

# AUSTRALIAN EXPERIENCE WITH HRM DEVOLUTION

Andrew Podger

## Introduction

Australia was one of the leaders of the New Public Management movement in the 1980s and 1990s which was marked by:

- An emphasis on managing for results (rather than focusing on inputs and processes);
- The wider use of markets and market-type arrangements to use competition to promote efficiency;
- The devolution of management authority combined with firmer accountability for performance.

The Australian approach was less ideological than that of some other countries at the time, was mostly pragmatic with steady incremental reforms rather than 'big bang' changes, and was welcomed and largely led by the public service itself and aided by bipartisan political support (APSC 2003). The context of the reforms was pressure to improve public sector efficiency and effectiveness as an important contributor towards improving national economic and social well-being in a highly competitive globalised world.

Devolution of human resource management (HRM) was a significant element of the reform agenda, not as an end in itself, but as a means for improving performance. Devolution of HRM, which can be linked to other HRM measures in the 1980s, aimed to improve the quality of management, to reinforce the merit principle in recruitment and promotion, to open opportunities for otherwise disadvantaged people to contribute, to improve staff mobility and career opportunities and to create a Senior Executive Service as a leadership cadre across the Australian Public Service.

The devolution process involved a series of measures from the 1970s to the end of the century. While there has been a modest recentralising shift, Australia continues to have one of the most devolved public sector HRM arrangements across OECD countries. This paper describes the devolution path and its role in the NPM reforms in Australia. It focuses on aspects of the devolution of HRM decision-making within the Commonwealth (national) Government, noting that the Australian state and territory governments have followed a reasonably similar trajectory. It also provides some assessment of the impact of devolution and draws some conclusions about the lessons learned for Australia and possible lessons for other countries observing Australia's experience.

## The devolution path and its role in HRM reforms

The first Public Service Act was passed in 1902 shortly after Federation. The Act established a central government employer, the Public Service Commission (PSC), and consolidated a Westminster-style of non-partisan administration that separated it from politics and was based on merit. The PSC was replaced by the Public Service Board in 1922, via legislation that applied (with occasional amendments) until 1999.

HRM devolution took place over a long period. When it began depends on who is telling the story and what they mean by devolution, but certainly some steps were taken in the 1960s and 1970s, while the full extent of devolution was only clarified in legislation in 1999. The main points along the devolution path were:

- 1960s and 1970s: Agencies were progressively given control over the number and levels of positions under so-called Bulk Establishment Control systems. Some agencies were also allowed their own employment powers and removed from coverage under the PS Act, particularly as certain activities such as post and telecommunications services were 'commercialised'.
- 1976: The Royal Commission into Australian Government Administration (RCAGA 1976) also known as the Coombs Report, advocated wider devolution in connection with moves to program budgeting.
- 1984: The Public Service Reform Act amended the Public Service Act *inter alia* strengthening political oversight of the APS, establishing the Senior Executive Service and promoting improved management. Associated with this was the devolution of establishment controls. In parallel, financial management reforms were being introduced including program budgeting and the beginnings of 'running costs' reforms that shifted detailed budgetary controls for each major input of administration to aggregate controls allowing resources to be switched across inputs.
- 1987: The Public Service Board was abolished, replaced by a much smaller and less powerful Public Service Commission, on the premise that the further devolution of HRM (including recruitment and promotion and retirement etc) had reduced the resources required at the centre. Some remaining central powers were transferred to the Department of Finance, the Industrial Relations Department and Prime Minister's Department. Around this time, moves began towards enterprise bargaining, allowing agencies to negotiate productivity-based increases in pay and changes in conditions.
- 1997: The financial management reforms of the previous 15 years, which had been managed by delegations, were reflected in new legislation, the Financial Management and Accountability (FMA) Act for most budget dependent agencies and the Commonwealth Authorities and Corporations (CAC) Act for more independent agencies. Both Acts confirmed the extent of financial authority devolved to agencies in exchange for stronger accountability for performance.

- 1999: A new Public Service Act came into force similarly reflecting the personnel management reforms of the previous 15 years that had been handled by delegations, as well as formally making agency heads the employers of their staff with all the necessary powers involved, and with the Public Service Commissioner taking more of a quality assurance role in promoting and monitoring compliance with public service values. The new Act also referred directly to the Workplace Relations Act passed the previous year which involved further deregulation of the labour market and wider scope for enterprise bargaining and individual employee agreements. Agency heads were given full authority over pay and classifications and expected to adopt the employment approaches being pursued in the private sector (subject to certain financial and policy controls).
- 2004: Renewed interest in 'whole-of-government' approaches requiring closer cooperation and consistency across agencies fostered by the central agencies (including the Public Service Commission).
- 2010: Government endorsed the recommendations of the Moran Report on Australian Government Administration (DPMC 2010) for a stronger role for the Public Service Commissioner, greater investment into HRM and a more consistent approach to pay and conditions. (Legislation reflecting these changes came into effect in 2013.)

Until recently the steps along this path involved a steady increase in the management authority of agency heads as well as a re-shaping of the approach by the centre to ensure accountability both for results and for the integrity of agency processes. Detailed HRM process controls were gradually replaced by greater reliance on budget controls, these also changing steadily from detailed controls of inputs into aggregate controls of total administrative expenses and stronger accountability for performance (outputs and outcomes).

