



**CPSU (PSU Group) Submission:**

**Input into the 2009-10 Budget**

**Budget Policy Division,  
Department of Treasury**

**January 2009**



The Hon. Wayne Swan MP  
Treasurer  
c/- Budget Policy Division  
Department of the Treasury  
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Friday 16 January 2009

Dear Treasurer

Please find attached a submission from the Community and Public Sector Union (PSU Group) to the Government's invitation to submit ideas for the 2009-10 Budget.

The contact person for this submission is Dr Kristin van Barneveld, Director of Policy and Research CPSU on (02) 8204 6930.

Yours sincerely

A handwritten signature in blue ink that reads 'Mark Gepp'.

Mark Gepp  
CPSU Acting National Secretary

## **Background**

The PSU Group of the Community and Public Sector Union (CPSU) represents workers in the Australian Public Service (APS), the ACT Public Service, the Northern Territory Public Service, the telecommunications sector including Telstra, call centres, employment services and broadcasting.

This is a submission of the CPSU to the Commonwealth Government for consideration in the 2009/10 Budget process. The submission addresses three key issues relating to funding. First, it discusses the need for the APS to be properly funded to deliver quality essential public services. Second the effect of the efficiency dividend is detailed with recommendations, among other things, that the efficiency dividend be abolished and that the reliance of the APS on contract labour be substantially reduced. Third, the CPSU outlines the lack of direct Commonwealth funding of wage increases and details the implications of this, recommending that a whole of service wages and conditions agreement be negotiated with the CPSU to replace the multitude of collective agreements currently in place in the APS.

## **Proper Funding to Deliver Quality Essential Public Services**

Formed on the advent of Federation, the Australian Public Service is one of the most enduring institutions in Australia. It has key roles in providing services, addressing market failures, dealing with national challenges and crises and delivering policy to governments on all sides of politics. However, in order for the APS to properly fulfil these roles and effectively address the needs of the Australian people, the APS must be properly funded.

Current funding levels and funding formulas for APS agencies are not adequate to enable them to deliver quality essential public services. Many agencies struggle to meet the increasing demand from government and the public for service and program delivery, policy development, innovation, and advice.

### Quality Essential Services

The Rudd Government has a big agenda and needs the best and brightest people to develop and deliver it. However funding levels for the public sector and the use of outsourcing in areas including ICT has not promoted long-term capacity building within departments. The pressure to find efficiencies and savings each budget cycle has resulted in short-sighted cost cutting exercises that impact on the future sustainability of agencies.

The CPSU strongly urges the Government to recognise the importance of the public provision of services and properly fund these to ensure that quality essential public services and quality public policy is achieved, innovation is fostered, and that the APS is again operating at best practice and delivering quality jobs.

### Best Practice

There is no question that the public sector, which relies on public money to sustain its activity, should use the most efficient practices available. The APS has historically been a leader in best practice and an employer of choice. However the restrictive funding mechanisms that have applied to the APS for more than two decades have compromised the ability of many agencies to continue to be leaders and have affected the ability of the APS as an employer to lead in conditions of employment.

Providing funding that encourages and rewards best practice and facilitates a culture of innovation within and across agency functions should be the focus of the government.

To achieve this, there must be a shift in the thinking around the role of the public sector and the quality of services it provides. Staff and agencies should not be expected to deliver more programs, policies and services at a higher quality with less funding and fewer resources. There must be recognition that best practice and quality essential services cost money and while agencies must operate efficiently, this should not be the only measure of organisational effectiveness.

### Recommendations

1. The Government, in consultation with stakeholders including the CPSU and community organisations, needs to establish a priority list of agencies which require an urgent review of their funding arrangements to ensure that agencies are able to deliver quality jobs, policies and services and are provided the necessary funding to achieve these outcomes.
2. Government must strive to again be a leader in research, policy development and innovation. Future funding arrangements must promote innovation at all levels, including in research, policy and service delivery.

### **Efficiency Dividend**

The efficiency dividend was implemented by the Hawke Labor Government in 1986-7. The dividend was a short term budget cut designed to require agencies to look for efficiencies within their operations. However as Table 1 shows, rather than being a short term budget cut, the Dividend has been applied to successive budgets and has increased over time<sup>1</sup> (Table 1).

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<sup>1</sup> Department of Finance and Deregulation (2008) Finance Submission to the Joint Committee of Public Accounts and Audit Inquiry into the Effects of the Ongoing Efficiency Dividend on Smaller Public Sector Agencies, Submission 25, <http://www.aph.gov.au/house/committee/jpaa/efficdiv/subs/sub25> .pdf, at 15 December 2008, p.2.

