



STATE OF THE SERVICE REPORT 2002-03

STATE OF THE SERVICE SERIES 2002-03



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This chapter examines some of the issues that are central to measuring performance and building capability at an organisational and individual level, and through them at a Service-wide level.

At an organisational level, a focus on business outcomes, and particularly on assessing performance against policy or program objectives, has been at the centre of Australian public sector reform over the last 20 years. While the importance of this focus is generally acknowledged, agency approaches to performance measurement vary, and ongoing refinement of assessment frameworks continues.

The same focus on business outcomes has increasingly underpinned agency approaches to human resource management, fostering a strategic approach to deploying, developing, assessing and rewarding agency employees. Looking to the longer term, agencies are beginning to apply the same outcomes-focused approach to planning for the workforce of the future. This means anticipating future business requirements and planning recruitment, capability development, and succession management policies to ensure that such requirements can be met against the current background of demographic change.

At an individual level, performance management is now widely used to link high-level organisational objectives to individual performance appraisal and all agencies have performance management frameworks in place. The performance management process itself has also been increasingly linked to individuals' learning and development goals, ensuring that they have the capability to enable agencies to deliver against organisational objectives. Leadership development has been a key feature of many agencies' learning and development agendas.

While much of the focus on building capability has been at the agency level, it is also important to consider whole of government capabilities such as the capacity to work collaboratively across organisational boundaries and to focus on the broader needs of government.

The chapter draws on recent work by MAC, the ANAO, Finance, and the APS Commission, as well as the agency and employee surveys to examine:

- how organisations assess their performance
- agency approaches to managing people for present and future business outcomes
- individual performance management
- agency approaches to learning and development (including leadership development)
- whole of government capabilities.

ASSESSING ORGANISATIONAL PERFORMANCE

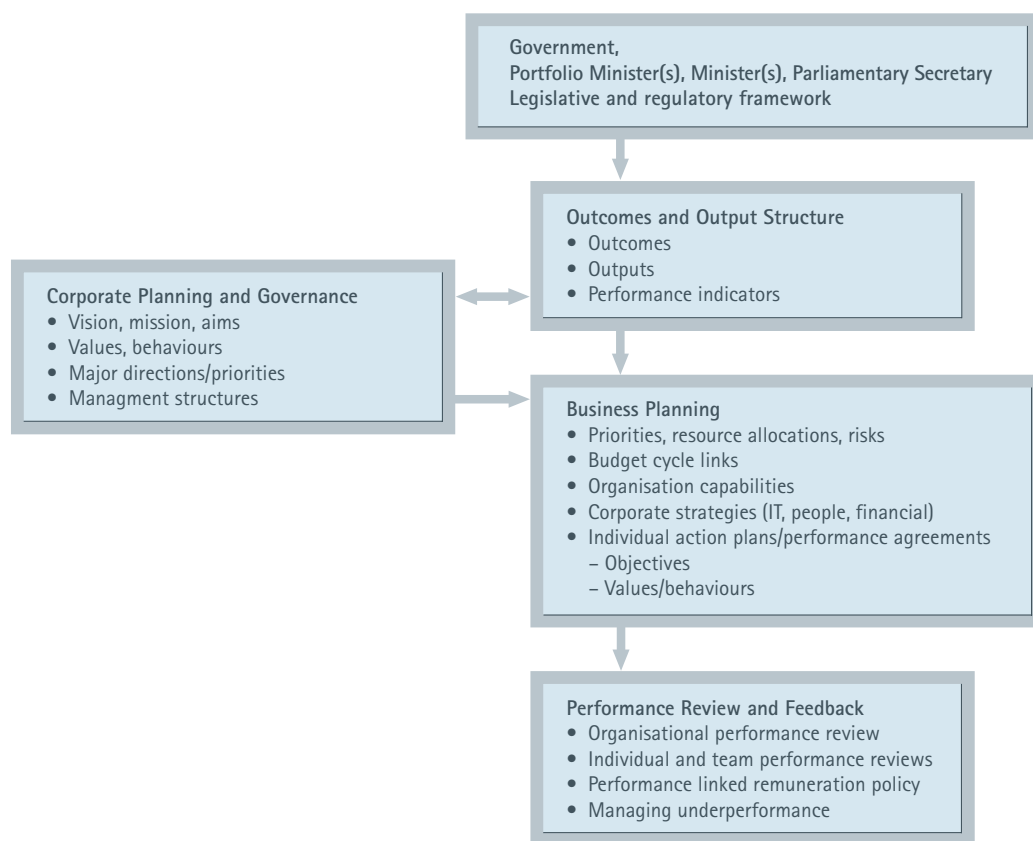
The development and reporting of appropriate performance information, both financial and non-financial, are a key element of the APS accountability framework.

While measures of broad organisational performance have always been important in the APS, they have evolved over recent years, shifting firstly from input measures to measuring results, and secondly

improving the sophistication of the results focus through the outcomes/outputs budget framework. The Auditor-General noted in 2002¹ that ‘agencies have devoted considerable resources to developing outcome/output/performance information frameworks consistent with Department of Finance [and Administration] guidelines and associated with the implementation of accrual budgeting’.

The MAC report on performance management in 2001 promoted an integrated approach to applying such information, encouraging agencies to draw on both their outcomes/outputs framework and their corporate planning and governance framework for detailed business planning and performance review and feedback.²

Figure 9.1: A generalised performance management framework



Source: MAC, 2001, p.8

¹ ANAO, *Performance Information in Portfolio Budget Statements*, Report No. 18, 2001–02.

² MAC, *Performance Management in the Australian Public Service*, Canberra, 2001, p.7. A revised edition of this report was published in 2003.

Responses to the agency survey indicate that all APS agencies had some form of organisational performance management framework in place. All agencies had reported on the basis of the outcomes/outputs framework but not all of them had used it as their main tool for regular monitoring. The main performance monitoring tools used on a regular basis by agencies were the outcomes/outputs framework (87%), corporate and business planning (84%), project planning and monitoring (75%) and the balanced scorecard (15%; a further 19% of agencies reported that they were developing a balanced scorecard).

In broad terms, these frameworks are consistent with the MAC model, with the outcomes/outputs framework providing the formal accountability framework to Ministers and the Parliament, and the corporate planning framework focusing on the strategies needed to deliver the desired results. The growing interest in 'balanced scorecards' reflects the need to build a means for monitoring corporate strategies as well as outputs and outcomes, and for measuring how the organisation's basic capability is being enhanced for the future.

Agencies generally reported that they used a full range of indicators in their performance management frameworks, with business results being cited most often, followed by financial management, customer relations, human resources and various aspects of information technology. For example, PM&C noted that in assessing its performance on a monthly basis it used workforce planning indicators, reports on contract allocation and management, and feedback on client group satisfaction. DAFF noted that its performance management and monitoring are underpinned by both its output/supply chain approach to delivering outcomes to clients and its business excellence framework approach to internal management and performance improvement.

Performance audits undertaken by the ANAO also support the view that agencies have focused on performance frameworks. However, the ANAO has found³ that further improvements were necessary so that:

- agencies could demonstrate the links between outputs, outcomes and performance indicators
- effectiveness indicators actually measure outcome performance with particular emphasis on assessing the agency's specific contribution to shared outcomes
- planned versus actual results can be assessed by the inclusion of targets or other bases for comparison.

In 2002 the Joint Committee of Public Accounts and Audit (JCPAA) also tabled the findings of its *Review of Accrual Budget Documentation*.⁴ In their report, the JCPAA concluded that the overall structure of the accrual budget documentation is sound. However, it noted the need for improvements in identifying and reporting on shared outcomes. It also indicated interest in accountability and transparency, which can be achieved by providing an analysis of performance in annual reports against targets, including where performance has not been satisfactory, rather than describing activities and processes. Following that report a further ANAO audit has been conducted to examine performance reporting in agency annual reports. The objective of the audit was to determine whether agencies had:

- established a sound annual reporting framework
- developed arrangements to ensure performance information is accurate and coherent
- appropriately analysed performance information in their annual reports.

The report of this audit is expected to be tabled in late November 2003.

³ Report No. 18, op. cit.

⁴ JCPAA, Report No. 388, June 2002.

MANAGING PEOPLE FOR BUSINESS OUTCOMES

Managing people for business outcomes involves line managers planning for, and actively managing, staff to achieve agency and program outcomes. It also involves the human resource function in the agency supporting people management practices to achieve agency outcomes. Workforce planning is central to this issue.

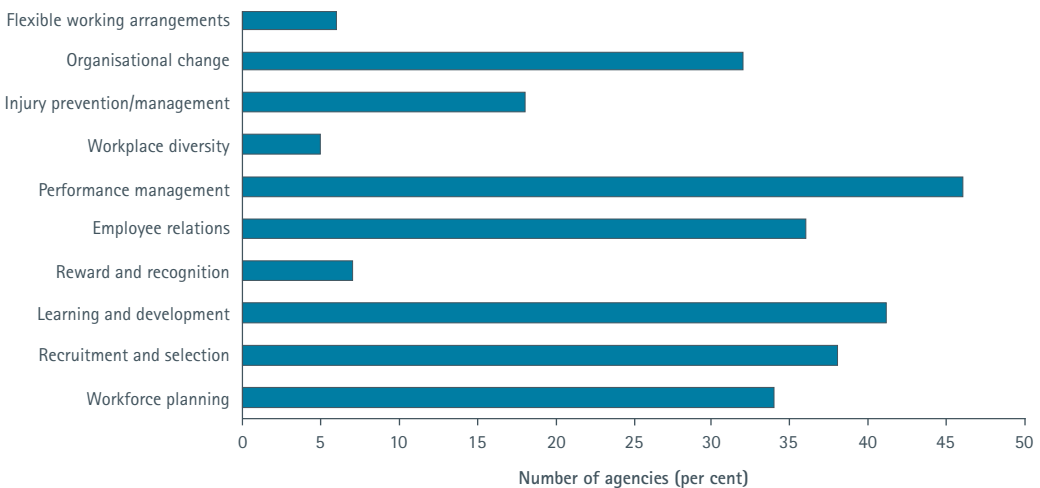
In June 2003, the ANAO tabled its report *Managing People for Business Outcomes, Year Two*.⁵ The report assessed agency performance in people management against nine practice areas set out in Figure 9.2. In making these assessments, the ANAO stressed that agencies should identify those practice areas that are most critical to business, and develop appropriate performance targets and measures. It acknowledged that it ‘is not feasible for agencies to try to demonstrate all better practice principles in all practice areas’.⁶ But it also promoted strongly an integrated approach focused on improving business outcomes.

The report found that progress had been made in the majority of participating agencies in year two of the study, with three agencies making significant improvements in people management. However, it found that the integration of business and people planning activities remained a high-priority area for improvement. In particular, line managers were experiencing challenges in recruiting and in developing the required workforce capability.