It was soon realised that this shift required complementary action to protect the integrity of public sector management (ie. that ends do not always justify the means). This involved the articulation of 'APS Values' and statutory provisions requiring all APS employees to uphold them and more senior officers also to promote them. The values set out the principles behind the relationships the APS has with government and the parliament, with the public and within its workplaces, as well as the principle of ethical behaviour. On workplace relations, the values emphasised principles such as merit and fairness.

### **Devolution to particular agencies and of particular HRM functions**

#### *Devolution and different types of government organisations*

Australian government functions are carried out by many public sector organisations with many different structures. They are also increasingly carried out by non-government organisations under contracts or other agreements with government. With some

exceptions, the non-government providers of public services are not constrained in any direct way over their HRM practices: they establish structures, employ staff, set pay and conditions and so on as they see fit, subject only to broader industrial relations requirements in the community (and of course to meeting their contractual performance levels at contracted prices).

HRM controls do apply, however, to most government agencies, in addition to financial controls. Until 1987, the main HRM controls were exercised by the Public Service Board which was the employer of most Commonwealth public servants, though as mentioned the Board had begun earlier to delegate its powers to agencies. Over the years, however, quite a few organisations had been allowed their own employment powers. The main such agencies were government business enterprises (GBEs), military and police organisations and some other semi-independent statutory authorities including universities and some other research organisations. Most statutory authorities and nearly all non-statutory organisations (including all ministerial departments) came under the PS Act with the PSB as the employer.

During the 1970s, governance arrangements for GBEs began to be clarified, drawing more closely on corporations law arrangements common to the private sector. These arrangements provided greater autonomy over employment and other management practices subject to the GBEs meeting commercial performance targets and any community service obligations set by government. These arrangements were set out in formal guidelines (the 'Walsh guidelines' (CoA 1986)) tabled in the Parliament in 1986, and later reflected in new financial legislation in 1997 (the CAC Act).

Most other organisations remained under the PS Act with the PSB as the employer of their staff. Those outside the PS Act had their own employment powers but often applied the PSB's policies, particularly on pay and conditions, as a benchmark for their own practice.

#### *Establishment powers and creating positions*

As the employer, the PSB for many years controlled the establishment function. Agencies could apply for Board approval to restructure their organisations, add or expand some unit and create or abolish positions. PSB staff would examine the case for the proposed change on the basis of workload considerations and taking account of the standards it had developed over time regarding productivity, the level of complexity of the work and classification levels. New functions approved by government and provided with funds were subject to PSB examination of the human resources required including the number, level and structure of new positions.

In the 1960s and 1970s, the PSB began to relax these controls. Bulk Establishment Controls gave agencies considerable flexibility to manage the number and levels of positions. Full devolution of the establishment function came in 1984 in association with the Public Service

Reform Act, allowing agencies to create, reclassify and abolish positions. Agencies were still subject to budgetary controls and the PSB also applied 'staff ceilings' (essentially superfluous given the budgetary controls), retained direct controls over the newly established Senior Executive Service and retained authority over classification standards and pay.

In 1987, the PSB was abolished, replaced by a smaller and less powerful Public Service Commission. There was also a major restructuring of departments at this time with the creation of 'super' or 'portfolio' departments aimed to facilitate better allocation and management of resources within broad functional areas and to allow the Cabinet to focus on fewer and more important issues. The Department of Finance was given responsibility for SES establishment and for classification management including the audit function, which it linked closely to its budgetary controls. Finance also reviewed the very concept of 'positions' and facilitated a more flexible approach by allowing agencies to appoint and promote people to 'levels' in the classification structure. This enabled easy redeployment within agencies including when structures were being changed.

Initially, Finance controlled the SES positions very closely and took advantage of the creation of the big portfolio departments to reduce the SES. Finance subsequently allowed the line agencies to upgrade their SES positions to reflect their increased management responsibilities with devolution (these had generally been at lower levels than the equivalent central agency positions) so long as their 'SES budgets' were reduced. That is, upgrading was conditional on reducing the number of SES positions or downgrading other SES positions, and on providing a dividend to Finance. As a result, for a time, the SES numbers fell while the APS as a whole was increasing. Finance's tight control over SES establishment continued into the 1990s.

In the late 1990s, Finance removed its separate controls on SES positions and SES budgets as part of the next stage of devolution, and focused only on its aggregate controls of administrative expenses which covered all aspects of employee costs and other 'running costs' for the management of each agency. The tightness of these aggregate controls for a time constrained the growth of the SES (indeed numbers fell, though not as much proportionately as the APS as a whole). But, as the APS began to grow again in the 2000s, the size of the SES grew more quickly as did the number of middle management positions (see further below).

### *Recruitment, promotion and retirement*

Devolution of responsibility for these staffing decisions followed the Public Service Legislation (Streamlining) Act in 1987 which built on the reforms in the 1984 legislation. Previously the PSB held these powers though it often exercised them through cooperative arrangements with agencies. The 1987 measures delegated directly to each agency authority to recruit and promote staff, subject to applying the merit principle. This involved

advertising the jobs publicly, using well-balanced selection committees (generally including at least one woman for example and a person from outside the area where the vacancy existed), clear selection criteria and duty statements for the job(s) concerned. In the case of promotions, appeals processes were open for unsuccessful candidates, including opportunities for appeal to be considered by the Merit Protection Commissioner in the Public Service Commission.

