

# Bureaucracy Overload

## State Government Employment Since the GST Reforms

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*Free people, free society*

## Executive summary

- The post-GST reform period has, by and large, been a lucrative one for state public sectors, with significant trend growth in total government employment.
  - Strong public sector jobs growth has been seen particularly in Victoria, Western Australia, the ACT and NT.
- There has been solid growth in frontline positions, such as teachers, nurses and police officers, but there remain significant numbers of non-frontline state government jobs, representing up to 35 per cent of total state public sector employment.
- Wages and salaries in the state public sectors have grown strongly since the GST was introduced, with average wage increases outstripping general price inflation.
- Teachers, nurses and police officers, backed by strong public sector unions, have been the main beneficiaries of generous salary and benefit increases, overriding publicly stated state wage cap policies.
- Absenteeism rates continue to be of concern among state governments, with some evidence of recent increases in the use of generous leave entitlements by public sector employees.
- With state budgets already overstretched by significant employee expenses, governments must consider a range of policies to help rationalise public sector job numbers and restrain their continuing growth.
- A menu of reform options which should be investigated include privatisation, eliminating wasteful public sector functions, promoting greater private sector involvement in key service delivery areas, and stronger enforcement of public employment numbers and wage caps.

## 1 Introduction

In recent months there has been a significant focus upon the employment and industrial relations environment for iconic Australian manufacturers, such as Holden and SPC Ardmona, but the continuing growth in public sector positions and provision of generous salaries and conditions should not be ignored by the public.

Within the private sector the capacity of employers to provide additional wages, and incur other costs such as leave provisions, is ultimately constrained by the extent of additional economic value provided by workers within competitive markets, often on a global scale.

In this scenario, the ultimate price of economic folly - where unions pursue excessive wage claims and generous entitlements, and employers ratify these - is the closure of the affected firm, and the unemployment of the affected workers.

Oftentimes, but not always as demonstrated within Australia's highly unionised and highly regulated IR regime, the threat of economic extinction leads employees and employers to harmoniously work together in the quest to satisfy discerning consumers, here and abroad.

The employment and IR situation within the public sector is an entirely different story.

Taxpayers might obtain some limited respite from the fiscal leviathan by shifting their capital and labour to more attractive economic climates, but moving around invariably stops sometime and, at that point, the taxpayer has little choice but to stump up for the cost of an expanding and better paid public sector employment base.

Knowing that governments represent a monopoly provider of numerous goods and services, public sector unions know there is very little, apart from people casting their votes at the ballot box, restraining them from persistently demanding larger bureaucracies to work in, and higher perks associated with running government offices and services.

A growing public sector base is fraught with many risks for the economy as a whole.

For a start, luring people into government work through attractive salaries and benefit conditions drains talented people away from the private sector, in many cases for good.

In the absence of a profit and loss mechanism within the public sector, the pressing need for the growing army of bureaucrats and service deliverers to work as productively as they can is diminished, compared against the ceaseless, day in day out, pressure faced by private sector staffers to create value.

And the more public sector employment grows, the higher the taxes that have to be paid to finance it - and, if there are fewer young workers in the economy as a whole, the fiscal pressure to raise taxes is magnified.

This narrative almost perfectly fits the Australian picture: we have a federal system in which economically disaffected people can move from state to state, but doing so is expensive and time-consuming, and therefore the seeds are sown by the politician-unionist alliance for state public sector employment to just keep growing.

In this context, the best thing for the taxpayer to protect him or herself from the onslaught of state government jobs growth and employee fiscal expenses is to become aware of the dimensions of the problem at hand.

The voter can retain the choice option of relocation, if they so wish to exercise it, or use the available information to demand change for smaller government through the electoral process.

This paper serves to fill the information gap by allaying the perception, often pedalled by public sector unions and their supporters, of a small and residual government employment base at the state level.

Indeed, the reality right across the country is of big government exerting itself - through continuing jobs growth and general entitlements siphoned the taxpayer - right across the states and territories.

This process of growing state public sector employment needs to be halted if governments are ever to return to more sustainable budgets, and a more prosperous and cohesive civil society.

## 2 Empire building: How have employee numbers changed?

State and territory governments employ workers to deliver certain services.<sup>1</sup> These include police officers, fire fighters and paramedics, court judges, government school teachers, and public hospital nurses, among others.

Governments at the state level also employ bureaucrats, in central and regional offices, to administer the varied taxing and spending operations of, and to enforce regulatory edicts set down by, the public sector.

Examining trends in aggregate public sector employment statistics is important, since growth in this regard indicates, at least indirectly, that a government is absorbing more labour to fulfil existing functions and/or meet new commitments.

The Australian Bureau of Statistics (ABS) provides headcount data on public sector employment for all levels of government. The coverage of the data are broad, and includes information applicable to the general government sector, government trading enterprises and other instrumentalities.

Table 1 shows the general trend has been for all states and territories to expand the size of their public sector employment base over the period 2001 to 2013, with the magnitude of the trends reflecting the overall population size in each jurisdiction.

New South Wales (NSW) exhibited the strongest absolute growth in gross public sector worker numbers of 97,600, followed by Victoria (97,300), Queensland (65,900), Western Australia (50,800), and South Australia (24,500). Across the country an additional 359,600 people were employed by state government bodies since the GST was introduced, implying an enlargement in the scale and scope of activities that the states and territories perform.

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<sup>1</sup> It is important to note that the ACT government assumes direct responsibility for both state and local government functions, and so its public sector employment statistics will include workers involved in local-type functions.

**Table 1: Gross state public sector employment, all states, (no.)**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust.
2001	354,100	235,400	223,800	121,400	89,200	32,900	16,700	17,100	1,090,600
2002	362,700	243,200	238,000	116,800	89,600	33,700	17,600	17,000	1,118,600
2003	368,200	249,000	232,200	118,000	91,200	33,200	17,900	18,100	1,127,800
2004	373,500	257,800	239,900	129,100	97,700	35,100	18,900	19,300	1,171,300
2005	378,600	267,900	245,100	134,100	102,900	36,000	19,900	20,000	1,204,500
2006	390,300	272,800	255,100	137,600	104,900	37,200	19,100	20,600	1,237,600
2007	403,800	281,800	270,100	143,500	104,700	37,500	19,000	20,700	1,281,100
2008	423,200	295,900	280,300	152,400	111,100	38,200	19,600	22,000	1,342,600
2009	429,700	310,300	295,300	159,100	108,800	38,100	21,700	23,700	1,386,600
2010	437,100	316,800	300,200	162,800	109,500	40,900	22,700	24,200	1,414,300
2011	449,300	330,800	303,100	166,600	110,000	40,200	24,000	23,900	1,447,900
2012	452,800	328,600	302,500	165,400	111,600	38,800	24,800	24,800	1,449,300
2013	451,700	332,700	289,700	172,200	113,700	39,500	25,500	25,200	1,450,200
Change (total)	97,600	97,300	65,900	50,800	24,500	6,600	8,800	8,100	359,600
Change (% pa)	2.0	2.9	2.2	3.0	2.0	1.5	3.6	3.3	2.4

