have been moderate when compared with those in the broader public and private sectors. Based on the *AAWI per employee* measure the average increase across all first round agreements was 3.8 per cent, which compares closely with 3.6 per cent across the whole of the public sector (including the APS) and 4.0 per cent for the private sector.

24. However, the *AAWI* measure can only be calculated for increases in the base rate of pay that can be easily quantified or annualised. It tends to understate the total wage increases available to APS staff by excluding increases resulting from translation to new staff classification structures, one-off bonus payments and performance-linked remuneration. Consequently, there is benefit in considering certified agreements as a total package, which includes the basic wage outcomes plus any additional remuneration benefits and improved employment conditions. For example, although the wage outcomes in the public sector are generally lower than those for private sector agreement-covered employees, DEWRSB's analysis showed that public sector agreements are more likely to provide access to a greater number of non-financial employee benefits. These benefits could include family/carer's leave; regular hours for part-time workers; home-based work and other flexible working conditions. In comparison, private sector agreements are more likely to provide for higher amounts of performance-linked remuneration and other financial benefits not provided for in the public sector.

25. Since agencies have the flexibility to tailor their wages and employment conditions, differing agency circumstances need to be considered with any comparison of wage outcomes between APS agencies. Some agencies have traded off financial employment conditions in return for wage increases; whereas other agencies have opted to retain their existing entitlements and offer smaller wage increases. It is not always easy to judge the financial impact of such measures if agencies are not also tracking the full costs of employment.

26. DEWRSB is encouraging APS agencies to look to relevant organisations in the broader public and private sectors when negotiating wage outcomes rather than promoting internal APS networking, although internal APS comparisons remain useful. The ANAO acknowledges the difficulties associated with determining a common basis for comparisons across and within employment sectors. However, there is scope to align APS remuneration costs more closely with the private sector. One approach is for APS agencies to also consider total remuneration rather than salary costs alone. This approach involves taking account of the expenses incurred directly by the employer as a result of employment, accepting that there may be some differentials arising from past decisions made by individuals such as choice of public sector superannuation funds. DEWRSB could provide useful information on which to base these comparisons by including a separate APS category in their Workplace Agreements Database. To the extent that the nature and the scope of the data will allow, this ought to make it easier to compare the wage outcomes and employment conditions in the APS with all other federal agreements.

## **The link between wage increases and productivity gains—Chapter 3**

27. Any definition of productivity in the public sector needs to go beyond narrow economic considerations of input costs to focus on outcomes as well as outputs. Issues of overall effectiveness, including quality aspects, as well as cost-oriented concepts of productivity must be taken into account. The ANAO acknowledges that the definition and measurement of productivity can be difficult in the public sector but the development of quantitative and qualitative productivity measures provides the most robust way of linking wage increases to productivity improvements in line with the Government's requirements. It is important that such productivity measures are directly linked to agency outputs and outcomes.

28. Although the focus of this audit is on certified agreements, it should be noted that agreement making is only one tool that APS agencies have in developing approaches to meet their specific strategic management and business needs; bring about productivity and efficiency gains; and achieve their outputs and outcomes cost effectively.

29. The ANAO found that, overall, agencies had developed a link in their certified agreement to some form of productivity improvement. However, the references in certified agreements were generally limited and not specified in a manner able to be measured or assessed. Most references were based on past achievements or commitments to potential productivity improvements in future. While recognising that it was not a policy requirement, the ANAO found the majority of agencies did not make the payment of wage increases conditional on the actual achievement of improvements in productivity.

30. An explicit link between pay and productivity can be demonstrated where productivity measures are established as part of the agreement making process. There would be benefit in all agencies ensuring that their certified agreements include a specific reference or link to the desired agency productivity outcomes. This approach was adopted by the ATO and Centrelink, where existing corporate goals were used to measure productivity improvements and were specified in the certified agreement. The Department of the Senate is in the process of developing productivity improvement criteria to measure improvements in service delivery. Although the criteria are not specified in the agreement, a clear link has been established.

31. The approaches adopted by these three agencies illustrate better practice in that:

- the measures against which improvements in productivity would be determined were defined and directly linked to the agency's broader corporate objectives;
- the most significant wage increases were conditional on achieving productivity gains;
- systems were established to monitor progress in meeting the outcome and output measures and to verify whether staff were eligible to receive wage increases; and
- a measure of discretion had been built into the arrangements to take account of factors outside the control of staff that may impact on their ability to meet the identified productivity measures.

**32.** The ANAO does not wish to suggest that there is a 'one size fits all' approach to linking pay and productivity as part of agreement making. Agencies should decide on the most effective approach to suit their particular circumstances. Nonetheless, the better practice principles outlined above are intended to help guide agencies as they seek to develop an approach to measuring and/or assessing productivity that is best suited to the management and culture of the particular agency and the activities it undertakes.

**33.** It is also important to ensure that the link between wage increases and productivity gains is supported by robust monitoring and reporting arrangements, including the establishment of a baseline against which to measure and/or assess future productivity improvement.

## **Funding arrangements—Chapter 4**

**34.** All Budget-funded agencies, including the 10 agencies selected for further examination, reported that they complied with the requirement in the Policy Parameter that they fund their certified agreement from within their appropriations (including the efficiency dividend and other specific Budget decisions). Six out of the 10 agencies examined were able to demonstrate the specific financial planning that underpinned their certified agreement negotiations. However, the ANAO found it difficult to ascertain how the remaining four agencies established the financial basis for their negotiations.

**35.** Although there was no requirement for certified agreements to be 'self-funded', the APS-wide survey indicated that efficiency savings and/or productivity improvements were used as a means of funding 97 per cent of APS certified agreements. For 61 per cent of these agreements, efficiency savings and/or productivity improvements were reported as sufficient to fund the agreement. However, in the case of one-third of APS agreements, the productivity gains and/or efficiencies were insufficient and, for a further five per cent of agreements, the outcome was not known. The results for the 10 agencies were broadly compatible with those of the broader APS.

**36.** The majority of agencies reported that the efficiency savings and/or productivity improvements generated by their certified agreement were sufficient to fund their wage increases. However, it was not always clear how this was achieved. The efficiency savings identified in certified agreements were relatively minor and productivity improvements were generally associated with improvements in agency effectiveness rather than generating specific savings to meet the cost of certified agreements. In addition, agencies generally did not track the savings generated by

their agreements. For example, of the 10 agencies examined, only four were able to demonstrate that they monitored the costs associated with their certified agreements.

37. The ANAO found that agencies funded their agreements from a variety of sources in addition to those generated by the agreement itself. On the basis of the evidence available, savings from previous staff reductions have been a major contributing factor, although these were not causally linked to agreement making. Given the high cost of salaries as a percentage of Agency expenses, the effect of previous staff reductions is not unexpected.

## Reporting and accountability arrangements— Chapter 5

38. The 1997 Policy Parameters required certified agreements to be supported by performance indicators that demonstrated performance improvements arising from the certified agreement. The revised parameters no longer require this. However, agencies are still expected to report on their outputs and outcomes as part of their normal accountability requirements—this is an expectation of both the Government and Parliament.

39. With regard to the APS as a whole, the DEWRSB survey reported that most respondents established certified agreement objectives that were concerned with achieving agency-specific program outputs and outcomes. There was a strong emphasis in certified agreements on tailoring employment terms and conditions to suit the needs of individual agencies—an objective that was met or partially met in the majority of cases. Although the achievement of this objective can be linked directly with the certified agreement, some agencies reported that it was difficult to distinguish the impact of the certified agreement on agency effectiveness from other factors.

40. The 10 agencies chosen for further examination had defined objectives for their agreements—these often consisted of broad principles that encapsulated the Government's objectives for agreement making. However, these objectives were not necessarily supported by a further statement in the certified agreement about how their impact would be measured. In addition, few agencies had established specific monitoring and reporting arrangements to enable agency managers and external stakeholders to measure and/or assess the extent to which the agreement had achieved its objectives. In the absence of specific outcome monitoring arrangements, greater emphasis was placed on evaluations—seven of the 10 agencies conducted evaluations of their certified agreements.

However, in the majority of cases these were process-oriented evaluations, examining issues relating to implementation of specific initiatives in the certified agreement.

41. The majority of the 10 agencies examined in detail by the ANAO used their annual report as their principal external accountability mechanism. In its *Report on 1997–98 Annual Reports: Report One*, the Senate Finance and Public Administration Legislation Committee expressed the view that agencies' 1998–99 annual reports should address the impact of certified agreements on agencies. However, the majority of the annual reports examined by the ANAO only contained details of the processes associated with the development of the agency's certified agreement and the implementation of key initiatives.

42. The ANAO acknowledges the difficulties some agencies may experience in trying to distinguish the impact of their certified agreement on agency effectiveness from other factors. However, the fact that agencies have not established criteria or monitoring arrangements to measure and/or assess the outcomes of their agreements makes it more difficult for agencies to separate the impact of their certified agreement from that of other internal and external factors, such as changes in the demand for services or changes in technology.

43. To enable agency managers to track progress against the agreement's objectives, there would be benefit in agencies providing an assessment of the impact of their certified agreement—particularly outcomes such as productivity improvements—and, where possible, the agreement's contribution to achievement of overall agency objectives. Any assessment of outcomes should be undertaken at key milestones during the life of the agreement and the results made public through, for example, the annual report, agency web-site or on request. The establishment of a productivity baseline from which to measure any productivity improvements is an important part of the assessment process.

### **Implementation of terms and conditions**

44. Ninety-five per cent of APS agencies reported that they had mechanisms to monitor implementation of the employment terms and conditions in their certified agreements. However, almost a quarter of these relied on ad hoc observation as the only monitoring mechanism, indicating that they had not necessarily developed rigorous methods of data collection.

45. The majority of agencies also reported that they had mechanisms in place to report on the implementation of their certified agreement; and that they had implemented, or were in the process of implementing, the employment terms and conditions in their certified agreements. However, delays occurred in the original implementation schedule for approximately one-third of agencies involved in the first round of agreement making. The most common delays related to the introduction of performance management arrangements and revised staff classification structures. DEWRSB is continuing to monitor progress with relevant agencies.

## **Role of central coordinating agencies—Chapter 6**

46. The PSMPC fulfilled its responsibilities under the Policy Parameters in relation to reviewing agencies' certified agreements, as did DEWRSB with some minor exceptions. Overall, the ANAO found that the expertise and technical advice of the two agencies were generally valued by agencies. However, a few minor issues in relation to the review process were identified. For example, the PSMPC expressed concern about the extent to which they were consulted by DEWRSB on those matters within the Commission's policy responsibilities (principally in relation to redeployment, reduction and retrenchment issues). The ANAO was advised that these issues have since been resolved. Similarly, analysis of the clearance procedures established under the 1997 Policy Parameters for the 10 agencies examined in detail indicated that they were not strictly observed on all occasions. For the most part, this was not a significant issue. However, it was not always apparent that DEWRSB senior management had sighted and/or signed off on DEWRSB's assessment. This may have contributed to the lack of consistent advice—a concern raised by a small group of agencies.

47. The ANAO acknowledges that the role required of central coordinating agencies in reviewing draft agreements against the Government's Policy Parameters has reduced and that agencies are becoming more experienced in agreement making at the agency level. However, DEWRSB's move to a more facilitative and advisory role places increased emphasis on the need to ensure that consistent advice is provided to agencies in relation to workplace relations matters.

48. There is scope for DEWRSB to consider how it might further support agencies identify and measure improvements in productivity, possibly through its consultancy arm. Although there is not a 'one size fits all' approach to defining and measuring productivity, the identification of areas for further productivity improvement has been raised as a significant issue for future agreement making.

49. There would also be benefit in DEWRSB undertaking analysis of APS wage outcomes over the longer-term. This will allow DEWRSB to monitor whether there are any significant relationships between wage outcomes and agency characteristics such as workforce size and/or primary function and also to compare APS wage outcomes to those in the broader public and private sectors. There is also a perception amongst APS agencies that those agencies unable to identify the productivity improvements and/or savings required to fund competitive wage outcomes in future agreements may experience difficulty in attracting and retaining high performing staff. The ANAO acknowledges that the attraction and retention of staff include broader considerations than simply increasing pay. Nonetheless, ongoing analysis of APS wage outcomes would enable trends to be identified and any anomalies to be investigated. Publication of the results of this analysis would provide Parliament and other interested parties with a better understanding of the range of wage outcomes in APS agencies and how they compare with the broader public and private sectors. It would also allow the Government to respond to any emerging trends as necessary.

50. During audit fieldwork, it became apparent that some of the workplace relations/human resource management staff responsible for drafting certified agreements were unsure of the implications of the accrual framework on funding future certified agreements. DEWRSB did not provide information on the budgetary administrative arrangements in relation to agreement making in its guidance material. The ANAO considers that there is scope for DEWRSB—in conjunction with DOFA—to provide more information on the implications of the accrual budgeting framework for funding certified agreements. DOFA advised that it supports this approach.

## **Performance management and performance-linked remuneration—Chapter 7**

51. The desire to improve the performance of agencies is critically dependent on the performance of the individuals employed in those agencies. The 1997 Policy Parameters required agencies to introduce a new APS staff classification structure coupled with effective performance management arrangements to guide salary movement through the classification pay ranges. These changes were to be implemented by the end of 1998.

52. Although there were some delays, the majority of APS agencies now have performance management arrangements and new staff classification structures in place—a result achieved in some agencies by

offering staff financial incentives to implement the new arrangements. DEWRSB reported that performance management reforms were the most significant component of first round certified agreements but noted that variations occurred between agencies on the extent to which fully functioning performance management systems, or more modest performance management initiatives, had been introduced.

53. The new performance management arrangements include provision for performance-linked remuneration, either through performance-linked advancement or performance-linked bonus payments. The ANAO found that the additional remuneration increases staff are eligible to receive based on performance are significant, sometimes greater than the wage increases included in the certified agreement.

54. The magnitude of performance-linked remuneration reinforces the importance of establishing systems to monitor and report on performance assessment and performance-linked remuneration both for internal management purposes and external accountability to Parliament. The Senate Finance and Public Administration Committee has raised issues of accountability to Parliament regarding the results of performance assessments in agencies and the amount of performance-linked remuneration received by staff. The ANAO considers that there would be benefit in DEWRSB and the PSMPC consulting with relevant Parliamentary committees with a view to developing a set of agreed measures that capture relevant information in relation to performance assessment and performance-linked remuneration in an appropriate and cost-effective manner. Agencies would then be responsible for making arrangements to meet Parliament's expectations in a suitable format.

# Recommendations

---

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

*Recommendation Nos. 1 and 4 are addressed to DEWRSB. The other recommendations are addressed to the agencies audited but should have relevance to all APS agencies and have been framed accordingly.*

*The ANAO considers that priority should be given to Recommendation Nos. 2, 3, and 4.*

## **Recommendation No.1 Para. 2.26**

To facilitate a comparison of the wage outcomes and employment conditions included in APS agreements with the broader public and private sectors, the ANAO *recommends* that DEWRSB consider establishing a specific category for APS certified agreements in the Workplace Agreements Database.

**Agency response:** DEWRSB agreed with the recommendation.

## **Recommendation No.2 Para 3.54**

To provide transparency and public accountability and to strengthen the link between certified agreements and improvements in productivity, the ANAO *recommends* that, when negotiating future certified agreements, all APS agencies:

- specify the outcomes expected from their certified agreement; and
- develop quantitative and qualitative productivity measures directly linked to efficiency savings and/or improvements in agency effectiveness.

**Agency responses:** The majority of the agencies audited agreed with the recommendation. The exceptions were the ABS, ATO, DEWRSB, DOFA and Treasury, all of which agreed with qualification. DEWRSB disagreed with the second part of the recommendation.

**Recommendation No.3**  
**Para 5.28** The ANAO *recommends* that all APS agencies establish appropriate arrangements to assess whether the objectives of their certified agreement have been met and, where possible, their contribution to the achievement of overall agency objectives. This assessment could be undertaken at key milestones during the life of the agreement and the results made public through, for example, the annual report, agency web-site or on request.

*Agency responses:* The majority of the agencies audited agreed with the recommendation. The exceptions were DEWRSB, DOFA and the Treasury, all of which agreed with qualification, and the ATO, which disagreed.

**Recommendation No.4**  
**Para 6.34** The ANAO *recommends* that DEWRSB consider how it might further support agencies identify and measure improvements in productivity as part of agreement making, possibly through its consultancy arm.

*Agency response:* DEWRSB agreed with qualification with the recommendation.



# **Audit Findings and Conclusions**



# 1. Introduction

---

## Background

**1.1** Changing the workplace relations arrangements governing the Australian Public Service (APS) is a major element of the Government's ongoing APS reform agenda. These changes, together with reforms to financial and service delivery, were initiated by the Government to build a high performing APS and make it more responsive to the needs of the government and the community.<sup>1</sup>

**1.2** Two of the principal objectives of the workplace relations reforms in the APS are to:

- align workplace relations practice in the APS more closely with that applying in the broader public and private sectors, allowing the APS to become more competitive in a contestable environment and providing greater flexibility regarding pay and employment conditions; and
- establish more direct relationships between employers and employees at enterprise or workplace levels in determining wages and employment conditions. These were previously centralised and contained in a single enterprise agreement that covered all APS agencies.

**1.3** The Government is aiming to develop a culture which fosters and rewards high performance by encouraging APS agencies to negotiate wage outcomes and conditions at the workplace level that have the support of staff, that are linked to improved productivity and that are tailored to achieve organisational goals. Agreement making—the negotiation of certified agreements and Australian Workplace Agreements (AWAs)—is the principal tool for achieving these aims.

---

<sup>1</sup> The APS covers only those staff employed under the authority of the *Public Service Act 1999* and forms slightly less than half of total Commonwealth employment and only eight per cent of total public sector employment.

## Legislative and policy framework for agreement making in the APS

1.4 The Government's broad workplace relations policy is articulated in the 1996 policy document *Better Pay for Better Work*<sup>2</sup> and its successor *More Jobs, Better Pay*<sup>3</sup> released prior to the 1998 federal election. The *Workplace Relations Act 1996* (the Workplace Relations Act) provides the legislative framework in which to implement the Government's workplace relations reforms. Ultimately the outcomes sought by the Government in relation to APS employment are similar to those sought in the broader public and private sectors—improved remuneration and working arrangements for staff linked to achieved improvements in the productive performance of each agency. In addition to the workplace reforms outlined above, the major aspects of the Government's workplace relations policy for Australian Government employment include:

- protecting freedom of association and securing appropriate rights of entry for union representatives;
- not limiting future agreement making options by making commitments in agreements which may inhibit how future agreements can be developed;
- providing, within certified agreements, for comprehensive AWAs to be made with staff; and
- developing comprehensive agreements as stand alone documents (at a minimum by displacing existing agreements, and wherever possible, awards). 'Stand alone' agreements provide for all the pay and conditions entitlements in one document thereby avoiding the complexities of having multiple instruments governing pay and employment conditions.

### **Workplace Relations Act 1996**

1.5 The fundamental shift in the workplace relations framework to a focus on individual workplaces has underpinned the devolution of responsibility for workplace relations to the agency level. As a consequence, employment conditions are primarily determined through the certified agreement making process. Agencies are able to negotiate collective agency-level certified agreements either with the unions (under section 170LJ of the Workplace Relations Act) or direct with employees

---

<sup>2</sup> Reith, P.K. The Hon., 1996, *Better Pay for Better Work: The Federal Coalition's Industrial Relations Policy*, Roneo, Canberra.

<sup>3</sup> Liberal Party of Australia, 1998, 'More Jobs, Better Pay', *The Liberal Party of Australia Coalition Policies*, [Online], Available: [http://www.liberal.org.au/ARCHIVES/election\\_98/policy/workplace.html](http://www.liberal.org.au/ARCHIVES/election_98/policy/workplace.html) [21 September 2000].

(section 170LK). Agencies can also develop AWAs with individual employees. The terms and conditions of employment are agreed at the workplace level so they can be tailored to suit the specific circumstances of the agency and its staff.

**1.6** This represented a significant change from past approaches under which the determination of standard pay, classifications and employment conditions had been centralised. While many of the controls held by central coordinating agencies began to be relaxed in the 1980s—particularly those relating to prescriptive details of workplace relations and financial arrangements—APS agencies only had limited flexibility to negotiate employment terms and conditions that met their particular circumstances and the needs of their staff. As a result of these reforms, many agencies were required to negotiate employment conditions direct with staff for the first time.

**1.7** The agreement making process is underpinned by awards that form the safety net of minimum wages and employment conditions. One of the key features of the Workplace Relations Act was the requirement for award simplification where all federal awards, including the APS Award that covers the majority of APS staff, were to be reduced to 20 ‘allowable matters’. These include staff classification levels and types of employment, rates of pay, leave conditions, hours of work, allowances and other key conditions such as redundancy pay and notice of termination. These matters form the basis of the ‘no disadvantage test’, which is aimed at ensuring that the employment terms and conditions in a certified agreement or AWA are no less favourable overall to the employees concerned than the relevant award or any other applicable legislation. The APS remains subject to Commonwealth legislation governing long service leave, maternity leave, superannuation, merit protection, rehabilitation and compensation, and occupational health and safety, amongst others.

## **APS wages policy**

**1.8** The APS wages policy supports the determination of actual wages and employment conditions as far as possible by agreement at the enterprise or workplace level, based on a foundation of minimum conditions established by those federal awards governing APS employees. The wages policy complements the Government’s workplace relations policy for Australian Government employment and specifies that wage increases should:

- generally apply prospectively rather than retrospectively; and
- be linked to productivity initiatives achieved under an Agency’s agreement.

1.9 APS agencies are expected to establish their own remuneration policies in accordance with the Government's *Policy Parameters for Agreement Making in the APS* (the Policy Parameters), with improvements in pay and employment conditions generally linked with the realisation of productivity improvements.

### **Policy parameters for agreement making in the APS**

1.10 The Government's approach to agreement making in the APS is embodied in the Policy Parameters. The Policy Parameters were developed to provide agencies with guidelines within which to implement the Government's workplace relations and wages policies. The Policy Parameters seek to promote the Government's interests as the ultimate employer while continuing the process of devolving responsibility for agreement making to agencies.

1.11 The Policy Parameters were first launched in May 1997<sup>4</sup> and required, *inter alia*, certified agreements to be:

- consistent with the Government's workplace relations policy and APS wages policy aimed at fostering more direct relations between employers and employees and with improvements in pay and conditions linked to productivity gains, thereby being consistent with maintaining low inflation;
- funded from within agency appropriations; and
- supported by accountability reporting against performance indicators that demonstrated performance improvements from their agreements (eg. in Annual Reports and reports to portfolio Ministers).

1.12 Agency Heads were required to ensure that their agreements were consistent with the Policy Parameters. The Department of Employment, Workplace Relations and Small Business (DEWRSB) had responsibility for clearing agreements prior to certification by the Australian Industrial Relations Commission (AIRC).

1.13 In August 1998, the Government announced that it would review the 1997 Policy Parameters with a view to maximising the devolution of agreement making. This involved providing greater flexibility to agencies and further devolving the responsibility for agreement making to Agency

---

<sup>4</sup> DEWRSB, 1997a, Workplace Relations Advice No.1997/29, *Policy Parameters for Agreement Making in the APS*, 23 May 1997, [Online], Available: <http://www.dewrsb.gov.au/workplaceRelations/publicSector/australianPublicService/advices/97/adv29.htm>, [21 September 2000].

Heads and responsible Ministers. The revised Policy Parameters, reduced from 12 to six matters, were released in May 1999 to provide a more streamlined set of Government agreement making requirements.<sup>5</sup>

**1.14** Since that time, the Policy Parameters have been revised on a number of occasions as follows:

- in November 1999<sup>6</sup> to reflect the changes arising from the introduction of the *Public Service Act 1999* (the Public Service Act);<sup>7</sup>
- in March 2000<sup>8</sup> to reinforce the requirement that improvements in pay and conditions were to be linked to productivity gains, and not to external factors such as changes in general taxation arrangements (for example, the introduction of the Goods and Services Tax); and
- in April 2000<sup>9</sup> to delete the previous requirement for agreements to comply with the Government's industry development policy for Australian-made cars accessed under the salary sacrifice arrangements. The revised supporting guidance issued by DEWRSB broadened the previous requirement for wage increases to be linked to productivity gains, stating that remuneration outcomes through agreements should now be linked to performance as well as to higher productivity.

---

<sup>5</sup> DEWRSB, 1999a, Workplace Relations Advice No.1999/8, *Policy Parameters for Agreement Making in the APS*, 17 May 1999, [Online], Available:

<http://www.dewrsb.gov.au/workplaceRelations/publicSector/australianPublicService/advices/99/adv8.htm>, [21 September 2000].

<sup>6</sup> DEWRSB, 1999b, Workplace Relations Advice No.1999/17, *Agreement making and the new Public Service Act*, 11 November 1999, [Online], Available:

<http://www.dewrsb.gov.au/workplaceRelations/publicSector/australianPublicService/advices/99/adv17.htm>, [21 September 2000].

<sup>7</sup> DEWRSB sought the Government's approval to amend the Policy Parameters to delete the requirement for agencies to facilitate machinery of government changes through provisions in their agreements. The new Public Service Regulations achieve the same result and agreements will not be able to override them.

<sup>8</sup> DEWRSB, 2000a, Workplace Relations Advice No.2000/02, *Agreement making, taxation policy and contingency clauses*, 9 March 2000, [Online], Available:

<http://www.dewrsb.gov.au/workplaceRelations/publicSector/australianPublicService/advices/2000/adv2.htm>, [21 September 2000].

<sup>9</sup> DEWRSB, 2000b, Workplace Relations Advice No.2000/04, *APS vehicle policy—salary sacrifice arrangements*, 18 April 2000, [Online], Available:

<http://www.dewrsb.gov.au/workplaceRelations/publicSector/australianPublicService/advices/2000/adv4.htm>, [21 September 2000].

## **Public Service Act 1999**

**1.15** The introduction of the Public Service Act in December 1999 represents the most recent step in the devolution of responsibility for setting employment terms and conditions to agency level and simplifies the relationship between the Workplace Relations Act, the public sector employment framework and common law requirements.

**1.16** The new legislation is basically principles-based with APS employment governed by APS values and a code of conduct rather than by rules and prescription. The procedural details are contained in the Public Service Regulations and the Public Service Commissioner's Directions. Agency Heads have gained all the rights, duties, responsibilities and powers of an employer (on behalf of the Commonwealth) but there are certain common principles of APS employment which agencies are expected to promote and embody. These include:

- establishing cooperative workplace relations based on consultation and communication;
- fair and flexible remuneration and conditions of employment;
- a safe and rewarding workplace; and
- freedom of association where, consistent with the Workplace Relations Act, employees are free to choose whether or not to join an industrial association of their choice.

**1.17** The specific changes arising from the introduction of the Public Service Act relate to the mechanics of agreement making. These include the power of the Agency Head to determine terms and conditions of employment; categories of employment; classification rules; termination of employment; and machinery of government changes. It is Government policy that remuneration and employment conditions for APS employees will continue to be established through agreements made under the Workplace Relations Act. As such, the changes arising from the introduction of the Public Service Act are expected to be reflected in future agreement making.<sup>10</sup>

## **First round of agreement making in the APS**

**1.18** Almost all APS employees were covered by certified agreements following the first round of agreement making. During this time, 101 agreements were certified by the AIRC—44 of these were made direct

---

<sup>10</sup> A summary of the key provisions in the Public Service Act that relate to workplace relations is provided in DEWRSB, 1999b, *op. cit.*

with employees under section 170LK and 55 were ‘stand alone’ agreements. Some agencies have developed separate certified agreements for different categories of staff based on either classification level or work group. The ‘first round’ relates to those agreements certified between May 1997 and June 1999 and which were the agencies’ first agreement negotiated under the Workplace Relations Act.

**1.19** Several agencies certified replacement agreements during this period but these are considered, for the purposes of this report, to be part of the second round of agreement making. As at mid-September 2000, there were 47 second round agreements in place in the APS. Twenty were made direct with employees and 39 were ‘stand alone’.

**1.20** The Office of the Employment Advocate advised DEWRSB that, at the end of June 2000, it has approved approximately 7240 AWAs in the APS. This includes a number of replacement agreements. A DEWRSB survey in May 2000 found that there were around 4840 current or ‘live’ AWAs in place, 3300 of which applied to staff below the Senior Executive Service (SES). This audit did not examine the introduction of AWAs into the APS.

## Audit objectives

**1.21** The objectives of the audit were to:

- provide an overview of the range of wage outcomes included in the first round of APS certified agreements;
- identify the administrative arrangements agencies have in place to measure any improvements in productivity that were linked to pay increases;
- determine how agencies funded their certified agreements;
- review the reporting and accountability arrangements agencies have in place to monitor progress and to evaluate the outcomes of their certified agreements;
- determine the extent to which agencies complied with the employment terms and conditions outlined in their certified agreements that contributed to paying for their agreement or measuring and/or assessing improvements in productivity; and
- examine the role of central coordinating agencies in reviewing agencies’ certified agreements.

## Audit scope

**1.22** The audit focused on those certified agreements covering staff employed under the Public Service Act negotiated as part of the first round of agreement making in the APS, although there is a limited discussion of the second round in the report. The Australian National Audit Office (ANAO) examined compliance with the Government's Policy Parameters relating to certified agreements in the APS with particular emphasis on the link between improved pay and conditions and increased productivity, and the funding of agreements. The ANAO examined the administrative arrangements agencies have in place to measure any increases in productivity and the reports produced to monitor progress and the achievement of outputs and outcomes. The audit did not attempt to measure whether there was an overall improvement in agency productivity or whether agencies had achieved their specified outputs and outcomes.

**1.23** The audit also touched on issues relating to performance management in light of the Senate Finance and Public Administration References Committee's interest in this area. The ANAO drew on work undertaken by DEWRSB and the Public Service and Merit Protection Commission (PSMPC), as well as a previous ANAO audit,<sup>11</sup> to provide an overview of performance management arrangements in the APS and the extent to which they have been implemented in individual agencies. Issues relating to performance-linked remuneration are also considered, including the amount of performance-linked remuneration staff were eligible to receive and the monitoring and reporting of outputs and outcomes. As discussed below, the PSMPC has made an ongoing commitment to examining whether performance management arrangements comply with the legislative and policy requirements.

**1.24** AWAs were not included in the ANAO's examination. In view of Parliamentary interest in issues relating to AWAs, it is being considered as a possible future audit topic.

## Audit methodology

**1.25** The audit criteria were based around the Government's policy framework as articulated in the *Policy Parameters for Agreement Making in the APS* promulgated initially in 1997 and revised in 1999. The Policy Parameters were revised again in March and April 2000 following completion of the audit fieldwork.

---

<sup>11</sup> ANAO, 1993, *Pay for Performance: Performance Appraisal and Pay in the Australian Public Service*, Audit Report No.16, 1993–94, Commonwealth of Australia.

**1.26** Given DEWRSB's Review of Agreement Making in the APS coincided with the ANAO's audit and both projects involved a survey of APS agencies, the ANAO cooperated with DEWRSB to minimise the administrative burden on agencies. DEWRSB distributed a survey to all APS agencies in mid-July 1999 with the ANAO's questions included in a separate attachment—this was returned directly to the ANAO for analysis. Eighty-seven agencies (96 per cent of the total sample) responded to the ANAO's questions, which was very satisfactory.