AGENCY PEOPLE MANAGEMENT ISSUES

The agency survey asked agencies to identify their three highest-priority people management issues in 2002–03 from the nine practice areas identified in the ANAO’s reports and an additional issue, flexible working arrangements. Results from the agency survey are at Figure 9.2.

Figure 9.2: People management issues identified by agencies as priorities



Source: Agency survey

⁵ ANAO Report No. 50, 2002–03. The findings of this report are based on an audit of 13 agencies. It builds on an audit of 14 agencies in 2001–02 ANAO Report No. 61, 2001–02, *Managing People for Business Outcomes*.

⁶ *ibid.*, p. 17.

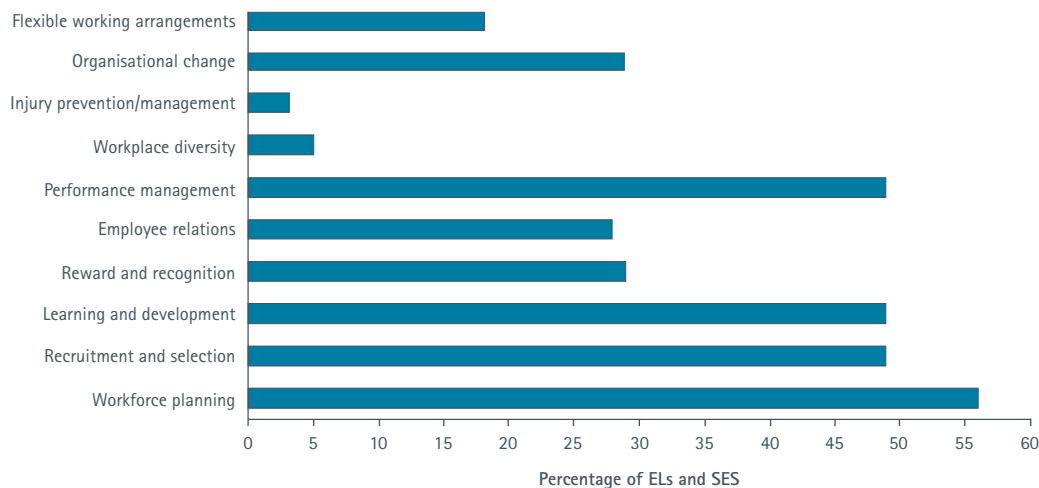
There was considerable variation among agency responses, suggesting that agencies were able to identify practice areas more critical to their own business needs. However, consistent with the findings of the ANAO report on managing people for business outcomes, the most common areas identified as a priority were performance management, learning and development, and recruitment and selection. The three lowest-rating agency priorities were reward and recognition, flexible working arrangements, and workplace diversity.

There were substantial differences in the priorities identified by small, medium and large agencies. In particular, large agencies were more likely than other agencies to identify workforce planning (50%) and learning and development (59%) as priorities. Small agencies put greater emphasis than other agencies on recruitment and selection (54%), employee relations (46%), and organisational change (49%), and less emphasis on performance management (46% compared with 58% for medium agencies and 55% for large agencies). These differences suggest that small agencies may be more concerned with immediate people management issues than medium or long-term needs, or that they have a greater emphasis on meeting skill and capability needs through recruitment, as well as by developing existing employees. It was also mentioned by several small agencies that they faced challenges when developing and delivering HR initiatives.

Being such a small agency we don't have access to the same level of resources as a larger agency and therefore we need to think creatively about the best way to deliver HRM support.

The employee survey also asked ELs and SES employees to identify their highest-priority people management issues from the same list. Results from the employee survey are at Figure 9.3. While this figure gives an indication of EL and SES priorities across the APS, it is not directly comparable to the agency results, as agency survey results are not weighted by size of agency.

Figure 9.3: People management issues identified by EL and SES employees as priorities



Source: Employee survey

Like agencies, ELs and SES employees rated the areas of performance management, learning and development, and recruitment and selection as high priorities, but put greatest emphasis on workforce planning. Workplace diversity was a low priority for employees but a substantial minority of employees viewed flexible working arrangements and rewards and recognition as priorities.

Agencies were also asked to anticipate their people management priorities for 2003–04. The practice area most likely to be rated as a priority for 2003–04 was workforce planning (chosen by 67% of agencies, up from 38% in 2002–03). There was also an increase in the number of agencies nominating learning and development as a priority (61%, up from 46% in 2002–03). These results suggest that an increasing number of agencies are recognising the need to address this issue and generally move towards a more strategic approach to people management.

HR CAPABILITY IN AGENCIES

Both the agency and employee surveys explored attitudes to critical HR challenges. For agencies there was substantial agreement (82%) that their HR function has a high level of capability in developing, implementing and evaluating policies and strategies. This result was strongest in medium and large agencies (85% and 96% respectively, compared with 73% for small agencies).

ELs and SES employees were also asked about their attitude to HR capability issues. Their perceptions were generally less favourable than agency results. While almost half of employees (49%) agreed that their agency's HR area had the ability to assist them to address critical people management issues, 22% disagreed and 25% neither agreed nor disagreed, with another 5% not sure. Employees were more likely to agree if they were located outside the ACT (56% compared with 44% of employees in the ACT). SES employees were generally more positive about these issues than ELs.

While agency and employee survey results varied on this subject, it is worth noting that *Managing People for Business Outcomes, Year Two* identified opportunities for human resource functions to improve their level of support to line managers, including by drawing on the guidance set out in the APS Commission's HR capability model, which articulates the capabilities required of effective HR staff in the APS.⁷ To assist HR practitioners to develop further their capabilities against this model, the APS Commission has designed and implemented an HR Capability Development Program.

In relation to the HR capability of line management, 47% of all employees rated their immediate supervisor as highly effective at managing people, but 35% rated them as only moderately effective and 17% rated their effectiveness as low. Supervisors were rated as more effective by younger employees and by women, and were rated as less effective by people with a disability. SES employees were most likely to rate the effectiveness of their supervisors as high, followed by APS 1–6 employees. However, APS 1–6 employees' views were more polarised than other employees, with employees in this group most likely to rate the effectiveness of their supervisors as low.

EL and SES employees were also asked for their views on specific HR issues. Fifty-three per cent of EL and SES employees agreed that the senior management in their agency supported the development, implementation and evaluation of HR policies and strategies, with only 14% disagreeing. However, employees (42%) were less likely than agencies (56%) to agree that they had the necessary data, and employees (37%) were also less likely than agencies (56%) to agree that their agency culture was receptive to change. Forty-one per cent of EL and SES employees agreed that line managers in their agencies were receptive to changes in people management policies and strategies. SES employees were generally more

⁷ *ibid.*, pp.16-17.

positive than EL employees. These results suggest that line areas in some agencies may be facing particular difficulties that HR areas need to be aware of and better support.

FACS' INTERNAL CONSULTANCY APPROACH

FaCS has used the APS Commission's HR capability model in a unique way by providing an internal HR/organisational development consultancy service to line managers and their staff. This differs from its other HR services, which either cater to the individual staff member (advisory role) or to the senior management of the organisation (high-level advice and strategy role).

FaCS' consultancy service is provided by a team of HR generalists whose role is to work with the client to 'diagnose' the problem, look to where the client would like to be and then work in partnership with the client to achieve the agreed outcomes. The team also works in a proactive way, scanning the organisational environment for issues that may have an impact on their people.

FaCS has found that the success of this internal consultancy service is dependent on a number of factors:

- the skills of the team members and their ability to listen, question, diagnose and analyse, and put things into the big picture context
 - the credibility of the HR area and more specifically the team
 - the team's ability to be across FaCS business issues
 - the acceptance of the partnership context by the line areas
 - high-level support and sponsorship for the concept.
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Workforce planning and succession management

The MAC report on organisational renewal found that the changing APS environment creates both the imperative and the flexibility for APS agencies to structure their workforce strategies to meet business capability and renewal requirements.⁸ It found that agencies needed to engage in more systematic workforce planning, including:

- understanding their own workforce demographics and characteristics
- identifying their particular current and future capability requirements and implementing an integrated human resource management strategy to make sure they are met
- implementing effective succession management.

The report stressed that the changing profile of the APS, including its age profile, posed challenges for the management of the APS and individual agencies. In particular, it revealed that, based on current trends, around 23% of the APS is likely to depart in the next five years. SES and EL employees will make up higher proportions of this group because of their older age profile (27.4% of SES and 18.1% of EL employees were aged 50–54 years at June 2003). There is also a wide variation in the age profile of individual agencies, so that some face much higher potential retirement rates than the average.

⁸ MAC Report 3, *Organisational Renewal*, 2003. This report specifically addressed the challenge of building ongoing capability within the APS workforce.

Workforce planning issues for the APS were also raised by the Senate Finance and Public Administration References Committee in its report *Recruitment and Training in the Australian Public Service*, tabled in September 2003.⁹ The report found that recruitment in the APS faced challenges, including demographic challenges and challenges related to a more devolved environment. It identified particular issues relating to the recruitment of young people, graduates and Indigenous Australians. In addition to specific recommendations aimed at increasing recruitment and retention of these groups, it made recommendations in relation to more strategic approaches to recruitment practices, workforce planning, and the role of the APS Commission. The Government is preparing its response to the report.

The passing through of the large cohort recruited in the late 1960s and early 1970s presents a significant challenge that will not be met simply by looking at current replacement candidates: consideration needs to be given to retaining valued employees and to positioning people with potential to take on leadership roles in the future through structured development processes over a number of years. Action is also needed to build up the quality of recruits, to develop them, and to retain them, or ensure they are favourably inclined to return should they leave to broaden their experience.

Data from APSED presented in Chapter 2 highlight some concerns in relation to the extent to which agencies are systematically dealing with demographic issues. In particular, the fluctuations in intakes of graduates and other trainees, and the continuing falls in recruitment in APS 1–2 employees suggest that career pathways for young people may have been limited in recent years.

Agencies also need to encourage older workers who are making a valuable contribution to stay longer in the workforce, including by developing more flexible employment options such as flexible working hours and patterns, project work and mentoring. The financial incentive available to some members of the CSS to resign before they turn 55 (the 54/11 issue) is a matter that may need to be actively managed by some individual agencies; but agencies in general need to address the potential early departure of valued staff, particularly in the context of broader labour market issues into the future.

The agency survey asked whether agencies had put in place policies, strategies and/or frameworks that would ensure they have the skills and capabilities needed for the next one to five years. Only 36% replied that they had such policies. However, consistent with the increased priority that agencies are placing on workforce planning for 2003–04, another 54% of agencies indicated that they were developing them. Policies were more common in large agencies (41%) than in small or medium agencies (34% and 35% respectively). Where such policies existed, most were relatively current. For those agencies that had or were developing policies, strategies or frameworks, 68% had introduced or updated them within the last two years. Large and medium agencies (82% and 72%) were more likely to report having updated policies within the last two years than small agencies (55%).

