



# **2020–21 Commonwealth Pre-Budget Submission**

**Community and Public Sector Union (PSU Group)**  
**December 2019**

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## Recommendations

1. Remove the federal public sector 2% wages cap and use public sector wage increases of above 3% as a macro-economic lever to encourage wages growth across the economy and allow the APS to recruit and retain the skilled staff it needs.
2. The Commonwealth Government commits to rebuilding the APS by:
  - not proceeding with further increases to the efficiency dividend;
  - commencing restoring the 19,000 APS job cuts made by successive Coalition Governments since 2013; and
  - reducing spending on consultants, contractors, and labour hire companies, and reinvesting those savings into increased APS staff numbers.
3. Abolish the Average Staffing Level cap.
4. Substantially increase overall APS staffing in regional communities, through:
  - reversing the job cuts that have occurred;
  - adding new jobs to the existing APS regional footprint, in particular the Department of Human Services and the ATO;
  - building on that footprint through establishing new agencies or functions such as for economic transitions and public employment services; and
  - providing opportunities for a range of job roles such as ICT, not just service delivery or compliance and regulation.
5. Ensure digital transformation is about better services not cost cutting or outsourcing, by:
  - investing in staff;
  - reducing its reliance on ICT contractors and consultants; and
  - providing adequate funding in the Budget to invest in ICT systems and training that support digital government service delivery.

# Lifting wages across Australia

In 2014 the Abbott Government set a cap on wage growth in the federal public sector. It is clear that the Government intended that cap to act as a macro-economic measure to reduce wages across the economy – with the 2014 Australian Government Public Sector Bargaining Policy stating that:

“the public sector is a large employer – its wage outcomes have a macroeconomic effect.”<sup>1</sup>

Public sector wage caps impact on the broader economy in two ways:

## 1. The composition effect

The APS is a large employer. The APS wages cap impacts on more than 300,000 employees across Australia, covering:

- The Australian Public Service
- The Australian Defence Forces, and
- Numerous statutory authorities and government business enterprises.

## 2. The demonstration effect

Capping public sector wages impacts on wage expectations across the economy. RBA Governor Phillip Lowe’s evidence to Parliament was that **“the wage caps in the public sector are cementing low wage norms across the country.”**

The 2014 policy setting has had the intended outcome – federal public sector wages have been suppressed and this has had a broader macroeconomic effect. The RBA has made this clear, stating that **“caps on wages growth in public sectors right across the country are another factor contributing to the subdued wage outcomes.”**<sup>2</sup>

Given that public sector wage caps have been a factor in reducing wage growth, it follows that increasing federal public sector wages would now have positive flow effect to the rest of the economy.

There is broad agreement that workers’ wages need to be increased. Scott Morrison, when he was Treasurer, acknowledged that low wage growth is significant economic problem and a drag on general demand and government revenue.<sup>3</sup> The RBA Governor

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1 Australian Public Service Commission (2014, March). *Australian Government Public Sector Workplace Bargaining Policy*. Retrieved from [www.apsc.gov.au/sites/default/files/280314-bargaining-policy.docx](http://www.apsc.gov.au/sites/default/files/280314-bargaining-policy.docx)

2 Phillip Lowe (2019, 9 August). *Opening Statement to the House of Representatives Standing Committee on Economics*. Reserve Bank of Australia, Retrieved from [www.rba.gov.au/speeches/2019/sp-gov-2019-08-09.html](http://www.rba.gov.au/speeches/2019/sp-gov-2019-08-09.html)

3 Henry Belot & Matthew Doran (2017, 13 March). Low wage growth Australian economy’s biggest challenge, Treasurer Scott Morrison says. *ABC News*. Retrieved from [www.abc.net.au/news/2017-03-13/scott-morrison-low-wage-growth-biggest-challenge-economy/8350032](http://www.abc.net.au/news/2017-03-13/scott-morrison-low-wage-growth-biggest-challenge-economy/8350032)

Philip Lowe has also said that low wages threaten economic growth and that workers' incomes need to rise.<sup>4</sup>

Increasing public sector wages is an effective means to increase wages across the economy. Economist Saul Eslake recommended that government adjust the approach it takes to wages negotiations with its own employees as a means of addressing low wages.<sup>5</sup>

Studies have also shown there are economic benefits from increased public sector pay, including boosting economic growth and creating additional jobs.<sup>6</sup> The Centre for Future Work has calculated that a modest rebound in average compensation growth from 2% to 3.25% per annum for 240,000 federal public sector workers over three years would result in total wage and salary payouts being an aggregated \$1.1 billion higher than if the current cap was retained.<sup>7</sup>

It would also generate other beneficial spillovers throughout the Australian economy – including in private sector businesses, and for workers not directly affected through stronger consumer spending and expanded government revenue.

### **Public Sector wage growth should be above 3% per annum**

The RBA Governor has stated the whole wages system, including the public sector, should return to having wages increase at “three point something”. He also noted that if wages in the public sector were rising at three per cent, there would be stronger aggregate demand growth in the economy and a positive effect on employment.<sup>8</sup>

### **Higher wages are essential to attract and retain skilled staff**

In addition to the macro-economic argument for increasing public sector wages, there is also a compelling workforce need, as the wage cap also affects the recruitment and retention of skilled staff.

As the 2018-19 State of the Service Report noted, “the APS is competing in a contested market for talent and individuals' expectations of their employers continue to evolve.”<sup>9</sup> The ASIC Capability Review stated that salary restrictions affected its ability to recruit and retain staff because “the Government's Workplace Bargaining policy does not allow

4 Jacob Greber (2017, 19 June). Workers must demand greater share of pie, says RBA governor Philip Lowe. *Australian Financial Review*. [www.afr.com/news/economy/workers-must-demand-greater-share-of-pie-says-rba-governor-philip-lowe-20170619-gwtxht](http://www.afr.com/news/economy/workers-must-demand-greater-share-of-pie-says-rba-governor-philip-lowe-20170619-gwtxht)

5 Saul Eslake (2017, 4 October). Is faster profit growth essential for a pick-up in wages growth? *The Conversation*. Retrieved from [theconversation.com/is-faster-profit-growth-essential-for-a-pick-up-in-wages-growth-83819](http://theconversation.com/is-faster-profit-growth-essential-for-a-pick-up-in-wages-growth-83819)