In the case of large scale recruitment exercises, such as annual graduate recruitment and base-level recruitment, many agencies chose to cooperate in joint exercises facilitated either by the Education and Employment Department or the PSC. These exercises generally involved written tests and education/qualification standards for short-listing and interviews for final ranking and selection, and allocating selected candidates to particular agencies. Some agencies chose to supplement this joint approach with their own recruitment processes to tap into their own specialist market as well as the generalist market seeking government employment. Others chose to manage their staff recruitment entirely independently.

For a time, the trend was towards individual agency arrangements but in the 2000s there was a marked shift back towards cooperative arrangements complemented by targeted agency-specific campaigns. For example, the Department of Health in my time there tapped into the market of nurses and other professional health workers interested in transferring into policy and administrative roles to bring their front-line experience to the department complementing the more generalist policy and analytical skills available through the joint recruitment processes. Centrelink successfully designed recruitment strategies to attract Indigenous people interested in service delivery in their communities complementing other processes for recruiting staff.

Increasing mobility led to a substantial increase in lateral recruitment over recent decades rather than base level and graduate entry level recruitment. This added to the case for devolution of recruitment and promotion as the vacancies being filled were typically more specialised to the business of the organisation.

With the devolution of promotion decisions, and the further steps taken in the 1990s to make agency heads the employers of their staff, merit appeal processes came under review. Merit protection had received a high profile in the new and smaller PSC after 1987, and indeed the PSC was renamed for some years the Public Service and Merit Protection Commission (PSMPC). Subsequently, however, agencies were asked to establish internal review processes to reinforce their own responsibility for upholding and promoting merit. External review by the PSMPC (renamed the Australian Public Service Commission in 2004) continued to be available but the workload reduced substantially. The Commission also pursued a stronger quality assurance role, examining the quality of internal agency review arrangements and using personnel data, surveys and its own merit protection experience to monitor the application of the merit principle.

In the case of the SES, agency heads were given responsibility for appointments and promotions but the processes they use continue to require 'certification' by the Commissioner. In practice, this involves having a PSC representative on the selection advisory committee, having positions advertised publicly and open for anyone to apply, the PSC approving the selection criteria and the PSC reviewing the final selection report.

Retirement and voluntary or involuntary redundancy remained subject to service-wide requirements including under superannuation scheme rules and industrial award conditions negotiated centrally with the unions. Nonetheless, the application of these was largely left to individual agencies after 1987. The main central rule was a prohibition on a return to public service employment for twelve months for anyone receiving a redundancy payment.

### *Pay and classification*

Prior to any delegation of pay and classification controls, the Public Service Reform Act (1984) ushered in a major change to the public service classification system, a change which in itself introduced new flexibilities across the APS. Often termed 'multi-skilling', the change replaced the former four 'divisions' of classification levels with a single integrated structure plus the new Senior Executive Service and the category of departmental secretaries (and equivalent agency heads). This new structure responded to the huge impact new technology was having on the APS and reflected the shift underway towards a graduate service. It removed the old system of typists, compilers, data entry officers, clerical assistants etc, and required all administrative staff to become 'multi-skilled', handling their own computer equipment themselves. Those previously specialised in particular technical skills like typing had to be retrained to take on broader roles. Associated with this, recruitment of young people who had not completed secondary schooling virtually stopped, and recruitment of school-leavers fell while recruitment of graduates steadily increased.

The number of classification levels dropped dramatically to eight for the vast majority of employees (not counting the SES which originally had six levels later falling to three, and departmental secretaries with three pay levels). Increments within each classification level were used to reflect experience and efficiency.

The new system made management by agencies much easier even while no new pay or classification power was delegated to them. As agencies were delegated authority for establishment and recruitment and promotion, they were able to explore how to apply this new classification structure to meet their particular business needs. Some agencies introduced specific career paths based on the steady development of 'competencies' and proven performance over the years following recruitment, involving a degree of what was called 'broad-banding' of the more junior levels but consistent with the central classification and pay arrangements.

Following the first stages of deregulation of the Australian labour market in the mid 1980s (Australia had since federation one of the most highly regulated labour markets in the western world), the public service began to experiment with enterprise bargaining. This required a degree of devolution of pay responsibilities. Agencies were allowed to negotiate with unions, within strict bounds, changes to pay and conditions in exchange for measurable productivity improvements. Each proposed agreement required endorsement by Finance and the Industrial Relations Department, had to be financed from within the agency's 'running costs' budget, and could not vary service-wide employment conditions or classification standards. Most of the productivity measures were quite narrowly conceived (eg changes to working hours and leave arrangements to give management more control) and were quickly replicated across the APS. Some were more carefully designed around the particular agency's business requirements such as widening office-opening hours for service delivery by introducing compulsory rostering, and introducing new computer systems for improved and more efficient services requiring significant changes to jobs and skills.

Enterprise agreements were typically for three years so in 1996 when a new government came into office most agencies were into their third round of agreements. Given the central constraints, variations in pay and conditions were not large at this point, however they were beginning to raise problems whenever governments changed the Administrative Arrangements Orders, breaking up and merging departments. These changed organisational roles and responsibilities, and often led to newly structured organisations having staff doing similar jobs but with different pay and conditions.