Only 4% of agencies had a formal succession plan in place, with such plans being more common in large agencies (9%). However, the survey results suggest that many agencies are planning for succession in a more informal way. Over 74% of agencies indicated that their agency identified potential leaders through manager/CEO identification at all classification levels, with the manager/CEO role strongest at the EL levels, the feeder group to the SES (used by 83% of agencies). While self-identification was the most

⁹ Senate Finance and Public Administration References Committee, *Recruitment and Training in the Australian Public Service*, September 2003.

commonly reported response at all levels (between 83% and 97%), over half of all agencies reported using performance management systems to identify potential leaders (51%–57%). Assessment centres were most commonly reported at the EL levels (22%) and were much more common in large agencies (used by 64% of large agencies at the EL levels).

The ATO is implementing a specific program to ensure that there is a strong pool of contenders for future jobs at the SES Band 2 level. People can self-nominate for the program or be nominated by managers, but the Commissioner and Second Commissioners take final decisions on participation. Being in the pool means officers receive additional support and development opportunities in recognition of their performance and potential. However, movement to the Band 2 level will be based on merit and will follow APS selection processes.

Overall, the results suggest there is increasing recognition among agencies of the need to plan for future skill and capability needs and for succession management. However, there is potential for agencies to take a more formal and systematic approach to the issue. In particular, while there may be limitations to the appropriateness of formal approaches for smaller agencies, there appears to be strong potential for small and, to a lesser extent, medium agencies to put greater emphasis on forward planning.

To assist agencies in workforce planning, the APS Commission is currently developing an internet interface that will allow agencies direct access to their data from APSED. HR managers will be able to extract customised tables providing a demographic profile of staff in their agency, as well as APS averages for benchmarking. Data items include age, length of service, employment status, gender, EEO group and location but do not yet include qualifications. The data can be shown in both tables and charts that can be downloaded into reports. Agency-specific data will be confidential to the particular agency.

PERFORMANCE MANAGEMENT

The 2001 MAC report on performance management in the APS stated that ‘Performance management is an essential tool that is relevant at all levels in all APS agencies’. It noted that performance management ‘provides the means to improve organisational performance by linking and aligning individual, team and organisational objectives and results’ and that it ‘provides a means to recognise and reward good performance and to manage underperformance’.¹⁰

The MAC report indicated in 2001 that it believed that the public sector had made significant progress in dealing with performance management issues. It identified three factors for successful performance management:

- alignment, based on a detailed understanding of the outcomes sought, the nature of the business and the culture of the organisation
- credibility amongst staff through transparency, fairness, simplicity, and CEO and management commitment
- integration, ensuring a clear line of sight for staff between their responsibilities and the objectives of the organisation (see Figure 9.4 below), along with careful implementation and adequate training.

¹⁰ MAC, *op. cit.*, p. 7.

The employee survey sought information about:

- whether their performance objectives are linked to the agency’s business and to the standards against which performance can be assessed
- their experience of assessment and feedback
- their experience of recognition and reward for performance.

For agencies, the survey sought information on measures to ensure implementation of, and accountability for, formal performance management schemes.

PERFORMANCE OBJECTIVES AND STANDARDS

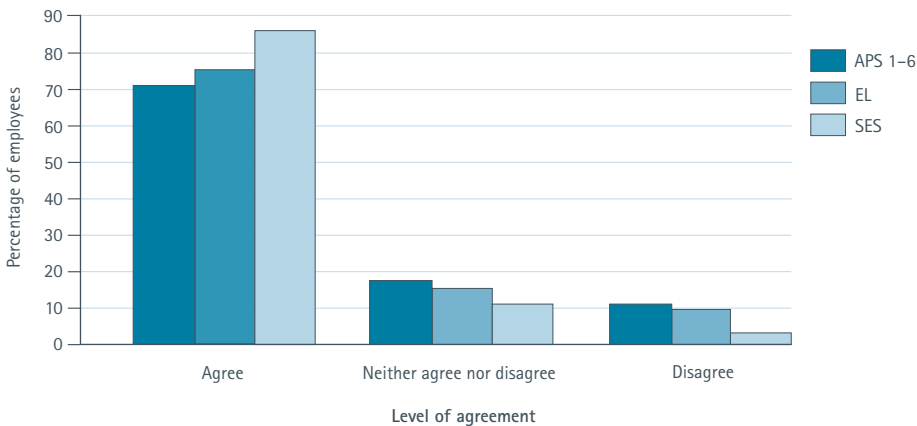
Establishing a formal agreement against which the performance assessment is made assists employees to understand managerial and organisational expectations, and the standards against which judgments about performance will be made.

Of the 79% of employees who received feedback in the last year, most of these employees (93%) indicated that their most recent formal assessment had been undertaken against a formal agreement or work plan. The MAC report emphasised that ‘performance management systems will work when staff see a clear link between their work and the goals of the organisation’.¹¹

About three-quarters of employees (72%) agreed that the links between their agency’s business and their work had been made clear in the development of their performance agreement. The same proportion of employees indicated that they understood the standards used to evaluate their performance.¹²

Figure 9.4 shows that more SES employees than non-SES employees agreed that the links between the agency’s business and their work were made clear in developing their performance agreement.

Figure 9.4: Employees' views of whether their agency's business was linked to their performance agreement



Source: Employee survey

¹¹ *ibid.*, p. 10.

¹² All employees were asked these questions but those answering ‘not applicable’ have been excluded.

The importance of individuals understanding the standards against which their performance is assessed is demonstrated by the fact that of the employees who did not agree that their most recent performance agreement helped them perform well, 77% reported that they did not understand the standards used to evaluate their performance.

I was assessed against what appeared to be general indicators—perhaps they had some formal basis which was not explained to me.

ASSESSMENT AND FEEDBACK

Seventy-nine per cent of employees reported receiving formal individual performance feedback in their current agency in the last 12 months and, of these, 95% reported that this feedback was provided by their direct supervisor.

Overall, 43% of employees agreed that their most recent performance assessment would help them perform well.¹³ A further 35% neither agreed nor disagreed that it would help them perform well. It may be that for many of these employees their assessment confirmed their current perception of their level of performance. Twenty-one per cent of employees did not believe that the assessment would help. More SES employees (61%) were likely to agree that their performance assessment would help them perform well than non-SES employees (43%).

There was considerable variation in employees' views in large agencies about whether their most recent performance assessment would help them perform well. The range was from only 19% of employees in one large agency agreeing that it would help them to perform well to a maximum of 60% in another large agency.

It works very well where I am right now, but only because we have a new management team who are committed to making it work. When staff know what is expected of them they mostly work well.

The usefulness of individual performance management is much dependent on the particular manager conducting the performance review.

More than two-thirds of all employees (67%) indicated that their most recent performance assessment had included a discussion of behaviour. Behaviour was mostly assessed against agency-specific values and behaviours (44%), against all APS Values (24%) and/or against APS Values most relevant to their job (20%). However, 19% of employees indicated that their behaviour had not been assessed and a further 12% were unsure.

There are no specific behaviours or values in the performance agreement; it relates only to projects and tasks to be undertaken and completed.

There appears to be a link between whether there was an assessment of behaviour and the usefulness to employees of their performance feedback. Employees whose behaviours had not been assessed were less likely to consider that their performance assessment would help them perform well in future than employees whose behaviours had been assessed.

¹³ All employees were asked this question but those answering 'not applicable' have been excluded.

REWARDS AND RECOGNITION

Sixty-five per cent of all employees indicated that under the performance assessment system in their agency some part of their pay was linked to an assessment of their performance. The link could occur in more than one way so that employees could, for example, have access to advancement through the salary range and/or a performance bonus.

Opinions were sought from employees who had any part of their pay linked to an assessment of performance, on how well the performance pay system operated in their agency.

Table 9.1: Views on the operation of performance pay

	Agree %	Neither agree nor disagree %	Disagree %
Operates fairly and consistently	40	26	31
Acts as an incentive to perform well	41	27	30
Ensures performance assessment is managed systematically and regularly	51	23	24
Accurately reflects differences in individuals' performance	22	26	48
Provides appropriate rewards for top performers	25	24	47
Contributes to a workplace culture in which individuals work together effectively	24	35	39
Contributes to a workplace which upholds APS Values	34	38	24

Source: Employee survey

The aggregate results presented in Table 9.1 indicate that linking pay to performance continues to present a major challenge in the Service. There is considerable recognition among employees with some pay linked to performance, that performance pay ensures that performance assessment is managed systematically and regularly (51% agree and 24% disagree), but large numbers of employees do not agree that performance pay accurately reflects differences in individuals' performance (48%), provides appropriate rewards for top performers (47%) or contributes to a workplace culture in which individuals work together effectively (39%). Some of these views may not be well informed, as performance pay outcomes are kept confidential in most agencies. Nonetheless, the perceptions do need to be considered carefully.

The MAC report on performance management had also noted that reward and recognition were issues.¹⁴ For mature-aged workers recognition for effort (for both current and former employees who were surveyed) was the most highly rated workplace factor but also the one with which they were most dissatisfied. For graduates recognition for effort was ranked in third place.

Even though I was assessed as eligible for top-level performance pay I still think it's very unhelpful in terms of performance management.

¹⁴ MAC, op. cit., 2001, p. 25

As performance pay is directly linked to salary increases and a bonus there is a real incentive for people to perform both in terms of business outcomes and leadership behaviours.... The better you perform in both aspects the better the base salary increase. A performance bonus only does not provide the incentive to perform that a link to the amount of base pay provides. The more transparency in the ratings given, e.g. through a group moderation process, the more consistent the outcome.

It is possible that part of this dissatisfaction reflects a culture in the APS that still needs to shift, such that supervisors and senior management accept greater individual responsibility and more active performance management. A more significant factor, however, would seem to be the quality of the performance management system. For example, the proportion of employees who considered that performance pay ensures performance assessment is managed systematically and regularly was as high as 70% in one large agency and the proportion who considered the performance pay system operates fairly and consistently was as high as 55% in another three large agencies (with only between 18% and 23% of employees in these three agencies having disagreed). In no large agency, however, did a majority of employees consider performance pay accurately reflects differences in individual performance, the highest level being 32% in agreement, with another 30% neither agreeing or disagreeing.

Linking performance to pay does not provide for open and honest feedback.

Performance evaluation is great. Tying it to performance pay introduces unnecessary complexities.

The debate on the merits of performance pay remains open, therefore. The risks do appear to be manageable, however, if the performance management system is well designed and carefully implemented.

The MAC report indicated that perceived fairness is a critical factor in the credibility of performance management systems.¹⁵ According to MAC, central to views about fairness are:

- consistency in application
- systematic training and review of managers' capabilities as part of their assessment
- moderation of the review process to facilitate greater consistency in the development of, and assessment against, agreements.

These could be useful areas for scrutiny by agencies wishing to improve perceptions about fairness and hence credibility of their systems.

There was no clear correlation between views on performance pay and the size of the pay available in the agency concerned. Nonetheless, given the continuing challenge to ensure credibility amongst staff, a modest approach may deliver the benefits of locking in systematic performance assessment with less risk of significant disparity between reward and actual performance, particularly while schemes are being bedded down and skills developed.

