Death by a thousand cuts: How governments undermine their own productivity

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Abstract

Many governments in Australia and internationally are choosing to avoid the responsibility for service cuts from budget savings by applying across-the-board cuts rather than identifying the services that should be ceased. These actions are usually supported by rhetoric denigrating the public service and promising the cuts will remove inefficiencies and will not affect services. Examining this approach in the cases of the Western Australian and Australian Federal governments shows it to be ultimately self-defeating. Not only are the cuts affecting the quality and availability of services, they are also causing long-term damage to the institutions of government:

- Decreasing retention rates in the public service are leading to substantial losses of institutional knowledge and skills. This exacerbates existing problems with staffing and skill shortages.
- Staff cuts and the resulting increased workloads, along with denigration of the public service by politicians in government, damages the engagement of public servants which is a key driver of productivity. The approach also attacks the commitment and increases the pressure on employees that are likely to be the major source of innovations.
- Ineffective services and less engaged public servants will reduce the trust and confidence the general public has in government institutions. The effects of this include reduced popularity of the government in power, increased problems with enforcement of laws and regulations, and potentially reduced engagement with the democratic process.

This report gives recommendations to avoid across-the-board cuts, increase public sector productivity through enhanced employee engagement, reduce the loss of corporate knowledge by improved recruitment and staff retention, protect rural services from staffing problems and disproportionate effects of cuts, and encourage innovation by facilitating input from skilled staff.
Summary
Increasingly governments are choosing to take an irresponsible, and ultimately self-defeating, approach to budget savings. Rather than identifying ineffective programs and undertaking the political hard work of persuading the public of the advisability of cancelling the service, many politicians and parties institute across-the-board cuts, such as an efficiency dividend or growth cap. This allows them to claim credit for the budget savings without taking responsibility for service cuts. However, these across-the-board cuts have long-term effects including:

- loss of workforce capability;
- loss of public sector productivity and innovation; and
- loss of trust and confidence in public institutions.

These effects reduce the ability of governments to meet challenges such as increasing public expectations of services, public sector skill shortages, and an aging public service workforce. This report shows how across-the-board cuts lead to these long-term problems and reduce the effectiveness of worthwhile services. The focus of this report is examining these issues in the Western Australian and Commonwealth public services. However, while recognising that each jurisdiction has its own unique challenges and context, the issues presented here apply generally to public services in all Australian States and Territories; and indeed to similar public services overseas.

Loss of services
There are numerous examples of policy and program managers being unable to deliver on Government claims to quarantine services from service-wide administrative budget cuts. At the federal level it has been found that cuts that are supposed to drive efficiency, have instead reduced the quality of services in agencies such as Centrelink and Medicare, and driven reductions in services such as those provided by the High Court, the Australian Institute of Health and Welfare, the Australian National Audit Office, and the National Library of Australia. Regional services are particularly vulnerable, with organisations such as the CSIRO, the Australian Communications and Media Authority, the National Archives of Australia and the Administrative Appeals Tribunal closing regional offices. In WA critical services such as child protection and the Family Court have been affected, and, as at the federal level, regional services such as Landgate and the Forest Products Commission are particularly hard hit with flow-on effects to rural businesses and communities.

Workforce capability
During 2012 there have been more than 50,000 public administration and safety jobs lost in Australia. Eighty-seven per cent of the people concerned were public sector employees divided between local, state and Commonwealth governments. This figure does not take into account the extent to which longer term, more experienced, and highly-skilled employees are being displaced by temporary administrative staff, information technology workers and consultants.

Looking at the case of Western Australia, since 2010 the State government has pursued an efficiency strategy that has been described by one of its federal Senators as ‘death by a thousand cuts’. This has included ‘efficiency dividend’ agency budget cuts, recruitment freezing, and caps on staffing levels, on salaries budgets, and on wage increases.
Between 2010 and 2012, the WA public sector permanent and fixed term workforce contracted by nearly 6,000. There has been 27 per cent increase in the rate of public servants leaving their agencies. One survey found that 71 per cent of public servants who indicated that they were intending to retire in less than ten years had 15 years or more experience. This represents a long-term loss to the sector of workforce capability. It is a loss that will be aggravated by challenges the sector already faces with respect to the accelerating retirement rate of public servants and low retention of workers.

The poor image of the public service presented by many politicians, as well as the increased turn-over rate and workloads caused by cuts, make the public service a less attractive employment prospect and are likely to be affecting recruitment. There is evidence of difficulty in recruiting in a number of skill areas. Skill shortages in the public service can have very significant impacts on key functions, such as IT operations including maintaining network security, preventing unauthorized access, and the monitoring and reporting of security events. These problems are likely to be particularly acute in regional areas.

**Public sector productivity and innovation**

Across-the-board cuts are supposed to drive savings found through buzz-words such as innovation, efficiency gains and increased productivity. In fact, such cuts are just as likely to inhibit innovation, reduce efficiency, and decrease productivity by simply leaving employees to do less with less. In complex public administration work, necessity is not always the mother of invention and budget cuts do not necessarily facilitate innovation. Doing ‘more with less’ often consists of cutting services; and where services are to be maintained, it consists in increasing the workload of those left standing.

What does produce gains in productivity is employee engagement. A wealth of research tells us that increased employee engagement results in enhanced productivity for organisations. And public sector innovations frequently arise from ‘bottom-up’ processes of development by committed and highly-skilled public sector employees. Governments are fortunate that public servants tend to find their work more meaningful than do private sector employees, because in many cases they rate below the private sector employees on a range of other factors that increase engagement, and through engagement, productivity. However, public service cuts undermine engagement, as does political rhetoric denigrating the performance of public servants, and so damages productivity.

**Trust and confidence in public institutions**

Across-the-board cuts affect both the engagement of public sector employees, and satisfaction of citizens with the services they are receiving. These two factors are closely related and influence each other. Research also shows that citizen service satisfaction leads to trust in government institutions in general. This means that politicians who insist that the public service is inefficient, and that across-the-board cuts can be made without consequences to service provision, will reduce the productivity of the public service. They also reduce citizen trust in public institutions including the government itself.

A further problem is that there is a well-established connection between trust in government and willingness to comply with laws and regulations. So an across-the-board cut not only reduces the capability of public institutions, it also increases the difficulty of their jobs by making voluntary compliance less likely.
**Summary Recommendations**

Recommendation 1: Use alternatives to ‘blunt instrument’ across-the-board cuts.

Recommendation 2: Raise public sector productivity by targeting factors that are detrimental to employee engagement (a key driver of productivity).

Recommendation 3: Reduce the loss of corporate knowledge and essential skills by improving recruitment and retention. Achieve this by improving the image of the public service and target factors that research indicates result in public sector employees leaving the service.

