

Community & Public Sector Union
Stephen Jones • National Secretary

29 January 2010

The Hon. Wayne Swan MP
Treasurer
c/- Budget Policy Division
Department of Treasury
Langton Crescent
Parkes ACT 2600

Email: prebudgetsubs@treasury.gov.au

Dear Treasurer

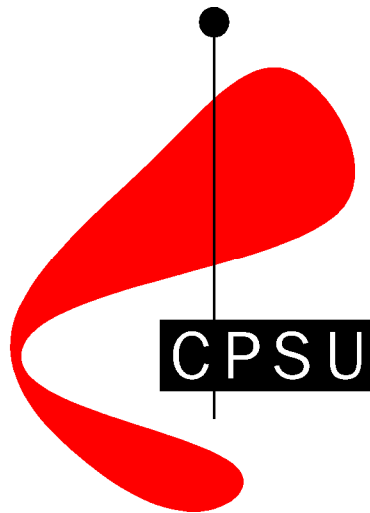
Please find attached a submission from the Community and Public Sector Union (PSU Group) to Government's invitation for submissions for the 2010-2011 Budget.

The contact person for this submission is Ms Melissa Donnelly, ph 02 8204 6971.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephen Jones', written in a cursive style.

Stephen Jones
CPSU National Secretary



CPSU (PSU Group) Submission:

Input into the 2010-11 Budget

**Budget Policy Division,
Department of Treasury**

January 2010

Summary of Recommendations

The CPSU recommends:

1. That the Commonwealth Government moves to a service wide agreement for APS employees.
2. That a joint wages and classification review be established with representatives from relevant government agencies, including the Department of Prime Minister and Cabinet and the Department of Employment, Education and Workplace Relations, as well as representatives from the CPSU. The Review must be fully funded by government.
3. The Commonwealth Government must accept the recommendations of the Joint Committee on Public Accounts and Audit Report 'The efficiency dividend and small agencies: Size does matter' and introduce amendments to the agency funding model arrangements as a matter of urgency.
4. That the Commonwealth Government remove arbitrary budget cuts such as the efficiency dividend.
5. The Commonwealth Government, in consultation with stakeholders including employees, the CPSU and community organisations, must undertake a review of public sector funding to ensure that agencies are properly funded to deliver quality public services.
6. The Commonwealth Government should commit to not introduce an additional efficiency dividend or additional budgetary cut on any agency/portfolio budgets.
7. That the 2010-11 Commonwealth Budget fully fund agencies for a level of wages growth that will attract and retain the skilled staff necessary to deliver quality, essential services.
8. The Commonwealth Government invest resources to strengthen APS professional career structure. This would include modernisation of the classification structure, significant investment in training and development programs across the APS and creation of professional networks.
9. The Commonwealth Government, in collaboration with stakeholders including employees and the CPSU, undertake a thorough review of all contracting out arrangements. This review process must examine the cost-effectiveness and efficiency of these contracting out arrangements.
10. Any future proposal for contracting out must demonstrate it is in the public interest, including consideration of cost-effectiveness, efficiency, implications for public sector employees and workforce capacity and planning. Contracting out proposals must also be vetted by a central agency to ensure consistency across the APS.
11. In their annual reports, agencies should specifically report on the number of contractors/consultants engaged, the period and cost of their engagement and the purpose for which they were engaged.

12. The Commonwealth Government assign responsibility for central procurement of key services to the Department of Finance and Deregulation. The Commonwealth Government should also provide appropriate incentives to agencies to make savings through centralised procurement, including by passing savings on to the agencies involved.
13. The Commonwealth Government establish roundtable forums within and across agencies, with the participation of employees, in particular those engaged in service delivery, and their union representatives, to investigate opportunities to innovate and improve the efficiency with which public policy is developed and essential services are delivered.

Introduction

The PSU Group of the Community and Public Sector Union (CPSU) is an active and progressive union with approximately 55,000 members. The CPSU represents employees of the Australian Public Service (APS), the ACT Public Service, the Northern Territory Public Service, Telstra, the telecommunications sector, call centres, employment services and broadcasting.

The APS is one of the most successful and professional public services in the world. It does, however, face a number of key strategic challenges in terms of how it meets policy challenges and delivers services to the Australian community. These challenges have led to a growing focus and debate around the need for public sector reform. In light of the challenges facing the APS the Prime Minister himself has called for:

“sweeping reform driven by a long-range blueprint for a world class 21st century public service”.¹

Reform of the public sector is, of course, not a goal in itself. Public sector reform must be aimed at improving the way in which the public interact with the APS – enhancing the capacity of the APS to develop public policy that improves people’s lives and delivers essential services to the Australian community. The expectations of the Australian public can only be met if the APS has the capacity to develop innovative policy solutions to the complex challenges the nation faces and deliver essential public services to the community. Providing such services is, of course, not free, as the Secretary to the Treasury, Dr Ken Henry, has recently pointed out:

“in order to finance the government-provided goods and services demanded by the community, revenue needs will grow strongly in the longer term”.²

The Moran Review identified barriers to the reform process as being ‘embedded in the prevailing public service architecture – the financial, accountability, performance and employment frameworks across the APS’.³ This submission to the 2010-2011 Federal Budget process focuses on ways in which the government may overcome some of these barriers to reform – specifically, through reforms of employment and funding arrangements.

