



Rising to the challenge?

The impact of global demographic change
on the public sector

KPMG INTERNATIONAL



" In forty years time, when policy setters reflect back on the first half of the 21st century, only a few issues are likely to come 'top of mind' - world terrorism, global warming and climate change, and world economic growth.

Perhaps surprisingly, one of the biggest issues which may also be cited will be the impact of intergenerational aging on the policy mix pursued by the governments of many of the world's developed and developing economies.

Its *management* will have required continuous monitoring and policy adjustment.

Its *impact* will have placed an enormous pressure on the pursuit of economic productivity.

Its *neglect* will have destined a nation's economic growth to years of duress."

Mick Allworth

Head of Government Sector, KPMG in Australia



Foreword

We are in the midst of huge demographic change that will be felt all over the world. As people live longer, and national fertility rates decline, the task of supporting a growing group of retired citizens will increasingly rest with a falling proportion of working-age people.

The public sector will feel this change particularly acutely, as an aging society places intense demands upon healthcare, housing, social care and other services. The economic recession has only added to the challenge, with expected funding cuts likely to put even more pressure on public sector organizations to do more with fewer resources.

To help assess the impact of an aging population upon public services, KPMG International asked Ipsos MORI to carry out a study of 800 public sector employees in Australia, Canada, Germany, the Netherlands, Singapore, South Africa, the UK and the US.

The results have been supplemented with comment from senior managers, HR and change management directors from the public sector, as well as from KPMG firms' specialists. The findings should make a valuable contribution to the debate over how to provide effective public services in the 21st century.

We would like to thank all the respondents for their help in completing the survey.



Mick Allworth
Head of Government Sector
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Executive summary: a lack of urgency

Many public sector organizations appear worryingly slow to react to the challenges of an aging society. That's one of the main findings of the latest 2009 Ipsos MORI survey of public sector employees from around the world. Only around a third believe that its senior management is serious about this issue and taking active steps to address its implications.

only **37** percent
of senior managers
have started to
address the aging
of the workforce

60 percent of
respondents see
the retirement of
older workers as a
significant challenge

If such an approach persists, the sector may struggle to attract new talent, retain key workers and make essential organizational changes, which could ultimately threaten the quality of its services.

The public sector does acknowledge demographic change

Despite the perceived complacency of senior management, a majority (64 percent) of those taking part in the survey recognize that an aging workforce is a very or fairly significant issue. And a similar proportion agree that the retirement of key workers will hit them hard.

With a declining workforce having to take on the burden of a growing number of retired people, it's no real surprise that over 70 percent of respondents are concerned about increasing or changed demands upon services.

More could be done to retain and re-hire key workers

Public sector employers are perceived as not doing enough to either retain older workers or tempt retirees back into the workforce. Only half of the respondents feel that benefits packages are flexible enough to meet the needs of employees at different stages of their careers. Staff are deterred from working either part or full time if this means relinquishing their hard-earned pension rights in any way.

On the plus side, a majority claim that their organization provides flexible working arrangements and supports professional development – both important issues in engaging the workforce. However, there is considerably less satisfaction with the way employers adapt to the needs of workers from non-traditional backgrounds, something that could lead to greater attrition if not addressed.

There's also a lack of attention to the needs of older employees – some of whom may struggle with new technology. Thirty-four percent of respondents believe their organization fails to provide adequate technology training for this group, which could have a negative impact on productivity.

The recruitment net is widening – but is it enough?

Faced with a shrinking pool of talent, HR departments in many countries have little choice but to reach out to a wider potential audience. Seven out of ten respondents feel that their particular organization is good at recruiting candidates from a diverse background. It's not just the message but the medium that counts, and several of those interviewed are utilizing technology effectively to reach and attract younger people.



71 percent of those surveyed believe their organization is good at recruiting candidates from a diverse background

A question mark remains over the ability of the public sector to attract younger candidates. Although the global recession may have shifted some power temporarily back towards employers, the job market is likely to remain highly competitive. Therefore public sector organizations should carefully consider how to attract the best of the younger generation, including creating a compelling proposition that reflects the genuinely exciting career prospects available.

The public sector has an outstanding proposition to sell to job seekers, offering exciting careers full of challenge, responsibility and variety – with very competitive salaries and benefits.

A positive attitude to knowledge transfer

The retirement of older workers is a pressing problem, as they possess important knowledge and skills that can't be replaced quickly. The good news is that a healthy proportion (around two-thirds) of respondents feel that their organization is transferring knowledge effectively to the next generation of managers through techniques such as mentoring and coaching. However, there is also some concern that knowledge sharing may be too informal, which could mean that vital experience and learning is lost. Given the impending mass retirement of baby boomers, knowledge and skills transfer is a pressing issue that should continue to receive attention.

An urgent need to reshape the organization

A substantial share of those taking part in the survey (65 percent) acknowledge that some form of restructuring may be necessary to cope with the effects of recession and demographic change. Anticipated funding cuts only hasten the need to improve efficiency, whether it's through better performance, organizational re-design or outsourcing of certain activities. Many public sector leaders realize that this is a timely opportunity to create a leaner and more efficient organization focused on results.

64 percent of respondents feel their organization is effective at passing on knowledge

only **50** percent claim that benefits packages reflect the needs of employees at different career stages



By 2050, the European
working population is expected
to drop by 48 million

The aging society

In many developed countries the average age of the population is rising steadily, while the proportion of people of working-age continues to fall.



Why we're getting older

The next few decades are expected to see a continued slowdown in population growth around the world, according to a 2006 International Monetary Fund (IMF) working paper. A number of countries may even start to experience a decline in their total numbers due to the falling birth rates that accompany rising affluence. All those countries featured in this survey have rates below two children per female, except the US, which is still at 2.1. This is in stark contrast to Germany and Singapore where fertility rates are 1.4 and 1.3 respectively.

At the same time, improved healthcare and diet is causing life expectancy to rise. Many societies now have to cope with a growing proportion of elderly people and a falling proportion of working-age people. And while this trend is initially affecting the developed nations, projections suggest that the rest of the world will follow suit.

Naturally, figures can vary widely between countries and regions, not least because of migration levels. Immigrants typically have more children than indigenous inhabitants, so countries with higher immigration tend to have greater fertility rates.

Consequently Japan and some European countries are already seeing the share of the working-age population fall.¹ However, all of the countries in this study show positive migration figures – particularly Canada and Australia^{2,3} – and should enjoy a much slower decline in fertility rates. Indeed, the US expects its share of the working-age population to stabilize after 2025.¹

'Baby-boom' retirement – an additional hurdle

The immediate post-World War II period (approximately 1945 – 1965) led to a big surge in the birth rate throughout the developed world, a phenomenon known as the 'baby boom.' As this group begins to retire in substantial numbers over the next decade, the number of elderly people will grow even faster.

Unfortunately the retirement age has not always kept pace with rising life expectancy and in many countries has stayed the same, which further reduces the proportion of working-age people.