6 Troy Henderson & Jim Stanford (2017, July). False Economies: Unintended Consequences of Public Sector Wage Restraint. Centre for Future Work. (p.15)

7 Dr Jim Stanford (2019, 24 June). Kick-Starting wage Growth: What the commonwealth Government could do NOW. Centre for Future Work. Retrieved from [d3n8a8pro7vnmx.cloudfront.net/theausinstitute/pages/3031/attachments/original/1561412040/KickStarting\\_Wage\\_Growth\\_FINAL.pdf?1561412040](https://d3n8a8pro7vnmx.cloudfront.net/theausinstitute/pages/3031/attachments/original/1561412040/KickStarting_Wage_Growth_FINAL.pdf?1561412040)

8 House of Representatives (2019, August 9). *Reserve Bank of Australia annual report 2018*. Standing Committee on Economics. Retrieved from [parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommrep%2Ffea5d0b8-72e9-4b5e-acf8-52ed46888ced%2F0001;query=Id%3A'committees%2Fcommrep%2Ffea5d0b8-72e9-4b5e-acf8-52ed46888ced%2F0000](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommrep%2Ffea5d0b8-72e9-4b5e-acf8-52ed46888ced%2F0001;query=Id%3A'committees%2Fcommrep%2Ffea5d0b8-72e9-4b5e-acf8-52ed46888ced%2F0000)

9 Australian Public Service Commission (2019, November). State of the Service Report 2018–19. Australian Government. Retrieved from [www.apsc.gov.au/sites/default/files/apsc\\_state\\_of\\_the\\_service\\_report\\_2018-19.pdf](http://www.apsc.gov.au/sites/default/files/apsc_state_of_the_service_report_2018-19.pdf)

ASIC to lift salary bands to meet the market.”<sup>10</sup> Similarly, the APRA Capability Review recommended that it should be removed from the application of the APS Workplace Bargaining Policy because of APRA’s difficult in “attracting and retaining highly-skilled staff, including in niche areas subject to high market demand.”<sup>11</sup>

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**RECOMMENDATION:** Remove the federal public sector 2% wages cap, and use public sector wage increases of above 3% as a macro-economic lever to encourage wages growth across the economy and allow the APS to recruit and retain the skilled staff it needs

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## The Australian Public Service needs more staff and more resources to rebuild policy development and service delivery capacity

The Australian Public Service needs urgent repair. Decades of public sector cuts have left the APS understaffed and under resourced.

- Since 2013, this Government has made over \$7.6 billion worth of cuts, costing more than 19,000 jobs.<sup>12</sup>
- Staffing levels are at the lowest level in a decade with core public sector staffing in 2020 projected to be lower than 2006-07 staffing levels.<sup>13</sup>

The continuation of the Efficiency Dividend and the impact of Average Staffing level cap has further increased budgetary pressure on the APS.

The result of the cuts is a degraded policy development and service delivery capacity that has a substantial negative impact on the community and on APS staff.

And this is occurring at a time where the operating environment for the APS and government is becoming more complex and challenging.

The recent Independent review of the Australian Public Service made abundantly clear that to meet the emerging challenges of a more volatile world, and one where citizens expectations of government are being shaped by profound changes to technology, the APS needs substantial reinvestment in people and systems.

But the Morrison government is not reinvesting. It is not repairing or rebuilding. And it is not preparing for the future. Instead the Government is planning to cut deeper.

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10 Karen Chester, Mark Gray, David Galbally AM QC (2015, December). Fit for the future: A capability review of the Australian Securities and Investments Commission - A Report to Government. Australian Government. Retrieved from [treasury.gov.au/sites/default/files/2019-03/ASIC-Capability-Review-Final-Report.pdf](https://treasury.gov.au/sites/default/files/2019-03/ASIC-Capability-Review-Final-Report.pdf)

11 The Treasury (2019, June). *Australian Prudential Regulation Authority - Capability Review*. Australian Government. Retrieved from [treasury.gov.au/sites/default/files/2019-07/190715\\_APRA%20Capability%20Review.pdf](https://treasury.gov.au/sites/default/files/2019-07/190715_APRA%20Capability%20Review.pdf)

12 Commonwealth of Australia (2017, May). Budget 2017-18 – *Budget paper No. 4—Agency resourcing*

13 CPSU calculations based on Average Staffing Levels figures from previous Budget Papers.

The 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO) reveals that the Morrison Government:

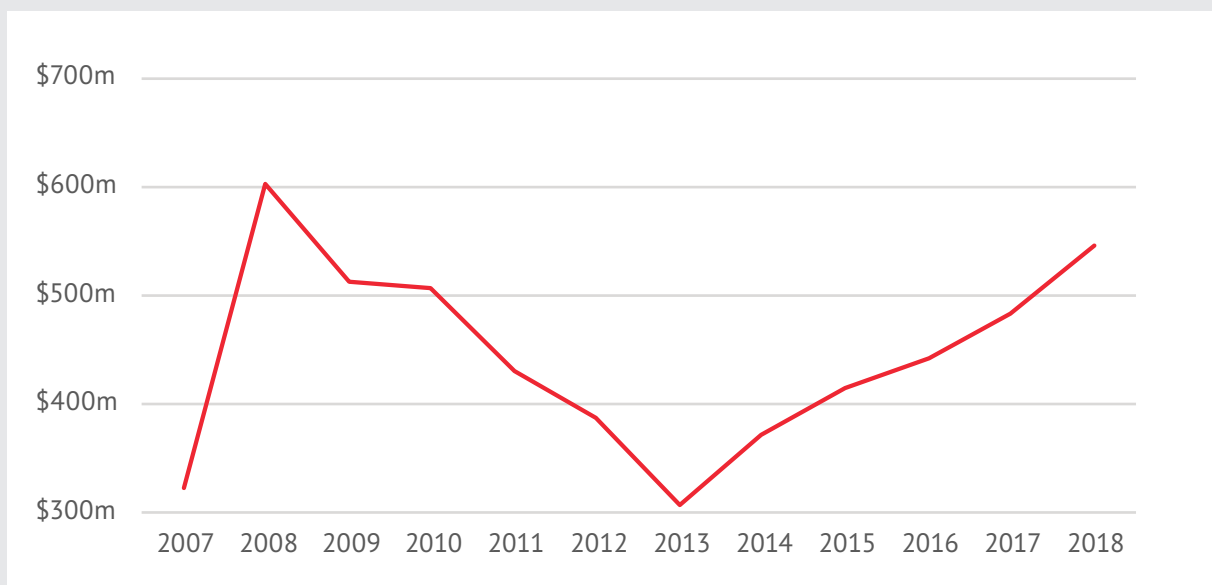
- Will further increase the efficiency dividend – cutting \$1.5 billion; and
- Is making provision for \$243m in redundancy payment over the next 4 years.<sup>14</sup>

The CPSU estimates these measures will result in approximately 2,500 further job cuts. These cuts will cause further deep damage and should not proceed.