Employment arrangements in the APS are currently fragmented. This results in inefficient and inequitable outcomes. To create a more unified and cohesive APS, the government must negotiate, with the CPSU, a service wide agreement covering pay and conditions for APS employees. The government must also undertake a joint review of APS wages and classifications with the CPSU.

¹ Prime Minister, ‘John Paterson Oration: Australia New Zealand School of Government Annual Conference’ (3 September 2009) available at <http://www.pm.gov.au/node/6172>, accessed 29 January 2010.

² Secretary to Treasury, ‘Changing Taxes for Changing Times: Speech to the Australian Tax Teachers Association Conference’ (21 January 2010) available at http://treasury.gov.au/documents/1714/HTML/docshell.asp?URL=Australasian_Tax_Teachers_ATT_Speech.htm, accessed 29 January 2010.

³ DPMC *Reform of Australian Government Administration: Building the world’s best public service*, Department of Prime Minister and Cabinet (October 2009), p.9, available at http://www.dpmc.gov.au/consultation/aga_reform/docs/reform_aust-govt_admin.pdf, accessed 26 January 2010.

The method of funding public sector agencies also needs to be reformed. The efficiency dividend is not sustainable and undermines the ability of agencies to properly deliver policy and essential services. As part of this reconsideration of funding, public sector agencies must be provided with funding for full wages supplementation

APS Service Wide Agreement

Problems with decentralised agency bargaining

The APS is a single employer. However, it does not act as such in its bargaining arrangements. The present system of Commonwealth agencies negotiating around 100 individual agency agreements with APS employees is inefficient and unfair. The resulting fragmentation of working conditions entrenches an agency-based silo culture that inhibits collaboration and co-operation between agencies. As identified by the Moran Review⁴, unless this silo culture is overcome, the APS will miss opportunities for innovation and increasing productivity. The APS will be unable, in the words of the Prime Minister, to:

“embrace new ways of delivering services to meet the changing needs of Australians in coming decades, as well as ensuring the cost-effectiveness of all publicly funded services”.⁵

Individual agency bargaining in the APS wastes time, money and resources. At present, bargaining processes are duplicated in each agency, diverting critical resources away from delivering on the government's policy and Budget priorities. Individual agency bargaining also sees Government agencies competing with each other to recruit and retain skilled employees, further undermining the principle of a single public service. Such competition is particularly insidious where there is a tight public sector jobs market as is the case in one of the key APS labour markets, Canberra.

This view of the inefficiency of agency level bargaining is not novel or particularly new: a 2007 OECD Working Paper on public governance recognised that higher transaction costs (in administration and bargaining arrangements) are associated with decentralised bargaining over pay and conditions.⁶

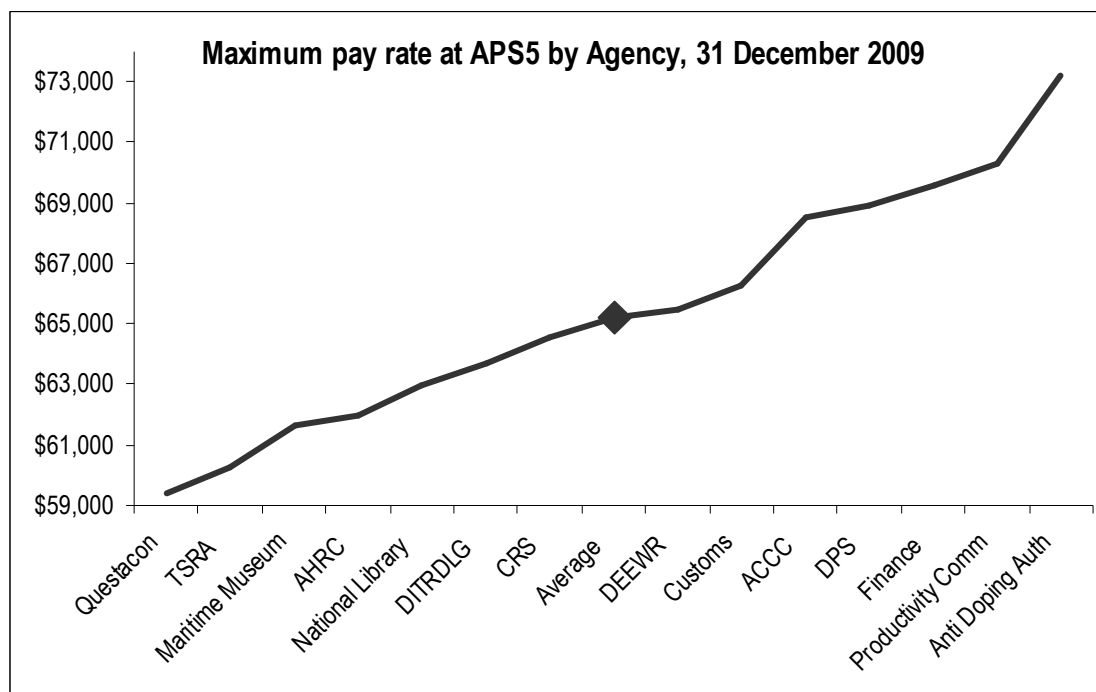
Decentralised bargaining in the APS has led to inequitable outcomes on pay and corroded the work level standards that underpin the APS classification structure. APS employees doing work at the same classification level are paid different wages, based on the employing agency's ability to pay – not on any discernable 'productivity' outcome. The discrepancy is clear (see Chart 1).