SUPPORT ARRANGEMENTS FOR PERFORMANCE MANAGEMENT

Most agencies (87%) reported that it is mandatory for all staff to have a formal performance agreement. The measures used by agencies to assist managers to implement the agency's performance management system are set out in Table 9.2.

¹⁵ *ibid.*

Table 9.2: Assistance to managers in implementing performance management for staff

	Yes %	No %	Being developed %
Mandatory training on aspects of performance management systems	33	52	15
Self-nominating training on aspects of performance management systems	70	22	8
Providing consistent guidelines and forms for establishing performance agreements	92	1	7
Advice from corporate area	98	1	1

Source: Agency survey

Table 9.2 shows that most agencies provided managers with consistent guidelines and advice from the corporate area. As well, a high proportion of agencies indicated that self-nominated training was available. Given the need for agencies to improve perceptions of performance management systems, particularly the links with performance pay, mandatory training on performance assessment systems may be a useful strategy. Another useful strategy is to clarify the role of a supervisor’s supervisor, to promote consistency and quality in the assessment process and to ensure feedback addresses longer-term career development issues, as well as immediate performance.

Agencies were asked about how they ensured line managers were accountable for implementing performance management systems. The most commonly used mechanism was incorporating accountability measures in a more senior manager’s performance agreement, and this occurred in nearly two-thirds of cases. Inclusion in the line manager’s own performance agreement was the mechanism for 61% of agencies. Only 28% of agencies reported testing compliance in implementing performance management arrangements in their staff surveys.

ANAO AUDIT OF PERFORMANCE MANAGEMENT

The ANAO is currently undertaking an audit entitled the *Administration of Performance Management in the APS*. The audit objectives are to provide:

- an assessment of the extent to which agencies’ strategies and plans conform with the strategic framework set out in the MAC report *Performance Management in the Australian Public Service*
- assurance that performance management is being implemented efficiently and effectively in accordance with better practice principles
- an estimate of the extent and cost of performance-linked remuneration, both performance bonuses and performance-linked increments across the APS.

As part of the audit all APS agencies with more than 100 staff are being surveyed, as are the staff in those agencies. The audit is expected to be tabled at the end of March 2004.

The detailed work being undertaken by the ANAO may provide a deeper understanding of the issues involved in sound performance management. On the one hand, individual performance assessment is generally viewed positively by most employees. On the other hand, the use of performance pay is obviously one to which most agencies still need to give more attention.

UNSATISFACTORY PERFORMANCE

Identifying and addressing unsatisfactory performance is a difficult issue for managers, but it is important that the challenges involved be dealt with effectively. In 2001, the MAC report noted that ‘the challenge of handling underperformance is a key one for the overall credibility of performance management’.¹⁶

The agency survey sought information about formal action taken by agencies to address unsatisfactory performance, the results achieved and the assistance provided to managers to deal with unsatisfactory performance. Where employees believed that a colleague in their immediate work area consistently underperformed, the employee survey sought views about the impact of unsatisfactory performance and whether employees felt that it was being dealt with effectively.

Managing unsatisfactory performance requires commitment on the part of the direct manager and support and leadership from senior management. As well, adequate training and assistance must be provided to managers dealing with unsatisfactory performance.

In an area under extreme pressure I find it difficult myself, as do other managers, to justify the time required to effectively deal with underperformance. Also, if the organisation lacks a broader will and commitment to managing underperformance, then taking action is risky unless you are willing to devote considerable time to documentation, performance tracking etc. This is a challenging area for all workplaces, but especially so if 99% of the expectations/rewards are for producing outputs.

Fifty per cent of employees indicated that an employee in their immediate work area had underperformed consistently. This is a large figure, but needs to be analysed carefully. It may mean that on average one person in every second area is identified by all those in the work area as underperforming, so that 50% of employees will identify someone in their work area as underperforming while the total number identified as underperforming may be only a small fraction of 50%.

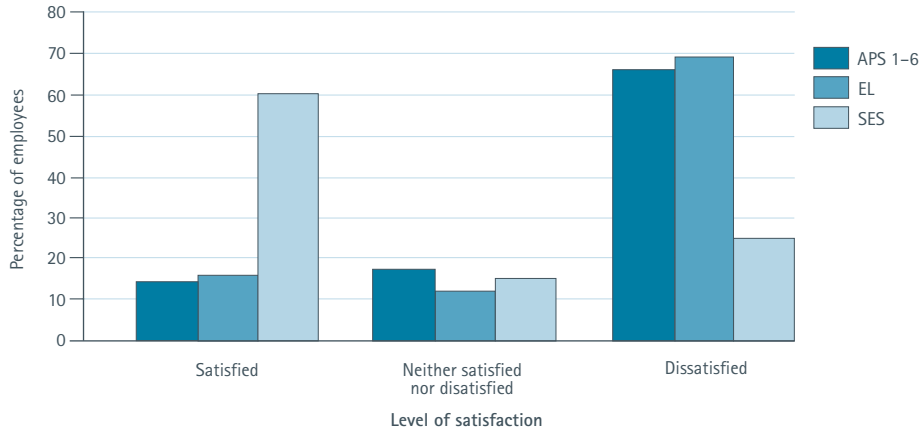
The underperforming employee was identified as a peer by more than half of the respondents, a subordinate by about a third and a supervisor by 16% of respondents. A substantial majority of the respondents reporting the existence of unsatisfactory performance (84%) felt that it had an adverse effect on their immediate work team.

An examination of respondents by level indicated that a slightly higher proportion of ELs (54%) than APS 1–6 (49%) or SES officers (51%) reported underperformance in their immediate work area. Employees (52%) in large agencies were more likely to identify underperformance than those in medium (40%) or small agencies (41%).

The level of unsatisfactory performance reported by employees is a concern. It is also of concern that two-thirds of employees were dissatisfied with the way underperformance was handled. This varied by classification as Figure 9.5 shows.

¹⁶ *ibid.*, p. 28.

Figure 9.5: Employees' level of satisfaction with handling underperformance



Source: Employee survey

The higher level of satisfaction with how underperformance is managed reported by the SES employees may be a result of greater involvement, and to some extent their greater knowledge of any action being taken to address underperformance. It might also, of course, reflect denial by some SES employees that they are managing the issue unsatisfactorily.

Efforts are being made to deal with underperformers, and they are not always obvious to third parties.

Employees at other levels may not be aware that action is occurring and this may lead to the higher levels of dissatisfaction. However, results of the employee survey reinforce the importance of not only identifying and taking prompt action to address unsatisfactory performance, but also managing the perceptions of employees in the immediate work area.

Perceptions that unsatisfactory performance is present in the workplace and that it is not dealt with effectively may have implications for other performance management policies. For example, of the employees who were dissatisfied with the way underperformance was being handled, 64% indicated that they did not believe that performance pay accurately reflected differences in individual performance (the overall result for employees whose performance assessment system was linked to pay, shown in Table 9.1, was 48%).

Underperformance is a difficult issue for the supervisor but also for the person who is not achieving the required level of performance.

Generally the underperformer does not want to be in the situation they are in. I find the major concern I have about underperformance is that many managers do not deal with it when they should, i.e. early on in the staff member's career, but rather seek to shift the underperformer to another work unit to let someone else work out the problem. This is not acceptable as not only is the manager avoiding their responsibilities but they are allowing the underperformance to become a greater problem by delaying remedial action.

At the agency level, 39% of agencies indicated that formal action regarding unsatisfactory performance had commenced in 2002–03. The results of action undertaken to address underperformance are set out in Table 9.3. It should be noted that each agency could nominate multiple actions.

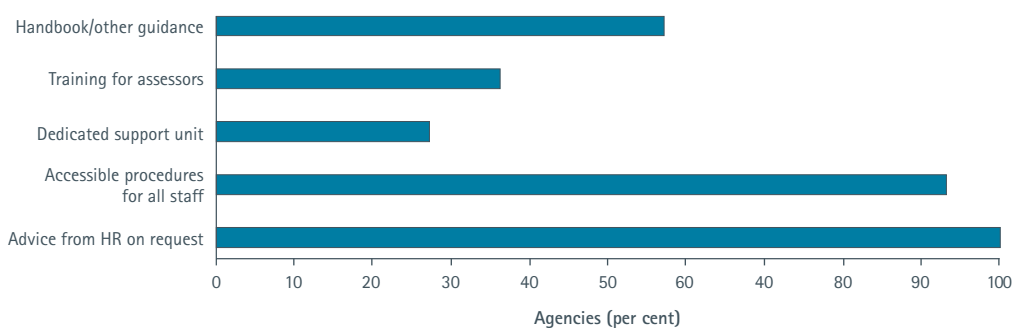
Table 9.3: Results of underperformance action

Result	Number of agencies reporting this outcome	Number of times this outcome occurred
Action not finalised	22	55
Development program instituted	18	67
Satisfactory performance standard attained	17	54
Termination of employment without incentive	9	30
Assignment to other duties	8	15
Reduction in classification	7	9
Termination of employment with incentive	2	2
Voluntary redundancy	2	4
No action taken (against employee)	2	3
Other (including resignation, invalidity, medical assessment)	11	25

Source: Agency survey

In relation to assistance to specifically manage underperformance, the majority of agencies (96%) reported that assistance was provided to managers to formally assess whether employees’ work performance was satisfactory. The types of assistance and the proportions of agencies that used them are shown in Figure 9.6. Agencies could provide more than one form of assistance.

Figure 9.6: Types of assistance provided to assess work performance



Source: Agency survey

Agencies also noted in their comments that other forms of assistance that were provided included: procedures being outlined in the CA; specialised training being available on request; and having an employee assistance program in place.

Given that 50% of employees indicated that they felt that an employee in their immediate work area had consistently underperformed, this issue remains a matter of concern. There is no question that it is a difficult

issue to address successfully, although there is the potential for agencies to look at streamlining arrangements through their workplace agreements. Employee comments raised particular concerns about underperformance at more senior levels not being addressed, the burden of work involved in the processes, the complexity of procedures and the contribution to underperformance made by organisational systems. The challenge for the APS is to address both actual underperformance and perceptions of it.

As with most of the APS we lack an effective system for dealing with underperformance. Attempts are fraught with administrative and legal risk. The chance of success is too low to warrant the effort of the process.

Managing underperformance remains a major challenge for the APS.

The APS Commission has produced a booklet, *Performance management*, to provide guidance to agency heads, human resource managers and agency staff more generally on performance management.¹⁷ It sets out basic requirements of the legislative and policy framework which agencies must observe in managing performance. As well, to assist agencies simplify their procedures for managing underperformance, it includes clauses relating to management of unsatisfactory performance. Agencies can adopt or adapt these clauses, which provide a minimalist but effective approach to the management of underperformance.