### Cuts enable the privatisation by stealth of the APS.

But while APS staff levels have been dramatically cut there has been a surge in spending on consultants, contractors and labour hire companies.

**Figure 1: Government consultancy contracts 2007-2018<sup>15</sup>**



It is abundantly clear that APS staff are being cut and replaced with private for-profit providers.

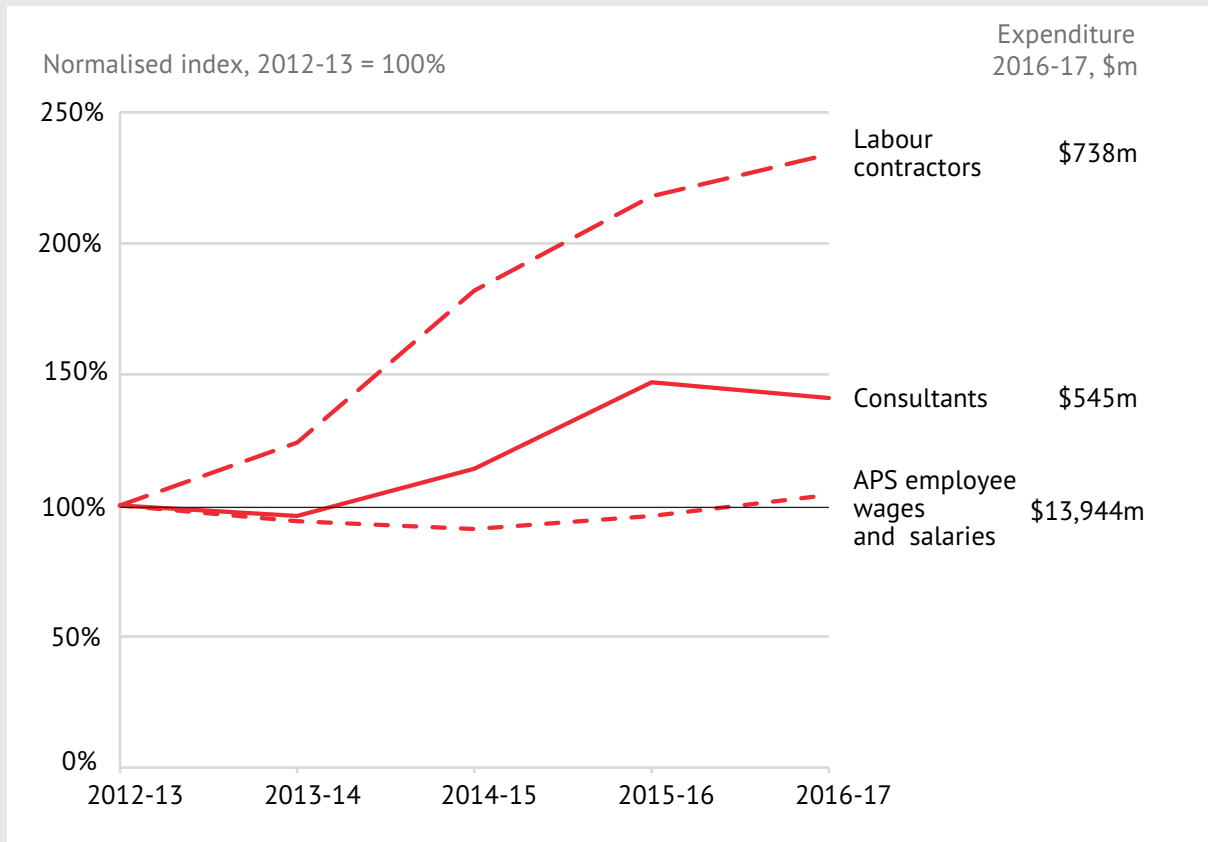
The APS Review found that over the past five years, spending on contractors and consultants has significantly increased while spending on APS employee expenses has remained steady.<sup>16</sup>

14 Commonwealth of Australia (2019, December) *Mid-Year Economic and Fiscal Outlook 2019-20*. Retrieved from [budget.gov.au/2019-20/content/myefo/download/MYEFO\\_2019-20.pdf](https://budget.gov.au/2019-20/content/myefo/download/MYEFO_2019-20.pdf)

15 Markus Mannheim (2019, November 25). Federal Government's push to move shrinking public service to the bush isn't working. *ABC News*. Retrieved from [www.abc.net.au/news/2019-11-25/government-push-to-move-public-servants-to-the-bush-is-failing/11731076](https://www.abc.net.au/news/2019-11-25/government-push-to-move-public-servants-to-the-bush-is-failing/11731076)

16 Commonwealth of Australia (2019). *Our Public Service, Our Future. Independent Review of the Australian Public Service*. Department of the Prime Minister and Cabinet. (p.185)

**Figure 2. Percentage change in spend on employees, labour contractors and consultancy contract notices<sup>17</sup>**



This represents the privatisation by stealth of the Australian Public Service.

The Australian community do not support the privatisation of public services, and the current Government's program to hand over ever more public sector work to corporations is out of touch with the views of the community.

The Australian community need a public service that can deliver quality services and help prepare the nation for the challenges ahead. This requires more staff and a substantial investment in technology. The CPSU therefore calls for the 2020-21 Commonwealth Budget to commence rebuilding APS staffing numbers by:

- Not proceeding with further increases to the efficiency dividend;
- Commencing restoring the 19,000 job cuts since 2013; and
- Reducing the spending on consultants, contractors, and labour hire companies, and reinvesting those savings into increased APS staff numbers.