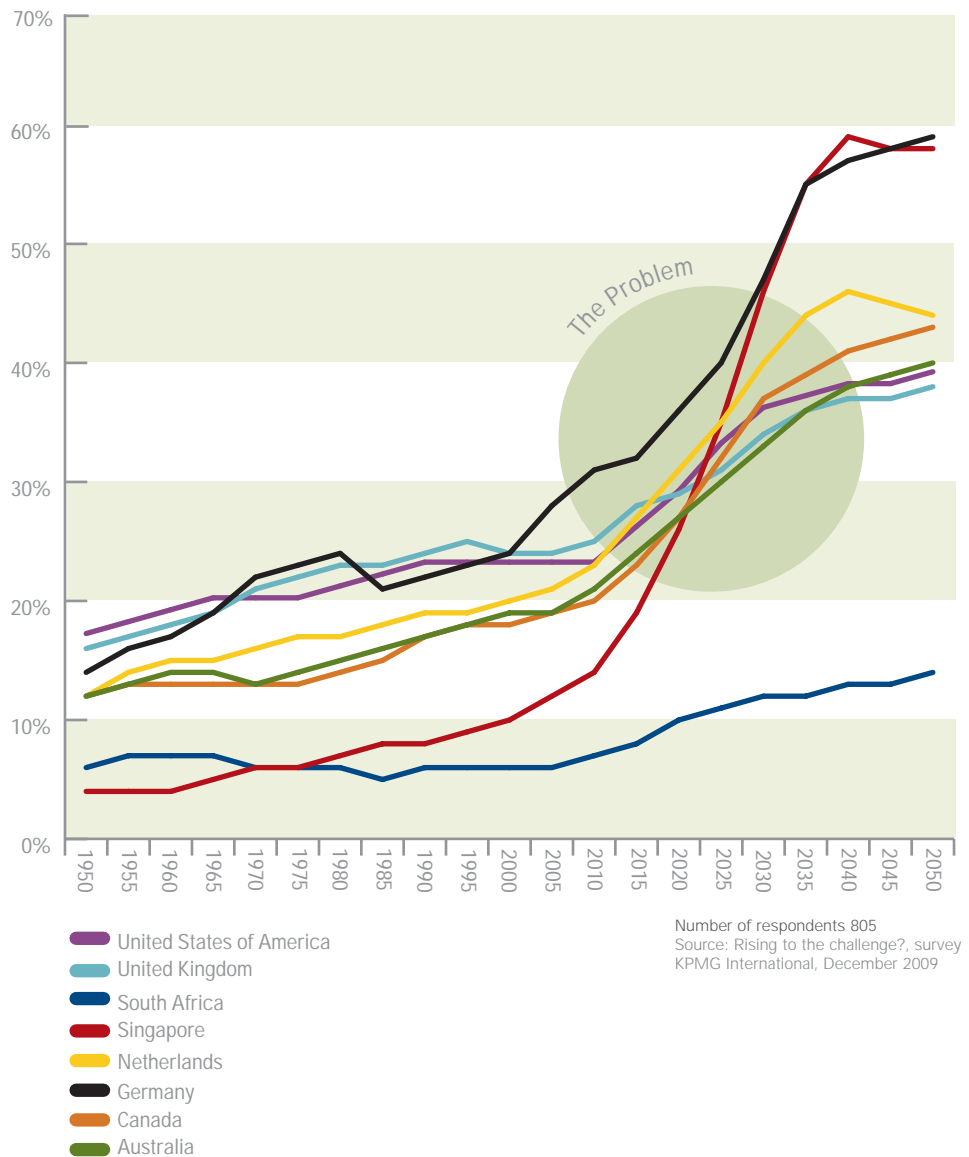
¹ Batini, N., Callen, T., Mckibbin, W J., 2006 The Global Impact of Demographic Change. IMF Working Paper, Vol. , pp. 1-36, 2006.

² OECD, 2007

³ US Census Bureau International Database

By 2050, the European working population is expected to drop by 48 million (16 percent), with the retired population going up by fifty eight million (77 percent).⁴ Similar figures are predicted in the US and Australia, with an even more extreme trend for Singapore. Such dramatic change has severe implications for those providing public services.

Ratio of over 65s to working population (aged 15 - 65s)



⁴ Economic Policy Committee and the European Commission, 2006. The impact of aging on public expenditure: projections for the EU25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004-2050), Special Report no. 1/2006

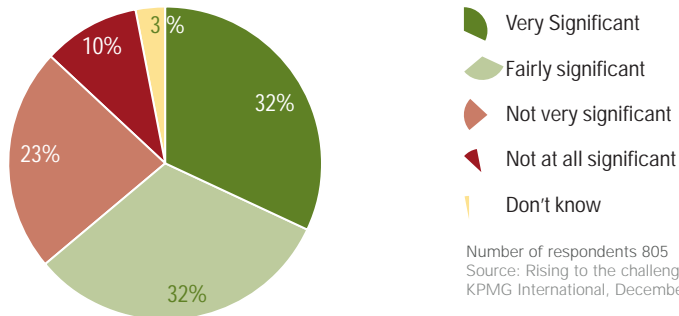
⁵ Baker, N., 2009. Based on UN Population data – 2008 Update. ©KPMG Australia

A sector under siege

Demographic change is likely to have a profound effect on the public sector. National, regional and local government will need to satisfy the demands of a growing group of older citizens. Yet they'll most likely have to achieve this with a smaller, less experienced workforce and – in some countries at least – a declining pool of potential talent. As if that wasn't enough, shrinking labor forces will also mean a relative decline in tax revenues, which, along with the global economic crisis, puts intense pressure on public organizations to deliver more with less.

Those working in the public sector around the world are certainly aware of the challenges ahead. Almost two-thirds (64 percent) of respondents agree that an aging population could significantly affect their organization's future ability to deliver services.

How significant a challenge is this likely to be to the services that your organization delivers?

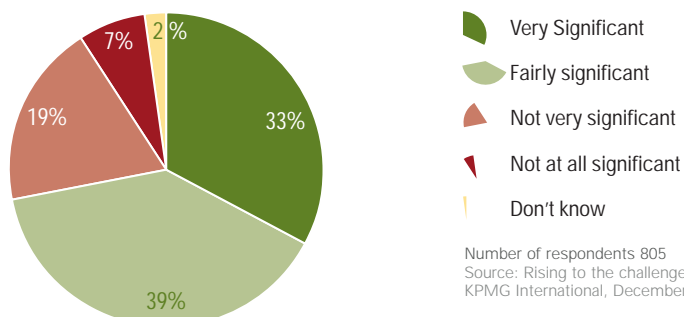


64 percent of respondents believe an aging population could significantly affect their organization's ability to deliver services

Looking forward: services under pressure

With a greater number of older people to provide with public services, healthcare, housing and social care will start to feel the strain. A large majority of those taking part in the survey – over 70 percent – believe that the aging population will have serious implications for the services offered by their organization, leading to either increased demand for or changes in these services.

Over the next five years, how great is the challenge of increasing or changing demands on your services?



60 percent believe that the retirement of key older workers will be a big challenge

Coping with an aging workforce

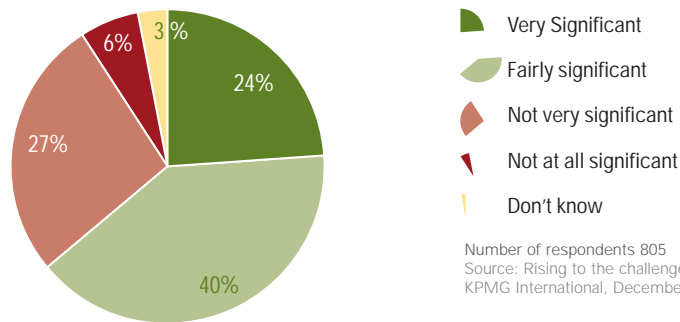
With a workforce that is typically older than the private sector, public sector organizations are likely to feel the effect of demographic change acutely. In both the UK and Germany, for example, the public sector has substantially more employees aged 50 or above.

The mass retirement of 'baby boomers' is compounded by the fact that in a number of countries, a disproportionate number of this group work in the public sector.^{6 7 8} Furthermore, public service workers are often able to retire before the state retirement age, making the problem even more pronounced.

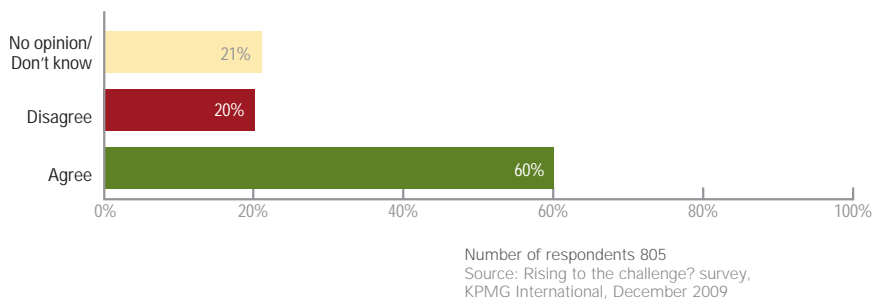
Not surprisingly, a majority (64 percent) of public sector employees across the 8 countries surveyed consider the aging of their organization's workforce to be a significant or fairly significant issue.

Crucially, 6 out of 10 respondents believe that the retirement of key older workers will be a big challenge. These people have often amassed important skills and knowledge, sometimes over decades, which will be very difficult to replace in the short term. Consequently, almost half of those taking part in the survey expect to see a shortage of key skills.