**1.27** Fieldwork was conducted in 10 agencies selected to provide a cross-section of the APS in relation to agency size and function. The agencies selected represent approximately 45 per cent of total staff employed under the Public Service Act. A number of these agencies were also selected because they had certified, or were close to certifying, second round agreements at the time of audit fieldwork and/or had conducted evaluations of the outcomes of agreement making. It was hoped that these agencies would be able to provide details on some of the lessons to be learnt from the first round of agreement making.

**1.28** The agencies selected for fieldwork work are listed below:

- Australian Bureau of Statistics (ABS);
- Australian Customs Service (Customs);
- Australian Quarantine and Inspection Service (AQIS)—Meat Inspection Division;
- Australian Taxation Office (ATO);
- Centrelink;
- Department of Education, Training and Youth Affairs (DETYA);
- Department of Finance and Administration (DOFA);
- Department of the Senate;
- Department of the Treasury (Treasury); and
- Family Court of Australia (Family Court).

**1.29** Professor John Halligan was engaged to provide advice on public sector productivity measurement in Australia and overseas. Professor Halligan was selected due to his knowledge of, and contribution to, current thinking and practice in public administration. The ANAO also contacted agencies with responsibility for workplace relations in the Australian Capital Territory (ACT), Queensland, Victoria and Western Australia in relation to their agreement making procedures.

**1.30** The audit was conducted in accordance with the ANAO Auditing Standards. Fieldwork was undertaken between August and March 2000. The total cost was \$485 000.

## Other work being undertaken in relation to agreement making

### Senate Finance and Public Administration

1.31 The Senate Finance and Public Administration References Committee is currently conducting an inquiry into APS employment matters. The Committee's terms of reference in relation to agreement making include:

- the impact of agency-based bargaining in contributing to the development of a more efficient, productive and independent APS, accountable to the Australian Parliament; and
- the extent to which performance pay is being incorporated into agreements negotiated by individual agencies, the disparity between agency agreements in performance pay and the impact of such agreements on agency performance, accountability and transparency.

### Department of Employment, Workplace Relations and Small Business

1.32 DEWRSB has overall responsibility for policy matters relating to agreement making in the APS and is currently finalising a review of the first round of agreement making in the APS. The review involved a survey of agency experiences in agreement making and a series of case studies examining the issues and features identified as the most relevant to APS agencies in future agreement making. DEWRSB distributed an interim report on the results of the survey to agencies in March 2000.<sup>12</sup> A final version of the report, incorporating the case studies, is expected to be available shortly.

1.33 The review examined the:

- processes used by agencies in making certified agreements;
- features of such agreements that have led to improved productivity and performance; and
- general approaches taken by agencies in making AWAs—the extent to which they have been implemented across the APS, the reasons for introducing them and the key features.

---

<sup>12</sup> DEWRSB, 1999c, *Review of Agreement Making in the Australian Public Service: An interim report by the Department of Employment, Workplace Relations and Small Business based on a survey conducted by Twyford consulting*, Commonwealth of Australia.

## Public Service and Merit Protection Commission

**1.34** One of the roles of the PSMPC is to assist agencies to develop their management structures and staff to achieve a stronger emphasis on facilitating high performance in the public service. A significant aspect of the current workplace relations reforms is the development of effective performance management arrangements to, amongst other things, guide salary advancement. In June 1999, the PSMPC undertook an analysis of 41 agency agreements to identify the features of the performance management schemes flowing from those agreements. A brief summary of the results is contained in the *State of the Service Report 1998–99*. The PSMPC will continue to comment on the features of performance management systems and whether they comply with the legislative and policy requirements of the Public Service Commissioner’s Directions and the *Policy Parameters for Agreement Making in the APS* in future State of the Service reports.

## Report outline

**1.35** Chapter 2 discusses wage outcomes in the APS, including comparisons with the broader public and private sectors. Chapter 3 defines productivity in the public sector and explores the extent to which agencies have established a link between pay increases and productivity improvements and their ways of doing so. Chapter 4 examines agency funding arrangements to ascertain the extent to which they complied with the requirements of the Policy Parameter that agreements be funded from within agency appropriations and the extent to which they relied on efficiency gains to fund their agreements. Chapter 5 provides an overview of the mechanisms that agencies have in place to monitor and report on the outcomes of their certified agreement and the implementation of employment terms and conditions. Chapter 6 provides an overview of the roles of DEWRSB, the PSMPC and DOFA in relation to APS agreement making. Chapter 7 examines performance management arrangements and performance-linked remuneration in APS agencies.

**1.36** Appendix 1 examines issues associated with the measurement of public sector productivity and seeks to provide assistance to agencies through the use of practical examples, including productivity improvement and measurement techniques. Appendix 2 provides an overview of workplace bargaining arrangements in selected State and Territory Governments—ACT, Queensland, Victoria and Western Australia.

## 2. APS Wage Outcomes

---

*This chapter provides a summary of the wage outcomes across the APS in the first round of agreement making and how this compares with those in the broader public and private sectors. Some of the issues to be considered when comparing wage outcomes are also examined, including other ways of comparing wage outcomes and employment conditions across employment sectors.*

### Background to analysis of wage outcomes

**2.1** Under the devolved workplace relations environment, agencies have the flexibility to tailor wages and employment conditions to suit their specific circumstances. DEWRSB set no cap on the quantum of pay increases that agencies could offer—the quantum was a matter for the parties to settle at agency level as long as it could be funded from within agency appropriations with minor supplementation.<sup>13</sup> In order to compare wage outcomes within the APS and across the broader public and private sectors, DEWRSB has developed a measure known as the Average Annualised Wage Increase (AAWI). This is used in relation to federal wage agreements only (ie. agreements negotiated under the Workplace Relations Act). There are two separate DEWRSB publications containing wage information as follows:

- *Trends in Enterprise Bargaining*—published quarterly by the Labour Market Policy Group and includes analysis of issues relating to employment conditions. The information is derived from DEWRSB's Workplace Agreements Database (WAD);<sup>14</sup> and
- *Key Pay Indicators (KPI) Online*—also published quarterly and seeks to inform public sector organisations of key indicators to assist their understanding of the wider community in which agreement making in relation to pay and conditions is occurring. This document is produced by the Workplace Reform Group and contains specific analysis and information on the wage outcomes in the APS.<sup>15</sup>

---

<sup>13</sup> Budgetary arrangements were put in place for agreement making which included indexation of salary-related running costs. These arrangements are discussed in detail in Chapter 4.

<sup>14</sup> For the first month after the release of each issue, the report is only available to subscribers. After this time, the report is freely available online: [http://www.dewrsb.gov.au/WorkplaceRelations/publications/trends In Enterprise Bargaining/default.asp](http://www.dewrsb.gov.au/WorkplaceRelations/publications/trends%20In%20Enterprise%20Bargaining/default.asp), [21 September 2000]

<sup>15</sup> Current and previous issues are available online: <http://www.dewrsb.gov.au/WorkplaceRelations/publicSector/default.asp>, [21 September 2000]

**2.2** It is important to note that there are two different AAWI measures in place. The *AAWI per agreement* provides a useful tool for comparing wage outcomes between APS certified agreements and is used by DEWRSB for this purpose. It refers to the actual wage increases included in each individual agreement but assigns equal weight to each agreement irrespective of the number of employees covered. This does not present major difficulties when making comparisons across a relatively homogeneous population such as APS agencies, all of which operate under the same workplace relations framework. However, a more sophisticated measure is required for adequately comparing pay increases in the APS with the broader private and public sectors. The *AAWI per employee* is used to calculate a single generalised wage increase across a group of employees (eg. a single APS-wide wage outcome) to provide a degree of commonality between sectors that have varying numbers of employees and that operate under different workplace relations environments.<sup>16</sup>

## Wage outcomes across the APS

**2.3** The quantum of salary increases across the APS in the first round of agreement making ranged from one per cent offered by the Australian Agency for International Development to 21 per cent included in the *AQIS Meat Program Agreement 1997*.<sup>17</sup> The average increase across all first round agreements was 3.4 per cent. More than half of all first round agreements paid an increase of between 3 and 3.9 per cent (Figure 1). All these figures have been adjusted to show the percentage increase per annum based on the *AAWI per agreement* measure.

---

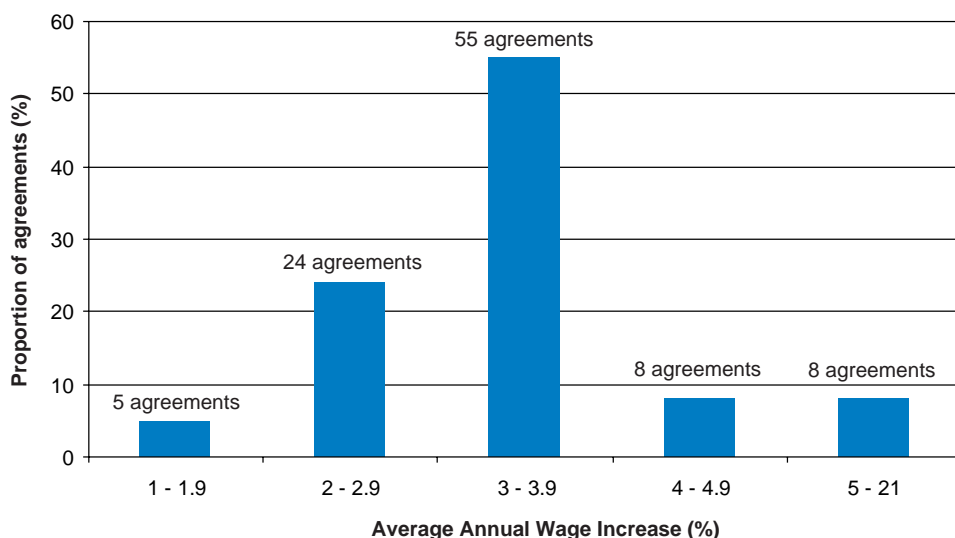
<sup>16</sup> The *AAWI per employee* is calculated by weighting the *AAWI per agreement* by the number of employees covered by the agreement.

<sup>17</sup> Two certified agreements had an *AAWI per agreement* of 0 per cent for the following reasons:

- staff covered under the Child Support Agency Executive Level 2 agreement received a pay increase while still covered by the *ATO (Executive Level 2) Agreement 1998*; and
- Australian Protective Service Interim Woomera Shiftwork Agreement included an additional allowance to be paid fortnightly and was therefore not quantifiable by the AAWI measure.

These two agreements were excluded from the analysis.

**Figure 1**  
**AAWI per agreement across APS agencies**



Source: ANAO analysis of DEWRSB data

Note: DEWRSB undertook a similar analysis to the ANAO but with a slightly different data set. Although the overall distribution is the same, the proportions in each category vary from those published in DEWRSB's Review of Agreement Making in the APS.

**2.4** As DEWRSB noted in its Review of Agreement Making in the APS, there appears to be an 'internal market' in wage outcomes operating in the APS. The similarity in wage outcomes observed across APS agencies during the first round of agreement making indicates that APS agencies adopted comparative wage setting processes to determine wage increases. Sixty per cent of respondents to DEWRSB's survey of Agreement Making in the APS stated that '*wage levels in other parts of the APS*' were a factor in determining wage increases in their agreements.<sup>18</sup>

**2.5** An analysis of wage outcomes on the basis of agency characteristics, such as size and agency function, did not establish any significant relationships between any of them.<sup>19</sup> However, as illustrated in Table 1, the average and range of wage outcomes for policy agencies were smaller than for program management/service delivery agencies

<sup>18</sup> DEWRSB, 1999c, *op. cit.*, p. 65.

<sup>19</sup> DEWRSB undertook a similar analysis, reaching the same conclusion, but based on a slightly different data set. DEWRSB more recently concluded, on the basis of a survey of APS agencies conducted in February 2000, that although there had been speculation that larger agencies with their larger budgets would be able to generate greater productivity savings and afford larger pay increases, there was 'at this stage' no relative downward trend in pay outcomes where an agency employed smaller numbers of staff. DEWRSB, 2000, *Pay Increases in APS Agencies*, —June 2000 Report (updated), p. 11.

and agencies with policy and service delivery functions. DEWRSB noted that policy agencies more frequently mentioned comparison with other agencies as a factor in determining wage outcomes than program management/service delivery agencies.<sup>20</sup> It is also interesting that no policy agencies paid an annual increase of more than four per cent. In comparison, the wage outcomes in 22 per cent of program management/service delivery agencies and 16 per cent of those agencies with both policy and service delivery functions, equalled or exceeded four per cent. This finding does not take into account any differences that might occur between agencies with regard to AWAs. Examination of AWAs was beyond the scope of this audit.

**2.6** DEWRSB's role in monitoring and reporting APS wage outcomes is discussed in more detail in Chapter 6.

## **Comparisons between the APS and the broader public and private sectors**

**2.7** In order to place the quantum of APS wage outcomes in context, the ANAO compared the *AAWI per employee* for first round APS agreements with all current agreements certified in the public and private sectors for those employees covered by federal awards. Bearing in mind certain methodological limitations outlined later in this chapter, comparisons between the APS and the other major sectors of employment indicate that the APS wage outcomes have been moderate when compared with the broader public sector, and are consistently lower than those in the private sector. Based on DEWRSB's quarterly wage trend figures (December 1997 to September 1999), the estimated *AAWI per employee* across all first round APS agreements was 3.8 per cent.<sup>21</sup> This compares closely with the 3.6 per cent across the whole of the public sector (including the APS) and 4.0 per cent for the private sector.

---

<sup>20</sup> DEWRSB, 1999c, *op. cit.*, p. 13.

<sup>21</sup> The September 1999 edition of DEWRSB's *KPI Online*, states that the *AAWI per employee* for all first round agreements was 3.7 per cent. The ANAO has used a slightly different data set.

**Table 1****Wage outcomes by agency characteristic—workforce size and primary function**

	<i>Agency characteristic</i>	<i>Proportion of agencies %</i>	<i>Average AAWI per agreement %</i>	<i>Range of AAWI per agreement %</i>
<b>Workforce size</b>	<i>Small (less than 250)</i>	46	3.3	1.6 - 5.0
	<i>Medium (250—1000)</i>	31	3.1	1.0 - 5.3
	<i>Large (more than 1000)</i>	22	3.4	1.6 - 6.7
<b>Primary function</b>	<i>Policy/ Advisory</i>	18	2.9	1.6 - 3.9
	<i>Program Management / Service Delivery</i>	40	3.3	1.8 - 5.0
	<i>Mixed (significant elements of both)</i>	42	3.3	1.0 - 6.7

Source: ANAO analysis of DEWRSB data

Note: As far as possible, agency size and primary function reflect the agency characteristics when the agreement was certified.<sup>22</sup>

For those agencies that certified more than one agreement during the first round of agreement making (ie. agencies with separate certified agreements covering different categories of staff), the agreements have been categorised according to the agency characteristic.

Analysis excludes those agencies with agreements offering pay increases (AAWI per agreement) at opposite ends of the range of APS wage outcomes ie. AQIS Meat Inspectors Agreement 1997 (21 per cent increase), the Child Support Agency (EL 2) Agreement (0 per cent) and the Australian Protective Services Interim Woomera Shift Work Agreement (0 per cent).

Some totals may not add up to 100 per cent due to rounding.

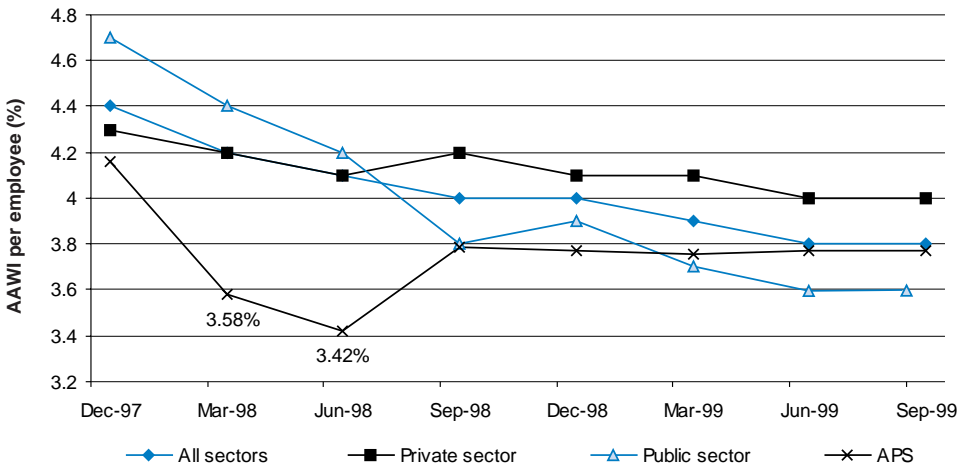
**2.8** As illustrated in Figure 2, the wage trends data shows that:

- the average wage outcomes in the private sector remained fairly constant at between 4.3 and 4.0 per cent over the period;
- in comparison, there has been a steady decrease in the percentage wage increases for the public sector as a whole, although the decline has tapered off since September 1998 with the impact of agreement making in the APS.<sup>23</sup> A detailed analysis of the factors contributing to the decline in overall public sector wage outcomes is beyond the scope of this audit; and

<sup>22</sup> Participants in DEWRSB's survey were asked to identify their primary function at the time the survey was conducted—July 1999. As a result, there are some anomalies for those agencies affected by the Administrative Arrangement Orders of October 1998 that had agreements in place before that time. However, these are unlikely to materially affect the outcome of the analysis of wage outcomes based on agency function.

<sup>23</sup> DEWRSB's analysis indicates that, at the end of June 1999, approximately one-fifth of all public sector employees covered by current agreements were in the APS and by this time, 98 per cent of all APS employees were covered.

- following a period of fluctuation between December 1997 and September 1998, the APS wage outcomes stabilised at around 3.8 per cent. The peak in the December 1997 quarter can be attributed to the substantial pay increase (21 per cent) included in the *AQIS Meat Program Agreement 1997*, which was certified during the quarter. By the September 1998 quarter, more than 85 per cent of APS staff were covered by certified agreements and the cumulative effect acted to stabilise the average wage outcomes for the remainder of the period.

**Figure 2****AAWI per employee by sector**

Source: ANAO analysis of DEWRSB data

**2.9** Although the wage outcomes in the public sector have been consistently lower than those for private sector agreement-covered employees since the end of September 1998, public sector agreements are more likely to provide access to a greater number of ‘employee benefits’ than private sector agreements. DEWRSB published a feature article in its *Trends in Enterprise Bargaining* report (June Quarter 1999) providing a comparison of agreement making in the public and private sectors. DEWRSB defined ‘employee benefits’ as those employment conditions which appear to provide significant benefits for employees, such as family/carer’s leave; regular hours for part-time workers; home-based work and other flexible working conditions; paid maternity leave; and child care provisions.<sup>24</sup> However, it should be noted that several of the benefits included in DEWRSB’s analysis are provided for in awards and/or legislation which apply to both private and public sectors—for example, paid maternity leave—and the agreements simply reflect these entitlements.

<sup>24</sup> DEWRSB, 1999d, *Trends in Enterprise Bargaining*, June Quarter 1999, Insert p. 10.

**2.10** Although no analysis was undertaken to determine how many staff actually benefited from the provisions, and the benefits were generally uncoded, DEWRSB found that 90 per cent of public sector agreements included up to eight different employee benefits. With the exception of paid maternity leave, most of these employee benefits were non-financial. The same sample of private sector agreements provided access to five or fewer non-financial benefits. However, these agreements are more likely to provide for higher amounts of performance-linked remuneration and other financial benefits not provided for in the public sector, such as profit sharing and share acquisition.

**2.11** The difference between sectors in the number of benefits received by employees demonstrates the advantage of regarding certified agreements as a total package. Nonetheless, there is value in comparing wage outcomes as they are usually the most significant element of the agreement making process.

## **Comparing wage outcomes**

**2.12** There are a number of issues that need to be considered when comparing the wage outcomes associated with agencies' certified agreements, particularly those based on the AAWI measure.

### *Limitations of comparisons based on the AAWI measure*

**2.13** The AAWI *per agreement* measure provides a means of comparing wage outcomes across certified agreements of different duration by calculating an average annual increase per agreement. However, the AAWI can only be calculated for those agreements that include *quantifiable* pay increases, that is, increases involving an average percentage increase in the base rate of pay that is consistent for all employees. As a result, the AAWI measure does not take into account those wage increases that cannot be readily quantified or annualised. This includes increases resulting from translation into a new staff classification structure, where the quantum of the increase varies depending on classification level and translation point from the previous structure, or one-off bonus payments—both of which are common elements of APS certified agreements. The AAWI measure also excludes the additional remuneration employees receive through:

- superannuation benefits, which in themselves are significant and vary across employees depending on the scheme/arrangements to which they contribute; and
- performance-linked remuneration.<sup>25</sup> The ANAO found that the

---

<sup>25</sup> Wage increases in the form of profit sharing or share acquisition are also excluded from estimates of AAWI. Although these are not features of APS certified agreements, they are important to consider when comparing APS wage outcomes to those in the broader public and private sectors.

additional wage increases staff were eligible to receive based on performance were considerable, sometimes greater than the increases in base rates of pay included in the certified agreement. This issue is discussed in detail in Chapter 7.

**2.14** The AAWI measure is also not designed to take into account the range of employment conditions, including the financial and non-financial employee benefits, included in agency's certified agreements.<sup>26</sup>

#### *Trading off employment conditions*

**2.15** Certified agreements represent a total package including pay increases as well as the various types of paid leave, allowances and other employment conditions. Since agencies have the flexibility to tailor wages and employment conditions, differing agency circumstances need to be considered during any comparison of wage outcomes between APS agencies. Some agencies have traded off some of their financial employment conditions in return for wage increases; whereas other agencies have opted to retain their existing entitlements and offer smaller increases. For example, the *AQIS Meat Program Agreement 1997* offered the largest pay increase in the first round of APS agreement making—a maximum increase of 21 per cent over 12 months.<sup>27</sup> However, a significant component of the increase involved 'rolling in' existing financial entitlements—rostered days off as well as meal and mileage allowances—into the base rate of pay. This, coupled with an increase in hours of work following translation to a new staff classification structure, accounted for approximately 13 per cent of the overall increase.

**2.16** In contrast, the ATO made a deliberate decision not to trade off employment terms and conditions for pay increases. Under the *ATO (General Employees) Agreement 1998*, APS 1 to Executive Level (EL) 1 staff were eligible to receive, at a minimum, an eight per cent increase in their base rate of pay over the life of the agreement (10 months). EL 2 staff covered under the *ATO (Executive Level 2) Agreement 1998* received a minimum of six per cent over the same timeframe (EL 2 staff are also eligible for performance-linked bonuses of between 5 and 15 per cent).

---

<sup>26</sup> DEWRSB advised that it is addressing some of the limitations of the AAWI measure by conducting research into wage outcomes across the APS using a version of the AAWI that includes lump sum annual payments such as performance-linked bonuses. The results of this research is published in *Pay Increases in APS Agencies*—June 2000 Report. DEWRSB's analysis is also discussed in paragraph 2.25.

<sup>27</sup> The *AQIS Meat Program Agreement 1997* was an essential element in the implementation of the Government's reform agenda in relation to the delivery of meat inspection services.

**2.17** The ANAO notes that it is not always easy to judge the financial impact of such measures if agencies are not also tracking their full employment costs.

### **Developing other ways of comparing wage outcomes and conditions of employment**

**2.18** In response to the emergence of the internal market in APS wage outcomes, DEWRSB is encouraging APS agencies to look to relevant organisations in the broader public and private sectors when negotiating wage increases. In its Review of Agreement Making in the APS, DEWRSB commented that:

*For the next round of agreement making, more attention could be given to comparisons of agency competitiveness with organisations or industries that are external to the APS. The promotion of benchmarking on wage outcomes across industry or competitor classes, rather than on-going promotion of APS networking, may be one way of achieving this.<sup>28</sup>*

**2.19** To facilitate this outcome, agencies need access to better measures and information to allow useful comparisons to be made between the different employment sectors; to determine the 'market rate' for particular groups of employees; and to identify appropriate benchmarking partners. Such comparisons would also enhance public accountability by enabling the Government and Parliament to have a wider range of benchmarks against which to compare the APS with other employment sectors. The ANAO acknowledges the difficulties associated with determining a common basis for comparison between the private and public sectors (as well as within sectors) but has some suggestions about how other meaningful comparisons might be achieved.

**2.20** A starting point is to align APS remuneration costs more closely with the private sector. Although internal APS comparisons remain useful, this may encourage APS agencies to look also to relevant organisations external to the APS when negotiating wage outcomes. One way of achieving this is for APS agencies to consider total remuneration rather than focusing on the salary component alone. This approach involves taking account of the expenses incurred directly by the employer as a result of employment and is current practice for SES positions. The employee's cash salary and additional remuneration received through the employer's superannuation contribution as well as other fixed benefits such as a car, spouse travel and telephone allowances are factored into

---

<sup>28</sup> DEWRSB, 1999c, *op.cit.*, p. 65.

the total cost. The ANAO considers that there would be benefit in agencies calculating the total remuneration of staff at all classification levels in a similar manner, accepting that there may be some differentials arising from past decisions made by individuals such as choice of public sector superannuation funds.

**2.21** It is important to consider both the financial and non-financial employment conditions in any comparison of wage outcomes across the different employment sectors. For example, as noted above, DEWRB's analysis showed that although wage outcomes are generally lower in the public compared with the private sector, public sector agreements are more likely to provide non-financial employee benefits. The ANAO acknowledges that there are advantages in comparing employment conditions that include financial benefits in addition to regular salary such as allowances, bonuses and performance-linked remuneration. However, while these expenses can be quantified once they have been incurred, it is not always possible to anticipate the potential liability.

**2.22** The Workplace Agreements Database (WAD) provides an indication of the range of employment conditions offered in certified agreements. The database, which is administered by DEWRB, includes details of all federal agreements in relation to wage outcomes including performance/productivity pay, bonus payments and other conditional wage increases. It also contains information on a range of employment conditions such as leave provisions, overtime, hours of work, training arrangements and flexible working conditions. Although the amount employees are eligible to receive through additional sources of remuneration and other incentives (such as 'cashing out' annual leave) are not usually quantified, the WAD identifies whether such provisions are a feature of agreements. However, any comparisons between the employment terms and conditions included in certified agreements will be constrained by the scope and nature of the material held in the WAD. The database is populated with information that is on the public record and that is quantitative rather than qualitative. Only broad indicators can be derived from the WAD, particularly in relation to conditions of employment, as the WAD cannot determine the extent to which provisions are being implemented in individual workplaces.

**2.23** Despite these limitations, the ANAO considers that there would be benefit in maximising the use of the information contained in the WAD. This would enable better comparisons to be made between the APS and the broader public and private sectors, bearing in mind that a more detailed study of individual agreements would be required before firm conclusions could be drawn. Although the database currently contains

details of the certified agreements negotiated by APS agencies, it is not possible to separate out APS-specific data. The ANAO considers that there is scope for DEWRSB to create a separate category (or special APS 'sector' in the WAD) for APS certified agreements to allow comparisons between the APS and the broader public and private sectors to be made more easily. This would not only enable better analysis of the content of agreements to be undertaken between sectors—similar to examination of 'employee benefits' outlined above—but would also allow better comparisons of wage outcomes. Detailed information on the wage outcomes included in individual APS agreements is currently only available through DEWRSB's *KPI Online* and is primarily based on the *AAWI per agreement* measure. However, as indicated above, the *AAWI per employee* is used to compare wage outcomes across all federal agreements based on information contained in the WAD.

**2.24** Publication of information on APS wage outcomes provides Parliament and other interested parties with a better understanding of the range of wage outcomes in APS agencies. It also facilitates the identification of any anomalies, and allows the Government to respond to any emerging trends as necessary.

**2.25** As mentioned above, DEWRSB produces a range of publications containing wage information. The department's most recent product, *Pay Increases in APS Agencies—June 2000 Report*, provides an overview of general pay increases in APS agencies since the introduction of agency level bargaining in May 1997.<sup>29</sup> In response to issues raised at the Secretary's APS Round Table (a discussion forum for heads of major agencies), DEWRSB undertook to provide a more detailed analysis of wage outcomes in APS agencies to take into account some of the additional increases that cannot be readily quantified or annualised. These include increases resulting from translation into a new staff classification structure or lump sum bonuses where these are paid to most staff and are ongoing (eg. annual lump sum bonus based on achieving effective performance). The data on which the conclusions in the report are based are not drawn from the WAD but from a survey of APS agencies conducted in February 2000.

---

<sup>29</sup> DEWRSB, 2000c, *Pay Increases in APS Agencies—June 2000 Report (updated)*, p. 1, [Online], Available:

<http://www.dewrsb.gov.au/workplaceRelations/publicSector/Pay%20Report%20to%20end%201999%20-%20amended.pdf>, [21 September 2000].

## Recommendation No.1

**2.26** To facilitate a comparison of the wage outcomes and employment conditions included in APS agreements with the broader public and private sectors, the ANAO *recommends* that DEWRSB consider establishing a specific category for APS certified agreements in the Workplace Agreements Database.

### *Agency responses*

**2.27** DEWRSB agreed to insert a field in the WAD to capture APS certified agreements. The Labour Market Policy Group in DEWRSB, which is responsible for the administration of the WAD, is currently examining the technical aspects of this proposal.

**2.28** Although the recommendation was not addressed to all agencies, other agencies that commented indicated that they supported the recommendation. However, the ATO cautions that the establishment of an APS specific category may simply reinforce internal APS comparisons and may not assist the APS move to comparison of its efforts with the mainstream.

## Conclusion

**2.29** The ANAO found that the average wage increase across all first round APS agreements was 3.4 per cent with more than half of the agreements paying average annual increases of between 3.0 and 3.9 per cent (based on the *AAWI per agreement* measure). This narrow band of outcomes supports DEWRSB's analysis in its Review of Agreement Making in the APS, which identified the emergence of an 'internal market' where APS agencies were adopting comparative wage setting processes to determine wage increases.

**2.30** An analysis of wage outcomes on the basis of agency characteristics, such as size and agency function, did not establish any significant relationships between any of them. However, the average and range of wage outcomes for policy agencies was smaller than for program management/service delivery agencies and agencies with both policy and service delivery functions.

**2.31** The APS wage outcomes have been moderate when compared with those in the broader public and private sectors. Based on the *AAWI per employee* measure, the average increases across all first round APS agreements was 3.8 per cent, which compares closely with the 3.6 per cent across the whole of the public sector (including the APS) and 4.0 per cent for the private sector.

**2.32** However, the AAWI measure can only be calculated for increases in the base rate of pay that can be easily quantified or annualised. It tends to understate the total wage increases that APS staff are eligible to receive by excluding increases resulting from a translation to new staff classification structure, one-off bonus payments, additional superannuation entitlements and performance-linked remuneration. Consequently, there is benefit in considering certified agreements as a total package, which includes the basic wage outcomes, the additional remuneration benefits outlined above and employment conditions. For example, although the wage outcomes in the public sector are generally lower than those for private sector agreement-covered employees, DEWRSB's analysis showed that public sector agreements are more likely to provide access to a greater number of non-financial employee benefits. In comparison, private sector agreements are more likely to provide for higher amounts of performance-linked remuneration and other financial benefits not provided for in the public sector.