⁴ Ibid, p.38.

⁵ Prime Minister, 'Building Australia's Future: a sustainable budget for an ageing population' (19 January 2010), available at <http://www.pm.gov.au/node/6419>, accessed 22 January 2010.

⁶ Rexed, Knut, Moll, Chris, Manning, Nick, Allain, Jennifer, 'Governance of Decentralised Pay Setting in OECD Countries', *OECD Working Papers on Public Governance* (2007/3), p.31, available at <http://www.oecd.org/dataoecd/1/18/38487114.pdf>, accessed 18 January 2010. The nations examined are Australia, Denmark, Finland, the Netherlands, New Zealand and the United Kingdom.

Chart 1:



Source: CPSU Wages Database for 31 December 2009⁷

The difference between the lowest paying APS 5 maximum increment and the highest paying is around \$13,800. As the CPSU argued in its *Far from Equal* report on APS pay gaps, work value in the APS is being undermined by wage and condition disparities between agencies.⁸ The pay rates set out in Chart 1 suggest that the work of a librarian in the National Library is less valuable than the work of a librarian in the Parliament (Department of Parliamentary Services – DPS) and that the work of a research assistant in DEEWR is more valuable than someone performing equivalent work at the Human Rights Commission. A system that rewards employees of the same employer with significantly different pay rates is neither fair for employees nor efficient.

Gender inequities

Decentralised bargaining has also exacerbated gender based wage gaps within the APS workforce. Generally, female dominated agencies, along with agencies delivering services and policies associated with women (e.g. childcare, education), have achieved lower pay outcomes through individual agency bargaining compared to male dominated agencies.

⁷ **Caveat Notes:** Wages Database data is current at 31 December 2009. This is a point in time analysis and the pay rates in this Report are the maximum increases at each level in certified agreements payable at 31 December 2009. Slight distortion of the figures may occur through a point in time analysis since some agencies may have a wage increase payable in the months immediately following but these are not included. There is little prospect that this would have a significant impact on the overall averages. The figures in the report include rates outlined in around 90 collective agreements. They do not reflect rates paid under AWAs or individual agreements. Nor do these figures reflect any extra performance pay employees may receive.

⁸ CPSU *Far from Equal – An analysis of pay arrangements in the Australian public sector* (August 2008), pp.7-8, available at http://www.cpsu.org.au/multiversions/8549/FileName/CPSU_Report_APS_Wages.pdf, accessed 20 January 2010.

For example, at every non-SES salary level Centrelink, which has the largest number of female employees (over 19,500 – or 70 per cent of their workforce), the maximum salary is between 0.9 per cent and 6.4 per cent behind the average maximum salary across the APS (Table 1).

Table 1: Centrelink salary relative to APS average salary

	APS1 Maximum	APS2 Maximum	APS3 Maximum	APS4 Maximum	APS5 Maximum	APS6 Maximum	EL1 Maximum	EL 2 Maximum
Centrelink	\$40,659	\$46,168	\$51,181	\$58,949	\$62,510	\$75,163	\$88,022	\$110,122
APS Average 31 Dec 2009	\$41,913	\$47,735	\$53,328	\$59,469	\$65,216	\$75,967	\$93,659	\$115,566
Deviation from Average %	-3.1	-3.4	-4.2	-0.9	-4.3	-1.1	-6.4	-4.9

Source: Centrelink Agreement 2009-2011 and CPSU Wages Database 31 December 2009

The agencies with the highest proportion of female employees⁹ generally pay less than the average. For example, over 70% of pay points for the APS3 – 6 classification range for the agencies with the highest proportion of female employees are below the respective APS average¹⁰.

Another way in which the fragmented bargaining arrangements have led to gender inequities relates to the provision of paid parental leave entitlements. The provision of any paid leave entitlement has to be subsidised out of an agency's budget. It is therefore far more difficult for an agency with a high proportion of female employees to improve paid parental leave entitlements beyond the statutory minima¹¹, than for an agency with a high proportion of male employees. For example, the Department of Defence (40% female employees) was one of the first public sector agencies to improve the paid parental leave entitlements it offered. In contrast, Medicare (80% female employees) and Centrelink (70% female employees) did not provide improved paid parental leave entitlements until late 2008 and early 2009 respectively.¹² CRS Australia (84% female employees¹³) agreed to improving paid parental leave entitlements in late 2008, however had to delay the introduction of the entitlements until October 2011.

Despite the fact the APS is a single employer, as these examples demonstrate, the likelihood of having enhanced PPL entitlements depends on the ability of the individual agency in which an employee works ability to pay. Given the increasing

⁹ The 10 agencies with the highest proportion of women are EOWA (100%), Medicare Australia (80.7%), Cancer Australia (80%), Federal Magistrates Court (79.3%), Human Services (76.1%), Screen Australia (74.4%), Defence Housing Australia (73.6%), AIFS (73.3%), AHRC (73%) and APSC (71%).

¹⁰ Information provided from CPSU Wages Database (see footnote 4 above). Pay points for Cancer Australia were not included in this calculation as there is no collective agreement.