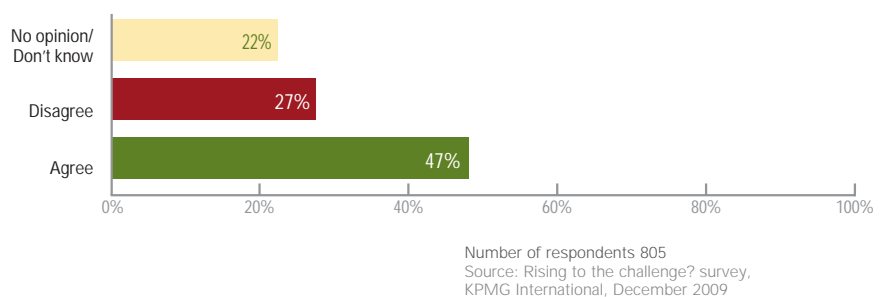
How significant is the challenge of your organization's own aging workforce over the next few years?



The retirement of key older workers will be a significant challenge for our organization over the next few years*



Our organization will face significant shortages of key skills over the next few years*



6 German Bureau of Statistics (Statistisches Bundesamt Deutschland). Personnel of public service institutions., 2008.

7 Hicks, S, Walling, A, Heap, D, Livesey, D., 2005 Public sector employment trends. ONS Labour Market Division & Employment, Earnings & Productivity Division.

8 Greenfield, S., Public Sector employment: the current situation. Centre for State & Local government excellence.

* Figures may not add up to 100 due to rounding

“ The older cohort is reaching retirement, and like a pig through a python, we have a gap behind them.”

Respondent, Canada

The loss of both people and skills has been exacerbated by historic hiring patterns. A combination of efficiency drives and more recently the economic crisis has meant that in many countries the public sector has been consciously recruiting fewer new employees. One Canadian respondent summed up the situation: “ The older cohort is reaching retirement, and like a pig through a python, we have a gap behind them. There has been a lot less hiring for the last ten years so we’re missing the 10-15 year experienced people.”

Variations between different parts of the public sector

The impact of an aging population on the workforce will be different depending upon which part of the public sector you work in. For example, in the US, federal employees tend to be older than state and local government employees, a trend that is repeated in Australia.

Regional differences

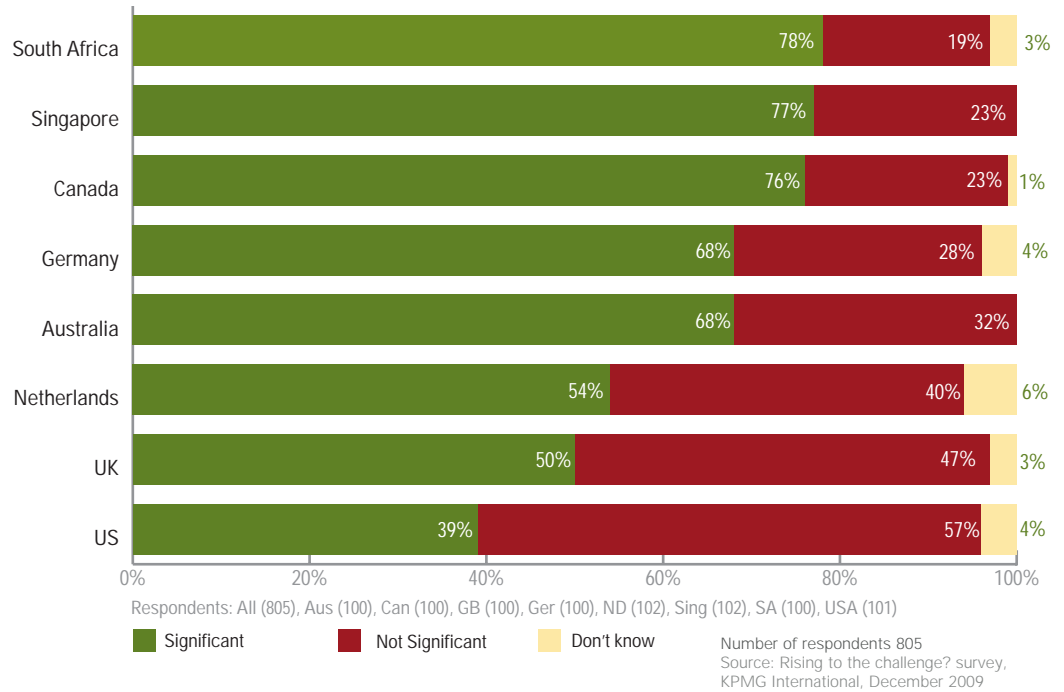
The level of concern over an aging population and workforce – and the retirement of key older workers – varies considerably from country to country. Respondents in the US, UK and the Netherlands appear far less worried about these issues than their counterparts in other parts of the world.

Conversely, public sector employees in Singapore, South Africa and particularly in Canada consider the changing demographics to be more critical. Almost 80 percent of Canadian respondents expressed unease about losing experienced older staff.

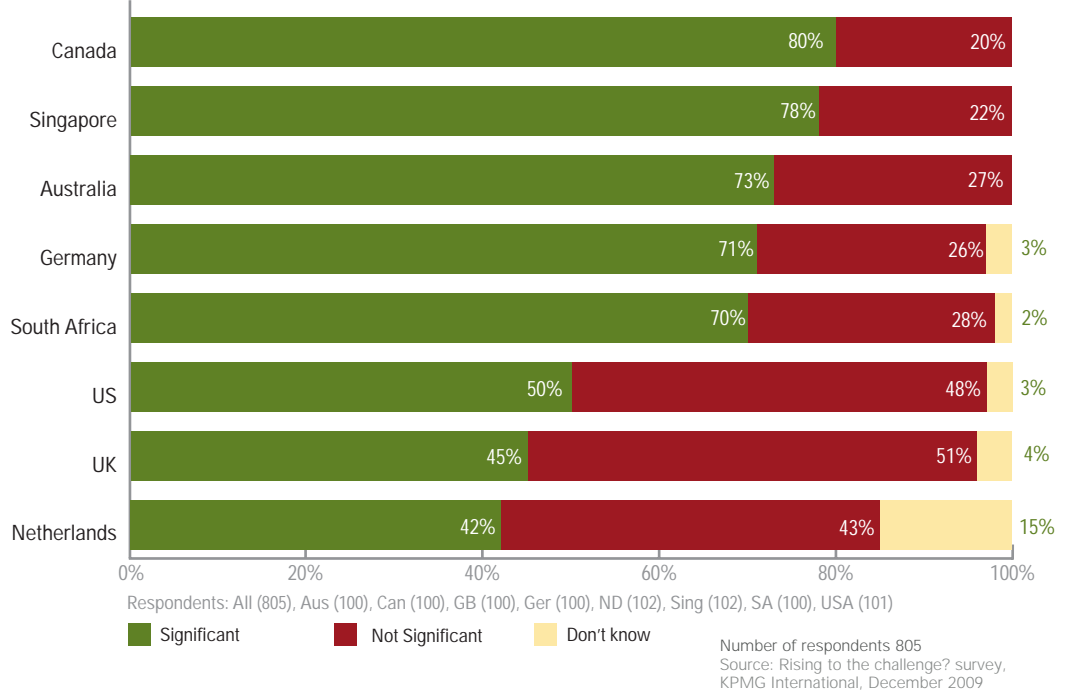
Survey participants from the US and the Netherlands don't seem to be losing sleep over the potential shortage of key skills either. Yet those from South Africa, Australia and Canada see this as a particularly significant challenge, with some mentioning specifically a lack of nurses and teachers.

Country breakdowns

How significant a challenge is the aging population likely to be to the services that your organization delivers?



How significant a challenge is the aging of your organization's own workforce likely to be over the next few years?*



* Figures may not add up to 100 due to rounding

HR strategies for a 21st century workforce

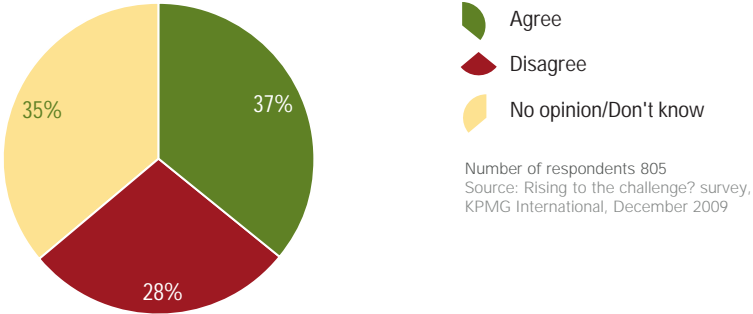
If they're to sustain and improve their services, public sector organizations may have to find ways to attract and keep the best talent and retain the knowledge of their more experienced employees – all on a limited budget. Even if they do manage to recruit in sufficient numbers, they'll need to train and nurture a new generation of leaders to replace the retiring baby boomers.

