



Responding to the  
challenge of Australia's  
ageing workforce  
A NSW public sector  
perspective



# Introduction

The Australian population is ageing. Not as quickly as the population of a number of European nations, nor even as parts of Asia, but nonetheless at a rate sufficient to be cause for consideration. The Australian workforce is also ageing. Across both private and public sectors the trend is upwards, ameliorated but not altered in direction by government immigration policy.

Government and the Public Service have been aware of the trend for some time. At a Federal level the Government's third Intergenerational Report, released in February 2010, updates a number of the parameters of the issue but, in essence, does not alter the recognised need for measured and well-considered policy responses to be put in train now.

The Intergenerational Report places great emphasis on the 'three Ps' – productivity, population and participation, with productivity seen as the key to managing the change in workplace resources. It echoes the broad conversation of the 2020 Summit in 2008 where the Economy, Governance and Productivity streams canvassed ageing and skills shortages among the challenges to a strong and professional public service. It also finds support in the more recent discussions of such bodies as the Advisory Group on Reform of Australian Government Administration whose final report, released in March 2010, also considers in detail questions related to an ageing public sector workforce.

In NSW, as at the Federal level, the broad scope of the challenge of an ageing public sector workforce is very much the same and the intent of this paper is to outline some of practical initiatives with which the NSW Government and its agencies can prepare for the coming shift in workforce demographic and the emerging talent loss.

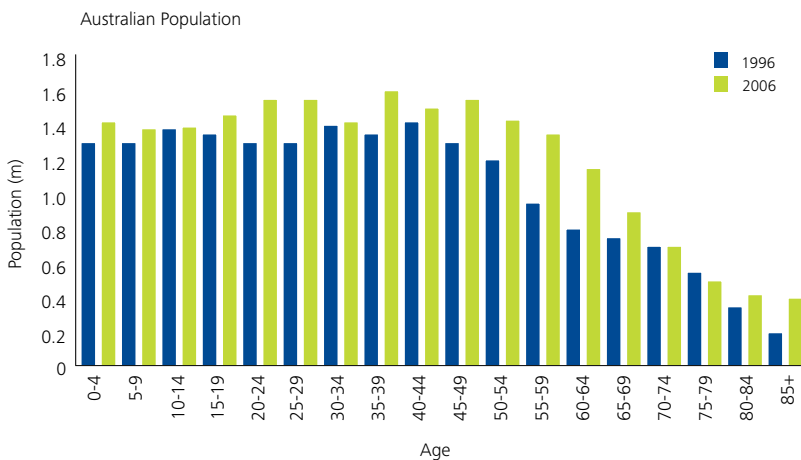
These initiatives include: determining the future skill, resource and capability base needed, driving further 'back office' efficiencies to underpin 'front line' service delivery, implementing alternative delivery models, accelerating leadership and talent development, developing innovative cultures, and exploring new operating models.

Of course no single initiative is sufficient to the task which the NSW government and its agencies face but the following canvasses options which may be employed in combination to address the impacts and improve the service outcomes for the NSW public.

# An ageing workforce nationally

The Australian population is ageing. During the 10 years from 1996–2006, those aged from 50 to 59 years grew from 10% to 13% of the total population, or from around 1.8 million to 2.6 million people. This ‘shift to the right’ is apparent in the chart below.

**Figure 1: The ageing population<sup>1</sup>**



The same shift can be seen in the demographic profile of the work force. In NSW specifically, people aged 45 years and older accounted for 37% of the eligible NSW labour force in 2007–08, compared with 32% ten years earlier.

As this group enters retirement age over the next 20 years, there will be far reaching implications for the workforce across both the public and private sectors – assuming government policy positions to immigration remain broadly the same.