Recommendation 4: Protect regional services by eliminating disparity in wages or other conditions, and take into account the disproportionate effect of cuts on small agencies.

Recommendation 5: Encourage efficiency and productivity innovation through recruiting and retaining skilled staff and giving them the opportunity to have input into the process of innovation.
‘One final point: when I talk about a razor gang, I’m dead serious it just strikes me as passing strange that this Government, which supposedly belongs to the conservative side of politics, has not systematically applied the meat axe to its own administrative bloating for the better part of a decade... I am not talking here about a reduction in federal government services, I am talking about the administrative budgets of departments.’ (Kevin Rudd, 2007)²

‘Without the economic boom associated with the resource industries... the Western Australian economy, already preyed upon to fund an ever-increasing and bloated state public service, would be in serious trouble.’ (Senator David Johnston, 2007)³

*Treasury spokesman Joe Hockey has told The Australian he is leading an opposition razor gang blitz on ‘big government’, guaranteeing to deliver the budget to surplus in 2012-13 while also slashing tax collections and government spending. (Interview with The Australian, 2011)*⁴

**Introduction**

All governments have to make decisions about how best to collect and spend money. Problems in balancing revenue and expenditure become more difficult in bad economic times when tax revenue decreases and demands on expenditure increase. The role of responsible government in such circumstances should be to make transparent decisions about spending priorities and necessary cut-backs, taking account of commitments they have made, the perceived needs of their various communities, and the likely impact of their aggregate decisions on the economy.

Given the sad fact that the revenue available to governments is always less what is needed for the services than communities demand, this approach divides the community into winners and losers. The losers are easily able to identify, and then to blame, governments or individual ministers. They may then have to cut back existing services to replace them with more needed ones. In this situation less responsible governments, not just in Australia, have tended to take a less responsible approach to cost-cutting. This often involves the setting of whole-of-government savings targets, to be reached through across-the-board ‘efficiency dividends’ imposed on their public service agencies. The alternative to such ‘across-the-board’ cuts is the abolition of whole programs, based on reviews, evaluations and priority-setting. This is very rarely tried because of the political noise caused by losers, even in the case of ineffective programs.

In order to justify the across-the-board approach to making budget savings, governments at state and federal level are increasingly finding it convenient to require their agencies to deliver ‘efficiencies’ instead, often in the form of staff cuts, relying on the language and attitudes of Opposition when in Government. Where Oppositions used to talk about taking a meat axe to the administrative bloating of the previous government, governments now talk about the need for taking that same meat axe, or a razor or, memorably, a pooper scooper to the public service mess around them:

Unfortunately we are the ones who are cleaning up Anna Bligh’s mess. It is Anna Bligh’s legacy. We get the pooper scooper out every day of the week. We have to make
these tough decisions. We know there is fear and anxiety and we are sorry about that.\textsuperscript{5}

This is not to say that Parliamentarians are simply negative about the public service. A recent CPD analysis of the Parliamentary Record (Hansard) for the Australian House of Representatives and the Senate from 2006-2011 shows that while the Coalition in general presents a more negative view of the Australian Public Service (APS) than Labor, most Parliamentarians are positive about their actual experience or working relations with public servants.\textsuperscript{6} But analysis of media coverage in major Australian newspapers over the same period shows that outside Parliament, where public opinion is the target:

- The mainstream media communicates primarily negative stereotypes of public servants.
- Australian politicians reinforce these stereotypes, expressing distinctly less positive attitudes toward the public service than those held by other community members. They are less likely than other citizens to express satisfaction, confidence or willingness to fund, and regularly invoke starkly negative stereotypes.\textsuperscript{7}

When funding issues are based on cultivated media stereotypes, leadership and policy decision-making are effectively abandoned. As the Joint Committee of Public Accounts and Audit (JCPAA) observed, across-the-board cuts mean that ‘ministers and the Parliament effectively delegate some decisions to officials that should be made at higher policy levels.’\textsuperscript{8} The meat axe, the razor and the pooper scooper are not the instruments of good policy making.

This paper considers the impact of this strategy for evading political responsibility on:

- government services;
- public sector workforce capability;
- public sector productivity, efficiency, and innovation; and
- confidence in public institutions.

It also identifies alternative and politically responsible options for improving public service productivity and innovation.

**Impact of across-the-board cuts on services**

The willingness of politicians to trade on the unpopularity of ‘the bureaucracy’ before elections is being used after elections to enable politicians to own budget savings without taking responsibility for service cuts. The axe/razor/pooper-scooper metaphor does the work: broad based staff cuts and efficiency dividends reduce excess meat, unsightly bloat, and offensive waste, and are therefore good for you. In practice, however, claims that administrative budgets can be cut without affecting services\textsuperscript{9} are likely to be made only by politicians who have evaded explicit and responsible Government decision-making, or want to evade it, or who are prepared to re-define services in order to evade it.\textsuperscript{10}

Reviews of such cuts made by the JCPAA (Joint Parliamentary Committee on Intelligence and Security),\textsuperscript{11} Australian Council of Social Services,\textsuperscript{12} and the Centre for Policy Development\textsuperscript{13} have shown that policy and program managers fail to deliver on Government
claims to quarantine services from service-wide administrative budget cuts. When, for example, the JCPAA asked agencies when ‘they thought that the efficiency dividend stopped being a process in finding efficiencies and became more about deciding which services to cut’:

- the High Court stated that it started cutting services 10 years ago;
- the Australian Institute of Health and Welfare also moved to cuts 10 years ago;
- the Australian National Audit Office will reduce the number of performance audits by six and the number of better practice guides by one in 2008-09;
- the National Library of Australia stated that it started cutting services 10 years ago; and
- the Department of the Attorney General in Western Australia stated that its Family Court started making cuts two years ago.14

Budget cuts have also been blamed for reducing the capabilities of Australia’s security community. For example, the Office of National Assessments has stated that they are having ‘great difficulty’ coping with cuts resulting from the government’s efficiency dividend.15 Australia’s security agencies are facing an increased volume of work, for example, ASIO’s counter-terrorism assessments increased by 11 per cent in 2010-2011.16 Both the chairman and deputy chairman of the Joint Committee on Intelligence and Security, Labor’s Anthony Byrne and former Liberal attorney-general Philip Ruddock, have expressed concerns that the efficiency dividend is impeding Australia’s security agencies from effectively doing their job.

Any argument that these cuts are simply removing services that are ineffective or unnecessary ignores the process driving them. These cuts are not the result of systematic investigation determining which services across the whole of government are least necessary, they are the result of an arbitrary requirement that all agencies or portfolios must reduce costs by a set amount.

