

PART II

Chapter 5

**Ageing and the Public Service
in Australia**

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Executive Summary

Ageing is considered one of the three main causes of global changes in the Australian Public Service's mode of service delivery, together with technological changes and stakeholder needs.¹ As a consequence, the level of political and administrative awareness on this issue has increased. The ageing strategy includes a public service-wide restructuring of workforce planning and HR practices.

Australia is taking ageing as a window of opportunity to improve public sector efficiency and productivity. To a certain extent, this contrasts with a number of other OECD member countries that are addressing ageing challenges more indirectly, as part of a broader process of public sector modernisation. Australia's policy decisions can be linked, in part, to its specific history of public service reforms over the last decade. The principal measures aim to reorganise systemic factors in the context of a strategic use of staff attrition. As underlined by the Australian Public Service (APS) commissioner, in her speech of 12 May 2005 on public service reform, restructuring the APS workforce will be a top priority for continuing reform, entailing a need to "plan it much more actively, to develop staff more strategically, and to engage more effectively with them". Thus, the restructuring of workforce planning to tackle capacity maintenance in an ageing context is considered a priority, whereas cost containment objectives appear to be secondary. This can be understood in the context of Australia's fiscal situation and the history of reforms over the past decade: from 1995 to 2000, the public service was downsized, as part of a general response to budgetary difficulties and in an effort to return to surplus. However, over the past few years, the APS workforce has been increasing again.

The APS has been active in recent years in identifying challenges and solutions for its ageing workforce.

The ageing policy for the public sector has been developed along three main axes:

1. Since 2002-2003, the Australian government has implemented a number of initiatives focused on improving macro labour force participation rates for older workers, encompassing both the public and private sectors. This includes pension reform (i.e. enhancements to the superannuation co-contribution scheme to boost retirement savings for low and middle income earners), tax reductions on superannuation contributions, and flexibility improvements to allow people who have reached retirement age and are still in the workforce to access their superannuation as a non-commutable income stream without having to retire or leave their job. However, unlike other OECD member countries taking part in the project, efforts to retain older workers are primarily based on incentives, like flexible employment conditions. Early retirement schemes and the minimum retirement age have not been reformed.

2. The key objective for the ageing APS workforce is to develop a systemic approach to succession planning.² This includes a systemic strategy for internal civil service reorganisation through a process of streamlining and consolidating the classification structure. The aim is to rethink competence needs and different functions in order to increase efficiency and productivity. Another main focus of the public sector strategy (MAC report *Managing and Sustaining the APS Workforce*) is to ensure the renewal of an effective senior public service.
3. Managerial adaptation, based on training and increased mobility, has been undertaken to reshape career paths and facilitate the retention of older workers. The principal reform is based on flexible employment conditions, designed to retain older workers beyond the low retirement age.

The current policy is ambitious. The explicit aim is to maintain workforce capacity through the systemic reorganisation of workforce planning and managerial tools, including recruitment, mobility, career paths and knowledge management.

1. Ageing: Facts, figures and forecasts

1.1. Ageing population and labour market: Facts and consequences for public finance

1.1.1. Ageing population

After years of slow growth, Australia's total population, as of June 2004, was 20 111 297.

Over the past two decades, the proportion of the population aged 15-64 has remained relatively stable, increasing from 66% to 67% of the total population. Over the same period, however, the proportion of people aged 65 and over has increased from 10.1% to 13.0%. In the few last years, the ageing process has begun to accelerate.

Forecasts

Australia will face significant demographic changes due to a declining fertility rate and increasing life expectancy.

Australia's rate of population growth is expected to continue slowing over the coming decades, from 1.2% per annum in 2002 to approximately 0.2% per annum by 2042, reaching a total population of 26.4 million by 2050.³ However, a large majority of this increase will be due to the growth of the older population. Indeed, the population over 65 is expected to more than double, from 12.8% in 2003 to around 27% in 2050, whereas the number of persons under 20 years of age will fall by 300 000 over the same period. By 2050, the share of the age group 50-64 is projected to reach 39%, while the share of persons aged 65-69 is

Table 5.1. **Australian population for selected age ranges**

| Age range | Number | Percentage |
|-------------|-----------|------------|
| < 20 years | 5 364 334 | 27 |
| 20-29 years | 2 763 667 | 14 |
| 30-39 years | 2 979 011 | 15 |
| 40-49 years | 2 972 295 | 15 |
| 50-59 years | 2 522 850 | 12 |
| 60-79 years | 2 824 463 | 14 |
| 80 + years | 684 677 | 3 |

Source: Australian Bureau of Statistics. www.abs.gov.au.

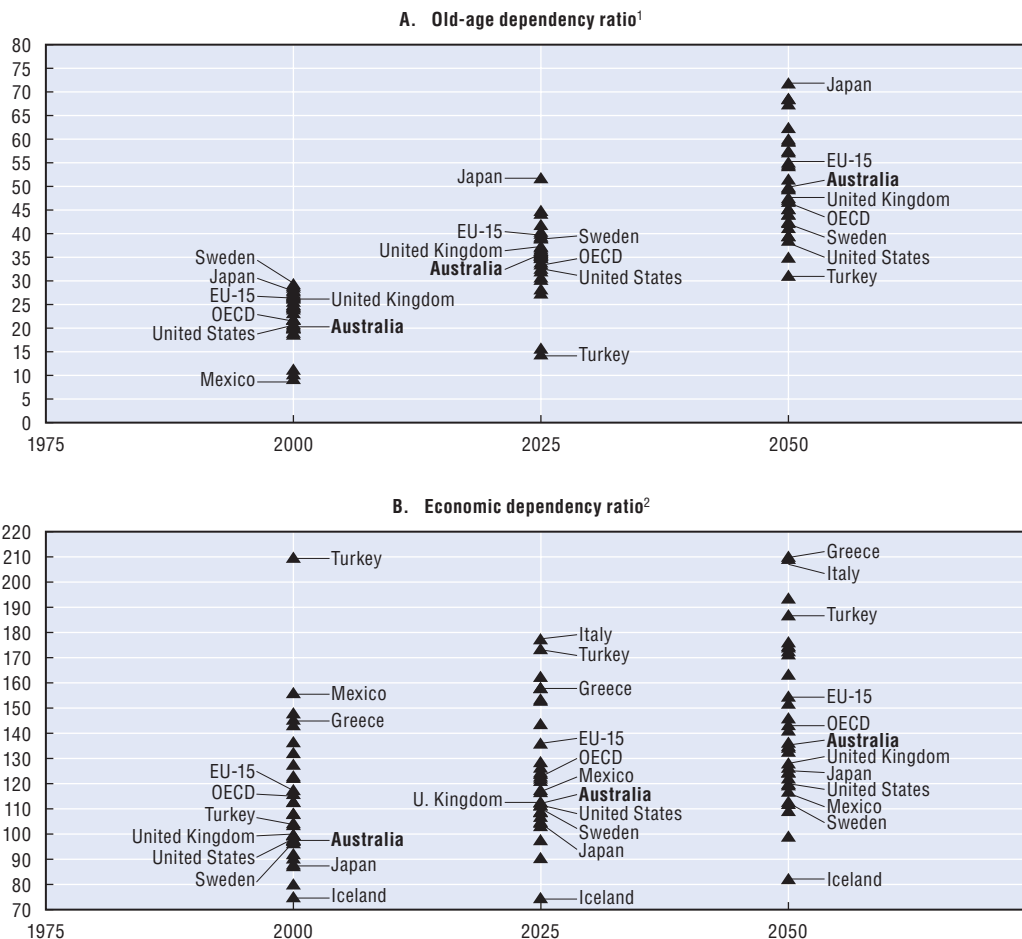
projected to increase to over 23%.⁴ As a consequence, the old-age dependency ratio is projected to increase significantly, from 20% in 2000 to 50% in 2050.⁵