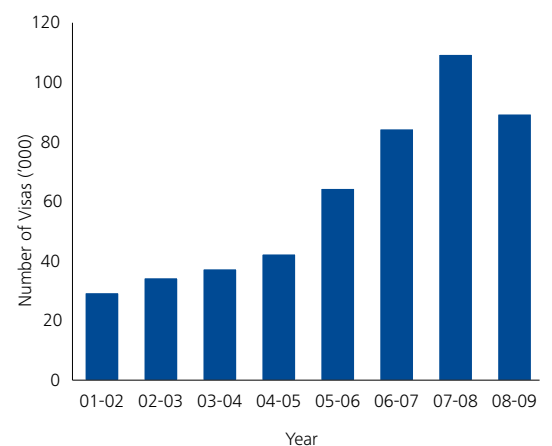
As noted by the Advisory Group on Reform of Australian Government Administration in its discussion paper of the issues facing the federal public service: ‘The APS is already facing significant challenges in recruitment. A large proportion of the APS workforce will reach retirement age over the next decade. Recruitment demands will therefore intensify at a time when the APS is facing increased competition for a relatively smaller pool of new labour market entrants. Measures to improve recruitment, as well as retention rates amongst older workers, are likely to be needed.’<sup>2</sup>

The workforce demographics are even more concerning when consideration is given to the nature of the Australian economy. Australia’s economic reliance on the resources and agricultural sectors for export earnings is high. While technological developments continue to improve labour efficiencies and enable ageing workers to remain in these sectors, they continue to require a largely youthful skilled workforce which will be increasingly hard to secure.

Similarly, a forecast lack of skilled labour in the transport and construction sectors for example, is seen as an issue with industry bodies actively seeking an increase in subclass 457 Temporary Business visas to supplement local workforce shortfalls. In 2008–09 the Australian Government issued more than 100,000 subclass 457 visas. Although this number is down on the previous year due to the recent slowdown in the economy, it still represents an increase of 150% in five years.

As the economy improves, the number of visas issued is expected to grow again as a result of increased demand from employers to meet skill shortages in the local economy and the inability of local labour markets to meet demand. NSW grants the most subclass 457 visas of any Australian state – 32% of nationwide issuances – in line with its share of the national labour forces and the NSW economy.

**Figure 2: Subclass 457 visa issuances<sup>3</sup>**



# The challenge facing the public sector in NSW

The NSW public sector is not isolated from the impacts of an ageing workforce. In 2005 more than 18,000 public sector workers aged 45+ were surveyed regarding their plans to retire. The *Retirement Intentions* Survey conducted by the NSW Department of Premier and Cabinet found the first of several consecutive waves of retirement from the public sector had begun, with 57% of the then workforce planning to retire by 2015. Of this, 27% were planning to retire by 2010 (68% of whom had 20 or more years of service) and 30% were planning to retire by 2015. While changes to public sector superannuation schemes have marginally extended these time frames, this wave of retirement and skill loss is well underway.

Many of the challenges of an ageing workforce have been discussed for some time both locally and internationally across both the public and private sectors. However, there is little evidence of significant and real response to the challenges occurring within the public sector or, for that matter, corporate Australia.

This is not to say that a range of responses is not being considered and, in pockets, acted upon. However the need to balance appropriate workplace relations requirements, meet community expectations, maintain operational continuity and deliver on near-term policy commitments has undoubtedly constrained the pace with which the NSW public sector in particular has been able to address this imminent challenge.

Addressing this already significant workforce challenge will no doubt be doubly difficult in a post-Global Financial Crisis (GFC) environment in which budgets and recurrent funding are necessarily constrained. Workable, sustainable, beneficial responses will require the NSW Government, its workforce and their representatives – as well as the broader community – to be actively engaged in and supportive of any program of change.

# Responding to the challenge

What practical initiatives can the NSW government and its agencies take to prepare for this major shift in workforce demographic and to address the rapidly emerging skill loss associated with this change?

This paper outlines six initiatives that the NSW Government and agencies can pursue to mitigate the impacts of the ageing workforce. These initiatives are achievable within economically responsible boundaries – and with minimal disruption to the delivery of services to the NSW community – but will take time and discipline to implement.

To mitigate the impacts of the ageing public sector workforce the NSW Government and its agencies can:

1. Understand where the skill, resource and capability gaps are – or are likely to arise – to ensure that focused interventions can be initiated
2. Pursue efficiencies in ‘back office’ activities to fund ‘front line’ service delivery resources (such as investments in people, technology or new services)
3. Explore alternative delivery models to provide the most cost effective delivery (e.g. online delivery versus call centres versus face to face)

4. Accelerate leadership and skill development
5. Work to develop an innovative culture that will be robust in managing emerging challenges
6. Explore new operating models to identify their merit as well as pragmatic approaches to overcoming implementation barriers. For example:
  - Explore alliancing or other public/private partnership (PPP) models of domestic co-sourcing or outsourcing as a means to access a broader workforce demographic
  - Explore off-shoring as a means to address skills gaps and secure longer term access to a younger Workforce in certain segments, or to release ‘back office’ resources to increase and improve service delivery capacity.