LEARNING AND DEVELOPMENT

A key component of the performance management process is to identify the development needs of individual staff, and capability requirements of the agency as a whole. Responding to capability needs through effective strategies for managing learning and development is a key process for building organisational capability.¹⁸ The ANAO's 2001–02 performance audit report on the management of learning and development across the Service found that agencies had made significant efforts to ensure that learning and development strategies were properly aligned with the business needs identified in their corporate plans.¹⁹ However, agencies were not able to demonstrate the efficiency and effectiveness of their investment in learning and development and its contribution to organisational effectiveness.

The 2003 MAC report *Organisational Renewal* also looked at issues of learning and development in the context of building organisational capability.²⁰ MAC found that structured learning and development is important to building capability and that strategies require adjustment to ensure changing capability needs are met. Among other things, it highlighted the need for:

- effective graduate development programs
- programs to support accelerated skills development
- activities to orient those coming in through lateral recruitment to key elements of the APS Values, ethos and processes
- innovative approaches attuned to the greater number of employees on part-time and other alternative arrangements and to the geographic spread of the APS workforce

¹⁷ APS Commission, *Performance Management*, June 2002, <http://www.apsc.gov.au/publications>

¹⁸ Learning and development as discussed in this section refers to learning activities on the job as well as more formal off-the-job activities. Seminars, conferences, classroom training courses, leadership programs, academic study, and in-house programs are counted along with mentoring, coaching, job rotation and work placements.

¹⁹ ANAO, *Management of Learning and Development in the Australian Public Service*, Report No. 64, 2001–02.

²⁰ MAC, *op. cit.*, 2003.

- a focus on continuous learning and development for older workers
- strategic use of selected mature-aged workers in coaching and mentoring roles.

As a direct response to the findings of the ANAO report, the ANAO and the APS Commission collaborated to produce a better practice guide, *Building capability—A framework for managing learning and development in the APS*, which was launched in April 2003. The guide draws on the findings of the ANAO and MAC reports, as well as international and private sector trends. It encourages and supports agencies in developing a more strategic approach to planning, delivering and evaluating learning and development to meet organisational goals and deliver best value for money.

APS training has also been the focus of an inquiry by the Senate Finance and Public Administration References Committee, which tabled its report on 19 September 2003.²¹ The committee noted that there had been many positive developments in APS training, such as the considerable effort agencies have invested in linking training priorities to corporate and business objectives, the development of accredited and articulated training programs, and the way some agencies have capitalised on the flexibility available to them under devolution to tailor training activities to their particular business operational needs. The learning and development aspects of the committee’s report also reinforced many of the findings of the ANAO audit, including:

- the need to ensure learning and development planning and activities are aligned to the agency’s business directions
- the paucity of data on the level and cost of learning and development across many agencies
- the limited evaluation of whether learning and development investment is achieving its purpose.

The committee was critical of the fact that the limited data available on APS training hampered its ability to explore trends and assess value for money. The report made a number of recommendations directly related to APS learning and development. The Government has yet to respond to the Senate report.

ALIGNING LEARNING AND DEVELOPMENT TO BUSINESS GOALS

Aligning learning with business goals is the first principle of the framework for building capability identified in the APS Commission and ANAO’s better practice guide. The agency survey asked agencies about the measures they had used in 2002–03 to ensure learning and development undertaken was aligned with the business goals of the organisation.

Consistent with the ANAO’s 2002 findings, agency responses indicated a strong focus on this issue. The approach most frequently used by agencies was identifying learning and development priorities through a performance management system (used by 90% of agencies). Discussing priorities in the annual report (81%), including priorities in CAs and AWAs (75%), and identifying priorities in workgroup plans (62%) were all also common. The least common approach, including learning and development priorities as part of the corporate plan, was used by 54% of agencies, and another 19% were developing this measure.

There were considerable differences on the basis of size in how agencies chose to align learning and development with business goals. Large agencies were more likely to report ensuring learning and

²¹ Senate Finance and Public Administration References Committee, op. cit.

development undertaken was aligned with the business goals of the organisation by including learning and development priorities as part of their corporate plan than small and medium agencies (77% of large agencies, compared with 54% overall). Medium agencies were more likely to use a performance management system than other agencies (96%, compared with 90% overall). Small agencies were more likely than other agencies to include learning and development priorities as a provision in their CAs or AWAs (81%, compared with 75% overall).

More than half of the agencies (53%) reported that they had measures other than those specified in the survey to align learning and development with business goals. These included the development of specific learning and development plans by senior management and the inclusion of learning and development in HR strategic plans.

At AGO, teams discuss learning and development as part of their business planning processes, including at the individual team member level. Every person in the AGO has a personal advancement plan as part of their performance agreement.

ITSA has a training advisory committee that comprises senior line managers and HR staff. The committee provides strategic guidance on learning and development priorities based on input from the ITSA leadership team. These priorities, once endorsed by the executive board, are disseminated to all staff.

Customs has a structured and comprehensive approach to its internal technical training regime that is linked into its corporate planning framework and identified workforce characteristics. Future work is being directed at more closely integrating training and development with career management, succession planning, performance management and feedback.

IDENTIFYING LEARNING AND DEVELOPMENT NEEDS

The APS Commission and ANAO's better practice guide includes identifying short and long-term capability requirements as a key element in aligning learning with the business. The State of the Service surveys asked both agencies and employees about how learning and development needs were identified in 2002–03.

The agency survey results suggest that learning and development needs were most commonly identified at the work unit level. Management identification of needs was the most common response (selected by 99% of agencies), followed by managers and individuals identifying needs together through the performance management system (98%) and individual self-identification of needs (92%). Nevertheless, a substantial proportion of agencies used more formal systems of analysis such as identifying aggregate needs through the performance management system (51%), analysing organisational capability (46%), and training needs analyses (37%).

Identifying learning and development needs through broader formal planning systems, such as workforce planning (28%), staff surveys (28%) and succession planning (27%), was not as widely used, although results discussed elsewhere suggest an increasing number of agencies are focusing on workforce planning issues. It appears that there are still a significant number of agencies that have yet to make the link between their approaches to learning and development and broader workforce planning issues, which is essential to longer-term capability building.

The employee survey results provide an indication of how individual employees perceive their own learning needs have been identified. Employees were most likely to say that they had identified their own learning and development needs in the last 12 months (67%). Only a minority of employees (20%) said that their learning and development needs were specifically identified by their manager, although almost half (47%) stated that they had identified needs together with their manager as part of the performance management process.

Agency results do not give an indication of how widely each identification method was used within the organisation. However, the disparity between the employee and agency results on this issue does suggest that there are very different perceptions about the role of management in identifying learning needs, and that management's role may not be visible to employees, with the risk of misalignment between learning and the business.

At NOHSC, a consultant conducted a skills gap analysis during 2002 to identify the skills and capabilities to deliver against the strategic plan and business plan.

At Treasury, learning and development priorities are identified through data from its career development and performance management systems. A professional development strategic issues group was established to refine departmental technical learning and development policies and initiatives. In addition, a high-level working group has examined the development needs of the organisation from a strategic perspective. This informed development activities for 2002–03 and will shape activities in coming years.

At DAFF, individual businesses within the agency discuss training priorities in local consultative committees, which in turn feed into business training and development plans.

At Centrelink, when new Government initiatives are introduced, Centrelink assesses the skill requirements for each job role and determines the training needs for those groups.

DOTARS uses a Secretary's Statement of Skills to outline key learning and development priorities. During 2002–03 a learning and development taskforce reviewed the Statement of Skills and suggested some amendments, especially in the provision of lists of specific skill requirements. The soon to be released amended statement will provide a strategic overview of the importance of learning development to the department and will outline individual, business group and organisation roles in determining learning and development priorities.

At Health, business units have developed Statements of Knowledge and Abilities to provide information on the attributes that the department requires staff to have, at a level appropriate to their positions. The statements are designed to assist staff in a variety of ways, including in the identification of their learning and development priorities.

LEARNING AND DEVELOPMENT PRIORITIES

The APS Commission and ANAO's better practice guide states that 'agency business objectives and capability requirements should drive the subject matter and content of learning options'.²² The State of the Service surveys explored agency and employee learning and development priorities.

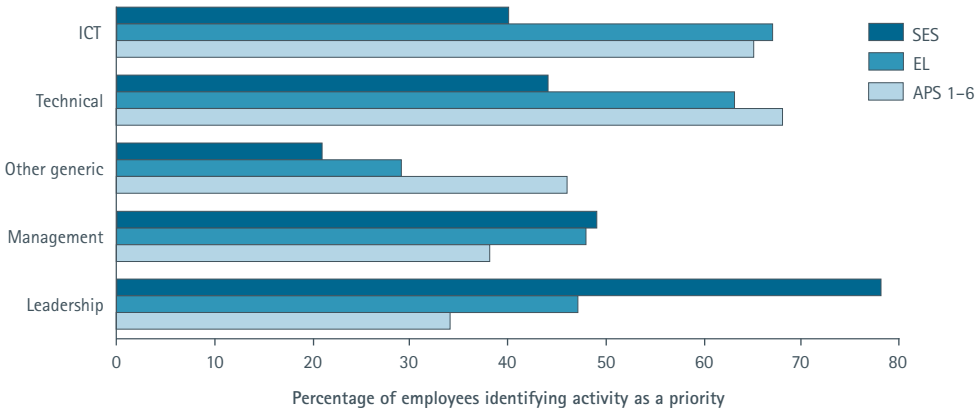
²² APS Commission and ANAO, op. cit., p. 16.

All but two agencies were able to identify their key agency-wide learning and development priorities, with the priorities identified differing considerably for different classification levels. For example, generic public sector capabilities, such as developing policy, customer service and writing skills, and technical training and information communication training, were more likely to be seen as a priority for lower classification levels. Management training, such as financial, risk, project and people management, was most commonly identified by agencies as a priority at the APS 5–6 and EL levels (72% and 82% respectively). Leadership training was most likely to be identified by agencies as a priority for EL employees (70%), followed by the SES (61%).

The employee survey also asked employees about their learning priorities.²³ Employees who responded to the question (around three-quarters of all respondents) put greatest emphasis on training that was specific to their position, including technical training (identified as a priority for 2002–03 by 63% of employees) and information/communication training (52%). Management and leadership training were more likely to be viewed as a priority for 2003–04 than for 2002–03 (management up from 41% to 45% and leadership up from 38% to 48%).

Figure 9.7 shows 2002–03 learning priorities for employees at different classification levels. In general, APS and EL classifications placed a greater priority on ICT and technical training for their job, while the SES placed a much greater priority on leadership development.

Figure 9.7: Employees' learning and development priorities by classification



Source: Employee survey

An agency-wide needs analysis identified leadership and management issues as a priority for development in DAFF. The high priorities identified within that broad area were: financial, risk and project management skills; feedback skills; self-awareness; and team building.

RESOURCE ALLOCATION

The ANAO’s 2002 report found that across the Service, the collection of data on expenditure on learning and development and staff training days was patchy. The better practice guide published by the APS

²³ These priorities are not directly comparable with agency results, as agency results are not weighted by employee size.