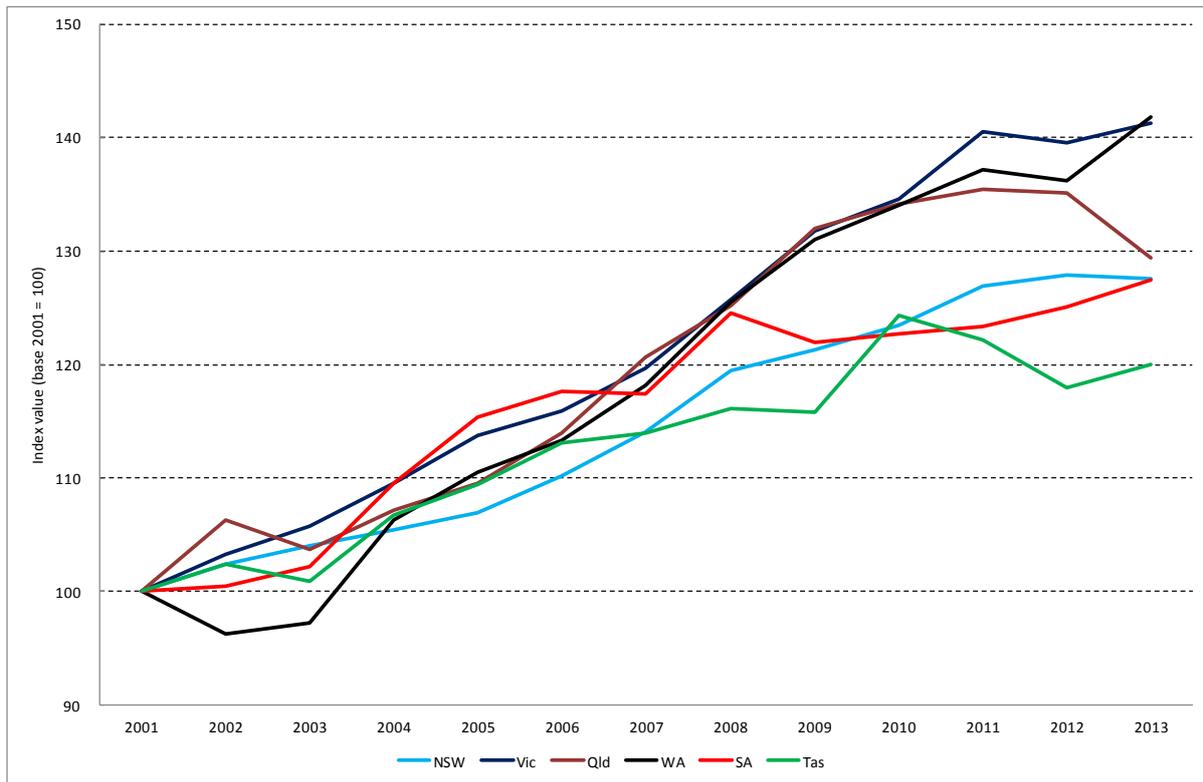
Public sector employment data as at May from 2001 to 2007, and as at June from 2008.

**Source:** ABS, Employment and Earnings, Public Sector, Australia.

With regards to the annual percentage growth in public sector employment, the Australian Capital Territory (ACT) recorded the strongest increase in hiring of 3.6 per cent per annum from 2001 to 2013. This was followed by the Northern Territory (NT) (3.3 per cent pa), Western Australia (3.0 per cent pa), Victoria (2.9 per cent pa) and Queensland (2.2 per cent pa).

In Figure 1, an index of the overall change in gross state public sector employment, for the six states, is presented. The Figure illustrates the substantial rate of additional hiring by state public sectors over the period, although some recent moderation in hiring activity is particularly evident in states such as Queensland and Tasmania, and to a lesser extent NSW.

**Figure 1: Gross state public sector employment, six states, index value**



Public sector employment data as at May from 2001 to 2007, and as at June from 2008.

**Source:** ABS, Employment and Earnings, Public Sector, Australia.

Expressing public sector employment as a share of population or total employment serves as an indication of the relative intensity with which governments draw labour resources away from the private sector (Table 2). By and large, the general observation is that the growth of the public sector employment base at the state level has exceeded that of both population and employment.

**Table 2: Gross state public sector employment, all states, share of population and employment, 2013**

	Share of population (%)	Share of employment (%)
<b>NSW</b>		
2001	5.4	11.7
2013	6.1	12.5
<b>Vic</b>		
2001	4.9	10.4
2013	5.8	11.5
<b>Qld</b>		
2001	6.3	13.5
2013	6.2	12.6
<b>WA</b>		
2001	6.4	13.2
2013	6.8	13.0
<b>SA</b>		
2001	5.9	13.3
2013	6.8	14.1
<b>Tas</b>		
2001	6.9	16.4
2013	7.7	17.1
<b>ACT</b>		
2001	5.2	9.7
2013	6.7	11.9
<b>NT</b>		
2001	8.5	17.6
2013	10.5	19.6

Public sector employment data as at May from 2001 to 2007, and as at June from 2008.

**Source:** ABS, Australian Demographic Statistics; ABS, Employment and Earnings, Public Sector, Australia; ABS, Labour Force, Australia.

A complication with the data reported above is that it includes the employment of workers in the higher education sector. Universities are legislative entities of state governments, providing higher education services that are primarily funded by the commonwealth government. In recognition of this, higher education employment statistics (rounded off to the nearest hundred) can be used to deflate the state government employment series published by the ABS.

Table 3 provides indicative information about the level of state public sector employment in each jurisdiction from 2008 to 2012, after adjusting for the number of workers in the higher education sector.<sup>2</sup>

<sup>2</sup> Higher education staffing data for 2013 was unavailable at the time of writing.

**Table 3: Net state public sector employment, all states, (no.)**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust.
2001	331,500	215,500	209,700	113,100	83,300	31,200	12,400	16,100	1,012,800
2002	339,000	222,500	223,500	108,200	83,800	31,900	13,100	16,000	1,038,000
2003	343,500	227,200	217,000	109,300	85,200	31,300	13,200	17,100	1,043,800
2004	351,000	235,300	224,200	120,000	91,500	33,200	14,000	18,300	1,087,500
2005	355,400	243,900	228,600	124,700	96,500	34,000	14,700	19,000	1,116,800
2006	366,500	249,000	237,900	128,000	98,300	35,100	13,900	19,600	1,148,300
2007	379,000	257,000	252,200	133,800	97,700	35,300	14,300	19,700	1,189,000
2008	395,500	270,000	262,100	142,200	103,800	35,900	14,900	21,000	1,245,000
2009	400,500	283,500	276,000	148,200	101,200	35,600	16,900	23,000	1,284,900
2010	407,000	289,600	280,100	151,800	101,700	38,300	17,800	23,200	1,309,500
2011	417,700	303,300	282,200	155,300	101,800	37,500	19,000	23,000	1,339,800
2012	420,000	299,600	281,300	153,600	103,200	36,000	19,600	23,900	1,337,200
Change (total)	88,500	84,100	71,600	40,500	19,900	4,800	7,200	7,800	324,400
Change (% pa)	2.2	3.0	2.7	2.8	2.0	1.3	4.2	3.7	2.6

Public sector employment data as at May from 2001 to 2007, and as at June from 2008. Numbers of higher education institution employees netted from totals.

**Source:** ABS, Employment and Earnings, Public Sector, Australia; Department of Innovation, Higher Education Statistics.