In the following sections, we explore each of these initiatives, recognise some of the significant challenges government agencies will face and recommend some approaches that may be of merit in generating a constructive dialogue with the many stakeholders involved.







# 1. Understand the skill, resource and capability gaps

A robust understanding of skill, resource and capability gaps can only be built from data.

Advanced data analytic techniques are increasingly being used in the private and public sectors alike. On the demand side they are used to:

- Disaggregate populations or communities into sub-segments
- Sharpen views of the services these sub-segments require
- Identify the optimal delivery models required to access and serve these sub-segments.

Equally, on the supply side, individual government enterprises can access multiple data sources to undertake skill resource and gap analysis. These data sources typically include:

- The payroll system
- Position descriptions and skills matrices
- Performance appraisal data
- Geographical location data.

Data can also be secured from an array of less obvious sources and manipulated to provide a view at an individual enterprise level, as well as a whole of government view. Basic profile information can be generated covering such areas as retirement age by career level, skill area, functional business unit, etc.

More interestingly and more usefully, the data can be used to bring insight into patterns that may not be easily discernable. For example, data can be used to identify:

- Segments of the workforce that have a higher predilection for accelerated retirement
- Predicted skills gaps by location and department
- Gaps in succession planning.

The specialist forensic skills and technology requirements to process and interpret the huge volumes of data at an enterprise or whole of government level are not often available within government enterprises or indeed most private sector organisations. As this insight provides the only useful platform for developing workforce initiatives building partnerships with providers of this sort of sophisticated analytic capability will be critical in the near term.

Moving quickly to deploy this sort of capability is essential as change initiatives identified from any initial analysis may take some years to fully implement. Any delay in undertaking the analysis will delay implementation of initiatives.

## 2. Pursue ‘back office’ efficiencies to fund front line service delivery

Government efficiency is regularly reviewed by incumbent or newly elected governments in order to align central departments and delivery agencies with new or modified policy directions.

Two areas where efficiencies are commonly secured include:

- Aggregation of high volume, low value added activities – through shared services (or similar) initiatives
- Procurement – through specification rationalisation, supplier rationalisation, volume aggregation, and other sourcing initiatives.

The pursuit of efficiencies should, however, be within the context of delivering value to the community. Merit exists in considering opportunities with regard to four key value drivers for Government enterprises:

- **Policy objectives:** effective legislative and executive policies guide the development of program guidelines. Outcome-focused approaches help translate these policies into tactical program plans that deliver measurable results
- **Program delivery:** successful programs comprise activities that deliver real results and essential services. Programs should be designed to meet or exceed an agency’s (and thus government’s) strategic goals around effectiveness, efficiency, and increased community satisfaction
- **Operating efficiency:** delivering maximum value for money in terms of service levels, product quality or operational support. Performance excellence is driven by the ability to deliver the expected outcomes while optimising resource utilisation
- **Asset efficiency:** management of organisational assets to maximise utility with minimal cost. Performance excellence is driven by the ability to effectively and efficiently manage human capital, physical assets and financial assets. This is an often under-considered value driver.

By way of example, the NSW Government recently instituted *Better Value & Service Reviews* to ensure services are relevant and delivered as efficiently as possible.

As long as these reviews are undertaken in a constructive and collaborative manner, they are likely to yield favourable results within individual delivery agencies and the broader portfolio of departments and agencies.

The NSW Government has also instituted a number of other initiatives focused on improving the alignment and efficiency of government. Some of these initiatives involve direct intervention, the others are under the auspices of specific agencies. The formation of 13 super-departments provides an excellent platform for increasing efficiency and service alignment through such initiatives as:

- The formation of shared services functions
- Organisational realignment in back office (finance, HR, payroll, procurement, etc) and potentially policy functions
- Leveraging purchasing power across the entirety of a super-department through coordinated procurement
- Increasing asset efficiencies across physical and IT assets in particular
- Coordination of ICT programmes to maximise the benefits of infrastructure investments.