**2.33** Since agencies have the flexibility to tailor their wages and employment conditions, differing agency circumstances need to be considered with any comparison of wage outcomes across APS agencies. Some agencies have traded off financial employment conditions in return for wage increases; whereas other agencies have opted to retain their existing entitlements and offer smaller wage increases. However, it is not always easy to judge the financial impact of such measures if agencies are not also tracking their full employment costs.

**2.34** DEWRSB is encouraging APS agencies to look to relevant organisations in the broader public and private sectors when negotiating wage outcomes rather than promoting internal APS networking, although internal APS comparisons remain useful. The ANAO acknowledges the difficulties associated with determining a common basis for comparisons across and within employment sectors. However, there is scope to align APS remuneration costs more closely with the private sector. One approach is for APS agencies to also consider total remuneration rather than salary costs alone. This approach involves taking account of the expenses incurred directly by the employer as a result of employment, accepting that there may be some differentials arising from past decisions made by individuals such as choice of public sector superannuation funds. DEWRSB could provide useful information on which to base these comparisons by including a separate APS category in their Workplace Agreements Database. To the extent that the nature and the scope of the data will allow, this ought to make it easier to compare the wage outcomes and employment conditions in the APS with all other federal agreements.

## 3. Links Between Wage Increases and Productivity

---

*This chapter seeks to define productivity in the public sector. It also examines the extent to which APS agencies established a link between wage increases and improvements in productivity in their certified agreements, and whether the payment of wage increases was contingent on the achievement of productivity improvements. A range of better practice principles for agreement making, based on the various approaches to linking wage increases to productivity gains examined during the audit, are also discussed.*

### Background

**3.1** As discussed earlier, the Government's 1997 *Policy Parameters for Agreement Making in the APS* stated that improvements in pay and conditions should be linked to productivity gains. This requirement remained largely unchanged in the revised Policy Parameters released in May 1999 and subsequent updates.<sup>30</sup>

**3.2** In the supporting guidance material provided to APS agencies in relation to the first round of agreement making, DEWRSB advised that the linkages between pay increases and productivity improvements should be identified in certified agreements. DEWRSB issued further guidance to agencies on agreement making in December 1998, which reiterated the earlier statement but did not make pay increases necessarily contingent on actual improvements in productivity. Agencies were advised that:

*Pay increases should generally apply prospectively and be linked to productivity initiatives achieved under an Agency's agreement. Accordingly, improvements in remuneration and/or conditions under agreements should generally be framed consistent with the realisation of productivity benefits (eg phasing, an appropriate mix of bonus or ongoing pay increases and any warranted conditionality).<sup>31</sup>*

**3.3** When DEWRSB issued revised supporting guidance in 2000, the focus on productivity was broadened to include performance.

---

<sup>30</sup> As discussed in Chapter 1 (paragraph 1.14), the Policy Parameters have been updated on several occasions since May 1999 to reflect such changes as the introduction of the new Public Service Act and the Goods and Services Tax as well as the amendments to APS salary sacrifice arrangements.

<sup>31</sup> DEWRSB, 1998a, Workplace Relations Advice No. 1998/4, *Checklist and Issues in Agreement Making in the APS—Attachment B*, 3 February 2000, [Online], Available: <http://www.dewrsb.gov.au/workplaceRelations/publicSector/australianPublicService/advices/98/adv4.htm>, [21 September 2000].

**3.4** There is another aspect of the Government's Policy Parameters, which affects any consideration of productivity improvements in the APS. Agencies were required to fund their certified agreements from within agency appropriations without recourse to either increasing prices or reducing the quality of the services delivered by the agency. While there was no requirement for agreements to be 'self-funding', productivity gains can generate tangible savings that can contribute to funding the wage increases provided for in agreements.

**3.5** Using different methodologies, the ANAO and DEWRSB have both undertaken analyses to determine the extent to which wage increases were linked to improvements in productivity in agencies' certified agreements. DEWRSB undertook a survey of all APS agencies during July 1999 as part of its Review of Agreement Making in the APS. The ANAO undertook further analysis of the survey data to determine the extent to which productivity was a factor in determining wage outcomes in certified agreements across the APS.

**3.6** The ANAO also conducted its own more detailed analysis of the wage outcomes in the 10 agencies selected for further examination as part of the audit to determine whether appropriate links were established. However, an assessment of whether there was also an improvement in agency productivity was outside the scope of the audit.

## **What is productivity?**

**3.7** Before it is possible to ascertain whether improvements in pay and conditions have been linked to productivity gains, it is necessary to define what is meant by productivity—particularly its application in a public sector environment.

**3.8** The ANAO recognises that productivity is difficult to define and measure in largely policy and administrative environments like the public sector, especially for agencies that primarily provide policy advice. Productivity, or efficiency as conventionally defined, concerns the ratio of inputs to outputs used for a particular activity. At its simplest, increasing productivity is about making a business run more efficiently by improving the ratio between the inputs needed to achieve business goals and its outputs. In the traditional economic definition of inputs and outputs, this can involve either:

- minimising the inputs used to produce a given level of outputs (cost minimisation); or
- maximising the level of outputs produced from a given number of inputs (cost efficiency).

**3.9** However, this traditional productivity concept does not translate easily into a public sector environment. It is not cognisant of a public sector that delivers a diverse range of services—most of which are multi-faceted containing quantity, quality and client service dimensions and requiring outcomes that are often in the public interest, that is, offering value for money but not necessarily at the lowest possible cost. Any definition of productivity in the public sector needs, therefore, to go beyond narrow economic definitions and focus on outcomes as well as outputs—a concept that the Government has adopted in its budget approach. Although cost-oriented concepts of productivity remain important, issues of overall effectiveness, including quality aspects, must also be taken into consideration.

**3.10** For the purposes of this audit, the ANAO has considered productivity at two levels:

- **efficiency savings**—those productivity improvements resulting from cost minimisation and/or cost efficiency strategies that generate tangible savings which can contribute to funding the wage increases provided for in agreements. Examples of efficiency savings include savings identified as part of agreement making such as administrative savings through reduced processing costs and rationalisation of employment conditions such as abolition of part-day travel allowance or revised overtime thresholds; and
- **improvements in agency effectiveness**—often less tangible aspects of performance improvement which focus on the outputs and outcomes as well as the overall effectiveness of an organisation and its staff.

**3.11** There is further coverage of issues relevant to public sector productivity in Appendices 1 and 2. Appendix 1 examines issues associated with the measurement of public sector productivity and seeks to provide some assistance to agencies through the use of practical examples, including productivity improvement and measurement techniques. Appendix 2 provides an overview of workplace bargaining arrangements in selected State and Territory Governments—ACT, Queensland, Victoria and Western Australia.

### **Agreement making is only one of the tools for achieving productivity improvements**

**3.12** Although the focus of this audit is on certified agreements, it should be noted that agreement making is only one tool that APS agencies have in developing approaches to meet their specific strategic management and business needs, bring about productivity and efficiency gains and achieve their outputs and outcomes. As DEWRSB points out, APS agencies have implemented a range of contemporary tools and

systems suited to their particular operations, business requirements and organisational culture to assist the move towards the ideal of a high performance agency. Agreement making is only one, albeit important, element in this process.

**3.13** For example, the Treasury underwent a significant structural change process during 1998–99 following wide ranging reviews of its core business and corporate services. The Treasury Management Model was implemented in December 1998 and introduced changes directed towards the clear identification of managerial authority and accountability; a clear understanding by all staff of their roles and responsibilities; the creation of a flatter structure; devolved decision making; and improved planning processes. The changes to staff management processes are intended to:

- improve individual performance;<sup>32</sup>
- support the Treasury's commitment to excellence in the provision of public policy advice and other services; and
- promote job satisfaction and a better work/life balance for staff.

## Productivity as a factor in certified agreements

### DEWRBSB's analysis of the APS as a whole

**3.14** As part of DEWRBSB's survey of Agreement Making in the APS, agencies were asked to identify the factors that determined the wage outcomes included in their certified agreements. The DEWRBSB analysis made a distinction between initial and ongoing pay rises. Although wage levels offered in other agencies and internal budgets were significant factors, as illustrated in Figure 3, '*productivity increases achieved*' was stated by more than 40 per cent of respondents to the DEWRBSB survey as being a factor in the determination of initial wage increases.<sup>33</sup>

**3.15** With regard to ongoing wage increases, DEWRBSB found that 73 per cent of respondents stated that these would be paid automatically, that is, that productivity or other achievements did not appear to be directly related to the payment of these increases.<sup>34</sup>

---

<sup>32</sup> The structural change had strong links to the development of the Treasury's performance management system which, although linked to the second certified agreement, was not formally part of the agreement.

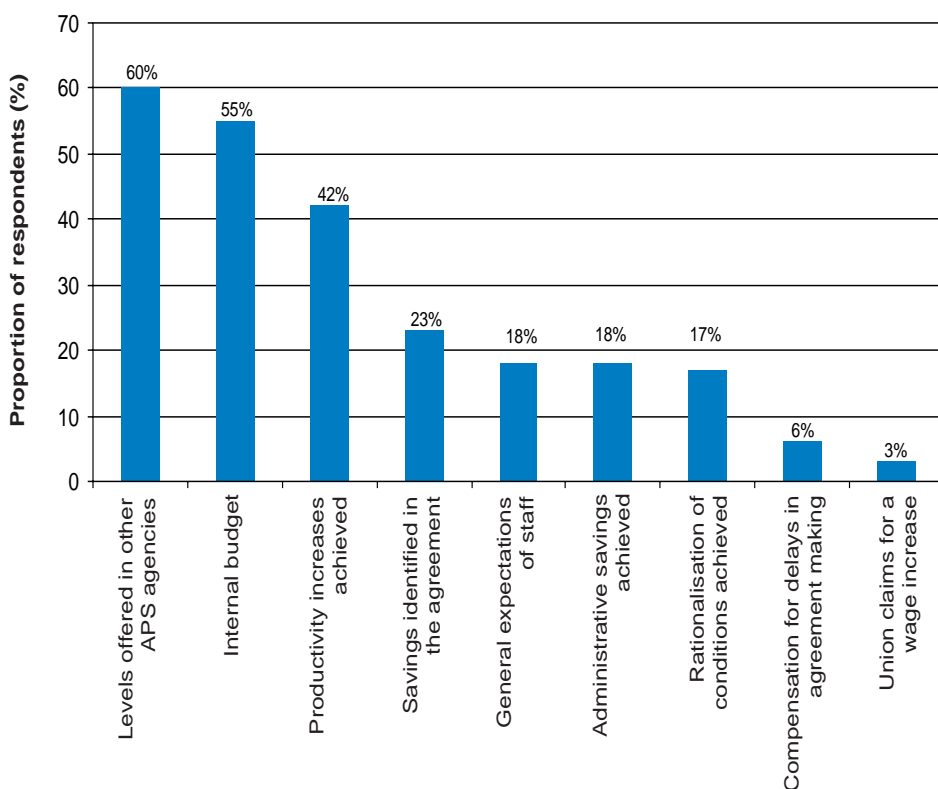
<sup>33</sup> DEWRBSB, 1999c, *op. cit.*, p. 13. DEWRBSB did not define productivity for the purposes of their review although the consultants who conducted the APS-wide survey and subsequent analysis on behalf of the department advised the ANAO that they had in mind changes in work practices such as those arising from business process re-engineering.

<sup>34</sup> *Ibid.* This survey question received a four per cent nil return.

**3.16** Many respondents to DEWRSB's survey of agreement making indicated that, although automatic wage increases were not directly linked to the productivity measures, the implementation of performance management arrangements warranted ongoing wage increases on the basis that improved individual productivity was anticipated from such reforms.<sup>35</sup> However, the emphasis on automatic payments prompted DEWRSB to conclude that stronger links should be developed between wage levels and productivity achievement.<sup>36</sup>

**Figure 3**

**Factors determining initial wage increases in APS agencies**



Source: DEWRSB's Review of Agreement Making in the APS.

Note: Agencies often identified more than one factor as contributing to the determination of their initial wage increases.

<sup>35</sup> *Ibid.*, p. 14.

<sup>36</sup> *Ibid.*, p. 65.

### **ANAO's analysis of the APS as a whole**

**3.17** As mentioned, the ANAO's broad definition of productivity includes efficiency savings ie. savings identified in the agreement, administrative savings achieved, and rationalisation of conditions—as a form of productivity improvement. On this basis, productivity seemed to be a more significant factor in determining initial wage increases than indicated by the DEWRSB analysis.

**3.18** Using the ANAO definition, productivity improvement becomes the most frequently stated factor in the determination of APS wage increases. Sixty-three per cent of agencies surveyed reported that the various forms of productivity improvement were a factor in determining their initial pay rises, with nearly half these agencies reporting the use of more than one productivity measure. These figures reinforce DEWRSB's findings on the importance of productivity as a factor in determining agency wage increases.

### **ANAO's analysis of 10 APS agencies**

**3.19** The findings for the 10 agencies chosen for further examination were broadly consistent with those for the APS as a whole. However, while the link between pay and productivity was stated in agreements, it was not always specified in a manner able to be measured. Most references to productivity improvement were based on past achievements or commitments to potential improvements in future. The ANAO also found that few agreements were clear as to what productivity outcomes were expected.

**3.20** It is interesting to note that the productivity improvements specified in the agreements examined relate almost exclusively to improvements in agency effectiveness. However, there is some mention of cost efficiency in the agreements certified by the ATO, Centrelink, DETYA and the Treasury. For example, DETYA based part of its 1.5 per cent wage increase (May 1999) on savings resulting from streamlining administrative processes and some rationalisation of conditions such as overtime, higher duties allowance and travelling allowance.

## Were wage increases contingent on productivity achievements?

**3.21** Whilst acknowledging that, under the Government's Policy Parameters wage increases were not required to be conditional on the delivery of productivity improvements, the ANAO was interested in the extent to which the payment of wage increases was contingent on the achievement of the productivity improvements specified in certified agreements or whether the increases were paid automatically. The decision to make wage increases conditional on the fulfilment of certain pre-conditions is one for agreement between management and employees. However, it is important to establish a strong link between wage increases and productivity improvements. Making wage increases conditional on the achievement of productivity improvements is one way of achieving this.

### Ten APS agencies

**3.22** In an exercise separate from DEWRSB's survey, the ANAO analysed the information contained in the certified agreements negotiated by the 10 agencies selected for more detailed examination as part of the audit. The ANAO's analysis differs from DEWRSB's approach in that it:

- uses a different system to categorise the way in which wage outcomes were determined; and
- is based on an analysis of each of the wage increases and/or sign-on bonus payments included in agency agreements.<sup>37</sup>

**3.23** The agencies examined usually made provision for several increases in the base rate of pay over the life of their agreements. The ANAO's analysis excluded the additional increases staff may be eligible to receive based on performance. As discussed later in this report, the ANAO found that the magnitude of performance-linked remuneration is significant, sometimes greater than the wage increases included in certified agreements. Issues relating to performance management and performance-based remuneration are discussed in Chapter 7.

---

<sup>37</sup> For the purposes of this analysis wage increase and bonus payments are collectively referred to as wage increases.

**3.24** The ANAO examined 14 first and second round agreements.<sup>38</sup> The certified agreements negotiated by AQIS (Meat Inspection Division) were excluded from the analysis because they were an integral part of a much broader reform agenda. Each of the wage increases in the remaining nine agencies was examined to determine whether it was paid on an automatic, semi-automatic or conditional basis according to the following criteria:

- automatic—wage increases that are not linked to the fulfilment of any pre-conditions;
- semi-automatic—wage increases that are not contingent on fulfilling any pre-conditions and which are often paid ‘in recognition’ of previous or anticipated achievements; and
- conditional—wage increases that have clearly defined pre-conditions attached which must be fulfilled before the increase can be paid.

**3.25** Using this approach, the ANAO found that only 26 per cent of the 42 wage increases contained in the agreements examined were paid on a conditional basis. Fifty-five per cent were semi-automatic and the remaining 19 per cent were automatic. These figures are consistent with the findings of DEWRB’s review that 73 per cent of wage increases were paid on an automatic basis.

**3.26** The ANAO found that agencies would generally make the first of a series of wage rises automatic or (most often) semi-automatic. As a result of the Government’s workplace relations reforms, many agencies were required to negotiate employment conditions direct with staff for the first time and automatic or semi-automatic wage increases may have provided a means of gaining greater employee acceptance for the certified agreement. Agencies generally reserved the more sensitive conditional wage increases for later in the life of the agreement. Table 2 outlines the different approaches adopted by the agencies examined by the ANAO based on the information contained in their certified agreements.

---

<sup>38</sup> A total of 42 wage increases (averaging three per agreement). Those agencies selected for examination that had certified second round agreements included Centrelink, Customs, the Department of the Senate and the .

**Table 2****The type of wage increases as defined in agencies' certified agreements**

<b>Agency agreement</b>	<b>Type of wage increase</b>		
	<b>Automatic</b>	<b>Semi-automatic</b>	<b>Conditional</b>
<i>Australian Bureau of Statistics Certified Agreement 1998–2000</i>		✓	✓
<i>Australian Customs Service (Customs Lawyers) Certified Agreement 1998 (Senior Officers) Certified Agreement 1998 (Customs Levels 1 to 3) Certified Agreement 1998 Certified Agreement 1999</i>	✓ ✓ ✓	✓	
<i>Australian Taxation Office (Executive Level 2) Agreement 1998 (General Employees) Agreement 1998</i>	✓		✓
<i>Centrelink Development Agreement 1997–1998 Development Agreement 1999–2002</i>		✓ ✓	✓ ✓
<i>1998 DEETYA Certified Agreement</i>	✓	✓	
<i>Department of Finance and Administration Certified Agreement 1997–1999</i>	✓		
<i>Department of the Senate Certified Agreement 1998–1999 Certified Agreement 1999–2001</i>	✓		✓ ✓
<i>Department of the Certified Agreement 1998 Certified Agreement 1999–2002</i>		✓ ✓	
<i>Family Court of Australia Certified Agreement 1999–2000</i>		✓	✓

Source: ANAO analysis of 10 agencies' certified agreements.

**Automatic wage increases**

**3.27** Based on the information included in their certified agreements, five of the 10 agencies chosen for further examination made provision for automatic wage increases. Two of these, DETYA and the Department of the Senate in its first certified agreement, combined one or more initial automatic increases with others linked to the achievement of productivity gains. This reinforces the point that those increases not explicitly linked to the achievement of any pre-conditions may have provided an incentive for staff to support the agreement.

**3.28** Staff covered under agreements in the ATO (EL 2 employees), DOFA and Customs (1998 agreements) received a succession of automatic wage increases. Although not specified in their agreements, the ANAO was advised that the wage increases were paid in recognition of a commitment by staff to implement initiatives included in the agreements aimed at improving productivity.

### *Semi-automatic wage increases*

**3.29** Of the wage increases examined by the ANAO, most were semi-automatic. Table 3 illustrates how six agencies made specific reference in their agreements to semi-automatic increases that, although not contingent on fulfilling any pre-conditions, were linked in some way to productivity improvement. The wage increases were paid 'in recognition' of previous or anticipated productivity achievements and/or staff commitment to the implementation of potential productivity improvement and measurement systems such as performance management arrangements, revised staff classification structures and/or customer service improvement plans (CSIPs). The ABS was one of a number of agencies where those staff rated as unsatisfactory or underperforming were not eligible to receive the wage increases included in the certified agreement.

**Table 3**

#### **Details of semi-automatic wage increases**

<i><b>Wage outcome</b></i>	<i><b>Past recognition/commitment</b></i>
<b>Australian Bureau of Statistics Certified Agreement 1998–2000</b>	
2% wage increase (June 1998), 1.25% wage increase EL 2 2% APS 1–EL 1 (July 1998)	In recognition of the contribution of ABS employees to improved productivity.
2% bonus (November 1998)	In recognition of staff contribution to improved productivity achieved during 1997–1998.
1.5% wage increase (July 1999 & 2000)	In recognition of the contribution of ABS employees to improved productivity.
<b>Australian Customs Service Certified Agreement 1999</b>	
4% wage increase (June 1999) 2.5% wage increase (1 January 2000) 2.5% wage increase (1 January 2001)	Although not specified in the agreement, the wage increases were paid in recognition of the introduction of a performance based staff classification structure.
<b>Centrelink Development Agreement 1997–1998</b>	
1.5% wage increase (August 1997)	In recognition of past savings achieved and general changes that occurred as part of the establishment of Centrelink.
\$300 bonus (November 1997)	In recognition of staff commitment to develop Customer Service Improvement Plans (CSIPs) by the end of 1997.

<i><b>Wage outcome</b></i>	<i><b>Past recognition/commitment</b></i>
<b>Centrelink Development Agreement 1999–2002</b>	
1.5% wage increase (July 1999)	In recognition of productivities achieved since November 1998 and as a result of initiatives included in the 1999–2002 Certified Agreement such as the new staff classification system and the performance management framework.
1% wage increase (July 1999)	In recognition that the average balanced scorecard result for the period November 1998 to March 1999 for the performance measures specified in the agreement exceeded 1.0.
<b>1998 DEETYA Certified Agreement</b>	
2% bonus (July 1998)	In recognition of the department and employees' commitment to working together to achieve shared goals and outcomes
2% wage increase (September 1998)	To recognise implementation of Phase 1 of the Performance Management System and new staff classification system by September 1998.
1.5% wage increase (May 1999)	To recognise achievement of productivity gains from improved personnel administration and implementation of other initiatives in the Certified Agreement.
<b>Department of the Certified Agreement 1998</b>	
3% wage increase (April 1998)	In recognition of the productivity improvements and cost savings expected to result from the agreement.
2% bonus APS staff 1.5% bonus EL staff (April 1998)	In recognition of prior productivity increases.
\$1320 bonus EL 1 staff \$2250 bonus EL 2 staff (April 1998)	In recognition of performance prior to certification and the fact that there was a pool of unused funds from the previous Senior Officers performance appraisal and pay scheme.
<b>Department of the Certified Agreement 1999–2002</b>	
3% wage increase (September 1999)	In recognition of the productivity improvements and cost savings arising out of the Management Model.
2% wage increase (September 2000 & 2001)	In recognition of continuing productivity improvements.
<b>Family Court of Australia Certified Agreement 1999–2000</b>	
3.5% wage increase (April 1999)	In recognition of the ongoing commitment demonstrated by the staff to continuous improvement, including measures agreed to in the agreement and productivity gains over recent years.
\$300 bonus (April 1999)	In recognition of progress towards the development of CSIPs.
2% wage increase (July 1999)	In recognition of the development of a new staff classification structure; implementation of the Performance Management Scheme; development of CSIPs and having made progress towards implementing the Plans.

Source: ANAO analysis of agencies' certified agreements.

**3.30** Although a clear link has not been established in the text of the *Australian Customs Service Certified Agreement 1999*, Customs advised that the pay rises were agreed on the basis that the new staff classification structure and performance management framework were put in place.

#### *Conditional wage increases*

**3.31** As illustrated in Table 4, four agencies made the wage outcomes included in their certified agreements conditional on fulfilling certain pre-conditions. These agencies—the ABS, ATO, Centrelink and the Department of the Senate—included reference to outcome measures in their certified agreements that demonstrated the achievement of productivity improvements, for example, staff members achieving satisfactory performance assessment ratings and/or meeting specific productivity measures linked to the agency’s corporate objectives. Staff were not eligible to receive these wage increases until the pre-conditions had been fulfilled.

**3.32** Three of these agencies—the ATO, Centrelink and the Department of the Senate—linked the majority of their wage increases to the achievement of corporate objectives. To facilitate this outcome, clearly defined performance measures against which to assess whether improvements in productivity have occurred have been, or are currently being, developed. Now that the concept of conditional pay increases based on measurable indicators has been established in Centrelink and the Department of the Senate, it has flowed through to their second certified agreements. The ATO advised that it would continue to use the achievement of corporate outcomes as a means of determining wage increases in future agreement making.

**3.33** The majority of the staff in the agencies listed in Table 4 received the conditional wage increases to which they were eligible during 1998 and 1999. The major exception was ATO staff covered by the *ATO (General Employees) Agreement 1998*. Staff could have received part of a four per cent pay increase, due in July 1999, earlier and had the potential to receive a higher increase had a new ATO staff classification and remuneration system been in operation by 31 December 1998. However, this did not occur. The systems the ATO has established to verify whether staff are eligible to receive the wage increases are discussed later in this chapter.

**Table 4****Details of conditional wage increases**

<i><b>Wage outcome</b></i>	<i><b>Pre-condition</b></i>
<b>ATO (General Employees) Agreement 1998</b>	
4% wage increase (August 1998)	Achievement of 1997–1998 corporate outcomes at reduced cost (for August 1998 increase) and 1998–1999 corporate outcomes at reduced cost (for July 1999 increase).
4% wage increase (July 1999)	
<b>ABS Certified Agreement 1998–2000</b>	
1% bonus (January 1999)	Development of a performance agreement (EL 1 and 2 level staff) or a trial performance agreement (all other staff) and the Performance Management Scheme being trialed effectively.
<b>Centrelink Development Agreement 1997–1998</b>	
2% wage increase (June 1998)	Meeting performance outcomes and development of Customer Service Improvement Plans.
<b>Centrelink Development Agreement 1999–2002</b>	
2.5% wage increase (July 2000)	Achieving balanced scorecard results.
4% wage increase (July 2001)	
<b>Department of the Senate Certified Agreement 1998–1999</b>	
2% wage increase (November 1998)	Conditional on successful implementation of Performance Communication Scheme and individual staff members having achieved a rating of 'effective or better'.
<b>Department of the Senate Certified Agreement 1999–2001</b>	
3% wage increase (May 2000)	Conditional on individual staff members having achieved a rating of 'effective or better' and the achievement of the performance improvement agreement set in November 1999 (for May 2000 increase) and April and November 2000 (for May 2001 increase)
2% wage increase (May 2001)	
2% wage increase (May 2001)	Additional wage increase conditional on an overall improvement in services provided to the Senate, senators, committees and other clients as measured against criteria to be established by May 2000.

Source: ANAO analysis of agencies' certified agreements

**3.34** In relation to the ABS and the Department of the Senate, the ANAO found that:

- the ABS relied on internal mechanisms to determine whether staff had a performance agreement or trial performance agreement in place and whether the Performance Management Scheme was trialed effectively by January 1999. In October 1999, the ABS also commissioned a review of compliance with the employment terms and conditions of its certified agreement and AWAs, to determine if payments for remuneration and key benefits were made in accordance with the certified agreement and AWAs, and to assess its control environment. The review indicated that payments were accurate, complete and in accordance with the certified agreement, and that the control environment provided adequate safeguards to prevent or detect errors in those payments;<sup>39</sup> and
- the Department of the Senate undertook an internal audit of its Performance Communication Scheme to determine if staff were eligible to receive the two per cent wage increase in November 1998. The audit verified that staff were complying with the Scheme and the department advised that all staff members (except one) achieved the assessment of 'effective or better' necessary to receive the pay increase.<sup>40</sup>

## Better practice principles for agreement making

**3.35** Overall, the ANAO found that the agency agreements examined identified a link between pay and productivity. As such, they satisfied the letter of the requirement in the Policy Parameters. However, most links were not explicit and involved a general reference only to the achievement of corporate goals, previous productivity gains and/or commitments to future potential productivity improvements and were not specified in a manner able to be measured and/or assessed. In addition, few agencies made the payment of wage increases conditional on the actual achievement of improvements in productivity.

---

<sup>39</sup> Ernst and Young, 1999, *Final Report on the Review of Compliance with the Terms and Conditions in the ABS Certified Agreement and Australian Workplace Agreements*.

<sup>40</sup> The Department of the Senate, 1999, *Internal Audit Report #6/99—A Review of the Performance Management Scheme*.

**3.36** The ANAO has identified a range of better practice principles for agreement making based on an assessment of the various approaches to linking wage increases to productivity gains examined during the audit. Agencies that demonstrate better practice in agreement making are those where the approach to identifying and measuring and/or assessing productivity improvements is best suited to their particular circumstances, and which can provide assurance that productivity gains have actually occurred.

**3.37** Under the ANAO's better practice principles, certified agreements should be used as a tool for achieving agencies' corporate goals and desired business outcomes. Agreements should contain specific reference to a measurable improvement in productivity over the life of the agreement and wage increases should be conditional on fulfilling clearly defined pre-conditions, which are nonetheless achievable. Although conditional payments are not required under the Policy Parameters, they reinforce the link between pay increases and productivity gains.

**3.38** An explicit reference or link in the certified agreement to desired business outcomes or other productivity improvements, coupled with conditional payments, will:

- drive behaviour in the organisation by assisting staff to link their efforts with the agency's corporate goals; and
- demonstrate to the Government and Parliament that wage increases are based on productivity gains.

**3.39** Agencies should also ensure that the link between wage increases and productivity gains is supported by robust monitoring and reporting arrangements, including the establishment of a baseline against which to measure and/or assess future productivity improvements. This issue is discussed further in Chapter 5 on the monitoring and reporting of the outcomes of agreement making.

**3.40** The ANAO does not wish to suggest that there is a 'one size fits all approach' to linking pay and productivity as part of agreement making. Agencies should decide on the most effective approach to suit their particular circumstances. Nonetheless, the better practice principles outlined above are intended to help guide agencies as they seek to develop an approach to measuring and/or assessing productivity which is best suited to the management and culture of the particular agency and the activities it undertakes.

## Box 1

### Productivity gains in the ATO—an overall improvement in corporate outcomes

The *ATO (General Employees) Agreement 1998* provides for productivity pay in 1997–98 and 1998–99 if an overall improvement in the corporate outcomes for each year is achieved at a reduced cost. There is a ‘pay at risk’ component of the *ATO (Executive Level 2) Agreement 1998* where the amount of performance-linked bonuses EL 2 staff are eligible to receive is reduced by five per cent where the Commissioner of Taxation determines that the ATO has not achieved an overall improvement in corporate outcomes.

An overall improvement in the corporate outcomes will be demonstrated by:

- (a) collection of budgeted revenue, and improved professionalism of field operations and debt collection; and
- (b) improvement in corporate outcomes in any two of the following areas without reduced performance against the others:

#### 1997–98

- Debt collection;
- Taxpayer Service Standards and associated quality measures;
- Child Support Agency (CSA) Service Standards and associated quality measures
- Acceptance of Child Support Responsibilities; and
- Meeting the superannuation guarantee requirements.

#### 1998–99<sup>(a)</sup>

- Debt collection;
- Taxpayer Service Standards;
- Associated quality measures; and
- Meeting the superannuation guarantee requirements.

<sup>(a)</sup> The corporate outcomes changed in 1998–99 following the transfer of the CSA to the Department of Family and Community Services as part of the Administrative Arrangements Orders of 21 October 1998.

Given the majority of the corporate outcomes outlined above were part of the ATO’s existing performance measurement framework, performance was benchmarked on the previous year’s performance. The 1997–98 corporate outcomes, specific performance measures and performance standards—including the previous benchmark (1996–97 performance) and the current standard—were outlined in an attachment to the ATO’s agreements. The measures and standards for 1998–99 were announced following the Budget but were not included in the agreements.