The current environment is likely to provide a real opportunity for change. After years of growth in the sector, leaders will now be looking to create leaner organizational structures, with a focus on efficiency, including the outsourcing of back office functions (at least in some counties).

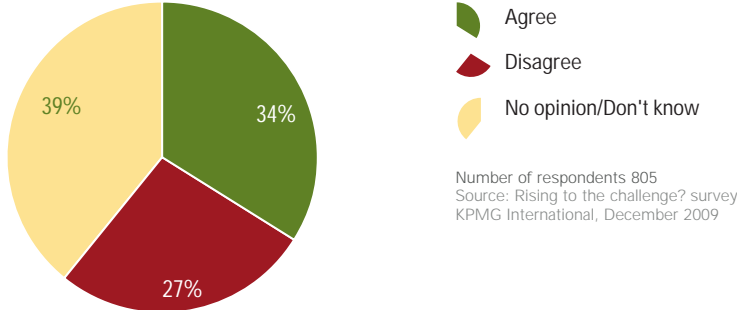
In denial or just shell shocked?

The survey responses suggest a worrying level of inactivity over what is acknowledged to be a pressing problem. Just over a third feel that their particular organization has begun to take steps to address an aging workforce; and a similar proportion believes that management is taking this issue seriously.

Our organization has already taken steps to address the aging of the workforce

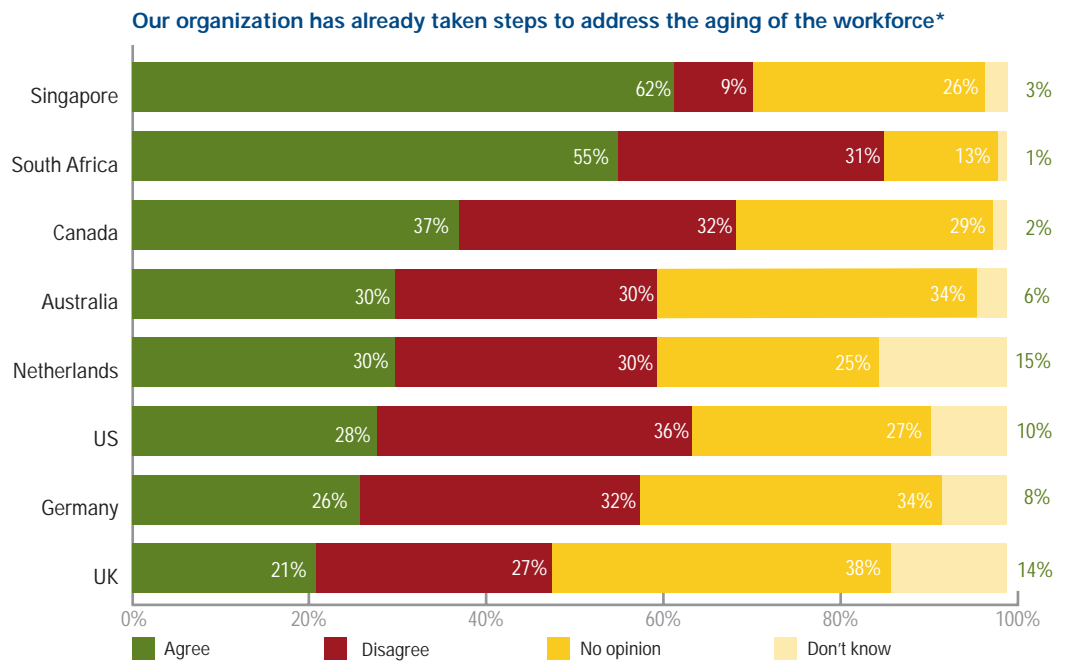


The senior management of our organization takes the issue of the aging of the workforce very seriously



UK lagging behind

If the overall response to an aging workforce appears slow, in the UK, Germany and US it is positively crawling. This is in stark contrast to Singapore and South Africa, where the issue is given a far higher priority.



Number of respondents 805
 Source: Rising to the challenge? survey, KPMG International, December 2009

* Figures may not add up to 100 due to rounding

Hiring: a war for talent or the pick of the bunch?

Does the public sector have to make itself more attractive to young, talented people? In the decades following World War II, a position in central or local government was seen as a reliable option in a time of uncertainty. Today's graduates and other young job seekers typically have a wider choice and may well have their heads turned by sectors such as media, financial services (until the economic crisis at least), technology and professional services.

Arguably the financial downturn has – for the moment at least – eased the pressure somewhat, with public services employers likely to find more unemployed job seekers knocking on their doors. Certain markets – such as the UK – have witnessed a rapid rise in the number of graduates in the past decade, which could also ease the burden of hiring.

However the situation differs from country to country, with one manager from Australia appearing less optimistic: "It is a concern that the public service is no longer able to attract graduates of a certain caliber. Increasing [cost reduction] pressure has also meant a decreased capacity to invest in training its recruits. The training provided today is not as protracted and in-depth as that provided to the baby boomer generation."

On the other hand, there are certainly plenty of exciting opportunities to be found in public services, as one Canadian respondent observed: "Some of our capital projects are amongst the most sophisticated projects in the world, so the Department of National Defense can compete quite well for young workers because of the quality of the work. It's not a hard sell to get new recruits."

Missing skills

The competition for specialists has traditionally been more intense in the public sector. Areas where professionals have been in particular short supply include IT, finance, and senior management. In the UK, Personnel Today recently stated that over half of the 300 public sector organizations polled by recruitment firm Hays remain concerned about a shortage of management skills in the public sector. The survey also revealed that 80 percent of public sector respondents believed that such skills shortages would be best filled by private sector workers.⁹

Access to labor markets could be a little harder for the smaller, regionalized bodies, who may have to recruit from a more local and therefore smaller population. However the larger, national or international organizations – particularly those in big cities – should be able to attract a wider range of workers from both home and abroad.

71 percent feel their organization is effective at recruiting from a diverse range of backgrounds

⁹ Skills shortages exposed in the public sector survey, Helen Gilbert, Personnel Today, 1 September 2009

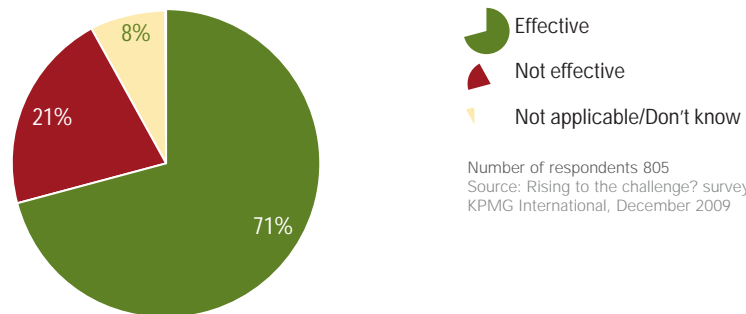
Widening the recruitment net

One option is to try to appeal to a more diverse range of employees to widen the pool of available talent, as acknowledged by a German public sector executive: "To look for specialists out of a smaller growing pool might just get harder ... they will have to employ a different workforce to meet those demands."

Interestingly, a substantial majority – 71 percent – of those taking part in the survey feel that their organization is actually pretty successful at recruiting from a diverse audience.

Federal and national organizations appear to be more effective in this respect; 8 out of 10 respondents from this tier believe their organization is effective in diverse recruitment. Some of the smaller public sector employers may well be based in areas where the local population is more homogenous.

Effectiveness of our organization's diverse recruiting (e.g. different genders or ethnicities)



Tempting younger candidates not only requires a convincing career message; it's also vital to harness new technology to meet the expectations of a computer-literate group. One respondent from Canada praised his organization's recruitment process, which he claims is: "... structured in such a way as to be consistent with the way this generation operates – fast-paced, highly accessible information, all on the Internet, close to instant answers such as 0800 or toll-free numbers they could call."