In every jurisdiction there has been growth in the numbers of net state public sector employment. In annual percentage change terms, the ACT had maintained the fastest pace of employment growth (4.2 per cent per annum) from 2001. The ACT has been followed in this regard by the NT (3.7 per cent pa), Victoria (3.0 per cent pa), Western Australia (2.8 per cent pa) and Queensland (2.7 per cent pa).

Using a range of statistical sources, it is possible to break down the aggregate figures presented here to illustrate employment trends among certain categories of state public sector employees. Changes in employment within policing, teaching and nursing occupations, which tend to be heavily scrutinised in modern state political debates, will be the subject of the analysis that follows.

The Productivity Commission provides annual full-time equivalent (FTE) data on operational and non-operational employment numbers in state police forces.<sup>3</sup> Table 4 illustrates the number of operational police force staffing across the states and territories from 2001 to 2013.

<sup>3</sup> An 'operational police staff member' (sworn or unsworn) is a member of the police force whose primary duty is the delivery of police or police-related services to a member of the general public or to government staff. A 'non-operational police staff member' does not satisfy the operational staffing criteria, and may include people involved in finance, policy, research, and personnel services.

**Table 4: Operational police staff, (no.)**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust.
2001	13,961	9,547	7,114	5,435	4,146	1,183	674	938	42,998
2002	14,825	9,982	9,247	5,468	4,290	1,213	679	943	46,647
2003	14,563	10,353	9,120	5,339	4,408	1,203	699	1,026	46,711
2004	15,653	10,373	9,135	5,236	4,318	1,217	729	1,125	47,786
2005	15,392	10,539	9,410	5,327	4,416	1,226	706	976	47,992
2006	15,389	10,895	9,767	5,394	4,612	1,273	698	1,171	49,199
2007	16,062	11,126	10,243	5,434	4,600	1,375	711	1,220	50,771
2008	16,317	11,052	11,136	5,710	4,761	1,375	750	1,329	52,430
2009	16,677	11,074	11,543	6,324	4,885	1,399	819	1,472	54,193
2010	16,802	12,945	13,087	6,382	5,105	1,372	798	1,528	58,019
2011	17,033	14,044	13,220	6,494	5,143	1,415	858	1,614	59,821
2012	17,029	14,410	13,106	6,754	5,256	1,354	835	1,620	60,364
2013	17,272	14,881	13,360	6,790	5,253	1,249	841	1,651	61,297
Change (total)	3,311	5,334	6,246	1,355	1,107	66	167	713	18,299
Change (% pa)	1.8	3.8	5.4	1.9	2.0	0.5	1.9	4.8	3.0

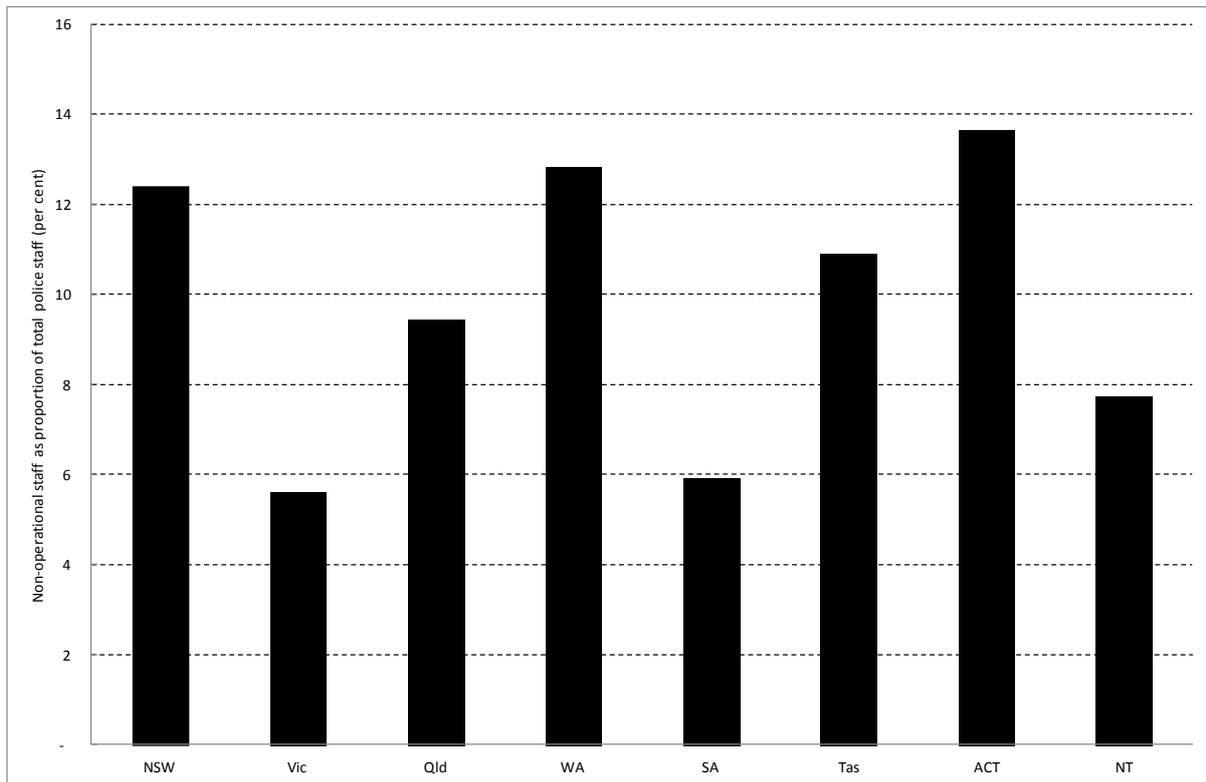
Full-time equivalent data, except for the NT which is based on a staffing headcount. NT police officers include police auxiliaries and Aboriginal community police officers. ACT operational numbers comprise AFP officers directly involved in ACT community policing functions.

**Source:** Productivity Commission, Report on Government Services Provision.

Operational police force numbers increased for all states from 2001, with Queensland (5.4 per cent per annum), the NT (4.8 per cent pa) and Victoria (3.8 per cent pa) recording the strongest increases in operational police in annual percentage terms.

Figure 2 shows the share of non-operational staff to the total police force in each jurisdiction in 2013. The ACT had the greatest share of non-operational police in the total policing staff mix (13.7 per cent), followed by Western Australia (12.8 per cent), NSW (12.4 per cent), Tasmania (10.9 per cent), and Queensland (9.4 per cent).

**Figure 2: Non-operational police staff as a proportion of total police**



Full-time equivalent data, except for the NT which is based on a staffing headcount. NT police officers include police auxiliaries and Aboriginal community police officers. ACT operational numbers comprise AFP officers directly involved in ACT community policing functions.

**Source:** Productivity Commission, Report on Government Services Provision.

State governments also employ teaching staff to provide educational services to children in government schools. Drawing upon ABS statistics, Table 5 outlines the employment of government school teachers from 2001 across all states.<sup>4</sup>

<sup>4</sup> At the time of writing, ABS data on government school staffing for 2013 was unavailable.