## Examples of better practice in three APS agencies

**3.41** Of the 10 agencies examined, the better practice principles for agreement making are best illustrated in the certified agreements negotiated by the ATO and Centrelink.<sup>41</sup> These agencies not only made wage increases conditional on achieved productivity gains but used their existing corporate goals to measure productivity improvements. The Department of the Senate indicated that it has adopted a similar approach to measuring improvements in service delivery using productivity improvement criteria being developed specifically for agreement making.

**3.42** The ATO and Centrelink have developed productivity measures to determine whether improvements in productivity have actually been achieved. These measures are linked to agencies' broader corporate objectives and are defined in the certified agreements themselves. The ATO articulated a number of corporate outcomes based largely on existing measures linked to its Output-Outcomes framework (see Box 1). Centrelink advised that the measures included in its certified agreements were selected from the suite of indicators included in the Centrelink balanced scorecard by the senior executive based on the following criteria—that the measures were:

- related to the business goals of Centrelink;
- readily able to be understood by the staff of Centrelink; and
- able to be influenced by the staff of Centrelink (see Box 2).

**3.43** Both the ATO and Centrelink have management information systems in place to assess performance against the productivity measures outlined in their agreements on an on going basis. The progress made in achieving the targets established for each measure is updated regularly on the agencies' intranet. This allows staff and management to see whether the agency is on track in meeting the targets so that staff would be eligible for the associated wage increases. The ATO advised that the Commissioner of Taxation also sends out messages to staff on areas where further improvement is necessary in order to achieved the desired outcome.

---

<sup>41</sup> The ANAO did not examine the reliability or appropriateness of the ATO and Centrelink's productivity measures during the course of this audit.

## Box 2

### Productivity gains in Centrelink—overall average balanced scorecard result

In late 1997, the Centrelink Board decided that the balanced scorecard methodology would be Centrelink's prime performance management tool and key accountability instrument. The 1998–99 balanced scorecard measures performance against five broad Key Result Areas (KRA) which reflect Centrelink's first five Strategic Goals: Client Partnerships; Customer and Community; Centrelink People; Cost Reduction; and Innovation. Each KRA is broken down into a series of performance measures and targets are established for each measure. Progress made in achieving the targets established for each indicator is represented relative to the number '1'.

The Centrelink senior executive selected a number of performance measures for inclusion in the certified agreement. The specific indicators differ between the two agreements reflecting further refinement and development of the balanced scorecard during 1998–99. The conditional wage increases in the *Centrelink Development Agreement 1999–2002* are based on the overall average balanced scorecard result over a 12 month period exceeding 1.0 for the following measures:

- per cent of all claims processed within their respective timeliness standards (Client partnerships);
- per cent of occasions where accuracy standards are met (Client partnerships);
- compliance benchmark (Client partnerships);
- overall customer satisfaction (Customer and community);
- call waiting time (Customer and community);
- appeals (Customer and community);
- completion and review of team and individual learning plans (Centrelink people);
- Comcare (compensation) cost (Cost reduction);
- attendance, excluding workers' compensation leave (Cost reduction); and
- debt recovery (Cost reduction).

**3.44** Systems have also been established to verify whether staff are eligible to receive the wage increases. The ATO management prepares end-of-financial year reports for the Commissioner of Taxation on whether there has been an overall improvement in the corporate outcomes at reduced cost. Wage increases are paid on the recommendations in this report. Centrelink uses an independent assessor for a similar purpose.

The assessment generally relates to the balanced scorecard measures but, in relation to the *Centrelink Development Agreement 1997–1998*, it also included verifying whether staff had implemented Customer Service Improvement Plans (CSIPs) in accordance with the agreement.<sup>42</sup>

**3.45** Given the explicit nature of the link between wage increases and productivity, both the ATO and Centrelink included provisions in their agreements to take account of factors outside the control of staff that may impact on performance against the measures. There was one occasion in the ATO where the Commissioner for Taxation, in accordance with the discretionary provisions in the certified agreement, took additional factors into consideration when agreeing to grant an increase even though the productivity target had not been met.

**3.46** Although it is important to develop productivity measures, it may not be appropriate to specify these in the certified agreement as a matter of course. The inclusion of explicit measures in the agreement can restrict an agency's flexibility in adjusting the measures if required. Certified agreements are legal documents and, once certified, can only be varied through the AIRC.<sup>43</sup> The transfer of the CSA away from the ATO through a Machinery of Government change provides an example of the implications of 'locking in' the measures. Specific outcome measures relating to CSA staff were included in the ATO's certified agreement. However, as a result of the transfer, staff performance was measured against fewer indicators—to be eligible to receive 'productivity pay' ATO staff were required to improve in four of six rather than the original seven corporate outcome measures (see Box 1).

**3.47** However, if the productivity measures are specified in a document other than the certified agreement, it is important to ensure that a clear link is established between the productivity measures and the agreement. For example, the *Department of the Senate Certified Agreement 1999–2001* clearly states that the two per cent wage increase due in May 2001 is conditional on an overall improvement in the services provided to the Senate, senators, committee and other clients. This was to be measured against criteria to be established by May 2000, in consultation with staff, for approval by the Clerk of the Senate.

---

<sup>42</sup> Ernst & Young, 1998, *Assessment of Changes in Specified Aspects of Centrelink's Performance*, 29 June 1998.

<sup>43</sup> The ANAO notes that Agency Heads can make determinations under subsection 24(1) of the *Public Service Act 1999* to remedy unforeseen issues that arise during the life an agreement without the need to vary the agreement through the AIRC. However, agencies were advised to use this determination making power sparingly, as it is Government policy that the terms and conditions of employment should be established through agreements made under the Workplace Relations Act.

**3.48** The Department of the Senate advised that the Clerk has agreed in principle to a set of seven performance indicators that will provide a framework for measuring the achievement of incremental improvement in the quality of departmental services. The framework was distributed for staff information and comment at the end of July 2000 and work has begun on developing monitoring strategies. The focus of the monitoring strategies will be on fostering, identifying and measuring incremental change in the quality of department services. These will be finalised in the light of any staff feedback on the criteria.

### **Importance of measuring and/or assessing productivity improvements**

**3.49** The ANAO acknowledges that the approach adopted by the ATO, Centrelink and the Department of the Senate may not be appropriate for all agencies. As mentioned, agencies should adopt an approach to identifying and measuring and/or assessing productivity improvements that is best suited to their particular circumstances. The approach should be compatible with the future directions of the organisation, aimed at achieving best practice and linked to the Outcome-Output framework.

**3.50** The ANAO also acknowledges that the identification and measurement of productivity improvements can be difficult in the public sector, particularly in those agencies that have a less tangible output such as policy and policy related functions. Many of the agencies audited commented on the need for assistance with the development of productivity measures. The provision of advice and guidance material on productivity issues is discussed in more detail in Chapter 6 (Recommendation No.4 refers) and a conceptual framework for measuring and/or assessing improvements in productivity is outlined in Appendix 1.

**3.51** Despite the difficulties, the ANAO considers that it is important that agencies make a specific reference or link to the desired productivity outcomes and develop appropriate measures as part of the agreement making process. If agencies are to comply with the spirit as well as the letter of the Policy Parameters, agencies need to develop measures to determine whether productivity gains have actually occurred—especially if wage outcomes are conditional on an improvement in productivity. Although it may not be appropriate to specify these in the certified agreement as a matter of course, it is important to ensure that a clear link is established between the productivity measures and the agreement.

**3.52** Productivity measurement is also important in providing feedback for internal management purposes on the performance of an organisation and the success of its programs as well as any workplace initiatives aimed at improving productivity. Although agreement making is an important means by which corporate effectiveness can be achieved, it is only one of the tools that APS agencies have at their disposal. As a result, it can be difficult to isolate the contribution made by the initiatives outlined in the certified agreement to achieving agency outputs and outcomes. This issue is discussed further in Chapter 5.

**3.53** Measuring, or at least assessing, productivity is also an essential element in public sector accountability. It can provide assurance to Parliament and the general public that the organisation and its staff are operating efficiently and effectively and that wage increases are based on productivity gains.

## Recommendation No.2

**3.54** To provide transparency and public accountability and to strengthen the link between certified agreements and improvements in productivity, the ANAO *recommends* that, when negotiating future certified agreements, all APS agencies:

- specify the outcomes expected from their certified agreement; and
- develop quantitative and qualitative productivity measures directly linked to efficiency savings and/or improvements in agency effectiveness.

### *Agency responses*

**3.55** The majority of the agencies audited agreed with the recommendation. The exceptions were the ABS, ATO, DEWRBSB, DOFA and the Treasury, all of which agreed with qualification. DEWRBSB disagreed with the second part of the recommendation that all agencies develop productivity measures.

**3.56** All agencies supported the intent of the recommendation, acknowledging that the principles underpinning the recommendation reflect what is 'good practice' in agreement making and accord with the approach embodied in the *Policy Parameters for Agreement Making in the APS*. DOFA commented that the development of productivity measures directly linked to efficiency savings and/or improvements in agency effectiveness is consistent with the approach to output pricing under the accrual budgeting framework.

**3.57** However, the agencies that agreed with qualification had reservations about the development of productivity measures as part of agreement making. Concerns were raised about the difficulties associated with developing and implementing meaningful measures of productivity and establishing a causal link between productivity improvements and the certified agreement. Some of the other issues raised by the five agencies in relation to the recommendation are as follows:

- the requirement to develop productivity measures is best decided at the individual agency level (DEWRSB and DOFA). These two agencies favour the continued application of the broader approach currently reflected in the Policy Parameters—particularly the parameters requiring improvements in pay and conditions to be linked to productivity gains, and agreements to be funded from within agency appropriations—on the basis that this approach imposes a significantly rigorous discipline on agency agreement making;
- the development of productivity measures would limit the flexibility available to agencies to negotiate the most appropriate employment arrangements for their businesses (the ABS, ATO and DOFA);
- conditional outcomes must be attainable and any predictions of outcomes should not be seen as a device to withhold promises of benefits (the Treasury). It is also important that the productivity measures agreed upon are meaningful to ensure that staff would be willing to ‘sign up’; and
- a process that requires specification of productivity measures during the agreement making process with a view to later measurement will not always be feasible (the ABS). It implies the availability of substantial individual improvements being identifiable regularly and over the long term. This is an unrealistic expectation, which would constrain agencies from achieving manageable arrangements in both the industrial and strategic contexts. It is more likely that agencies will achieve the desired productivity through a combination of major innovation/change processes and an accumulation of incremental improvements to work program and conditions—many of which might not be obvious at the time that agreements are prepared.

#### *ANAO comment*

**3.58** The ANAO acknowledges that there are challenges associated with identifying and measuring productivity improvements, and that it is not always easy to isolate the contribution made by agreement making initiatives to achieving agency outputs and outcomes. Nonetheless, the Government has a stated requirement that improvements in pay and conditions should be linked to productivity gains. Therefore, it is

important for agencies to measure and/or assess, even at a broad level, whether the Government's policy requirement has been met.

**3.59** Issues relating to the identification of productivity improvements and development of appropriate measures are discussed in Chapter 5 (Recommendation No.4 refers).

## Conclusion

**3.60** Any definition of productivity in the public sector needs to go beyond narrow economic considerations of input costs to focus on outcomes as well as outputs. Issues of overall effectiveness, including quality aspects, as well as cost-oriented concepts of productivity must be taken into account. The ANAO acknowledges that the definition and measurement of productivity can be difficult in the public sector but the development of quantitative and qualitative productivity measures provides the most robust way of linking wage increases to productivity improvements in line with the Government's requirements. It is important that such productivity measures are directly linked to agency outputs and outcomes.

**3.61** Although the focus of this audit is on certified agreements, it should be noted that agreement making is only one tool that APS agencies have in developing approaches to meet their specific strategic management and business needs; bring about productivity and efficiency gains; and achieve their outputs and outcomes cost effectively.

**3.62** The ANAO found that, overall, agencies had developed a link in their certified agreement to some form of productivity improvement. However, the references in certified agreements were generally limited and not specified in a manner able to be measured or assessed. Most references were based on past achievements or commitments to potential productivity improvements in future. While recognising that it was not a policy requirement, the ANAO found the majority of agencies did not make the payment of wage increases conditional on the actual achievement of improvements in productivity.

**3.63** An explicit link between pay and productivity can be demonstrated where productivity measures are established as part of the agreement making process. There would be benefit in all agencies ensuring that their certified agreements include a specific reference or link to the desired agency productivity outcomes. This approach was adopted by the ATO and Centrelink, where existing corporate goals were used to measure productivity improvements and were specified in the certified agreement. The Department of the Senate is in the process of developing productivity improvement criteria to measure improvements

in service delivery. Although the criteria are not specified in the agreement, a clear link has been established. The approaches adopted by these agencies illustrate better practice in that:

- the measures against which improvements in productivity would be determined were defined and directly linked to the agency's broader corporate objectives;
- the most significant wage increases were conditional on achieving productivity gains;
- systems were established to monitor progress in meeting the outcome and output measures and to verify whether staff were eligible to receive wage increases; and
- a measure of discretion had been built into the arrangements to take account of factors outside the control of staff that may impact on their ability to meet the identified productivity measures.

**3.64** The ANAO does not wish to suggest that there is a 'one size fits all' approach to linking pay and productivity as part of agreement making. Agencies should decide on the most effective approach to suit their particular circumstances. Nonetheless, the better practice principles outlined above are intended to help guide agencies as they seek to develop an approach to measuring and/or assessing productivity that is best suited to the management and culture of the particular agency and the activities it undertakes.

**3.65** It is also important to ensure that the link between wage increases and productivity gains is supported by robust monitoring and reporting arrangements, including the establishment of a baseline against which to measure and/or assess future productivity improvement. The establishment of a baseline is discussed further in Chapter 5.

## 4. Funding Arrangements for Agreement Making

---

*This chapter examines agency funding arrangements to ascertain the extent to which they complied with the requirements of the Policy Parameter that agreements be funded from within agency appropriations. In addition, the chapter examines financial planning and monitoring and also the extent to which agencies relied on savings and/or other efficiency gains to fund their agreements.*

### Background

**4.1** Agencies were required to fund any improvements in pay and conditions, negotiated as part of agreement making, from within existing agency appropriations without recourse to either increasing prices or reducing the quality of the services delivered by the agency. The 1997 Policy Parameters stated that agreements were to:

*be funded (including any increased employer superannuation liabilities) from within agency appropriations as generally determined in the Budget context, including efficiency dividend and specific Budget decisions.*

**4.2** Budgetary arrangements were put in on the following basis:

- in 1997–98, every Budget-funded agency had its salary-related running costs indexed by 1.5 per cent. Future salary-related running costs would be indexed under a similar approach—the supplementation factor was 1.4 per cent in 1998–99 and 1.3 per cent in 1999–00;
- from 1997–98, the level of the efficiency dividend applying in the APS was generally reduced from three to one per cent a year although some agencies remained above one per cent (mostly at two per cent) for 1997–98; and
- there was no ‘taxing’ or redistribution of any agency’s productivity savings to fund pay increases in other agencies.<sup>44</sup>

---

<sup>44</sup> DEWRSB, 1997b, Workplace Relations Advice No.1997/21, *Funding Arrangements and APS Agency Agreements*, 11 May 1997, [Online], Available: <http://www.dewrsb.gov.au/workplaceRelations/publicSector/australianPublicService/advices/97/adv21.htm>, [21 September 2000].

**4.3** DEWRSB advised agencies that, although these arrangements were critical in underpinning the agreement making process, there was no need to ‘explicitly deal’ with agency funding arrangements in the wording of the certified agreement. Agencies were also advised that they would need to assess the superannuation costs of proposed remuneration changes (including cashing out of benefits) to ensure that any increases in superannuation costs were fully taken into account.

**4.4** There were no substantive changes to funding arrangements for agreement making when the Government’s Policy Parameters were revised in 1999 and 2000.

## **Compliance with the funding policy parameter**

**4.5** As indicated earlier, the ANAO developed a separate attachment to DEWRSB’s survey of Agreement Making in the APS which was returned directly to the ANAO for analysis. In relation to funding certified agreements, the ANAO asked agencies whether their certified agreement was funded from within agency appropriations, including the efficiency dividend and specific Budget decisions—that is, whether agencies complied with the funding Policy Parameter.

**4.6** The ANAO survey attachment had a 96 per cent response rate from the agencies that were surveyed, which was very satisfactory. Eighty-seven agencies responded to the survey, representing 95 certified agreements.<sup>45</sup> All Budget-funded agencies that participated in the survey, representing 91 agreements, advised that they funded their certified agreements from within their appropriations.<sup>46</sup>

**4.7** All of the 10 agencies chosen for further examination reported funding their certified agreements from within their appropriations.

## **Financial planning for certified agreements**

**4.8** Financial planning is an essential element of sound financial management. It is particularly important where certified agreements impact on staff costs, as these represent a large segment of Agency expenses.

---

<sup>45</sup> Some of the agencies had certified more than one agreement as at July 1999.

<sup>46</sup> A small group of agencies replied that this question was not applicable to them as they derive revenue from sources other than the Budget, eg. IP Australia, Royal Australian Mint, Australian Government Solicitor. The Australian Institute of Health and Wealth derives some funds through the Budget and also from contract work.

**4.9** The 10 agencies examined in detail by the ANAO were asked to provide information about the planning that underpinned the funding of the wage increases included in their first round agreements. Six agencies were able to provide evidence of the financial analysis underpinning their certified agreement negotiations. The approaches ranged from the detailed analysis undertaken by the Department of the Senate—which estimated the full year effect of a six per cent superannuable wage increase at \$800 000, with key trade-offs costing at \$840 000—to the more high-level approach adopted by the ATO as illustrated in Box 3. However, the ANAO found it difficult to establish how the remaining four agencies established the financial basis for their negotiations.

### **Box 3**

#### **The relationship between savings and wage increases in the ATO**

The ATO made provision for wage increases in their certified agreements that were contingent on the achievement of corporate objectives and in which the relationship between savings and the wage increases was clearly made.

In order to fund the increases, the ATO had to reduce its costs. As a result, the ATO undertook an analysis of its financial performance to calculate the magnitude of the wage increases it could afford. The ATO's financial planning was based on the assumption that all staff would receive a four per cent increase. The Business and Service Lines (BSLs) were required to factor a four per cent wage increase into their budgets, to be balanced against the four per cent reduction in running costs. It was up to the individual BSLs to achieve the savings. This could include, for example, savings on accommodation, administration and staff reductions (although the certified agreements were not designed to result in the loss of jobs). The full four per cent wage increase would only occur if the reduction in costs was equivalent to, or greater than, the increase in expenses associated with the four per cent increase in labour costs.

## **Funding certified agreements**

**4.10** Although there was no requirement for certified agreements to be 'self-funding', the ANAO was interested in the extent to which the efficiency savings and/or productivity improvements generated as part of the agreement making process assisted in funding agreements. As part of the APS-wide survey, all agencies were asked whether any savings were generated to assist in funding the certified agreement and whether the productivity improvements and/or efficiency savings generated were sufficient to fund the certified agreement.

## **APS-wide**

**4.11** The survey results indicated that efficiency savings and/or productivity improvements were used as a means of funding 97 per cent of APS certified agreements. Efficiency savings were used by 87 per cent of the agreements and 85 per cent were funded, partly or wholly, through productivity improvements.

**4.12** For 61 per cent of the agreements in the survey it was reported that the productivity gains and savings generated were sufficient to fund the agreement. However, for one-third of agreements productivity gains and savings were reported to be insufficient to fund the agreement. With regard to a further five per cent of agreements, the relevant agencies reported either that they did not know yet, or that it was hard to tell, whether the measures were sufficient to fund the agreement.

## **Ten APS agencies**

**4.13** The results for the 10 agencies examined in the audit are broadly comparable to those for the wider APS. Nine of the 10 agencies reported that savings were generated as part of the agreement making process to assist in funding the agreement. For example, the ABS listed nineteen changes in the certified agreement that either had, or were expected to, result in cost savings—these included making part-time working arrangements more flexible to accommodate cyclical work program requirements and a reduction in administrative processing costs. The exception was the ATO, which advised that no significant direct savings were generated through the certified agreement itself except some incidental savings arising from ‘grandfathering’ remote localities conditions.<sup>47</sup> Productivity gains and/or savings were reported as sufficient to fund agreements in seven of the 10 agencies.

### *Efficiency savings*

**4.14** The ANAO found that efficiency savings derived from streamlined administrative processes and simplified conditions of employment were common to many agreements examined. Some of the provisions included:

- rolling the senior officer allowance into salary;<sup>48</sup>
- rationalisation of allowances (in particular, the higher duties allowances and overtime) that are expensive for agencies to administer;

---

<sup>47</sup> ‘Grandfathering’ refers to the practice of changing conditions of employment for new employees but retaining the previous arrangements for existing employees.

<sup>48</sup> Such an arrangement has implications for superannuation payments.

- simplification of leave arrangements; and
- implementation of a new staff classification system and broad-banded structure.

**4.15** Some of these streamlined processes were identified by agencies as a result of the *Achieving Cost Effective Personnel Services* project undertaken by the Management Advisory Board and its Management Improvement Advisory Committee (MAB/MIAC) in 1995. Agreement making provided the vehicle to implement some of the approaches developed as a result of the project. The PSMPC's People Management Benchmarking Study, which was undertaken in 1998–99 to re-benchmark human resource management costs and effectiveness in the APS, concluded that it was important to continue testing and scrutinising human resource management administrative activities as this may achieve a further reduction in costs or a real improvement in outcomes.<sup>49</sup>

## Sources of funding for certified agreements

**4.16** As previously noted, 61 per cent of agencies reported that the productivity improvements and efficiency savings generated by their certified agreements were sufficient to fund their wage increases. However, it was not clear how agencies funded their agreements drawing on these measures alone. The funds generated by efficiency savings in certified agreements were generally relatively minor compared with the cost of wage increases and many of the efficiencies resulted in only a one-off saving.

**4.17** Agencies also reported using productivity gains to fund their agreements. However, this source is also limited as productivity gains specified in certified agreements, for the most part, involve qualitative improvements in agency effectiveness rather than tangible savings that could be used to fund wage increases.

**4.18** The efficiency savings and productivity gains generated by the certified agreements were reported to be insufficient to fund wage increases for one-third of certified agreements. Agencies were asked to specify how the remaining funds to meet the cost of the agreement were generated. Substantive replies were received in relation to all relevant certified agreements. An analysis of the responses showed that agencies funded their agreements from a variety of sources as outlined below.

---

<sup>49</sup> PSMPC, 2000, *Building Corporate Capability—The APS in Transition*, Commonwealth of Australia, p. 20.

## Previous staff reductions

**4.19** Previous staff reductions, unrelated to the agreement making process, have contributed to the capacity of some agencies to fund wage increases. Total APS staff numbers declined by some 31 470 between 30 June 1995 and 30 June 1999—of this net reduction, around 31 167 staff were retrenched.<sup>50</sup> Several of the 10 agencies examined reported using savings generated through previous staff reductions to fund wage increases under their certified agreements, for example:

- the Department of the Senate funded its first agreement, in part, from productivity gains still in the running costs base from staff reductions between 1995 and 1998; and
- DOFA advised that significant staff reductions in recent years had generated savings to contribute to funding increased running costs resulting from wage increases. The staff reductions occurred as a result of machinery of government and organisational change initiatives which, although running parallel to the implementation of the certified agreement, were not causally linked to agreement making.

**4.20** Although the 10 agencies advised that agreement making was not intended to directly result in staff reductions, Customs and the Treasury foreshadowed a possible reliance on staff reductions (through natural attrition) as a means of funding wage increases in their second round agreements. AQIS (Meat Inspection Division) reported efficiency gains from reducing staff numbers, particularly in the relief workforce, but this was undertaken as part of a broader reform agenda.

## Carryover of funds

**4.21** Prior to the introduction of the accrual budgeting framework from 1999–2000 Commonwealth agencies were required to obtain DOFA approval to carry over any departmental funds that were unspent at the end of the financial year. The amount to be carried over would be agreed between DOFA and the individual agency. Given that all agencies reported that their certified agreements were funded from within their appropriations, some agencies drew on funds carried over from previous years to contribute to wage increases.

---

<sup>50</sup> PSMPC, 1999, *Australian Public Service Statistical Bulletin 1998-99*, Commonwealth of Australia, pp. 3, 8.

## **Previous productivity improvements and efficiencies**

**4.22** Efficiency savings and/or productivity gains carried over from previous years were reported by some agencies to have contributed to funding wage increases included in certified agreements, but these respondents made a distinction between these measures and those associated with the certified agreement itself.

## **Business improvement initiatives**

**4.23** A number of agencies advised that they had initiated, or were in the process of initiating, new working arrangements to improve business outcomes and reduce business costs. These have also generated productivity improvements. For example, the ABS advised that productivity improvements in the ABS Work Program had contributed to funding the agreement. Similarly, Centrelink noted that many of the provisions included in their agreements were aimed at achieving greater flexibility in Centrelink's operational environment thus facilitating the development and implementation of a number of business improvement initiatives as outlined in Box 4.

### **Box 4**

#### **Business improvement initiatives in Centrelink**

Centrelink's budget is managed through a three year rolling Financial Plan, which took into account the Government's requirement for Centrelink to achieve a 10 per cent budget reduction in its first three years and maintain the reduction on an ongoing basis. The Plan also took into account planned wage outcomes from certified agreements and the fact that a range of business improvement initiatives were being introduced that would provide for productivity gains as well as improved levels of service. These initiatives included the One Main Contact model, New Start Common Platform, reducing arrears, improved ratios for decision making and performance improvements in Call Centres.

Flexibilities provided through the certified agreement, such as the removal of limits on part-time staff, the changed flex-time arrangements and the emphasis on teams managing their workloads, were important elements in the development and implementation of these business improvement initiatives.

## **Other sources of funding**

**4.24** Some of the other sources of funds for agreement making include:

- the indexation of salary-related running costs (which all agencies received);
- the use of commercial revenue activities; and
- other departmental running costs. For example, the Department of Defence advised the Senate in February 2000 that it had used funds from the departmental capital budget to make up the difference between budget supplementation and wage increases planned for the Australian Defence Force and civilian staff.

**4.25** Approximately one-fifth of respondents to the APS-wide survey reported that they had identified all available efficiency savings. This raises the question of how agencies will fund future certified agreements. Agencies will not be able to fund wage increases indefinitely on the basis of savings from efficiency gains and previous staff reductions. DOFA advised that the introduction of the accrual budgeting framework from 1999–00 will make it easier for agencies to consider options for funding agreements. This matter is discussed further in Chapter 6.

## **Financial monitoring**

**4.26** Monitoring the costs of certified agreements and keeping track of whether the funding arrangements are progressing as planned is central to effective management. Of course, such monitoring has to be relevant to the agencies' needs and cost-effective but it is especially important in agencies heavily reliant on efficiency savings or productivity increases to fund a large proportion of the wage increases in certified agreements.

### **APS-wide**

**4.27** APS agencies were asked in DEWRSB's survey of Agreement Making in the APS if they had established mechanisms to calculate or assess productivity increases, administrative savings or rationalisation of conditions during the life of the agreement. DEWRSB reported that 61 per cent of respondents stated that they had mechanisms to calculate or assess the savings to the organisation from the agreement. Some of these mechanisms are outlined in Table 5. Forty-eight per cent of respondents to the survey indicated that they were reporting on these savings from their agreements, mostly through internal management reports.

**4.28** DEWRSB observed that monitoring work practices and staffing reforms to achieve savings does not appear to be widespread among agencies, with most emphasis on the use of corporate performance information to track savings and productivity improvements.<sup>51</sup>

**Table 5**

**How agencies calculate or assess the savings from certified agreements**

<i><b>Mechanisms to calculate or assess savings</b></i>	<i><b>Proportion of respondents (%)</b></i>
Corporate performance indicators	47
Specific indicators	45
Individual performance indicators	28
Reviews of operational savings	26
Survey responses	18
Time-charging	4

Source: DEWRSB's Review of Agreement Making in the APS

Note: Most respondents reported more than one mechanism for calculating or assessing savings.

## **Ten APS agencies**

**4.29** Although all of the 10 agencies examined monitor their corporate performance, only four demonstrated that they monitored the costs associated with the certified agreement. For example:

- the Department of the Senate undertook detailed monitoring in relation to its first agreement to ensure that there was no budget blow-out from the wage increases. However, the department advised that they did not track savings gained from adjusting individual conditions because the cost of such close monitoring was not considered to be cost-effective; and
- AQIS (Meat Inspection Division) provides quarterly reports to senior managers to monitor costs associated with their certified agreement.

## **Conclusion**

**4.30** All Budget-funded agencies, including the 10 agencies selected for further examination, reported that they complied with the requirement in the Policy Parameter that they fund their certified agreement from within their appropriations. Six out of the 10 agencies examined were able to demonstrate the specific financial planning that underpinned their certified agreement negotiations. However, the ANAO found it difficult to ascertain how the remaining four agencies established the financial basis for their negotiations.

<sup>51</sup> DEWRSB, 1999c, *op.cit.*, p. 32.

**4.31** Although there was no requirement for certified agreements to be 'self-funded', the APS-wide survey indicated that efficiency savings and/or productivity improvements were used as a means of funding 97 per cent of APS certified agreement. For 61 per cent of these agreements, efficiency savings and/or productivity improvements were reported as sufficient to fund the agreement. However, in the case of one-third of APS agreements, the productivity gains and/or efficiencies were insufficient and, for a further five per cent of agreements, the outcome was not known. The results for the 10 agencies were broadly compatible with those of the broader APS.

**4.32** Although the majority of agencies reported that the efficiency savings and/or productivity improvements generated by their certified were sufficient to fund their wage increases, it was not always clear how this was achieved. The efficiency savings identified in certified agreements were relatively minor and productivity improvements were generally associated with improvements in agency effectiveness rather than generating specific savings to meet the cost of certified agreements. In addition, agencies generally did not track the savings generated by their agreements. For example, of the 10 agencies examined, only four were able to demonstrate that they monitored the costs associated with their certified agreements.

**4.33** The ANAO found that agencies funded their agreements from a variety of sources in addition to those generated by the agreement itself. On the basis of the evidence available, savings from previous staff reductions have been a major contributing factor, although these were not causally linked to agreement making. Given the high cost of salaries as a percentage of Agency expenses, the effect of previous staff reductions is not unexpected.

## 5. Reporting and Accountability Arrangements

---

*This chapter examines whether agencies have identified objectives for agreement making and developed systems to monitor and report on the outcomes of their certified agreement, including productivity gains arising through the agreement. The extent to which the employment terms and conditions outlined in agreements have been implemented is also discussed.*

### Introduction

**5.1** All APS agencies are accountable for the efficient, effective and ethical nature of their operations. The same principle applies to agreement making. Given the Government's emphasis on building a highly performing APS and the explicit link between wage increases and improvements in productivity, APS agencies were required to report on the outcomes of agreement making. The 1997 Policy Parameters required certified agreements to be supported by:

*accountability reporting, against performance indicators that demonstrate performance improvements arising from the agreements (eg. in Annual Reports and in reports to portfolio Ministers).*

**5.2** When the Policy Parameters were revised in 1999, specific reference to accountability reporting was removed, consistent with the devolution of further responsibility to agencies. This remained the situation with subsequent revisions of the Parameters promulgated in early 2000. However, agencies are still expected to report on outcomes as part of normal accountability requirements—this is an expectation of Parliament and the Government.