<sup>17</sup> Commonwealth of Australia (2019). *Our Public Service, Our Future. Independent Review of the Australian Public Service.* Department of the Prime Minister and Cabinet. (p.186)



**RECOMMENDATION:** The Commonwealth Government commits to rebuilding the APS by:

- not proceeding with further increases to the efficiency dividend;
- commencing restoring the 19,000 APS job cuts made by successive Coalition Governments since 2013; and
- reducing spending on consultants, contractors, and labour hire companies, and reinvesting those savings into increased APS staff numbers.

## Abolishing the ASL Cap

In the 2015–16 Budget, the Coalition Government committed to capping the size of the Australian Public Service around or below 2006–07 average staffing levels (167,596).<sup>18</sup> This decision meant regardless of funding, agencies are forced to have a maximum staffing level equal or below their 2007 levels. The effect of the Average Staffing Level (ASL) cap is agencies avoid any direct employment of additional staff.

This link between the staffing level cap and outsourcing has been identified by both the Department of Prime Minister and Cabinet (PM&C), Productivity Commission (PC) and the Department of Human Services (DHS).

In a submission to the Joint Committee on Public Accounts and Audit (JCPAA) Inquiry based on Auditor-General’s report No. 19 (2017-18), the PM&C stated that “*with the implementation of staffing caps in the Australian Public Service, agencies have more frequently needed to engage external contractor and consultancy services to fill key roles.*”<sup>19</sup>

In its report into NDIS Costs, the PC stated that:

“the rationale for the cap on directly employed staff appears to be to encourage the NDIA to enter into community partnerships.”<sup>20</sup>

In May 2018 Senate Estimates, the Secretary of DHS stated that:

“the ASL cap has, more visibly...had us moving to labour hire and contractors. This is what our principle response has been to a reduction in the ASL cap”, that “it’s not about the money” and that while they “can engage a workforce. They just can’t all be the APS workforce.”<sup>21</sup>

18 Australian Government (2016, May). *2016-17 Budget, Budget Paper No.4 Part 2: Staffing of Agencies*. Retrieved from [budget.gov.au/2016-17/content/bp4/html/09\\_staff.htm](http://budget.gov.au/2016-17/content/bp4/html/09_staff.htm)

19 Department of Prime Minister and Cabinet (2018). *Australian Government Contract Reporting - Inquiry based on Auditor-General’s report No. 19 (2017-18)* - Submission 18.

20 Productivity Commission (2017). *National Disability Insurance Scheme (NDIS) Costs, Study Report*. Canberra. Retrieved from [www.pc.gov.au/inquiries/completed/ndis-costs/report/ndis-costs2.pdf](http://www.pc.gov.au/inquiries/completed/ndis-costs/report/ndis-costs2.pdf)

21 Senate of Australia (2018, 31 May). *Senate Estimates Hansard. Community Affairs Legislation Committee*. Retrieved from [parlinfo.aph.gov.au/parlInfo/download/committees/estimate/eec6a8f1-44e9-43cd-9b53-da574b2623d5/toc\\_pdf/Community%20Affairs%20Legislation%20Committee\\_2018\\_05\\_31\\_6174\\_Official.pdf;fileType=application%2Fpdf](http://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/eec6a8f1-44e9-43cd-9b53-da574b2623d5/toc_pdf/Community%20Affairs%20Legislation%20Committee_2018_05_31_6174_Official.pdf;fileType=application%2Fpdf)

The outsourcing caused by the Average Staffing Level cap produces bad outcomes for:

- workers, who are forced onto lower paid, insecure work arrangements;
- agencies, through higher costs and increased staff turnover; and
- communities, who receive poorer public services.

The only winners from the Average Staffing Level cap are the contractors, consultants and labour hire companies who are making big profits for doing very little.

## **The ASL cap means lower pay and less job security for many workers**

Agencies are increasingly engaging casuals and outsourcing work to labour hire that would normally be performed by permanent APS employees.

Labour hire staff are doing the same work as APS employees, often side by side. But rather than enjoying the pay and conditions of the enterprise agreement, these workers are often award-dependent and treated differently, with inferior working conditions. For example:

- An outsourced Serco worker doing Department of Human Services work earns, on average, \$17,500 less than a permanent APS3 employee but they cost taxpayers around \$10,000 per year more.<sup>22</sup>
- Call centre workers in Stellar, another provider of call centre services to the Department of Human Services get as little as \$20 per hour, less than McDonald's workers.<sup>23</sup>

The outsourced providers also appear to be increasing their profit margin by paying the workers less and by classifying the workers at the lowest possible payrate. For example, the for-profit call centres undertaking Department of Human Services work seem to be hiring a substantial number of staff at the trainee level. New starters doing this work for the Department would be engaged at an APS 3 rate. A Customer Contact Trainee under the Contract Call Centres Award 2010 gets paid nearly \$19,000 per year less than the minimum an APS 3 employee is paid.<sup>24</sup>

22 Calculation based on the value of the DHS Serco contract and the number of positions that will be created and the difference between the annual salary of Customer Contact Office 1 under the Contract Call Centres Award 2010 and minimum pay rate of DHS APS 3

23 Holly Hales (2018, 18 March). 'I'd be better off working at a fish and chip shop': Australian Tax Office call centre staff 'get paid LESS than McDonald's workers' - and you'll never guess why. *Daily Mail*. Retrieved from [www.dailymail.co.uk/news/article-5512865/ATO-staff-paid-McDonalds-workers-Australia.html](http://www.dailymail.co.uk/news/article-5512865/ATO-staff-paid-McDonalds-workers-Australia.html)

24 Calculation based on the value of the DHS Serco contract and the number of positions that will be created, Contract Call Centres Award and minimum pay rate of DHS APS 3

## The ASL cap is not a budget saving – it increases costs for agencies

The ASL cap has led to perverse situations where agencies hire external staff even though it is cheaper to directly hire. The exact cost of external engagements across the APS is not known, however, the Department of Infrastructure and Regional Development suggests it costs 40% more than permanent staff.<sup>25</sup> The ABS has also stated that ICT contractors cost approximately double that of APS ICT staff and that non-ICT contractors cost “approximately 125-150% of internal staff, this excludes recruitment fee.”<sup>26</sup>

Agencies are on the record stating the ASL cap is forcing them to hire more expensive staff. The Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) told the APS Review that:

“the ASL cap is blind to funding levels and operational requirements, forcing the Institute to rely on external contractors to deliver on core functions.”