KPMG view: a sector full of substance



The notion of a public sector full of low-paid, pen-pushing bureaucrats on pedestrian career paths couldn't be further from the truth.

A position in this sector offers a wealth of opportunity dealing with some of the most important social, economic and healthcare issues affecting people's lives. You could be looking at how to run a hospital more efficiently, planning a major road network or helping to improve schools. And you may be working with multi-billion dollar budgets on strategies of national importance.

The scale of many public sector organizations also allows for a diverse career across functions and geographies, something that only a handful of the world's biggest multinationals could compete with. It's not unusual to change positions every two to three years and move between different organizations.

And as Mark Smith, KPMG's Global Leader of People and Change and a partner of KPMG in Canada, notes, a move into this sector can bring real meaning to your work: "If you're compelled by social conscience, as many young people are, there is no better place to provide service to your fellow man or woman. You're here for a cause in addition to a career."

The myth of mediocre salaries disappeared some years ago. In many Western countries at least, the total package, especially when you include pension benefits, is often at par with large parts of the private sector.

Possibly the greatest attraction is the opportunity to take on big roles at a relatively young age. The mass baby boom retirement is creating gaps in management that need to be filled quickly; the perfect environment for ambitious, self-starting individuals eager to take on responsibilities and progress swiftly.

With all these benefits, it only remains for the sector to package itself in a more appealing way to graduates and school-leavers to create a compelling proposition. In short: it's full of substance but needs more sizzle.

"Precisely because of this demographic problem, taking a job in a public organization means you're going to get more opportunities, learn more, and grow faster than you thought possible."

Mark Smith, Global Leader of People and Change, a partner of KPMG in Canada



Retention: giving employees greater flexibility

In building a talented workforce to meet 21st century demands, public sector organizations may not only have to recruit in significant numbers, they'll also need to keep and nurture the talent within their ranks.

only **50** percent of respondents claim that benefits packages reflect the needs of employees at different career stages

And while there is a pressing need to retain more experienced workers, it is just as important to provide an attractive career path for employees of all ages.

As mentioned, the retirement of baby boomers could create faster career progression for younger, up and coming managers, who may be given greater responsibility at an earlier age. Naturally such accelerated programs should be augmented with appropriate training, coaching and mentoring.

Supporting a more flexible lifestyle

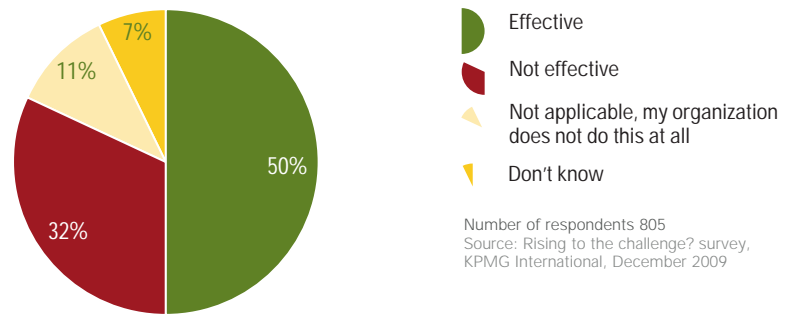
More and more employees are looking for greater flexibility in their working lives to support personal or family demands. Public sector employers have some way to go in meeting such needs, according to our survey findings. Only half of the respondents rate their organization as effective in tailoring benefits packages to the needs of employees at different stages of their careers.

Such flexibility is particularly important for employees approaching retirement – or in attracting already retired staff back into the fold. Several of the senior executives interviewed commented on the rigidity of public sector benefits packages, and the difficulties involved in changing these. One respondent from Canada noted that: “The challenge we have is that the financial incentive structure is wrong. A person with eligibility for a pension can actually end up losing money by remaining on the job.”

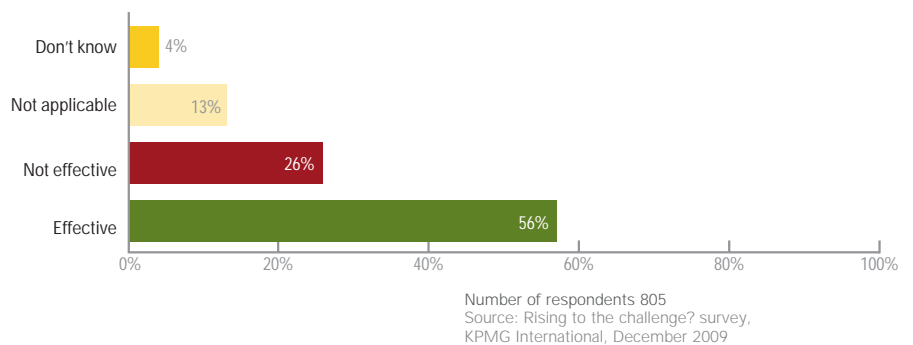
The picture is slightly better when it comes to flexible working, with 57 percent stating that their organization has effective policies. In certain countries, much progress has been made in this area, as one Australian manager commented: “Employees are welcomed back on very flexible and diverse working and remuneration arrangements.”

It's not unusual for older employees to occasionally suffer from ill health, or have external commitments in the form of sick spouses and other dependants. Over a third of respondents feel that their own organization is ineffective at catering to such needs, with those over 55 being particularly critical.

Effectiveness of your organization at providing benefits packages that reflect the needs of employees at different stages of their careers



The effectiveness of your organization at allowing employees to work flexibly (i.e. part-time or job share)



just **51** percent of public sector employees feel their organization adapts to the needs of a wide range of worker

Encouraging a lifetime of progression

Filling the chasm left by retiring baby boomers is a tough challenge and may call for management development programs for younger staff. Encouragingly, our survey found that almost two-thirds of employees rate their employer as effective in supporting professional development.

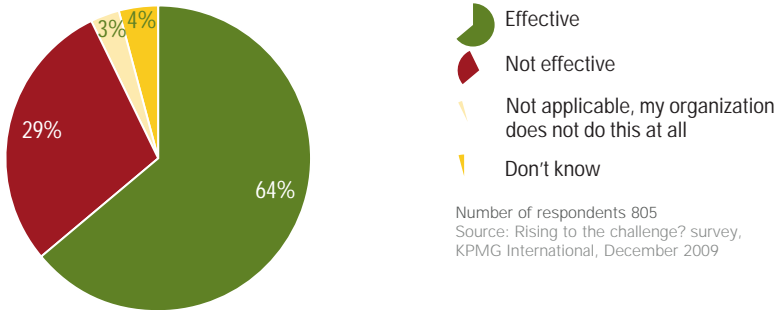
It's not just the less experienced that require training. More mature workers have their own development needs, particularly as many are considering extending their working lives, either for financial or lifestyle reasons. This point was made succinctly by one of the Australian executives taking part in the survey: "There is now increased incentive for employers to invest in further training for employees reaching the retirement age of 55, given that their working lifespan may extend for another 10 years."

Some older workers – particularly those returning after retirement – may be less comfortable with technology, so it's worrying that well over a third of those participating in the survey feel that IT training for this group was less than adequate. Such a weakness could restrict the effectiveness of an important part of the workforce.

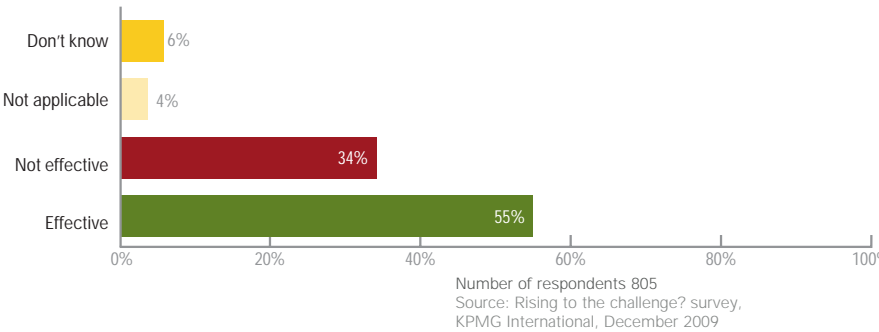
As one respondent from the US comments, training programs should be as user-friendly as possible: "There are some generational differences, and certainly the use of technology is one of those. One of the huge challenges of bringing back retired workers has been that our technology has changed a lot."