Equally, the NSW Government has driven a number of whole of government initiatives through agencies such as the NSW Department of Science, Technology and Administration and the Office of the Government Chief Information Officer. These have included *People First* – the Government’s ICT strategy. Comprised of eight programmes, this strategy seeks to leverage technology and extend benefits across three areas of focus:

- Bringing together a wide range of common ICT infrastructure including telecommunications, digital communications and back office support systems, to derive improved services and financial benefits
- Reducing capital and recurrent ICT spending through consolidating and sharing ICT services, applications and facilities across agencies and through government-wide procurement contracts
- Encouraging investment in new service delivery technologies and improved services over the internet, telephone and face to face.

Defining and realising the benefits from greater operational efficiency is challenging. Success in achieving results often pivots on a few key factors:

- Defining a clear view of the ‘end state’ desired, building on sound commercial practice and gaining buy-in
- Underpinning the associated transformation program with a well supported business case outlining the benefits, and monitoring progress against these to drive accountability
- Strong program and project management that brings together the technical skills and experience to design change programs, as well as the ability to work constructively with numerous and various stakeholders including central agencies, unions and employees, vendors, agency executives, and Ministers and their advisers.

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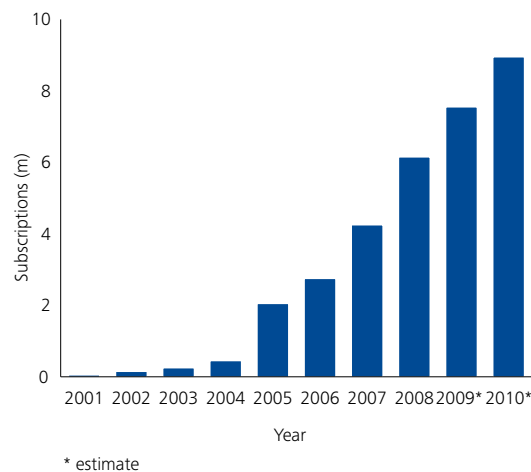
However, realising greater efficiencies is only a first, if important step in addressing the wider impact of the public sector workforce changes that will occur in the next few years. The pace of change in the workforce demographic is likely to outstrip the significant but incremental benefits of efficiency gains and require exploration of further initiatives.

### 3. Explore alternative delivery models

Having understood where the ‘gaps’ are and commenced pursuit of efficiency gains, a further area for exploration should be the opportunities presented by alternative service delivery models for those services government provides the community.

The traditional modes of service delivery are changing rapidly as Australians become increasingly internet-savvy and as internet access continues to grow. Figure 3 shows the increasing number of broadband subscribers in Australia. Access and subscription rates have grown at a rapid pace as internet infrastructure has improved and as consumers increasingly adopt the internet for a range of transactions and services.

**Figure 3: Australian broadband subscriptions<sup>4</sup>**



As internet access and uptake by the public continues to rise, this should enable the emergence of new, more efficient delivery models and the development of modified and new services.

Where once service delivery was through face to face means or call centres, today agencies need to have multi-channel strategies for service delivery. Multi-channel approaches typically embrace the use of web 2.0 technologies that enable improved service delivery through reduced delivery costs and provide a platform for collaborative product/service development.

These strategies also embrace traditional retail or face-to-face and call centre delivery models to ensure that appropriate services can be delivered effectively to each citizen.

There are a number of ways that Web 2.0 technologies can improve service delivery including:

- Enhanced idea generation and problem identification through bottom up innovation
- Collaborative policy development
- Networked approaches to societal challenges
- Transformation of how government works get done
- Provision of real time feedback
- Recruitment of the next generation of public servants
- Greater transparency and accountability.

The use of non-government organisations (NGOs) also presents opportunities for new approaches to delivering services. A time-honoured form of ‘PPP’ – well established in the area of community services – NGOs allow government agencies the ability to deliver services using third party providers. The critical feature of these relationships lies in the development and monitoring of the key performance indicators (KPIs) used to assess the outcomes delivered and the funding to be provided. This will be discussed in more detail further on in Section 6.

## 4. Accelerate leadership and talent development

Core to addressing the rapid loss of skilled personnel from the public sector will be the accelerated development of both leadership and the broader employee base.

Recent studies have shown that effective leadership is the single biggest driver of employee engagement and patterns of behaviour. Given the rapid loss of skilled personnel, it will be even more critical that the reduced pool of talent is highly engaged so that the NSW public sector can be effective in its service delivery.