It was funded for additional staff in recognition of urgent requirements but the ASL cap resulted in staffing costs being 25% more, reducing the number of funded additional positions by 14.<sup>27</sup> Another example is the CDPP which revealed to Senate Estimates that labour hire workers are costing the agency more and they are being paid less than if staff were directly engaged.<sup>28</sup>

Central agencies are well aware of this, PM&C recognising the impact of the ASL cap stating that:

“through removing ASL caps, agencies may have greater flexibility to recruit specialist staff at a reduced cost.”<sup>29</sup>

## The ASL cap affects outcomes for the community

The ASL cap has meant the quality of support and services provided by the APS to the community suffers. The APS Review noted that “*staffing-level caps have made it difficult for agency heads to retain some functions or to maintain them at the same size and strength as previous years*” and that they risk the “*consequence of reducing capability cross the service.*”<sup>30</sup>

25 Department of Infrastructure, Regional Development and Cities (2018). *Submission to the Australian Public Service Review*. Retrieved from [uploadstorage.blob.core.windows.net/submission-uploads/fil03f37a05e11f3cd92959e.pdf](https://uploadstorage.blob.core.windows.net/submission-uploads/fil03f37a05e11f3cd92959e.pdf)

26 [www.aph.gov.au/DocumentStore.ashx?id=90a39e57-a638-46cb-be00-e9cb9753a461&subId=563837](https://www.aph.gov.au/DocumentStore.ashx?id=90a39e57-a638-46cb-be00-e9cb9753a461&subId=563837)

27 Australian Institute of Aboriginal and Torres Strait Islander Studies (2018). *Submission to the Australian Public Service Review*

28 Senate of Australia. (2017, 18 August). Senate Estimates. Legal and Constitutional Affairs Legislation Committee. Retrieved from [parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Festimate%2F3ee2a9e9-d718-457a-bb19-af1a1fcea8f0%2F0007;query=Id%3A%22committees%2Festimate%2F3ee2a9e9-d718-457a-bb19-af1a1fcea8f0%2F0000%22](https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Festimate%2F3ee2a9e9-d718-457a-bb19-af1a1fcea8f0%2F0007;query=Id%3A%22committees%2Festimate%2F3ee2a9e9-d718-457a-bb19-af1a1fcea8f0%2F0000%22)

29 Department of Prime Minister and Cabinet (2018). Australian Government Contract Reporting - Inquiry based on Auditor-General's report No. 19 (2017-18) - Submission 18.

30 Commonwealth of Australia (2019). *Our Public Service, Our Future. Independent Review of the Australian Public Service*. Department of the Prime Minister and Cabinet. (p.185)

## Six case studies on the negative consequences of the ASL cap

The ASL cap does damage in every department and agency. Analysis by CPSU members has identified six case studies where urgent relief from the ASL cap is required:

### DEPARTMENT OF HUMAN SERVICES (DHS)

In DHS, the ASL cap has led to de-skilling and a loss of departmental capacity because the Department has not been allowed to hire additional permanent APS employees. More than \$400m has been spent on privatised call centres that employ 2,750 people.<sup>31</sup> These call centre staff are receiving increasingly complex confidential enquiries, involving direct customer contact and the handling of sensitive data.

Many DHS staff report that if private call centre providers are not able to complete any work for a client, they will simply answer the call and transfer the client to another business line staffed with permanent DHS employees.

The resulting inefficient double-handling wastes resources that could have been spent on hiring more permanent, trained staff. Errors directly disadvantage vulnerable DHS customers, and then must be rectified by trained APS staff. DHS has also been using labour hire to do core work in integrity and information, program design and corporate roles. In 2018-19, DHS spent \$113 million on labour hire and had a labour hire workforce headcount of 1,975 at 30 June 2019.<sup>32</sup>

### NATIONAL DISABILITY INSURANCE SCHEME (NDIA)

The NDIA staffing cap means the NDIA has inadequate staffing levels and insecure employment. Of the 5,530 who work within an NDIA office, 71% are in insecure employment. 3,230 are NDIA employees, with half on non-ongoing contracts. 2,300 people work at an NDIA office but are employed through labour hire companies on fixed term contracts.

The staffing cap and high turnover of staff - caused by insecure work and unreasonable workload pressure leads to a subsequent loss of expertise and knowledge. When staff are not retained, the positions then need to be refilled and new staff must be trained again, affecting participants. They often have to deal with multiple Planners, which affects the consistency of support and further delays the process. Disability advocacy groups have recognised the negative impact of the ASL cap and called for its removal.

### AUSTRALIAN TAXATION OFFICE (ATO)

The ATO is an essential instrument in our civil society and ensures funding for all the important things Australians want in their local communities. Core, skilled work that was previously done by the ATO or other public servants is now done by private companies.

31 Daniel Burdon (2019, 1 July). Coalition's Centrelink outsourcing push to cost at least \$881 million. *Canberra Times*. Retrieved from [www.canberratimes.com.au/story/6247607/dhs-outsources-881-million-worth-of-public-service-jobs/](http://www.canberratimes.com.au/story/6247607/dhs-outsources-881-million-worth-of-public-service-jobs/)

32 Senate Community Affairs Legislation Committee (2019, December). Answer to Question on Notice 127 (SQ19-000293). 2019-20 Supplementary Budget Estimates.

Outsourced workers are doing debt and general client account work with approximately 70% of all inbound calls to the ATO now answered by private providers. There are also 613 labour hire workers doing compliance and audit work within ATO offices. Tens of millions are being spent on external contractors and labour hire each year.

The ATO submission to the Joint Committee of Public Accounts and Audit (JCPAA) inquiry into Government Contracting revealed a significant increase in spending on labour hire from \$9.44m in 2014-15 to \$44.32m in 2016-17. CPSU analysis of Austender data in August 2019 showed that current contracts for “temporary personnel services” totalled \$73.5 million.