After the change of government in 1996, deregulation of the labour market was taken further by encouraging more flexibility through enterprise bargaining and the negotiation of individual employee agreements. In the public service this approach delegated wider powers to agency heads over both pay and classification. The PS Act 1999 reflected this new approach by making agency heads the employers of their staff with the full range of employer powers and responsibilities. The Act referred specifically to the new Workplace Relations legislation and the Government encouraged the wider use of individual contracts and negotiations directly with staff rather than with the unions. There remained several central constraints, some of which were used to promote the Government's philosophical preferences. The Finance Department controlled budgets which, as discussed further below, entailed very strict aggregate limits. The Employment and Workplace Relations Department had responsibility for classification standards and also retained authority for approving both enterprise agreements (generally applying a ceiling to pay increases and testing that claimed productivity gains were genuine) and individual workplace agreements (it also actively promoted the wider use of individual agreements); the Commission had responsibility in particular for the SES and a broad oversight role regarding the public service values (particularly merit) and the state of the public service.

While most agencies continued to use the former APS-wide classification structure, some began to modify it for their own business purposes or to introduce new structures; quite a few introduced new names for different levels. 'Broad-banding' became more prevalent particularly in larger agencies with significant service delivery roles. Individual employee agreements became the norm for all SES officers and many in the middle management positions (now widely called Executive Level 1 and 2); they were also frequently used for staff in more technical positions in high demand and for those required to work special hours. This was seen to allow pay and conditions related to particular labour market pressures or particular work requirements. Individual agreements were also used to support an extension of performance pay arrangements.

Performance pay began to be introduced in the mid 1980s when enterprise bargaining first commenced. Both measures reflected interest in applying to the public sector practice that was common in the private sector and believed to improve productivity. Performance pay was also seen as a means of reinforcing performance management, a central focus of the NPM reforms. By the late 1980s performance pay became mandatory for the SES and was increasingly included within enterprise agreements as a requirement for Executive Level staff. Encouragement of the use of performance pay further increased in the 1990s under the conservative Coalition Government with some agencies extending such at-risk pay to staff at all levels. In 1997, the Government also introduced performance pay for departmental secretaries and some other agency heads, the final determination being made by the Prime Minister.

With devolution, performance pay arrangements varied significantly across agencies not only in terms of coverage but also in terms of the use of bonuses or pay increments, the amounts involved, whether payments were limited to a few top performers or spread more widely, as well as the nature of the performance agreements and measures. The differences reflected the personal views of agency heads rather than any discernible categorisation of agency functions or size, or research evidence of what did or did not work. Performance management continued to be a priority across the APS, but views varied as to the importance of performance pay in supporting performance management.

In the mid 2000s, enthusiasm for performance pay began to wane, in part as external criticism of such arrangements in the public sector gained more attention and as staff surveys revealed widespread unhappiness amongst staff. The criticism related in part to the political influence sometimes involved, but more generally to concerns about the quality of the management of such systems, the morale problems when management was poor and outcomes considered to be unfair, and the emphasis on individual performance rather than team and organisational performance.

The new Labor Government in 2007 came in with the promise to remove performance pay for secretaries. This opened up discussion of the merits of performance pay more generally

within the APS, many agencies moving to stop or at least reduce the coverage and size of performance payments.

The Government's links to the union movement also facilitated more open discussion of the problems that devolution of classification and pay had caused such as the weak enforcement of classification standards and the wide variations in pay and conditions after nearly 20 years of devolved authority to a greater or lesser degree (and the associated problems when agencies were restructured and merged). The Moran Review of Australian Government Administration called for a return to a more consistent approach across the APS. Responsibility for overall classification standards and pay policy was transferred to the APSC, but the extent of variations has meant that, even by 2013, substantial differences remain across the APS in classification, pay and conditions. At the time of writing, the attitude of a new Coalition Government is yet to be articulated: on the one hand, the wide variations will be of concern as they suggest inefficiencies which need to be addressed; on the other hand, there may be renewed support for private sector approaches to public sector management.

### **Parallel financial management developments**

Devolution of HRM was an important component of Australia's NPM reforms. Closely related and perhaps more central to the reforms were the financial management changes including devolution of many former central controls (APSC 2003).

As with HRM devolution, financial management devolution took place over a number of years rather than through any 'big bang' change. Until 1984, annual appropriations to government agencies specified detailed line items such as salaries, travel and subsistence, office requisites and so on. Some resources such as office accommodation, cars and superannuation, were provided centrally with no direct identification of the value of the resources to each agency and with little or no ability for agencies to influence the management of the resources involved.

The first stage of devolution was to aggregate the non-salary administrative expenses and to allow agencies to manage and prioritise the non-salary elements. This was done in the context of the initial moves to program budgeting and the identification of program objectives and the measurement of performance. Shortly after, agencies were given some capacity to shift resources between salaries and non-salary administrative expenses, though this was subject to Finance agreement to ensure proper account was made of related costs not then included in agency budgets (in particular the superannuation liabilities associated with employees). This was an important step as it allowed agencies to consider contracting out services, comparing apples with apples when looking at the costs and benefits involved.