To achieve this, it will be essential for well defined leadership succession plans and development programs to be put in place. These programs need to engage and enable the talented leaders in the public sector to develop, maintain and enhance the skills and capabilities required to meet current and future demands.

As such, leadership programs must take a long term, holistic approach recognising that effective leadership occurs at three levels: the individual level, the enterprise level and the wider social level. Too often leadership programs focus only on one or two of these elements. Leadership development efforts should build the individual and collective talents of leaders while creating a culture that rewards achievement.

A multi-phase leadership program including leadership assessment, skills gap analysis, offsite training, action learning, online performance support and executive coaching typically provides the greatest opportunity for leaders to not only develop their competencies but, more importantly, to effectively apply them.

Such leadership development programs must be linked to the strategic value drivers of the department or agency to deliver real value.

## 5. Develop innovative cultures

Developing efficient approaches to service delivery and accelerating leadership development will not be enough however to address the impacts of an ageing workforce.

The NSW public sector and the enterprises of which it is comprised will need to develop cultures that are able to innovate to respond to the volatile and changing environment in which government and society will need to operate in the future.

On this point it must be recognised that developing an innovative flexible culture is neither quick nor easy. Changing the culture of an organisation requires a sustained long term program of work, typically over five years or more. As a rule of thumb, a successful program will implement a sustained cultural change at the rate of one organisational level each year.

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Any effort to impact culture needs to engage at two levels:

- **Leadership behaviour:** effective leadership is the single biggest driver of employee engagement. It is critical that leaders exhibit behaviour that supports the desired culture e.g. meeting punctuality, directive or collaborative approach, level of autonomy
- **Systems:** systems and processes need to be aligned with the desired culture. Even the very best leaders will find it difficult to develop and maintain a culture if they are not supported by effective systems. For example, a billing system that produces difficult, hard to read invoices generating a large number of customer inquiries does not support a culture of 'easy to do business with'.

In developing a culture that supports a department or agency's objectives, a high level of directional intensity must be achieved. By directional intensity we mean having all levels of the organisation committed to a common strategic direction. Achieving this requires that careful thought be given to aligning specific actions and initiatives with commonly understood strategic goals.

This presents very real challenges as people inherently interpret what needs to be done differently. Part of this can be overcome through developing a clear and simple communiqué setting out the strategic direction and by developing an understanding of employee mindsets and who they primarily identify with – team, enterprise or department – so as to focus the communication to greatest effect.



## 6. Explore new operating models

The anticipated level of departures from the NSW public sector workforce is unlikely to be stemmed by the preceding initiatives alone. The simple pace of ageing in the workforce weighs against this.

New operating models will need to be explored. These could include more extensive use of alliances or partnerships in which the private sector collaborates with the public sector to deliver services to the community. At the simplest level these can be co-source arrangements where resource and/or capability gaps in the public sector are filled using private sector resources.

A further level of alliance or partnership is where the supply of services is outsourced to the private sector. These models can include terms under which efficiency gains secured by the private sector provider are in part returned to the public sector through annual payments or efficiency 'dividends', or in the form of a contract price that factors in these efficiency gains over the term of the contract.

Moving to these forms of alliance contracts can be politically challenging in view of the many stakeholders – unions, political parties, the community, the private sector providers – that need to be engaged constructively in the process of structuring and implementing them.

A final level of alliance contract or partnership for consideration is one in which the outsourcing extends beyond the borders of Australia. While commonly seen in the ITC industry where private sector companies frequently outsource such activities as applications maintenance to locales such as India, this model of service delivery has not been widely adopted in the provision of public sector services to date. However, with Australia's ageing workforce and limited labour pool, consideration may need to be given to exploring those services – such as back office activities – that could be securely outsourced to countries and regions with a younger and/or less expensive workforce.

Such delivery models could be structured to enable the NSW domiciled public sector workforce to focus on strategic service delivery initiatives, and on those services that necessarily have to be delivered on-shore, such as the services provided in the health sector by medical and nursing professionals.

Not only could these initiatives help to overcome the predicted skills shortage, if managed correctly they also offer an opportunity to transform operations and drive dramatic improvements in efficiency and productivity in service delivery.