Spending cuts can also result in an increase in mistakes and inefficiencies by government agencies. Government funded agencies such as Centrelink and Medicare have reported that an increasing number of mistakes and oversights are being made as government agencies struggle to maintain the same outputs whilst coping with a steadily declining budget. Survey results have identified 55.2 per cent of staff who have reported a reduction in quality of services, 53.2 per cent reported more mistakes were being made, 71.4 per cent reported increased workloads and targets and 60.6 per cent reported staff reductions and/or unfilled positions.17 These figures indicate that these public service cuts rather than creating a more efficient public service are instead contributing to a decrease in quality and outputs.

In these cases, unpopular decisions on cutting back on programs, services, and benefits for individuals can be blamed on poor administration by bureaucrats, poor consultation by departments, poor conduct on the part of any remaining public servants and other non-ministerial (non-party) processes. Where the outcry against a specific measure is extreme, it can be reversed as an unfortunate error by people outside the party. What cannot be reversed so simply is the longer term impact of across the board cuts on the public institutions for which government is responsible.

Replacing or re-growing senior skilled staff, re-inventing lost knowledge and experience, attracting new graduates, and rebuilding the trust of employees is not easy, particularly in the face of ongoing staff ceilings and efficiency dividends followed by politically inspired
abuse and periodic promises of mass redundancies—all in the face of chronic skills shortages in the general labour market. These longer term issues of capability and trust are the subject of this report. They are the reverse side of service delivery failures, behind the scenes and largely disregarded outside of Parliamentary inquiries. The next sections examine these issues in detail, taking the cases of the Western Australian and Commonwealth public services in particular, and examining the implications of broad based staff cuts and efficiency dividends.

**Loss of workforce capability**

Both the Commonwealth, and a number of State governments, have implemented significant across-the-board cuts in recent years. At the federal level a 4 per cent efficiency dividend was applied in the 2012-13 financial year. And recent announcements of cuts to an entire stratum of public service positions shows this approach persisting.

The Western Australia State Government has pursued an efficiency strategy that has been described by one of its federal Senators as ‘death by a thousand cuts’. In the 2009-10 financial year, the Barnett Government imposed a 3 per cent efficiency dividend on all government agency budgets, together with a requirement for general government entities in the state to comply with an FTE (full-time or equivalent staff numbers) ceiling. In the 2012–13 budget the Government imposed another 2 per cent cut to agency budgets (excluding the Department of Education and Department of Health, which faced a 1 per cent cut) and a ceiling on FTE staffing set at the previous year’s levels.

In April 2012, the Government also announced a freeze on public sector recruitment, followed by a further 1.5 per cent cut to agency budgets in September 2012. In each subsequent year funding cuts were to increase by 1 per cent. On 13 June, the Western Australian Government announced a cap on the salaries budgets of government departments to keep them at 2012-13 levels, and a new Wages Policy to ensure wage increases could not exceed the rate of inflation. Voluntary redundancies of up to 1,000 full-time staff or equivalents were also sought.

Despite the Western Australia Government’s efforts to shed staff, it is not possible to determine a separation rate for its public sector. The available data is entity-specific, and so it is not possible to distinguish between employees leaving one entity to join another, and those actually separating themselves from the sector. What we do know is that between 2010 and 2012, 26,928 permanent and fixed term Western Australia public sector employees separated from their entities, an increase of 27 per cent on the previous year. There were also 21,000 commencements, which meant that overall the public sector permanent and fixed term workforce contracted by nearly 6,000. We also know that in 2011-12, 46.8 per cent of Western Australia public sector employees had worked in their current entity for less than 5 years, and around half of these had worked there for less than two years.

These figures do not take into account the displacement of longer term, more experienced and highly skilled employees by temporary administrative staff, information technology workers and consultants. Viewed within the context of ongoing public sector cuts, these employment changes represent more than notional ‘efficiencies’ or one-off budget savings; they also represent a very much longer term loss to the sector of workforce capability. It is a
loss that will be aggravated by challenges the sector already faces with respect to the accelerating retirement rate of public servants and low retention of workers.

According to the Western Australian Public Sector Commissioner’s annual *State of the Sector Report* for 2012:

the challenges the sector faces together include replacing an ageing workforce, retaining knowledge, addressing potential skills shortages and keeping pace with technological changes. WA’s growing population, increasing service expectations of the community and investment in regional areas are also resulting in greater demand on the sector.\textsuperscript{21}

And yet replacing an ageing workforce and retaining knowledge, addressing potential skills shortages, keeping pace with technological changes and delivering regional services are just the areas that the Western Australia Government’s broad based staff cuts and ceilings and ongoing ‘efficiencies’ have undermined.

Replacing an ageing workforce and retaining knowledge

The Western Australian public sector now has 23 per cent of its workforce aged over 55 years (compared to around 17 per cent over 55 in the general WA workforce), while the proportion of workers under the age of thirty remains low at 15 per cent (around 28 per cent in general workforce).\textsuperscript{22} The imminent retirement of just under a quarter of the public sector workforce, coinciding with the recent significant expansion of the resources sector and the corresponding demand for labour, has resulted in a significant tightening of the labour market. This has increased the difficulty of sourcing suitable replacements for retiring employees.

Replacing an ageing workforce involves more than just slotting new pegs into old holes. Significantly, a study conducted by Deloitte for the Western Australian Government found that 71 per cent of respondents who indicated that they were intending to retire in less than ten years had 15 years or more experience working in the Western Australian Public Service.\textsuperscript{23} The rapid retirement rate of these experienced public servants means that urgent consideration has had to be given to issues such as generational loss of corporate knowledge and the arrested transfer of essential skills.

The detrimental impacts of over-reliance on key personnel will always be exacerbated when they leave the workforce, particularly when they are being encouraged by Government to leave in large numbers over a short period of time. Managers, in particular, are a group that has been identified by the Western Australia Public Sector Commission as having the greatest impact on agencies’ ability to deliver services, yet 75 agencies reported that they were also a group highly difficult to recruit and retain.\textsuperscript{24} Faced with evidence such as this the Commission has highlighted an urgent need for investment in succession management and workforce planning, as well as the implementation of mentoring, coaching and succession programs to address the drain of corporate knowledge.\textsuperscript{25} However, the success of these strategies is dependent on retaining a threshold number of experienced staff to pass on critical corporate knowledge, and recruiting a new generation of staff to pass knowledge on to.
Addressing potential skills shortages: Recruitment and retention

Even without the current cuts, caps and efficiencies, the Western Australian public sector workforce faced staffing issues. The Western Australia Public Sector Commissioner’s *Strategic Directions for the Public Sector Workforce 2009-2014* sets its number one goal as attracting a skilled workforce and its number two goal as retaining valued employees. Skills shortages within the public sector, and concerns about retention, call for the adoption of strategies that make the public service an employer of choice, particularly for young professionals.

