

Efficiency and Equity in Australian Government Employment

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WORKING PAPER NO. 79

Melbourne, April 2002

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ABSTRACT

The New Public Management (NPM) is the label applied to a literature which posits the need to recast the management of public bureaucracies on the lines of business enterprises. This approach has been adopted across the Australian public sector including the Australian Public Service (APS). While the roots of reform here can be traced back to the 1975 Report of the Royal Commission on Australian Government Administration (RCAGA), the reform process has been concentrated on the period since 1983 and has accelerated since the election of a Liberal-National Party government in 1996. This paper sets out the key principles of NPM and spells out their predicted implications for the employment relationship. It then examines the APS reform process in terms of the precepts of NPM before considering the implications of these reforms for the employment relationship. We conclude on the available but limited evidence that there are significant centralist deviations from the NPM model and that in the more recent period of reform increasing emphasis has been placed on efficiency at the expense of equity.

EFFICIENCY AND EQUITY IN AUSTRALIAN GOVERNMENT EMPLOYMENT

The advent of NPM in many liberal democracies, including Australia, has been well documented (Pusey 1991; Considine & Painter 1997; Hughes 1998). Reformation of the public sector undoubtedly affects employment relationships in the sector but there has been comparatively little analysis of this issue (O'Brien and O'Donnell 1999; Fairbrother and O'Brien 2000; Van Gramberg and Teicher 2000). In Australia, consideration of public sector reforms preceded the development of NPM ideas and, while this discussion was focused on improving efficiency, it was also suffused with a concern for equity. A strong concern with equity characterised the early implementation of reforms beginning in the mid 1980s, though this was short lived, with an increasing emphasis on efficiency during the period of Labor government (1983-1996). With the election of a Liberal-National government, the emphasis on efficiency remained though, more in keeping with NPM, the government explicitly attempted to individualise the employment relationship in the APS.

In this paper we focus on some of the key reforms and their implications for the employment relationship, particularly as they relate to the efficiency and equity polemic. Firstly, the key aspects of NPM and the implications for employment relations are identified. We then provide an overview of the reforms in the Australian Public Service (APS) and the key employment outcomes. The principal but tentative conclusions of this paper are that the implementation of NPM style reforms in the area of employment has been inconsistent with governments ultimately reluctant to completely dismantle centralised controls; that the shift to a performance oriented culture and individualised employment regulation has been at best uneven and that in the reform process equity is increasingly expected to emerge as a corollary of efficiency oriented reforms.

New Public Management

NPM has been described as the transformation of the culture of the public service from a rules-bound bureaucracy to an entrepreneurial and performance-based focus in which the public service is at arms length from the state (Van Gramberg and Teicher 2000). The theoretical underpinnings of NPM lie in economic theories such as public choice and agency theory, in which greater reliance on market forces, a reduced role for government and more reliance on contractual arrangements are viewed as having better economic and societal outcomes (Hughes 1998). Table 1 lists the main attributes of NPM.

Table 1: The Main Attributes of NPM

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| <ul style="list-style-type: none">• Separation of policy making from service delivery (depoliticisation);• Devolution of management responsibilities;• Emphasis on private sector style of management;• Explicit standards and performance management;• A shift from input controls to output and outcomes measures;• General cuts to public sector spending;• Disaggregation of units;• Contractual relationships between purchasers and providers of services;• Greater competition;• Contracting out, contestability and privatisation. |
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Governments in both developed and developing economies seem to be irresistibly drawn to NPM. Despite this convergence NPM has been widely criticised (Pollitt 1990; Hughes 1998). Concerns generally revolve around the applicability of economic theory to the public sector and the resultant diminution of impartiality, accountability, ethical standards, fairness and equity. Van Gramberg and Teicher (2000) noted that the apparent depoliticisation of NPM is part of an attempt by government to distance itself from decisions about employment, an electoral advantage in time of diminishing employment and diminishing conditions. Some commentators argue that rather than depoliticising the public sector, a danger of NPM is the possibility of political appointments to the public service and political considerations influencing contractual arrangements (Hughes 1998). Hughes and O'Neill (2000) described the tension between the democratic process and economic reform when the contracting of functions of the Auditor General in Victoria to the private service received extensive criticism from the community. Hughes (1998), while supportive of the need for improved performance and the strategic application of appropriate private sector managerial practices, was uncertain whether the positive qualities of the old style administration, such as professionalism, impartiality, high ethical standards and the absence of corruption can be maintained. From an employment perspective, the OECD (1991) claimed that NPM is a way of addressing pre-existing problems of morale in the public sector, whereas other commentators suggest that NPM relies on the apparent expendability of the public servants and resultant demoralisation (Hughes, 1998).