**Table 1: The Efficiency Dividend**

Year	Percentage Efficiency Dividend
1986-7	0.5%
1987-8 to 1993-4	1.25%
1994-5 to 2004-5	1.0%
2005-6 to 2006-7	1.25%
2007-8	1.25 plus <i>pro-rata</i> of 2.0%
2008-9	1.25% plus 2.0% of the same base
2009-10 to 2010-11	1.25%

After more than two decades of arbitrary and routine budget cuts, many agencies, particularly smaller agencies, have long run out of 'efficiencies'. As the 'efficiencies' dried up, agencies struggled to deliver quality public services, either cutting programs and/or staffing levels to operate within their budgets. The Acting Director General of the National Library recently suggested that it was ten years ago that the Library 'had got to the point where (the efficiency dividend) was no longer about efficiencies but cuts to service delivery and operations'<sup>2</sup>. Yet the ongoing application (and increase) of the efficiency dividend meant that the Library for 2008-9 had 'a reduction of \$1.856m in government appropriation funding'<sup>3</sup>. Similarly, the budget of the National Archives for 2008-9 was reduced by \$1.510m as a result of the efficiency dividend<sup>4</sup>. For the National Gallery the decrease was \$1.295m<sup>5</sup> and the War Memorial budget was decreased in 2008-9 by \$1.197m<sup>6</sup>.

In June 2008, the Joint Committee on Public Accounts and Audit resolved to review the effects of the ongoing efficiency dividend on smaller public sector agencies. During the public hearings for the Inquiry, cultural agencies reported being unable to sufficiently grow collections, an inability to maintain collections, an inability to properly digitise collections, an inability to undertake the desired level of travelling exhibitions, an inability to innovate, an increased reliance on fundraising and an inability to attract and retain adequate staff due to a lack of funds to pay competitive wage rates.

Cultural agencies were not the only ones that suffered disproportionately from the efficiency dividend. All small agencies reported difficulties as a result of the budget cuts. To remedy this situation, a recommendation of the Inquiry

<sup>2</sup> Cathro W (2008) Joint Committee of Public Accounts and Audit: inquiry into the effects of the ongoing dividend on smaller public sector agencies, Hansard, Thursday, 21 August, Canberra, p.40.

<sup>3</sup> National Library of Australia (2008) Submission to the Joint Committee of Public Accounts and Audit: Inquiry into the effects of the ongoing dividend on smaller public sector agencies, Submission 41, Canberra, p 1.

<sup>4</sup> National Archives of Australia (2008) Submission to the Joint Committee of Public Accounts and Audit: Inquiry into the effects of the ongoing dividend on smaller public sector agencies, Submission 27, Canberra, p 2.

<sup>5</sup> National Gallery of Australia (2008) Submission to the Joint Committee of Public Accounts and Audit: Inquiry into the effects of the ongoing dividend on smaller public sector agencies, Submission 6, Canberra, p 1.

<sup>6</sup> Australian War Memorial (2008) Submission to the Joint Committee of Public Accounts and Audit: Inquiry into the effects of the ongoing dividend on smaller public sector agencies, Submission 26, Canberra, p 1.

was that the first \$50 million of all agencies budgets would be exempt from the application of the efficiency dividend. While a positive step, this will not be enough to overcome the negative impacts of the efficiency dividend. The effect of the efficiency dividend on larger agencies has not been reviewed, yet it has the potential to be just as damaging to the operations of these agencies as it is to smaller ones.

Only the complete removal of the efficiency dividend and a proper review of APS funding arrangements will achieve an effective, vibrant, innovative and quality public service. For example, instead of forcing agencies to find savings through the arbitrary and routine application of an efficiency dividend, agencies could be encouraged to investigate whether savings could be achieved through centralising procurement and creating economies of scale.

### ICT Procurement and the Efficiency Dividend

Also released in 2008 was the Gershon Report on the Australian Government's use of Information and Communication Technology. This Report and its recommendations were accepted in full by the Minister and the government. In his report, Sir Peter was critical of what he described as weak governance of ICT across the government, recommending a range of measures to promote efficiency and improve planning and decision making.

While the Report's recommendations were very constructive, without the abolition of the efficiency dividend, when implemented, they also represent a possible double whammy for many agencies. Sir Peter recommended a reduction to the Business as Usual (BAU) funding of ICT for the largest 28 agencies in addition to the efficiency dividend cuts. However ICT was one of the areas remaining where agencies could find efficiencies to offset the efficiency dividend cuts. This double hit has the significant potential to further reduce the ability of agencies to deliver quality essential public services.

### The use of contract labour and the Efficiency Dividend

In addition to the BAU recommendation, Sir Peter also recommended that the public sector reduce its over reliance on contract workers in the immediate two year period. The CPSU firmly supports this recommendation, however it must be done in conjunction with a review of agency funding to enable agencies to properly train existing ICT employees and attract and retain new ICT professionals.