### **COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION (CSIRO)**

In CSIRO, the ASL cap is affecting its ability to do research work. Staff recruitment for 170 of the total 250 open jobs had been placed on hold and there is an increasing reliance on contractors and consultants. It has meant that CSIRO is unable to deliver the project work and has declined contract work with industry and university partners who would have funded the work, because they cannot hire the staff to do the work.<sup>33</sup>

### **AUSTRALIAN ANTARCTIC DIVISION (AAD)**

The Australian Antarctic Division (AAD) undertakes Antarctic research, climate science, wildlife conservation, sustainable management of fisheries. Workloads have gone up as the AAD has taken on significant additional work such as developing a new airstrip, commissioning a new icebreaking and increasing traverse capacity.

A new Modernisation branch was created to manage these projects but the ASL cap was not increased, forcing other branches, such as Science, to reduce their staffing levels. There has also been outsourcing to universities, as well as use of Navy and Army personnel to undertake logistics and resupply work previously done by the AAD, property management has been outsourced and there is the use of labour hire in Support and Operations.

### **AUSTRALIAN INSTITUTE OF HEALTH AND WELFARE (AIHW)**

The AIHW provides evidence and data to the Australian public, governments and the general population across the health and welfare services sector at different geographical levels. The ASL cap results in around 30% of AIHW staffing budget being used on labour hire and contractors. This costs the agency more and heavily undermines the capability of the agency. The CEO has been in constant discussions with the Secretary of Health about lifting the ASL cap but instead labour hire is engaged via Chandler Macleod – a multinational company suspected of avoiding tax.

<sup>33</sup> Stephen Easton (2019, March 13). CSIRO staff ask chief executive to defy government over staffing levels. *The Mandarin*. Retrieved from [www.themandarin.com.au/105295-csiro-staff-ask-chief-executive-to-defy-government-over-staffing-levels/](http://www.themandarin.com.au/105295-csiro-staff-ask-chief-executive-to-defy-government-over-staffing-levels/)

## There is broad support for lifting the ASL cap

There is widespread support from Departments and community groups for removing the ASL cap. Most notably, the APS Review recommended abolishing the Average Staffing Level cap.<sup>34</sup>

Its impact is particularly being felt by the community in the NDIA. The Productivity Commission has also recommended removing the cap on directly employed NDIA staff as it may hinder the ability of the NDIA to manage the NDIS effectively and independently.<sup>35</sup>

Outside the APS, a range of organisations including People With Disability Australia, the Benevolent Society and state governments (Labor and Coalition) and the agency itself have all publicly recommended removing the ASL cap from the NDIA.

The changes needed to rebuild trust in government and confidence in its capacity to delivery for the community will be limited by the continuation of the Average Staffing Level cap.

The Independent Review of the Australian Public Service (the Thodey review) has also recommended that the ASL cap be abolished. In making the recommendation the Review Panel noted that:

“Fiscal discipline and efficiency are critically important in public sector organisations but the Average Staffing Level rule is not essential to realising this objective. All agency heads should be accountable for managing their workforce and delivering government priorities within allocated budgets, not for adhering to a cap. Removing the caps will force agency heads to take decisions on staffing resources, whether APS employees, contractors or consultants, based on capability needs, the most efficient use of resources, return on investment, best use of skills and other sensible criteria.”<sup>36</sup>

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### **RECOMMENDATION: Abolish the Average Staffing Level cap.**

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<sup>34</sup> Commonwealth of Australia (2019). *Our Public Service, Our Future. Independent Review of the Australian Public Service*. Department of the Prime Minister and Cabinet. (p.191)

<sup>35</sup> Productivity Commission (2017). *National Disability Insurance Scheme (NDIS) Costs, Study Report, Canberra*. Retrieved from [www.pc.gov.au/inquiries/completed/ndis-costs/report/ndis-costs2.pdf](http://www.pc.gov.au/inquiries/completed/ndis-costs/report/ndis-costs2.pdf)

<sup>36</sup> Commonwealth of Australia (2019). *Our Public Service, Our Future. Independent Review of the Australian Public Service*. Department of the Prime Minister and Cabinet. (p.191)

# Regional jobs and development

## Regional Australia has been losing jobs

Australia has had 29 years of uninterrupted economic growth, and successive governments have implemented numerous regional development strategies.

Despite this, the reality is that employment prospects in regional Australia are manifestly unacceptable. Unemployment is higher than the national average of 5.3% in many regional areas.

For example, recent October 2019 statistics<sup>37</sup> show the following unemployment rates:

- In Townsville, it is 7.5%
- In the Shoalhaven and Southern Highlands, it is 8.0%.
- In Launceston and the North East, it is 6.2%
- In Coffs Harbour-Grafton, it is 5.9%

Youth unemployment rates are even worse:

- In Townsville, the youth unemployment rate is 17.5%
- In Cairns, it is 9.9%.
- In the Shoalhaven and Southern Highlands, it is 23.1%
- In Launceston and the North East, it is 12.6%
- In Coffs Harbour-Grafton, it is 14.7%

As alarming as these figures are, they do not capture the full extent of the problem.

These high unemployment rates are based on participation rates lower than the national average – which was 66% in October 2019:

- In Cairns, the participation rate is 66.6%
- In Townsville, it is 62.7%
- In Launceston and the North East, it is 59.5%
- In Coffs Harbour-Grafton, it is 52.5%
- In the Shoalhaven and Southern Highlands, it is 48.6%

The underutilisation rate, which measures the proportion of people who want to work more, but cannot, shows a growing divide between capital cities and the regions.

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<sup>37</sup> Australian Government (2019). Labour Market Information Portal. Retrieved from [lmi.gov.au/maps.aspx#layer=EmploymentRegions](https://lmi.gov.au/maps.aspx#layer=EmploymentRegions)

Townsville has a 15.5% underutilisation rate – worse than it was six years ago, the Sunshine Coast has a rate of 17% and Mandurah has a rate of 18%. Meanwhile, the underutilisation rate has improved in inner-city Sydney and new jobs have grown by 25%. In inner-city Brisbane, underutilisation improved since 2013 and employment increased by 36%.<sup>38</sup>

We cannot rely on current economic growth projections and policy settings to address the regional jobs crisis. It requires a more active role by the Government in addressing regional unemployment.