Industrial Relations and NPM

Reform of the employment relationship is a critical component of NPM. The adoption of private sector management techniques and devolution of responsibility to supposed to fundamentally change the employment relationship from one bound by rigid rules and procedures, to conditions determined locally that can flexibly respond to the needs of the workplace (Hughes 1998). The ability to flexibly respond to the marketplace implies a shift towards casualisation and fixed-term employment contracts rather than tenured employment (Van Gramberg and Teicher 2000). With privatisation and contracting out, functions are no longer performed by the public sector, leading to an inevitable diminution of public service employment levels. Implications of more disciplined use of resources include restricting union demands and disciplined control of labour (Hughes and O'Neill 2000). Allowing managers to manage requires limiting 'third party' influences (for example, unions and central agencies) on the employment relationship (Clarke and Newman 1993).

Questions are raised about resultant work conditions. Van Gramberg and Teicher (2000) suggested that they are diminished in a competitive individualised environment, whereas Hughes (1998) suggested that the result might be a highly competent and well rewarded service. Both views may be too simplistic as in segmented labour markets both elite and disadvantaged groups exist. The importation of HRM techniques can transform the nature of work itself towards a focus on performance and individual contribution providing either innovative and rewarding work (Osborne and Gaebler 1992) or stressful and pressured work (Van Gramberg and Teicher 2000). The need to achieve specified outputs in a tight budget framework has implications for the employment of people from disadvantaged backgrounds (Burton 1991). Alternatively, HRM techniques enable the parties to focus on individual needs and find solutions, for example, arrangements that accommodate the needs of workers with family responsibilities (Reith 1996).

In assessing these alternatives, Alford (1993) distinguishes between two schools of thought, the first promotes devolution of employment practices in the public sector achieving efficiency and effectiveness by enabling work arrangements that best suit the workplace. According to this view, issues such as equity and merit are preserved through a more efficient public service (Keating 1990; Paterson 1997). The opposing school suggests that devolution inherently removes the protections needed for merit and equity in the public service (Pusey 1991; Nethercote 1997). Alford proposes that principles of equity and merit can be enshrined in a devolved employee relations framework, provided there are clear central guidelines.

Another aspect of NPM that has implications for employment in the public service is contestability, the requirement to compete in the provision of services against the private sector. Drawing from the overview of the literature by Hodge (1996), contracting out led to enhanced economic efficiencies achieved by reduced employment levels although the number of managerial positions sometimes increased. Increased flexibility in the way in which work is performed, increased flexibility in workforce numbers (temporary or fixed-term employment) and exclusion of unions from workplace relations are also means of improving efficiencies. From his meta-analysis, Hodge concluded that the largest economic efficiencies result from enhanced flexibility of the workforce and that bypassing of trade unions was important in achieving greater flexibility in workforce numbers and in work practices. Hodge concluded that widespread reduction in conditions and salaries were not borne out by the literature. However, overseas studies suggest that contracting out has a negative effect on minority groups (Escott and Whitfield 1995; Stein 1994).

It has been argued that the threat of contracting out stimulates the same level of economic efficiencies as the act of contracting out (McDavid and Schick 1987). Under contestability arrangements, the threat of contracting out public services therefore offers the same economic efficiencies and the same employment outcomes.

A number of case studies of reforms and impacts on employment in APS agencies have been reported. Case study analyses of Centrelink (Biddle and Burgess 1999), Telstra (Barton and Teicher 1999), the Australian Tax Office (Cooke and Gough 1999) and Employment National (Ranald 1999; Considine 2001) have confirmed the outcomes anticipated by Hodge, particularly the extent of reductions in employment levels. However, contrary to Hodge, all reported reduced working conditions.

Reforms to the APS

Following its election in 1996 the Liberal-National government sought to transform the APS aiming to create a competent, efficient and professional APS which aspired to best practice (Liberal Party 1996). The government sought to improve the APS by ridding it of rigid and cumbersome rules and embracing contemporary private sector management practices. The government sought to provide a workplace culture which fostered high performance and ethical standards (Reith 1996). While this policy has been variously described as “breaking new ground” it has also been labelled “more of the same”, as it builds on the significant public sector reform that had taken place over the previous fifteen years (James 1996).