Later, notional contributions for superannuation were included in agency appropriations, and paid back to Finance which separately met the direct costs of superannuation on a

PAYG basis. This mechanism made more transparent the costs of superannuation while also allowing Finance to aggregate both salary and non-salary administrative expenses in single 'running cost' budgets for each agency. Departments then had much greater flexibility over both financial and HR management. In line with broader reforms to retirement incomes policy, governments have since begun to replace PAYG public sector schemes with fully funded contributions-based schemes.

Other centrally provided resources (such as properties, cars, publishing etc) were also gradually allocated through the running costs system to each agency which was required to meet the costs of the accommodation, cars, publishing etc it chose to use. Agencies could therefore choose how much they wanted to spend on such inputs, and then also whether they wished to purchase them from the government supplier or a private sector competitor. In time, this led to the sale of many assets and of some government businesses.

Finance applied strict controls over the aggregate running costs, reaping 'dividends' from the assumed capacity of agencies to achieve efficiencies from their increased flexibilities. These dividends were later turned into annual 'efficiency dividends' of between 1 and 2 per cent (and on occasion up to 4 per cent). In addition, as agencies entered into enterprise bargaining (as described above), running cost increases for wage and price movements have been heavily discounted for assumed productivity gains. In total, Finance effectively requires productivity gains of around 3 per cent or more every year. Agencies can nonetheless press for adjustments in workload or new policy measures agreed by the Government.

Finance provided considerable support, particularly in the 1980s, to help agencies take advantage of their devolved authority and to improve the management of their programs. It also encouraged agencies to give more weight to management over policy advising, including by facilitating increases in the pay and profile of those responsible for corporate services. The lens through which it pursued management improvement was, nonetheless, one of finance and economics rather than expertise in HRM. It expected, perhaps naively, that the measures it was taking would in time lead to improvements in HRM as well as financial management.

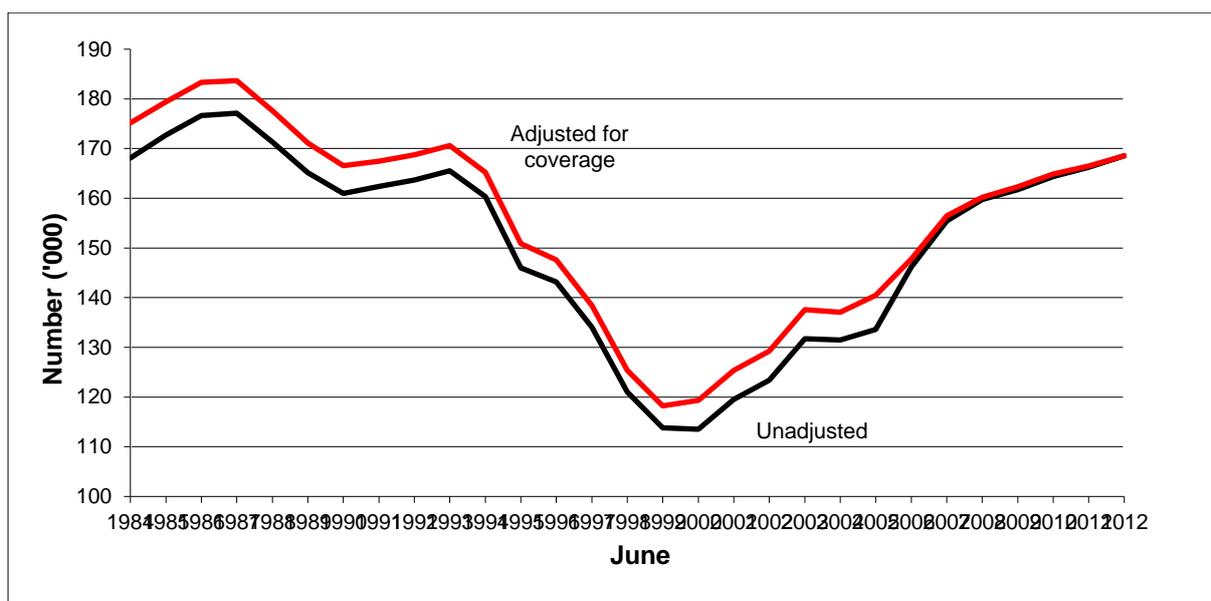
### **Overall impact**

There is evidence of considerable improvement in efficiency and effectiveness of program management since the 1970s. It is hard to point to specific contributors, but two would seem to be the flexibilities provided to managers combined with tighter aggregate resource controls and accountability for results, and the introduction of competitive pressures whether through outsourcing or other benchmarking processes. ITC has clearly been extremely important, but these other factors have helped to ensure agencies look to exploit new technology to meet the objectives of their programs more efficiently and effectively. Both were to a considerable extent facilitated by devolution.

Figure 1 shows the movement in the Australian Public Service as a whole since 1984. The adjusted figures take into account changes in the status of some agencies in terms of PS Act coverage. Reductions through the 1980s and 1990s reflect both direct efficiency gains and the impact of some outsourcing. The Howard Government in particular effected significant reductions in its first three years. Growth in the 2000s has been significant, but this almost certainly reflects genuine workload increases, the growth rate being broadly in line with population growth and the total still not being back to the mid 1980s level. Efficiency dividends etc continue to offset any increases for new policy initiatives and workload increases with net reductions overall forecast over the next few years because of the very high dividends imposed by the last government. The new Coalition Government's election policy included another round of significant reductions in the next two years though this has since been put on hold as the reductions already in train are assessed and a Commission of Audit reviews overall government spending.