¹¹ The Maternity Leave (Commonwealth Employees)

¹² Staffing figures taken from APSC *Australian Public Service Statistical Bulletin 2008-2009*, available at <http://www.apsc.gov.au/stateoftheservice/0809/statistics/bulletin.pdf>, accessed 29 January 2010

¹³ DHS *Department of Human Services Annual Report 2008-2009*, available at <http://www.humanservices.gov.au/dhs/publications/annual-reports/0809/index.html>, accessed 29 January 2010

rates of female employment in the APS, this result is not only unfair, it is also a barrier to recruiting and retaining skilled employees.

Undermining the ability of staff to move between agencies: bad for employees and for policy

These wage differentials between agencies make it more difficult for employees to move between agencies and progress their careers in the APS. Consequently, the APS becomes a less attractive place to work for skilled employees seeking career progression. The Moran Review found that:

‘increasing disparity in remuneration levels between Australian Government entities arguably impedes mobility and the establishment of a one-APS culture’¹⁴.

The wage differentials go some way to explaining why ‘almost one in five employees (21%) indicated they intend to leave their agency in the next two years’ and ‘over half of these intended to pursue a job in another APS agency’.¹⁵ State of the Service Report data suggests that there is a difference between intention and reality. The percentage of APS employees who have worked for only one agency has steadily climbed over the last decade – in 2000 74.8% of all employees had only worked for one agency, but by 2009 that number had increased to 81.7%¹⁶. So while many APS employees are keen to move between agencies, in reality the percentage of employees who actually do this is quite small and decreasing.

Data from the CPSU wages database provides a useful example of why the movement between agencies is so low despite the APS being a single employer. An APS employee, who is currently an APS4 at the highest increment in Australian Sports Anti-doping Authority (\$65,750), successfully applies for an APS 5 position in the Australian Institute of Health and Welfare (AIHW). Their salary has now reduced by over \$1,000 - even if they start the position at the top of AIHW APS 5 (\$64,635). The differentials between wage rates clearly operate as a strong disincentive to move between agencies.

The OECD Working Paper *Governance of Decentralised Pay Setting in OECD Countries* describes how decentralised bargaining produces ‘opaque wage signals’ for individuals seeking work, changing jobs, or merely monitoring developments in a labour market. Under a decentralised system it is necessary for employees and potential employees to acquire and process greater amounts of information about their working conditions and there is greater uncertainty over the true structure of financial and non-financial remuneration.¹⁷ APS employees who wish to change agencies have to spend time analysing what they will gain or lose in pay and conditions. The disincentive for APS employees to move between agencies also has implications for the breadth of experience in the APS and its future leadership. This is discussed in more detail below.

¹⁴ DPMC, op cit, p.38.

¹⁵ APSC *State of the Service Report 2008-2009*, p.xviii, available at <http://www.apsc.gov.au/stateoftheservice/0809/report.pdf> accessed on 22 January 2010.

¹⁶ Ibid, p.11.

¹⁷ OECD, op cit, p.32.

Entrenching silos and undermining flexibility

The present system of bargaining entrenches agency 'silos' and discourages collaboration and co-operation between agencies. This has had negative implications for the attraction and retention of skilled staff and the sector's flexibility and agility.

The *2008-09 State of the Service Report* found that 59 per cent of APS employees still identify more strongly with their agency than the 'one APS'.¹⁸ In the current environment, agencies are working independently of each other, fiercely protecting that segregation and their 'patch' of responsibility. Whilst, there are some inter-departmental arrangements and taskforces, these are the exception rather than the rule. The Moran Review identified mobility, ensuring people can readily move into and across the APS, and one-APS culture, fostering an environment for cross-organisational collaboration, as necessary attributes for a flexible and agile APS.¹⁹ Addressing barriers to mobility and the cultivation of a one-APS culture would improve the effectiveness of the APS.

The APS needs to move to a culture that is committed to consistent information sharing and collaboration within and between APS agencies as well as other parts and levels of government. In particular, the capacity of the APS to formulate and implement policy would be improved if employees had the opportunity to work across agencies. The policy development process must be flexible enough to adapt to the specific requirements or considerations in any particular portfolio, however where possible, processes should be standardised to allow employees to move easily between agencies. To this end, creating ways for employees to transfer between agencies is also important in building APS capacity and retaining experienced employees within the APS.

The difficulty of moving employees between agencies inhibits the cross-pollination of expertise and experience making the APS less flexible and agile in responding to new policies, initiatives, and emergencies. It also has implications for the development of an APS leadership group with broad APS policy experience²⁰. This inflexibility represents an unnecessary cost to the Commonwealth and would be, in part, remedied by a service wide agreement on wages and conditions.

Benefits of a service wide agreement

A service wide agreement would facilitate a more cohesive and efficient APS for a number of reasons, not least that:

- Agency resources would no longer be diverted to individual agency bargaining – instead the time and money could be fully focused on delivering the government's policy priorities and essential services.
- Pay differentials between agencies would be removed – with positive results for work value generally and gender equity within the APS.
- Pay rates, work level standards and entitlements would clearly line up – making staff transfer and career progression between agencies easier and improving the attraction and retention of skilled staff benefiting both employees and the APS as a whole.
- Removal of arbitrary disparities would foster a unified APS culture and facilitate agency collaboration on innovation and measures to increase productivity.