The 2012 freeze on public sector recruitment in Western Australia, and the 2013 round of redundancies and the new cap on salary expenditure, are unlikely to have the effect of attracting a skilled workforce to the Western Australia public sector. Capping salary expenditure at CPI means that providing competitive wages can be achieved only by more and more outsourcing of public sector work over time, so that public sector salary costs can be replaced by private sector salary costs embedded in outsourcing contracts. And unlike the Western Australia Public Sector Commissioner, the Government does not appear to be in the business of attracting new public sector employees—in fact, it appears to be in the business of assuring the public that when it comes to the public sector ‘the WA taxpayer does not regard it as acceptable that someone can be employed and paid quite a significant wage and basically do nothing.’

Improving the image of the public sector, from that of a bureaucratic and inefficient organisation to that of an administration with ‘corporate values, high standards of ethics and integrity’ can have an influence on its competitiveness in attracting skilled employees. Engaged employees can act as advocates of their organization, willingly promoting the organization as an employer and its products and services, thereby reducing recruitment costs and enhancing the public image of the organization. In the UK, an employee attitudes and engagement survey found that 37 per cent of employees could be described as advocates and would engage in positive discretionary behaviour.

Similarly, a UK Audit Commission report on *Recruitment and Retention* in the public sector found that positive media had a significant impact on the morale of current staff as well as promoting the organization to potential staff as a rewarding place to work. Of course, the converse is also the case: disengaged employees and negative media comment will act as deterrents to joining the public service.

The APS offers the most comprehensive data on skills shortages in the public sector and their impacts on sectoral operations. As part of its 2010-11 employee survey, it asked senior executives to identify the skills they had the most difficulty in recruiting and the impact (none/limited/moderate/severe) on their area of responsibility. The following table shows the proportion of senior executives reporting occupational shortages that in their view have a moderate or severe impact on their activities.
Figure 1: SES employees having difficulty recruiting or retaining staff and the impact on their area of responsibility, 2010-11

<table>
<thead>
<tr>
<th>Occupational groupings</th>
<th>Difficulty recruiting or retaining</th>
<th>Moderate impact on capability</th>
<th>Severe impact on capability</th>
<th>Total moderate and severe impact on capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting/finance</td>
<td>23</td>
<td>44</td>
<td>31</td>
<td>75</td>
</tr>
<tr>
<td>Administration</td>
<td>23</td>
<td>71</td>
<td>6</td>
<td>77</td>
</tr>
<tr>
<td>Audit</td>
<td>6</td>
<td>56</td>
<td>19</td>
<td>75</td>
</tr>
<tr>
<td>Communications/marketing/engagement</td>
<td>11</td>
<td>61</td>
<td>18</td>
<td>79</td>
</tr>
<tr>
<td>Generalist manager</td>
<td>24</td>
<td>75</td>
<td>8</td>
<td>83</td>
</tr>
<tr>
<td>Human resources</td>
<td>5</td>
<td>87</td>
<td>10</td>
<td>97</td>
</tr>
<tr>
<td>ICT</td>
<td>17</td>
<td>59</td>
<td>35</td>
<td>93</td>
</tr>
<tr>
<td>Information, data or knowledge management</td>
<td>16</td>
<td>54</td>
<td>30</td>
<td>84</td>
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<tr>
<td>Intelligence/national security</td>
<td>5</td>
<td>90</td>
<td>2</td>
<td>92</td>
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<td>Legal</td>
<td>12</td>
<td>57</td>
<td>24</td>
<td>81</td>
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<tr>
<td>Policy or research</td>
<td>38</td>
<td>66</td>
<td>18</td>
<td>84</td>
</tr>
<tr>
<td>Procurement or contracting</td>
<td>13</td>
<td>58</td>
<td>15</td>
<td>74</td>
</tr>
<tr>
<td>Other professional (not otherwise covered e.g. engineer, scientist, economist, statistician)</td>
<td>17</td>
<td>54</td>
<td>20</td>
<td>74</td>
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<tr>
<td>Project management</td>
<td>23</td>
<td>43</td>
<td>39</td>
<td>82</td>
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<tr>
<td>Regulatory/investigation/compliance</td>
<td>10</td>
<td>65</td>
<td>10</td>
<td>76</td>
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<tr>
<td>Service delivery</td>
<td>7</td>
<td>47</td>
<td>30</td>
<td>77</td>
</tr>
<tr>
<td>Technical or trades</td>
<td>1</td>
<td>100</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: The occupational groupings highlighted in bold represent those most often reported by SES employees as having difficulty recruiting or retaining and also having a severe impact on work area capability. Due to rounding, the percentage results in this table may not add up to 100%.

Impacts of skill shortages in these areas can be significant. For example, a lack of accounting and finance skills is problematic where there is pressure to outsource due to salary expenditure caps as described above. Decisions on whether to outsource require complex costing analysis and a lack of skills in this area could, for instance, lead to an overstatement of the potential savings to be made through outsourcing.

Information and Communication Technology (ICT) is another area where skill shortages can cause significant impacts. This will be considered at length below.

Once skilled employees have been attracted to the public sector it is desirable, as the Western Australia Public Sector Commissioner noted, that they should stay. While much Australian employee attitudinal survey data does not distinguish between employees who want to leave the public service and those who simply want to leave their agencies, the UK Recruitment and Retention report was able to identify six main factors that underpin the decision to leave the public service altogether:

- the sense of being overwhelmed by bureaucracy, paperwork and targets;
- insufficient resources, leading to unmanageable workloads;
• a lack of autonomy;
• feeling undervalued by Government, managers and the public;
• pay that is not ‘felt fair’; and
• a change agenda that feels imposed and irrelevant.20

Many of these factors—in particular the issues of insufficient resources and unmanageable workloads, feeling undervalued by Government, and pay that is not ‘felt fair’—reflect the sector-wide strategies recently adopted by the Western Australian Government for managing its public servants.

In Western Australia, as elsewhere, the rate of separation from the public sector is undermining longer term skills development among public servants as well as imposing a considerable cost, given that recruitment and training costs are sunk costs borne by the public sector. It is not possible simply to move private sector employees into and out of the public sector whenever there is a skills crisis. If the public wants its public servants to exhibit the values specific to the public sector—to resist politicisation, to provide policy advice that is sensitive to the needs of the wider community, to deliver services fairly and to avoid expensive conflicts of interest with private sector providers—then it needs to have a sector trained and practised in these activities.