**Figure 1: Movements in Total APS Numbers 1984-2012**

(Source: APSC APSED data provided in October 2013)

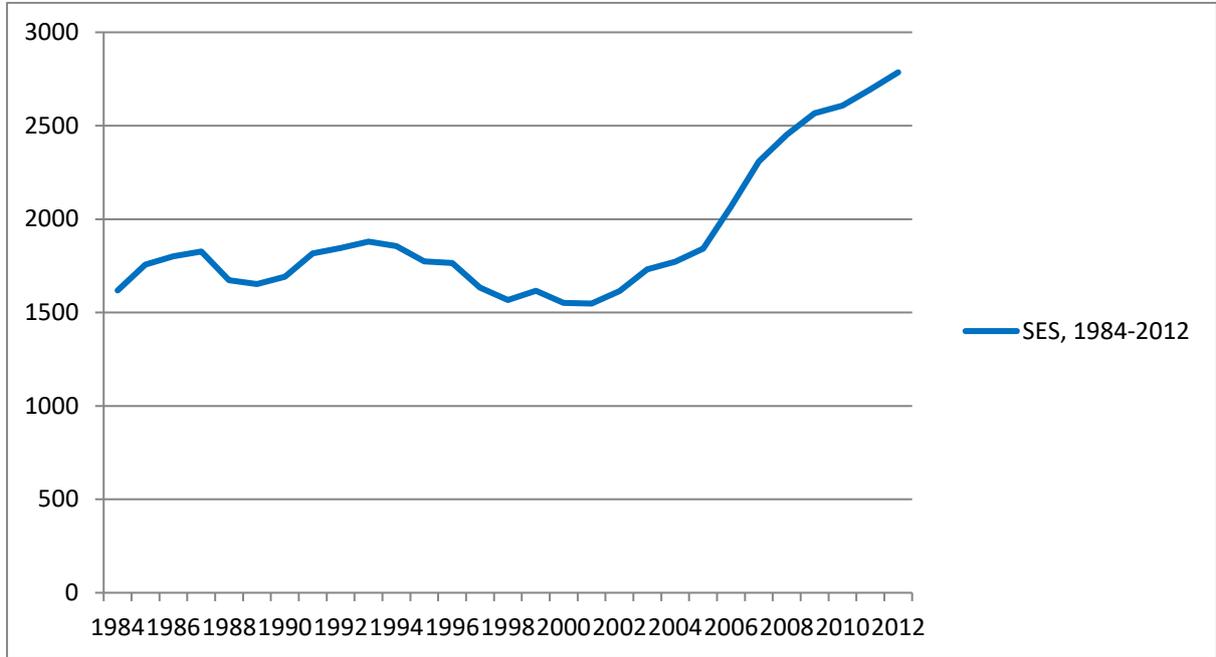


Devolution of HRM does, however, seem to have contributed to some significant problems and led to some inefficiencies.

During the 1980s and early 1990s, particularly while central controls over the SES and middle management arrangements were still quite strong, the size of the senior and middle management staff did not increase significantly as a proportion of the total: indeed, for a time in the late 1980s the SES fell in total and as a proportion of the APS. In the late 1990s the SES dropped again, but not as much as the APS as a whole and, when the APS began to grow again in the 2000s, the SES grew very significantly (Figure 2).

**Figure 2: Numbers of SES 1984-2012**

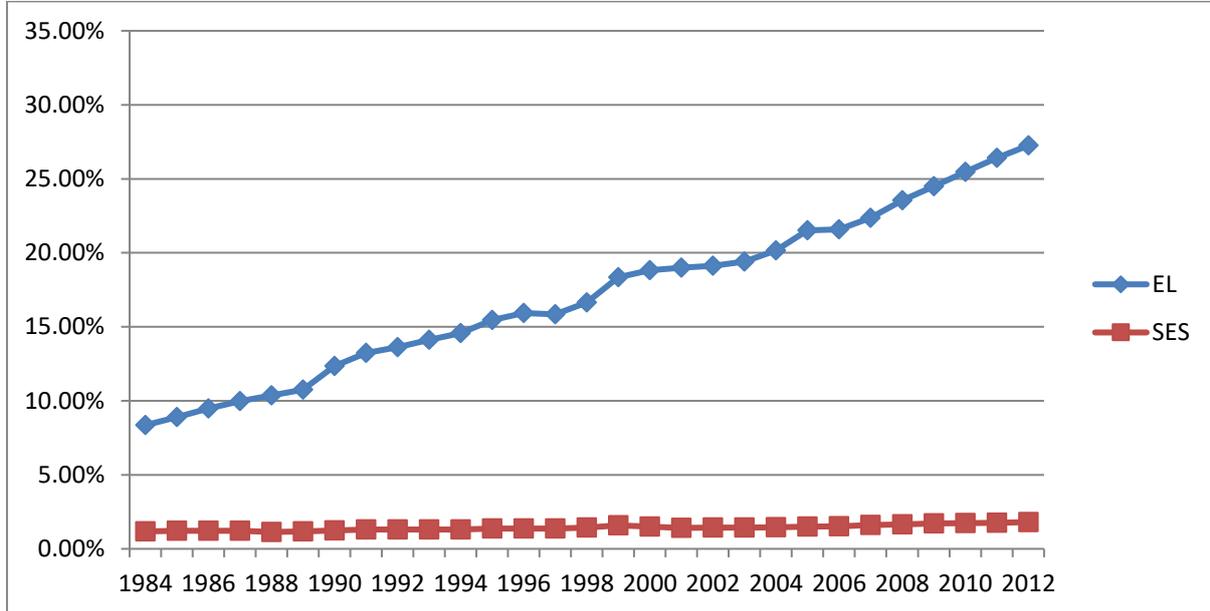
(Source: APSC APSED data provided in October 2013)