Commission and ANAO highlights the need for agencies to collect meaningful data on inputs, as well as outcomes, so as to have necessary information to assess value for money arising from learning and development investments. It recommends a minimum data set for agencies, including:

- the number of days of formal learning and development per person per year
- expenditure on formal learning and development as a percentage of running costs
- expenditure on outsourced providers
- expenditure on learning and development consultants
- qualitative views (by key stakeholders such as the executive, management and others) on changes in organisational and individual capability and performance.²⁴

The agency survey found that the collection of data on learning and development expenditure in the APS continues to be problematic. Only 64% of agencies stated that they could estimate their investment in learning and development in 2002–03. Only 47% of agencies could provide information on the number of days of learning and development undertaken per person and only 60% of agencies provided figures on overall off-the-job expenditure. Only one agency had developed a process for measuring on-the-job learning and development, although 25% of agencies reported that they were currently developing such a process.

The agency survey found that, for agencies able to provide information, most (55%) provided two to five days of formal off-the-job training per employee in 2002–03. Reports of average total expenditure per employee varied by size of agency, with large agencies (\$2590 per employee or 3.3% of operating expenses) spending more than small agencies (\$1995 per employee or 2.0% of operating expenses).²⁵ Average expenditure for all agencies was \$2513 per employee.

Survey results in relation to expenditure differ substantially from survey findings by the ANAO. From a survey conducted in 1999–2000, the ANAO estimated that average expenditure on learning and development across the APS was about \$1000 per employee.²⁶ The ANAO recognised this as a conservative estimate. In particular, its figures excluded salary and wage costs, whereas agencies were asked to include salary costs in the State of the Service survey.

It is possible that the State of the Service results reflect in part an increased focus on capturing learning and development expenditure data among agencies since the release of the ANAO’s audit report. In any case, the discrepancy in the ANAO and agency survey data, along with the high proportion of agencies unable to provide any data, highlights the need for agencies to improve data collection on this issue.

Not surprisingly, small agencies spent more than large agencies on outsourced learning and development and learning and development consultants.

The Defence business skilling review is an initiative to develop a whole-of-Defence system for managing sets of learning and development skills that are common across the department. Expected outcomes of the review include improved management visibility of levels of investment in learning and development activities and improved visibility of all associated learning and development activities.

²⁴ *ibid.*, p. 22.

²⁵ Agencies were asked to include the sum of all costs associated with learning and development activity including venue costs, catering, presenter fees, travel expenses, development and design costs, material, salary costs and on-costs of participants in this total expenditure figure.

²⁶ ANAO, Report No. 64, 2001–02, *op. cit.*, p. 3.

DELIVERY OF PROGRAMS

One of the key principles identified in the APS Commission and ANAO's better practice guide is that agencies provide appropriate learning and development delivery options, including by systematically planning learning interventions appropriate to the characteristics of the organisation.²⁷ The agency survey asked agencies about the most commonly used learning and development delivery options adopted for different classification levels.

For all classification levels, programs delivered by external providers, and external conferences, courses or seminars were most common, with more than 70% of agencies nominating these as one of their five most commonly used activities at all levels. APS Commission courses were also commonly used at all levels (between 55% and 65% of agencies). However, there was considerable variation in the use of other activities, suggesting that agencies are taking into account the needs of different groups in determining appropriate learning options.

University courses were most commonly used for APS 5–6s (58%) and ELs (57%). Vocational education and training was most commonly used at the APS 1–4 and 5–6 levels (36% and 32%). The importance of programs delivered by own agency staff fell as classification level rose (from 66% of agencies for APS 1–4 to 38% for SES). In contrast, ELs and SES employees appeared to favour programs that give them a cross-agency perspective and opportunities to exchange ideas and learning, with 96% and 99% of agencies nominating external conferences, courses or seminars as a common learning activity for these groups respectively.

Coaching, mentoring and e-learning were all commonly used as learning and development activities in only a minority of agencies, although coaching was relatively widely used for APS 1–4s (37%).

EVALUATION OF LEARNING AND DEVELOPMENT STRATEGIES

The 2002 ANAO report found that, in general, agencies were not evaluating learning and development strategies, and were consequently not in a position to determine how successful learning and development outcomes had been in assisting agencies to achieve their business outcomes. Performance indicators used were generally measures of activity rather than effectiveness. Responding to this finding, the ANAO and APS Commission's better practice guide places a strong emphasis on evaluating learning and development, recommending that agencies maintain a minimum data set covering outputs and outcomes of programs, as well as inputs.²⁸

The agency survey asked agencies which aspects of learning and development were evaluated in their agency. The results suggest a high degree of evaluation of the content of programs and the effectiveness of their delivery, but less of a focus on the benefits of the programs to individuals and the organisation. For example, agencies were most likely to say that they were evaluating the relevance and currency of program content (80%) and the effectiveness of presenters/facilitators (83%). A large majority (76%) of agencies evaluated the effectiveness of learning and development in meeting identified objectives, and just under half of agencies (44%) said they evaluated learning and development in terms of value for money. However, only 35% measured the degree of capability acquired by the individual, and 38% measured improvement

²⁷ ANAO and APS Commission, *op. cit.*, p. 16.

²⁸ *ibid.*, p. 24.

in individual performance. Fifteen per cent of agencies had tackled the difficult issue of measuring improvement in agency performance.

Despite these results, agencies appear to be beginning to pay greater attention to evaluating the benefits of learning and development to individual and agency performance. Individual capability and performance, and agency performance were the evaluation areas most likely to be being developed by agencies (between 27% and 30%). Twenty-four per cent of agencies were developing methods of evaluating learning and development in terms of value for money.

Centrelink's people measure in its balanced scorecard includes an indicator related to learning. A formal evaluation of learning is being carried out with the aim of assessing whether it is making a difference to organisational performance. A project, 'Return on Training Investment' is being implemented to gauge the cost/benefits of learning in the organisation.

CHILD SUPPORT AGENCY

CSA won the Silver award in the Prime Minister's 2002 awards for excellence in public sector management for 'People development: Aligning culture and capabilities with vision'.

The success of the cultural transformation strategy at the CSA has been due to:

- strong commitment from senior management
- sequential implementation of a number of integrated people management strategies over a long term (five years)
- the consistent reinforcement of a learning culture as a prerequisite for meeting business delivery objectives.

The consistent reinforcement of a learning culture is achieved by a versatile approach to corporate and people management strategies:

- There is a detailed capability framework for all APS and ELs, integrated with the performance management strategy, which provides a platform for a comprehensive approach to learning and development based in the workplace.
- Team leaders are the main providers of learning and development for their staff and are specifically trained for this role.
- The national evaluation policy for training encompasses many aspects of evaluation including the requirement for training programs to use effective adult learning principles.
- Each team has members designated as coaches and mentors to provide ongoing support in the workplace.

The agency business plan emphasises 'continued support for staff', reflection, consultation with staff, and building on learning to refine processes as vital to business success.

LEADERSHIP

A key learning and development priority identified by agencies for their EL and SES employees was leadership development. The demographic shifts in the APS and the increasing focus on the need for organisational renewal has put increased pressure on agencies to address the issue of leadership development. MAC has identified the next five years as crucial to the APS in the development of a sufficient cohort of potential leaders to meet the environmental and demographic changes that are expected.²⁹ In particular, its 2003 report on organisational renewal found that agencies need to ensure that:

- a sufficient pool of people with the right capabilities, skills and experience is available to replace key people in middle and senior management and specialist positions
- employees recruited into the APS at middle and senior management levels receive orientation to key elements of APS Values, ethos and processes
- there is effective graduate management, providing development opportunities and experiences to form a strong pool of leaders
- programs to support accelerated skills development and a systematic exposure to different work experiences are provided
- strategies are developed to equip leaders to retain and make best use of older workers
- effective knowledge management processes are in place.

The agency and employee surveys explored several issues relating to leadership in the APS, including leadership performance, provision of development opportunities and employee attitudes to leadership development. Data from the survey are considered below in conjunction with APS Commission internal research and information from its leadership development activities and programs.

Leadership development

Research conducted by the APS Commission during 2002–03 noted a number of common themes in leadership development within agencies including:

- a shift away from broad classroom-based programs to more targeted development opportunities
- an increasing use of capability frameworks (both the SELC Framework and agency-specific frameworks) to provide a context for leadership development programs
- an increasing treatment of leadership development as part of an overall strategy placing greater emphasis on integration and alignment with business objectives.

The research found that most agencies had recently conducted, or were in the process of conducting, a leadership development program. The target groups of these programs varied from APS 5–6 to SES, depending in part on the size of the agency, and required only a short time (no more than two days) out of the workplace.

The agency survey confirmed that the majority of agencies place a high priority on leadership activities, particularly for ELs, the SES feeder group. The survey asked agencies to identify their four highest learning and development priorities for different classification levels. Of the 87 agencies that identified their learning and

²⁹ MAC, *op. cit.*, 2003.

development priorities, the proportion indicating at least one priority in the broad category of leadership ranged from 23% at the APS 1–4 level to 70% at the EL levels (with 61% indicating leadership as a priority for the SES). Eighty-one per cent of agencies saw leadership development as a priority for their EL staff for 2003–04.

Leadership and management training was also a priority for many employees. Thirty-eight per cent of employees who responded to the question on learning and development priorities nominated leadership as one of their top three important learning and development areas for 2002–03, with 48% nominating it as a top three priority for the learning and development they plan to undertake in 2003–04. Forty-one per cent of employees nominated management training as a top three priority for 2002–03, with 43% anticipating it as a priority for 2003–04.

Despite the priority placed on leadership development, employee satisfaction with leadership development opportunities was mixed. Employees were more likely to indicate dissatisfaction with leadership development opportunities (35%) than satisfaction (27%), although they were most likely to indicate that they were neither satisfied nor dissatisfied (38%).³⁰

Satisfaction levels were significantly related to age and length of service. Employees 45 years and older were more likely to be satisfied and less likely to be dissatisfied with their leadership development opportunities. Employees with between one to five years of service in their current agency reported the lowest levels of satisfaction and highest levels of dissatisfaction. SES employees were much more likely to report satisfaction (67%) than APS or EL employees (25% and 33% respectively). These results suggest that, to some extent, dissatisfaction may be a function of the stage at which employees are in their career, with younger, relatively recently recruited employees, and employees at lower classification levels yet to be given significant leadership development opportunities.

When employees were asked to provide general comments on leadership, many spoke about their dissatisfaction with leadership development opportunities. Reasons for dissatisfaction with opportunities included time and budget constraints, and access to Canberra-based programs for regional employees. Nevertheless, when survey results were analysed there were no significant differences in satisfaction with opportunities for employees based both in and out of the ACT, including at the EL and SES levels.

Due to budgetary constraints [leadership development] is very limited. I only got training last year because it was mandatory (Code of Conduct) or it was paid for by another section who booked out the entire course and had spare places.

Difficult to get time out to do management/leadership training I badly need.

There are no training opportunities for people at my level in WA—all the management type training or anything appropriate is all given in Canberra.