* Figures may not add up to 100 due to rounding

Effectiveness of your organization at supporting the continuing professional development people at different stages of their careers



Effectiveness of your organization at ensuring older workers receive training to keep them up to date with changes in technology*

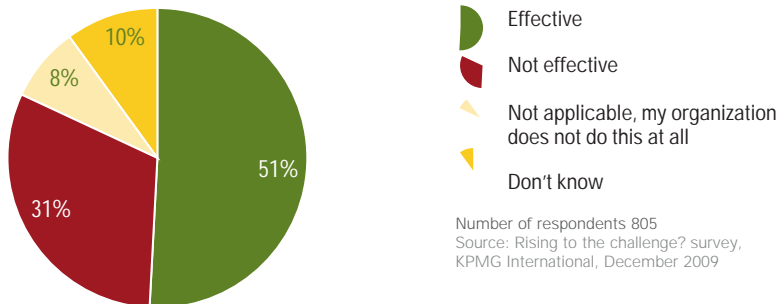


Adapting to the needs of a new workforce

Despite acknowledging the need to recruit from a wide and diverse pool of people, public sector organizations appear less able to actually cater to such workers once they've joined. Only half of those participating in the survey feel that their employer adapts effectively to those from non-traditional backgrounds.

Expected funding cuts could potentially have a negative impact upon public sector salaries. One South African manager taking part in the survey commented: "Attraction of high quality graduates is difficult. We get them and then incubate them, but then have the problem of keeping hold of them when the private sector rewards are much greater."

Effectiveness of your organization at adapting to the needs of workers from non-traditional backgrounds



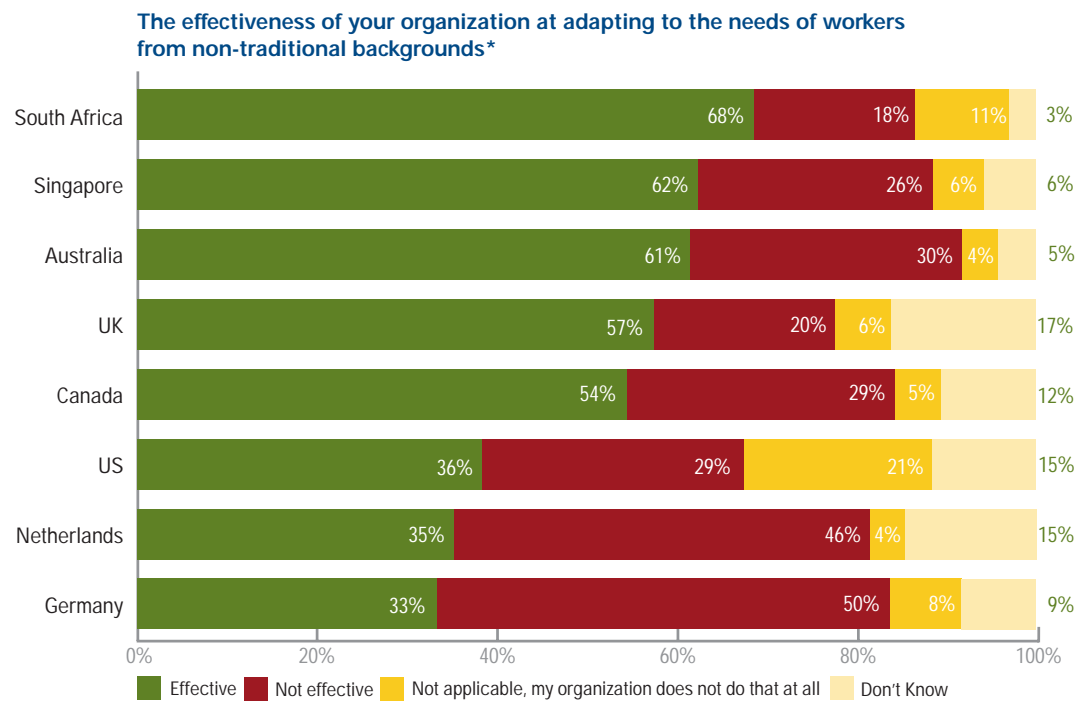
* Figures may not add up to 100 due to rounding

Not everyone is adaptable

Public service providers in the US and Germany are lagging behind other countries when it comes to meeting employee requirements, according to the survey responses. On a number of categories, such as adapting to the needs of a wide range of workers, and providing appropriate benefits packages, these two countries are rated as relatively ineffective.

Public service employers in South Africa and Singapore, on the other hand, appear considerably more progressive, whether it's providing the right benefits, supporting professional development or training older workers in technology.

The Netherlands was rated the most effective for flexible working arrangements, with the US again faring the worst in this respect.

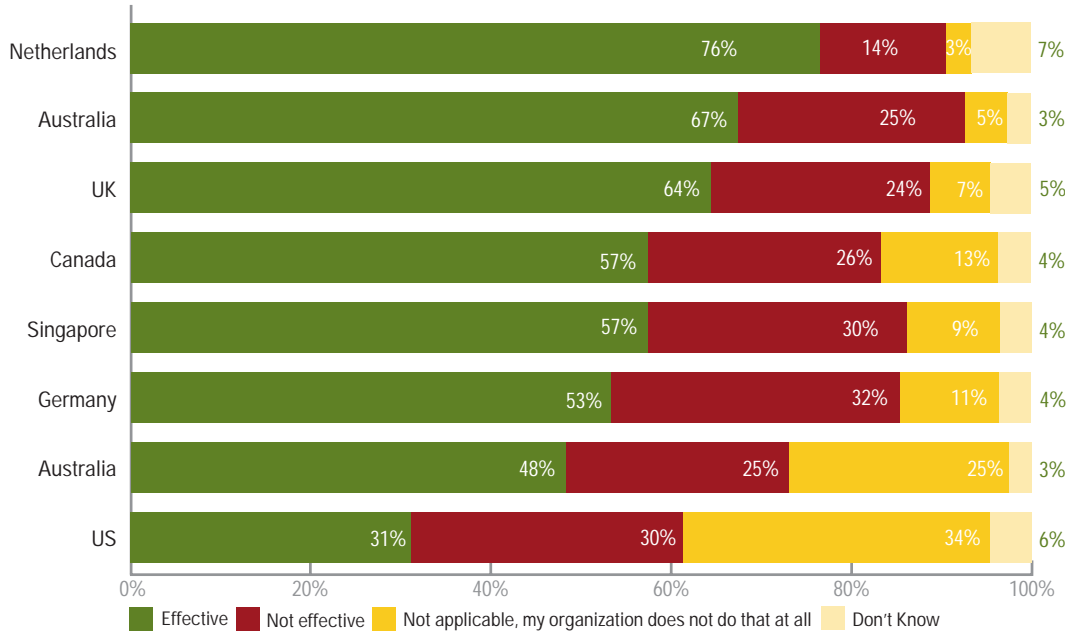


Number of respondents 805
 Source: Rising to the challenge? survey, KPMG International, December 2009

* Figures may not add up to 100 due to rounding



The effectiveness of your organization at allowing employees to work flexibly (for example, part-time or job share arrangements)*



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KPMG view: meeting the needs of workers of all ages

Given the scale of opportunities opening up for younger employees in the public sector, employers may place less emphasis upon retention and more on supporting people through a period of accelerated learning.

Of perhaps far greater concern are those older workers facing imminent retirement. This group – along with the recently retired – is a vital source of knowledge and skills that organizations are desperate to retain or re-hire, in order to pass on critical experience and know-how to the younger generation.

Unfortunately, in many countries the rules over pensions often act as a deterrent. For example, having reached pension age, employees wishing to continue working on a full-time or part-time basis may be denied all or part of their pension for as long as they remain in employment. In such circumstances they may well choose to work as independent consultants (at a higher cost) or not at all.

The practice of “double dipping,” allowing retirees to return to work and continue to claim their pension, would

broaden the availability of this group. According to KPMG's Mark Smith, more flexibility is needed: “Sometimes the public sector rules made to prevent double dipping can be too onerous. In areas of high need, there can be a consideration towards continuance of pension even though you've been hired back – and have flexible benefits such as life insurance and health insurance.”

Workers of all ages will naturally continue to need training and personal development. However, rather than work to rigid career plans, employees are increasingly likely to take control of their own destiny, with Human Resources providing help when necessary. Job rotation, temporary assignments and relocation (depending upon the scale of the organization) all have a role to play.