**5.3** In its *Report on 1997–98 Annual Reports: Report One*, the Senate Finance and Public Administration Legislation Committee found that the impact of the introduction of certified agreements on agencies, and across the public service, was not yet clear.<sup>52</sup> It should be noted that, at the time this observation was made, agreement making was in its early stages. However, it is now considerably more advanced with the vast majority of agencies having negotiated first round agreements and many now onto their second certified agreement.

---

<sup>52</sup> Senate Finance and Public Administration Legislation Committee, 1999, *Report on 1997–98 Annual Reports: Report One*, Commonwealth of Australia, p. 10.

**5.4** The ANAO sought to establish the extent to which agencies had:

- identified objectives for agreement making that conformed with Government policy and that were linked to the agency's broader strategic framework; and
- developed systems to monitor and report on the outcomes of their certified agreements.

## **Objectives for agreement making**

**5.5** As mentioned, agreement making is one of the tools that APS agencies have in developing approaches to meet their specific strategic management and business needs and to achieve their outputs and outcomes. As part of an integrated strategic planning framework, agreement making should support the broader corporate purposes of the agency, including its human resource priorities, and complement the agency's strategic directions. Consequently, clear certified agreement objectives are needed for effective agreement making to ensure it reflects the overall business outcomes the agency is aiming to achieve and contributes to the achievement of these goals.

**5.6** Within the context of the Government's policy framework, agreements can provide a vehicle for introducing workplace reforms such as new staff classification structures, more flexible working arrangements and performance-linked remuneration. They can also help bring about improvements in productivity and/or promote cultural change. However, the primary purpose of a certified agreement is to outline the terms and conditions of employment for those covered by the agreement, including basic remuneration. As a result, the role of the certified agreement in contributing to the achievement of the agency's outputs and outcomes should be clearly articulated.

## **APS-wide**

**5.7** The ANAO relied on the work undertaken by DEWRSB as part of its Review of Agreement Making in the APS to determine the certified agreement objectives identified by agencies and the extent to which these were achieved. As DEWRSB points out, most respondents stated certified agreement objectives that were designed to achieve positive agency-specific program outputs and outcomes. The results of DEWRSB's analysis, which are outlined in Table 6, indicate that there was a strong emphasis on tailoring employment terms and conditions to best suit the needs of individual agencies, an objective which was met, or partially met, in the majority of cases.

**Table 6****The extent to which certified agreement objectives have been met**

<i>Certified agreement objectives</i>	<i>Proportion of respondents</i>  (%)	<i>Extent to which objective has been met</i>			
		<i>Met</i>  (%)	<i>Partially met</i>  (%)	<i>Not met</i>  (%)	<i>Too early to tell</i>  (%)
Tailor conditions to agency business	48	69	30	0	2
Advance cultural change	36	59	29	0	12
Complement agencies' strategic directions	34	85	9	0	6
Achieve improvements in wages and employment conditions	30	82	7	4	7
Advance particular management initiatives	29	82	11	0	7
Meet government objectives	27	92	4	0	4
Improve employee relations	22	86	5	5	5
Retain agency competitiveness	14	77	15	0	8

Source: DEWRB's Review of Agreement Making in the APS

Note: Some respondents reported more than one certified agreement objective

## Ten APS agencies

5.8 Each of the 10 agencies examined by the ANAO articulated a series of objectives in the text of their certified agreement. These statements outline broad principles that encapsulate the Government's objectives for agreement making<sup>53</sup> and provide a means of linking the certified agreement to the agency's broader strategic framework. For example, the principles and objectives of the *Department of Finance and Administration Certified Agreement 1997–1999* involve the employer and employee agreeing to work collaboratively and in consultation to achieve several goals, including:

- fostering corporate values and objectives;
- enhancing a working culture based on high performance, quality outcomes and modern management and work practices;

<sup>53</sup> The Government's objectives for agreement making are outlined in Chapter 1. Two principal objectives are:

- to align workplace relations practice in the APS more closely with that applying in the broader public and private sectors, allowing the APS to become more competitive in a contestable environment and providing greater flexibility regarding pay and conditions; and
- to establish more direct relationships between employers and employees at enterprise or workplace levels in determining wages and employment conditions.

- promoting a performance culture by rewarding good performance and managing poor performance well and encouraging people to fulfil their full potential; and
- achieving greater efficiency by simplifying administration.

**5.9** However, these principles and objectives are not linked to a further statement in the agreement, or elsewhere, describing the means by which these outcomes will be measured and/or assessed. DOFA does, however, monitor and report on performance against its key business drivers at the organisation, work group and individual levels.

**5.10** As with the wider APS, some agencies have advised that it is difficult to distinguish the impact of the certified agreement on agency effectiveness from other contributing factors such as machinery of government changes, changes in the demand for services and advances in technology. The ANAO also acknowledges these difficulties. However, the fact that the majority of the agencies examined have not established criteria or monitoring arrangements to measure and/or assess the outcomes of their agreements makes it more difficult to separate the impact of their certified agreement from other internal and external factors.

## **Monitoring and reporting on certified agreement outcomes**

**5.11** There is benefit in agencies not only clearly articulating the outcomes expected from their certified agreement, but also in establishing mechanisms to monitor and report on the extent to which these outcomes have been achieved. There is no statutory requirement to specify these arrangements in certified agreements themselves but appropriate mechanisms should be established to provide this information. This is not only important for transparency and accountability to Parliament, but regular internal monitoring and reporting during the life of the agreement would also enable agency managers to track progress made against the certified agreement objectives and help manage the impact of any unforeseen developments. It would also help if agencies establish a baseline against which movement in the agency's productivity can be measured and/or assessed on an ongoing basis.

### **Ten APS agencies**

**5.12** The ANAO found that the majority of agencies had not established specific monitoring and review arrangements to enable agency managers and external stakeholders to measure and/or assess the extent to which the certified agreement had achieved its objectives. Although the 10 agencies monitor and report on overall agency performance and the

implementation of the employment terms and conditions in their certified agreements (as discussed later in this chapter), there was limited evidence of regular internal monitoring on, and reporting of, agreement outcomes. For example, although there are no management reports dealing specifically with issues relating to the ABS certified agreement, data on some of the provisions are included in internal management reports produced by the Human Resources Branch. This includes monitoring the use made by staff of streamlined leave arrangements and the payment of overtime and higher duties allowance. Some analysis is provided on the impact of the revised provisions and whether the results are in line with expectations.

**5.13** The Treasury is an example of an agency that does not monitor the outcomes of agreement making, primarily because of changes that have taken place since the first agreement was certified in April 1998. The department advised that a restructure late in 1998 made it difficult to make comparisons and an upgrade of the Human Resource Management Information System resulted in less information being available than previously—in some cases comparisons could not be made between information from the old and new systems.

### **Productivity baseline**

**5.14** It is only possible to determine whether improvements in productivity have actually been achieved in those agencies that developed outcome measures relating specifically to agreement making and that established a baseline for the future productivity measurement and/or assessment. One example is the approach adopted by the ATO where corporate outcomes were first established in 1996–97 and performance against these outcomes provided the benchmark for subsequent years.

### **Evaluations**

**5.15** Evaluations are another means of assessing the performance of certified agreements. Agencies may wish to identify key milestones during the life of the agreement when it would be appropriate to conduct an evaluation—for example, after the first year of operation of a performance management scheme. There is also benefit in undertaking an evaluation prior to expiry of the agreement to assess performance against key objectives and to help identify issues for future agreement making.

**5.16** In the absence of specific outcome monitoring arrangements in agencies, greater emphasis was placed on the use of evaluations. The ANAO found that seven of the 10 agencies examined in detail had conducted evaluations of their certified agreements. However, the majority of these evaluations focused on the examination of issues relating

to compliance with initiatives in the certified agreement. Only three agencies—the ATO, Centrelink and the Department of the Senate—focused their evaluations on the broader outcomes from their agreements. The approach taken in these agencies considered performance against clearly defined productivity measures specified in, or linked to, their certified agreements. This approach is discussed in detail in Chapter 3.

**5.17** The Department of the Senate also uses the results of an internal survey of line managers as the basis for an evaluation of the effect of the agreement on the workplace and productivity. The evaluation focused on the overall effect of the certified agreement and the impact of the Performance Communication Scheme. It also examined issues of efficiency and productivity under the certified agreement and whether financial incentives could lead to further gains. Although productivity issues were addressed, the evaluation reported the views of departmental staff on the issues raised without reaching any overall conclusions about the impact of the agreement on agency productivity.<sup>54</sup>

**5.18** Nonetheless, the Department of the Senate has been able to demonstrate that a *'modest eight per cent increase in productivity'* has occurred in the department based on the results of its biennial survey of Senators. The 1997 survey provided a performance benchmark against which the results of the 1999 survey could be compared. The department advised that it attributed this improvement to the introduction of the first certified agreement—the negotiation of the agreement in 1998 was identified as the most significant development in the period between the two surveys.

## **External reporting**

**5.19** External reports are the main means by which interested parties, such as Parliament, are able to obtain information on agency outcomes. The annual report is a key vehicle for the publication of information about agencies' operations. Agencies also have the option of publishing information about their activities through other means such as on their web-sites or by making it available on request.

**5.20** The majority of the 10 agencies examined in detail by the ANAO used their annual report as the principal external accountability mechanism in relation to their certified agreements. The exception was AQIS (Meat Inspection Division) which, because of the central role of the Meat Program Agreements in the Government's broader meat inspection reform agenda, reports to a number of external bodies. A general overview is provided in the Department of Agriculture, Fisheries and Forestry—Australia (AFFA) annual report.

---

<sup>54</sup> The report is also of interest for the information it contains about staff views on productivity issues.

**5.21** As part of its review of 1997–98 annual reports, the Senate Finance and Public Administration Legislation Committee found that most of the reports examined included process-oriented information on agreement making, such as the developmental/consultative process and ballot results. Some agencies also reported on the wage outcomes resulting from efficiency improvements negotiated as part of the agreement making process. The Committee expressed the view that agencies' 1998–99 annual reports should address the impact of certified agreements on agencies.<sup>55</sup>

**5.22** However, the ANAO found that the majority of the 1998–99 annual reports published by the 10 agencies did not address the issue of impact. These reports continued to broadly reflect the Committee's earlier findings in that they focused primarily on the development of the certified agreement. Eight agencies expanded their discussion to include information on the implementation of key features of the agreement, including performance management systems, but the extent to which this was reported varied between the agencies.

**5.23** The only agency to include an assessment of the impact of the certified agreement on agency effectiveness in its annual report was the ABS (see Box 5). Although the Department of the Senate has undertaken several evaluations of the first certified agreement as outlined above, the findings of those evaluations undertaken during 1998–99 were not included in the annual report for that year. The department did report on the outcome of the 1999 survey of senators, but did not attribute the improved survey result to the certified agreement in the report.

### **Box 5:**

#### **The ABS and external reporting on agreement making**

The ABS demonstrated good practice in its 1998–99 Annual Report, which included a chapter devoted to the ABS experience in workplace relations. The chapter outlined the ABS' objectives for the agreement making process, *viz*:

- introduce a performance based culture;
- manage the work program to achieve productivity outcomes;
- streamline personnel practices and procedures; and
- introduce more flexible working arrangements.

The annual report provided a comprehensive overview of achievements against each of these objectives and discussed how these achievements have assisted in improving efficiency in the ABS.

<sup>55</sup> Senate Finance and Public Administration Legislation Committee, 1999, *op. cit.* p. 9-10.

## **Importance of monitoring and reporting on certified agreement outcomes**

**5.24** The ANAO considers that clear objectives are needed for effective agreement making to ensure it reflects the overall business outcomes the agency is aiming to achieve and demonstrates how agreements can contribute to the achievement of these goals. Since the primary purpose of a certified agreement is to outline the terms and conditions of employment, the role of the agreement in contributing to the achievement of the agency's outputs and outcomes should be clearly articulated.

**5.25** The ANAO acknowledges that it can be difficult to establish a causal link and isolate the contribution of the certified agreement to improvements in agency effectiveness. As DEWRSB points out, a precise measure of the outcomes attributable to a certified agreement is not always straightforward. Agency outcomes are, in most cases, intertwined with the outcomes of other corporate initiatives implemented by an agency and may be influenced by the impact of other internal and factors. In addition, the outcomes of agreement making may only be achievable over a long period.

**5.26** However, these difficulties are not unique to agreement making. All program managers have to consider the contribution of other factors when making judgements on the extent to which program activities are achieving the desired results. The development of appropriate performance information can assist in this process.

**5.27** The ANAO considers that mechanisms should be established to monitor and report on whether the outcomes expected from the certified agreement have been achieved. This is important for the following reasons:

- transparency and accountability to Parliament. The Senate Finance and Public Administration Legislation Committee expressed the view that agencies' annual reports should address the impact of certified agreements on agencies;
- regular internal monitoring and reporting during the life of the agreement would enable agency managers to track progress made against the agreement's objectives and help manage any unforeseen developments; and
- it may assist agencies in separating the impact of their certified agreements from other internal and external factors such as machinery of government changes, changes in the demand for services and advances in technology.

## Recommendation No.3

**5.28** The ANAO *recommends* that all APS agencies establish appropriate arrangements to assess whether the objectives of their certified agreement have been met and, where possible, their contribution to the achievement of overall agency objectives. This assessment could be undertaken at key milestones during the life of the agreement and the results made public through, for example, the annual report, agency web-site or on request.

### *Agency responses*

**5.29** The majority of the agencies audited agreed with the recommendation. The exceptions were DEWRSB, DOFA and the Treasury, all of which agreed with qualification, and the ATO, which disagreed. This recommendation follows on from Recommendation No.2. Many of the agency responses to the earlier recommendation are also relevant here.

**5.30** DEWRSB, DOFA and the agreed with the intent of this recommendation but had some reservations about its implementation. In the main, their concerns stem from issues relating to the development of productivity measures and the difficulties in establishing a causal link between productivity improvements and agreement making. The Treasury was also concerned about the potential resource implications. DOFA commented that the injection of greater levels of prescription into certified agreement processes through the development of productivity measures is not necessary in order to measure the effectiveness of certified agreements.

**5.31** The ATO advised that it does not see how this recommendation 'adds value'. The ATO prefers to focus on the achievement of overall corporate outcomes rather than on what particular initiatives (such as agreement making) have contributed to the result. The ATO was also concerned that agencies would be required to establish new reporting and management arrangements which will add to overall costs for no defined benefit.

### *ANAO comment*

**5.32** All APS agencies are accountable for the efficient, effective and ethical nature of their operations, including agreement making, and there is an expectation that agencies report on outcomes as part of normal accountability processes. To achieve this, agencies' should develop objectives for inclusion in their certified agreement to help demonstrate whether the outcomes expected from the agreement have been achieved. This will help satisfy the expectations of Parliament, principally the Senate

Finance and Public Administration Legislation Committee, that agencies report on the impact of the introduction of their certified agreement. The ABS provides an example of whether this approach has been implemented successfully.

**5.33** In the absence of specific certified agreement objectives that can be evaluated, agencies will not be in position to:

- fulfil their accountability requirements;
- track progress and effectively manage implementation of the certified agreement; and/or
- identify areas of improvement for future agreement making.

## Monitoring and reporting on implementation

**5.34** Ongoing monitoring is important for agencies to determine whether the initiatives included as part of their certified agreement are being implemented, particularly those that are expected to contribute to improvements in productivity. Progress reports on implementation should also be prepared for internal management and distribution to staff. Timely implementation of agreement making initiatives may also assist in the process of building and maintaining trust between staff and management. This was especially important in the dynamic environment of the first round of agreement making, where certified agreements sometimes involved the rationalisation of conditions.

**5.35** Reporting on the implementation of employment terms and conditions is also important for external accountability purposes to demonstrate that the significant features of agreement making, such as performance management arrangements, have been developed and implemented.

### APS-wide

**5.36** The ANAO's analysis of responses to DEWR's survey of Agreement Making in the APS indicated that 95 per cent of APS agencies had developed mechanisms to monitor progress with the implementation of the employment terms and conditions included in their certified agreements.<sup>56</sup> DEWR found that the most common method of monitoring implementation of agency agreements was ad hoc observation (71 per cent), used in conjunction with data extraction (47 per cent), survey results (21 per cent), progress against the Business Plan (18 per cent),

---

<sup>56</sup> DEWR's Review of Agreement Making in the APS concluded that *'few respondents stated that they had implemented specific mechanisms to monitor implementation of the agreement.'* However, this was based on a different interpretation of the data.

key performance indicators (11 per cent), and/or formal interviews (5 per cent).

**5.37** However, DEWRSB also found that almost a quarter (24 per cent) of these agencies used ad hoc observation as the only monitoring mechanism. Ad hoc observation is unlikely to be the most reliable method of gathering information since it is based on informal, unscheduled observation and discussion. As DEWRSB states, agencies relying on ad hoc observation have not necessarily developed rigorous methods of data collection on which to base their analysis.<sup>57</sup>

**5.38** The majority of APS agencies also have mechanisms in place to report on progress with implementation of their certified agreement. The most frequently stated mechanisms were internal management reports (73 per cent of respondents) and reports to staff (54 per cent).<sup>58</sup>

### **Ten APS agencies**

**5.39** Overall, the monitoring and reporting arrangements in the 10 agencies examined during the audit reflect the experience of the wider APS. Several agencies developed implementation schedules to ensure that changes to employment terms and conditions were put into practice. These schedules formed the basis for monitoring and reporting on implementation. For example, DETYA advised that it established an implementation matrix that detailed the items to be implemented, the action required, completion dates, the section of the organisation responsible for the action and the status of each item (for example, ongoing or completed). Those areas responsible for specific initiatives were required to monitor implementation in order to provide progress reports to various internal management committees. Information was also included in a staff newsletter. The department advised that it plans to undertake further work to evaluate the effectiveness of specific initiatives in the agreement.

**5.40** The ANAO found that nine of the 10 agencies examined included information on the implementation of key initiatives in their annual reports. This included the establishment of performance management schemes, the introduction of revised staff classification structures, and changes to employment conditions such as leave arrangements and flextime. The exception was AQIS (Meat Inspection Division) which, as mentioned above, incorporates its annual reporting data into the AFFA annual report and has established other external accountability mechanisms for monitoring and reporting on performance.

---

<sup>57</sup> DEWRSB, 1999c, *op. cit.*, p. 30.

<sup>58</sup> *Ibid.*, p. 31.

## **Extent of the implementation of employment terms and conditions**

**5.41** The majority of the agencies surveyed reported that they had implemented, or were in the process of implementing, the employment terms and conditions outlined in their certified agreements—this applied to the APS as a whole as well as to the 10 agencies examined in detail. However, responses to the APS-wide survey indicated that there have been delays in the original implementation schedule in 30 agencies—approximately one third of the agencies involved in the first round of agreement making. The ANAO found that:

- eighty per cent of the agencies that experienced delays indicated that the changes would be fully implemented during the life of the first agreement. Revised implementation dates were established in all cases. However, in five agencies this resulted in implementation being delayed until the following agreement; and
- only four agencies did not fully implement conditions that were supposed to be in place on certification of the agreement.

**5.42** The most common delays were in relation to the introduction of performance management arrangements (40 per cent); developing work level standards (23 per cent); revising employment groupings/staff classification structures (23 per cent); and the introduction of salary packaging (17 per cent). DEWRSB is continuing to monitor those agencies that have experienced delays in implementing their performance management arrangements and revised staff classification structures. This matter is discussed in Chapter 7.

## **Conclusion**

**5.43** The 1997 Policy Parameters required certified agreements to be supported by performance indicators that demonstrated performance improvements arising from the certified agreement. Although the revised parameters no longer require this, agencies are still expected to report on outputs and outcomes as part of their normal accountability requirements—this is an expectation of both the Government and Parliament.

**5.44** With regard to the APS as a whole, the DEWRSB survey reported that most respondents established certified agreement objectives that were concerned with achieving agency-specific program outputs and outcomes. There was a strong emphasis in certified agreements on tailoring employment terms and conditions to suit the needs of individual agencies—an objective that was met, or partially met, in the majority of cases. Although the achievement of this objective can be attributed

directly with the certified agreement, some agencies reported that it was difficult to distinguish the impact of the certified agreement on agency effectiveness from other factors.

**5.45** The 10 agencies chosen for further examination also defined objectives for their agreements—these often consisted of broad principles that encapsulated the Government’s objectives for agreement making and were linked to the agency’s broader corporate planning framework. However, these objectives were not necessarily supported by a further statement in the certified agreement about how their impact would be measured. In addition, few agencies had established specific monitoring and reporting arrangements to enable agency managers and external stakeholders to measure and/or assess the extent to which the agreement had achieved its objectives.

**5.46** In the absence of specific outcome monitoring arrangements, greater emphasis was placed on evaluations—seven of the 10 agencies conducted evaluations of their certified agreements. However, in the majority of cases, these were process-oriented evaluations that examined issues relating to the implementation of specific initiatives in the certified agreement.

**5.47** Ninety-five per cent of APS agencies reported that they had developed mechanisms to monitor implementation of the employment terms and conditions in their certified agreements. However, almost a quarter of these relied on ad hoc observation as the only monitoring mechanism indicating that they had not necessarily developed rigorous methods of data collection.

**5.48** The majority of agencies also reported that they had mechanisms in place to report on progress with the implementation of the certified agreement; and that they had implemented, or were in the process of implementing, the employment terms and conditions in their certified agreements. However, there were delays in the original implementation schedule for approximately one-third of those agencies involved in the first round of agreement making. The most common delays related to the introduction of performance management arrangements and revised staff classification structures. DEWRSB is continuing to monitor progress with relevant agencies.

**5.49** The majority of the 10 agencies examined in detail by the ANAO used their annual report as their principal external accountability mechanism. In its *Report on 1997–98 Annual Reports: Report One*, the Senate Finance and Public Administration Legislation Committee expressed the view that agencies’ 1998–99 annual reports should address the impact of certified agreements on agencies. However, the majority of the annual

reports examined by the ANAO only contained details of the processes associated with the development of their certified agreements and the implementation of key initiatives.

**5.50** The ANAO acknowledges the difficulties some agencies may experience in trying to distinguish the impact of their certified agreement on agency effectiveness from other factors. However, the fact that agencies have not established criteria or monitoring arrangements to measure and/or assess the outcomes of their agreements makes it more difficult for agencies to separate the impact of their certified agreement from that of other internal and external factors, such as changes in the demand for services or changes in technology.

**5.51** To enable agency managers to track progress against the agreement's objectives, there would be benefit in agencies providing an assessment of the impact of their certified agreement—particularly outcomes such as productivity improvements—and, where possible, the agreement's contribution to achievement of overall agency objectives. Any assessment of outcomes should be undertaken at key milestones during the life of the agreement and the results made public through, for example, the annual report, agency web-site or on request. The establishment of a productivity baseline from which to measure any productivity improvements is an important part of the assessment process.

## 6. Roles of the Central Coordinating Agencies

---

*This chapter provides an overview of the roles of DEWRSB, PSMPC and DOFA in relation to APS agreement making. The discussion focuses on DEWRSB and the PSMPC's coordination arrangements under the 1997 Policy Parameters. Consideration is given to enhancing DEWRSB's advisory role by providing agencies with more assistance in relation to the identification and measurement of improvements in productivity and undertaking an analysis of APS wage outcomes over the longer-term. Issues for the future, such as funding agreements in the accrual budgeting framework, are also discussed.*

### Background

**6.1** Under the Government's workplace relations reforms, the role of employer in the APS on behalf of the Government is now shared across DEWRSB, the PSMPC and DOFA.<sup>59</sup> Their respective roles are outlined in Table 7. With the move to agency-level agreement making, the central coordinating agencies are no longer involved in negotiating service-wide agreements that set centralised pay and conditions. Under the Public Service Act, Agency Heads have gained all the rights, duties, responsibilities and powers of an employer (on behalf of the Commonwealth). As a result of the devolution of greater responsibility for management and employment matters to agency heads, there has been a reduction in the regulatory role of the central coordinating agencies. These agencies now perform primarily a policy and advisory role for the Government and agencies in relation to employment matters in the APS.

---

<sup>59</sup> DEWRSB, 1999d, *Submission to the Senate Finance and Public Administration References Committee Inquiry into APS Employment Matters*, 31 August 1999.

**Table 7****Roles of central coordinating agencies in relation to employment matters in the APS**

<b>Agency</b>	<b>Role</b>
DEWRSB	Overall policy responsibility for matters relating to agreement making, including responsibility for implementing the Government's workplace relations policy and the operation of the <i>Policy Parameters for Agreement Making in the APS</i> .  Responsible for matters relating to terms and conditions of employment including the framework for performance-linked and SES remuneration.
	Overall policy responsibility for performance management.  Responsible for the broad human resource framework such as recruitment and non-SES redeployment, reduction and retrenchment matters.
DOFA	Responsible for the budgetary and financial arrangements.

Source: DEWRSB and Submissions to Senate Finance and Public Administration .

**6.2** In relation to agreement making in the APS, all three central coordinating agencies were involved in the development of the initial version of the Government's Policy Parameters promulgated to agencies in May 1997. However, DOFA's role has diminished since this time reflecting the fact that there have been no substantial changes to the funding Parameter. DEWRSB is the key policy adviser with respect to agreement making in the APS and has overall responsibility for reviewing agencies' draft certified agreements against the Policy Parameters.

## Reviewing agencies' certified agreements

**6.3** The ANAO's analysis of the process of reviewing agencies' agreements prior to certification by the AIRC focused on the activities of DEWRSB and the PSMPC. DOFA had no formal role in the review process although it provided advice to agencies, principally on superannuation issues, on a case-by-case basis.

## Department of Employment, Workplace Relations and Small Business

**6.4** Although agency heads have overall responsibility for agreement making in their agencies, DEWRSB has a role in ensuring that all APS certified agreements are consistent with the Government's Policy Parameters. This responsibility falls to the Workplace Relations Implementation Group (formerly the Australian Government Employment Group) in DEWRSB and has evolved since the first round of agreement making. As agencies gain more experience in workplace relations matters and following the review of the 1997 Policy Parameters—which included

specific consideration of DEWRSB's coordination arrangements—greater responsibility has been devolved to Agency Heads and relevant Ministers to ensure certified agreements are consistent with the Government's workplace relations policy. Nonetheless, DEWRSB continues to assess draft agreements against the Policy Parameters.

6.5 Given the ANAO's focus on the first round of agreement making, the coordination arrangements established under the 1997 Policy Parameters are outlined below. Also included is an assessment of DEWRSB's clearance procedures in relation to the 10 agencies selected for further ANAO examination. DEWRSB had no formal role in reviewing any agency's funding arrangements in relation to agreement making. However, the department was responsible for reviewing agencies' agreements for their compliance with the productivity element in the Policy Parameters. This process is also discussed briefly below.

#### *DEWRSB's coordination role under the 1997 Policy Parameters*

6.6 The change in emphasis from centralised to agency-level bargaining has meant that many APS agencies were responsible for negotiating all the terms and conditions of employment with their employees for the first time. To assist agencies with the devolved environment, the first round of agreement making saw DEWRSB adopt a central coordination role.

6.7 The 1997 Policy Parameters stated that:

*Agreements are to be subject to the following coordination arrangements in relation to the development of certified agreements, to support consistency with these Policy Parameters and legal requirements, so as to achieve the Government's objectives:*

- (a) agencies are to consult with DEWRSB:*
  - (i) at the proposal stage—ie. before the terms of an agreement are detailed or specified; and*
  - (ii) at the pre-endorsement stage—ie. before finalising an agreement for endorsement by employees.<sup>60</sup>*

---

<sup>60</sup> Where an agency disagreed with DEWRSB's advice on the application of the Policy Parameters, there was recourse to the Minister Assisting the Prime Minister for the Public Service.

**6.8** Each agency was assigned a Client Service Manager (CSM) who provided a single point of contact with the department in terms of reviewing the draft agreement as well as providing ongoing assistance and advice on workplace relations, agreement making and other issues relating to the Workplace Relations Act. DEWRSB developed a range of supporting guidance material for agencies in relation to the Policy Parameters and general workplace relations issues. This included a checklist of the key issues to assist agencies in submitting their certified agreements to DEWRSB and to expedite the clearance process. Agencies were encouraged to take the checklist into account in developing their agreements.

**6.9** To help ensure agencies received a timely response on their draft agreement, DEWRSB established a turnaround target as part of the Workplace Reform Group Service Charter. The Charter, implemented from September 1997, set out the range of services provided to agencies (including in relation to agreement making); the service levels that agencies could expect to receive; and the processes by which agency concerns may be addressed. The Service Charter stated that agencies could expect accurate, concise and comprehensive responses of the highest quality. This included written advice on agreements, commenting both on any issues relevant to consistency with the Policy Parameters and more general 'value adding' suggestions of an advisory nature to assist agencies in progressing and finalising effective agreements. Agencies could expect to receive these comments within five working days of submitting their agreement to DEWRSB.

**6.10** DEWRSB also developed internal coordination arrangements and clearance procedures. These were aimed at ensuring that the turnaround target was met and that agencies would receive a timely and considered response to their draft agreements. It was also seen as a means of providing appropriate evidence of assessment against the Policy Parameters. Draft agreements were to be provided to three policy areas within DEWRSB for comment—Workplace Relations Branch, Employment Conditions Branch and Pay Policy Branch. A process whereby the responses were to be cleared by the relevant branch head was aimed at ensuring consistency of advice. The CSM was then responsible for issuing a consolidated response to the relevant agency outlining whether the draft agreement complied with the Policy Parameters. Where it did not comply, the shortcomings were to be noted. This was to be sighted by the relevant Division Head (or other SES officer) prior to distribution to the agency.

**6.11** The ANAO's analysis of DEWRB's review process for those agencies selected for further examination found that:

- DEWRB provided the agencies with a detailed examination of whether their draft agreement complied with the Government's Policy Parameters as well as more general 'value added' comments;
- it was not uncommon for the agencies to be informed that their draft certified agreements did not satisfy the Policy Parameters and would be refused clearance unless DEWRB's comments were taken into account. Assistance was often provided to the agencies to help resolve any significant issues;
- several of the agencies took the opportunity to submit draft agreements to DEWRB for comment more often than was formally required;
- DEWRB was able to meet the five day turnaround target in only one third of the cases examined during the first round of agreement making.<sup>61</sup> For those second round agreements examined by the ANAO which were negotiated under the 1997 Policy Parameters and where information was available, DEWRB succeeded in meeting the target on all but one occasion;<sup>62</sup> and
- from the documents examined by the ANAO, it was not always apparent that senior management had sighted and/or signed-off on the agency responses. Despite this, it was clear that DEWRB's senior management was fully informed of any significant issues emerging in relation to APS agreement making.

*Reviewing the link between wage increases and productivity gains in agencies' certified agreements*

**6.12** As discussed in Chapter 3, the Government's Policy Parameters stated that improvements in pay and conditions should be linked to productivity gains. In December 1998, DEWRB advised agencies that the linkages between wage increases and productivity improvements should be identified in certified agreements. As part of the review process, DEWRB examined the text of draft agreements to ensure that appropriate linkages between pay and productivity had been developed.