Table 5.2. **Australian population projections for selected age ranges (millions of people)**

| Age range | 2002 | 2012 | 2022 | 2032 | 2042 |
|--------------|-------------|-------------|-------------|-------------|-------------|
| 0-14 | 3.9 | 3.8 | 3.8 | 3.8 | 3.7 |
| 15-64 | 13.2 | 14.6 | 15.1 | 15.3 | 15.4 |
| 65-84 | 2.2 | 2.7 | 3.8 | 4.7 | 5.1 |
| 85+ | 0.3 | 0.4 | 0.5 | 0.8 | 1.1 |
| Total | 19.6 | 21.5 | 23.2 | 24.5 | 25.3 |

Source: Australian Bureau of Statistics. www.abs.gov.au.

Figure 5.1. **Projected trends in dependency ratios 2000-2050 (%)**



1. Ratio of population aged 65 and over to the population aged 20-64.
2. Ratio of persons who are inactive to those in the labour force. The labour force projections assume that participation rates by age and gender remain constant at their 2000 levels.

Source: *Ageing and Employment Policy/Vieillesse et politiques de l'emploi*. Australia, OECD, 2005, drawn from National population projections (central variant) except for Ireland, Greece, Hungary, Luxembourg, Mexico and Turkey from UN, *World Population Prospects 1950-2050 (2002 Revision)*.

1.1.2. Ageing labour market

Current participation rates

The unemployment rate was estimated at 5.5% of the total workforce in 2004.⁶ The labour force participation rate is quite low in Australia: currently, the fall-off in labour force participation starts at around the age of 50, so that by the time people reach their early 60s, only a third remain in the workforce. This is well below both OECD and EU averages.

However, over the past decade, as a result of previous reforms, the participation rates of people aged 55-64 in the Australian workforce have started to increase, with male participation rates rising from 61.3% in 1994 to 64.2% in 2004, and female rates rising from 27.3% to 41.4% respectively.

Labour market

The proportion of active to inactive persons is expected to decrease (one person over 65 for two working-age people, by 2050). This will exert progressively increasing pressure on the labour market.

As outlined in the *Intergenerational Report 2002-03*, the size of Australia's traditional labour force (aged 15-64) is expected to decline as a proportion of the total population over the next 40 years. Over the next two decades only 14% growth in the labour force is expected, in the 15-64 age range, while the number of people aged 55 to 64 is projected to increase by more than 50% over the same period.⁷ The ageing Australian population will also experience a sharp decline in new entrants to the labour force. A study by the Australia-based research organisation Access Economics has estimated that the number of people entering the workforce will drop from the current 170 000 per year to 125 000, for the entire decade of the 2020s.⁸

This raises more starkly the challenges of attracting and retaining necessary skills in the Australian Public Service.

1.2. Ageing civil service

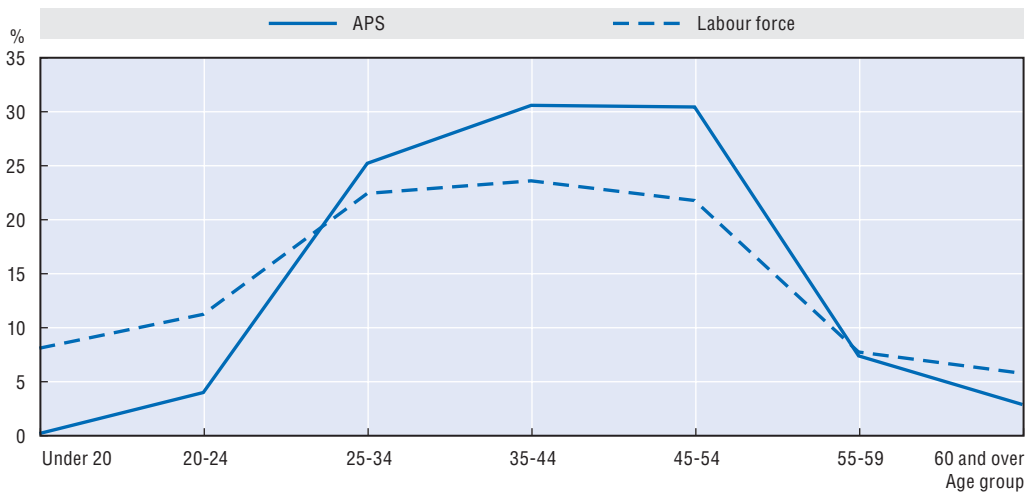
1.2.1. Current situation

As shown in Figure 5.2 (from the *State of the Service Report 2004-2005*), the Australian public service workforce at the federal level is significantly older on average and more affected by the ageing process than the labour force as a whole. Compared with the broader Australian labour force, the APS – which only includes staff at the federal government level – has an older age profile, with a significantly lower proportion of young people, and more in the 35-54 age group. The latter comprises around two-thirds of the entire federal public service. Furthermore, in the APS, the participation rate for workers over 55 falls dramatically, and significantly more than for the rest of the labour force.

Thus, the median age of current APS employees had been holding steady at 41 for the three years prior to 2004, whilst the median participation age of the Australian labour force had remained 38 over the same period.

The APS operates according to a position-based management system, featuring high levels of delegation and individualization. Decisions on recruitment and workforce levels are entirely delegated to departments and agencies. Agency heads have both the authority and the responsibility to make decisions related to their own organisations.