In order to appreciate the changing public sector employment framework, it is useful to recall the origins and traditional employment practices in the APS. Prior to federation, the culture of the public administrations could be described as one of patronage and corruption (Nethercote 1997) but, following the recommendations of the Northcote-Trevelyan Report in

the UK in 1854, the principles of a professional, non-political, career based public service started to take hold (Garder and Palmer 1997). APS employment came to be characterised as a career service, with selection, promotion and termination based on the principle of merit and service, not political patronage (Spann 1979). The *Public Service Act 1922* contained prescriptive rules regarding employment procedures, administration of which was through an independent central agency, the Public Service Board.

The genesis of the reform process can be traced to the 1970s. After a period of expansion to the public service under the Whitlam Labor government (1972-1975) and in the context of economic pressures resulting from the oil-shocks, the size and cost of the public service faced increasing public scrutiny (RCAGA 1976). The government established a Royal Commission on public administration and its report to the Fraser Liberal-National government (1975-1983) recommended a radical recasting of the public service to improve efficiency (RCAGA 1976). The recommendations included advancing the notion of equity as well as clarifying objectives and devolving responsibilities to departments. It recommended a prescriptive system of recruitment, training and promotion, which, although advanced to improve efficiency, were a vehicle to secure social justice (Curnow 1976).

A first attempt to legislate for some aspects of the reforms occurred in 1984 when the Hawke Labor Government enacted the *Public Service Reform Act*. This streamlined employment procedures, devolved responsibilities to departments, and established the Senior Executive Service (SES). In retrospect these appear to be tentative first steps to reform the APS according to the principles of NPM. Other aspects of the legislation appear to depart from NPM but follow the spirit of the Coombs equity agenda, such as the introduction of industrial democracy requirements and promotion of equality of opportunity.

In 1986, the Prime Minister declared that the country could not afford inefficient public service work practices (Hawke 1986). Changes were made to redeployment and retrenchment procedures, allowing the public service management to deal more quickly with inefficient or surplus staff. Emphasis was placed on applying private sector management concepts to the public sector and an Efficiency Scrutiny Unit was established to review the performance of departments. Financial constraints were also imposed which required reductions in the levels of administrative expenditure by an average of 1 per cent per year.

At this time the employee classification structure was reduced from over 100 to eight classification levels, which brought immense change to work organisation by enabling staff to perform a variety of tasks within their classification level. The implementation process was also significant because it sought to utilise participatory practices that included staff and their unions in redesigning work organisation (Enfield 1989).

In 1987 cost oriented reforms continued and significant machinery of government changes introduced. According to Pusey (1991) these changes resulted in concentrating power in the hands of ministers and senior public servants with backgrounds in economics rather than arts and other social sciences. Privatisation of significant Commonwealth assets began with the sale of the Williamstown Naval Dockyard in 1987 and about \$1billion of public services were contracted out in 1989-90 (EPAC 1990). The public service was subject to market principles and a focus on results was emphasised (Enfield 1989). Performance related pay for the SES was also introduced (but later abandoned). The Public Service Board was replaced by a single Public Service Commissioner with responsibility for employment policy and day-to-day responsibility for employment issues transferred to departmental level. Monitoring of

departmental performance in equal employment opportunity and industrial democracy was reduced (Nethercote 1988).

These changes, summarised in table 2, appear to be moving away from the ideas of equity in the Coombs report and focussing more on economic efficiency and managerial control, in line with the principles of NPM. However, the principles of industrial democracy were upheld in certain reforms, such as including a trade union representative on the newly formed Public Service Management Advisory Board that was established to advise the government of significant APS management issues.

Table 2: Summary of Reforms to the APS in the 1980s

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| <ul style="list-style-type: none">• Greater authority over personnel matters was devolved to the departmental level;• More flexible work organisation was introduced;• Personnel procedures were streamlined;• A distinct SES was established;• The notion of merit-based employment was changing to focus on competency;• The notion of a career based service was diminishing in importance;• Private sector management practices were emulated;• Links between personnel arrangements and corporate planning were made; and• Market principles were applied to the public service and some services contracted out |
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The application of market principles and the pace of privatisation accelerated in the 1990s. A continued perception of poor performance and over priced publicly provided goods such as power and telecommunications continued the drive towards a more competitive public sector (Capling, *et al.* 1998). As a result of agreement between the federal, state and territory governments, the National Competition Policy (NCP) was adopted in 1995. NCP strengthened legislation prohibiting anti competitive conduct and extended its coverage to the public sector, exposing public monopolies to competition.