---

<sup>61</sup> The ANAO examined 16 different instances where agency agreements were submitted for clearance.

<sup>62</sup> This is based on a much smaller sample, six instances.

**6.13** DEWRSB gave detailed consideration to the treatment of the pay/productivity relationship in two of the agencies examined by the ANAO. In relation to the *Department of the Treasury Certified Agreement 1998* DEWRSB commented that, although a general link was established between wage outcomes and productivity improvements, providing more information on the nature of the productivity initiatives could better substantiate the link.

**6.14** Similar comments were made in relation to the *Australian Bureau of Statistics Certified Agreement 1998–2000*. DEWRSB noted that the agreement was drafted in such a way to suggest that productivity savings were only a secondary factor in determining the level of the wage increases. It also contained little reference to specific productivity initiatives being undertaken by ABS, whether through the agreement or as separate corporate initiatives.

**6.15** DEWRSB made suggestions to bring the agreements in line with the Government's wages policy. Following some discussion, both agencies amended their agreements accordingly.

#### *Changes to DEWRSB's coordination arrangements following review of the 1997 Policy Parameters*

**6.16** The 1997 Policy Parameters included a commitment to review the coordination arrangements following the first cycle of agreement making. In October 1998, comments were sought from all APS agencies and other key stakeholders including management consultants, the Australian Council of Trade Unions and relevant public sector unions.

**6.17** Agencies expressed a wide range of views in relation to DEWRSB's role but the general consensus was that the coordination role should be reduced and streamlined. The majority of agencies considered that DEWRSB's policy and technical advice was important in their negotiations but that the advice should be more facilitative, rather than 'policing'. Agencies generally supported DEWRSB's role in assessing and advising on agreements, if this was undertaken without detracting from agency-level responsibility for agreements.<sup>63</sup>

---

<sup>63</sup> DEWRSB's analysis of agency responses to the review of the 1997 Policy Parameters.

**6.18** As a result, for those agreements negotiated under the 1999 Policy Parameters, DEWRSB shifted to a more advisory role with responsibility for ensuring compliance with the Policy Parameters being devolved to agencies. The 1999 Policy Parameters state that:

*Agencies are to:*

- *provide to DEWRSB their draft certified agreements and their assessment of it against the Government's policy objectives; and*
- *in seeking his/her approval of the agreement, advise the responsible Minister of any policy issues identified by DEWRSB.*

**6.19** Although DEWRSB continues to assess the provisions of draft certified agreements against the Parameters, the previous two-stage clearance process was streamlined to a single assessment of the draft agreement. DEWRSB will not refuse to clear draft agreements—Agency Heads and the relevant Ministers are responsible for resolving any policy issues identified in the DEWRSB assessment. There were no changes to these arrangements in the revised Parameters promulgated in March and again in April 2000. As with the previous arrangements, DEWRSB provided supporting guidance material and an assessment checklist to assist agencies in drafting their certified agreements.

**6.20** There was only one agency examined by the ANAO that had negotiated an agreement under the 1999 Policy Parameters—the *Department of the Senate Certified Agreement 1999–2001*.<sup>64</sup> The ANAO's analysis indicated that DEWRSB followed the revised assessment procedures and met the five day turnaround target.

### *DEWRSB's Review of Agreement Making in the APS*

**6.21** Agency comments on the role of DEWRSB were sought during the survey of Agreement Making in the APS. The ANAO also raised this issue with the 10 agencies examined as part of the audit.

---

<sup>64</sup> Although Centrelink, Customs, and the have also certified second round agreements, these were negotiated under the 1997 Policy Parameters and assessed by DEWRSB in accordance with the original assessment procedures.

**6.22** With specific reference to the support provided by DEWRSB in agreement making, DEWRSB's survey found that:

- seventy-eight per cent of respondents stated that they sought assistance from DEWRSB's Workplace Relations Implementation Group during the agreement making process. The Group was ranked as the second most helpful source of advice behind internal workplace relations/human resource management staff;
- thirty-seven per cent of respondents commented that improvements in DEWRSB's services would help them to achieve their objectives in the next agreement; and
- twelve per cent of respondents identified a lack of suitable support from DEWRSB to be the greatest difficulty or disappointment with their certified agreement making experience.

**6.23** An analysis of the survey results indicates that the negative comments in relation to DEWRSB's role relate primarily to agency experiences in two main areas—a lack of consistent advice from DEWRSB and/or a perception that DEWRSB came in 'at the end of the process' and insisted on changes to the draft agreement that had been negotiated between the parties at the workplace level. Similar views were expressed by some of the agencies examined by the ANAO, but it should be noted that their overall comments on the role of DEWRSB were favourable.

## **Public Service and Merit Protection Commission**

**6.24** The PSMPC's involvement in agreement making centres on those policy matters of interest to the Commission—redeployment, reduction and retrenchment issues; performance management; and machinery of government changes. As mentioned, DEWRSB had overall responsibility for reviewing agencies' draft certified agreements against the Policy Parameters. Under the 1997 Policy Parameters, DEWRSB advised that an arrangement was in place whereby DEWRSB consulted the PSMPC on those matters within the Commission's policy responsibilities when it was felt necessary to do so. Where this occurred, it mainly concerned redeployment, reduction and retrenchment issues.

**6.25** However, the PSMPC had some concerns about the extent of consultation. It has become apparent that some first round agreements included enhancements to limited aspects of the redundancy provisions though not to the level of benefits based on years of service.<sup>65</sup> These

---

<sup>65</sup> The Policy Parameters required agencies to maintain access to compulsory redeployment, reduction and retrenchment and to ensure that any revision was on a cost neutral basis when compared with the existing redundancy obligations.

were not detected during the assessment phase by DEWRSB. The limited time frame DEWRSB operated within when assessing agreements as well as the volume of agreements were factors in these matters not being detected. The PSMPC advised that it has consulted with DEWRSB with the aim of preventing this situation re-occurring in the future.

**6.26** As a result, both the and DEWRSB advised that a clear understanding has now been reached on the action to be taken to involve the PSMPC in the assessment of agreements under the Policy Parameters. Under this arrangement, the ANAO understands that all draft APS second round agreements provided to DEWRSB for review since July 2000 have been forwarded to the PSMPC for consideration and comment and that the PSMPC has agreed to pass any comments on those agreements to DEWRSB within the required five day timeframe. Where comments from the PSMPC refer to enhancements made under the first round, these are incorporated in DEWRSB's Policy Parameter assessment comments to agencies. Both DEWRSB and the PSMPC advised that these arrangements have worked satisfactorily since that time and that they will be kept under review.

**6.27** The ANAO found that those agencies which dealt directly with the PSMPC found the advice and guidance provided useful.

## Enhancing DEWRSB's advisory role

**6.28** In addition to assessing agencies' certified agreements against the Policy Parameters, DEWRSB has a wider role in promoting workplace reform and implementing the Government's workplace relations policy. DEWRSB provides policy advice to the Government as well as assisting agencies in the transition from centralised to agency-based agreement making. In order to provide sound advice to the Government and agencies, DEWRSB keeps track of current issues and developments in relation to agreement making—particularly those that have APS-wide implications.<sup>66</sup>

**6.29** DEWRSB also recognised that there is a need for agencies to have access to expert advice on matters that fall outside DEWRSB's core business activities. A consultancy service was established to assist agencies with a range of workplace relations issues, generally on a cost-recovered basis, in order to promote effective agreement making processes. DEWRSB's consultancy service offers a range of training courses and seminars, advocacy and consultancy services, networking across agencies and the publication of resource materials.

---

<sup>66</sup> DEWRSB, 1999d, *op. cit.*, p. 4.

## Advice and guidance material on productivity issues

6.30 In keeping with the emphasis on DEWRSB's advisory role, agencies felt the need for more information on agreement making to be centrally available. Specific mention was made of the need for DEWRSB to provide advice and guidance material to agencies on the link between increased pay and improvements in productivity as well as on the identification and measurement of productivity improvements.

6.31 DEWRSB supplemented the Policy Parameters with guidance material about aspects of agreement making and general workplace relations issues. Although much of this material did not include guidance on how productivity in the public sector was defined or measured, there was one particularly useful leaflet *Understanding productivity and flexibility*.<sup>67</sup> In providing a conceptual framework for measuring improvements in productivity outlined in Appendix 1, the ANAO drew on a body of publicly available material from Australia and overseas. Two public sector departments, including DEWRSB's predecessor the former Department of Industrial Relations (DIR), prepared discussion papers which were particularly useful. Details of these papers are as follows:

- The Western Australian Department of Productivity and Labour Relations produced a series of papers designed to foster discussion of emerging issues in work and labour relations. Two papers of particular relevance to productivity are:
  - (a) *A Guide to Productivity Measurement*, Developments No.1, November 1991; and
  - (b) *Productivity Measurement for Workplace Bargaining*, Developments No.9, January 1994.
- The former DIR prepared two booklets examining the first workplace agreements certified following the October 1991 National Wage Case Decision (where the AIRC expressed the view that wage increases achieved by employees through workplace bargaining should be justified and commensurate with their contributions to efficiency and productivity).<sup>68</sup> Although these booklets deal mainly with issues

---

<sup>67</sup> This is the second in a series of leaflets entitled *Women and Workplace Agreements* produced by the Equal Pay and Workplace Relations Section of the former Department of Workplace Relations and Small Business.

<sup>68</sup> DIR, 1992a, *Workplace Bargaining—The First 100 Agreements*, Wages Policy Branch of the Commonwealth Department of Industrial Relations, August 1992, p. vii.

relating to the broader public and private sectors rather than the APS, they include a general discussion on productivity improvement measures:

- (a) *Workplace Bargaining—The First 100 Agreements*, Wages Policy Branch of the Commonwealth Department of Industrial Relations, August 1992; and
- (b) *Workplace Bargaining—A Best Practice Guide*, Commonwealth Department of Industrial Relations with the assistance of the Australian Manufacturing Council Secretariat, November 1992.

**6.32** To assist agencies further, the ANAO considers that there is scope for DEWRSB to provide further support on the definition and measurement of productivity. Improving the efficiency and effectiveness of the APS is a central component of the Government's workplace relations reform agenda and the identification of areas for further productivity improvement is crucial to the success of the reforms. However, the latter has been raised as a significant issue for future agreement making. DEWRSB's Review of Agreement Making in the APS reported that the identification of potential productivity gains was the key issue for 31 per cent of respondents. In addition, as mentioned in Chapter 3, the ANAO found that the majority of the 10 agencies examined in detail had not developed clearly defined measures to determine whether improvements in productivity have been achieved.

**6.33** The ANAO recognises that there is not a 'one size fits all' approach to defining and measuring productivity. As DEWRSB points out, how agencies assess productivity will vary significantly depending on broader organisational objectives and how agreement making supports the achievement of those objectives. However, it would not be incompatible with DEWRSB's advisory role to offer, possibly through its consultancy arm, more assistance to agencies on productivity identification and measurement. Although responsibility for agreement making ultimately rests with individual agencies, assistance of this kind would help prevent unnecessary duplication of effort across agencies and could include:

- promulgating and encouraging discussion of recent research into public sector productivity in Australia and overseas; and
- providing opportunities for APS agencies to exchange information about their thinking and experiences on productivity issues.

## Recommendation No.4

6.34 The ANAO *recommends* that DEWRSB consider how it might further support agencies identify and measure productivity improvements as part of agreement making, possibly through its consultancy arm.

### *Agency response*

6.35 DEWRSB agreed with qualification to the recommendation. The department advised that it has, and will continue to, offer a range of targeted educative and advisory services to support agreement making in APS agencies. For instance, it recently facilitated a series of agency consultations involving between 10–15 agencies as a forum to exchange information regarding agreement making.

6.36 Subject to agency needs, DEWRSB advised that it is prepared to explore opportunities where it may facilitate agencies coming together to exchange information about their approaches to, and experiences with, improving and measuring productivity. However, given that there is not a ‘one size fits all’ approach to measuring improvements in productivity in the public sector, DEWRSB sees its role in this area as facilitative rather than the somewhat more proactive role implied in the recommendation.

6.37 Although the recommendation was not addressed to all agencies, the other agencies that commented indicated a high level of support for such an initiative.

## **Monitoring and reporting on APS wage outcomes**

6.38 As the key policy adviser on workplace relations issues, DEWRSB is already using its position to gather and provide information to agencies on recent developments and emerging issues.<sup>69</sup> The summary booklet on the first round of agreement making in the APS issued in June 1999 and the recent work on the Review of Agreement Making are examples of DEWRSB’s work in this area. The department also maintains information on wage outcomes across the APS and in the broader public and private sectors as outlined in Chapter 2. As discussed below, the ANAO considers that DEWRSB’s role could be further enhanced by undertaking additional analysis of APS wage outcomes with a view to identifying any issues that have the potential to impact on the ability of the APS to attract and retain staff.

---

<sup>69</sup> DEWRSB, 1999d, *op. cit.*, p. 4.

**6.39** The central focus of the Government's APS reform agenda is to build a high performing APS and make it more responsive to the needs of the Government and the community. However, there are a number of important factors that have the potential to impact on the long-term future of the APS if not managed effectively. Two key workforce demographics indicators—age and length of service—are of particular significance. The median age of APS employees in 1999 was 40 years and this is projected to increase to 45 years by 2009.<sup>70</sup> By 1998–99, those with 10 or more years' experience in the APS increased to 50 per cent of total employees. One of the factors contributing to the ageing of the APS is the decline in employment of staff aged under 25 years which can be linked, in part, to the decline in base grade level employment. As a result, succession planning and recruitment becomes increasingly important if the public service is to have people with the skills and experience required to conduct its business in the long-term.

**6.40** The retention of skilled and experienced staff is another major human resource management issue currently facing the APS, particularly given the current environment where the APS is competing with the private sector for skilled staff. APS agencies are also competing for employees within an internal APS labour market and responses to DEWRSB's survey of Agreement Making in the APS suggest a perception that the loss of skilled staff will occur unless higher wages and/or enhanced employment conditions are provided. DEWRSB's Review of Agreement Making noted that agreements were being used as a vehicle to address staff retention problems.<sup>71</sup> This may account for the similarities in wage outcomes offered across the APS. As discussed in Chapter 2, 54 per cent of agency agreements provided annual pay increases of between 3.0 and 3.9 per cent in their certified agreements. In addition, 60 per cent of respondents to DEWRSB's survey of Agreement Making in the APS stated that '*wage levels in other parts of the APS*' were a factor in determining wage increases in their agreements.<sup>72</sup>

---

<sup>70</sup> PSMPC, 1999b, *State of the Service Report 1998–1999*, Commonwealth of Australia, p. 11.

<sup>71</sup> DEWRSB, 2000d, *Review of Agreement making in the APS: Draft Case Study—Staff Retention*, p. 1.

<sup>72</sup> DEWRSB, 1999c, *op. cit.*, p. 12.

**6.41** However, as mentioned in Chapter 4, some agencies have raised concerns about their ability to continue funding increases of this magnitude. Small agencies in particular have indicated that they are having difficulties maintaining their competitive advantage in the market through being unable to match salaries.<sup>73</sup> The results of DEWRB's Review and anecdotal evidence suggest that budget considerations will be an even more significant in future rounds of agreement making. There is a perception that those agencies unable to identify the productivity improvements and/or savings required to fund competitive wage outcomes in future agreements may experience difficulty in attracting and retaining high performing staff in the current employment market. In turn, this has the potential to impact on the quality of the service provided by those agencies.

**6.42** Although the level of remuneration can be a significant factor in attracting potential new recruits, the ANAO acknowledges that the attraction and retention of staff includes broader considerations than simply increasing pay—an issue developed further in DEWRB's case study focused on staff retention issues.<sup>74</sup> DEWRB has also cautioned agencies to undertake further exploration of the workforce planning issues surrounding staff retention to help prevent the agreement making process being substantially influenced by a desire to retain particular groups of staff, unless this is a clear business objective.<sup>75</sup>

**6.43** Nonetheless, the ANAO considers that there would be benefit in DEWRB undertaking analysis of wage outcomes over the longer-term, including how APS wage outcomes compare with those in the broader public and private sectors. As discussed in Chapter 2, DEWRB has already undertaken some analysis of the wage outcomes included in APS certified agreements on the basis of agency characteristics such as size and primary function and found no significant relationships between any of them. However, the ANAO considers that there would be benefit in DEWRB undertaking similar analyses over the longer-term to enable trends to be identified and any anomalies to be investigated. The ANAO acknowledges that the purpose of the Government's reforms is to move away from the previous standardised approach by providing greater flexibility regarding pay and employment conditions. A wide range of wage outcomes across the APS might indicate that agency agreements

---

<sup>73</sup> DEWRB, 2000e, *Review of Agreement making in the APS: Draft Case Study—Small Agencies*, p. 4.

<sup>74</sup> DEWRB, 2000d, *op.cit.* p. 5.

<sup>75</sup> DEWRB, 1999c, *op. cit.*, p. 68.

are increasingly being tailored to reflect individual agency circumstances or as a result of increased benchmarking with organisations or industries external to the APS.<sup>76</sup> However, it may reflect the fact that some agencies are unable to fund competitive wage outcomes.

**6.44** There would also be benefit in making this information available to interested parties, such as APS agencies and Parliament, through DEWRSB's quarterly publication *Key Pay Indicators (KPI) Online*. This could include analyses similar to those already undertaken by DEWRSB as part of its Review of Agreement Making in the APS and by the ANAO in Chapter 2 of this report—for example, information on the range of wage outcomes and the average increase across the agreements certified. This could include all APS agreements and/or those negotiated as part of the first or second rounds of agreement making. Agency characteristics such as workforce size and primary function could also be considered. To enable comparisons to be made with the broader public and private sectors, analysis of wage outcomes should be undertaken using the *AAWI per employee* measure, despite its limitations.

**6.45** The provision of this information on a regular basis would provide a better understanding of the range of wage outcomes in APS agencies and how they compare with the broader public and private sectors; facilitate the identification of any anomalies; and allow the Government to respond to any emerging trends as necessary. It would also provide Parliament with an ongoing, whole-of-government perspective on agreement making in the APS.

## Issues for the future

### Funding agreements in the accrual budgeting framework

**6.46** Many agencies report that they have reached the limit of the trade-offs between pay and conditions that will allow them to achieve quick and easy savings. Nineteen per cent of respondents to the DEWRSB survey on agreement making reported that they had already traded everything in.<sup>77</sup> Agencies cannot generate savings based on efficiency measures indefinitely and must therefore determine how to fund wage increases in the accrual budgeting environment introduced from the 1999–2000 Budget.

---

<sup>76</sup> In response to the emergence of the internal market in APS wage outcomes, DEWRSB is encouraging APS agencies to look to relevant organisations in the broader public and private sectors when negotiating wage increases. This is examined in more detail in Chapter 2.

<sup>77</sup> DEWRSB, 1999c, *op. cit.*, p. 57.

**6.47** Under the new environment, agencies will move progressively to a system in which they will be expected to justify the price of their outputs as part of a Government program of pricing reviews. The outcomes of these reviews will specify the outputs agencies produce and agreed pricing arrangements for these outputs, allowing for productivity gains and inflation.

**6.48** Agencies will also need to identify the price of each output and other key attributes such as quantity and quality.<sup>78</sup> However, in order to allocate all the costs that an agency incurs to what it produces, there will need to be a greater emphasis on costing agency inputs.<sup>79</sup> In a typical public sector organisation, the full cost of an object will include labour costs—covering both salary costs and associated on-costs.<sup>80</sup>

*Cost is a measure of the value of resources consumed in acquiring or delivering a product or service. Understanding costs and the ability to control the cost of operations are integral elements of good financial management.*<sup>81</sup>

**6.49** Information about costing methods is contained in a Better Practice Guide, *Building Better Financial Management Support*, published by the ANAO in 1999 as part of a series designed to assist organisations to develop a sound financial management capability. It is now more necessary than ever for agencies to devote attention to planning and monitoring issues so that they can cost and price their outputs properly and benchmark successfully against competitors.

**6.50** As mentioned, DOFA advised that the introduction of the accrual budgeting framework will make it easier for agencies to consider options for funding their certified agreements. Accrual accounting ensures that agencies are aware of the full cost of doing business, and the outcomes/outputs framework focuses managers on what they are delivering and why. In a climate of continuous improvement and technological advances, the framework allows agencies to examine the price of their outputs, prioritise within an output, and identify efficiencies and savings.

---

<sup>78</sup> DOFA, 1998, *Specifying Outcomes and Outputs*, Commonwealth of Australia, p. 8.

<sup>79</sup> *Ibid.*, p. 35.

<sup>80</sup> ANAO, 1999, *Building Better Financial Management Support. Functions, Systems and Activities for Producing Financial Information. Better Practice Guide to Effective Control*, Commonwealth of Australia, p. 32.

<sup>81</sup> *Ibid.*, p. 31.

**6.51** However, during audit fieldwork it became apparent that some of the workplace relations/human resource management staff responsible for drafting certified agreements were unsure of the implications of the accrual framework on funding future certified agreements. Anecdotal evidence also suggests that stronger links could be developed at the agency level between the workplace relations/human resource management staff and the finance areas, and between the central coordinating agencies responsible for these matters. DEWRSB has stated that agencies will need to ensure that they have identified and can justify the cost of all inputs required to achieve their outcomes.<sup>82</sup> However, the department does not provide relevant information on the budgetary administrative arrangements in relation to agreement making in the guidance material promulgated to agencies that would assist the workplace relations/human resource management areas to better understand the revised budgetary arrangements.

**6.52** The ANAO recognises that it is the responsibility of individual agencies to familiarise themselves with the new accrual budgeting environment. However, there is scope for DEWRSB—in conjunction with DOFA—to provide more information on the implications of the accrual budgeting framework for funding certified agreements. This information could:

- assist the workplace relations/human resource management staff gain a better understanding of the implications of the accrual framework for funding certified agreements;
- prevent unnecessary duplication of effort across agencies; and
- encourage increased communication between the workplace relations/human resource management staff responsible for drafting certified agreements and the finance areas. It may also promote stronger links between DEWRSB and DOFA.

**6.53** DOFA advised that it supports this approach and would be happy to provide advice to, and work with, DEWRSB on any initiative they may take to increase this level of understanding. DOFA also noted that, based on its experience, the level of understanding of accrual budgeting within agencies is increasing at a rapid rate. Consequently, it is likely that most agencies would now have the necessary level of expertise to advise on the implications of the accrual budgeting framework for funding future rounds of agreement making.

---

<sup>82</sup> DEWRSB, 1999c, *op. cit.*, p. 67.

## Conclusion

**6.54** The PSMPC fulfilled its responsibilities under the Policy Parameters in relation to reviewing agencies' certified agreements, as did DEWRSB with some minor exceptions. Overall, the ANAO found that the expertise and technical advice of the two agencies were generally valued by agencies. However, a few minor issues in relation to the review process were identified. For example, the PSMPC expressed concern about the extent to which they were consulted by DEWRSB on those matters within the Commission's policy responsibilities (principally in relation to redeployment, reduction and retrenchment issues). The ANAO was advised that these issues have since been resolved. Similarly, analysis of the clearance procedures established under the 1997 Policy Parameters for the 10 agencies examined in detail indicated that they were not strictly observed on all occasions. For the most part, this was not a significant issue. However, it was not always apparent that DEWRSB senior management had sighted and/or signed off on DEWRSB's assessment. This may have contributed to the lack of consistent advice—a concern raised by a small group of agencies.

**6.55** The ANAO acknowledges that the role required of central coordinating agencies in reviewing draft agreements against the Government's Policy Parameters has reduced and that agencies are becoming more experienced in agreement making at the agency level. However, DEWRSB's move to a more facilitative and advisory role places increased emphasis on the need to ensure that consistent advice is provided to agencies in relation to workplace relations matters.

**6.56** There is scope for DEWRSB to consider how it might further support agencies identify and measure improvements in productivity, possibly through its consultancy arm. Although there is not a 'one size fits all' approach to defining and measuring productivity, the identification of areas for further productivity improvement has been raised as a significant issue for future agreement making.

**6.57** There would also be benefit in DEWRSB undertaking analysis of APS wage outcomes over the longer-term. This will allow DEWRSB to monitor whether there are any significant relationships between wage outcomes and agency characteristics such as workforce size and/or primary function and also to compare APS wage outcomes to those in the broader public and private sectors. There is also a perception amongst APS agencies that those agencies unable to identify the productivity improvements and/or savings required to fund competitive wage outcomes in future agreements may experience difficulty in attracting

and retaining high performing staff. The ANAO acknowledges that the attraction and retention of staff include broader considerations than simply increasing pay. Nonetheless, ongoing analysis of APS wage outcomes would enable trends to be identified and any anomalies to be investigated. Publication of the results of this analysis would provide Parliament and other interested parties with a better understanding of the range of wage outcomes in APS agencies and how they compare with the broader public and private sectors. It would also allow the Government to respond to any emerging trends as necessary.

**6.58** During audit fieldwork, it became apparent that some of the workplace relations/human resource management staff responsible for drafting certified agreements were unsure of the implications of the accrual framework on funding future certified agreements. DEWRSB did not provide information on the budgetary administrative arrangements in relation to agreement making in its guidance material. The ANAO considers that there is scope for DEWRSB—in conjunction with DOFA—to provide more information on the implications of the accrual budgeting framework for funding certified agreements. DOFA advised that it supports this approach.

## 7. Performance Management and Performance-linked Remuneration

---

*This chapter provides an overview of the introduction of performance management arrangements in the APS and the extent to which they have been implemented by individual agencies as part of the agreement making process. Issues relating to performance-linked remuneration are also discussed including the basis on which it is paid; the magnitude of the performance based wage increases staff are eligible to receive; and monitoring and reporting on results.*

### Introduction

**7.1** The general introduction of performance management arrangements was one of the more significant workplace reforms to occur during the first round of agreement making in the APS. Agreement making provided a vehicle for agencies to introduce performance management systems intended to reward employees for high performance. Improvements in individual performance are expected to translate into an improvement in the overall performance of the agency thus leading to a high performing APS—this is a central driver of the Government’s workplace relations reforms. With the abolition of the previous system of semi-automatic increments, performance management arrangements were intended to guide salary advancement in the APS.

**7.2** A related reform was the introduction of a rationalised eight level APS staff classification structure. This was designed to address deficiencies associated with the previous structure and accommodate agency concerns regarding greater flexibility, including the need for increased mobility across classification levels, growing agency interest in broadbanding and more flexible remuneration arrangements.

**7.3** Agencies were required by the 1997 Policy Parameters to introduce a new APS staff classification structure coupled with effective performance management arrangements to guide salary movement through the classification pay ranges. Not only were agencies required to have a performance management system in place within the life of the first round agreement or by no later than the end of 1998, but that the performance management system should be linked to pay—ie. performance-linked remuneration. Agencies were also required to develop remuneration strategies to outline the performance management and salary movement

arrangements to accompany the adoption and application of the new APS staff classification structure.

**7.4** Performance-linked remuneration, administered within the performance management framework of individual agencies, is a key component of the move towards a high performance culture in the APS. As indicated in Chapter 1, the have undertaken work in relation to performance management arrangements and performance-linked remuneration, including the identification of features of effective performance management systems. The ANAO has built on this work to provide an overview of the performance management arrangements in the APS and the extent to which they have been implemented in individual agencies as part of certified agreements. Issues relating to performance-linked remuneration are also discussed.

## Performance management arrangements

### Previous experience with performance management

**7.5** Performance appraisal and pay arrangements were first introduced to the APS for the SES, senior officers and equivalents as a result of a workplace bargaining agreement between the Government and public sector unions finalised in December 1992. While agencies had the option of continuing them, these performance appraisal arrangements ceased in 1994 with the expiry of the 1992 workplace bargaining agreement and following a recommendation to this effect from the Senate Standing Committee on Finance and Public Administration.

**7.6** This previous experience highlighted certain issues associated with the introduction of performance appraisal and pay. As stated above, it is important that individual productivity gains translate into an improvement in whole of agency performance. The ANAO would expect to see performance measures established to identify improvements in performance against business and corporate goals resulting from the introduction of performance management arrangements. A previous ANAO audit, Audit Report No. 16, 1993–94, *Pay for Performance: Performance Appraisal and Pay in the Australian Public Service*, considered this issue. The audit found that most of the agencies examined did not take any action to identify whether there was an improvement in the achievement of corporate goals (such as improvement in the quality of products or services provided by the agency) as a result of the implementation of performance appraisal and pay.<sup>83</sup>

---

<sup>83</sup> ANAO, 1993, *op.cit.*, pp. ix, 53.

7.7 The Senate Standing Committee on Finance and Public Administration, in concluding that there were fundamental conceptual problems with the previous system of performance pay, noted that it is very difficult to measure the contribution of individuals to achieving organisational goals.<sup>84</sup> However, some progress has been made with this requirement in the performance management systems introduced as part of the recent workplace relations reforms. The PSMPC's 1999 study of the performance management arrangements flowing from 41 certified agreements found that:

- all the performance management systems examined involved staff developing individual performance agreements which identified responsibilities that were linked to work area or business plans; and
- 40 per cent of agencies assessed individual work performance against corporate values or behaviours.<sup>85</sup>

### **The current situation with performance management in the APS**

7.8 The desire to improve the performance of people and, through them, the agencies where they are employed, has been a central driver of the Government's public sector reforms. The *State of the Service Report 1998–99* stated, with regard to performance management, that:

*the objective of performance management is improved agency performance, including through the encouragement of individual and team innovation and creativity and through effective and relevant development programs. Performance management systems are a tool to assist agencies to align individual and team performance with outcomes.*<sup>86</sup>

7.9 The *State of the Service Report* also stated that the most effective schemes for managing performance were those that bring together a number of processes. These include individual performance assessment aligned with the business and corporate goals and the values of the organisation; effective feedback mechanisms; development plans addressing identified areas of need; effective management of under-performance; and the application of the information gathered as part of the process to longer-term workforce planning. In addition, the link between performance-linked remuneration and performance assessment must be clearly understood and seen to be fair.<sup>87</sup>

---

<sup>84</sup> Senate Standing Committee on Finance and Public Administration, 1993, *Performance Pay—Report from the Senate Standing Committee on Finance and Public Administration*, Parliament of the Commonwealth of Australia, p. 59.

<sup>85</sup> PSMPC, 1999b, *op. cit.*, pp. 46–47.

<sup>86</sup> *Ibid.*, p. 45.

<sup>87</sup> *Ibid.*

**7.10** At the time of audit, the majority of APS agencies had performance management arrangements in place. The DEWRSB survey of Agreement Making in the APS found that performance assessment was ranked highest (77 per cent) of the main features of agency agreements.<sup>88</sup> DEWRSB reported that performance management reforms were the most significant component of first round agreements. However, variations occurred between agencies on the extent to which fully functioning performance management systems, or more modest performance management initiatives, had been introduced through agreements.<sup>89</sup> DEWRSB also found that many respondents reported that the implementation of a performance management system had warranted ongoing wage increases on the basis that improved individual productivity was anticipated from such reforms.<sup>90</sup>

**7.11** The ANAO considers that, on the basis of previous experience with performance pay in the APS, there would be benefit in all APS agencies ensuring that appropriate links can be established between individual performance and whole of agency performance where they are not already in place. This is particularly important in light of the emphasis agencies have placed on performance management as a means of measuring improvements in individual productivity as discussed in Chapter 3. While it may not be possible to identify the specific contribution made by an individual staff member to meeting organisational objectives, individual performance ratings should generally be commensurate with whole of agency performance. However, the ANAO also acknowledges that there may be circumstances when such an alignment does not occur. For example, there may be instances where a small number of individual staff members are performing at a high level even though there may not be an improvement in overall agency performance.