While it is not possible to calculate turnover costs for Western Australia because of the lack of retention data, indicative costs can be calculated based on work done for the sector in South Australia. A Retention Dividendum Report, undertaken in the context of public sector staff reductions as announced in the SA budget for 2009-2012, found the total recruitment and training expenditure on average for the 1,600 FTE (full-time equivalent) public sector workforce reductions to be around $63,567,660.31

In addition, there are often costs to government of failing to maintain a skilled workforce. One example of this is set out in CPD paper by Tim Roxburgh, ‘Public works need public sector skills: The lost lessons of the BER program’.32 In summary, one of the findings of this paper was that the states with the lowest levels of public works related skills ended up paying more for the works undertaken. So in Queensland, which maintained a relatively strong public works skills capacity, public schools benefited from a dollar per square metre rate of $2,753; while Victoria, which had a very low capacity, paid $3,114 per square meter. Victoria spent an average of 13 per cent more on each square metre of public works undertaken as part of the BER. Follow-up work by CPD has estimated that the annual saving might be in the order of $350 million across the public works undertaken by Queensland.33 And this is only one area where these kinds of savings might apply.

**Keeping pace with technological changes**

As mentioned above, skill shortages in ICT are a serious concern for the APS, and for other public services. There is, for example, a documented shortage of senior project managers with relevant ICT experience in the Victorian as well as the Australian public service—due, in the case of Victoria, at least, to ‘years of outsourcing ICT and project management expertise’.34 To compensate, agencies often appoint private sector contractors who are more highly paid than their public sector equivalents would have been, but often lack the latter’s understanding of public sector values—about, for example, the need for rigorous probity and procurement practices.35 These senior contractors may be supported by inexperienced public sector staff. Neither group is likely to have an understanding of the old ICT systems that are
to be replaced or upgraded. This has been found by the Victorian Ombudsman to result in cost overruns and project failures. Eventually, contracted senior managers disappear, taking their accumulated project knowledge with them, leaving the inexperienced public sector staff a little more experienced and anxious to move on.

The Western Australian Auditor General’s Information Systems Audit Report found similar issues. Fifty-two per cent of agencies failed to meet the auditor’s benchmark for performance in IT operations. In particular, a number of agencies did not have a Service Level Agreement (SLA) with vendors to ensure that service levels are appropriately defined and provided, and consequently these agencies were unaware if vendors were fulfilling their obligations and vendors did not report on key activities they were performing. Key functions such as maintaining network security, preventing unauthorized access and the monitoring and reporting of security events were found to be inadequate or non-existent.

When problems such as these are multiplied across the range of skill shortages identified by public sector managers at the Commonwealth level, it is clear that when describing across-the-board cuts and caps as ‘budget savings’ governments are quietly writing off the corresponding institutional losses.

**Maintaining regional services**

Regional services were the last of the challenges identified by the Western Australia Public Sector Commissioner as facing the Western Australia Government in managing its public sector. A quarter of all public sector employees are employed in the non-metropolitan regions of Western Australia. Nevertheless, the Western Australia Public Sector Commissioner identified the state’s ‘growing population, increasing service expectations of the community and investment in regional areas’ as factors giving rise to ‘greater demand on the sector.’ He also found that:

> Attraction and retention of staff in some regional areas can be difficult due to the lack of social and physical infrastructure and amenities. Agencies that have a regional presence face unique challenges that necessitate a significant workforce planning effort.

This workforce planning effort is not being assisted by across-the-board budget cuts, staffing caps and salary freezes. Already public sector employees outside the Perth metropolitan area have lower median salaries ($66,240) than those within it ($71,794). Western Australia’s new CPI-based Public Sector Wages Policy means that this is now likely to remain the case for the foreseeable future. So much for attraction. As for retention, the Western Australian Premier has said that while he does not expect the most recent round of cuts to affect frontline services, teachers, nurses and police officers are likely to be among those who take voluntary redundancies.

In the light of the Premier’s statement it is difficult to know what are and what are not considered frontline services in Western Australia. However, setting aside the services of teachers, nurses and police officers, it is possible to give some indication of the impact of the cumulative Western Australia cuts and caps on other regional services. The CPSU submission to the Senate Education, Employment and Workplace Relations Committee’s Inquiry into the conditions of employment of state public sector employees documented the impacts of ‘efficiencies’ on a number of Western Australia state entities. Two of these entities, each with a significant regional presence, experienced significant job losses. In a third case, employment caps prevented the extension of services to meet demand. As a
consequence two of the entities concerned have had to reduce critical regional services; the third entity was closed altogether, resulting in the loss of 75 regional jobs, including those of a number of Disability Service Commission clients:

The Department for Child Protection (DCP), with eight metropolitan district offices and 32 country district offices, ‘has experienced a three-fold increase in the number of cases to be investigated, but this has not been reflected in the number of staff available to work with these children. The number of children who do not have an allocated case worker but needed one because they were suspected of suffering from some form of abuse has increased to 883 (as of May 2012), up from 799 in May 2011. Yet the Barnett Government did not provide funding for more DCP caseworkers in the 2012-13 budget (2011-12 estimated actual caseworker FTE was 744, with no additional FTE budgeted in 2012-13).’

Landgate, with offices in Floreat, Albany and Bunbury as well as Perth, ‘maintains the State’s official register of land ownership and survey information and is responsible for valuing the State’s land and property for government interest. In 2011 there were 85 voluntary severances – almost 10 per cent of the workforce. One effect of the reduction in FTE is that the turnaround time for registering transactions against a Certificate of Title has almost doubled from 6.03 days in October 2011 to 11.55 days in February 2012. This can delay business transactions and building developments.’

Forest Products Commission, with 12 regional centres in addition to its Perth office, was abolished when no buyer was found for privatised tree planting and sharefarming services. ‘Seventy five regional jobs were lost, with the impact felt by small regional towns. One effect of the closure was the reduction of casual staff employed at the Manjimup seedling nursery. The nursery previously employed Disability Service Commission clients, and as the seedling demand decreased these people lost their jobs.’

The JCPAA’s Inquiry into the efficiency dividend and small Commonwealth agencies added further information on the impact of across-the-board cuts on regional agencies. Many if not most regional agencies are small, or branch offices of larger agencies. As a consequence they tend to be disproportionately affected by across-the-board cuts due to poorer economies of scale, with overheads such as IT, property and security comprising a disproportionate share of their budgets. This means that a considerable share of their budget is fixed. Efficiency dividends do not afford smaller agencies sufficient flexibility to perform core functions and at the same time to foster innovation, given the existing constraints on their budget. Since funding must be allocated to areas of critical need, there has been a reduction in staffing allocations and IT development has been curtailed.