**Table 5: Government school teaching staff**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2001	55,398	39,472	34,237	16,974	12,939	4,899	2,814	2,347	169,080
2002	55,436	40,136	35,071	18,008	12,681	4,800	2,810	2,371	171,393
2003	55,427	40,836	36,336	18,441	12,734	4,876	2,852	2,368	173,870
2004	55,563	41,048	37,039	19,181	12,524	4,901	2,889	2,434	175,579
2005	53,485	41,383	37,786	18,953	12,443	4,843	2,892	2,415	174,200
2006	53,744	42,083	38,510	18,232	12,624	4,880	2,875	2,447	175,408
2007	54,636	42,481	40,192	19,413	12,725	4,880	2,810	2,460	179,597
2008	54,593	42,821	40,189	19,521	12,739	4,880	2,802	2,486	180,031
2009	54,683	43,054	41,353	19,761	12,746	5,030	2,862	2,633	182,122
2010	55,537	43,290	41,516	19,952	12,797	5,086	2,933	2,614	183,725
2011	56,146	43,985	42,410	19,994	12,789	5,158	2,892	2,701	186,075
2012	56,474	43,911	38,819	20,128	12,973	5,007	2,894	2,782	182,988
Change (total)	1,076	4,439	4,582	3,154	34	108	80	435	13,908
Change (% pa)	0.2	1.0	1.1	1.6	0.0	0.2	0.3	1.6	0.7

Headcount data. Does not include specialist support staff, or non-teaching staff in the government school sector.

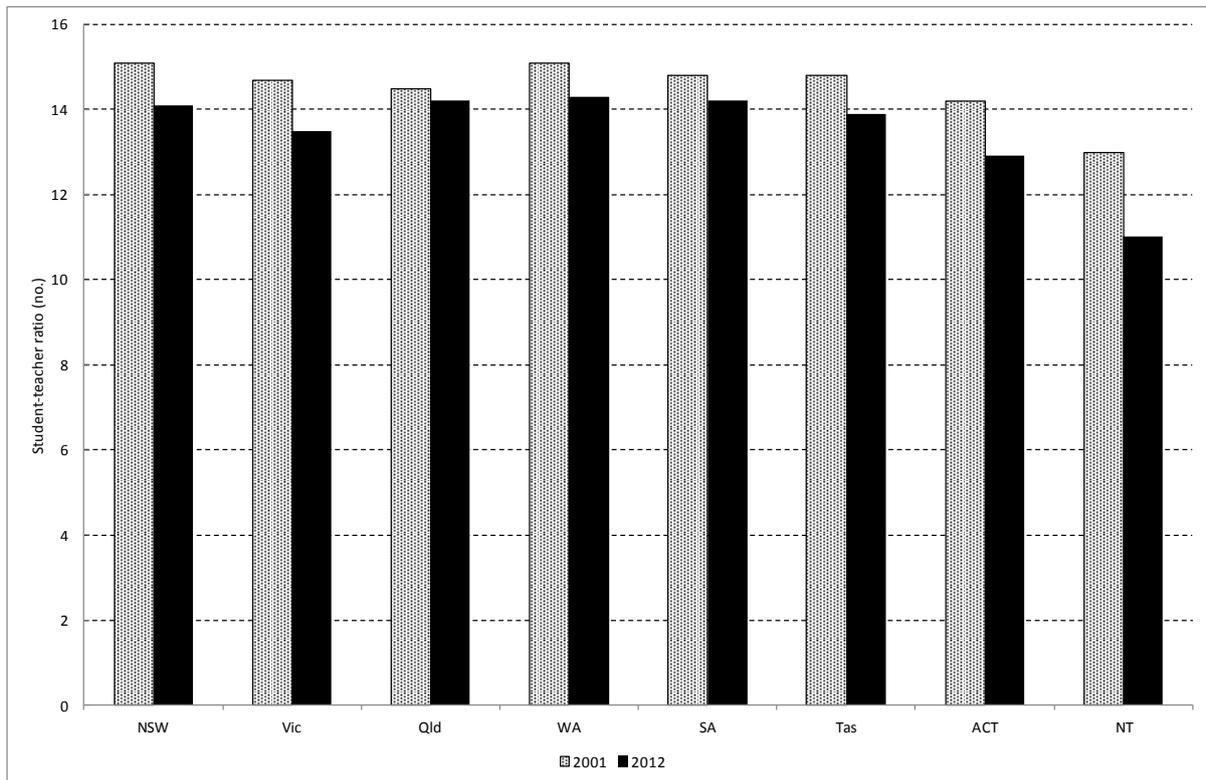
**Source:** ABS, Schools, Australia.

In terms of annual percentage changes applicable to the period 2001 to 2012, Western Australia and the NT recorded the strongest increase in teaching staff (1.6 per cent per annum),<sup>5</sup> followed by Queensland (1.1 per cent pa), Victoria (1.0 per cent pa), and the ACT (0.3 per cent pa).

Figure 3 outlines the average student-teacher ratio for government schools in each state, which serves as a proxy measure for class size. Class sizes have fallen since the introduction of the GST across every jurisdiction, despite growing evidence that reductions in class sizes, at least beyond a certain threshold level, have negligible effects on student academic performance and learning outcomes.

<sup>5</sup> This result may be influenced, to some degree, by explicit efforts by federal and territory governments to recruit additional teaching staff to provide educational services in predominantly indigenous communities.

**Figure 3: Average government schooling student-teacher ratios**



Full-time equivalent data.

**Source:** ABS, Schools, Australia.

Among the total numbers of people employed by state governments are nurses hired to provide care services in government ('public') hospitals. According to Table 6, the largest annual percentage increases in nursing employment have occurred in the two territories, followed by Victoria, Queensland, and Tasmania.<sup>6</sup>

<sup>6</sup> Hospital staffing statistics, published by the Australian Institute of Health and Welfare, for 2013 were unavailable at the time of writing.

**Table 6: Public hospital nursing staff**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2001	30,072	19,358	14,042	7,544	7,367	1,814	1,319	960	82,476
2002	29,663	21,063	14,180	7,590	7,625	1,734	1,466	944	84,265
2003	29,641	21,942	14,495	7,936	7,558	1,742	1,433	879	85,626
2004	31,865	24,028	14,661	8,158	7,845	1,806	1,479	941	90,783
2005	33,573	24,372	14,996	8,412	7,908	2,186	1,514	1,031	93,992
2006	35,427	25,152	15,818	8,727	8,734	2,287	1,684	1,179	99,008
2007	36,462	26,431	17,531	9,498	8,821	2,245	1,759	1,213	103,960
2008	36,723	27,024	19,219	9,593	9,152	2,222	1,945	1,212	107,090
2009	37,499	28,745	19,699	10,392	9,678	2,464	2,035	1,358	111,870
2010	36,976	29,667	20,006	10,710	10,277	2,708	2,075	1,521	113,940
2011	37,451	31,238	22,465	11,102	10,379	2,801	2,140	1,550	119,126
2012	39,300	31,700	23,107	11,800	10,623	2,736	2,495	1,606	123,367
Change (total)	9,228	12,342	9,065	4,256	3,256	922	1,176	646	40,891
Change (% pa)	2.5	4.6	4.6	4.2	3.4	3.8	6.0	4.8	3.7

Full-time equivalent data.

**Source:** Australian Institute of Health and Welfare, Australian Hospital Statistics.

In addition to the personnel engaged in so-called ‘frontline services,’ state governments also employ non-frontline (or ‘back office’) staff for the purposes of providing administrative support, corporate and executive services, and performing regulatory administration and policy advisory tasks.