## **The role of APS jobs in regional Australia**

The Australian Public Service can do much more in providing employment opportunities in the regions.

The CPSU strongly supports increased public sector employment and believes increased numbers of regional jobs is part of the answer.

Nearly three-fifths of the Australian Public Service is located outside Canberra. The geographical spread of the APS is important. A regional footprint is needed for stronger partnerships between Canberra-based agencies and communities outside of Canberra. The improvement of accessibility in regional Australia can go hand in hand with broader aims such as using public sector employment as anchors for investment in regional economies.

The number of APS jobs in regional Australia has been falling and this needs to be reversed. Available data from the Australian Public Service Commission shows the total number of APS jobs in regional Australia has fallen by 1,342 or 6.1% since June 2013.

There are now fewer APS employees in regional Australia than there were in 2013, even taking into account the establishment of the National Disability Insurance Agency headquarters in Geelong.<sup>39</sup> Between June 2018 and June 2019, staffing declined by 544 in regional Australia.

Some regions have been particularly hit hard by cuts to regional APS jobs. Statistical Area 4 level data shows APS staffing levels in Townsville, for example, have declined by 278 or 14% from 2,051 in June 2013 to 1,699 in June 2019. Similarly, staffing levels in Cairns have declined by 100 or 11% over the same period.<sup>40</sup>

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38 Clare O'Neil (2019, December 11). *The future of work*. Chifley Research Centre Conference. Retrieved from [clareoneil.com/media/speeches/the-future-of-work-chifley-research-centre-conference/](http://clareoneil.com/media/speeches/the-future-of-work-chifley-research-centre-conference/)

39 Australian Public Service Commission (2019). APS Employment Data 31 December 2018 release. Retrieved from [www.apsc.gov.au/aps-employment-data-31-december-2018-release-introduction](http://www.apsc.gov.au/aps-employment-data-31-december-2018-release-introduction)

40 CPSU analysis of Australian Public Service Commission (2019). APS Employment Data 30 June 2019 release. Retrieved from [www.apsc.gov.au/aps-employment-data-30-june-2019-release](http://www.apsc.gov.au/aps-employment-data-30-june-2019-release)



## Rebuild capacity by providing increased numbers of APS jobs

The CPSU recommends increased public sector employment in regional locations through.

- reversing regional job losses;
- creating additional new jobs in those agencies that already have a regional footprint; and
- to build on that footprint through establishing new agencies or functions.

The kinds of jobs in regional Australia should also be a consideration. Currently, APSC job family data show the majority of roles outside the ACT are either service delivery or compliance and regulation roles. The distribution of ICT roles, where Queensland has more ICT roles than NSW, shows there is some scope to choose where roles are geographically located.

Government must play an active role in both facilitating regional development but also providing good, new public sector jobs that build the capacity of the public service in regional areas.

Increasing the number of jobs in regional Australia will not only reverse the impact of job cuts but demonstrates that government has a commitment to both service delivery and strengthening regional economies.

In a similar vein, the Jobs for the Future in Regional Australia Senate Inquiry recommended that the Commonwealth should reduce its reliance on contractors and divert this funding to create these permanent public services jobs in regional areas.<sup>41</sup>

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### **RECOMMENDATION:** A substantial increase in overall APS staffing in regional communities through:

- reversing the job cuts that have occurred;
  - adding new jobs to the existing APS regional footprint, in particular the Department of Human Services and the ATO;
  - building on that footprint through establishing new agencies or functions such as for economic transitions and public employment services; and
  - providing opportunities for a range of job roles such as ICT, not just service delivery or compliance and regulation.
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<sup>41</sup> Senate of Australia (2019, December). Report. Select Committee into Jobs for the Future in Regional Areas. Retrieved from [parlinfo.aph.gov.au/parlInfo/download/committees/reportsen/024352/toc\\_pdf/Report.pdf;fileType=application%2Fpdf](http://parlinfo.aph.gov.au/parlInfo/download/committees/reportsen/024352/toc_pdf/Report.pdf;fileType=application%2Fpdf)

## Digital transformation should be about better serving the community – not cost cutting and outsourcing

In any 4-week period more than 1 in 8 Australians, around 2.5 million people, will seek to access government information and public services online.<sup>42</sup>

Citizens expect government services to be as good as those provided by the private sector but government service standards are not meeting community expectations.

Only 3 in 10 trust government services<sup>43</sup> and a significant portion of users rate government online services as much worse than private sector services.

There are two primary reasons for these problems:

- Decades of outsourcing and contracting out has left the APS overly reliant on external vendors and contractors – creating critical issues with capability and cost.
- Previous ICT reviews and strategies have been focused on achieving savings, and opportunities for strategic and architectural reform and accompanying investment were missed.

The CPSU is strongly supportive of a digitally enabled APS that meets community expectations but it requires investment to build internal capacity. Buzzwords such as “digital transformation” are thrown around without consideration of the existing workforce and systems.

The APS is currently heavily reliant on external vendors and contractors. The share of external ICT personnel has grown over the past five years. As of 2017, more than a third of the APS’s 14,000 ICT personnel were contractors.<sup>44</sup>

The 2017 Report of the ICT Procurement Taskforce found contractors cost (\$214,000 pa) substantially more than APS employees (\$132,000 pa).<sup>45</sup> Replacing ICT contractors with APS employees would generate substantial savings, around \$400m per year, that could be reinvested to increase APS ICT capability.

The former head of the Digital Transformation Office, Paul Shetler, has pointed out that “Government is one of the *last* industries that thinks it can *outsource* wholesale.”<sup>46</sup> Systems need to be kept in-house to avoid vendor capture and ensure the capacity to integrate ongoing system development with changing Government policy priorities.