The younger, technology-literate generation expects a more interactive learning environment that makes full use of multi-media and e-learning, including facebook™-style networking. One Canadian respondent said that: “What we have become aware of and need to do more on is the use

of technology to keep them [younger employees] motivated and engaged in the workplace. Our internal intranets and websites are highly passive, not interactive.”

Generational differences do exist, yet many organizations – both public and private – adopt a ‘one size fits all’ management style. To improve retention, leadership teams should recognize these differences and establish a personal connection with their people. This involves demonstrating an interest in individuals' careers and long-term development; not just meeting up twice a year for performance reviews. Such personal investment in people should bring dividends.



“ In areas of high need, it would be good to be able to maintain your pension, even though you've been hired back — and have flexible benefits such as life insurance and health insurance.”

Mark Smith, Global Leader of People and Change, a partner of KPMG in Canada

Knowledge transfer: stemming the brain drain

Even the most successful retention programs can not halt the inevitable retirement of large numbers of the baby boom generation. Many of these employees have built up a real depth of knowledge, possibly over several decades, which could be vital to the organization's ability to deliver its services effectively.

64 percent of respondents feel their organization is effective at passing on knowledge

Overall, a surprisingly large proportion of those taking part in this survey (64 percent) are positive about their organization's ability to transfer skills and knowledge.

Some of those taking part in the survey however feel that knowledge transfer is all too often carried out in an ad hoc, informal manner. One manager from Australia said that: "I don't think that's [knowledge transfer] generally done well as a rule. I don't think anyone has come up with a mechanism which balances getting the day-to-day work done against allocating time to mine that sort of information."

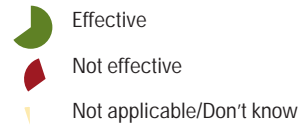
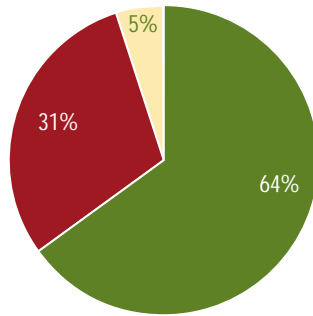
On the other hand, relying too much on manuals and guide books may not capture the full breadth of knowledge of an experienced person, as one respondent from Canada explained: "A lot of the loss of knowledge and expertise is about those things that are hard to write down, which are more intuitive, instinctual, about experience."

Effective knowledge transfer is proving a challenge to both private and public sector organizations. Mentoring and job shadowing gives less experienced employees the opportunity to learn from their elders. A healthy majority of two thirds of respondents believe that their employer is effective in using experienced staff to mentor and coach more junior employees.

However, our responses suggest that public sector organizations are less successful at job shadowing and rotation, with a sizeable minority (36 percent) claiming that their organization does not do this well.

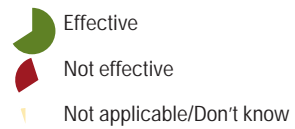
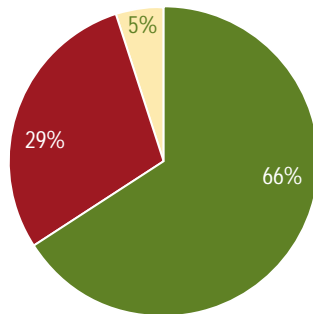
For some parts of the public sector, funding cuts are starting to bite, with several of the executives interviewed expressing concern about how to pass skills and learning to the next generation of managers, as evidenced by the following comment from a respondent in Australia: "Most chief executives in the public sector lack a succession plan and skills transfer program – this is due to the pressure placed on the public sector to cut cost, so most time is spent on how to cut staff while meeting the same service demands/revenue."

Effectiveness of your organization at passing on knowledge from experienced employee



Number of respondents 805
Source: Rising to the challenge? survey, KPMG International, December 2009

Effectiveness of your organization at using experienced employees to mentor and coach junior employees

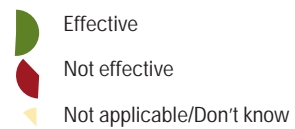
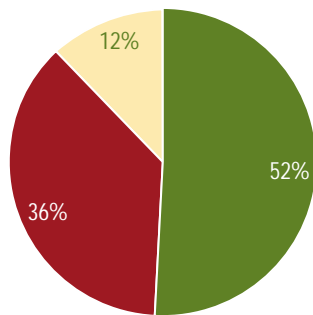


Number of respondents 805
Source: Rising to the challenge? survey, KPMG International, December 2009

“A lot of the loss of knowledge and expertise is about those things that are hard to write down, which are more intuitive, instinctual, about experience.”

Respondent, Canada

Effectiveness of your organization at using job shadowing/rotation to support the development of junior employees



Number of respondents 805
Source: Rising to the challenge? survey, KPMG International, December 2009



KPMG view: a race against the clock

Knowledge transfer is one of the most pressing issues facing public sector organizations, with many older workers retiring from top positions – taking valuable knowledge with them. In a separate 2008 survey conducted in the US by the International Public Management Systems for Human Resources (IPMA-HR) 65 percent of the respondents felt that knowledge loss due to retiring employees will put their organizations at risk.

Arguably one of the key reasons for retaining older staff – and re-hiring retired people – is to help maximize the opportunity to pass on their in-depth knowledge. Mentoring and shadowing are particularly valuable activities as they allow younger employees to learn first hand from more experienced managers.

HR has an important role in facilitating knowledge transfer by linking groups of

people who share common problems and/or roles. Such 'Communities of Practice' are fluid networks of people who meet regularly to share common concerns, problems, and to deepen their knowledge and expertise. Technological advances such as social networking sites allow such groups to function on an ongoing basis, which can augment face-to-face contact.

Formalizing such communities should help. Designated leaders should be charged with developing communication and encouraging relationships across different teams. And groups should be run in a disciplined way with structured agendas and clear objectives.

The cross fertilization of ideas can bring real benefits, as KPMG's Mark Smith explains: "Public sector policy making is a skill that takes years to build up, as it requires an intensive understanding

of how national and local government works. A Community of Practice of policy analysts and policy directors could help develop good practice across the organization, and bring the younger staff up to speed in an area where it's almost impossible to teach without doing."

Likewise, bringing together managers with control over budgets from different areas such as healthcare, education and municipal services can help each learn from the others' experience.

Both public and private sector organizations are grappling with the challenge of effective knowledge and skills transfer. The retirement of baby boomers may actually create a great opportunity to pioneer good practice of this vital discipline.



"Workers returning from retirement should be used primarily for knowledge transfer, not just for getting daily work done."

Mark Smith, Global Leader of People and Change, a partner of KPMG in Canada

Re-thinking the organization

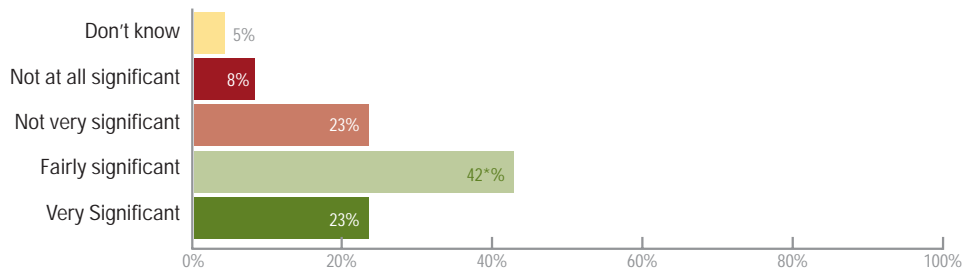
Two decades of economic growth have seen many countries pump large amounts of resource into the public sector. And while the focus has clearly been on better services, arguably some of this money may have helped expand organizational empires and bureaucracies.

65 percent of respondents believe restructuring will be a significant issue for their organization

At the same time, many public sector organizations around the world have also devoted considerable effort into raising efficiency, with changes in organization design, including the use of outsourced services. The combination of funding cuts and mass retirement makes this even more of an imperative, as one German executive observed: "...all businesses and institutions will have to deliver the same performance with fewer staff... and we need to simplify the processes in order to be able to do that."

The current environment could also be viewed as a great opportunity to transform the face of the sector, bringing in greater efficiency and moving away from the old model of 'big government.' Reshaping the organization is certainly on the agenda for the respondents in this survey, with almost two-thirds (65 percent) of respondents believing that restructuring will be a significant issue for their employer.