## **Implementation of performance management arrangements and revised**

### *APS-wide*

**7.12** As stated above, the 1997 Policy Parameters required that APS agencies have performance management arrangements in place by the end of 1998. Chapter 5 noted that responses to the ANAO's attachment to DEWRSB's survey indicated that delays had occurred with the introduction of performance management arrangements in 40 per cent of agencies.

---

<sup>88</sup> DEWRSB, 1999c, *op. cit.*, p. 36.

<sup>89</sup> *Ibid.*, p. 65.

<sup>90</sup> *Ibid.*, p. 14.

**7.13** During the review of the 1997 Policy Parameters undertaken in October 1998, DEWRSB noted that many agencies expressed reservations about the rigid deadline imposed for the introduction of performance management arrangements. Agencies considered that the requirement to have performance management systems in place and linked to pay by the end of 1998 was unrealistic given the sensitivities associated with implementing such a key workplace reform.

**7.14** To determine the extent to which the Policy Parameter was observed, DEWRSB issued a circular to all agencies in early January 1999 requesting information on the implementation of the rationalised staff classification structures and performance management arrangements. This information was collated in a report to the Minister Assisting the Prime Minister for the Public Service in March 1999, which found that:

- sixty-eight agencies, covering around 50 per cent of total APS staff, had fully implemented the requirements of the Policy Parameters with regard to the new staff classification structure and performance management arrangements;
- five agencies, covering around 22 per cent of APS staff, were in the process of varying their existing agreement or developing a new agreement to introduce the rationalised staff classification structure and performance management arrangements;
- thirteen agencies, covering around a further 22 per cent of APS staff, had introduced a new staff classification structure but were yet to implement performance management; and
- eight agencies, comprising around two per cent of APS staff, had not yet certified first round agreements and therefore had not implemented a new staff classification structure or performance management arrangements.

**7.15** The report recognised that the implementation of new staff classification structures directly linked to performance management systems was a major step in workplace reform and that some agencies experienced staff and union resistance to the introduction of these initiatives. DEWRSB noted that many agencies implemented interim performance management arrangements in order to meet the end-1998 deadline with a view to introducing more comprehensive systems later on.

**7.16** In August 1999, DEWRSB issued follow-up circulars to the 26 agencies that had not fully implemented revised staff classification structures and/or comprehensive performance management arrangements at January 1999. The follow-up found that 12 agencies had not fully

complied in regard to staff classification structures and performance management arrangements. DEWRSB has advised that, in keeping with its responsibility for overseeing the implementation of government policy, it has begun further follow-up work in those agencies that have not pursued further performance management initiatives. This will be completed when resources permit.

### *Ten APS agencies*

**7.17** Of the 10 agencies examined in detail by the ANAO, eight had performance management arrangements in place or being trialed at the time of audit. The exceptions were:

- the Family Court which, although committed to the principle of performance management, postponed the introduction of its performance management scheme until after completion of the process re-engineering and job redesign activities currently underway; and
- AQIS (Meat Inspection Division), which advised that it did not consider it appropriate to apply performance management arrangements to Meat Inspectors for several reasons. These include: the difficulty in measuring the work standard of Meat Inspectors; the focus of the Meat Program Agreements on the rationalisation of conditions; and the division's strategic focus on moving towards Meat Inspectors being employed by industry rather under the Public Service Act.

**7.18** All 10 agencies had revised staff classification structures in place. AQIS (Meat Inspection Division) and Customs have adopted agency-specific staff classification structures. The remaining agencies have adopted the standard APS staff classification structure with four of these agencies utilising broadbanding flexibilities. Of these, the ABS, the ATO, the Family Court and the Department of the Senate included a commitment in their first agreements to investigate the possibility of broadbanding in the future. However, the Department of the Senate was the only agency to have certified a second agreement at the time of the audit fieldwork and it decided to maintain the APS staff classification structure.

**7.19** It is interesting to note that some agencies offered staff financial incentives to implement performance assessment schemes and/or revised staff classification structures. For example, the ABS, the ATO and the Department of the Senate made wage increases 'conditional' on implementation of these initiatives. This approach was generally successful with the exception of the ATO where, as discussed in Chapter 3, there were delays in implementing new staff classification and remuneration systems.

**7.20** DETYA, Centrelink and the Family Court adopted a similar approach and offered pay increases ‘in recognition’ of the implementation of the performance management scheme and/or revised staff classification structure. DETYA and Centrelink achieved their objective, but the introduction of the performance management arrangements in the Family Court was delayed for reasons outlined previously. However, court staff received a two per cent wage increase in July 1999 ‘*in recognition of the development of a new staff classification structure; implementation of the Performance Management System; development of Customer Service Improvement Plans and having made progress towards implementing the plans.*’ The Family Court advised that the funding of the wage increase was not dependent on the introduction of the performance management system as no savings were identified for the performance management system for the first two years of operation. As a result, staff were paid the wage increase.

## Performance-linked remuneration

**7.21** The *State of the Service Report 1998–99* states that agreement making provides the means for agencies to find the right mix of remuneration and other forms of reward for their particular culture and organisational values.<sup>91</sup> A key element of this is the introduction of performance management for staff, which includes provision for performance-linked remuneration.

**7.22** The two most common forms of performance-linked remuneration included in APS certified agreements are:

- performance-linked advancement—an on-going payment which generally involves progression to a higher pay point based on performance, or a percentage increase in salary. This new amount becomes the employee’s nominal salary and counts for all purposes, including superannuation; and
- performance-linked bonuses (commonly termed ‘performance pay’)—which usually take the form of a one-off bonus payment in recognition of performance, but which do not become part of the employee’s nominal salary package.

**7.23** Other examples of performance-linked remuneration include team-based rewards and other forms of rewarding individual performance (which may be cash or non-cash benefits). There may also be a ‘pay at risk’ component where a proportion of an employee’s salary (which has been paid prospectively) has to be repaid if specific performance criteria are not met.

---

<sup>91</sup> PSMPC, 1999, *op. cit.*, p. 47.

## Characteristics of performance-linked remuneration arrangements

7.24 As noted earlier, the PSMPC completed an analysis of the performance management arrangements flowing from 41 agency agreements in July 1999 and found that all agencies linked remuneration to performance in some way, either through performance-linked advancement or performance-linked bonuses. Performance-linked advancement was the most common method of rewarding performance, with provisions made for employees to be advanced through multiple pay points within classifications or broadbands of classifications. Two agencies provided for percentage increases in salary instead of advancement through pay points. The PSMPC also found that some agencies rewarded their high performing staff with both annual salary advancement and performance-linked bonuses. Others made provision for an annual bonus pool to reward individuals or work groups.<sup>92</sup>

7.25 The PSMPC found that most agencies advanced employees' salary by one pay point for an 'effective' performance rating (i.e. meeting the requirements of the position) and two points for 'superior' or 'outstanding' performance. DEWRSB advised that advancing employees' salaries by one pay point might, in some instances, reflect an expectation by agencies that an employee will be more effective after a period of time. However, the PSMPC's findings raise the issue of whether performance-linked remuneration should be provided in recognition of the achievement of an employee's normal job requirements or used as a reward for demonstrated performance over and above normal job requirements.

7.26 This reflects concerns raised in the previous ANAO audit report on performance appraisal and pay. Although the previous performance appraisal arrangements ceased in 1994, the issues raised in the ANAO's report remain relevant. The ANAO expressed the view that performance pay should be used as a reward for those staff members who have demonstrated that they are performing over and above their normal job requirements, as identified in their individual performance agreements. Base salary was considered an appropriate reward for staff who perform at the level expected of them. However, as noted above, most agencies are still advancing employees' salary by one pay point for meeting the requirements of the position.

---

<sup>92</sup> *Ibid.*, pp. 47–48.

**7.27** Under the current devolved arrangements, agencies have the flexibility to develop performance management arrangements that suit their own operating environment. The ANAO acknowledges that there are sensitivities associated with implementing such a significant workplace reform and that progression through the pay points is increasingly being subjected to a more rigorous test than in the past. The decision of whether remuneration should provide a regular de facto wage increase through annual advancement or be a reward for high performing staff is one for agreement between management and employees. However, it should be an informed one and based on the particular needs and environment of the agency.

### **The magnitude of performance-linked remuneration**

**7.28** Given the emphasis placed on agreement making being tailored to suit the requirements of individual agencies, a wide range of performance management systems and broadbanding arrangements have emerged across the APS. As a result, it is extremely difficult to give a precise indication of the magnitude of the additional wage increases all staff at a particular classification level might be eligible to receive based on performance. In addition, the magnitude of pay advancement usually varies depending on the employee's position within the classification level.

**7.29** The ANAO undertook an analysis of seven agencies to provide some indication of the increases their employees were eligible to receive through performance-linked remuneration. This sample included four of the agencies selected for further examination as part of this audit—Centrelink, Customs, DOFA and the Treasury.

**7.30** The ANAO found that the wage increases staff were eligible to receive through performance-linked remuneration were significant, sometimes greater than the wage increases included in the certified agreement. In the majority of agencies, performance assessment occurs biannually or annually so staff are eligible to receive performance-linked advancement and/or bonuses at least on an annual basis. It should be noted that most agencies have a maximum salary level within each classification band beyond which advancement is only possible through promotion.

**7.31** Of the seven agencies examined by the ANAO:

- five included provisions for staff to be advanced by one pay point based on 'effective' performance (performance-linked advancement). In these agencies, staff were eligible to receive an increase in their nominal salary of between 1.9 to 12.6 per cent;

- three of the agencies examined advanced their high performing staff by two pay points resulting in increases of between 4.4 to 16.9 per cent;
- two agencies provided performance-based bonuses of between \$500 to \$4000 to high performing staff who were at the top pay point of their classification level; and
- only DOFA relied solely on performance-linked bonuses—staff being eligible for one-off bonuses of between 2 and 15 per cent depending on performance.

7.32 The undertook a similar analysis to the ANAO examining 16 agency agreements and performance management frameworks in relation to the APS 4 classification level. Performance-linked advancement of one pay point generally resulted in a pay increase in the range of \$900 to \$1720. High achievers in one agency could attract a 10 per cent performance bonus—estimated to be of the order of \$3800.<sup>93</sup>

### **Monitoring and reporting of performance-linked remuneration in agencies**

7.33 The importance of establishing systems to monitor and report on the outcomes of performance-linked remuneration is highlighted by the fact that salary advancement based on performance is now a significant element of the remuneration arrangements in APS certified agreements. As discussed above, the wage increases staff are eligible to receive through performance-linked remuneration can be greater than the wage increases included in the certified agreement. This is due to the common practice in the agencies examined by the ANAO of advancing an employee's salary by one pay point for an effective performance rating as well as placing additional emphasis on rewarding their 'high flyers'—those staff receiving a performance rating of superior or exceptional. However, the arrangements put in place to measure the performance of employees are generally more rigorous when compared with past practices.

7.34 The development of systems to monitor and report on the extent to which agencies used performance-linked remuneration is important for two main reasons—internal management purposes and external accountability to Parliament. Consistent with the devolution of responsibility for establishing terms and conditions of employment to agencies, there is no centralised collection of detailed information in relation to performance-linked remuneration. However, it is important

---

<sup>93</sup> PSMPC, 1999, Submission to the Senate Finance and Public Administration Inquiry into APS Employment Matters, *op. cit.*, p. 37.

that agencies establish a data collection framework or other system to collect information on trends in performance assessment outcomes and to monitor progression and remuneration levels within broadbands. This is particularly important given the longer-term financial implications of increasing employees' base rates of pay in relation to long service leave, annual leave and, most significantly, the on-going superannuation liability. In addition, developing systems to capture the results of performance assessment can enable agencies to identify the impact across the organisation, specific work areas and on workplace diversity, including Equal Employment Opportunity (EEO) and other target groups. It would then be possible to draw on this information for external accountability purposes.

**7.35** As part of its inquiry into APS employment matters, the Senate Finance and Public Administration Committee has raised issues of accountability to Parliament regarding the results of performance assessment in agencies and the amount of performance-linked remuneration received by employees. The results of performance assessment in agencies—that is, the spread of performance ratings received by employees—can provide an indication of whether individual and agency performance has improved as intended. Similar concerns regarding accountability have been raised by the Committee as part of the 1999–2000 Additional Estimates. The Committee commented on the lack of transparency of senior executives' performance payments beyond the aggregate totals in some agencies' annual reports and the mandatory disclosure of the number of SES receiving total remuneration of \$100 000 or more.<sup>94</sup>

**7.36** The ANAO examined the 1998–99 annual reports for Centrelink, Customs, DOFA and the Treasury, and found that DOFA was the only agency to include information on the performance ratings and performance-linked bonuses staff received. The remaining three agencies had not completed a performance assessment cycle at the time of preparing their annual reports.

**7.37** The ANAO considers that there is benefit in agencies establishing mechanisms to monitor and report on the outcomes of performance-linked remuneration for the reasons outlined above. Any information also has to provide assurance that there is a properly determined and assessable basis for performance-linked remuneration and that it is properly payable

---

<sup>94</sup> Senate Finance and Public Administration Legislation Committee, 1999, *Additional Estimates 1999–2000 Report*, Commonwealth of Australia, p. 13.

on that basis. However, any system of monitoring and reporting on performance-linked remuneration in APS agencies requires a balance to be struck between the need for external accountability to Parliament and other stakeholders, and the right of the individual to privacy. To protect the privacy of the individual, it is suggested that each category cover a minimum of six individuals.

**7.38** The Senate Finance and Public Administration Committee is yet to complete its current inquiry. However, given the interest in this issue, the ANAO considers that there would be benefit in DEWRSB and the PSMPC consulting with the Committee and other relevant parties with a view to developing a set of measures that capture relevant information in relation to performance assessment and performance-linked remuneration in an appropriate and cost-effective manner. Once this is determined, agencies will need to make the necessary adjustments to their management information systems to ensure relevant information is collected in a suitable format.

**7.39** One option for satisfying the requirements of Parliament, while alleviating individual privacy concerns, is to report non-identifiable information on the results of performance assessment and the number of staff accessing performance-linked remuneration—both through performance-linked advancement or performance-linked bonus payments. Agencies could provide general information such as performance assessment ratings aggregated according to classification level—for example, the number of APS 6 staff rated as superior, fully effective, or unsatisfactory. This could be supplemented with more detailed information as follows:

*Performance-linked advancement*

- number of staff eligible to receive performance-linked advancement at each classification level; and
- the range and average percentage increase in the base rate of pay for those staff receiving performance-linked advancement.

*Performance-linked bonuses*

- number of staff who received performance-linked bonus payments at each classification level; and
- aggregate amount paid in total and at each classification level, including the average and range of the payments.

**7.40** The previous ANAO audit on performance appraisal and pay dealt with monitoring and reporting of performance-linked bonuses or ‘performance pay’ as it was then known. In addition to information on the percentage of staff eligible to receive performance-linked bonuses, the ANAO also recommended that agencies include in their annual reports any significant correlation between performance ratings and classification, region and gender. The coordinating agencies at the time of the 1993 audit—DIR and the Public Service Commission—considered expanding the reporting requirements to cover:

- appraisal ratings and total amounts of performance-linked bonuses paid for individual classification groups, including rating outcomes by gender and possibly geographical location;
- the amounts of performance-linked bonuses paid for each eligible rating; and
- the aggregate amount that the agency paid in performance-linked bonuses.

**7.41** Reporting along the lines suggested above can satisfy accountability requirements without unnecessarily compromising privacy. There is also scope for coordinating agencies such as DEWRSB and the PSMPC to conduct some analysis of the information reported by agencies. This would help to satisfy the interest of Parliament and other stakeholders, to identify emerging trends and would provide the opportunity to raise significant issues with agencies where necessary.

## Conclusion

**7.42** The desire to improve the performance of agencies is critically dependent on the performance of the individuals employed in those agencies. The 1997 Policy Parameters required agencies to introduce a new APS staff classification structure coupled with effective performance management arrangements to guide salary movement through the classification pay ranges. These changes were to be implemented by the end of 1998.

**7.43** Although there were some delays, the majority of APS agencies now have performance management arrangements and new staff classification structures in place—a result achieved in some agencies by offering staff financial incentives to implement the new arrangements. DEWRSB reported that performance management reforms were the most significant component of first round certified agreements but noted that variations occurred between agencies on the extent to which fully functioning performance management systems, or more modest performance management initiatives, had been introduced.

7.44 The new performance management arrangements include provision for performance-linked remuneration, either through performance-linked advancement or performance-linked bonus payments. The ANAO found that the additional remuneration increases staff are eligible to receive based on performance are significant, sometimes greater than the wage increases included in the certified agreement.

7.45 The magnitude of performance-linked remuneration reinforces the importance of establishing systems to monitor and report on performance assessment and performance-linked remuneration both for internal management purposes and external accountability to Parliament. The Senate Finance and Public Administration Committee has raised issues of accountability to Parliament regarding the results of performance assessments in agencies and the amount of performance-linked remuneration received by staff. The ANAO considers that there would be benefit in DEWRSB and the PSMPC consulting with relevant Parliamentary Committees with a view to developing a set of agreed measures that capture relevant information in relation to performance assessment and performance-linked remuneration in an appropriate and cost-effective manner. Agencies would then be responsible for making arrangements to meet Parliament's expectations in a suitable format.

---



Canberra, ACT  
4 October 2000

P. J. Barrett  
Auditor-General



# **Appendices**



## Appendix 1

### Measuring productivity in the APS

*This appendix examines issues associated with the measurement of public sector productivity. To provide some practical assistance to agencies, current overseas trends and issues to consider when developing productivity measures are discussed. Examples of some of the ways to improving productivity and specific productivity measures are also provided, along with a detailed guide to further reading on approaches to productivity improvement and measurement.*

#### Introduction

As stated in Chapter 3 (which examined the links between wage increases and productivity) productivity is not easily measured in the public sector. The traditional economic definition of productivity, which focuses on input costs, is not cognisant of a public sector that delivers a diverse range of services. Most of these services are multi-faceted—containing quantity, quality and client services dimensions—and require outcomes that are often in the public interest. Any definition of productivity in the public sector needs, therefore, to go beyond narrow economic definitions and focus on outcomes as well as outputs as reflected in the Government's Outcomes-Outputs Framework. Although cost-oriented concepts of productivity remain important, issues of overall effectiveness, including quality aspects, must also be taken into consideration.

For the purposes of this audit, the ANAO has considered productivity at two levels:

- **efficiency savings**—those productivity improvements resulting from cost minimisation and/or cost efficiency strategies that generate tangible savings which can contribute to funding wage increases provided for in agreements; and
- **improvements in agency effectiveness**—often less tangible aspects of performance improvement which focus on the outputs and outcomes and overall effectiveness of an organisation and its staff.

## Importance of measuring productivity improvements

The Government's APS stipulates that any improvements in pay and conditions negotiated as part of agreement making must be linked to achieved improvements in the productive performance of each agency. This requirement is clearly articulated in the *Policy Parameters for Agreement Making in the APS*. If they are to comply with the spirit as well as the letter of the Policy Parameter, agencies should develop measures to determine whether productivity gains have actually occurred—especially if wage outcomes are conditional on an improvement in productivity.

Productivity measurement is also important in providing feedback for internal management purposes on the performance of an organisation and the success of its programs as well as any workplace initiatives aimed at improving productivity. Measuring improvements in productivity is also an essential element of public sector accountability. It can provide assurance to Parliament and the general public that the organisation and its staff are operating efficiently and effectively and that wage increases are based on achieved productivity gains.

For the purposes of this report, productivity measures and productivity indicators are considered synonymous.

## Identifying areas where improvements in productivity are required

There is no single formula for improving public sector productivity since it depends on the nature of the agency and its operating environment. There is benefit in agencies adopting a strategic approach to the identification of areas for productivity improvement to ensure they are compatible with the future directions of the organisation. At the highest level, productivity improvements should be aimed at achieving best practice and linked to the agency's Outcome-Output framework. In relation to the internal management of the organisation, the areas targeted for improvement should reflect the corporate priorities and be directed towards achievement of the key performance indicators outlined in the Corporate Plan.

In developing productivity improvement initiatives, consideration needs to be given to those productivity gains that are suitable for inclusion in a certified agreement. Such areas should be linked to the strategic direction of the agency, but must also be areas over which employees have some

control. Consequently, the productivity measures developed for agreement making might be a sub-set of the high level improvements outlined above. Ideally, the areas targeted for productivity improvement should be able to deliver both improvements in agency effectiveness as well as efficiency savings to contribute to funding the wage increases. It is also desirable that the productivity improvements result in sustainable long-term gains.

## Ways of improving productivity

There is advantage in agencies recognising that there are a wide range of ways in which improvements in overall productivity can be achieved. Although staff improving their individual work practices within existing organisational arrangements can achieve some productivity gains, more substantial improvements will be realised if agencies adopt a strategic approach to productivity improvement. Some of the factors agencies may wish to consider include:

- better management techniques, including improved people management;
- more appropriate organisational structures and work organisation such as the introduction of team-based work or job redesign;
- better work arrangements and practices, including changes to the working environment and conditions of employment;
- more effective use of technology;
- provision of more appropriate training; and
- improving the effectiveness of workforce planning in areas such as skill identification, succession planning, career development, recruitment and retention.

Table 1 provides specific examples of ways in which some of these factors can influence improvements in productivity. However, there are a number of cultural influences that can affect an organisation's ability to embrace productivity improvement initiatives. These include:

- speed of innovation and ability to adapt to change; and
- whether the organisational culture is results-oriented.

**Table 1****Examples of how specific factors can contribute to improvements in productivity**

<p><b>Work organisation</b></p> <p>Increase labour flexibility by:</p> <ul style="list-style-type: none"> <li>• broadening and redesigning jobs to encompass a wider range of duties; and</li> <li>• revising .</li> </ul> <p>Introduce team work to improve communication and employee commitment and involvement, to better utilise employees' skills, to improve quality and to reduce costs.</p> <p>Establish consultative mechanisms and procedures to facilitate the development and implementation of the new arrangements.</p> <p>Restructure the organisation to achieve greater efficiency and flexibility through the devolution of decision-making and responsibility.</p>
<p><b>Conditions of employment</b></p> <p>Vary the conditions of employment to focus largely on increasing the flexibility of the workplace thus improving productivity. Such initiatives could include:</p> <ul style="list-style-type: none"> <li>• more flexible taking of leave and rostered days off;</li> <li>• extended or staggered hours of work;</li> <li>• introduction of job sharing, part-time employment, and/or use of non-ongoing employees; and</li> <li>• streamlining pay arrangements through the consolidation of allowances and absorption into total pay. This is aimed at streamlining administrative arrangements and reducing operating costs through reduced personnel transactions.</li> </ul>
<p><b>Working environment</b></p> <p>A strategic approach to productivity improvement includes consideration of issues such as absenteeism, retention and enhancing job satisfaction. Many employers are increasingly recognising the benefits of work related child care and family leave as a means of reducing absenteeism and retaining skilled workers.</p>
<p><b>Training</b></p> <p>Training provides an important foundation for dealing with the changes introduced through agreement making, particularly in relation to increasing labour flexibility. Providing training to equip employees with a broader range of skills is necessary for the multi-factor approach to productivity enhancement.</p>

Sources: DIR, 1992a, *Workplace Bargaining: The First 100 Agreements*, Commonwealth of Australia  
 DIR, 1992b, *Workplace Bargaining: A Best Practice Guide*, Commonwealth of Australia.

The sources of productivity are diverse and should be tailored to reflect the specific needs of the agency. Agencies should consider a range of factors in order to give an overall picture of organisational productivity rather than attempt to capture all productivity change through a single factor. For example, overall productivity may eventually increase following investment in new equipment or technology but there may be no immediate improvement in employee productivity. Single factor productivity measures may also encourage employees to focus on improving performance in one factor, while decreasing performance in other areas.

Agencies should also consider the impact of external factors on productivity improvement. For example, a recent ANAO audit, Audit Report No.5 (1999–2000) *IP Australia—Productivity and Client Service*, found that one of the productivity measures—the ratio of revenue-weighted output to total cost—was influenced by factors unrelated to staff productivity. These factors included changes in legislation that altered processing requirements and changes to the ‘business mix’.

## **International practices**

Improvements in agency performance can also have a significant impact on productivity. The development of ways of improving agency performance is a trend evident internationally and some of the approaches that have been adopted are outlined below.

### *European Foundation for Quality Management*

Quality management is the generic term for processes that give prominence to quality and total quality management principles (for example, customer service and continuous improvement), and the need for direct measurement of improvements. Ideally this is achieved through an integrated program such as the European Foundation for Quality Management (EFQM) model.

The EFQM is committed to promoting quality improvement in European organisations, and is especially committed to the concept of Total Quality Management as a means of managing activities that lead to competitive advantage. Originally based on presidents of major companies, EFQM membership now extends to over 600 European public and private organisations. The EFQM Excellence Model is a framework designed to assist organisations with identifying strengths and areas for improvement. As such, it provides a useful benchmarking partner and is being used by the United Kingdom (UK) public sector for this purpose.

More information on the EFQM model is available online:

<http://www.efqm.org> [21 September 2000]

### *ISO 9000*

ISO 9000 is an international quality management standard that is designed to assist organisations with improving performance by focusing on processes and documentation that will allow them to respond to the needs of customers.

More information on ISO 9000 is available online:

<http://www.iso-9000.co.uk> [21 September 2000]

### *European Benchmarking Code of Conduct*

The European Benchmarking Code of Conduct was developed by a group of private and public organisations, which includes EFQM, to guide relationships and promote effective benchmarking. The use of benchmarking as a performance measurement tool is discussed in detail below.

### *Investors in People (IiP)*

IiP is a national quality standard that sets a level of good practice for improving organisational performance through people. IiP UK was established in 1993 and has responsibility for the standard, its promotion internationally, quality assurance and development. Several APS agencies have been trialing IiP, including the Department of Transport and Regional Services (the first to be accredited) and the .

More information on IiP UK is available online:

<http://www.iipuk.co.uk> [21 September 2000]

### *National Partnership for Reinventing Government*

The National Performance Review was established by the United States (US) Government in 1993 to undertake a major reform process. In 1998, the National Performance Review's name was changed to the National Partnership for Reinventing Government because of the importance of partnerships in the process of reinventing government. The project is based around an emerging international trend of using a balanced approach to performance management which focuses on an integrated 'family' of performance measures. The balanced scorecard approach has provided the main model for this and is discussed in detail below. The National Partnership for Reinventing Government also advocates benchmarking as a means of improving performance.

More information on the National Partnership for Reinventing Government is available online: <http://www.npr.gov> [21 September 2000]

## **Measuring and/or assessing productivity improvements**

The range and type of measures used to determine whether improvements in productivity have been achieved will vary from organisation to organisation. Individual agencies should develop measures that are appropriate for their particular situations. Agencies can use existing organisational processes to demonstrate productivity improvement although they should ensure that these processes are appropriate. However, if the processes are not relevant or more detailed information is required, it may be necessary to develop specific productivity measures.

## Developing sound productivity measures

The key principles for sound performance information also apply to the development of productivity measures—the former is discussed in more detail in *Performance Information Principles*, a better practice guide developed jointly by the ANAO and the former Department of Finance.<sup>95</sup> It is important to develop a balanced range of measures—efficiency, effectiveness and client service measures should be developed to enable an investigation of the interactions and inter-relationships between the factors that influence outcomes. Simple cost minimisation measures of productivity ignore effectiveness issues, and measures that focus on effectiveness and quality are less useful as a means of identifying the capacity to fund wage increases.

Nonetheless, effectiveness measures focused on the achievement of outcomes are particularly important because their improvement represents ‘value for money’ to taxpayers through improvements in client service and in the quality of work performed. The development of such measures can also meet the needs of an organisation’s internal management to monitor the effectiveness of their strategies and helps satisfy external accountability requirements in relation to the effective use of public money.

It is also important that the measures developed are reliable, accurate, timely and valid, in that they actually measure the characteristic that they purport to measure. Since actual assessment of performance is often based on comparative information, it would usually be necessary to establish standards, targets, benchmarks and milestones as a basis for comparison—all of which should be realistic and achievable.

There are advantages in agencies consulting with their workforce in order to gain acceptance for the productivity measures. ‘Employee empowerment’ is an important component of organisational change programs and staff should be encouraged to play an active part in the development of productivity improvement measures and the application of best practice strategies. Staff involvement in the selection of measures also raises employees’ appreciation of their importance to the organisation.

---

<sup>95</sup> ANAO and Department of Finance, 1996, *Performance Information Principles*, Better Practice Guide—November 1996, Commonwealth of Australia, pp. 16-21. This guide is planned to be revised during the 2001–02 financial year.

## Issues to consider when developing productivity measures

Some of the issues to consider in the development of productivity measures include the following:

- **the costs associated with the collection and analysis of productivity data.** Given these costs can be substantial, it may be necessary to tailor the number of productivity measures or the type of information to be collected to those considered most relevant to the agency and other stakeholders;
- **user requirements.** In line with providing useful feedback, the client group for each productivity measure should be defined. This will influence the type of productivity measures developed—internal management often requires detailed measures at the program level whereas the Minister and the Parliament may require a macro-level measure of productivity. It is a waste of resources to establish processes for the collection, analysis and reporting of productivity information if the information is not used;
- **the intended purpose of the productivity measure.** If the purpose is to influence employees' behaviour and bring about cultural change, then understandability or simplicity may be more useful. If the measures are to be used for benchmarking, they should be set in terms which will enable comparisons to be made with internal and external standards of acceptable achievement or best practice;
- **the mix of qualitative and quantitative measures.** It is necessary to develop a comprehensive range of measures to capture both qualitative and quantitative factors. This includes both specific output indicators and more general qualitative indicators to give a complete picture of the organisation;
- **a long-term as well as short-term focus.** It is likely that a phased approach combining short-term practical solutions with long-term strategic initiatives to improve productivity leads to better and more sustainable results. Those measures which focus on short-term productivity enhancement only, such as cost minimisation, have the potential to constrain productivity in the long-term; and
- **cause and effect relationship.** In developing productivity measures, it is important to establish, where possible, a cause and effect relationship.

Table 2 provides some examples of the range and type of productivity measures that can be used to determine whether productivity improvements have been achieved. The approach to productivity improvement and measurement outlined in Box 1 is aimed at providing an example of how the principles outlined above can be put into practice.