However with the ABS no longer publishing public sector employment by industry classifications for the various levels of government, an analysis of the number of non-frontline employment must rely on a range of selective statistical releases by state governments and *ad hoc* reviews of public sector employment.

According to the 2012 New South Wales ‘State of the Public Sector’ Report, it is claimed that ‘[p]ublic sector workers who provide frontline or direct services to clients make up 86.6% of the workforce.’<sup>7</sup> On this basis, 13.4 per cent of the NSW public sector employment base are involved in back office activities.

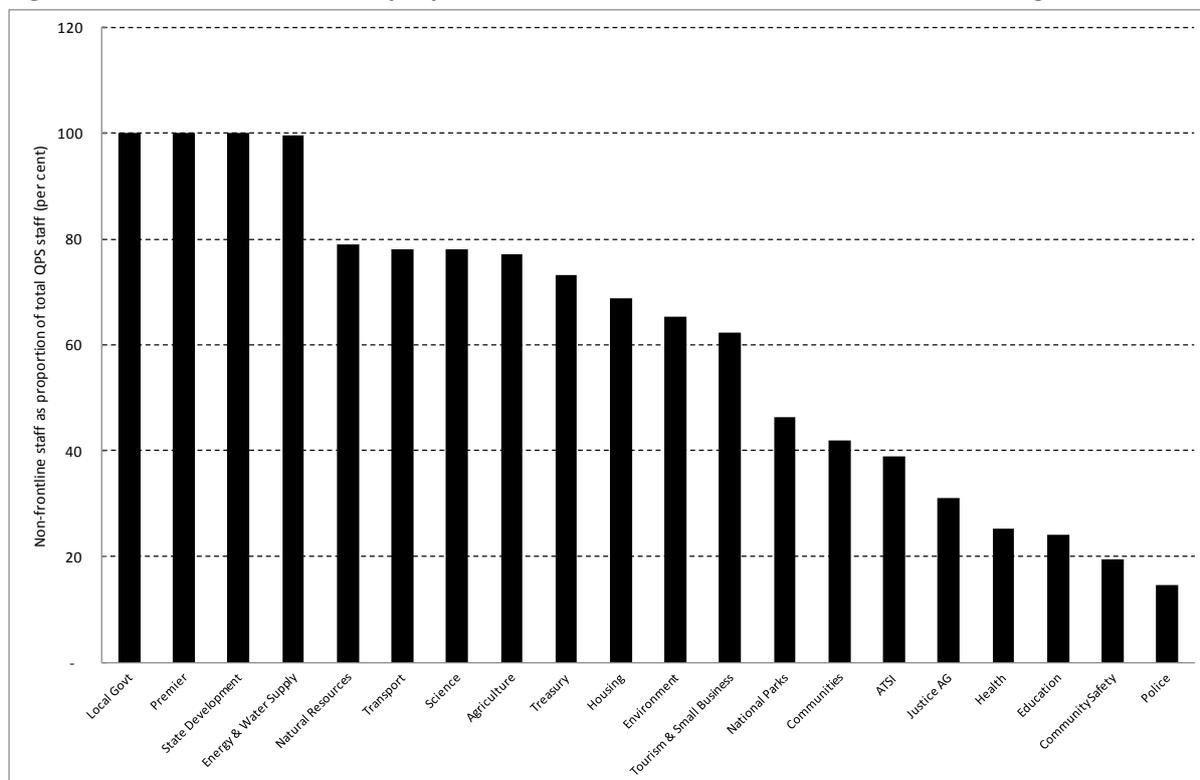
However, in the absence of corroborating evidence to support such a statement the frontline share estimate, which appears to include finance, investment and grants administration, should be regarded as being somewhat overstated. Whilst not dismissing the potential for interstate diversity in public sector employment, the potential understatement of NSW non-frontline positions also appears to be underlined by the circumstances found in other jurisdictions.

An audit of frontline positions within the Queensland Public Service revealed that, on average, about 32 per cent of positions were in non-frontline areas of responsibility (Figure 4). Within the QPS, the

<sup>7</sup> New South Wales Public Service Commission, 2012, *How it is. State of the NSW Public Sector Report 2012*, p. 2.

share of back office staff within each portfolio ranged from 100 per cent (Local Government, Premier and Cabinet, State Development, and Energy and Water Supply Departments) to under 30 per cent (Health, Education, Community Safety, and Police Departments).

**Figure 4: Non-frontline staff as proportion of total Queensland Public Service staffing**



Full-time equivalent data for each QPS department as at June 2012.

**Source:** Tony Moore, 2012, 'Anxious weekend for public servants', The Brisbane Times, 7 September.

As noted in the Queensland Commission of Audit final report, the categorisation of the state's public sector employment into frontline and non-frontline positions has been potentially corrupted by varied interpretation and application of official occupational classifications by departments.

The difficulties in providing accurate measures in this regard was further exemplified by a survey of QPS employees, in which less than half (about 48 per cent) of the respondents considered that they were involved in direct service delivery to the public whereas the remaining 56 per cent were involved in other roles (including 14 per cent in administrative support).<sup>8</sup>

The Western Australian Public Sector Commission has broken down state public sector employment by official occupational classifications. In 2012 it was reported that the share of clerical and administrative workers in the public sector was 17.4 per cent, whilst the share accounted for by managers was 6.3 per cent.<sup>9</sup>

<sup>8</sup> Queensland Commission of Audit, 2013, *Final Report*, Volume 3, The Commission, Brisbane, p. 3-373 - 3-376.

<sup>9</sup> Information for 2013 suggests that the share of clerical and administrative workers, and managers, in the total workforce mix was 18.4 per cent and 7.8 per cent, respectively.

Summation of these categories provides a total of 23.7 per cent of Western Australian public sector workers involved in predominantly non-frontline roles, however this rough calculation could understate the overall share of back office functionaries as it does not include professional staffers.

In South Australia, the Office of Public Employment and Review has released a statistical classification for state employees on the basis of their undertaking of frontline or back office functions. In 2012 it was estimated that 32.2 per cent of total South Australian public sector employees were engaged in back office roles.<sup>10</sup>

The 2012 edition of the 'State of the Service Report' by the ACT Commissioner for Public Administration suggests that about one-quarter of ACT Public Service staff, at least, may be primarily involved in undertaking non-frontline tasks. According to the report, 24 per cent of the ACT Public Service (ACTPS) were classified as 'Administrative Officers,' whilst about one per cent of ACTPS staff were classed as 'Executive Officers.'<sup>11</sup>

While it is not possible to directly compare the states using the information cited here, given varying occupational classifications used by, and frequent administrative changes within, jurisdictions, it would not be unreasonable to suggest that the share of back office staffing within state public sector ranks tend to range between 20 to 35 per cent.

In summary, the overall magnitude of state public sector employment has risen since the GFC with particularly notable staffing increases in Victoria and the two territories. As will be explained later, continuing increases in public sector employment, if left unchecked, could lead to budgetary difficulties associated with the potential for more lax labour cost controls.

Now, most states have made some formative, but nonetheless encouraging, steps to reduce the overall size of their government workforces, mainly as part of gradual fiscal consolidation policy measures:

- The NSW government introduced a voluntary redundancy program with a staffing reduction target of 5,000 positions from 2011 to 2015, mainly in non-service delivery areas.
- The Victorian government announced a public sector staffing reduction of some 3,600 non-service delivery positions from 2012 to 2015.
- In Queensland the state government introduced an overall staffing reduction target of 14,000 full time employees (FTEs).
- Western Australia introduced a voluntary redundancy initiative, as well as a ceiling on full-time equivalent staffing levels from 2012 to 2014.
- Recent South Australian state budgets specified medium term staffing reductions, to be applied from 2012 to 2016.