Figure 5.2. Age profile of ongoing APS employees and labour force (2005)



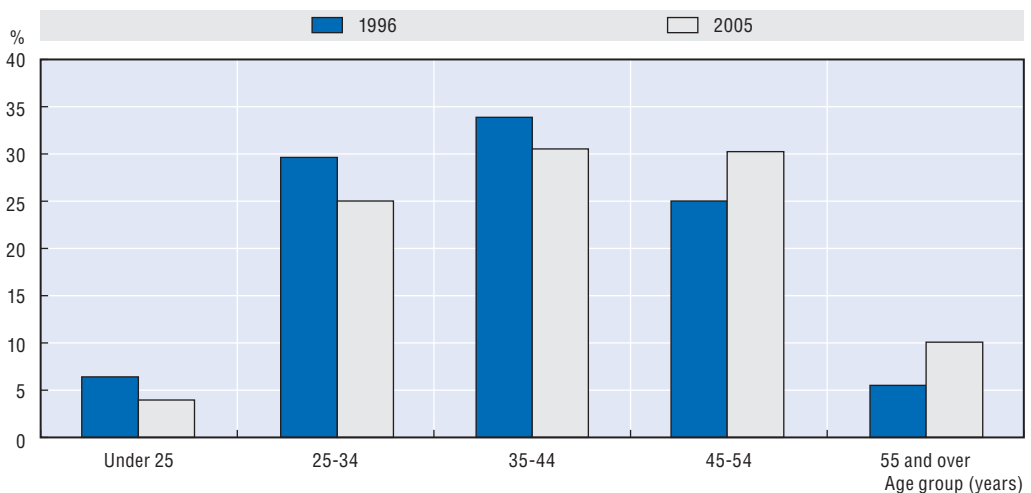
Source: APSED and ABS.

Table 5.3. Ongoing employees – proportion by age

| | 1996 (%) | 1999 (%) | 2002 (%) | 2005 (%) |
|--------------------|----------|----------|----------|----------|
| Under 25 | 6.3 | 4.1 | 4.6 | 4.0 |
| 25-34 | 29.4 | 26.6 | 25.8 | 25.1 |
| 35-44 | 33.7 | 33.9 | 32.3 | 30.5 |
| 45-54 | 25.0 | 29.1 | 29.7 | 30.3 |
| 55 and over | 5.6 | 6.3 | 7.6 | 10.1 |
| Median age | 39 | 40 | 41 | 42 |

Source: APSED.

Figure 5.3. Ongoing staff – Age profile



Source: APSED.

According to the national database, in June 2005, there were 133 596 APS employees in federal government agencies. The *State of the Service report 2004-2005* provides precise age structures for federal government employees:

The APS, as well as the labour market as a whole, is undergoing a significant ageing process. Over the past decade the strongest growth in the APS workforce has been in the older age groups. The average age across the entire APS has increased by three years in less than 10 years; the proportion of older workers over 55 has almost doubled (from 5.6% in 1996 to 10.1% in 2005); and the cohort 45-54 has grown to reach almost the same level as the largest cohort, 35-44, each comprising roughly 30% of the workforce, in 2005. Over the last decade, the largest increase has been in the 45-54 age group, which increased by 5.3 percentage points. In parallel, the trend over the last decade for the youngest cohort has been marked by a significant decrease.

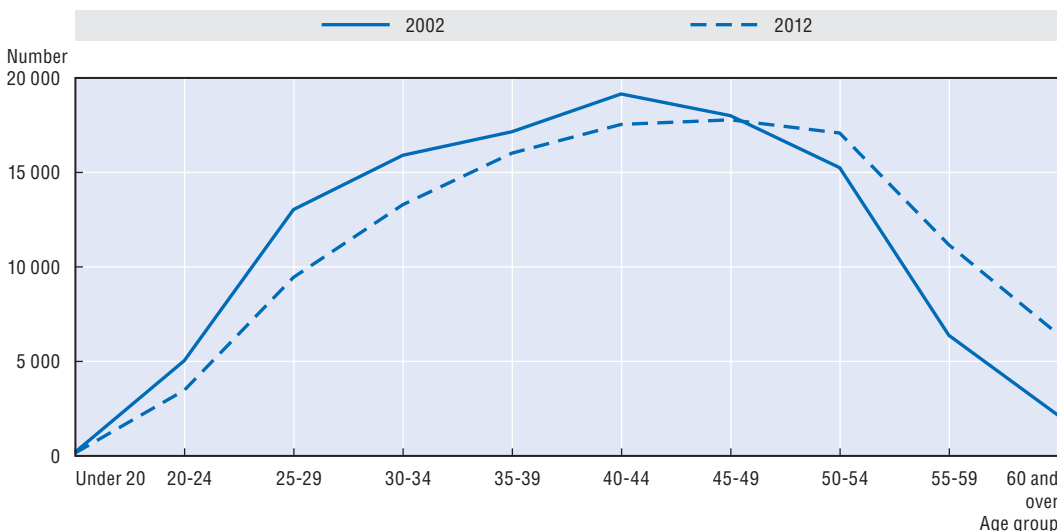
This ageing dynamic is also due to the systemic features of a position-based public service. Indeed, as underlined in the Management Advisory Committee report, entitled *Managing and Sustaining the APS Workforce*, more than 40% of new recruits today are aged 35 or over, compared to less than 20% two decades ago.

1.2.2. Large-scale departures

Looking ahead, the APS will continue to age. As seen in Figure 5.4, projections for 2012 show an increase in the age profile. The highest proportion is expected to be in the 45-49 age group, and there will be an overall shift towards a higher age profile. The hypotheses above do not take into account the impact of recent and future reforms for retaining older workers, but in any case, the proportion of workers above 55 is expected to increase significantly.

According to the Public Sector Superannuation Scheme, public sector employees can retire anytime from the age of 55 to the age of 75, provided they have reached their

Figure 5.4. **Projected age profile 2012 and actual age profile 2002**



Note: These projections assume that the age distributions and those leaving are based on engagement and separation age profiles for the past two years. The projections have been derived assuming that the exit rates observed over the two years to 30 June 2002 continue in the future.

Source: APSED, Australian government actuary projections.

preservation age. Australia is the only country studied where the retirement age range, based on individual choice, is so broad.

Based on this situation, the following two main scenarios present themselves:

1. The first is based on the assumption that all central government APS employees retire at the age of 55: around 10% of the public workforce is currently leaving the public sector; over the coming decade, around 30% of the current public workforce will have exited the workforce; and, by 2015, more than 40% of the current workforce will have retired. In this case, the ageing consequences for the Australian Public Service are even greater than in the European countries studied in this project, unless robust ageing policies are implemented so as to delay these large-scale retirements and spread the process out over a longer period of time.
2. The second is based on a median retirement age of 60, in which case the large-scale retirement process would occur from 2010 to 2020. But the size and the pace of the departures would be no different than in the first scenario. However, it would give the APS authorities more time to adapt their workforce planning and implement specific workforce adjustment policies.

A scenario based on a retirement age of 65 would be unrealistic, since only roughly 9 000 employees are still active after the age of 60.⁹

Most affected sectors and functions

Federal government departments and agencies

Agency age profiles vary widely, reflecting, in part, the nature of an agency's function and classification structures. Those agencies with a relatively high proportion of staff aged over 45 years may face different and more critical workforce planning and knowledge management issues than those with a younger age profile. Some agencies at the federal government level have a much older age profile, with a higher proportion of employees aged 45 years and over. For example, roughly 41% of workers in the federal health agency are over 45.

Education and health sectors

Health and education are managed at the regional government level.