The public sector's over reliance on contractors extends well beyond ICT, from recruitment, payroll and travel services to Ministerial speech writing. The extensive use of outsourcing is a symptom of agencies not having the departmental funding for new staff and their inability to fund wage increases and pay competitive salaries.

Any functions that are necessary for the ongoing operations of an agency must be undertaken by ongoing employees, not by contractors. There must be a review the use of outsourcing and contract labour to ensure that

agencies are not competing for work that is more effectively performed by the public sector.

In some cases it is difficult to ascertain what proportion of an agency's work is being done by employees and what is being done by other workers. There must be consistency and transparency in agency annual reports, to ensure that the true labour costs of running an agency are known. Greater transparency of employee related functions would allow for comparison of employee costs with outsourced labour costs and an assessment of value for money. Only then will it be possible to improve the efficiency of government spending and achieve savings.

### Recommendations

1. The efficiency dividend must be abolished for all agencies. Short term solutions and artificial mechanisms to harvest revenue from departmental budgets distort workforce planning, policy development and service delivery. They also inhibit timely and comprehensive responses to emerging issues. This is not in the best interests of the Government or the Australian people.
2. Mechanisms to promote savings in the public sector such as the pooling of resources, centralisation of some procurement functions (such as ICT) should be investigated. It is however, important to note that in order to the pooling of resources and the centralisation of functions to be successful there needs to be a significant improvement in the redistributions of savings. Currently the Department of Finance often takes most of the savings, with little benefit to the other agencies involved.
3. There must be a review of the use of outsourcing and contract labour to ensure that agencies are not competing for work that is more effectively performed by the public sector.
4. Government must invest sufficient funds to address skills shortages to ensure that core functions are conducted in-house.
5. There must be consistency and transparency in agency annual reports, including the reporting of labour cost data, to ensure that the true labour costs of running an agency are known. Greater transparency of employee related functions would allow for comparison of employee costs with outsourced labour costs and assessment of value for money.

### **Wages Supplementation**

The ability of the public sector to deliver quality services, policies and advice heavily relies on the capacity of agencies to attract and retain skilled workers. However this capacity is being restricted by funding arrangements that do not provide for full wages supplementation.

Since the early 1990s, wage movements have been underpinned by a productivity assumption. That is, increases in wages need to be paid for within

agency budgets by improvements in productivity. The capacity of agencies to pay wage increases has been subject to the agenda of the government of the day – new programs provide additional funding and enable agencies delivering that agenda to better fund salaries and attract new skills.

The CPSU has estimated that Commonwealth Budget supplementation for wage increases has been modest (generally around half the rate of CPI) at an average of 1.25 per cent per annum, while wages growth has been at around 3-4 per cent per annum. At the same time agency running costs have been reduced by the imposition of an efficiency dividend.

The long term effect has been that the capacity to find additional savings to pay for wage increases has been constrained. Those agencies with new initiatives have found ways to maintain or increase real wages, but those with smaller budgets and/or less dynamic program responsibilities have not.

This Government has a big agenda and needs the best people to develop and deliver it. Much of this agenda falls within female dominated agencies – for example: social inclusion, education and indigenous rights. However these are suffering the most in relation to pay. Having a substantial part of the workforce paid less than others is not the right way to start and the CPSU looks forward to working with the Government to address these issues.

### Recommendations

1. The APS is a single employer. The APS must move to a whole of service pay and conditions agreement for all APS employees.
  - Pooling the funding for certain entitlements across the entire employer will ensure equal access (for example to maternity leave, paternity leave, sick leave, long service leave, carers leave, and bereavement leave).
  - A single agreement will allow mobility both within and between agencies, providing career opportunities and enhancing the ability of the APS to attract and retain staff. A uniform salary scale would also enable the government to respond to emerging needs and the capacity for employees to move between agencies will produce real savings, particularly given that it has been estimated that it costs up to 30 per cent of an annual salary to recruit and have someone become fully operational in a new role if they have no prior experience.
2. Accompanying this must be a classification review in the APS that examines:
  - Pay differentials for work performed at the same level.
  - The application of existing work-level standards.
  - The need to develop and modernise employment classifications to deal with professional employment and emerging occupations, like lawyers, accountants, IT professionals etc.

## **Concluding Comment**

The CPSU submission contains a number of recommendations, all designed to ensure that the APS is properly funded in the future for the delivery of quality programs and essential services to the standard expected by the Australian people. Integral to this is ensuring that Government reviews employment arrangements in the APS to remove current wage inequities and ensure that the Service can attract and retain the best and brightest.

Recommending that the public sector be adequately funded to deliver quality public services should not be controversial. The public sector is the backbone of Australian society and plays an even more important role during difficult economic times. It is the mechanism through which the government can redress disadvantage and provide all Australians with the opportunities that a civil society should provide.