As part of the ongoing reform program, the Public Service Review of the Public Service Act (the McLeod Review) was established in 1994 to make recommendations for the provision of a modern and flexible management framework that could respond to the fast changing globalised environment. The Report argued the need for a comprehensive redraft of the *Public Service Act*. It was viewed as being out of touch with APS practice and inconsistent with current management philosophy and industrial relations. It proposed that agencies should have more autonomy over personnel practices, with the power to employ non SES staff in their own right. It recommended that the concept of ‘office’ be eliminated and that agency secretaries have the capacity to offer different tenure arrangements (i.e. fixed-term and casual employment). Where possible, individual grievances should be resolved within the agency. Coinciding with the McLeod Review, legislation was introduced placing financial accountability with agencies, including the financial aspects of personnel decisions.

These recommendations have proven controversial. For example, O'Neill (1995: 19) noted that,

Streamlining personnel procedures will inevitably result in more subjective judgments being made by fewer people...The danger of applying private sector rigours to the Public Service is that the subjective judgments that come with that rigour can be

misapplied to censure, move or oust the public servant standing up for the public good...

The merit basis of employment, once held as an inviolable principle, was perceived to be under threat, a concern reiterated by Nethercote (1997).

Another influential review was the National Commission of Audit, established by the incoming Liberal-National government in 1996. James (1996) observed that, in some ways, this was more of the same (the Act was cumbersome, and more devolution and greater performance focus was needed), but it also broke new ground. It dismissed the notion that tenured public servants are more likely to be apolitical and provide independent advice to government, and argued that senior tenured public servants were more likely to be subject to 'capture' than those on fixed term contracts. It therefore recommended a public service based on fixed-term engagements at all levels and that public service operations should be subject to contestability arrangements and contracting out, in effect reinforcing the thrust of NPM. It recommended machinery of government changes whereby services be provided through a one-stop shop where clients could have access to complementary services offered by different agencies. The report argued that significant reductions in the costs of service provision would result, allowing across the board efficiency targets of at least 10 per cent and 20 per cent in some areas.

The government also released a discussion paper entitled, "Towards a Better Public Service", the blueprint for public service reforms (Reith 1996), which continued to challenge the view of the APS as a monopoly supplier of advice and services. It promoted complete devolution of employment responsibilities, including determination of pay levels and classifications, to agency level. Subsequently the government has implemented reforms to the APS through three major planks, a new *Public Service Act*, the *Workplace Relations Act*, and financial reforms (PSMPC 1998).

The *Public Service Bill 1997* was introduced to the House of Representatives in June 1997 but not passed until a much amended version was reintroduced in 1999. The Act replaced 300 pages of dense and complex provisions in the *Public Service Act 1922* with a direct and succinct statement of the essential characteristics of public service and seeks to adapt the legislative framework to changed operations and priorities, characterised by a greater focus on outcomes (Kemp 1999).

The *Public Service Act 1999* (the Act) prescribes a set of values that seek to maintain public service integrity and professionalism (PSMPC 1998). There are two categories of values, essential characteristics (apolitical and impartial) and employment and management principles (Weeks 1999). The latter embed the employment relationship with values that continue the traditional notions of a career service, the merit principle and notions of equity and fairness.

Although the Act commits to the value of a career based service (s.10(1(n))), some changes in the Act significantly detract from this notion. The notion of office is removed and staff are described as employees, the implications of which are the loss of the concept of a vocation and reduced tenure. The rationale was to enable the allocation of different tasks according to operational needs (DEWRSB 2001d).

The Act contains a Code of Conduct specifying the obligations of employees including upholding the values and good reputation of the APS. The focus of the Act is therefore on establishing required behaviours of public servants within a set of values. Rather than enforcing the application of values through prescriptive procedures that protect employees, the Act places obligations on employees to uphold the values under the threat of sanctions which include termination. The adequacy of such an approach has been questioned (Nethercote 1997). When considered in the wider context of diminishing budgets, flexible employment practices, performance focus and contestability, values such as equity and a safe workplace may be compromised.

The Act empowers the agency head to engage employees and to have all the rights, duties and powers of an employer (s.22 (1) and s. 20(1)) including the requirement to develop review procedures and Workforce Diversity Programs. Hand in hand with this power, is the removal of prescribed procedures for matters such as appointment, promotion, redeployment and discipline. The new powers vested in the agency head seek to enable more flexible work practices free from rigid application of external rules.

The extent to which this system provides a fair system of review is debateable because the nature of the review procedures developed within agencies are not known and the types of decisions which can be reviewed are extremely limited. For example, the Act excludes review of decisions regarding policy, strategy, resources, decisions which are in accordance with a direction by a Minister or the Public Service Commissioner, machinery of government changes, and the engagement, duties and termination of employees. Further reviews, except in the case of promotion, are not binding on the agency head.