In the ten years to 2010, the APS grew 20 per cent, but the SES and ELs grew by over 70 per cent. While SES growth has since moderated following a review initiated by the central agencies, EL numbers continue to grow rapidly (Figure 3). Only renewed central action such as that announced in 2013 seems likely to correct the evident classification creep involved.

**Figure 3: SES and EL Staff as proportion of APS 1984-2012**

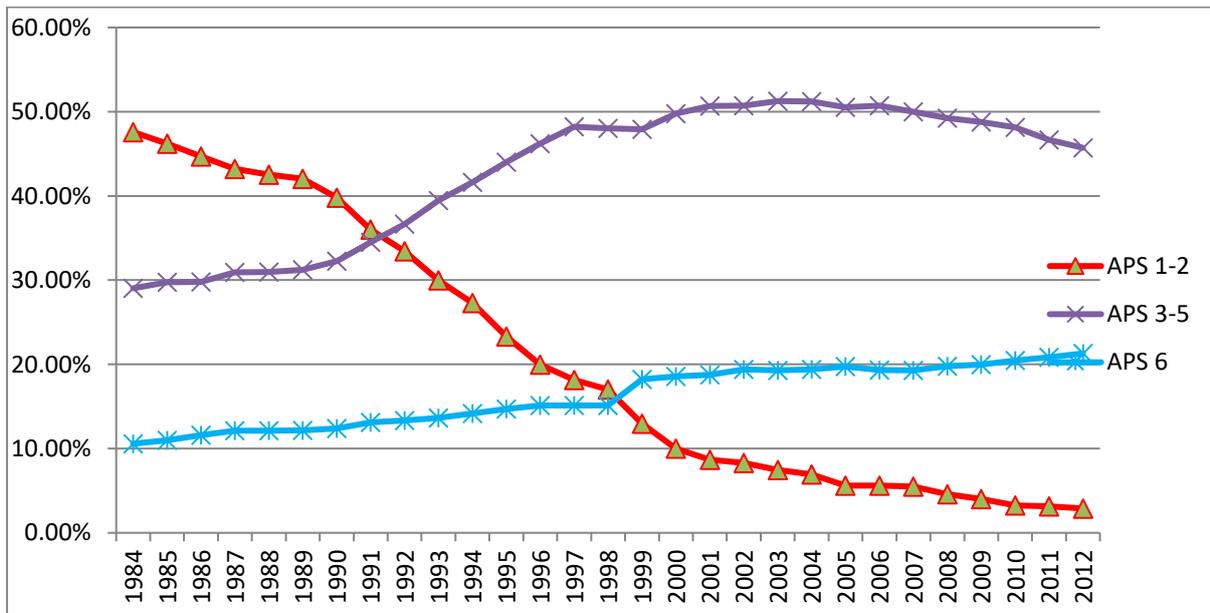
(Source: APSC APSED data provided in October 2013)



There is also evidence of classification creep more broadly across the APS (Figure 4).

**Figure 4: APS level staff as proportion of total APS 1984-2012**

(Source: APSC APSED data provided in October 2013)



The fastest growing classification level is the lower of the two ELs – it has more than doubled in the ten years to 2010, and now represents 17 per cent of the APS. The next level

down has also increased by 50 per cent. The three lowest levels by contrast have all declined both in raw numbers and as a proportion of the APS. The sharpest decline is amongst the lowest grade which now has less than 10 per cent of the number in 1996, which was already a fraction of the number a decade earlier.

A large part of this decline can be attributed to technological change, and the shift to multi-skilling in the 1980s; some may also relate to the outsourcing of administrative functions. It is hard to deny however that unjustified classification creep has also been a factor and that higher paid staff are spending appreciable time on activities that could and should be undertaken by more junior staff. Back in 1980, over half the public service was at levels at or below those now in the lowest two grades which now represent under 5 per cent of the total. Some growth in the middle grades could be expected with the shift to a graduate service, and with the increasing numbers of young people recruited directly into the third classification level, but the expansion at the highest grades is less easily explained.

The shifts in the classification profile suggest that, while some legitimate external pressures have had to be met, HRM devolution has involved some loss in the discipline of classification standards and job design and control.