**Table 2****Examples of the range and type of productivity measures**

Type of measure	Example
Quantitative output measures	Direct labour productivity (eg. number of inquiries handled per staff member) Reduction in labour hours per unit (eg. time taken to process applications) Quantity produced (eg. number of reports produced per year)
Cost measures	Reducing input expenses and operating costs (eg. staff reductions, streamlining administration and reduced processing) Unit cost per production (eg. cost per contract let) Direct labour costs Value added per employee Cost of labour turnover (eg. attrition rates and cost of recruitment) Cost of 'downtime' (eg. delays resulting from absenteeism, inefficient work practices or accidents)
Human resource measures	Employee satisfaction (measured through the results of staff surveys) Absenteeism Labour turnover Time lost to accidents and injury or industrial action Increases in staff flexibility and skills Ratio of direct to indirect labour Improvements in Individual performance assessment ratings
Financial performance measures	Return on funds Full cost recovery Aggregate agency income Payment of efficiency dividend
Quality measures	Customer satisfaction and customer complaints Accuracy of work 'Scrap and rework' (eg. not getting it right first time) Accreditation to external standards Results of quality assurance processes

Sources: DIR, 1992, *Workplace Bargaining: The First 100 Agreements*, Commonwealth of Australia.  
 Langfield-Smith, K. & D. Madden, 1998, *Productivity and Performance Indicators in Enterprise Agreements* in *Australian Accounting Review*, Vol.8, No.2, p. 34

## Box 1

### A suggested approach to productivity improvement and measurement in client service

**Identify the productivity improvements the organisation is aiming to achieve**

- improved client satisfaction;
- more clients served;
- better quality of service;
- timeliness of services to clients increased;
- more competitive service;
- more flexible in responding to client needs; and/or
- reduced absenteeism and staff turnover.

**Strategies to help achieve the desired productivity improvements**

- develop a Client Service Charter or Client Service Improvement Plan which outlines service standards;
- develop methods to improve the understanding of client service requirements;
- provide more effective training for staff to meet the service standards;
- more effective use of technology;
- more flexible working arrangements to suit client needs;
- consider changes to work organisation—perhaps restricting client service tasks to experienced and trained staff; greater use of part-time or non-ongoing employees to better accommodate client service peaks; taking normal office work out of the client's view;
- improve management-employee relations to help the team perform better; and/or
- bring about attitudinal or cultural change to reflect a greater client focus— leadership is essential in achieving this and the organisation may need to introduce measures to support employees to make the changes required. For example, more flexible working conditions; improved work environment with access to child care, health and fitness equipment, better staff facilities; opportunities for further training and development.

*continued next page*

### **Measures to determine whether the desired productivity improvements have been achieved**

- achievement of the targets and client service standards contained in the Client Service Charter or Client Service Improvement Plan;
- results of client satisfaction surveys;
- number of clients served per full time equivalent (FTE) staff member;
- time taken to serve each client;
- percentage of inquiries processed accurately per FTE;
- reduced absenteeism and staff turnover; and/or
- less complaints from clients.

### **Agency function**

The nature of the agency and its operating environment will also impact on the type of productivity measures to be selected. For example, policy/advisory agencies are typically smaller and more concentrated than other types of public service agencies whereas program management/service delivery agencies are typically larger, with a number of dispersed branches or local offices. The latter offer more scope for applying a wide range of measurement techniques. Those agencies with mixed functions may need to consider a range of different types of measures—for example, program managers may be concerned with questions of agency efficiency whereas policy specialists may have a greater concern for agency effectiveness.

#### *Policy agencies*

In general, the field of policy advice continues to be one that is less subject to performance measurement principles. However, New Zealand has given considerable attention to improving, measuring and pricing policy advice. Its handling of this issue reflects features of the New Zealand public management system, which includes distinguishing policy ministries and service departments; government as the purchaser of advice; and purchase agreements. Quality systems have been established to link the contracting of policy tasks to individual policy analysts and project groups working on similar issues. Five measures of performance have been developed, as follows:

- quantity (completing priority projects within work program);
- coverage (overall service);
- quality (provision of specific forms of high quality advice in terms of clarity, accuracy etc.);

- time (deadlines for projects); and
- cost (in terms of output).<sup>96</sup>

An example of the work being undertaken in New Zealand to improve the quality of policy advice is outlined in Box 2.

The UK public sector is also addressing the relationship between policy advice and performance, examining incentives and levers for handling cross-cutting policies—for example, new arrangements for accountability, performance measures and cross-boundary rewards for teams.<sup>97</sup>

## Box 2

### New Zealand State Services Commission—improving the quality of policy advice

The New Zealand State Services Commission focuses on policy units and high performance in the provision of policy advice. A three-stage high performance model is being developed where the characteristics of each stage, and the contribution and relationship between them, is made explicit. These stages are outlined below:

- the first stage, *Building a Foundation*, covers organisational support and positioning, such as Chief Executive commitment, strategic alignment within the organisation and leadership;
- at the second stage, *Developing People and Systems*, the management of the policy process is addressed, including cross-cutting policy processes and effective quality assurance systems (for example, the use of guidelines for peer review and sign off, and incentives for peer review); and
- the third stage, *Maintaining and Improving Policy Capability*, covers policy unit reputation, trust and confidence of ministers and positive organisational culture (for example, more self-managing so that fewer resources are needed for monitoring work).<sup>98</sup>

<sup>96</sup> Hunn, D.K., 1994, *Measuring performance in policy advice: a New Zealand perspective*, in *Organisation for Economic Cooperation and Development (OECD) Performance measurement in Government: issues and illustrations*, OECD, Paris.

<sup>97</sup> UK Government, 1999, *Modernising Government*, Prime Minister and Minister for the Cabinet Office, Cm 4310, [Online], Available: <http://www.cabinet-office.gov.uk/moderngov/index.htm>, [21 September 2000].

<sup>98</sup> State Services Commission, 1999a, *Minds over matter: Human resource issues affecting the quality of policy advice*, Occasional paper No.8; Wellington.

\_\_\_\_\_, 1999b, *Essential ingredients: improving the quality of policy advice*, Occasional paper No.9; Wellington.

\_\_\_\_\_, 1999c *High Fliers: developing high performing policy units*, Occasional paper, No 22, Wellington, [Online], Available: [http://www.ssc.govt.nz/documents/Occ\\_Paper\\_No22.htm](http://www.ssc.govt.nz/documents/Occ_Paper_No22.htm), [21 September 2000].

### *Service delivery and mixed agencies*

Service delivery agencies and mixed agencies can more readily isolate areas that can be subjected directly and effectively to a range of performance measurement principles. Service delivery agencies also offer considerable scope for applying a range of measurement techniques, including such approaches as benchmarking, data envelopment analysis (DEA) and the balanced scorecard. These techniques are discussed later in this appendix.

## **Ongoing monitoring and review of productivity measures**

Productivity improvement measures need to be monitored and reviewed to ensure their continued relevance and appropriateness. This should allow for the recommendation of changes to enhance efficiency since organisations will eventually reach a point when further improvement, as defined by the existing productivity measures, is not possible. For those measures where productivity has decreased over time, it is necessary to analyse the factors impacting on the result.

There should be continuity of productivity measures over time in order to collect trend information and determine whether productivity has improved. However, there are situations where adjustment to the measures is required to ensure they remain credible and useful. Changes should not be made to all the individual productivity measures at the one time as this prevents comparisons over time. The overall effectiveness of the measures in demonstrating gains in productivity may need to be assessed over a long timeframe.

## **Current approaches to measuring productivity and performance**

A wide range of measurement techniques are being employed to measure improvements in productivity and agency performance both in Australia and overseas. Some of these are based on comparative analysis, such as benchmarking and DEA, whereas others employ a more comprehensive and strategic management approach such as the balanced scorecard. Each of these techniques is discussed below, with an example of its application in a public service context overseas.

## Benchmarking

Benchmarking is a performance measurement tool that is used for measuring the operating performance of agencies and identifying 'best practice'. The process systematically measures and compares the products, services and processes of an agency. Benchmarking may focus on process, efficiency or outcomes. These comparisons may be either within an agency (over time or across offices) or with comparable organisations in the broader public or private sectors in Australia and internationally.

The benefits of benchmarking are that it can:

- provide comparisons about organisational performance;
- focus the organisation on key performance gaps;
- support the development of performance standards;
- bring in new ideas and good practice from external organisations;
- identify opportunities and applying improvements; and
- improve the quality of performance information available to government.

Benchmarking is encouraged in the UK where public sector agencies undertake self-assessments against the EFQM Excellence Model in a bid to improve performance. An example of the use of benchmarking in the UK is outlined in Box 3 below. The technique is also used in the US where the National Partnership for Reinventing Government established a Federal Benchmarking Consortium to stimulate benchmarking by federal agencies against private sector companies and other organisations, including other federal agencies.

### Box 3

#### Hybrid benchmarking in the UK—HM Customs and Excise

HM Customs and Excise has major responsibility for revenue collection and protective functions. It also has a policy advice role. The department has developed a technique called 'hybrid benchmarking' to encourage efficiency. The technique won a European Best Practice Benchmarking Award and a Benchmarking Office has now been established in the department.

Hybrid benchmarking involves a process of business review, service-level requirement (tasks, quality standards, workload etc.), benchmarking of measures and information and efficiency review and evaluation. Unlike market testing, hybrid benchmarking has broader applicability, including in policy work. Customs and Excise reported savings (averaging 20 per cent) and quality improvements (in 70 per cent of cases).

## Data envelopment analysis

DEA is a linear programming technique that identifies the apparent best providers of services by their ability to produce the highest level of services with a given set of inputs, or to produce given services with the least amount of inputs. Other service providers receive an efficiency score that is determined by their performance relative to that of the best performers. The technique can determine whether the main source of inefficiency is the scale of operations or the managerial capacities and effort of the service provider. It can also incorporate variables to account for environmental factors that might influence the productivity of a service provider but which are beyond its control—for example, the wealth or education of clients.<sup>99</sup>

DEA is typically used to measure technical efficiency, which is determined by the difference between the observed ratio of combined quantities of an organisation's output to input and the ratio achieved by best practice.<sup>100</sup>

## Balanced scorecard

This is a comprehensive approach to improving agency performance that seeks to bring balance to the process. This approach to strategic management incorporates measurement linking long-term goals and objectives. These are converted into performance measures.

Four perspectives on organisational performance form the centrepiece of the balanced scorecard approach. In addition to financial measures, these are customer satisfaction; internal business processes; and innovation and learning. Each of the four is examined in the scorecard through strategic objectives, performance measures for each objective, targets and initiatives.

The approach can be applied to a range of organisational types in the public and private sectors, but appears to have been most used where delivery systems are involved. As a management model, the balanced scorecard provides a focused overview of organisational performance.

---

<sup>99</sup> Steering Committee for the Review of Commonwealth/State Service Provision, 1997, *Data Envelopment Analysis—A Technique for Measuring the Efficiency of Government Service Delivery*, Australian Government Publishing Service, Canberra. The paper includes case studies on hospitals, dental services, police, motor registries and corrective services.

<sup>100</sup> *Ibid.*, p. 15.

Some of the advantages of the balanced scorecard approach are that it can:

- facilitate measurement of agency performance against private sector organisations;
- promote a more strategic approach (an organisation's 'instrument panel'); and
- convey a clear message to area/regional offices about the need for top-to-bottom strategic alignment (or cascading).

Some examples of the use of the balanced scorecard in the US public sector are provided in Box 4.

#### **Box 4**

##### **Examples of the use of the balanced scorecard in the United States**

###### **Balanced Measures Review in the Internal Revenue Service**

The US Internal Revenue Service (IRS), a bureau within the Department of , is responsible for collecting internal revenue. The IRS previously used a range of productivity and quantity measures for reporting on performance. Now it has three measurement categories—customer satisfaction, employee satisfaction and business results. Using the balanced scorecard approach, the IRS relies on a small number of outcome measures. Quality and quantity are both considered within a measurement system that balances priorities between traditional enforcement (for example, revenue) and feedback from employee and customer surveys.

###### **Balanced set of measures in the Veterans Benefits Administration**

The US Veterans' Benefit Administration (VBA) is essentially a service delivery agency focusing on veterans' benefits and health. The VBA follows the basic framework of the balanced scorecard approach, using the four categories: financial (unit cost or cost-per-claim), customer satisfaction, internal (accuracy and timeliness), and learning and growth (employee satisfaction and development). The VBA has been developing outcome measures as an addition to the balanced scorecard.

#### **Further reading**

A guide to learning more about specific cases and methods for measuring improvements in productivity and agency performance (covering publications, web sites, official documentation and other sources) is included below.

## Productivity and performance measurement

Berman, E., 1998, *Productivity in Public and Non-Profit Organisations*, Thousand Oaks.

Department of Finance and Administration, 1998, *Specifying Outcomes and Outputs: Implementing the Commonwealth's Accrual-based Outcomes and Outputs Framework*, Commonwealth of Australia, Canberra.

Department of Industrial Relations, 1992, *Workplace Bargaining—The First 100 Agreements*, Branch, Commonwealth of Australia, Canberra.

Department of Industrial Relations and Australian Manufacturing Council Secretariat, 1992, *Workplace Bargaining—A Best Practice Guide*, Commonwealth of Australia, Canberra.

Department of Productivity and Industrial Relations, 1991, 'A Guide to Productivity Measurement', *Developments*, No.1, November, Western Australian Government.

Department of Productivity and Industrial Relations, 1994, 'Productivity Measurement for Workplace Bargaining', *Developments*, No.9, January, Western Australian Government.

Department of Workplace Relations and Small Business, n.d., 'Understanding productivity and flexibility', *Women and Workplace Agreements*, No.2, Equal Pay and Workplace Relations Section.

Halligan, J., 1997, 'New public sector models: Reform in Australia and New Zealand', in Jan-Erik, L. (ed.) *Public Sector Reform: Rationale, Trends and Problems*, Sage, London.

Holzer, M., 1992, *Public Productivity Handbook*, Marcel Dekker.

Holzer, M., 1998, 'Productivity', *International Encyclopedia of Public Policy and Administration*, Westview Press.

Hunn, D.K., 1994, 'Measuring Performance in Policy Advice: A New Zealand Perspective', in Organisation for Economic Cooperation and Development, *Performance Measurement in Government: Issues And Illustrations*, OECD, Paris.

Langfield-Smith, K. and Madden, D., 1998, 'Productivity and Performance Indicators in Enterprise Agreements' in *Australian Accounting Review*, 8 (2), pp. 33–42.

Management Advisory Board/Management Improvement Advisory Committee, 1994, *Performance Management: The Integrated Use of Recognition, Rewards and Sanctions*, No.16, Australian Government Publishing Service, Canberra.

Management Advisory Board, 1997, *Beyond Bean Counting: Effective Financial Management in the APS—1998 & Beyond*, Commonwealth of Australia, Canberra.

Organisation for Economic Cooperation and Development, 1997, *In Search of Results: Performance Management Practices*, OECD Paris.

Public Service and Merit Protection Commission, 1998, *APS Reform: Building on Good Practice*, Commonwealth of Australia, Canberra.

Public Service and Merit Protection Commission, 1999, 1998–99, Commonwealth of Australia, Canberra.

State Services Commission, 1999a, *Minds over Matter: Human Resource Issues Affecting the Quality of Policy Advice*, Occasional Paper No.8, Wellington.

State Services Commission, 1999b, *Essential Ingredients: Improving the Quality of Policy Advice*, Occasional Paper No.9, Wellington.

State Services Commission, 1999c, *High Fliers: Developing High Performing Policy Units*, Occasional Paper No.22, Wellington.

United Kingdom Government, 1999, *Modernising Government*, Prime Minister and Minister for the Cabinet Office, Cm 4310, [Online], Available: <http://www.cabinet-office.gov.uk/moderngov/index.htm>, [21 September 2000]

Van Wart, M., and Berman, E., 1999, 'Contemporary Public Sector Productivity Values: Narrower Scope, Tougher Standards and New Rules of the Game' in *Public Productivity and Management Review*, 22 (3), March, pp. 326–47.

## **Benchmarking**

Cabinet Office, 1999, UK Public Sector Benchmarking Project, [Online], Available: <http://www.cabinet-office.gov.uk/eeg/1999/benchmarking.htm>, [21 September 2000]

Czarnecki, M.T., 1999, *Managing by Measuring: How to Improve Your Organisation's Performance through Effective Benchmarking*, Amacon, New York.

Department of Finance and Administration, 1996, *Measuring Up: A Primer for Benchmarking in the Australian Public Service*, Performance Improvement Group, Canberra, [Online], Available: <http://www.dofa.gov.au/pubs/pig/benchmk/benchm.htm>, [21 September 2000]

Management Advisory Board/Management Improvement Advisory Committee, 1996, *Raising the Standard: Benchmarking for Better Government*, Report No.21, Canberra.

## **Data Envelopment Analysis**

Nyhan, R.C. and Martin, L.L., 1999, 'Comparative Performance Measure: A Primer on Data Development Analysis', in *Public Productivity and Management Review*, 22 (3), March, pp. 348–64.

Steering Committee for the Review of Commonwealth/State Service Provision, 1997, *Data Envelopment Analysis: A Technique for Measuring the Efficiency of Government Service Delivery*, Commonwealth of Australia, Canberra.

## **Balanced scorecard and balancing measures**

Kaplan, R.S. and Norton, D.P., 1996, *The Balanced Scorecard: Translating Strategy into Action*, Harvard Business School Press, Boston.

National Partnerships for Reinventing Government, 1999, *Balancing Measures: Best Practices in Performance Measurement*, Washington, [Online], Available: <http://www.npr.gov/library/papers/bkgrd/balmeasure.html>, [21 September 2000]

## Appendix 2

### Agreement making arrangements in selected State and Territory Governments

*This appendix outlines the arrangements established by the ACT, , Victorian and Western Australian governments to guide public sector agreement making in budget funded agencies.*

#### Australian Capital Territory

<b>Coordination arrangements</b>	<b>Funding arrangements</b>	<b>Linking pay to productivity</b>	<b>Accountability Monitoring &amp; reporting arrangements</b>
<p>Broad parameters for agreement making in the ACT public service (ACTPS) have been established. Agencies must consult with the Chief Minister's Department (CMD) at the development stage and before final agreement is reached. Each agency is responsible for development and negotiation of its agreement but the CMD will provide <i>'appropriate support and advice where this is sought or required'</i>.</p> <p>In addition to monitoring approval of agreements, the CMD:</p> <ul style="list-style-type: none"> <li>• develops and advises on ACTPS employee relations;</li> <li>• helps agencies manage their workplace relations responsibilities within the government's broader policy parameters; and</li> <li>• ensures that agreements retain a basic core framework and that there is consistency across the ACTPS.</li> </ul>	<p>Any pay increases or other benefits are to be prospective and be funded from within agency Budget appropriations. Agencies must be able to justify any pay increases.</p>	<p>Any pay increases should be based on productivity performance. Wage setting must be negotiated in line with any productivity savings that can occur within existing budgets. There is no ceiling on potential pay increases but the increases must be linked to productivity improvements. Similar work areas tend to produce similar productivity improvements and pay increases.</p>	<p>Agreements should include appropriate monitoring and evaluation mechanisms. Each agency is responsible for reviewing agreements to determine if agreed productivity savings and other conditions have been met. Agencies often have a formal consultation committee as part of their agreement (including management, staff and the unions, where applicable) to assist in the implementation, review and monitoring process. The CMD is responsible for providing regular reports to Government on agreement making in the ACTPS. The department also informally reviews agreements to assist in developing future policy parameters.</p>

Source: ACT Chief Minister's Department

<b>Coordination arrangements</b>	<b>Funding arrangements</b>	<b>Linking pay to productivity</b>	<b>Accountability Monitoring &amp; reporting arrangements</b>
<p>Agreement making is in its third round in the public sector. The process for agreement making is outlined in <i>Procedures for Agreement Making in the Public Sector</i>, released in August 1999.</p> <p>Agencies must consult with central agencies (including the Department of Employment and Industrial Relations, and ) before taking their negotiating framework to the Cabinet Budget Review Committee for clearance. Proposed agreements are to be cleared with the Cabinet Budget Review Committee prior to voting and certification.</p>	<p>All Government agencies are required to pursue moderate wage outcomes that are appropriate in the current economic climate. Wage outcomes under agreements approved in the current round have been around three per cent per annum.</p> <p>Under the Government's Managing For Outcomes framework, expected outputs and fiscal limits for each agency are determined through the budget process. Outputs are specified in terms of quantity, quality, timeliness and location. Any agreements must be consistent with agencies achieving their outputs within their fiscal limit. In addition, the Government may make specific decisions through the budget process concerning supplementation for wage increases.</p>	<p>Agreements are negotiated on the premise of sector-wide reform, organisational reform, improved service delivery, greater effectiveness, efficiency targets and enhanced accountability.</p> <p>Negotiating frameworks presented to the Cabinet Budget Review Committee are required to include details of any proposed productivity initiatives and savings.</p> <p>considers productivity initiatives when considering agencies' negotiating frameworks. Some examples of productivity initiatives in agreements include: performance benchmarking; working hours; work practices; training and skills development. It is not considered necessary to include a large number of productivity initiatives—two to three strategic initiatives may be more effective than several less important ones.</p>	<p>Agencies are required to consult with central agencies prior to approving pay increases under agreements. Central agencies must agree that the requirements of the agreement have been met. Pay increases are then approved by the Portfolio Minister.</p> <p>For those agreements that have pay rises contingent on implementation of certain initiatives, agencies are required to provide the Department of Employment, Training and Industrial Relations with a list of these initiatives. Central agencies check that these initiatives have been implemented to the required stage before approving the pay increase.</p>

Source:

<b><i>Coordination arrangements</i></b>	<b><i>Funding arrangements</i></b>	<b><i>Linking pay to productivity</i></b>	<b><i>Accountability Monitoring &amp; reporting arrangements</i></b>
<p>Agreement making shifted from a central to agency focus in 1997—a process assisted by the introduction of a clearly articulated and Workplace Bargaining Guidelines for 1997–99.</p> <p>The draft agreement is submitted to the Department of Productivity and Labour Relations (DOPLAR) for approval against policy, before it is considered by the Cabinet Standing Committee on Labour Relations. Endorsement from this Committee and Cabinet approval are required for all new agreements.</p>	<p>The provides for a three to six per cent increase over 1999–00 and 2000–01 for deficit-funded agencies.</p> <p>Agencies are wholly centrally funded for an increase of up to three per cent (two per cent in 1999–00 and one per cent in 2000–01).</p> <p>However, if wage increases exceed three per cent, the remaining increases must be funded by the agency. There must be sustainable cash returns to the agency to fund increases beyond the centrally funded component which are equal to or greater than the wage increase under the agreement. These returns must be sustainable.</p> <p>Agencies must provide detailed financial analysis demonstrating an ability to fund increases without adversely affecting services.</p> <p>Wage increases must be approved by Government before any formal offer is made to employees.</p>	<p>The intent of the Government's approach to productivity is to produce sustainable self-funded agency agreements.</p> <p>Agencies may use intangible benefits (ie. improvements in agency effectiveness) as a justification for the three per cent centrally funded increase, provided these can be converted to a notional value. Intangible benefits may include initiatives within agreements which improve service quality or output, thereby enhancing Government services without having to demonstrate a tangible 'cash' return to the Government.</p> <p>Productivity improvements should be directly related to changes in conditions and/or work practices. They should not rely primarily on improvements that come from improved technology, financial reforms etc.</p> <p>Emphasis is placed on sustainable agency based initiatives within agreements linked, in many cases, directly to corporate and business goals. DOPLAR assesses the productivity initiatives included in agreements to ensure the proposed outcomes are consistent with agencies' corporate objectives and approved outputs.</p>	<p>Agencies must demonstrate the satisfactory achievement of outcomes under agreements when seeking approval to pay 'milestone' payments or upon seeking approval for a new agreement. These reports must include an assessment of the changes made to employment conditions or agency working arrangements. The assessment should be in quantitative and qualitative terms and, as far as possible, agencies should clearly identify the savings arising from reforms and any other quantifiable changes since the commencement of their agreements. Where quantitative assessments are not possible, it is important for agencies to provide descriptive information on improvements measured against relevant targets.</p> <p>DOPLAR, in consultation with the relevant agency, will ensure that sufficient justification is provided prior to submitting the report to the Cabinet Standing Committee. 'Satisfactory' achievement of outcomes is determined through a demonstration that the justification and/or claimed future returns at the time the agreement was approved have been satisfied.</p>

Source: Western Australian Department of Productivity and Labour Relations.

<b><i>Coordination arrangements</i></b>	<b><i>Funding arrangements</i></b>	<b><i>Linking pay to productivity</i></b>	<b><i>Accountability Monitoring &amp; reporting arrangements</i></b>
<p>Public sector employee relations policies were reviewed following the change of government in 1999.</p> <p>All certified agreements must be approved by Cabinet.</p> <p>The Victorian Public Service pay policy will be subject to review in late 2000.</p>	<p>Budget funded agencies receive central funding of three per cent per annum for wage increases.</p> <p>There is no strict requirement that agreements in Budget funded agencies pay for themselves by being cost beneficial.</p>	<p>All agreements in budget funded agencies must be productivity related.</p> <p>The Public Service pay policy is an example of productivity improvements in Budget funded agency agreements. This recognised that in many areas of the Public Service, the ability to negotiate agreements involving traditional work practice trade-offs was limited.</p> <p>A performance management and pay policy was consequently introduced. The improvement in productivity was gained from the aggregation of improved individual or group performance.</p> <p>Agreements in other areas of the Budget funded sector similarly provided for improved productivity in a manner suited to the particular agency.</p>	<p>Agencies must report back to Cabinet before draft agreements are approved.</p>

Source: Victorian Department of State and Regional Development, Public Sector Employee Relations Branch.

# Index

---

## A

- accrual budgeting framework 15, 24, 75, 84, 94, 111, 131-133
- Australian Quarantine Inspection Service (AQIS)—Meat Inspection Division) 39, 62, 84, 87, 94, 99, 127
- Australian Bureau of Statistics (ABS) 26, 39, 64, 68, 82, 84-86, 93, 94, 100, 102, 110, 113, 116, 126, 148
- Australian Capital Territory (ACT) 39, 41, 57, 135, 158
- Australian Customs Service (Customs) 39
- Australian Taxation Office (ATO) 19, 26, 27, 39, 43, 49, 53, 60, 63, 66, 67, 70-77, 81, 82, 93, 94, 97, 127
- Australian Workplace Agreements (AWAs) 11, 12, 31-33, 37, 38, 40, 45, 68
- automatic wage increases 59, 62-64
- Average Annualised Wage Increase (AAWI) 13, 17, 4-49, 52-54, 117

## C

- Centrelink 19, 39, 60, 62-67, 71-74, 77, 85, 94, 109, 128, 130, 132
- conditional wage increases 51, 62, 66, 67
- Customer Service Improvement Plans (CSIPs) 64, 65, 73

## D

- Department of Defence 86
- Department of Education, Training and Youth Affairs (DETYA) 39, 60, 63, 99, 128
- Department of Employment, Workplace Relations and Small Business (DEWRSB) 11, 13, 14, 18, 21, 23-27, 34-60, 75, 76, 79, 80, 86, 87, 90, 96-101, 103-117, 119-121, 125-127, 129, 133-135
- Review of Agreement Making in the APS 17, 39, 44, 50, 53, 56, 59, 87, 90, 91, 98, 109, 113, 117
- Department of Finance and Public Administration (DOFA) 7, 15, 24, 26, 27, 39, 41, 63, 75, 76, 84, 86, 92, 97, 103, 104, 118, 119, 121, 130-132
- Department of the Senate 19, 39, 62, 63, 66-68, 71, 73, 74, 77, 81, 84, 87, 94, 95, 109, 127

## E

- efficiency savings 14, 20, 26, 57, 60, 75, 81-83, 86, 88, 139, 141
- Equal Employment Opportunities (EEO) 132
- evaluation 21, 22, 39, 93-95, 101, 152, 158
- external reporting 14, 94, 95

## F

- Family Court of Australia (Family Court) 39
- first round of agreement making 11, 14, 23, 36, 38-40, 42-44, 46, 55, 98, 100, 101, 104, 105, 107, 114, 122

**I**

improvements in agency  
effectiveness 13, 20, 26, 57, 60,  
75, 83, 88, 96, 139, 141, 160

**P**

performance assessment 15, 25, 66,  
124, 125, 127, 130, 132, 133, 135,  
147

performance management 12, 14, 15,  
23-25, 38, 41, 58, 59, 61, 64-68,  
72, 93, 95, 98-101, 104, 110,  
122-131, 133-135, 144, 155, 156,  
160

performance-linked remuneration  
12, 15, 17, 24, 25, 38, 41, 48, 49,  
51, 54, 61, 90, 122-133, 135

performance-linked  
advancement 15, 25, 128-  
131, 133, 135

performance-linked bonuses 49,  
70, 128, 129, 131,-134

Policy Parameters for Agreement  
Making in the APS 11, 34, 35,  
38, 41, 55, 75, 140

previous staff reductions 14, 21, 84,  
86, 88

productivity baseline 22, 93, 102

Public Service Act 12, 31, 35, 36, 38,  
39, 55, 73, 103, 127

**S**

second round of agreement making  
12, 37

semi-automatic wage increases 62,  
64

Senate Finance and Public

Administration Committee 132,  
133, 135

Legislation Committee 22, 89,  
95, 96, 98, 101, 132

References Committee 40, 103

staff classification structures 17, 23,  
24, 64, 90, 99-101, 126, 127, 134

State of the Service Report 41, 115,  
124, 128

**T**

total remuneration 13, 18, 50, 51, 132

Treasury 26, 27, 39, 58, 60, 75, 76, 84,  
93, 97, 108, 130, 132

**V**

Victoria 39, 41, 57, 112, 155, 158, 160

**W**

wages policy 33, 34, 108, 112, 113

Western Australia 39, 41, 57, 112,  
155, 158, 160

workforce demographics 115

*Workplace Relations Act 1996* 11, 32

# Series Titles

---

## Titles published during the financial year 2000–01

Audit Report No.11 Performance Audit  
*Knowledge System Equipment Acquisition Projects in Defence*  
Department of Defence

Audit Report No.10 Performance Audit  
*AQIS Cost-Recovery Systems*  
Australian Quarantine and Inspection Service

Audit Report No.9 Performance Audit  
*Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*

Audit Report No.8 Performance Audit  
*Amphibious Transport Ship Project*  
Department of Defence

Audit Report No.7 Performance Audit  
*The Australian Taxation Offices' Use of AUSTRAC Data*  
Australian Taxation Office

Audit Report No.6 Performance Audit  
*Fraud Control Arrangements in the Department of Health & Aged Care*  
Department of Health & Aged Care

Audit Report No.5 Performance Audit  
*Fraud Control Arrangements in the Department of Industry, Science & Resources*  
Department of Industry, Science & Resources

Audit Report No.4 Activity Report  
*Audit Activity Report: January to June 2000—Summary of Outcomes*

Audit Report No.3 Performance Audit  
*Environmental Management of Commonwealth Land—Follow-up audit*  
Department of Defence

Audit Report No.2 Performance Audit  
*Drug Evaluation by the Therapeutic Goods Administration—Follow-up audit*  
Department of Health and Aged Care  
Therapeutic Goods Administration

Audit Report No.1 Performance Audit  
*Commonwealth Assistance to the Agrifood Industry*

# Better Practice Guides

---

AMODEL Illustrative Financial Statements 2000	Apr 2000
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.47 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies–Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Life-cycle Costing (in Audit Report No.43 1997–98)	May 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	Jul 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Administration of Grants	May 1997
Management of Corporate Sponsorship	Apr 1997
Return to Work: Workers Compensation Case Management	Dec 1996
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Performance Information Principles	Nov 1996
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Managing APS Staff Reductions	Jun 1996