Agency heads have the power to engage staff on an ongoing, fixed-term or casual basis (s.22 (2)). In practice, the flexibility of managers is limited as the Act states that usual basis for engagement is ongoing (s.22 (3)) and the regulations limit the engagement of non ongoing employees. Staff no longer have access to internal review and appeal against terminated, but can access the termination provisions of the *Workplace Relations Act*. This change may offer management easier and swifter termination procedures. Staff, including the SES, are engaged and terminated by the agency head. The notion of agency employment in effect diminishes the notion of a career based service.

The Act eliminates all references to bipartite decision-making by removing the Joint Council (s.23), industrial democracy plans (s.22c) and union representation on the Management Advisory Board (s.27). These are significant departures from the long-held values of bipartisanship and union-inclusiveness but meet the precepts of NPM.

Accountability is emphasised through clearly articulated values and a code of conduct, but accountability is reduced in practice. Although agency heads are required to uphold the values of the *Public Service Act*, there is no mechanism for enforcement, except for a non-binding review by the Merit Protection Commissioner. Weeks (1999) noted that the effect of reduced management accountability is amplified by a coinciding increase in management power in the employment relationship.

The Government promoted the *Workplace Relations Act* as providing an employment framework enabling recognition of the mutuality of interests between employers and employees, allowing more efficient and cooperative workplaces. The means for achieving this are through workplace and individual agreement making over conditions of employment

(PSMPC, 1998). In a seemingly contradictory direction to agency level decision-making, the government, through the Department of Employment, Workplace Relations and Small Business (DEWRSB), developed strict guidelines for agreement making in the APS which must be satisfied before the certification or filing of Certified Agreements (CAs) and Australian Workplace Agreements (AWAs). Macdonald (1998) observed that the role of DEWRSB appears to be highly interventionist, ensuring high degrees of procedural and substantive uniformity across the APS by obliging agencies to adhere to detailed 'guidelines'. The government explains this apparent contradiction by suggesting that overarching guidelines are required to maintain a cohesive and efficient APS (PSMPC 1998). This seems to be a continuation of the old central agency role, but with the exclusion of bipartisan principles and union participation.

The government's Policy Parameters for Agreement Making issued in May 1997 (and updated in 2000) sought improvements in pay and conditions through productivity gains and required increases to be funded within agency appropriations (DEWRSB 2000a). A simplified classification structure was developed with scope for further adaptation by agencies. The guidelines require pay increases tied to performance, a major departure from pay according to classification level.

Freedom of association, the choice whether to join a union, is another key principle of the *Workplace Relations Act*. The guidelines stress the need to foster more direct relations between employers and employees, specifically excluding union representation from consultative arrangements and ensuring that agency facilities are not used to promote union membership. The changed right of entry provisions for union representatives have been enforced in the public sector limiting union access. The industrial action provisions were applied to the public sector, including the prohibition against strike pay. Consequently bans and limitations have virtually ceased and participation on stopwork meetings has not been strong (DEWRSB 1999b).

Legislation has been enacted devolving responsibility for financial management to agency heads (*Financial Management and Accountability Act 1997*) but requiring agencies to utilise resources efficiently, effectively and ethically. This allows flexibility in the allocation of resources, for example, the amount spent on wages and other employment-related activities. The budgetary arrangements have been radically reformed so that the focus is on performance at a competitive price (Bartos 2000). Efficiency targets continue to an important focus, however, the targets were reduced in 1997/98. In announcing the reduced efficiency targets, DEWRSB stated that, "the government wants to see its own employees secure better pay for better work" (DEWRSB 1999: 8) and the efficiencies gained should be directed to pay outcomes, rather than returned to the budget. Here we see the performance orientation of NPM, but within the context of ethical values.

Client focus is a fundamental part of the new performance driven culture. Commonwealth agencies are required to develop a Service Charter (in consultation with customers and staff) which specifies key standards of service, rights and responsibilities, and complaints procedures enabling a more responsive customer service culture. An example of the implementation of changing to client focus is the establishment of the one stop shop, Centrelink, in 1997 which provides welfare services to the public on behalf of a number of departments (Vardon 2000). Machinery of government reorganisation of this nature requires considerable redeployment of personnel and a considerable shift in the understandings of the nature of work in the public sector.

Overall the reforms of the Liberal-National government continue the direction of reform set in the 1980s, but have extended the concepts considerably such that they could be described as a transformation rather than reformation of the APS. The government aims to have a modern efficient APS with agencies taking responsibility for employment matters. The culture of work within the public service is changing from administration by rule to a performance culture that aims to meet efficiency targets and service standards. Agreement making and consultation with staff can be conducted within a framework of traditional career based and merit principles. However, agreement making under the guise of adopting private sector employment practices, with an eye on making sure that services are not undercut by the private sector (or indeed from within the public sector), can place a merit-based and equitable employment relationship at risk.