Employee comments also highlight the crucial role that management support plays in employees' satisfaction with leadership development opportunities. Management is key in the development of employees' leadership capability, both in giving access to learning and development opportunities, and in facilitating the implementation of development strategies in the workplace.

³⁰ All employees were asked this question, but those answering 'not applicable' have been excluded.

There is insufficient follow-up by managers to ensure identified learning needs are addressed.

Over the years I have had so many applications for training rejected, that I have given up applying for any training.

My immediate team leader has no idea on how to help staff develop their skills in the area of leadership.

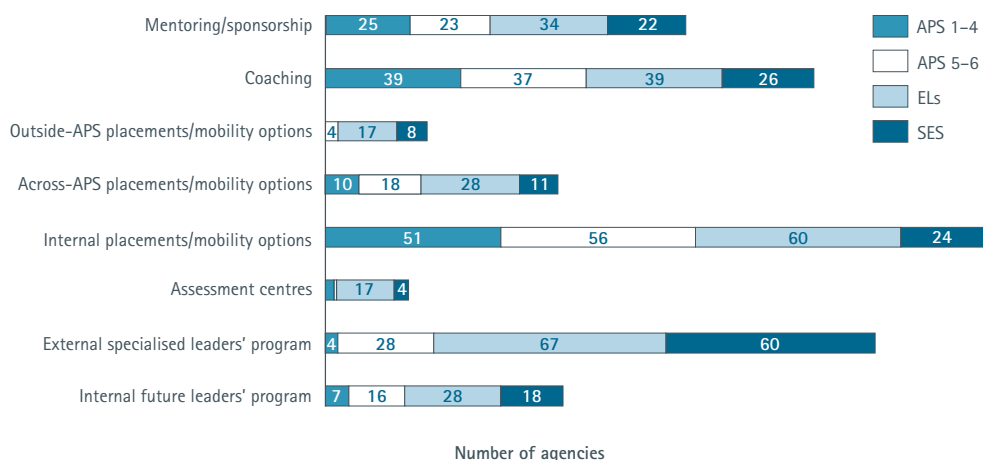
My supervisor is very supportive of training opportunities.

Leadership capability development opportunities

There is a broad range of activities that can be used by agencies to develop leadership capability, ranging from on-the-job approaches such as coaching and mentoring to more formal structured opportunities such as future leaders' programs. Agencies were asked to identify the leadership development activities they offer at different classification levels. Agency responses are shown at Figure 9.8.

For all classifications, more informal approaches such as internal placements, coaching and mentoring were common. The use of more formal opportunities was concentrated at the EL and SES levels, where external specialised leaders' programs were the most commonly offered opportunity. Assessment centres and outside APS placements were only commonly used at the EL levels.

Figure 9.8: Agencies offering leadership development activities for different classifications



Source: Agency survey

Large agencies were more likely to offer most opportunities, including internal future leaders' programs, across-APS placements, coaching and mentoring. Assessment centres were primarily offered by large agencies at the EL levels (50% of large agencies). Leadership development programs external to the agency were most likely to be used by small agencies at the EL levels (80%) and medium agencies at the APS 5–6 level (38%). Placement/mobility options inside the agency were important for all agency sizes, particularly for non-SES levels, but were most important for medium agencies at the EL levels (81%).

Among agencies identifying the general category of leadership as a learning and development priority, the agency survey also showed a considerable variation in the content of leadership training offered at different

classification levels. For APS 5–6, leadership programs had a strong operational focus. For ELs, there was a focus on more generic leadership skills, and the transition from management to leadership, and for the SES, there was a common theme of development of strategic skills. Development programs focused on communication skills and relationship management were consistently reported across all levels.

Senior Executive Leadership Capability Framework

The Senior Executive Leadership Capability (SELC) Framework is an articulation of the crucial success factors for senior APS leaders—in particular, the behaviours that support high performance. Since September 1999, the SELC Framework capabilities have been the core criteria for selection to the SES.

The *State of the Service Report 2001–02* reported the results of a review of the SELC Framework, which found that most portfolio secretaries preferred no change to the framework while its use and understanding was still being consolidated across the APS. There was some interest in the APS Commission undertaking further work to improve the practical application of the framework. The APS Commission has subsequently undertaken an extensive process to identify descriptions and behaviours for the components of the SELC Framework from EL1 to SES Band 3. This work, while not changing the SELC Framework as the selection criteria for the SES, will be used to articulate a development pathway for ELs and SES employees, identifying the key management skills and leadership capabilities required on transition from each level to the next. The APS Commission will use this to review with agencies appropriate development strategies, and the role of APS Commission programs to complement agency-based development activities.

The number of agency requests to the APS Commission for selection criteria for particular SES vacancies additional to those specified in the SELC Framework provides a useful barometer of the continued relevance of the framework. There have been comparatively few such requests. The Public Service Commissioner agreed to 24 requests in 1999–2000 (representing 13% of SES vacancies advertised), rising to 34 in 2000–01 (19% of vacancies), dropping again to 21 (10% of vacancies) in 2001–02. In 2002–03 there were 24 requests received from 12 agencies (17% of vacancies), with the ATO most frequently seeking additional criteria (nine requests). In the main, requests continue to relate to the need for specific corporate/financial skills, specific taxation expertise, or legal skills.

The employee survey asked employees to rate their immediate supervisor (not necessarily a member of the SES) against capabilities similar to those in the SELC Framework. The majority of employees rated their supervisors highly. Table 9.4 shows ratings against each capability from strongest to weakest.

Table 9.4: Performance of employees' immediate supervisor

Capability	Employee response %		
	High	Medium	Low
Demonstrates personal drive and integrity	61	24	14
Achieves results	58	29	10
Communicates effectively	52	30	17
Cultivates productive working relationships	50	29	19
Influences strategic thinking	50	27	19

Source: Employee survey

The relatively higher rating of the first two capabilities and relatively lower rating of the last two capabilities amongst immediate supervisors is consistent with trends identified in the feeder group to the SES who participate in the Career Development Assessment Centre (CDAC) program. There is a consistent pattern that CDAC participants are commonly strong in the areas of personal drive and achieving results, but weaker in the areas of productive working relations and shaping strategic thinking.

SES leadership training

The Public Service Commissioner has a specific responsibility under the PS Act to ‘contribute to, and foster, leadership in the APS’. In practice, the APS Commission exercises this responsibility in close collaboration with agencies. In the area of leadership development, individual agencies are often best placed to undertake significant elements of leadership development in the context of their own organisational issues. The APS Commission, however, is in a unique position to promote interaction amongst the leadership cadre of the APS, and amongst the feeder group for the SES, which is an important ingredient to building the ‘constructive working relationships’ capability, and to building capacity in the APS to address whole of government priorities (discussed further below).

There is evidence that SES employees have a preference for development activities that provide them with opportunities for cross-agency interaction. For example, external conferences, seminars and short courses were the most commonly offered learning and development activity for SES employees across all agencies. This preference is further reflected through participation rates of SES employees at the APS Commission’s broad-based, short and topical leadership development events such as breakfast and lunch seminars.

Over the last three years 44% of new SES employees have attended the APS Commission’s ‘Orientation to the Senior Executive Service’ program. The annual average of new SES employees attending the program has, however, dropped from 51% in 2000 to 39% in 2002. Feedback from participants remains very positive, so that reduced participation may relate more to lack of strong and systematic encouragement by some agency heads. Attendance at events such as the SES orientation can play an important role in developing a cross-agency perspective, and promoting collaboration between SES employees in all APS agencies. These issues are discussed further in the context of whole of government issues below.

Other programs offered to the SES at Band 2 and 3 levels are the APS Commission’s ‘Leading Australia’s Future in Asia’ fellowships and, from 2003–04, executive fellowships from the Australian and New Zealand School of Government (ANZSOG).

The Australian Government became a member of the cross-jurisdictional ANZSOG in September 2002, and is represented on the foundation board by the Public Service Commissioner. ANZSOG is a first-tier, professional school established collaboratively by a consortium of Australian and New Zealand governments, universities and business schools to provide world-class education and training to emerging public sector leaders. The Public Service Commissioner also participates as a member of the ANZSOG research committee and the ANZSOG quality committee.

ANZSOG’s Executive Fellows Program (EFP) is tailored for senior executives to enhance core leadership and management skills needed to direct organisations within the public service. The first EFP commenced in Sydney on 1 September 2003 and concluded on 19 September. Of the first EFP’s 80 participants, 16 were Australian Government agency participants.

In 2002–03, a strong focus by agencies and the APS Commission on providing innovative leadership development activities remained. However, the Public Service Commissioner has emphasised the need to balance the capabilities set out in the SELC Framework with the technical and management skills needed in the emerging environment, including financial, contract, project and risk management skills, and communications expertise.³¹ The need for improvements in specific areas of management has been highlighted in a number of different forums.³² The Secretary of PM&C, Dr Peter Shergold, has reinforced the Commissioner’s message on this issue.³³

SES feeder group

Recent State of the Service reports have consistently noted increased attention to identifying the development needs of those EL staff who form the feeder group of the SES. This trend continued in 2002–03, with research conducted for the APS Commission indicating that some agencies widened that focus to include APS 5–6.

ANZSOG offers an Executive Masters of Public Administration (Executive MPA) to high-performing EL2s. The masters program includes core units developed around the areas of policy analysis and development, public sector management, ethics and personal effectiveness skills and electives. The first cohort of this program commenced study in May 2003, with more than 30 participants from 17 Australian Government departments and agencies.

The School has now run the first modules of the masters program. While it is too early to discern additional development requirements, these early deliveries have reinforced the accuracy of the development needs identified in the original ANZSOG business model, and provided additional information for further refinement of future components.

CDAC continues to enjoy strong support from the 27 participating agencies. Since the inception of CDAC, participation has included 417 high-performing EL2s identified by their agencies as having the capability to reach the SES within two years. CDAC participants’ performance is rated against the SELC Framework.

Comparison of the progression from EL to SES between participants in CDAC and non-participants shows that 32% of 2000–01 CDAC participants are now in the SES, compared with 5% of non-participating EL2s.

CDAC participation rates overall remain well below the rate of appointment to the SES (though near that rate for a number of the participating agencies). Given the challenge of increasing the numbers with capacity to take on leadership positions in the next five years, agencies should consider increasing participation of suitable staff in the CDAC program, including younger people in the feeder group for whom CDAC might indicate more clearly their development requirements.

³¹ See, for example ‘The Public Sector of the Future’, speech to the Forum of Commonwealth Agencies in NSW Incorporated, 27 February 2003.

³² For example, ANAO, *Recordkeeping in large Commonwealth organisations*, Report No. 7, September, 2003; MAC, *Australian Government Use of Information and Communications Technology*, Report No. 2, 2002.

³³ Dr P Shergold, ‘A change in leadership; what does it mean?’, speech to IPAA, ACT, 11 June 2003.