The challenge of restructuring on your services*



Number of respondents 805
 Source: Rising to the challenge? survey, KPMG International, December 2009

Those respondents from national or regional organizations appear to be more aware of the challenge of restructuring than their counterparts in local or city government. This is to be expected, given the size and complexity of such large institutions.

"All businesses and institutions will have to deliver the same performance with fewer staff."

Respondent, Germany

* Figures may not add up to 100 due to rounding

KPMG view:

a focus on customer service and performance

With governments around the world struggling to reduce large deficits, the public sector is expected to suffer a considerable reduction in funding. Creating leaner, more efficient structures is therefore becoming an imperative if service cuts are to be avoided.

Outsourcing of back office functions is already a common feature in many public sector organizations and likely to continue to be so, with shared services for functions such as HR, Finance and IT. There may even be some off-shoring for the larger institutions.

However, the front office could also change through initiatives such as common service desks and portals

able to handle a range of activities for different services. The growing use of self-service (via the Internet or website) can also be leveraged to help address the anticipated lower staffing levels.

Adopting a more 'private sector' approach to procurement has the potential to bring valuable savings, reducing the number of suppliers and exploiting economies of scale.

A greater focus on measuring performance can focus individuals on clear goals, with rewards clearly linked to objectives. Measuring the return on investment in projects or initiatives should help make the most of smaller budgets.

The move to create leaner, more efficient organizations may not be quite as dramatic as the restructuring seen in some private companies, but it should help create a dynamic environment that is more customer focused and performance oriented.



“ Is this an opportunity to create leaner organizations? It is indeed especially given the economic conditions and implications posed by the demographic change, governments should be reshaping their organizations to become leaner, more outcome-oriented and more performance-oriented.”

Mark Smith, Global Leader of People and Change, a partner of KPMG in Canada

Conclusions: next steps

The potential impact of demographic change is huge, and something that no public sector organization can afford to ignore. As the table opposite shows, the survey respondents are certainly placing a bigger emphasis upon the vital issue of knowledge and skills transfer and professional development, and to a lesser extent on making benefits packages more flexible. There appears to be slightly less importance attached to expanding the range of people targeted for employment.



If the sector is to achieve more with fewer resources, its leaders should include these initiatives within a broader strategy that addresses their human resource demands over the coming decade. Some of the key priorities are:

Raising awareness

With the survey suggesting a concerning lack of urgency over the challenge ahead, those at the highest levels of the organization should treat the aging workforce as a serious issue and ensure that they have a defined strategy and plan to counter this.

Creating an attractive employer brand

Demographic change is an unstoppable force that will continue regardless of current high unemployment levels. Consequently the best talent will still be in short demand. "The public sector has an outstanding proposition to sell to job seekers, offering exciting careers full of challenge, responsibility and variety – with very competitive salaries and benefits," says Mark Smith, Global Leader of People and Change, and a partner of KPMG in Canada. "Packaging this effectively to the widest possible audience should help in recruiting the brightest and the best."

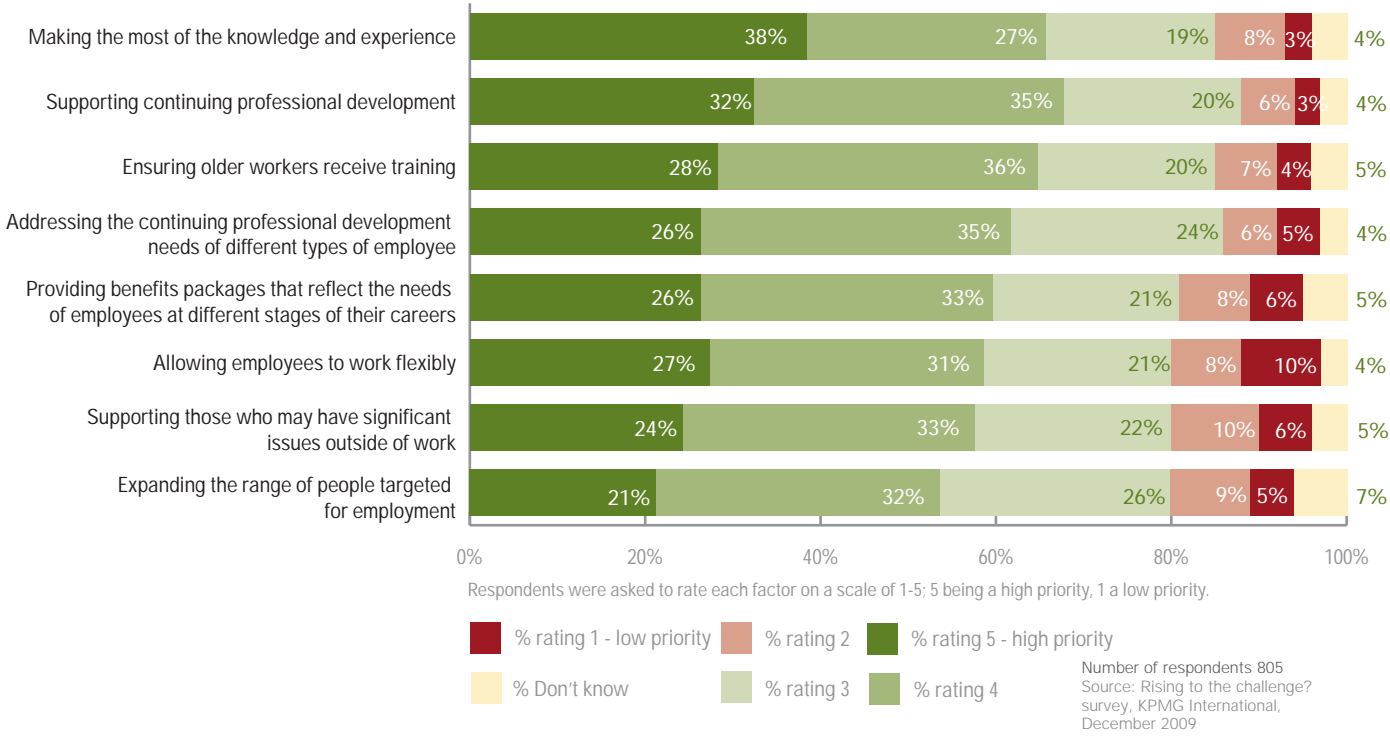
Getting the most from experienced workers

Knowledge and skills transfer should be urgently addressed before vital experience is lost. Offering more flexible benefits packages to those past retirement age can help retain the services of older managers. Utilizing the latest in good knowledge sharing practice, including mentoring, shadowing and Communities of Practice, can help ensure that the next generation of leaders receive the appropriate accelerated knowledge.

Creating a leaner organization

The pressures on efficiency are likely to be so intense that reshaping is inevitable. However, this is also an excellent opportunity for transformation. By addressing issues such as performance management, outsourcing and procurement, the public sector can respond positively to expected reductions in funding, and thus could improve rather than cut services. As Mark Smith concludes: "Demographics colliding with economics creates a once in a lifetime opportunity to begin to remake public service organizations."

Priorities in response to an aging workforce*



* Figures may not add up to 100 due to rounding

About the survey

The survey was carried out by Ipsos MORI for KPMG between April and July 2009.

The research covered respondents in **Australia, Canada, Germany, the Netherlands, Singapore, South Africa, the UK and the US.**

The main responses were gathered via an online survey of 100 public sector employees in each of the eight countries above. Approximately 30 percent of those responding were managers, and 70 percent staff.

These results were augmented by 25 extensive one-to-one telephone interviews with senior managers in public sector bodies across the eight countries. The interviewees were primarily HR and Financial Directors working in both central and local government.



“A critical challenge public sector leaders face is that demographic shifts are taking place at a known but still moderate pace compared to the daily pressures of management. A real risk emerges if the focus is exclusively placed on these short-term pressures, as this is likely to make the demographic problem even worse when it does arrive. As the research shows, now is perhaps the right time to begin planning and instituting strategies to deal with aging in the public sector.

Many public sector leaders will be facing the dual challenge of responding to fiscal pressures exacerbated by the global economic downturn, and looming demographic shifts that in some places are already having an impact. Can this challenge be overcome? We think it should be and it can be, but it will take careful consideration and planning; our research is an attempt to add some context for the necessary debates.”

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