A second problem area concerns pay and conditions. The focus on enterprise bargaining (and individual agreements for a decade) has led to wide divergence of pay and conditions for people doing essentially the same work. It may also have contributed to excessive pay increases through exaggerating internal competition for labour. Variations in base pay at different classification levels range between 9 per cent to over 50 per cent (see Table 1 – the variations are much wider – up to 30 per cent more - if figures at the top and bottom extremes are used rather than the top and bottom 5 percentiles). At senior executive levels, the range is generally over 30 per cent. Even for graduate entrants into the APS, the variation is nearly 20 per cent. Apart from the administrative problems when agencies are merged or restructured, these differences do not seem to reflect careful consideration of labour market conditions or of getting best value for money. Variations might be expected because of different skills and qualifications requirements, and from competition for the cream of the graduates or of any other labour supply group in heavy demand, but the variations in the APS today are not based on occupation groups but on agency practices with regard to similar groups. They also suggest again weak classification management.

**Table 1: Base Salary Variations in 2012**

(Source: APSC Remuneration Report 2012)

Classification	Salary at P5 \$	Median Salary \$	Salary at P95 \$	P5-P95 range % of median
Graduate	52,327	56,944	63,443	19.5
APS 1	35,812	43,944	48,241	28.3
APS2	47,077	52,998	54,780	14.5
APS 3	53,623	59,677	60,755	12.0
APS 4	60,811	66,923	68,088	10.9
APS 5	67,592	72,487	74,167	9.1
APS 6	75,543	84,478	86,779	13.3
EL 1	95,865	104,825	112,933	16.3
EL 2	115,390	130,460	146,676	24.0
SES 1	149,703	172,000	205,897	32.7
SES 2	193,846	221,266	260,116	30.0
SES3	251,534	282,931	412,492	56.9

A third area of concern is the varying practice and uncertain benefits from performance pay. Table 2 identifies the spread of performance bonuses paid by agencies at different classification levels in 2012.

**Ranges of performance bonuses paid in 2012**

(Source: APSC October 2013)

Classification	Proportion who received bonus (%)	P5-P95 bonus range
APS 1	9.0	\$803-1,235
APS 2	22.8	\$948-1,235
APS 3	12.8	\$549-2,294
APS 4	4.3	\$857-3,308
APS 5	15.8	\$867-1,484

APS 6	13.1	\$1,023-4,275
EL 1	16.6	\$916-7,162
EL 2	24.4	\$1,888-15,205
SES 1	30.9	\$3,219-19,718
SES 2	27.5	\$4,065-32,708
SES 3	24.6	\$5,213-41,906

This spread is remarkable as it follows nearly five years during which the use of such bonuses was ostensibly being constrained. Some of course were locked into multi-year enterprise bargains. APSC staff surveys consistently show widespread unhappiness with such bonus schemes with few agencies demonstrating a majority of staff in favour. Such unhappiness reflects justified concerns that, unless the schemes are very carefully managed (at considerable administrative cost), they risk being counterproductive by fuelling perceptions of unfairness, reducing morale and opening opportunities for gaming. They may also risk being inconsistent with the merit principle. More important to organisational performance are having a clear line-of-sight from individuals' roles and performance targets to organisational goals and targets. Further, that everyone has a clear sense of what is expected of them and that everyone receives feedback that is timely, positive, fair and comprehensive and that managers make it possible for staff to perform well, removing obstacles in the way (Corporate Leadership Council 2002).

There is growing recognition of these problems arising from Australia's devolution practice and the need to establish greater professionalism in HRM within agencies and at the centre in the APSC. So far, the main approach has been to strengthen the crude, aggregate financial controls by imposing higher 'efficiency dividends' and other across-the-board budget cuts. Behind the rhetoric of efficiency, however, these measures have inevitably involved reductions in services or service quality and have not yet achieved the genuine efficiency gains evidently on offer through improved pay and classification management and related HRM practices. Fixing the legacies is proving to be very hard.

### **Conclusions and lessons learned**

Devolution of HRM in Australia was an important element of the NPM reforms pursued particularly in the 1980s and 1990s and is still widely supported in Australia. The reforms have led to considerable improvements in public sector efficiency and effectiveness, in part

because they have mostly been pursued in a pragmatic rather than ideological fashion with considerable learning and adjusting as a long series of incremental measures have been put into place.

There have been problems with aspects of HRM devolution, particularly as a result of going too far with pay and classification, underestimating the HRM professional skills required in agencies, and from ignoring for a time the different context of the public sector and the limits to the applicability of private sector practices. This is not to suggest recentralisation, but to indicate the need for some more selective approaches to devolution and nuanced central controls, and to advocate greater investment in HRM professionalism to complement the improvement evident over the last 30 years in financial management.

The problems Australia has experienced could have been far greater were it not for a number of environmental conditions when the reforms were being introduced. First and foremost was a strongly embedded professional culture of integrity that held firmly to the public service values of merit, impartiality, non-partisanship, open accountability and commitment to service, even while such values were not yet articulated in any official laws or rules. There was also a proven level of management capacity that limited the risks associated with devolution, risks that were also contained by the process of incremental reform and continued controls over aggregate resources and performance measurement. This culture was nurtured over many decades through strong central controls and processes creating an environment of 'the way we do things around here' which was based on ethical standards often reinforced by law.

That is to say, devolution was a genuine reform measure in large part because of the positive impact of prior decades of centralised powers ruling public service processes and thereby influencing program outcomes. The shift to results based management was overdue, but dismantling centralised process controls before a strong ethical culture and management capacity had been developed might have caused much more serious problems than Australia actually experienced.

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