WHOLE OF GOVERNMENT CAPABILITIES

The *State of the Service Report 2001–02* indicated that the conduct of whole of government issues would be canvassed in more detail in this year’s report. Issues of this type involve work undertaken across agencies to achieve a shared goal and integrated government response. Such issues can be characterised as falling across boundaries established by individual portfolio responsibilities, and therefore requiring an interagency approach, often in collaboration with other jurisdictions and/or community, business, welfare or other groups.

SERVICE-WIDE ISSUES FOR WHOLE OF GOVERNMENT ACTIVITY

Whole of government issues have always existed, but their increasing importance among key government priorities is a current phenomenon both in Australia and overseas. The main drivers behind the increasing priority being given to issues of this type are globalisation and global developments, budget pressures, technology and changing community expectations of government service delivery. Since the mid-1980s, whole of government issues have been progressively tackled in an increasingly devolved environment, characterised by an emphasis on vertical agency-based effectiveness and a focus on agency or portfolio outcomes. There is now a growing emphasis on the need for developing horizontal ways of working to complement vertical portfolio cultures and structures.

Specific whole of government activities undertaken in recent years include:

- Australians Working Together
- response to the Bali attack
- COAG Indigenous Communities Coordination Taskforce
- Australian Greenhouse Office
- Natural Resource Management Team
- National Illicit Drugs Strategy
- the 2000 Olympics
- Sustainable Regions
- salinity issues
- regional forest agreements
- foot and mouth simulation
- response to the ANSETT collapse
- National Counter-Terrorism Committee
- Centrelink Business Partnership Arrangement
- Family Assistance Office
- National Transport Safety Authority
- response to Severe Acute Respiratory Syndrome (SARS) outbreak.

The Government’s current policy agenda and priorities include a range of issues (e.g. national security and defence, work and family life, demographics, science and innovation, education, sustainable environment,

energy, rural and regional affairs, and transport) that call for a whole of government approach, as Prime Minister Howard stressed in a major address late in 2002.³⁴

The effective handling of whole of government issues has been under discussion by MAC, and will be the subject of a MAC report in the near future. Drawing on practical experience of the initiatives listed above, the MAC report will canvass changes that may be required to APS arrangements when whole of government issues arise. These changes will emphasise the effective integration of a vertical, portfolio-based management structure with horizontal networks working across the APS and beyond. The report will examine adaptive strategies that can be applied to APS structures and processes, budgeting and accountability measures, information technology and infrastructure, and community consultation processes.

In practice, steps need to be taken at all these levels to increase the capability of the APS to deliver whole of government outcomes. In addition, such capability requires effort to improve Service-wide leadership, and to promote cultural and behavioural change. There is scope to introduce a genuine bias towards collegiality and networking behaviour amongst APS employees. Senior leaders have a direct role in modelling such behaviour—and indeed it should be noted that the PS Act identifies ‘promot[ing] cooperation with other agencies’ as a core function of the SES.³⁵ More broadly, the APS Values offer a common ground upon which to build a culture that supports collaboration, lateral thinking and information sharing. As shown in Chapter 3, these are widely agreed to be relevant to the daily work of APS employees despite operational and regional differences, and to apply to agency businesses across organisational structures.

AGENCY ACTION TO SUPPORT WHOLE OF GOVERNMENT ACTIVITY

Whole of government activities may occur on a number of levels, from ongoing cooperative approaches to formal committee structures. Different arrangements will be needed to underpin different types of activities. Formal multi-agency decision-making forums will of course establish their own lines of accountability and operational arrangements. However, there is also an important role for policies or guidelines within individual agencies intended to support employee participation in interagency collaboration, whether that activity is conducted through an ongoing cooperative arrangement such as a one-stop shop for service delivery or a formal committee.

The agency survey sought information concerning the extent of systems and procedures in individual agencies supporting whole of government activities. Ten agencies reported either having or developing guidelines/policies to guide employees’ participation in formal, multi-agency decision-making forums such as interdepartmental committees or taskforces. Seventy-nine agencies reported having no specifically tailored guidelines or policies addressing whole of government interactions, although having relevant arrangements as part of general agency internal processes. A number of small agencies indicated that they did not require such guidelines.

With respect to the specific policies and guidelines just outlined, four agencies had procedures for ensuring that only employees with the relevant skills, knowledge and authority participate in multi-agency forums, procedures establishing responsibility for recordkeeping, and procedures for reporting back to other agency

³⁴ ‘Strategic leadership for Australia: Policy directions in a complex world,’ presented to the Committee for Economic Development of Australia, 20 November 2002.

³⁵ *Public Service Act 1999*, s. 35(2)(b).

employees. Five agencies reported having procedures for ensuring appropriate authority for views expressed on the agency's behalf, and three reported having procedures for ongoing briefing of involved Ministers.

CAPACITY BUILDING FOR WHOLE OF GOVERNMENT ACTIVITY

In a devolved management environment, agency heads are responsible for the development of the capabilities required to achieve their agency's business objectives, including participation in broader whole of government objectives.

At the entry level, agencies could promote whole of government aspects of their work in attracting graduates, and ensure that a whole of government focus runs through their induction programs, encouraging from the outset a bias towards collegiality.

At more senior levels, overall mobility among the SES does not appear to be a significant factor affecting whole of government interaction. APSED reveals that 41% of the SES have worked in three or more agencies. This is consistent with the employee survey, where 44% of SES respondents stated that they had worked in three or more portfolios. Nevertheless it is also true that, according to APSED, 39% of SES have worked in only one agency (38% of SES respondents to the employee survey).

It is important that this large group of the leadership cadre with limited APS experience is encouraged to network across the APS. There may be value in considering the usefulness of temporary placements outside a home agency, or involvement in particular cross-agency projects, to help develop a capacity for collaborative work and for taking a whole of government perspective. In this context, it is worth noting that 14% of all employees surveyed (17% of ELs and 22% of SES employees) responded that they had access to placement and mobility options across the APS as part of their leadership development. Twenty-eight agencies reported offering such opportunities to ELs; 11 reported offering them to SES employees.

Employees could also be encouraged to become involved in informal and formal networks as a means of broadening their perspective and contacts. The APS Commission hosts a number of cross-agency networks, often at regional level, which encourage staff, particularly ELs and SES employees, to participate in cross-agency networks and development opportunities. ANZSOG offers the added benefit of networking across jurisdictions.

Capacity building may also be required in particular skills. Much whole of government activity, for example, is project-based, and project management skills are particularly relevant. Such activity also frequently involves interaction across jurisdictions and with communities, where communication and negotiation skills are important.

The report of the MAC project will have more to say on training tailored to whole of government capability building. Broadly speaking, capability building for whole of government needs to address both ongoing interactions and specific project-based work, and to support both broad capabilities (such as the capacity to facilitate cooperation and partnerships) and particular skills (such as change management, brokering and negotiation skills).

INCENTIVE STRUCTURES

Performance management systems and processes also have a role to play in supporting the development of whole of government capabilities. This applies to both collaborative behaviour and strategic focus. The danger is that, where formal reward and recognition systems draw exclusively on individual agency targets, they run the risk of undervaluing networking skills and whole of government activities.

In practice, most agencies seek to supplement results-oriented performance criteria with some behavioural criteria. Almost 61% of agencies responding to the agency survey reported including in their assessment process behavioural criteria drawn from the APS Values or agency-specific values or behaviours. A further 15% of agencies reported developing such criteria. Where these behavioural criteria include communication and team-based behaviours, they should support both intra- and inter-agency collaboration.

THE INDIGENOUS COMMUNITIES COORDINATION TASKFORCE

The Indigenous Communities Coordination Taskforce (ICCT) is a cross-portfolio taskforce and was established in July 2002, following a decision by the Council of Australian Governments (COAG) to establish a whole of government trial in up to 10 Indigenous communities/regions. The trial is based on a new approach with governments (Australian, State and Territory, as well as local in many instances) and communities working together to address priority issues and share responsibility for getting better results. More information is available at www.icc.gov.au.

Australian Government engagement in the COAG trial involves all major service portfolios led by a Ministers' group chaired by the Minister for Immigration and Multicultural and Indigenous Affairs and supported by a Secretaries' group, chaired by the Secretary of DIMIA. The ICCT supports the Australian Government Secretaries' group and has had a key role in establishing the trials with communities and other governments.

Whole of government structures

The Ministers' and Secretaries' groups, as well as the ICCT, are formal whole of government structures. Taskforce members work as a team, but most remain employees of their originating agency. The cross-portfolio taskforce reports directly to the Secretaries' group, and on a day-to-day basis the head of the Taskforce reports to the chair of the Secretaries' group.

Other whole of government arrangements that have been put in place to support the trials include:

- Lead agency and Secretary sponsor arrangements: each site has a designated Secretary sponsor and lead Commonwealth agency, responsible for leading and coordinating activity across all Commonwealth agencies for that site.
- State-based forums (for all Commonwealth agencies with key portfolio interests in Indigenous communities) in each jurisdiction have also been developed or refreshed.
- A flexible funding pool (\$6m over two years, 2003–04 and 2004–05) has been established as a short-term measure to provide support for flexible and innovative responses to priority

community needs in the COAG Indigenous trial sites. Projects supported by this funding will enable capacity building and modelling of cross-portfolio approaches. The pool funding was drawn from existing programs to enable this additional flexibility in the short term, whilst other more permanent and workable mechanisms for flexible funding responses are developed.

The development of new working relationships within and across government agencies has taken time and is still evolving. There has been a focus on securing greater clarity around the roles of lead agencies and relations with State and Territory counterparts, as well as on building governance arrangements for the sites. While sharing information has underpinned much of the initial activity to date between government agencies, attention is now becoming increasingly focused on developing joined up responses that are flexible and respond more effectively to community priorities, using existing resources.

This process has highlighted the need for adjusting the ways that resources—both staff and finance—are managed to better support whole of government approaches.

CONCLUSIONS

It is not possible to make a detailed, overall assessment of the current capability of the APS. There is, however, evidence of concerted effort to improve capability and to address the demographic challenge of the impending ‘changing of the guard’.

One area where agencies appear to be making progress is in relation to managing people for business outcomes. In particular, there is evidence of better integration and more attention directed at workforce planning, although these improvements have come from a relatively low base.

There is also improvement in the area of performance management, with all agencies having performance management frameworks in place and employees generally positive about performance management. However, agencies still face serious challenges, particularly in the areas of rewarding performance and handling underperformance.

In the area of learning and development, there is a move to a more structured approach, with some agencies demonstrating very significant advances. Nevertheless, there is still substantial room for improvement, particularly in terms of the collection of information on learning and development expenditure, and in the use of a more serious and evidence-based approach to evaluation.

Leadership development is one area of capability development that has received increased attention in recent years. Despite a high level of activity in this area, more concerted effort is needed, particularly in response to succession management pressures. The APS would also benefit from greater support for Service-wide programs.

Whole of government capability issues are receiving increasing prominence, and the focus of MAC on whole of government is to be welcomed. When MAC’s report is released it should provide a much greater level of guidance on good practice on whole of government issues, including on building the capability of the APS as a whole in this area.