But outsourcing is not risk free – particularly for public sector enterprises. In a survey of 300 executives<sup>5</sup> who were involved with outsourcing worldwide, 83% of respondents reported that their projects had met their ROI goals. Only 34% reported, however, that they had gained important benefits from innovative ideas or transformation of their operations.

The key to gaining the maximum benefit from an outsourcing opportunity, in either the public or private sector, is to follow a disciplined outsourcing procurement and management process that aligns with the department's or agency's goals, as well as any policy direction established by the Government.



There are typically five stages in the outsourcing lifecycle. Each stage presents risks that need to be addressed and actively managed:

1. **Strategic assessment:** deciding why, how and in what form outsourcing may support a service delivery strategy or other core policy objective
2. **Business case development:** analysing expected cost savings and other financial and operational benefits. Consideration needs to be given to the qualitative issues that may impact the initiative's likely success and longevity as the financial and political cost of winding back such a contract can be high
3. **Vendor selection:** choosing a vendor according to criteria related to the strategic assessment and business case
4. **Contracting:** negotiating a contract that captures the needs and expectations of both parties including compliance and risk factors
5. **Service transition, delivery and post transition management:** managing the migration or initiation of the service and ongoing delivery and support.

For the NSW (or in fact any democratic) public sector, outsourcing domestically or internationally – through established NGO models, alliances or yet to emerge models – will require much more than a disciplined process.

It will require mature and constructive debate with unions, industry groups and the community as well as the political will to take a multi-term policy view. The changes that will be required to sustain the delivery of quality services by the NSW public sector will require a strategic and coordinated approach to be adopted engaging all stakeholders.

# Conclusion

There is no doubt that the ageing workforce in the NSW public sector provides a number of challenges for the Government in providing effective service delivery in the future. However overcoming these challenges is not only possible, it provides the platform for making significant change in the way services are delivered to the NSW community.

There is a world of potential improved service provision which has been assumed rather than made explicit in this paper. However the ambit of the possibilities explored for example at the Federal level, in the March 2010 Report by the Advisory Group on Reform of Australian Government Administration, merely reinforces the need to address the impact of an ageing workforce:

“[To develop, deploy and cluster government services...]in such a way that customers efficiently access the wide range of transactions and services they require in a far more convenient way – such as through place-based, one-stop public service shops... [for example, is just one possible means]... to foster and coordinate deeper citizen engagement, become much more client oriented and establish world’s best service delivery systems and practices.”<sup>6</sup>

To this end streamlining back office functions as well as implementing low cost delivery and operating models – supported by an innovative workforce and leadership team – will ensure the Government is well placed to meet the ever increasing demands its faces. Above all, the key to addressing the challenge of an ageing workforce will be innovation in how we think about and tackle the major changes required to deliver services with increasingly fewer people and, above all, constructive and collaborative dialogue between the community, the political parties and the NSW public sector itself.

## End notes

- <sup>1</sup> ABS: 3105 – Australian Historical Population Statistics, 2008. 32010 – 2009 Population by Age and Sex, Australian States and Territories, June 2009
- <sup>2</sup> Advisory Group on Reform of Australian Government Administration – Reform of Australian Government Administration: Building the world’s best public service Discussion Paper, 1 October 2009, p15
- <sup>3</sup> ABS: 3416.0 – Perspectives on Migrants, 2009
- <sup>4</sup> ABS: 8153 – Internet Activity, Australia, June 2009
- <sup>5</sup> Why Settle for Less? Deloitte Consulting 2008 Outsourcing report
- <sup>6</sup> Advisory Group on Reform of Australian Government Administration – ahead of the game: Blueprint for reform, 29 March 2010, p56

“After all, Australians aspire to being the world’s best on the sporting field, in the marketplace, in the science and medical laboratory, and on stage and screen. So too we should aspire to being a world leader in the quality of government, both in delivering government services and developing government policy.”

**The Hon. Kevin Rudd MP**

(and former public service departmental head)

The objective of this point of view is to share our thoughts on what we believe is one of the key issues impacting the New South Wales public sector. The paper includes a number of recommendations based on our experiences working with the various agencies and government departments in NSW. This should provide a useful starting point for further discussion and we welcome any suggestions that you think would help in its further development. If you would like to provide any feedback or suggestions please email Deloitte Public Sector lead partner, Simon Cook.

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