Leadership and management functions

As underlined by the *State of the Service Report 2004-2005*,¹⁰ the ageing of more senior employees is particularly pronounced: since 1996, the proportion of ongoing Senior Executive Service (SES) employees aged less than 45 has fallen from 32.8% to 28.1%, while the proportion aged over 50 has risen from 34.9% to 43.9%. In June 2005, 26% of the SES and 18% of executive level employees were in the 50-54 age group. Since the 55 and over age group shows a similar pattern, 44% of current managers and 28% of executives are expected to have left their posts by 2010.

2. Adapting the Australian Public Service to ageing challenges: government strategy and actions

2.1. Design and leadership of ageing strategies

There is no single APS ageing strategy – leadership responsibilities are devolved to agency heads and hence each agency has its own strategy. The Australian Public Service

Commission's role is to showcase stimulating research, innovative approaches and better practice across the APS.

Workforce planning responsibilities delegated to the agencies require coordination. Specifically, the 2003 report that tackled ageing challenges, entitled *Implementing Organisational Renewal – Mature Aged Workers in the APS*,¹¹ concluded that individual agencies needed to address these issues through systematic workforce planning.

On the other hand, the report *Managing and Sustaining the APS Workforce*¹² has undertaken to ensure the sustainability and competitiveness of the APS in the context of a substantially devolved system that delegates staffing and management responsibility to the agency level.

Three main objectives have been identified:

1. agency specific ageing strategies and initiatives aimed at retaining older workers and ensuring capacity maintenance and renewal of leadership functions;
2. adaptation of current HRM tools to maintain the attractiveness and raise the competitiveness of the public service (productivity and organisation objectives) – systemic reforms are ongoing, including reshaped workforce planning at the agency level, changes in recruitment profiles, increased mobility and career path flexibility, and increased knowledge management;
3. cost containment (pension, wage bill).

2.2. Measures taken to face the challenge of ageing

2.2.1. Decreasing costs and increasing productivity, while maintaining capacity

Policy combinations to decrease pension costs, delay large-scale departures and increase older worker capacity

Pension reform

- Public expenditure increases due to pension costs

Australian Public Service employees (commonwealth employees) participate in a number of public sector superannuation schemes. The two main schemes, which are now closed to new employees, are known as the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). Both the CSS and the PSS are defined benefit superannuation schemes. They do not pay any “related old age benefits”. These are paid separately by the Australian government through a means-tested pension benefit. Qualifying ages for the government's age pension is 65 for men and for women born on or after 1 January 1949. For women born between 1 July 1935 and 31 December 1948, the qualifying age ranges from 60.5 to 64.5. By 2014, the qualifying age for all women will be 65, making it the same for everyone.

The Australian government had a AUS\$ 91 071 million superannuation liability, as of 30 June 2005, up from AUS\$ 87 869 million one year earlier. Australian government forecasts suggest that the total number of PSS pensioners is expected to grow from 11 000 in 2004 to 19 000 in 2020.

Most state and local governments operate their own separate superannuation arrangements for their public service employees.

- Reforms

Contributions, benefits and retirement age

The Australian government has already made a transition for Commonwealth employees. As of 1 July 2005, new Australian government employees are covered by the Public Sector Superannuation Accumulation Plan (PSSap). The PSSap is a fully-funded, defined contribution plan that pays lump-sum benefits.

The closing of the PSS scheme and opening of the PSSap are clear examples of public sector superannuation reforms that mirror core features of Australian private sector schemes, i.e. fully funded accumulation plans, and ensure that the PSSap complies more easily with other legislation such as the prudential supervision legislation applying to superannuation more generally (SIS).¹³

There is no mandatory or normal retirement age. CSS, PSS, and PSSap benefits are typically paid on retirement (usually on or after age 55) and must be paid by age 75 in accordance with SIS. SIS prevents lump-sum benefits being paid on retirement before the individual has reached their preservation age.

Member contributions of between 2% and 10% are compulsory in the PSS scheme. How much a member chooses to contribute determines their employer contribution.

Recent government initiatives have implemented a gradual increase in the minimum retirement age from 55 to 60. As of 1999, compulsory preservation ages were introduced to raise the minimum retirement age from 55 to 60 for those born after July 1960, i.e. for those born between 1 July 1960 and 30 June 1961 the minimum retirement age is 56, for those born between 1 July 1961 and 30 June 1962 the minimum retirement age is 57, and so on. For those born after 30 June 1964, the minimum retirement age is 60.

Constraining early retirement schemes

In the past, older workers were encouraged to leave early in order to create a high turnover rate. Today, however, early retirement is not encouraged. However, some CSS members have been able to receive a better benefit by resigning just before retirement and deferring their entitlements than if they had remained in employment until age 55 or later (the 54/11 issue). This is not an incentive that was intentionally introduced, but rather an unintended consequence of the original design features of the CSS. Agencies are encouraged to explore flexible remuneration options to retain their valued older workers who may be otherwise unintentionally incentivized to retire early.

Specific incentives have been implemented to encourage older worker retention, as well as the re-employment of retirees. Given the broad range of possible retirement ages, the APS faces challenges for capacity projections and workforce planning. This is linked to the aim of retaining needed skills, particularly in the context of considerable mobility between the public and private sectors.

Other management reforms aimed at retaining older workers and increasing their capacity

- Incentives for retaining older workers

- Incentives to postpone the effective retirement age through financial incentives: The report “Organisational Renewal”¹⁴ explicitly mentions that agencies have options available under current arrangements for influencing likely retirement patterns (including departure age) through remuneration packages. In a questionnaire done by

the Health Insurance Commission,¹⁵ 52.8% of workers over 45 identified “overall financial security” as the primary consideration determining retirement.

- Incentives to delay the effective retirement age through improved employment conditions: the main tool for retaining older workers and delaying departures is flexible employment conditions. It is consistent with survey results, which have confirmed that the primary factor influencing decisions to defer retirement is flexible work practices. The proportion of part-time workers aged 55 and older is growing, which is an indication of the attractiveness of this benefit to staff that could potentially retire at any time.

Another tool is temporary work arrangements. The proportion of APS employees who are temporary workers has traditionally been concentrated in the lower ranking positions. Over the past decade, the proportion has declined from over 10% to around 7%. However, this trend appears to be changing, with over 1 000 non-permanent staff at the EL1 level and above in place, in 2004, representing approximately 3.7% of all staff at these levels. Almost 26% of these were aged 55 or over, which suggests that many may be retirees returning to the APS.¹⁶ This is consistent with the findings of survey work presented in “Organisational Renewal”, which indicated that former and current older APS employees display a preference for more flexible working arrangements. This preference also appears to be applicable for the broader labour market. For example, the Australian and New Zealand Banking Group (ANZ) recently announced that they will guarantee their workers aged 55 and over the right to work part-time, provided they have at least five years service. Workers aged 55 and over represented about 6% of ANZ’s 18 000-strong workforce.

The “Organisational Renewal” report explicitly mentions that re-engagement of former APS employees through different arrangements (*e.g.* non-permanent or contract) has become common, providing valuable flexibility for the organisations concerned and expanding workforce participation.

- Management policies dedicated to older workers

Specific older worker management policies have been implemented, with a view to workforce retention. Agencies are encouraged to develop a strategy that meets their particular demographics and needs. Some of the objectives recommended to agencies through “Organisational Renewal” report included more flexible remuneration packages and more flexible and targeted working patterns. The APS Commission’s toolkit, entitled *Implementing Organisational Renewal Mature Aged Workers in the APS*, provides agencies with more detailed information related to superannuation, flexible working arrangements, and occupational health and safety, as well as materials for APS Human Resource Practitioners.

In 2005, in the ageing policy of one department, Family and Community Services (FaCS),¹⁷ focus was placed on the concrete incorporation of age diversity, as part of workplace diversity, in all internal management and leadership courses, in order to provide capacity development options for mentoring and coaching and to explore the inclusion of retirement intentions in performance management processes and agreements.

Workforce replacement and adaptation to structural changes

Policies to downsize the public service

As mentioned in the *State of the Service Report*,¹⁸ the overall number of employees increased by 1.7% during 2004-05, following a slight decrease of 0.2% the previous year. The

increase indicates a return to the growth trend of the four years prior to 2003-04. Adjusted for coverage changes, the APS is now larger than it was in 1997.

Thus, these figures demonstrate that, unlike a significant number of other OECD member countries, Australia did not stick to recruitment freezes and did not try to achieve productivity increases through federal government downsizing. After a period of restructuring and downsizing, the number of APS employees began increasing again. Indeed, the APS returned to a period of growth this year, with much of the increase due to a rise in non-permanent employees. In the past few years, the variation has been due mostly to growth or contraction in the three largest agencies – Centrelink, ATO and Defence.

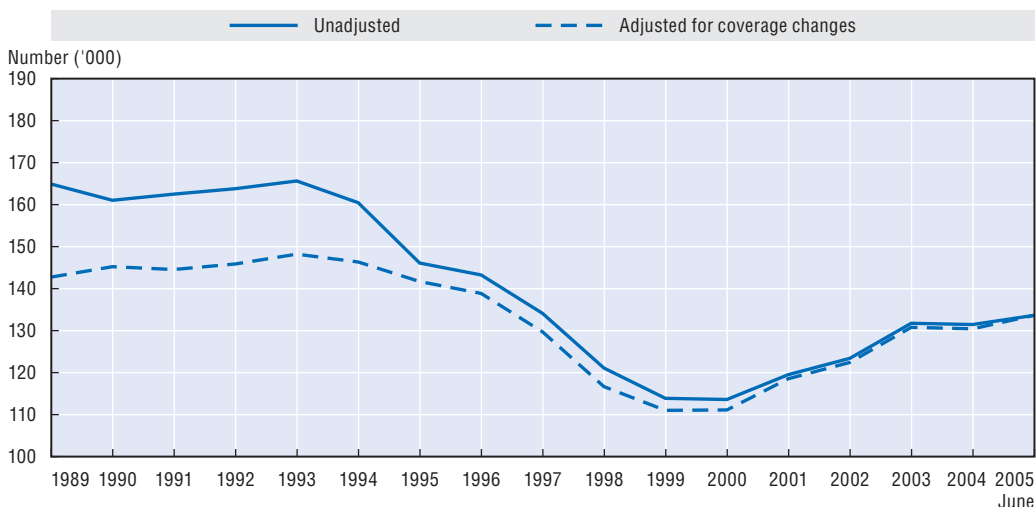
There is no centrally defined government-wide renewal rate. Since decisions on recruitment and pay are devolved to the agency level, the Australian Public Service Commission only provides guidance and better practice advice to agencies. This raises the question of the need for policy coordination across the agencies.

Renewing skills and improving recruitment

Workforce planning and thus recruitment decisions are entirely delegated to agencies. The Australian National Audit Office (ANAO), in conjunction with the Australian Public Service Commission, produced a guide to better practice that outlined the principles of effective workforce planning.¹⁹

Indeed, results from the *State of the Service Report 2003-04* show a growing recognition among agencies of the need to plan for future skill and capacity needs as well as for succession management, with only 41% of agencies reporting that they had put in place relevant strategies and policies. Larger agencies were more likely to have formal workforce plans established, while smaller agencies were implementing a number of appropriate strategies more informally, since, due to their small size, much could be accomplished at a strategic level without using formal systems.

Figure 5.5. **APS employees (1990-2005)**



Source: APSED.

Ageing provides a key window of opportunity for changing structural and functional organisation, as well as workforce competencies and profiles, so as to maintain a workforce that can deliver high quality advice to government and effective services to all Australians.²⁰

The first main reform entails changes in recruitment profiles. The recruitment of graduates (through graduate programs and lateral engagements above base grade levels) is an increasingly important element in agency renewal and capacity strategies. Changing recruitment profiles is an important ongoing measure for reshaping competence evaluation by function. Indeed, this goes together with the systemic trend of changing workforce planning at the agency level, which must evaluate, recruit and retain specific technical qualifications, alongside the multi-skilled workforce of generalist graduates. An underlying objective might be to use the ageing process as a way to restructure the efficiency and productivity factors of the federal government, while also maintaining capacity (productivity and maintenance can be combined if the main objective is to retain the current workforce, as is the case in Australia).²¹

In concrete terms, the objective is to use flexibilities available through agreement-making – particularly Australian Workplace Agreements (AWAs) – to attract and retain graduates, and as far as possible, to include new entrants to the labour force and experienced employees from other sectors. All APS agencies are expected to identify and adopt strategies for making their recruitment processes more accessible and attractive to potential recruits. The Australian Public Service Commission will develop a short guide to assist potential applicants to understand the APS selection processes. The guide will be available to all applicants. As a first step, all APS online or newspaper job advertisements, and all selection documentation, will feature a message emphasising the broad benefits of a career in the APS. The Australian Public Service Commission will redevelop the online Gazette into an APS-wide employment and recruitment portal. Also a working group of agencies – guided by advice from the Australian Public Service Commission on legislative requirements and better practice – will be formed to develop guidelines for streamlined recruitment processes. Finally, communities of practice for accountants and ICT (Information and Communications Technology) professionals have been established to ease issues associated with the management, retention and development of these specialist areas.

This goes together with the first main organizational reform undertaken to meet the challenges of an ageing workforce, namely the streamlining and consolidating of the classification structure, together with a reform of mobility and career paths. Agencies have been utilising bargaining agreements (certified agreements), to put in place a simplified and more relevant classification structure to better reflect and support the nature of their business, job designs and required core capabilities. Most of the current agency classification structures utilise broad-banding as a means of addressing the increasing complexity of job design where the scope of job responsibilities are frequently expanded.

Ageing in the APS is going to be used as a window of opportunity not only to achieve better functional efficiency and productivity increases. As federal agencies have their own decentralized workforce planning, there is no centrally defined and government-wide plan to: i) evaluate the overall attrition rate and the functional skills needed in the coming years; and ii) harmonize the workforce planning implemented at the agency level, to ensure that large-scale departures are anticipated. However, internal organisation has been changed so

as to ensure that ageing measures are implemented more consistently across federal government agencies. Indeed, the Australian Public Service Commission promotes good practice across the APS by coordinating a number of networks and events to share insights and approaches for strategies covering work/life balance, phased retirement, retirement intention surveys, promoting the use of flexibilities in the industrial relations framework, and strategies for maintaining contact with retired staff. The Commission runs a series of Workforce Planning Summits, pitched at senior executives and directors responsible for managing the human resource divisions of their agencies. Several of these have focused on strategies for retaining older workers.

Policies dedicated to the Senior Executive Service (SES functions)

SES renewal has been identified as a major priority in formulating policies for an ageing workforce, with a particular focus on career path and mobility reform, in order to maintain leadership capacity.

The 2003 organisational renewal plan already focused on the renewal of middle and senior management personnel, and increased the recruitment of graduates. To attain these goals, more lateral engagement of older people above the base grade level was recommended. Lastly, one of the major outcomes of the Management Advisory Committee report, *Managing and Sustaining the APS Workforce*, is that all APS agencies will develop systematic approaches to developing potential future leaders, including making use of the emerging APS-wide menu of career development options. This report explicitly mentions the establishment of a talent pool, made up of people available to move into executive level positions, as a major policy goal.

More specifically, those SES functions affected by ageing have been targeted by the APS Commissioner,²² highlighting the need for the agencies and the APS as a whole to focus on leadership development to ensure that the APS can replace the significant number of executive level and SES staff who potentially could retire in the next five to 10 years.²³ The Commission will be taking the lead in this area by giving priority to redeveloping its suite of development programmes.²⁴ Specifically, the *State of the Service Report* demonstrates a focus on training programmes. In 2006, the new SES residential development programmes for Band 1, 2 and 3 employees have been designed to further develop a government-wide approach to implementing government policy and service delivery, and reinforce the identity of the SES as an APS leadership cadre. Furthermore, new short course development programmes for EL and SES Band 1 and 2 employees will be offered to develop specific capabilities such as governance, strategic thinking, and financial, programme and performance management.²⁵ The other main SES reform is geared to increasing inter-agency mobility (see below).

Public sector attractiveness policies

Attracting workers into the Australian Public Service (APS) is a government priority for two main reasons: the large number of APS employees retiring over the next 10 years and the functional reorganisation of the APS. Thus, the attractiveness policy is twofold: the aim is not only to facilitate labour force mobility between the public and private sectors, but also to retain existing employees. The ageing workforce demands not only the development of new policies to retain the workforce (both older and young workers) but also to attract outside people with multiple skills.

The priority aim for the APS is to ensure that recruitment is based on specific targeting of highly skilled staff. Changes in recruitment profiles have been developed as a key ageing measure. This allows for a link between systemic changes and ageing issues. Almost two-thirds of new recruits possess a bachelor's degree or higher – compared to only 19% of the broader working age population. The workforce planning component of the APS approach consists in strengthening the current trend and further reorienting recruitment profiles towards more highly skilled employees. Apart from certain specialist areas, APS agencies are currently experiencing few difficulties in attracting sufficient numbers of quality recruits to fill vacancies, and these new recruits are increasingly likely to possess tertiary qualifications. But if the tightening of the labour market leads to a drying up of the supply of younger employees and experienced recruits from other sectors, agencies may need to consider introducing strategies for attracting, recruiting and educating school dropouts and other younger and/or less experienced staff to address emerging skill shortages. Such strategies may also help agencies to maintain or increase their numbers of indigenous employees and reverse the decline in employment of people with disabilities.

The second major aim is to increase mobility between the public and private sectors, as well as among agencies. This was an explicit goal of the “Organisational Renewal”, and appears as a key objective of the current managerial adaptation. To achieve it, all the managerial tools are due to be reformed from a systemic perspective. As mentioned in the last report of the Management Advisory Committee, “Managing and Sustaining the APS Workforce”, all APS agencies have been required to adopt systematic workforce planning to identify emerging issues and challenges in relation to the recruitment, development, advancement, and succession of their employees: i.e. effective processes for attracting and recruiting new staff, including new entrants to the labour force and experienced employees from other sectors; smarter approaches to graduate recruitment and development, including using the flexibilities available through agreement-making, particularly Australian Workplace Agreements (AWAs), to attract and retain graduates; learning and development opportunities to ensure new APS employees have the required skills and capabilities.

For the time being, despite the decreasing size of the overall labour force due to ageing, employees from other sectors are increasingly attracted to the APS by expectations of job security, superannuation, opportunities for learning and development, and conditions promoting a work-life balance. However, attractiveness problems may arise if current reforms are insufficient. Indeed, the advent of the portfolio career and the rising competition among employers for a diminishing pool of quality recruits will make it critically important for the APS to develop effective strategies for attracting and retaining graduates. The removal of restrictions on outsiders applying for any APS vacancy and the recent changes to superannuation arrangements mean these younger APS employees will face few disincentives to the pursuit of such career paths.

Managing capacity challenges through internal reorganisation and management practice restructuring

- **Mobility and career progression**

During 2004-05, the transfer rate between agencies was 1.3% and the promotion rate was 0.7%, compared with 1.0% and 0.5%, respectively, for the prior 12 months. Overall, promotions rose from 12 368 in 2003-04 to 13 044 in 2004-05. Promotions between agencies increased at a higher rate than promotions within agencies, rising from 5.3% of all promotions in 2003-04 to 6.3% in 2004-05.

Vertical mobility is one of the key managerial tools to be strengthened as part of the functional restructuring process. First, career paths will be reformed to ensure that leadership positions will be filled (see above). Second, the aim is to respond to a key trend of recent years: the disappearance of the lowest classification levels (APS 1-2) in a growing number of agencies, with most new staff now being recruited at the APS 3-4 levels and, therefore, expecting to attain even higher levels during their careers. Ageing is at the root of the former trend, systemic changes of the latter. The traditional conception of an APS career as long-term, steady advancement up a hierarchy of classifications is being overtaken by a growing diversity of career patterns and expectations among APS employees.

In concrete terms, portfolio secretaries and agency heads, in consultation with the Australian Public Service Commissioner, will undertake systematic career planning discussions with SES Band 2 and 3 employees and arrange mobility opportunities where deemed appropriate. Agencies will consider their employees' needs for, and opportunities to pursue, mobility as part of their regular performance management processes. Finally, the new government-wide employment portal will include a facility for APS and external organisations to advertise rotation and mobility opportunities, and for employees to express interest in accessing such opportunities.

- Knowledge management and training

Knowledge management and training is seen as an important and necessary managerial tool to be reformed with a view to restructuring public sector functions and efficiency. In her speech of 12 May 2005 on Public Service reform, the APS Commissioner emphasised the need for agencies to invest in training and development to ensure the required skills and overall capability of APS employees into the future and for the APS to become a more attractive employer.²⁶

- Flexible employment conditions

This is considered a cornerstone of ongoing workforce arrangement reform, designed to retain staff in the context of ageing. A growing number of employees are now working under more flexible conditions, particularly as permanent part-time employees. Over 94% of workers in all sectors covered by federal certified agreements now have access to at least some family-friendly conditions or flexible working hours and these are continuing to expand to include, for example, leave purchase schemes (where staff can exchange part of their salary for additional recreation leave), as well as more generous leave arrangements. However, no details have been provided on further reforms of this tool to be undertaken to specifically tackle ageing challenges.

- Changes in the compensation system/salary incentives

Specific managerial reform has been conducted related to pay, as part of delegation and classification reform. This has resulted in wider remuneration ranges to successfully recruit, reward and retain staff. However, the linkage with ageing is only secondary. For instance, seniority criteria have not been reformed.

2.2.2. Institutional changes and reallocation of resources across government levels and sectors

No major institutional reform linked to ageing challenges has been conducted regarding the organisation of public service delivery across sectors and levels of government. This is despite forecasts of significant increases in demand for public services in the health sector.

OECD data projections²⁷ have outlined several scenarios including demographic effect measurement, health status of the old population and income elasticity: public health care expenditures are expected to rise from 5.6% of GDP in 2005 to between 6.5% and 9.7% by 2050 (the median scenario forecast 5.2%).²⁸ Public expenditure increases are significantly above the OECD average.²⁹ Projections including long-term care expenditures are as follows: from 6.5% in 2005 to between 9.9% and 12.6% of GDP by 2050.³⁰ The total increase (public health and long-term care spending) is in line with the OECD average.

3. Impact of government ageing strategy and reforms

3.1. Cost containment

3.1.1. Financial impact of pension reform

The Australian government had a AUS\$ 91 071 million superannuation liability as of 30 June 2005. Liabilities are expected to increase on the order of AUS\$ 20 million each year for the foreseeable future. Although pension reform was launched in 2005, there have not been sufficient changes to substantially improve the system's financial sustainability.

However, more recently the government has established a Future Fund for the purpose of accumulating financial assets to offset the government's unfunded superannuation liabilities. The Future Fund Board of Guardians is an independent board, which makes investments in accordance with a broad investment mandate issued by the government. The Future Fund is not to be a superannuation fund.

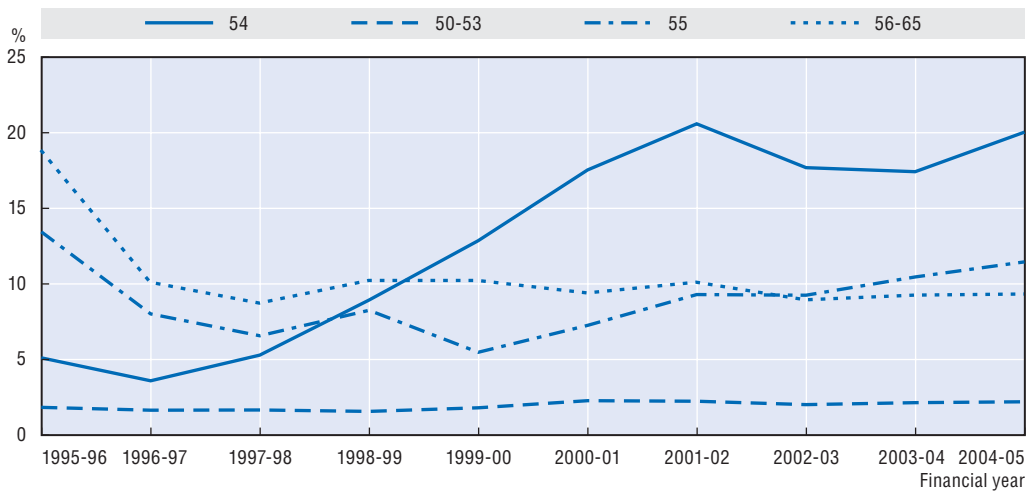
3.2. Capacity maintenance

The goal of retaining older workers has not been advanced through the use of negative incentives, as in other countries, such as the delay of retirement or financial disincentives to early retirement (reduced pension benefits before a certain age, increased obligatory contribution period for full pension, etc.). In addition, the 20-year flexible retirement age range stands out as a notable exception among the countries studied.

Only incentives to retain older workers through part-time arrangements and reformed employment conditions have been strengthened. This looks consistent with the behaviour of older workers. Indeed, Australian surveys have shown that workers in their 50s or older are looking for reduced hours of work and/or levels of responsibility, and would therefore be suited to more flexible arrangements. Increased efforts to attract retired Australians in their 50s and 60s back into the workforce are going to become a key strategy for APS agencies experiencing labour shortages, and could be facilitated by the removal of existing restrictions on temporary employment arrangements.³¹

Nevertheless, it is unlikely that current reforms will be sufficient to counter massive, short-term departures of public employees. Even though the results of employee surveys conducted for the Management Advisory Committee (MAC) report, "Organisational Renewal", indicated that a high proportion of employees intend to work beyond the age of 55, large-scale departures may turn out to be more than 40% of current employees. Meanwhile, the 2005 Management Advisory Committee (MAC) report demonstrated that the proportion of new entrants to the APS aged 55 or older has tripled over the past decade. However, this rate still represents only one hire for every four departures of staff in their mid-50s or above.

Figure 5.6. Resignation/retirement rate for selected ages



Source: APSED.

As underlined by the *State of the Service Report 2004-2005*, the “54/11 effect” impacts significantly on the retirement age for CSS employees (unintended financial incentives to retire before the age of 55). The report mentions that this year 54/11 resignations rose after having fallen in the two previous years (perhaps reflecting some peaking in baby boomer retirements), as did retirement among 55 year-old employees. Figure 5.6 clearly shows that there is a peak between the ages of 53 and 55.

3.2.1. Workforce adjustment policy and managerial tool adaptation

On current workforce planning readjustment at the agency level, the Australian National Audit Office’s (ANAO) 2004 audit of APS agency progress with workforce planning found many of the strategies that agencies had implemented reflected the priorities outlined in the “Organisational Renewal” report, including flexible employment, monitoring profiles and retention of older workers.³²

The new managerial and systemic reform undertaken through the 2005 report clearly aims at workforce maintenance balanced with increased efficiency. Agencies will need to adopt strategic and dynamic approaches to managing and sustaining the APS workforce, taking into account its increasingly diverse career paths and aspirations.³³ However, there is no evidence that the specific attrition rate and the increasing demand for certain public services have been entirely taken into account in the upcoming workforce planning designed at the delegated level.

Beyond the objectives described in the MAC report, there are few details provided on the way these reforms are going to be conducted in concrete terms. For the time being, it is quite difficult to evaluate the implementation by the agencies of the policy objectives underlined in the current 2005 MAC report, *Managing and Sustaining the APS Workforce*, to attract and retain their workforce, especially on the implementation of systematic workforce planning to identify emerging issues and challenges in relation to the recruitment, development, advancement and succession of their employees. For this purpose, the Department of Finance and Administration already plans to lead a working group, reporting to MAC’s Information Management Steering Committee, which will

catalogue existing agency e-recruitment systems and projects, identify best practice approaches, develop and promote the adoption of data and connectivity standards, address relevant privacy and data security issues, identify and assess risks in relation to timeframe and cost, and explore the potential business benefits arising from online sharing of recruitment data among APS agencies.

3.2.2. Future steps

An evolution in the leadership of public service ageing strategies may take place. Indeed, the APS Commissioner appears to be keen on taking a more aggressive lead on issues of staff attrition (over the coming five to 10 years) in terms of public sector efficiency and workforce organisation.

The key next steps were outlined in 2005:³⁴ the Commissioner envisaged an APS that will work in a more collaborative, flexible and adaptive environment, with greater diversity in careers and more movement of staff between public and private sector employers. The main managerial reform would then be based on increasing mobility (both within public sector agencies as well as with the private sector). Specifically, as mentioned by the MAC 2005 report,³⁵ priority was given to staff employed, for example, in regional service delivery networks and small agencies who feel they have insufficient opportunities for advancement or mobility. In the past, these staff could look to advance steadily up a finely graded hierarchy. They now advance somewhat more rapidly to a point in the APS 4-6 range, beyond which they may have few prospects for immediate promotion.

The second main upcoming reform will be focused on furthering flexible employment conditions, with a view to meeting the specific challenges of older workers. The aim will be to increase part-time arrangements for the whole workforce, but also to allow career breaks and phased retirement. A further managerial adaptation is based on a systemic process: the ageing context requires an increase in the individualization of tools (developments of individual agreement bargaining, particularly around remuneration, entitlements and conditions).³⁶

Third, the Australian Public Service Commission is expected to strengthen its leadership in the implementation of this functional reorganisation. For instance, many specific tools are due to be set out by the APSC, including the online employment gazette, the SES pool, best practice for recruitment, introduction of induction/training courses, etc.

4. Conclusion

Approaches to addressing the ageing workforce are integrated within a broad functional reorganisation of the public sector, including an ambitious managerial adaptation and systemic reform that is driven at the agency level. As underlined by the commissioner in her 17 March 2005 speech entitled “Great Expectations: The Public Service of the Future”, intergenerational issues will be a driver of organisational change and technology will enable development. The goal is not only to ensure public sector attractiveness, but also to retain current workers and ensure capacity maintenance.

However, there is no structural ageing policy, including coordinated workforce planning, especially workforce adjustments and sectoral and institutional reallocations of resources. The OECD’s view is that these challenges would be addressed more effectively if individual agency strategies were supported by concerted and coordinated APS-wide action.

Notes

1. This report only deals with the federal government level.
2. Management Advisory Report, *Managing and Sustaining the APS Workforce*, 2005.
3. *Ageing and Employment Policies/Vieillesse et politiques de l'emploi*. Australia, OECD, 2005, p. 30.
4. *Op. cit.*, pp. 32 et 33.
5. *Op. cit.*, p. 32. This measures the proportion of the population aged 20-64 compared to the population over 65.
6. *Main Economic Indicators*, OECD, 2005.
7. *Australia's Long-Term Demographic and Economic Prospects*, Federal Budget 2002-03, Paper No. 5. www.budget.gov.au.
8. *Population Ageing and the Tax Base*, Access Economics, August 2001, www.accesseconomics.com.au.
9. Commissioner for Superannuation's Annual Report 2003-04.
10. *Op. cit.*
11. *Implementing Organisational Renewal – Mature Aged Workers in the APS*, Commonwealth Secretariat, Australian Public Service Commission, 2003, www.apsc.gov.au.
12. "Managing and Sustaining the APS Workforce", *Management Advisory Report*, 2005.
13. The object of Superannuation Industry (Supervision) Act 199 was to make provisions for the prudent management and supervision of certain superannuation funds, approved deposit funds and pooled superannuation trusts. The basis for this supervision is that those funds and trusts are subject to regulation under the commonwealth's powers with respect to corporations or pensions (for example, because the trustee is a corporation). In return, the supervised funds and trusts may become eligible for concessional taxation treatment. The Act does not regulate other entities in the superannuation industry.
14. "Organisational Renewal", *Management Advisory Report*, 2003.
15. The Health Insurance Commission (HIC) was established as a commonwealth statutory authority in 1974 to administer Medicare, Australia's health insurance scheme.
16. *Managing and Sustaining the APS Workforce*, Management Advisory Committee, 2005.
17. *FaCS Mature Worker's Strategy – Our Commitment to Mature Workers*.
18. *State of the Service Report 2004-2005*, Australian Public Service Commission, Canberra, 2005.
19. *Planning for the Workforce of the Future: A Better Practice Guide for Managers*, Australian National Audit Office, 2001.
20. *Managing and Sustaining the APS Workforce*, Management Advisory Committee, 2005.
21. This issue is specifically developed in the report *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*. As mentioned in the introduction, the APS requires a workforce that is multi-skilled, flexible and intellectually agile.
22. "The State of the Service", Australian Public Service Commissioner, Connections Series speech, 12 July 2005, www.apsc.au.
23. The 2005 MAC report mentions that there will be a need to replace the 70% of current SES staff and 55% of current EL 2s aged 45 or over.
24. "The State of the Service", Australian Public Service Commissioner, Connections Series speech, 12 July 2005, www.apsc.au.
25. *State of the Public Sector 2004-2005*, *op. cit.*, p. 254.
26. "Public Service Reform", Australian Public Service Commissioner, Senior Executive Service Breakfast Speech, 12 May 2005. www.apsc.au.
27. "Projecting OECD Health and Long-Term Care Expenditures: What are the Main Drivers?", *Economics Department Working Paper No. 477*, OECD, February 2006.
28. According to the cost containment scenario.
29. OECD average: 5.7 % in 2005 and 6.3%-9.6% in 2050 (median scenario: 7.7%).

30. According to the cost containment and cost-pressure scenarios, respectively. OECD average: 6.7% in 2005 to 10.1%-12.8% in 2050.
31. *Op. cit.*
32. "Workforce Planning", *The Auditor-General Audit Report No. 55*, Australian National Audit Office, 2004-2005.
33. *Managing and Sustaining the APS Workforce*, Management Advisory Committee, 2005.
34. "Great Expectations: The Public Service of the Future", Australian Public Service Commissioner, NSW Forum of Commonwealth Agencies speech, 17 March 2005, www.apsc.au.
35. *Managing and Sustaining the APS Workforce*, Management Advisory Committee, 2005.
36. *Op. cit.*

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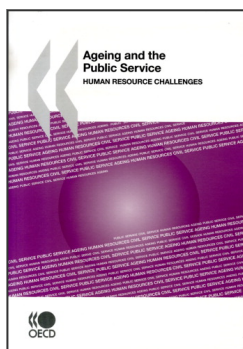
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