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<sup>10</sup> South Australian Office of Public Employment and Review, 2013 SA Public Sector Workforce Information Summary Tables.

<sup>11</sup> Australian Capital Territory Commissioner for Public Administration, 2012, ACT Public Service State of the Service Report 2012, p. 63.

- Tasmania initially announced potential public sector staffing reductions of up to 2,300 FTEs from 2011 to 2015, with the target later revised to 1,700 FTEs.
- The ACT specified reductions in staffing of some 180 FTEs, through natural attrition, reduced contractor expenditure and some voluntary redundancies.
- The NT has signalled possible staffing reductions through natural attrition, and a freeze on some public sector recruitment.<sup>12</sup>

Within this, there is some indication that governments are substituting frontline for non-frontline staff hiring, with a particular emphasis on recruiting additional police, teachers and nurses. Indeed, with a great capacity by the private sector to provide back office support services, there seems little reason why the process of outsourcing most, if not all, non-frontline functions should not continue.

As for frontline employment, the process of hiring additional staff needs to be managed most carefully if the states are to return to a semblance of fiscal sustainability over the next few years, and not leave governments overly vulnerable to the wage and employment condition dictates of powerful public sector unions.

To that end, governments should seriously consider reforms to improve the productivity of existing frontline staff, including changes to industrial relations arrangements which would enable greater flexibility in the use of labour charged with delivering services.

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<sup>12</sup> Australian Parliament Parliamentary Library, 2012, 'Public sector staffing reductions in the states and territories',  
<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fprspub%2F1910283%22>.

### **3 Lurks and perks: How have employee wages and entitlements changed?**

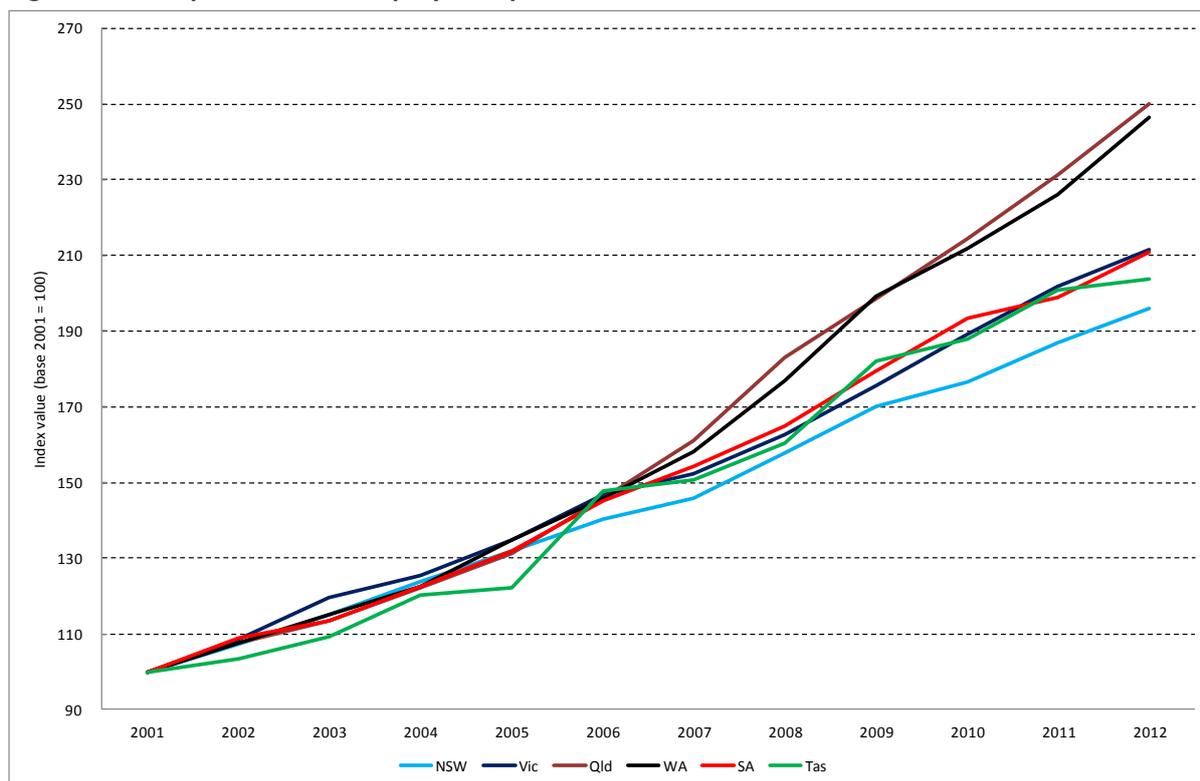
A considerable source of cost pressure on states' operating budgets comes in the form of wages, salaries and other employment entitlements to public sector employees, implying in turn a significant redistribution of income from state taxpayers to state government workers.

The amount of funding allocated by the states and territories towards employee expenses had significantly increased from 2001 to 2012, rising by over \$49 billion over the period (or by an average of 7.3 per cent per annum).

Strong increases in employee expenses incurred within the general government sector were recorded in Queensland (8.7 per cent per annum), Western Australia (8.5 per cent pa), ACT (7.2 per cent pa), and Victoria and NT (7.1 per cent pa). It is notable in all of these cases that the average annual percentage increase in employee expenses markedly outstripped the average price inflation rate of about three per cent over the period.

In Figure 5, the general strength of movement in general government employee expenses among the six states is depicted. All jurisdictions had recorded large increases, in particular the resources states of Queensland and Western Australia, with most states doubling the amount of funds devoted towards employee salaries since 2001.

**Figure 5: State public sector employee expenses, six states, index value**



Data for general government sector.

**Source:** ABS, Government Finance Statistics, Australia.

Employee expenses consume a substantial portion of state operating budgets. According to the most recent state budget papers, in this financial year it is expected that employee wage and salary expenses would account for an average of 39 per cent of state general government sector operating budgets during this financial year.<sup>13</sup>

In jurisdictions such as Tasmania and South Australia, with relatively larger state public sectors and smaller market economies, the share of recurrent expenses allocated to public sector worker salaries is higher, at 42 per cent and 44 per cent, respectively.

Although there are some exceptions, workers in a number of state public sector occupations tend to receive generous salaries, allowances and benefits which are typically not found in non-executive private sector positions.