¹⁸ APSC, op cit, p.122.

¹⁹ DPMC, op cit, p.36.

²⁰ For further discussion, see *ibid*, Chapter 4, pp.13-19.

By the end of 2010, over 60 per cent of APS employees will be covered by collective agreements that will expire around the middle of 2011. This provides a unique opportunity for the government to negotiate a service wide agreement.

The CPSU recommends:

That the Commonwealth Government moves to a service wide agreement for APS employees.

A Wages and Classification Review for the APS

The current classification rules (Public Service Classification Rules 2000) require every Agency Head to separately issue work level standards for each classification applying to a group of duties to be performed in the Agency. This requirement is highly inefficient and leads to significant inconsistencies between work level standards between Agencies.

Inconsistencies in work level standards have also developed as a consequence of the misclassification of APS roles over time to address fragmented bargaining outcomes and funding pressure in a tight labour market. This situation was exacerbated by the industrial relations policies of the previous government, who promoted the use of individual agreements like AWAs as an alternative to formally recognising and addressing the labour market issues associated with particular professions. For example, despite long standing and recognised shortages of IT professional staff, some Agencies are still unable to identify how many IT professionals work for them because of the use of generic classification labels.

The disparities in remuneration and erosion of the classification system have a negative impact on the APS and its employees. The Moran Review found that remuneration disparities and a lack of maintenance of the APS-wide classification system reflect the strong devolution to agencies of management functions and this 'is arguably a fundamental barrier to a more unified APS'²¹ and that a common classification system would assist mobility and the creation of a one-APS culture.

It is therefore essential that a review of wages and classifications be conducted. A review would allow for a thorough examination of pay differentials for work performed at the same APS levels. It would also provide an opportunity to scrutinise the way in which classifications and work level standards are applied across the service, including where necessary the modernisation of professional classifications within the APS (e.g. lawyers, accountants, IT specialists).

The CPSU seeks to work with the government in conducting such a review. It would provide an opportunity to restore consistency and integrity to the APS Classification system, which will be more efficient and improve mobility across the sector.

²¹ Ibid, p.40.

The CPSU recommends:

That a joint wages and classification review be established with representatives from relevant government agencies, including the Department of Prime Minister and Cabinet and the Department of Employment, Education and Workplace Relations, as well as representatives from the CPSU. The Review must be fully funded by government.

Efficiency Dividend and Funding arrangements

Under the current agency funding regime, an arbitrary budget cut, known as the 'efficiency dividend', is imposed on agencies. It is without question that the public sector, which relies on public money, should use the most efficient and effective working practices available. Indeed the APS should be a leader in innovation and efficiency. The CPSU agrees with the Prime Minister that "the Government plays a vital role in facilitating long-term productivity growth".²² Ironically, the use of the efficiency dividend as a funding mechanism has had the opposite effect – it is not productive, it is unsustainable, it encourages quick-fix solutions and severely undermines the capacity of agencies to innovate and deliver government policy.

Impact of the Efficiency Dividend on Commonwealth Government agencies

After more than two decades of such cuts many agencies, particularly smaller ones, are struggling to deliver their services. For such agencies there are, quite simply, no more efficiencies to be found. In 2008, the Joint Committee on Public Accounts and Audit established an inquiry into the effects of the efficiency dividend into smaller public sector agencies. The Report, which was tabled in December 2008, found that:

'...many small agencies report that they are no longer able to find genuine efficiency savings. To meet the efficiency dividend requirement, many small agencies have resorted to reducing or discontinuing activities that they consider to be lower priority or discretionary'²³.

The Committee also identified a range of unintended consequences from the efficiency dividend which hampered the ability of agencies to deliver services. These included:

- agencies scaling down regional activities;
- disparities in pay rates between agencies;
- reduction in resources available to invest in innovation, which in turn affected an agency's ability to find future productivity savings; and
- agencies being forced to cut services or pass on costs to meet the efficiency dividend.

²² Prime Minister, 'Building Australia's future: Tackling Australia's long term challenges' (23 January 2010), available at <http://www.pm.gov.au/node/6436> accessed on 25 January 2010.

²³ Joint Committee on Public Accounts and Audit Report 413 'The efficiency dividend and small agencies: Size does matter' Canberra (December 2008), p.3, available at <http://www.aph.gov.au/house/committee/jpaa/efficdiv/report/fullreport.pdf>, accessed on 18 January 2010.

The Committee made a range of recommendations addressing identified inadequacies in the way in which the efficiency dividend operates. The Committee's recommendations included:

- exempting the first \$50 million of all agencies' appropriations from the efficiency dividend or, as a minimum exempting the first \$50 million of the appropriations of all agencies with expenses of less than \$150 million (excluding departments of state);
- giving the Auditor-General and the Joint Committee on Public Accounts and Audit a role in determining funding for the Australian National Audit Office;
- establishing a parliamentary commission to recommend appropriate funding levels for parliamentary departments;
- developing a new funding model for cultural agencies;
- establishing an independent body to recommend funding levels for Commonwealth courts; and
- convening an APS taskforce to examine the impact of agency size and function on wage disparities generally and gender wage disparities specifically.

Despite the concerns of the Committee and parties who made submissions to it, the government is yet to respond despite nearly 14 months having passed since the Committee tabled its Report.