Because of issues associated with economies of scale, many Commonwealth agencies had closed or were intending to close regional facilities as a means of reducing staffing costs. The CSIRO closed four regional research facilities in order to target further reductions in fixed costs; and the Australian Communications and Media Authority also found ‘considerable savings from the downsizing and closure of regional operations’ centres, and the centralisation and rationalisation of a number of functions’. The National Archives of Australia and the Administrative Appeals Tribunal reported pursuing efficiencies through scaling down their regional presence, creating huge disparities between urban and regional
services. Remaining programs in regional Australia may be ineffective due to reductions in regional tailoring of programs.

Ultimately, these structural changes in service delivery at both state and Commonwealth level will have significant long-term impacts through the erosion of the skills base of regional Australia, reducing the capacity for regional areas to develop viable industries and expand employment opportunities. Rural staff will also lose opportunities for professional development and innovation. This in turn will reduce the capacity of the regions to rebuild a strong public sector service delivery base.

Loss of public sector innovation and productivity

There are limits to simply doing more with less. Across-the-board cuts—that is, cuts for whose effects governments take no policy responsibility—are cuts for which governments expect their employees to take responsibility. The expectation is that public servants will slim down, tighten their belts, eliminate their bloat and waste and continue to deliver the same level of services to governments and to the public. More sophisticated analysts rely less on metaphors to do the work than on black boxes such as innovation, efficiency gains and increased productivity. In fact, across the board cuts are just as likely to inhibit innovation, reduce efficiency and decrease productivity by simply leaving employees to do less with less.

Take the case of innovation. In his 2008 speech to the senior executive service of the APS, Prime Minister Rudd leaned heavily on the need for increased public sector innovation. He repeated his call in 2009 and it was repeated for him in the 2009 discussion paper on public service reform which followed. Since that time there has been a flurry of activity examining public sector innovation. In 2008-09, the ongoing 1.25 per cent efficiency dividend returned approximately $250 million to the Budget. At the same time, the Government imposed an additional one-off 2 per cent efficiency dividend, which returned approximately $412 million. This is not unexpected: governments tend to call for innovation and ‘increased productivity’ when they cut budgets, as if these were bound to solve any problems raised by the cuts.

In fact, the efficiency dividend aligns very poorly with the well-understood dynamics of innovation within a work unit. Productivity improvements from which savings can be made do not follow a neat curve running at 1 or 2 percent a year. The trajectory is uneven since the initial response to innovation is usually an increase in costs, followed by a longer term decrease in costs. And innovations do not occur evenly each year; longer term cycles are more common.

In addition, for complex public administration work necessity is not always the mother of invention and budget cuts do not necessarily facilitate innovation. When asked to describe their strategies for meeting the efficiency dividend, APS agencies identified—in addition to reducing travel and reviewing accommodation—closer monitoring of vacancies to determine if they need to be filled, delaying filling of vacancies and reducing non-ongoing employment as their main strategies. As shown above, doing more with less often consists in cutting services; where services are to be maintained, it consists in increasing the workload of those left standing. When asked how the workload at their current classification level had changed over the last five years or more, 71 per cent of APS employees responded that it had
increased, and more than half of these said that it had increased greatly; 6 per cent said that it had decreased.

Some agencies did actually innovate; but innovation aimed at survival and innovation aimed at increasing productivity in the longer term are different in nature. Over and over the point was made to the JCPAA that for small agencies ‘innovation has been largely driven by the need to find alternative ways to maintain the current capacity to perform core functions rather than by considerations of growth and development.’ Neither were large agencies immune: in 2011, when APS employees generally were finally asked what the barriers to implementing innovation in their workplace were, 62 per cent identified budget restrictions.

These circumstances can be contrasted with genuine cases of public sector innovation. For example, in the UK a radical new approach to the treatment of type 2 diabetes was developed over the period of 2002-2005 by a diabetes care unit in Salford. This was a move from a traditional didactic approach of medical expert and passive patient, to a patient centred approach that delivered substantial increases in clinical benefits from treatment. This program was one of a number developed as a result of the deliberate adoption of standards for diabetes education that would allow groups to experiment with new approaches. At the end of three years the results of the various local experiments were compared and a new set of somewhat more prescriptive standards were put in place based on what was considered best practice. Essentially a window of opportunity was created by the standard-setting bodies for the development and evaluation of new programs. This kind of flexible approach takes advantage of the knowledge of public sector professionals in the development of innovative approaches to service delivery.

The lessons from the above example are confirmed by research based on a number of large scale surveys of public sector innovators in multiple jurisdictions. Firstly, innovation is not usually driven by adversity; only 10 per cent of innovations surveyed were in response to financial or other resource constraints. And lack of resources was the most frequently cited obstacle to innovation. Secondly, while innovations can originate from the top (politicians or agency heads), they more commonly come from middle management or frontline staff. Thirdly, most successful innovations have support from the top. Taken together these lessons indicate that encouraging innovation requires: resources put towards developing new ideas, the ability to draw ideas from all levels of the organisation, and high-level support for the implementation of these ideas. None of this is likely to occur where dramatic across-the-board cuts are being imposed.

Nor do across-the-board cuts necessarily generate increased productivity. Governments making such budget cuts rely on fact that public servants want to do a good job. Research tells us that this is the case, that public servants are much more likely than private sector employees to find their work worthwhile and personally meaningful and that this is a key, but not exclusive, factor enhancing their engagement with their jobs (the other factors relate to satisfaction with teams, supervisors and agencies). Research also tells us that increased employee engagement results in enhanced productivity for organisations.

The relation between employee engagement and productivity has received considerable attention among private sector employees, and in 2006 the APS began to explore its implications for the public service. In 2010-11, it used its State of the Service employee survey to examine the links between employee engagement and key business outcomes, isolating two broad areas of organisational capability that can be measured for the APS:
productivity, measured by self-reported performance and the number of hours worked in the previous fortnight; and availability, measured through an employee's use of sick leave in the previous fortnight and any intention to leave the agency. The survey found clear relationships between employee engagement and key outcomes such as hours worked, self-reported sick leave rates, self-reported performance and, perhaps most crucially, intention to leave, noting that:

all these elements have an impact on agencies, whether through the cost to productivity of absenteeism, the benefit of employee discretionary effort, or improved retention. These results are consistent with broader research which demonstrates that higher levels of employee engagement are linked to improved organisational capability and performance.56

It is a good thing for governments that public servants tend to find their work more meaningful than do private sector employees, because they rate below the private sector employees on a range of other factors that increase engagement, and through engagement, productivity. A national survey of 2,000 UK public sector employees conducted for the Scottish Executive found that public service employees were more negative about their employment situations than their private sector counterparts. In particular, they:

• experience more bullying and harassment than those in the private sector,
• are less satisfied with the opportunities they have to use their abilities,
• are more stressed and under more pressure,
• are more critical of their organisation,
• are less likely to feel senior managers have a clear vision for the organisation,
• have less trust and confidence in their senior managers, and
• are also less likely to believe organisational communication.57

The finding that public servants tend to have less trust and confidence in their senior managers raises the question of whether the senior managers that the survey respondents had in mind were agency heads or government ministers. If, for a moment, we assume that they were government ministers—because ministers have the power to direct work, cut budgets, and change employee relations--then these findings are unsurprising: employees who are subject to routine hostile political take-overs at regular elections would not be expected to have the same levels of trust and confidence on their senior managers as other employees. Nor would they be likely to feel their senior managers have a clear vision for the organisation, particularly in the light of across-the-board government cuts accompanied by grand assertions that services will remain unaffected.