Employment Outcomes

In this section we move to consider the employment consequences of the adoption of NPM in the APS.

Table 3: APS employment levels

Year	Number of APS Employee
1991	161874
1993	164368
1995	144067
1997	131588
1999	108006
2001	118644

(PSMPC 2000c: 12; PSMPC 2001a: 31)

Table 3 shows that, as predicted by NPM, the level of public service employment has fallen during the 1990s. A massive decline began in 1993, before the election of the Liberal-National government suggesting the recent reforms are part of a continuum of change. Over the last two years the number of retrenchments has declined and the number of engagements increased resulting in increasing employment levels (PSMPC 2001a). The Public Service and Merit Protection Commission (PSMPC) suggests that public service employment levels have now stabilised.

In line with the philosophy of introducing a more flexible workforce increased temporary employment in the APS could have been expected. In fact there has been an overall decline in the proportion of temporary employment from 16.7 per cent in 1985 to 9 per cent in 2001 (PSMPC 2001a).

This may be explained by a number of factors. Although the *Public Service Act* enables agency heads to employ staff on a contract or casual basis, the regulations impose specific limits which may have had the unintended effect of promoting permanency as the standard form of employment. Another factor may be that contestability arrangements enable

flexibility through contractual arrangements, leaving the APS with a core permanent workforce. The PSMPC (2000a) reports that the APS has consistently used ‘hirees’, employed outside the constraints of the Act, to avoid restrictions on temporary employment. Another explanation may be that temporary and fixed-term workers were laid off during the reductions to public sector employment leaving a higher proportion of permanent staff. The increase in the median length of service from seven to ten years (PSMPC 2000a and 2001a) supports this supposition.

Over the last two years the proportion of engagements that are permanent has increased (PSMPC, 2001a). This is explained in part by the increased recruitment in the Australian Tax Office (ATO) to implement the Goods and Services Tax and in Centrelink in response to the Australians Working Together initiative (PSMPC 2001a). The policy induced requirement to engage new staff in two of the largest APS agencies suggests that reducing employment levels is a flawed strategy or at least opportunist, providing agencies with the means to eliminate staff resistant to change and engage staff more suited to the entrepreneurial spirit of NPM.

In 1985 the classification entry point for public servants was overwhelmingly at the base grade accounting for 70 per cent of all new engagements. This has changed considerably with staff entering over a broader range of classifications and at higher levels with few employees recruited at the base level (PSMPC 2000a). This may be a reflection of the ability to open all positions to external competition as expected within the NPM framework. It may also reflect the changing nature of work such that the amount of repetitive data entry and process work declined with the introduction of new technology in the 1990s. Alternatively, these low-level positions may be subject to contracting out rather than in house provision.

The PSMPC reports that selection and promotion procedures have been streamlined without compromising merit by developing adequate review procedures (2001a). When external providers are used for recruitment tasks, agencies have retained overall control of the process. However, only 39 per cent of employee respondents agreed that their agencies make decisions based on merit. The question of merit protection in the APS requires further investigation as there appears to be a difference between the rhetoric and application of the principles.

Declining workforce diversity was a predicted outcome of devolved employee relations in a contestability framework. However the APS values require equity in employment and the Act requires the development and implementation of Workplace Diversity programs by agencies. The most recent *Workplace Diversity Report* (PSMPC 2001b: 19) noted that a “disappointingly low” 46 per cent of employees agree that diversity is appreciated and recognised in their agencies. The composition of the APS has been characterised by a decreasing proportion of people with a disability and people from racially or ethnically diverse backgrounds. Indigenous Australians and people with a disability have been over represented in separations. The proportion of new engagements of indigenous Australians has declined from a peak of around 5 per cent in 1993 to 1.6 per cent in 2001.

The representation of women in the public service is the exception in an otherwise poor report card. In 2001, the majority of ongoing employees in the APS were women for the first time (51.4 per cent). Women are still concentrated below the SES, mainly in the APS levels (85 per cent), but this percentage continues to diminish.

The lack of success with workplace diversity programs for most EEO target groups has been explained as a transient phenomenon: one of many important issues yet to be addressed in the new public service framework (PSMPC 2000b).