The Report details significant problems being faced by smaller public sector agencies because of the efficiency dividend which compromise their ability to deliver quality services to the Australian community and recruit and retain the staff necessary to do that. The government should respond to this Report and introduce amendments to the agency funding model arrangements, recommended by the Report, as a matter of urgency.

The CPSU recommends:

The Commonwealth Government must accept the recommendations of the Joint Committee on Public Accounts and Audit Report 'The efficiency dividend and small agencies: Size does matter' and introduce amendments to the agency funding model arrangements as a matter of urgency.

Smaller public service agencies are however not alone in being detrimentally affected by the operation of the efficiency dividend. A number of larger agencies reported on the effects of the efficiency dividend in their own agency in Supplementary Budget Estimate hearings in late last year. This evidence included:

- ❖ The Attorney General's Department attributed its reduction of 59.14 FTE employees over the last 12 months partially to the efficiency dividend.²⁴
- ❖ The Department of Agriculture, Fisheries and Forestry has been forced to draw down its reserves in order to cope with efficiency dividend pressures.²⁵

²⁴ Legal and Constitutional Legislation Committee Estimates (19 October 2009) p.7 available at <http://www.aph.gov.au/hansard/senate/committee/S12493.pdf>, accessed on 20 January 2010.

²⁵ Rural and Regional Affairs and Transport Legislation Committee Estimates (19 October 2009) p.9 available at <http://www.aph.gov.au/hansard/senate/committee/S12495.pdf>, accessed on 20 January 2010.

- ❖ The Department of Families, Housing, Community Services and Indigenous Affairs noted that the 1.25 per cent dividend in 2009-10 'equates to about \$5.1 million'.²⁶
- ❖ During questioning about government ICT cost cutting, the Secretary of the Department of Finance described as 'reasonable' a comment that further cuts would be:
"a tough ask given that the federal IT departments had already contributed to the two per cent efficiency dividend required in the budget".²⁷

Rethinking funding arrangements

It is clear that a funding approach that continues to rely on the efficiency dividend is untenable and undermines APS agencies' ability to deliver essential services to the Australian community. It is essential that a new, more rational and sustainable system of funding is introduced.

The Bureau of Meteorology (BoM) provides an example on the debilitating effects of this funding approach on an important service provided by the public sector. In 2009 a parliamentary report into Australia's long-term meteorological forecasting system found evidence that 'resource cuts (in BoM) have lead to a decrease in qualified observational staff and ... significant gaps between weather stations across the continent'²⁸ The report recommended an increase in research funding, that the government budget 'for the purchase, installation and maintenance of additional weather stations', and that 'employment conditions be reviewed and that a more secure tenure be provided to relevant staff'.²⁹

Quite simply, if there is not a similar rethink of the funding arrangements for all agencies, the public sector will not be able to attract and retain the necessary staff, develop innovative policy responses or deliver quality public services. For these reasons, the efficiency dividend should not form part of the agency funding regime in the 2010-2011 Budget. In its place, the government should commit to consulting with stakeholders in service delivery, including community groups and CPSU members to identify new mechanisms for efficient service delivery.

The CPSU recommends:

That the Commonwealth Government remove arbitrary budget cuts, such as the efficiency dividend.

The Commonwealth Government, in consultation with stakeholders including employees, the CPSU and community organisations, must undertake a review of

²⁶ Community Affairs Legislation Committee Estimates (1 June 2009) p.18 available at <http://www.aph.gov.au/hansard/senate/committee/S12047.pdf>, accessed on 20 January 2010.

²⁷ Finance and Public Administration Committee Estimates (20 October 2009) p.32 available at <http://www.aph.gov.au/hansard/senate/committee/S12492.pdf>, accessed on 20 January 2010.

²⁸ House Standing Committee on Industry, 'Science and Innovation, Seasonal forecasting in Australia' (Canberra 2009), p.viii.
<http://www.aph.gov.au/house/committee/isi/weather/report/fullreport.pdf>, accessed on 22 January 2010.

²⁹ *Ibid*, pp.54, 70, 85.

public sector funding to ensure that agencies are properly funded to deliver quality public services.

The problems agencies experience with the annual 1.25% efficiency dividend were further exacerbated by the imposition of an additional 2% efficiency dividend which applied from the commencement of the Rudd Government until the end of 2008-2009 financial year. In essence, agencies were required to cut a further 2% from their budget in a relatively short period. The Joint Committee Report found that in trying to meet this requirement, agencies had little option but to cut services.

‘... it takes an organisation’s time and attention to find and implement efficiencies. Applying an additional one-off dividend of 2% did not give organisations the time to find efficiencies. They instead responded with cuts, which is a false economy.’³⁰

In a situation where agencies are struggling with the regular efficiency dividend requirement, the impact of an additional efficiency dividend was very damaging – not only was there little to no fat left to trim in agency budgets, in many cases there was no time to find an innovative way to save money without cutting staff or services or staff.

Given the impact the additional efficiency dividend had in the APS, the decision not to renew the measure in the 2009-2010 Budget was universally welcomed. The possibility, however, that an additional efficiency dividend, or some similar budgetary measure, is to be included in the 2010-2011 Budget is alarming.