If we assume that the senior managers the survey respondents had in mind were simply other public servants at a more senior level, then in fact nothing changes. Employees subject to across the board cuts implemented by their senior managers still face having to deliver fewer services, or having to reduce service quality, or to give less time per student, or patient, or caller, or to apply higher thresholds for investigation, or to close cases without adequate assessment, or to provide the minimum possible response58—or, in short, to continuously compromise that work which they had regarded as worthwhile and personally meaningful. The senior managers of these employees may also, as in the case of the UK local Government, be
tasked with responding to this agenda ... and maintaining [employee] motivation against a backdrop of pay freezes, pension reform and job cuts. In meeting this challenge, they also have to deal with the fallout from frequent political and media criticism of the public sector, which portrays the workforce as part of the problem rather than part of the solution.69

A 2002 study of employee engagement in the Canadian public sector showed the same response. British Columbia public service received an engagement rating of 59 per cent compared to 79 per cent for the top 50 companies to work for in Canada.60 Like public servants in the UK and Australia, British Columbia’s public service employees were relatively happy with their work compared to private sector employees, and as committed to staying with their employer. But:

due to a climate of distrust, a lack of confidence in their managers, and a feeling that the public hold a negative view of them as workers, they are not as proud of where they work. Only 43 per cent would highly recommend their department to a friend seeking employment, compared to 86 per cent in the comparison group. Again the public sector compares favourably in job content, but is weak in terms of organisational identity and advocacy amongst staff.61

This has consequences for the capacity of agencies to address their workforce capability issues, as discussed above, as well as their capacity to sustain the engagement and productivity levels of the staff who remain.

Public sector employee engagement in Australia is surveyed in Queensland, Victoria, NSW and the APS. Among its survey questions, the APS State of the Service employee survey has asked five that are intended to facilitate benchmarking against comparable questions in the UK Civil Service People Survey (CSPS). Unfortunately, while NSW also asked a comparable set of benchmark questions, it did not allow employees the same range of responses, so the results there are not directly comparable. The benchmark survey results for the APS and the UK are shown in Figure 1 below. These show statistically significant differences between the APS and the UK Civil Service on all benchmarking items, with the exception of personal attachment to agency.

**Table 1: Comparison of 2010-11 APS Employee Survey with 2010 CSPS results**

<table>
<thead>
<tr>
<th></th>
<th>UK 2010</th>
<th>APS 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>My agency motivates me to help it achieve its objectives</td>
<td>36 %</td>
<td>46 %</td>
</tr>
<tr>
<td>My agency inspires me to do the best in my job</td>
<td>39 %</td>
<td>47 %</td>
</tr>
<tr>
<td>I feel a strong personal attachment to my agency</td>
<td>46 %</td>
<td>45 %</td>
</tr>
<tr>
<td>I would recommend my current agency as a good place to work (a)</td>
<td>42 %</td>
<td>64 %</td>
</tr>
<tr>
<td>I am proud to work in my current agency (b)</td>
<td>55 %</td>
<td>67 %</td>
</tr>
</tbody>
</table>

Notes: APS results exclude ‘not sure’ responses.

\(a\) Related CSPS item was ‘I would recommend my agency as a great place to work’.

\(b\) Related CSPS item was ‘I am proud when I tell others I am part of my agency’.

Sources: Employee survey and 2010 CSPS
With that exception, APS employees showed themselves to be more positive than their UK counterparts in each response. While 2012 employee survey data is not being made available for the APS, the State of the Service Report advises that 2011–12 results are similar to those of the previous year; that is, the overall engagement index was higher for the APS (at 61) than it was for the UK Civil Service (at 56). The engagement index for the NSW public sector in 2012 (its first year of measurement) was 61—but that can be compared only to other NSW responses in subsequent years.

The 2010–11 State of the Service Report cautions against drawing direct comparisons between the UK civil service and the APS, noting that the UK is ‘going through a period of substantial downsizing, which is almost certain to have affected employee engagement levels.’ The following year’s State of the Service Report similarly points to anticipated negative effects of both APS-wide enterprise bargaining and managing the consequences of an ‘increasingly tight fiscal environment.’ ‘These two factors,’ it observes, ‘might reasonably be considered to reduce employee engagement.’ And indeed UK employee engagement overall is substantially lower than that of APS employees, while that of APS employees did show minor falls in team and supervisor engagement between 2010–11 and 2011–12.

While many factors affect employee responses to engagement surveys, it is worth noting that both the UK and the APS anticipated that downsizing and the ‘tight fiscal environment’—for which read the 2.5 per cent efficiency dividend in 2011–12 added to the existing efficiency dividend of 1.5 per cent per year—would have this effect. It is also worth adding, as government publications often do not, that in both cases these cuts have occurred in an environment of ‘frequent political and media criticism of the public sector, which portrays the workforce as part of the problem’ because it does not want to take responsibility for the solution.

It is easy enough to draw on old anti-bureaucracy rhetoric, as does the Cameron Government in the UK, and as do governments across Australia, to make Budget cuts seem targeted at bloated public servants rather than public services. It is even easy to blame the public servants left standing for failing to do more with less. But this is not a strategy that can continue indefinitely without undermining the confidence of the public service in government’s management and the confidence of the public in government’s capacity to provide public services.

**Loss of confidence in public institutions**

Surveys indicate that the public conflates governments and government agencies. Oppositions rely on this when they use attacks on the public service as evidence of the government’s inability to manage a budget and administer government more generally. Public servants are used to this strategy and accept it as an expected part of the electoral cycle. Senior public servants are practised at building the confidence of new governments in the institutions they have been criticising, while rebuilding the confidence of lower level public servants in the leadership of politicians who have until recently been denigrating their performance.

But problems arise when Oppositions become Governments, and instead of managing the public service, they continue to set of whole of government savings targets. The imposition of across the board ‘efficiency dividends’ on government agencies means limited revenue is
spread too thinly across programs of all priorities. This leads to key programs being underfunded and therefore underachieving, and ineffective programs continue to limp along, even less effectively than they were before.