An examination of the reasons for the decreasing number of employees with a disability identified achieving efficiencies as a major factor as well as unwillingness for people to identify themselves as disabled (PSMPC 2000b). The report noted anecdotal evidence that the increased emphasis on performance measurement combined with budgetary pressures has led to declining levels of employment of people with a disability. Competitive tendering and contracting reportedly was associated with a substitution of disabled workers from direct APS employment to employment by contractors. Apparently employment with a contractor facilitates the integration of disabled people into the APS as the contractor provides specialised assistance and support and allows flexibility to suit both the individual and the agency. There is no available data regarding the extent to which people with a disability are engaged by contractors rather than directly by the APS. The PSMPC (2000b) concluded that the weakening representation of equal employment opportunity target groups may be a reflection of the changing nature of APS employment and the reduction in the number of jobs requiring lower level skills.

DEWRSB has published two major reports regarding agreement making in the public service confirming widespread use of agreements (1999a; 2001a). The reports suggest that conditions of work are not diminishing as might be expected and provide numerous examples of what are termed as progressive working conditions.

This is contradicted by the Auditor General who noted that the goal of generating productivity improvements or cost savings was met in little over 55 per cent of agreements and that the efficiencies and productivity improvements were often insufficient to meet the costs (ANAO 2000). The report concluded that the savings were mainly generated by staff reductions. In light of these revelations it is not surprising that most agencies want to change funding arrangements (DEWRSB 2001a). Many indicated that they did not know how further productivity improvements would be identified, with the general tenor being that they had reached the point of diminishing returns. DEWRSB also noted that staff resistance and a lack of trust between management and staff were impediments to change in many agencies.

As explained above, central oversight of agreements is at odds with NPM rhetoric. DEWRSB (1999a; 2001a) report a high degree of conformity with its policy parameters. Some agencies claim that the parameters place too many constraints on their ability to reach agreements which best meet their needs while others indicate a preference for more detailed parameters.

Compared to the previous system of inclusive employee relations, the degree to which unions are involved in agreement making has been halved, however, the 2000/01 round of agreement making has seen an increase in the proportion of union agreements, from 55 per cent to 65 per cent. Individualisation of the employment relationship is a predicted outcome of NPM and in the APS it may have passed its zenith with union influence on the rise.

The introduction of AWAs is another reflection of the drive to individualise the employment relationship. AWAs cover 5.2 per cent of public servants and almost all of the SES (DEWRSB 2001a). Many agencies considered that their AWAs had achieved improved recruitment, retention, increased productivity and culture change (DEWRSB 2000b). Others reported problems such as organisational culture, differing expectations between staff and management, poor communications, unsophisticated business planning and inadequate processes and systems as impediments. The low penetration of AWAs appears to have limited their impact as a vehicle for cultural change.

Remuneration outcomes from agreement making were slightly less than the private sector (DEWRSB 2001a). DEWRSB reported significant ranges within salary bands across all APS levels and that employees on AWAs generally receive higher remuneration in base salary and total package (2001b; 2001c). Almost all SES staff (96 per cent) are paid at the maximum in their salary range. For non SES staff the main factor driving the size of pay increases was the balance between what the agency can afford and the going rate as benchmarked across the APS. It seems that agencies are taking up the flexibilities in the new employment framework in setting remuneration, but based on notions of costs and consistency rather than an accurate measure of performance. This approach appears to have heightened perceptions of unfairness. The PSMPC (2001a) report that only 40 per cent of employees believe that they are rewarded fairly in comparison with others. The degree of flexibility in remuneration may be resulting in a demoralisation of a significant proportion of staff rather than motivating staff towards improved performance.

The stimuli for public service agencies to develop performance management arrangements come from various directions. There is the legislated value requiring the public service to achieve results and manage performance (s. 10(1(k))). The Directions of the Public Service Commissioner require agency heads to establish and conduct a fair and open performance management system which covers all employees and links performance (based on agency goals and APS values) to remuneration and rewards (clause 2.12 (1 (e) and (f))). Government policy regarding agreement making requires agreements to contain effective performance management arrangements that guide salary movement (DEWRSB, 2000). In the circumstances it is not surprising to find that 94 per cent of certified agreements in the APS contain performance review provisions (PSMPC 2001a).

The prevalence of performance pay provisions is no measure of the success of the APS in engendering a new culture. O'Brien and O'Donnell (1999) found that these efforts have been met with expressions of cynicism and opposition from both managers and employees, particularly when the reality of the performance management system contrasted with the new culture. Similarly the *State of the Service Report* (PSMPC 2001a) noted a gap between the rhetoric of senior staff and the reality of performance management. It drew on a study by the Institute of Public Administration Australia (IPAA 2001) which found evidence of cynicism and poor morale resulting from unreconciled expectations. For example, many staff perceived that senior APS management were rewarded for successful accomplishment of tasks despite poor people management skills. However, the PSMPC concluded that the development of a performance culture is evolving and overall there has been 'significant progress' in performance management.