42 Roy Morgan (2015, July 7). *Over 2.5m Australians now going online for Government information and services*. Retrieved from [www.roymorgan.com/findings/6327-going-online-for-government-information-or-services-march-2015-201507070247](http://www.roymorgan.com/findings/6327-going-online-for-government-information-or-services-march-2015-201507070247)

43 Commonwealth of Australia (2019). *Our Public Service, Our Future. Independent Review of the Australian Public Service*. Department of the Prime Minister and Cabinet. (p.21)

44 Digital Transformation Agency (2017, May). *Report of the ICT Procurement Taskforce*. Canberra: Commonwealth of Australia. (p.45)

45 Digital Transformation Agency (2017, May). *Report of the ICT Procurement Taskforce*. Canberra: Commonwealth of Australia. (p.46)

46 Paul Shetler (2016, 3 December). My 16 months of digital transformation in Australia. *The Mandarin*. Retrieved from [www.themandarin.com.au/73275-paul-shetler-16-months-digital-transformation-australia/](http://www.themandarin.com.au/73275-paul-shetler-16-months-digital-transformation-australia/)

Poor quality ICT systems are a major problem for APS staff. The APS Review found that 78% of digital spend ‘runs’ old systems, approximately 12% more than the private sector.<sup>47</sup> CPSU members in many agencies report that the ICT systems and applications they use are a substantial barrier to getting their work done efficiently and accurately. There is a critical need for meaningful investment in capital expenditure to build new and replace existing infrastructure, such as aging IT systems.

Consolidating and harmonising mainstream IT platforms and associated processes can deliver significant operational improvements, but it requires a skilled workforce. Digital skills and data analysis have been highlighted by APS agencies as priority areas for capability development however, the 2019 APS Agency survey found skills shortages and difficulties recruiting to a range of digital roles across the services. There were also widespread difficulties accessing specialised learning and development to support upskilling. The expected growth in digital roles, and the increasing requirement for digital capability, will only compound this issue.<sup>48</sup>

The attempt to privatise Australia’s visa processing system is indicative of the ideological belief in wholesale outsourcing and focus on short-term savings. The Department of Home Affairs argues current processing arrangements are resource intensive and dependent on ageing information technology infrastructure. It is unclear why the visa processing platform needs to be privatised given the Secretary of the Department has suggested the privatisation of the visa processing platform is not necessary, stating that “whether delivered in the end by public or private means is almost a secondary consideration.”<sup>49</sup> Furthermore, the Department is arguing that privatisation will avoid the Government incurring a capital cost for a new IT platform, a short-sighted argument given the system returns approximately \$500m to revenue and this would easily justify the capital outlay.<sup>50</sup>

The CPSU supports a service-wide ambition to ensure people can access seamless and personalised services and support irrespective of which agency, portfolio and ultimately government is responsible for its provision. However, it requires a genuine focus on the users of public services and investment rather than technology for its own sake.

The Government’s Digital Transformation Strategy, especially the priority that “government is easy to deal with by 2025” cannot be fixated on technology at the expense of users. The experience of many customers with Centrelink shows that it can be problematic as cost savings become the focus behind decisions rather than providing services. As Paul Shetler has pointed out, experimenting with technological advances is

47 Commonwealth of Australia (2019). *Our Public Service, Our Future. Independent Review of the Australian Public Service*. Department of the Prime Minister and Cabinet. (p.153)

48 Australian Public Service Commission (2019). *State of the Service Report 2018–19*. Commonwealth of Australia. Retrieved from [www.apsc.gov.au/sites/default/files/apsc\\_state\\_of\\_the\\_service\\_report\\_2018-19.pdf](http://www.apsc.gov.au/sites/default/files/apsc_state_of_the_service_report_2018-19.pdf)

49 Senate Legal and Constitutional Affairs Legislation Committee (2019, 8 April). *Senate Estimates - Home Affairs Portfolio: Department of Home Affairs*. Retrieved from <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Festimate%2F75507344-48f1-4665-8f23-623c6eb5c20d%2F0002;query=Id%3A%22committees%2Festimate%2F75507344-48f1-4665-8f23-623c6eb5c20d%2F0000%22>

50 Senate Legal and Constitutional Affairs Legislation Committee (2018, 22 May). *Senate Estimates - Home Affairs Portfolio: Department of Home Affairs*. Retrieved from <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Festimate%2F75507344-48f1-4665-8f23-623c6eb5c20d%2F0002;query=Id%3A%22committees%2Festimate%2F75507344-48f1-4665-8f23-623c6eb5c20d%2F0000%22>

important but should not come at the expense of fixing the basics first.<sup>51</sup> This means for example that in Centrelink the focus should be on getting Centrelink phones answered on time and by permanent staff who can provide accurate reliable information.

The APS Review is silent on the importance of modes of delivery to enable personalised services. This is despite the December 2018 Consultation report outlining that “members of the public expressed a desire for flexible options in the way they engage with government agencies and services” i.e. people choosing whether to engage digitally online, via phone, or face-to-face.<sup>52</sup>

More work can and should be done to improve coordination between different levels of government and invest in ICT to digitally integrate services, but it cannot be at the expense of ignoring the basics and what people want.

Digital transformation also has potentially major implications for public service staff.

The CPSU is strongly opposed to digital transformation being a vehicle for staffing cuts.

Decades of cuts and outsourcing has heavily eroded APS capacity and capability, and the CPSU says that any staff savings resulting from digital transformation should be reinvested into rebuilding APS capability and capacity.

The CPSU therefore welcomes and supports the recommendation of the Independent Review (the Thodey Review) that a whole of APS workforce strategy be developed which includes a framework for reskilling and redeploying APS staff affected by automation.<sup>53</sup>

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**RECOMMENDATION: Ensure digital transformation is about better services not cost cutting or outsourcing, by:**

- investing in staff;
  - reducing the reliance on ICT contractors and consultants; and
  - providing adequate funding in the Budget to invest in ICT systems and training that support digital government service delivery.
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51 Stephen Easton (2017, 2 August). Paul Shetler: forget high tech fantasies if you can't answer the phones. *The Mandarin*. Retrieved from [www.themandarin.com.au/82114-shetler-forget-high-tech-fantasies-cant-answer-phones/](http://www.themandarin.com.au/82114-shetler-forget-high-tech-fantasies-cant-answer-phones/)

52 Inside Policy (2018, December 3). *Independent Review of the Australian Public Service: A Consultation Summary Report*. Retrieved from [www.apsreview.gov.au/sites/default/files/apsir-summary-consultation-report.pdf](http://www.apsreview.gov.au/sites/default/files/apsir-summary-consultation-report.pdf)

53 Commonwealth of Australia (2019). *Our Public Service, Our Future. Independent Review of the Australian Public Service*. Department of the Prime Minister and Cabinet. (p.192)