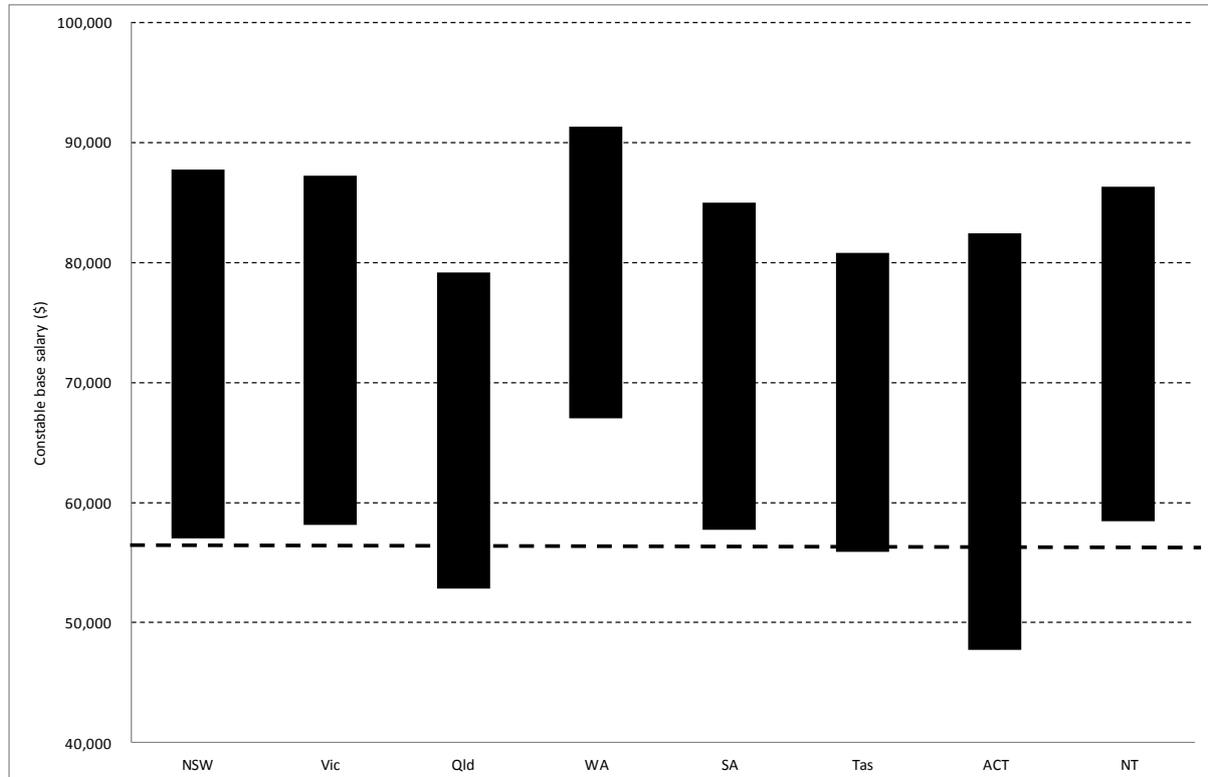
Figure 6 provides information on the basic salary ranges for constables (including senior constables) across the six states.<sup>14</sup> Across the jurisdictions, base salaries range from a minimum of about \$48,000 (in the ACT) to a maximum of about \$88,000 (New South Wales), with high-end salaries for constabulary pay classes well in excess of the national average weekly gross earnings in the private sector.

<sup>13</sup> This figure does not include superannuation, or superannuation-related, expenses.

<sup>14</sup> The details provided in this section were correct as of March 2014.

Of course, there exist a range of allowances, ranging from overtime or ‘work recall’ benefits to rural/remote area work payments,<sup>15</sup> which means that reported salaries reported here would understate actual total earnings received by numerous police officers.

**Figure 6: Police constable base salaries**



Based on present pay scales in current awards or certified agreements. Excluding recruits in training. ACT salary scale reflects initial four per cent increase in 2012-2016 certified agreement. Dashed line denotes average private sector weekly gross cash earnings.

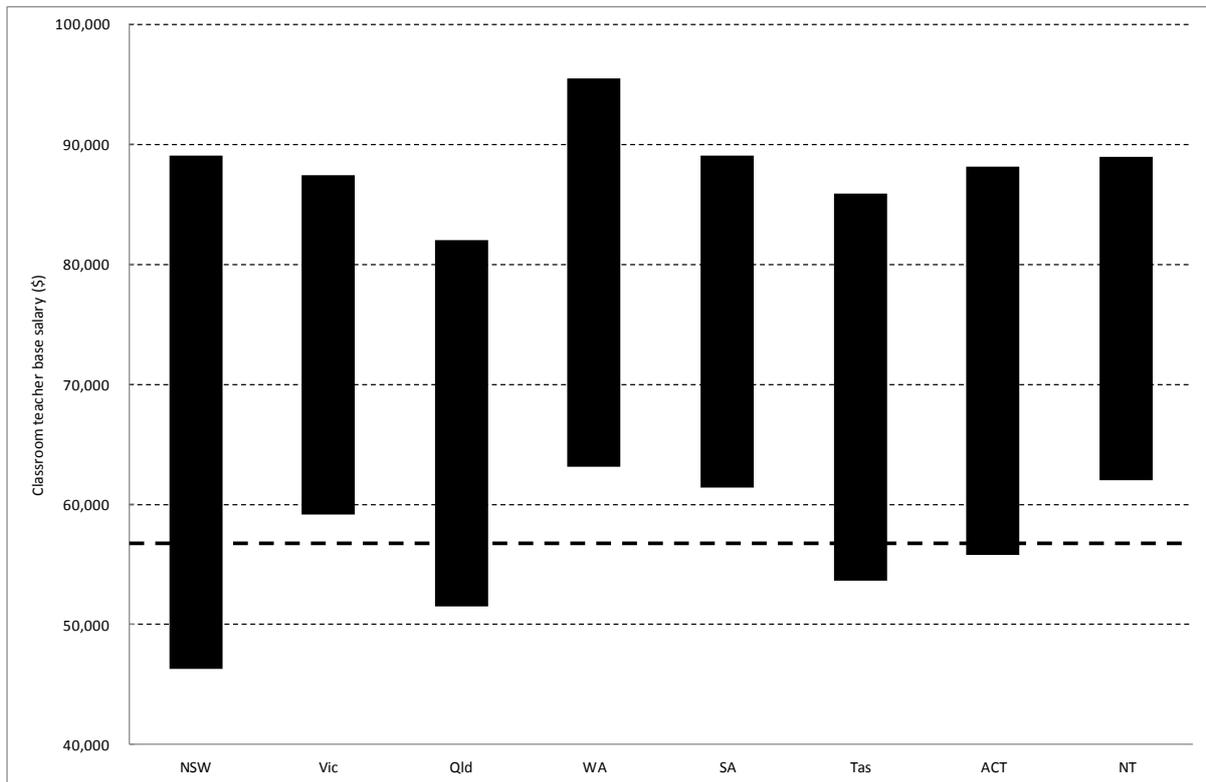
**Source:** ABS, Average Weekly Earnings, Australia; state police awards and certified agreements.

In Figure 7 the base salary scale received by government school teachers across the states is shown. According to the information provided by current awards or certified agreements, the minimum base rate of pay for a classroom teacher was in NSW (about \$46,000). At the other end of the scale, teachers in Western Australia are earning in excess of \$95,000.

These figures do not include the additional salaries, or bonuses, earned by classroom teachers nominated by states to be ‘high performance’ under various teacher quality initiatives. In some states, such as Western Australia, highly performing teachers, as identified by the state government, could earn in excess of \$100,000 each year. Other allowances, including for performing special duties, working in a remote area, and so on, are excluded.

<sup>15</sup> The range of remoteness allowances for police officers vary by state. The coverage of allowances, for example, provided by the South Australian government for officers working in the indigenous APY Lands includes food freight subsidies, utility reimbursements, a general remoteness allowance, and payment for a Foxtel television subscription.

**Figure 7: Classroom teacher base salaries**

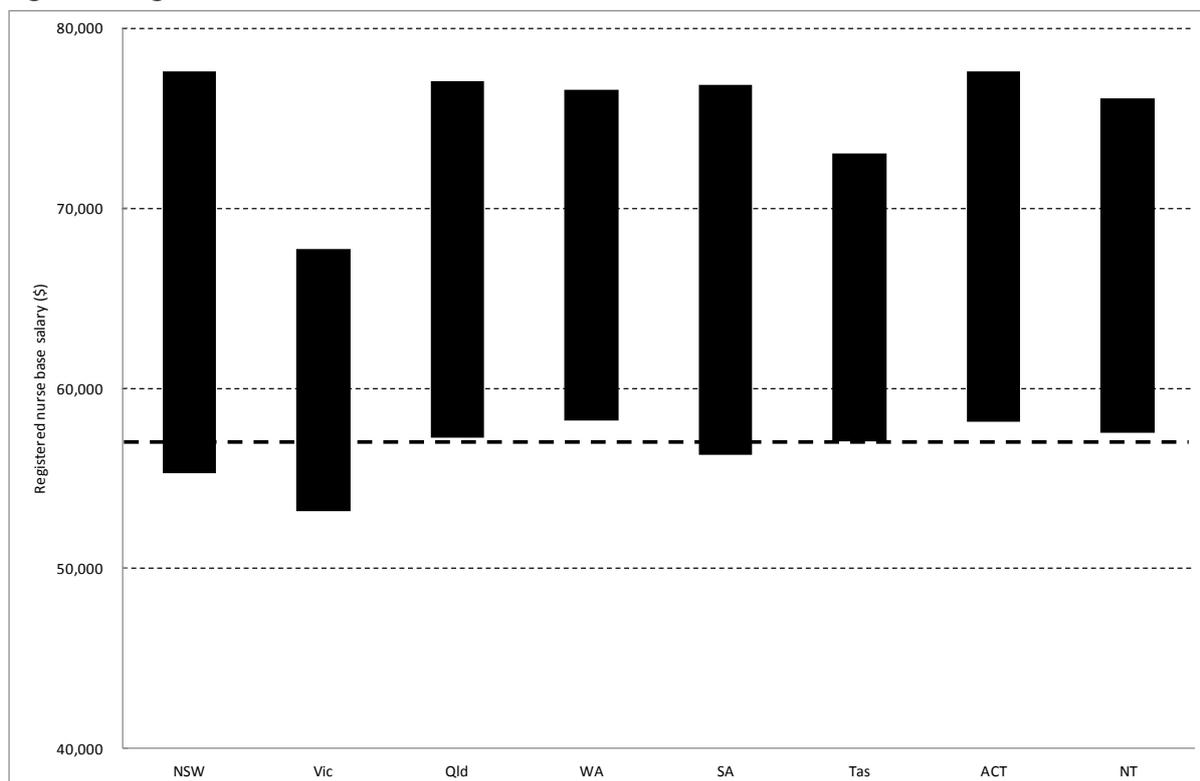


Based on present pay scales in current awards or certified agreements. Dashed line denotes average private sector weekly gross cash earnings.

**Source:** ABS, Average Weekly Earnings, Australia; state government school teaching awards and certified agreements.

Figure 8 illustrates the base salaries of registered nurses (level one or equivalent), as indicated in current awards or certified agreements. The lowest base salary for registered nurses is in Victoria (\$53,174), whereas the highest salary points, exceeding \$77,000, can be obtained by nurses in public hospitals in NSW and Queensland.

**Figure 8: Registered nurse base salaries**



Based on present pay scales in current awards or certified agreements, and assumption of 38 hours of work each week. Dashed line denotes average private sector weekly gross cash earnings.

**Source:** ABS, Average Weekly Earnings, Australia; state public hospital nursing awards and certified agreements.

In addition to reasonably attractive base salaries, state public entities also provide a range of allowances and provisions for various categories of public sector employees. For example, penalty rates are afforded to certain state government workers for working on nights, weekends or public holidays:

- Queensland police are paid penalty rates for weekend work, ranging from ‘time-and-a-half’ rate (between midnight Friday and midnight Saturday) to ‘double’ time (midnight Saturday to midnight Sunday). Operational shift and similar allowances are also available, with base or ordinary pay loadings ranging from 15 per cent to 21 per cent.<sup>16</sup>
- South Australian nurses are provided a night shift penalty of 20.5 per cent working on rostered Monday to Friday night shifts. There are also provisions for some mental health nurses to receive five days off in lieu of penalty rates for work performed on major public holidays.<sup>17</sup>
- In the ACT, nursing penalty rates range from 12.5 per cent (for weekday evening shifts) to 75 per cent (weekends, from midnight Saturday until midnight Sunday).<sup>18</sup>

<sup>16</sup> Queensland Police Service Certified Agreement.

<sup>17</sup> Nursing/Midwifery (South Australian Public Sector) Enterprise Agreement.

<sup>18</sup> ACT Public Service Nursing and Midwifery Enterprise Agreement.

Under the provisions of awards or certified agreements, state public sector employees can receive other forms of miscellaneous allowances and payments related to aspects of the duties they perform. These include:

- A 'climatic disability allowance' payable to NSW government school teachers, ranging from \$624 to \$1,459 per annum, based on location, July temperatures, and relationship status.<sup>19</sup>
- Queensland nurses are provided with a range of allowances received upon performing certain duties, such as dispensary allowances, operating theatre allowances, hyperbaric chamber allowances, x-ray allowances, and a night supervisory allowance.<sup>20</sup>
- In Western Australia, teachers transferred or promoted from one location to another may be paid property allowances, including coverage for stamp duties, legal settlement fees, real estate commissions, registrar fees, and expenses incurred in advertising the previous residence for sale.<sup>21</sup>

It is also observed that, across the three occupational types analysed here, the leave provisions available to state public sector employees often exceed those minimum, economy-wide standards as specified under the *Fair Work Act* 'National Employment Standards' (NES). A few examples of the generous leave provisions for some of these state public sector employees are as follows:

- In NSW, members of the police force are afforded with six weeks of annual leave. An officer within the western or central divisions of NSW Police accrues additional annual leave, on full pay, at the rate of 38 working hours per year (or pro rata for part of a year). Those rostered to work ordinary hours on duty on Sundays or public holidays can accrue up to an additional five days of annual leave.<sup>22</sup> This compares with a mandatory minimum four weeks annual leave under the NES.
- Full-time teachers in Victoria are allocated 15 days of personal leave (on account of personal illness or injury, or caring for an immediate family or household member) on full pay upon commencement of employment, and 15 days of fully paid leave for each year of service which is cumulative. If, in any year, personal leave credits have been exhausted, the employee will be credited up to an extra three days of leave for caring purposes. Medical or other relevant notes do not need to be provided, in any given year, for as long as an episode of leave does not exceed

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<sup>19</sup> According to the relevant award, 'a teacher appointed to a school located in the Western Division of New South Wales upon or to the west of a line starting from a point on the right bank of the Murray River opposite Swan Hill (Victoria), and thence by straight lines passing through the following towns or localities in the order stated, viz., Conargo, Coleambally, Hay, Rankins Springs, Marsden, Condoblin, Peak Hill, Nevertire, