

**EXAMINATION OF THE AUDITOR-GENERAL'S
PERFORMANCE AUDIT REPORTS JULY 2015 –
JANUARY 2016**

Organisation: Public Service Commission
Name: Mr Graeme Head
Position: Commissioner
Date Received: 18 February 2017

Mr Bruce Notley-Smith MP
Chair,
Public Accounts Committee
Legislative Assembly
Parliament of New South Wales
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Dear Mr Notley-Smith

I am responding to your letter of January 18, 2017 which requested the Public Service Commission to give its departmental response to the Auditor-General's report on *Public Sector Management Reforms* that was tabled on January 2016.

Your letter requested we provide a summary of actions taken and the PSC's view of the effectiveness of the Audit Process. We have also completed the template that summarises our approach to each of the seven recommendations including an update of our progress in implementing those recommendations.

The detailed table can be found at Attachment A.

1. Summary of Actions taken and progress to date

The Performance Audit's recommendations can be roughly grouped in the following areas:

- Collaboration and Communication
- HR Capability in the Sector
- Improvements in Surveys
- Benefits of Reform: Outcomes and Reporting

Of the seven recommendations, we are on track for two and have completed five. Those that are on track are long pieces of work that impact the sector and are being undertaken in a collaborative and considered approach. They also require time, especially when measurement is required. Of those viewed as completed, the PSC is continuing to refine, improve and update the work undertaken in late 2015 and across 2016.

While we may not fully support all of the recommendations (the table below provides detail), the PSC has used the guidance constructively. It forms part of the analysis and thinking that has helped the PSC to evolve from start-up to the current phase of implementing the legislative architecture. It is helping the PSC to move towards a position of working with the sector to apply these tools, and extract value and benefit from the reforms.

It should also be noted that the Performance Audit took place after the PSC had commenced a strategic review on the state of workforce reform in 2015. This was

published in late 2015 and was also a main source of content for the 2015 *State of the NSW Public Sector Report*, which was tabled in Parliament that year.

- ***Collaboration and Communication:***

The PSC engaged in a 'co-design' process with the sector Deputy Secretaries who have responsibility for workforce management issues for their respective clusters or agencies.

This process has led to an Operational Effectiveness Framework that shows the links between the reforms and their impacts on business outcomes. This was jointly developed by the PSC as a co-design exercise with the Deputy Secretaries within the clusters and key separate agencies that have responsibility for corporate and workforce management.

To continue the collaboration, smaller reference groups have been established to enable closer working on these priority areas. These are in their early days and some groups are more progressed than others.

This process will not only help the sector to understand the links between the different reforms and what is required to truly achieve benefits rather than just implement, but also be a part of designing and owning the next stages in the journey.

- ***HR Capability in the Sector:***

Specific activities have commenced to support HR professionals in the sector to build their capability around the reforms and other skills. An HR Capability set has been developed and was deployed in August 2016.

A structured process to diagnose and then develop a whole of sector strategy around building HR Capability has been established. This is a collaborative process using the HR Director's Forum (a forum of HR Directors from around the sector including separate agencies) and a cross-sector Capability Reference Group. The timeframe being used is reflective of the wide consultation, sector-wide impacts of the strategy and the structured and considered approach being used.

- ***Improvements in surveys:***

This approach has also helped in addressing some issues raised by the Audit on the PSC's major surveys and data collections.

A specific reference group for the People Matter Employee Survey was established to assist in design of specific questions and the reporting hierarchies, as well as other requirements. This included closer working with smaller agencies. The efforts in engaging the sector with structured and innovative communications helped to contribute to a significant increase in the response rate. 50,000 more employees in the sector responded than in the previous survey in 2014.

The Agency Survey moved to a more qualitative approach with focus groups undertaken across all clusters to understand results and dive deeper. This approach has helped to engage more parts of the sector, including hiring managers in operational spaces, discuss workforce reform, people management and the impacts they see on their businesses, results, customers and the community.

- ***Benefits of Reform: Outcomes and Report***

The Operational Effectiveness Framework (discussed above) has been a collaboratively designed instrument that helps to show the linkages between the features of reform and legislative architecture, its desired outcomes and a coherent narrative that describes the impact on culture, capability, talent, diversity and use of data and analytics.

The focus on the outcomes and benefits of reforms has extended into the design of the PSC's different data collections and the measurement tools it provides. The Workforce Dashboard was implemented across the Sector and currently has approximately 130 users. This is expected to increase to 200 by June this year.

The 2016 State of the Public Sector Report included this focus, as it discussed the role of leaders in driving reform, managing their workforces and leading priority areas forward. It concluded with an initial assessment of the impacts of reforms, determining where benefits had been realised and where work remained. This report was tabled in NSW Parliament in November 2016.

2. Effectiveness of the Audit Process

As can be seen in the above summary and our responses below, we have taken the performance audit seriously and used its advice in a constructive manner.

The timing of the performance audit could have been better judged. This is because the PSC's reform agenda has a clear statutory end date and the audit took place well before the end of that time period. This meant that assessing benefits and outcomes was perhaps premature.

The PSC, aware of the stage of this reform and the need to think ahead about the next stages of reform, had commissioned its own review to inform and guide the Commission to refine current processes and to also think for the future. The timing of the performance audit a few months after the review had been commissioned led to some duplication of effort and thinking.

- ***Benefit to the PSC***

Notwithstanding our concerns around timing and duplication, we found the performance audit confirmed our directions moving forward and our successes to date. The PSC has used the findings and guidance from the performance audit, as we have transitioned to the next stages of reform. This process commenced in earnest in late 2015 and remains underway.

- ***Benefits to Program Delivery***

The PSC had commenced providing the link between the reforms and legislative changes to business outcomes for agencies. The review into workforce reform and the performance audit confirmed the need to show how the differing components combined to provide outcomes. This has shifted the way in which programs and other pieces of work are designed and delivered.

I am pleased that the performance audit found that the PSC is largely on track and confirmed the directions upon which we had embarked. I am pleased with the progress made by the Commission since late 2015 in working with the sector to extract more benefits from the reform process.

Thank you for the opportunity to provide a response and to update the Committee with our progress in responding to and implementing the recommendations of the performance audit.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Graeme Head', followed by the date '18/2/17' written in a simple, vertical format.

Graeme Head
Public Service Commissioner

Attachment A

AUDITOR-GENERAL'S PERFORMANCE AUDIT REPORT
IMPLEMENTATION OF RECOMMENDATIONS (File Ref: D17/00473)

Public Service Commission

Public Sector Management Reforms

RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS and COMMENT (Completed, on track, delayed)	RESPONSIBILITY
1. Develop a strategy, in partnership with agency heads, to strengthen the capabilities of human resource leaders to better embed workforce management reforms.	Accepted The PSC agrees with the recommendation that the capabilities of human resource leaders should be strengthened while noting the significant improvement that has already occurred since the Schott report was published. The PSC reiterates that successful embedding of workforce management reforms is ultimately dependent on strengthening the human resource management capabilities of leaders and managers, rather than only focusing on human resource leaders	Based on the findings from the State of Workforce Reform report, the PSC, in partnership with the HR Directors Forum, has developed an Organisation Effectiveness framework for further embedding workforce management reforms across the sector. This framework will be supported by initiatives, developed and/or endorsed by a Capability Building Co-Design Reference Group made up of sector representatives and PSC staff, to strengthen HR capability within the sector, including: <u>Human Resource Professionals Capability Set</u> The PSC intends the HR Professionals Capability Set to be used in conjunction with the NSW Public Sector	Dec 2016	On track: <i>Most actions required have been implemented and some have moved onto the next stages to derive benefits.</i> The Strategy has consisted of a Capability Set, cross sector co-design of priorities, and standardisation of role descriptions. The implementation of the strategy is underway but time will be required for benefits to be seen. <ul style="list-style-type: none"> The HR Occupation Capability set was released to the sector on Friday, 26 August 2016 and can be found at http://www.psc.nsw.gov.au/workforce-management/capability-framework/occupation-specific-capability-sets/human-resources-capability-set . A cross sector Capability Co- 	HR Practice and Reform

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		<p>Capability Framework ("Capability Framework") to define the capabilities required of HR professionals in the NSW Public Sector.'</p> <p><u>Human Resource Sector Role Descriptions</u></p> <p>The PSC will continue to develop its online library of Sector Role Descriptions for use by agencies across the sector.</p> <p>The draft HR Sector Role Descriptions will be developed for common HR roles in the NSW public sector, and will take account of the current needs of agencies and reflect future role requirements.</p> <p><u>Capability Assessment Framework</u></p> <p>The HR Directors forum participants endorsed a sector wide assessment of HR capability levels. We are currently forming a working group of HR Executives to design and the lead the assessment.</p>		<p>Design group has been established and met on a number of occasions to help prioritise tasks in this area and in broader capability domains as well.</p> <ul style="list-style-type: none"> • A cross Sector group for assessing HR capability of the sector was established in Dec 16/Jan 17. • This group is tasked with the development of a whole of sector HR Capability diagnostic which will inform a strategy. 	
2. Clarify and	Accepted	Leveraging the Organisational	Dec 2016	Completed	HR Practice and

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communicate to the sector the objectives, outcomes and anticipated benefits of reforms, and links between different reforms.	The PSC agrees with this recommendation. Now that the key regulatory and policy elements are in place, the PSC will work with the sector to encourage an integrated approach, linking the various elements with improved workforce performance and organisational outcomes, in line with the findings and recommendations of the December 2015 report on the State of Workforce Reform, commissioned by the PSC.	Effectiveness framework to collaborate with the sector to identify and develop targeted change narratives for various stakeholders. These narratives will articulate the value and inter-dependencies of the different reform elements.		<ul style="list-style-type: none"> The PSC worked with the sector in Q1 FY 16/17 to identify the most relevant and appropriate topics for the change narrative collateral. The resulting Co-Design process has identified the five areas of leadership, capability building, talent and mobility, culture and data and analytics. The State of the Public Sector Report (SOPSR) and Agency Survey have been structured to show the links between reforms and outcomes. The 2016 SOPSR concludes with a chapter that addresses outcomes and highlights considerations of change. It assesses areas of focus and their impact on benefits. In February/March 2017, the same co-design group will be reconvened to refine the process and determine benefits from the point of view of Deputy Secretary stakeholders. 	Reform
3. Review the Agency Survey, including its purpose and objectives and better communicate to agencies how the PSC intends to use the results.	Accepted	<ul style="list-style-type: none"> Undertake a review on the nature of reporting and the different purposes Communicate with the Sector through Dep Secs and other forums to discuss the role of the Agency Survey and the approach. Follow up on the results 	Dec 2016	Completed <ul style="list-style-type: none"> The role of the Agency Survey was discussed with the Deputy Secretaries Forum in May 2016. The survey was enhanced with a qualitative approach using focus groups to discuss the survey findings and get a more detailed view of the reasons. Focus group meetings across all ten clusters plus the separate 	Sector Performance

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		with Departments to explain the results and understand some of the drivers. Potentially use focus groups to do this.		agencies were run between August and September. These sessions have provided more engagement around the Agency Survey and richer insights. <ul style="list-style-type: none"> Focus groups will continue on an annual basis whereas the full survey may be biennial and be completed in a facilitated fashion. 	
4. Examine ways, in partnership with agency heads, to improve participation in the People Matter Employee survey to increase the statistical quality of results.	Partially Accepted The Public Service Commission agrees with the recommendation to increase participation in the People Matter Survey. The Public Service Commission already puts significant effort into increasing participation. Our efforts saw participation substantially increased from 60,779 in the survey undertaken in 2012 to 73,550 for the survey undertaken in 2014. In the Public Service participation in the last survey was an estimated 24,452 (33.5%). It is only in a very small number of agencies where any issues might exist and the Commissioner is working	<ul style="list-style-type: none"> Establish a Reference Group to support design of the survey. Develop Communications Plan that targets increased response rates Work with the Secretary's Board to drive top down encouragement across workforces. 	Dec 2016	Completed The response rate for the 2016 PMES increased to 36% from 19% in 2014. 50,000 more people responded to this survey than two years earlier. <ul style="list-style-type: none"> A Reference Group established in Jan 2016 has helped with agency-specific questions and also with developing the responding units as part of the structure for each Department. This process has been considered useful in building demand for the survey. A structured Communication Plan was followed through (including innovations such as a video from the Premier) to encourage responses during the course of the survey period and reporting response rates. Commissioner's discussions with Secretaries and Band 3 Executives since late 2015 has resulted in improved understanding of the 	Director Sector Performance

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	<p>directly with them to improve their response rate.</p> <p>As previously advised, the Public Service Commission takes issue with the comments contained in various parts of the Audit Office report regarding the PMES' statistical reliability. In particular, the Commission does not agree with the comments suggesting the response rate from small agencies is too low to produce statistically reliable data. The PMES sector-wide results have a very small margin of error of 0.3 % at a 95% confidence level. A large number of agencies, including many small agencies, have results that have a margin of error of 5% or less. However, for some very small agencies the response rate would need to exceed 80-90% to meet the same standard. On the other hand, smaller agencies typically have a</p>			<p>importance of the survey and encourage their teams to respond.</p> <ul style="list-style-type: none"> • The PMES team have worked with the provider to discuss the different types of reports (including departmental specific results). • Response rate has increased significantly in 2016 across the Sector. • Separate agencies in total were at 64.8%. This is a significantly higher percentage than the approx. 30-40% in 2014. • Margin of error for the smaller agencies has improved significantly. 	

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	more immediate understanding of their workforce climate and the factors that affect it, enabling them to contextualise their PMES results and decide on future actions taking account of all inputs				
5. Implement the proposed Workforce Measurement Framework, in consultation with agency heads, including: <ul style="list-style-type: none"> performance indicators related to the efficiency and effectiveness of reforms targets or benchmarks to encourage better agency performance public reporting of results in the State of the Public Sector Report or equivalent. 	Accepted The Public Service Commission agrees in principle with the recommendation and will proceed with the Framework after consultation with the Secretaries' Board. The PSC reiterates its earlier advice that it intends to recommend high level indicators related to organisational effectiveness, and a small number of indicators related to priority aspects of reform implementation such as diversity. Metrics that report the degree of implementation of various reform elements are not proxies for the reform program as	<ul style="list-style-type: none"> Consider adding key indices from the WMF to the At a Glance or Scorecard section of the SOPSR. Potential to add commentary explaining the indices and what they mean including the context around reform outcomes. Potential to link the WMF data on the Digital SOPSR site to be explored. 	Dec 2016	Completed <ul style="list-style-type: none"> In May 2016 the Workforce measurement Framework was presented and endorsed by the Secretaries board who endorsed 5 KPIs for the 2016/17 financial year Benchmark KPIs using 2016 data were presented to the Secretaries board in November 2016 and released on an online 'dashboard' to expert users across the Sector. All Secretaries and Heads of Corporate now have access to the dashboard Further development based on feedback from the sector continues to refine the dashboard and increase more sources of data. 	Director Workforce Information

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	a whole, which can only be judged successful or otherwise in terms of its impact on organisational effectiveness.				
6. Establish a methodology and set timeframes to evaluate the effectiveness of reforms post implementation, to build on the work of the 2015 mid-term evaluation.	Accepted The PSC agrees in principle with this recommendation noting, as above, that the emphasis will be on the impact of the integrated reform package on organisational effectiveness in achieving outcomes.	<ul style="list-style-type: none"> Utilise the Organisational Effectiveness framework to develop a methodology for the sector to assess progress against the shared, desired outcomes. Explore new approach to Agency Survey linked with the six factors of high performance, Organisational Effectiveness Framework, and Workforce Management model. 	Dec 2016	On track <ul style="list-style-type: none"> The OEF provides a methodology that works across the sector and has been applied by the Sector to select the five priority areas mentioned above. The structure of the 2016 SOPSR aligned strategy, workforce factors and performance outcomes. The final chapter of the 2016 SOPSR assesses the considerations for change based on key reform areas which align to the OEF and key reform components. 	HR Practice and Reform
7. Increase public reporting on reform benefits achieved to date and whether anticipated benefits of reforms are on track to be realised once fully implemented.	Accepted The PSC agrees in principle with this recommendation noting, as above, that the emphasis will be on the impact of the integrated reform package on organisational effectiveness in achieving outcomes.	<ul style="list-style-type: none"> Use SOPSR and Agency Survey and the structure applied above in point 6. Use the 2015 SOPSR to consider the reform progress and include insights and analysis from the State of Workforce Reform. Consider a chapter on effects/impacts of reform that provides commentary and data on the workforce reform outcomes. 	Dec 2016	Completed <ul style="list-style-type: none"> SOPSR 2016 includes reporting on the benefits achieved to date. It includes further considerations for change. This approach has leveraged the OEF as a methodology and used the data sources in the PSC but also external sources such as the Customer Survey to identify critical outcome factors including impacts on the community measured through satisfaction and expectation. This approach will mature in subsequent years. 	Sector Performance