Centrelink has been cited as an example of a successful performance management system, introduced over a period of time (PSMPC 2000a). Centrelink initially introduced

performance assessment without pay linkages in order to build employee confidence in the appraisal system. It is claimed that linking of pay to performance has been met with significant staff acceptance.

The Auditor General's examination of certified agreements found little evidence of agencies establishing appropriate systems to monitor performance measurement and performance linked remuneration (ANAO 2000). The report suggested that there was scope for DEWRSB to further support agencies to identify and measure improvements in productivity and, while it was not recommending a 'one size fits all' approach, the Auditor General recommended central identification of the means of measuring and rewarding productivity. The Management Advisory Committee has responded by publishing guidelines (MAC 2001). Again the issue of tension between centrally determined requirements versus the provision of guidelines to assist agencies emerges.

The PSMPC (2001a) concluded that agencies are establishing streamlined employment procedures and are putting in place strategies to promote APS Values and the Code of Conduct. Overall, agencies report the new employment framework is offering the opportunity for new flexibilities and improved services. The results of the employee survey collated by the PSMPC indicated that employees are less enthusiastic about the new framework. Most were, "cynical about their agency's commitment and support for certain aspects of which impact directly on their working lives and careers – merit employment, diversity and fair rewards" (PSMPC 2001a: 9). The report concluded that agencies are beginning to take a more strategic approach to ensure high quality outcomes in the future through building leadership and capability skills. Thus we conclude that the public service may be changing to a more entrepreneurial and performance oriented culture, but many employees remain reluctant recruits to the new model of management.

Conclusion

In this paper we reviewed a range of literature pertaining to the implementation of NPM style reforms in the public sector which was then used as a base for evaluating the APS experience. A key finding of that literature was that in a devolved employment framework with contestability there would be reduced levels of employment, a proliferation of management positions, increasing flexibility and individualisation of the employment relationship. The evidence canvassed in this paper suggests that these trends have been replicated in the APS but there are also signs of a reversal. The size of the public service is starting to increase or at least stabilise and union involvement in agreement making is increasing. Another unexpected outcome is the apparent increase in the proportion of permanent staff, though this may be an artefact of the changing structure of employment, downsizing and increased contracting out.

Though far from unanimous, the literature suggested that employment conditions were unlikely to be reduced. The APS evidence on this point is both inadequate and equivocal. DEWRSB (1999a; 2001a) reported that working conditions have not diminished and that progressive initiatives are included in agreements. The apparent cynicism of employees at all levels toward the attempts to create a performance oriented culture suggest the need for more detailed research.

As indicated at the outset public service reforms have been driven by the twin imperatives of efficiency and equity and this remains the case in terms of legislation and policy. In practice there are signs that under the guise of diversity, equity is declining. The proportion and

absolute numbers of targeted EEO groups is diminishing and employees report dissatisfaction with merit protection and fair rewards. This finding is consistent with the literature and can be explained in several ways: changed recruitment practices, the impact of the increasing focus on performance and the shift to agency management. It should be noted that the apparent undermining of the position of people with disabilities and the loss of entry level job opportunities for those with low educational qualifications appears to have been offset by a shift in the gender composition of the APS toward women.

A significant matter for further investigation is the degree to which centrally imposed constraints on the employment relationship (regulations, directions, parameters for agreement making, performance measurement guidelines) simply mean a new style of central control or are sufficiently broad to provide a framework in which agency decisions on employment matters can be determined. DEWRSB (2001a) indicated that both perspectives have been reported by agencies. It can be concluded, however, that the principle of achieving equity through central mechanisms while enabling efficiencies through local workplace decision making has not been achieved. The report of the Auditor General (ANAO 2000) reveals that cost efficiencies through local bargaining are not sufficient to cover the costs of pay rises, and that potential for achieving productivities may be almost exhausted. A question mark hangs over future centrally co-ordinated bargaining rounds as funding for pay increases and productivity improvements may be difficult to cover.

On the evidence considered above, it appears that equity and efficiency are not readily reconciled in the process of reforming the APS. At the same time it must be emphasised that adherence to the precepts of NPM is incomplete with elements of central control being retained and there being substantial resistance to the imposition of an individualistic culture. It remains to be seen whether these features of the APS reforms are enduring or transitional features of NPM.

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