Some agencies have already flagged the possibility of an additional efficiency dividend or budgetary measure affecting agency funding arrangements for 2010-2011. For example, the ATO has advised the CPSU that in response to a request from DOFD the ATO is required to find budget ‘savings’ in addition to the annual efficiency dividend of \$15.4 million (0.5%) in 2009-2010 and a further \$31.4 million (1%) ongoing in 2010-2011. This equates to a total of \$41.8 million or just under 400 jobs.

To achieve these savings, the ATO has reported to the CPSU that it is considering reducing the frontline services it offers including:

- reducing services such as field advice or support visits, phone services and lodgement assistance to taxpayers and tax practitioners;
- reducing interpretative assistance work; and
- reducing audit coverage across various products/markets.

This situation demonstrates the impact an additional efficiency dividend or budgetary measures have on the ability of public sector agencies to deliver essential services to the community.

The inclusion of any additional budgetary measure would be extremely detrimental to the APS, its ability to serve the government and the Australian community and its ability to meet the many challenges raised by the recent Moran Review. If funding of APS agencies is persistently subject to additional budgetary measures, imposed by governments as a ‘quick fix’ for the budget bottom line, over time, the capacity of the

³⁰ Joint Committee on Public Accounts and Audit, op cit, p.118-119.

APS will erode and its ability to provide effective and efficient services to the Australian community will be diminished.

The CPSU recommends:

The Commonwealth Government should commit to not introduce an additional efficiency dividend or additional budgetary cut on any agency/portfolio budgets.

Full wages supplementation

The ability of the APS to deliver essential public sector policy and services relies on the capacity of agencies to attract and retain skilled employees. The ability of agencies to attract and retain such employees is hampered by the current funding arrangements. Under the present system, agencies are not provided funding for full wage supplementation. This makes it difficult for agencies to recruit and retain the skilled staff they require, while still providing quality public services to the Australian community.

The CPSU has estimated that Commonwealth Budget supplementation for wage increases has been generally around half the rate of CPI. Funding has averaged at around 1.25 per cent per year, while wages growth has been around 4 per cent per year.³¹ Over the long term, agencies have faced increasing difficulty in being able to offer competitive wages to attract and retain skilled staff.

The CPSU recommends:

That the 2010-11 Commonwealth Budget fully fund agencies for a level of wages growth that will attract and retain the skilled staff necessary to deliver quality, essential services.

Contractors and consultants

In the 'golden era' of public sector outsourcing, the mid-1990s to 2000, outsourcing has been used as a way to achieve savings and efficiencies. There is, however, little evidence that outsourcing has delivered these promises. The findings of a study of public sector outsourcing published in the *Australian Accounting Review* in 2008 suggest that the:

³¹ Based on 'Trends in Federal Enterprise Bargaining' statistics available at <http://www.workplace.gov.au/workplace/Publications/ResearchStats/Agreement/TrendsInFederalEnterpriseBargaining>, accessed on 28 January 2010.

'claimed cost savings from outsourcing by Australian public sector organisations in the 'golden era' were anecdotal or illusory, rather than evidentiary'.³²

According to the *Accounting Review* study, only 7.1 per cent of surveyed public sector agencies actually collected information that would allow a comparison between the outsourced costs and the 'in-house' costs of providing a service³³. This practice was borne out more recently by the 'Report of the Review of Commonwealth Legal Services Procurement', which found that there was no reliable data on the cost of legal services procurement across the Commonwealth³⁴.

There is evidence, however, that outsourcing has cost the Commonwealth government significantly. The 'Report into the 'Government's Use of Information and Communication Technology' (Gershon Report) found that the extensive use of ICT contract staff had been significantly more expensive than engaging in-house employees – on average an ICT contractor cost an agency \$186,000 per annum, \$94,000 more than the average *Financial Management and Accountability Act* agency ICT employee³⁵. There has also been a recent increase in the use of outsourcing for policy development. Late last year, *The Australian* reported that \$940 million was spent by the Commonwealth government on new consultancy contracts for policy advice, research and audits over the preceding two years³⁶.

Contracting out arrangements are not only expensive, but also short-sighted. Whenever the government relies on outside consultants and contractors for policy advice and formulation, the development and capabilities of the APS are diminished, as when the contract ceases the skills and expertise those contractors have developed leave the APS. Key recommendations of the Commonwealth Legal Services Procurement Review³⁷ and the Gershon Report³⁸ were the creation and/or strengthening of the professional career structure in the APS, to develop capacity and capability within the service. The continued reliance on contractors and consultants, instead of improving APS professional career structures, runs counter to these recommendations.

The CPSU recommends that:

The Commonwealth Government invest resources to strengthen APS professional career structure. This would include modernisation of the classification structure, significant investment in training and development programs across the APS and creation of professional networks.

³² Bisman, J E (2008) 'Australian Public-Sector Outsourcing in the 'Golden Era': Cost Savings Evidence or Anecdote?', *Australian Accounting Review*, Vol.18, no.2, p.118.

³³ Ibid, p.117.

³⁴ Blunn, A S and Krieger S (2009) 'Report of the Review of Commonwealth Legal Services Procurement', p.6 available at http://www.ag.gov.au/www/agd/agd.nsf/Page/OrganisationalStructure_LegalServicesReviewTeam, accessed on 20 January 2010.

³⁵ Gershon P (2008), 'Review of the Australian Government's Use of Information and Communication Technology' available at <http://www.finance.gov.au/publications/ICT-Review/index.html>, accessed on 20 January 2010) p.48-49.