This approach affects both the engagement of public sector employees, and satisfaction of citizens with the services they are receiving. There is a great deal of research on employee engagement and service satisfaction. Originally applied in the private sector where a number of studies established that employee engagement and customer service satisfaction where closely related; so closely they are described as the ‘satisfaction mirror’ in management literature.\textsuperscript{66} It has been confirmed by research in a number of jurisdictions that this relationship also exists in the public sector between employee engagement and citizen service satisfaction.\textsuperscript{67}

Research has also confirmed that citizen service satisfaction leads to trust in government institutions in general. Large scale studies in the US, the UK, Canada and other jurisdictions, have shown that satisfaction with individual services has a significant impact on attitudes to government generally.\textsuperscript{68} Interestingly the reverse does not appear to be true, so general levels of trust and confidence in government do not seem to significantly impact service satisfaction.

The research is summarised in the following diagram:

**Figure 2: Public sector service value chain**

![Diagram](source: Heintzman, Ralph and Marson, Brian (June/July 2006) People, service and trust: links in the public sector service value chain. Canadian Government Executive.

Governments that behave as though they were still in opposition by insisting that the public service is inefficient and that across the board cuts can be made without consequences to service provision, will reduce the effectiveness of, and citizen trust in, public institutions. Given that people tend to conflate government and government institutions this approach is ultimately self-defeating.

However, there is a further consequence of reducing trust in public institutions. A large body of research has established a connection between trust in government and willingness to comply with laws and regulations. The focus of the literature has been on compliance with taxation law, with a number of studies showing that trust in government significantly increases the likelihood of tax compliance.\textsuperscript{69} Research has also shown that trust in government is related to compliance generally.\textsuperscript{70} This means that an across the board cut not only reduces the capability of public institutions, it also increases the difficulty of their jobs by making voluntary compliance less likely.

Combining the research on trust and compliance with Heintzman and Marson’s diagram gives the following:
Figure 3: Extended public sector service value chain

As discussed above there is strong evidence for each of the links in this model, as well as strong evidence that across the board cuts are negatively affecting services and increasing workloads. This means that satisfaction with services is no doubt likewise being affected, as is public sector employee engagement. The evidence presented here in this section is that this is in turn affecting trust in public institutions and willingness to comply with laws and regulations.

**Potential actions to improve productivity and efficiency.**

As this report has drawn largely on data for the Western Australian and Commonwealth public services, the recommendations below apply primarily to these jurisdictions. However, the problems discussed are fundamental and as such most, if not all, of the recommendations will also be applicable to other Australian States and Territories.

The examination of some of the ways across-the-board cuts reduce public sector institutions’ capacity to do the work asked of them, shows the need for different methods. Alternates to the across-the-board approach have been suggested by Doggett in her paper ‘Beyond the Blunt Instrument’. In this she sets out a number of recommendations including audits of efficiency run separate to the budget process, stakeholder input from employees and their unions to develop efficiency targets, and a trial of a formal agreement between stakeholders on efficiency measures and targets.

As well as a more effective approach to efficiency there needs to be a focus on productivity. Expectations of public services are increasing and productivity will need to increase to help meet this challenge. Productivity in the public sector has not yet been well defined. However, the strong relationship between engagement and productivity means that it is clear that efforts to improve engagement will need to be a key part of the productivity strategy. No longer applying across-the-board cuts will halt negative affects on engagement from overloading and citizen service dissatisfaction. It will also make the work of the public sector less difficult by addressing the problem of decreasing trust and the lack of willingness to comply that comes with it. However, there can also be direct action to improve engagement. This means further work on factors affecting engagement where the private sector performs better than the public sector. This includes areas such as: bullying and harassment; opportunities to use abilities; stress and pressure; belief in organisation; trust and confidence in senior managers; and clear vision from senior management. It will also require the government not to take a political approach of denigrating public sector employees.

Overlapping with engagement is the need to give consideration to issues such as generational loss of corporate knowledge and the arrested transfer of essential skills. Improving the image of the public service, and the sector more broadly, will make it a more attractive recruitment prospect for skilled employees, and engaged current employees become advocates for the organisation. Again this will require a non-denigrating approach by government. In addition
there should be investigation into factors that have been identified as detrimentally affecting retention, such as:

- feeling overwhelmed by bureaucracy, paperwork and targets;
- insufficient resources, leading to unmanageable workloads;
- lack of autonomy;
- feeling undervalued by Government, managers and the public;
- pay that is not ‘felt fair’; and
- a change agenda that feels imposed and irrelevant.

In addition to these actions, particular attention will need to be paid to regional services. Disparity in wages or other conditions as well as the disproportionate effect of cuts on small services can mean that an identified challenge for the public sector, serving rural Australia, may be substantially under-resourced.

Finally, efficiency and productivity innovations need to be encouraged. As mentioned above they cannot be expected to necessarily occur when budgets are cut. Given that most innovations come from frontline and middle management personnel, recruiting, retaining, and engaging skilled employees will likely lead to greater generation of innovative ideas. Drawing out and supporting these ideas will then be critical.

The above actions can be summarised as five recommendations:

Recommendation 1: Achieve genuine efficiency improvements through alternatives to ‘blunt instrument’ across-the-board cuts. These alternative mechanisms can include audits of efficiency run separate to the budget process, stakeholder input from employees and their unions to develop efficiency targets, and a trial of a formal agreement between stakeholders on efficiency measures and targets.

Recommendation 2: Raise public sector productivity by targeting factors that are detrimental to employee engagement (a key driver of productivity). Factors to consider addressing include: bullying and harassment; lack of opportunities to use abilities; stress and pressure; low belief in their organisation; low trust and confidence in their senior managers; and lack of a clear vision from senior management. Governments should also avoid the use of political rhetoric denigrating public sector performance.

Recommendation 3: Give attention the issues of generational loss of corporate knowledge and the arrested transfer of essential skills. Means of addressing these problems could include improving recruitment prospects and increasing retention. Improving the image of the public service, and the sector more broadly, will make it a more attractive recruitment prospect for skilled employees. Targeting factors that research indicates result in public sector employees leaving the service; such as issues of insufficient resources and unmanageable workloads, feeling undervalued by Government, and pay that is not ‘felt fair’.

Recommendation 4: Give particular attention to regional services. Disparity in wages or other conditions and the disproportionate effect of cuts on small services can mean that an identified challenge for the public sector, serving rural Australia, may be under-resourced.

Recommendation 5: Facilitate efficiency and productivity innovation through recruiting and retaining skilled staff and giving them the opportunity to have input into the process of innovation. Encourage development of innovations with resources and high-level support.
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