³⁶ 'Rudd's \$940m bill for consultants' advice', *The Australian* (11 November 2009).

³⁷ Blunn, A S and Krieger S, op cit, p.47.

³⁸ Gershon P, op cit, p.4.

The CPSU welcomed the Australian Government Procurement Statement released in July last year, in particular that contracting out would only occur where it was in the public interest. Given the experience with contracting out in the APS, as briefly detailed above, it is necessary for the government to go further. Like the efficiency dividend, outsourcing has not worked as a genuine efficiency measure for the APS, and its use has inhibited the development of workforce capacity in the APS.

The CPSU recommends that:

The Commonwealth Government, in collaboration with stakeholders including employees and the CPSU, undertake a thorough review of all contracting out arrangements. This review process must examine the cost-effectiveness and efficiency of these contracting out arrangements.

Any future proposal for contracting out must demonstrate it is in the public interest, including consideration of cost-effectiveness, efficiency, implications for public sector employees and workforce capacity and planning. Contracting out proposals must also be vetted by a central agency to ensure consistency across the APS.

In their annual reports, agencies should specifically report on the number of contractors/consultants engaged, the period and cost of their engagement and the purpose for which they were engaged.

Central procurement of services

A simple way in which the APS can realise cost savings and further efficiencies is through the central procurement of services. In respect of ICT, the Gershon Report found that the current model where agencies have high degrees of autonomy in how they manage their ICT needs has led to below average outcomes, including in terms of financial returns³⁹. The Report recommended the introduction of whole-of-government or portfolio based procurement practices to achieve costs savings⁴⁰.

The possibility of realising cost savings through central procurement was also a key premise in the Commonwealth Legal Services Procurement Review. Among other things, the Report recommended the use of co-ordinated and centralised tendering processes and the creation of a single Commonwealth panel as a way of achieving greater efficiency in the way in which the Commonwealth uses legal services⁴¹.

As it stands, where savings are generated through centralised procurement they are not passed on to the agencies involved, instead being captured by the Department of Finance and Deregulation⁴². This acts as a disincentive for agencies and needs to be reconsidered.

³⁹ Ibid, p.2.

⁴⁰ Ibid, p.73.

⁴¹ Blunn, A S and Krieger S, op cit, p.50-51.

⁴² Joint Committee on Public Accounts and Audit, op cit, p.100.

The CPSU recommends:

The Commonwealth Government assign responsibility for central procurement of key services to the Department of Finance and Deregulation. The Commonwealth Government should also provide appropriate incentives to agencies to make savings through centralised procurement, including by passing savings on to the agencies involved.

Staff engagement and consultation

Delivering public services and policy efficiently and effectively is important to APS employees. APS employees are uniquely placed to provide advice on how service delivery or policy development can be improved or made more efficient. However, the imposition of 'top-down' measures like the efficiency dividend devalues the importance of this kind of consultation and collaboration.

Government must establish effective mechanisms for APS employees and their representatives to engage with agencies and identify new and innovative ways of building a modern, efficient and responsive public sector. These mechanisms should not be confined to individual agencies but ensure that responses to efficiency are developed at the most appropriate level – whether agency, portfolio or service-wide. A common shortfall in policy development has been the disconnect between 'policy' staff and 'service delivery' staff. Employees engaged in service delivery have valuable insights and experiences which could inform the policy development process, ensuring services are delivered in the most efficient and effective manner. To be effective, consultative mechanisms need to bridge these gaps.

Other stakeholders, namely the Australian public and community groups must also be engaged in conversations about how the public service can be more efficient and effective. Past failures to engage with employees and external stakeholders have led to useful solutions to improve efficiency being missed.

An example of this approach is the Human Service Roundtable.

Case Study: CPSU Human Services Roundtable

In April 2009, the CPSU, with support from the then Minister for Human Services, Senator the Hon. Joe Ludwig, hosted an innovative Roundtable bringing together stakeholders from across the Human Services portfolio.

The CPSU Human Services Roundtable enabled an open and meaningful dialogue to occur between senior policy makers, frontline staff and non-government organisations about how service delivery across the portfolio could be more efficient and effective.

The ideas generated provided excellent, simple examples of how collaboration and consultation within and between agencies and stakeholders could result in the identification of more meaningful efficiencies than the imposition of an arbitrary

budget cut through the efficiency dividend.

During the discussions, several key areas were identified where efficiencies could be made including:

- data sharing
- common language and definitions
- cross agency training
- better feedback mechanisms; and
- better communication with clients

In closing the Roundtable, Minister Ludwig recognised that the best ideas about improving effectiveness of service delivery had come from those on the frontline and that more needed to be done to ensure they are included in consultative processes.

Since the Roundtable there have been further positive developments in the way in which stakeholders can work together. This has included the Minister for Human Services, the Hon. Chris Bowen, establishing a Service Delivery Reform Group. The Group, which includes CPSU representatives and senior departmental employees, is charged with responsibility for overseeing the government's delivery reform agenda.

The CPSU recommends:

The Commonwealth Government establish roundtable forums within and across agencies, with the participation of employees, in particular those engaged in service delivery, and their union representatives, to investigate opportunities to innovate and improve the efficiency with which public policy is developed and essential services are delivered.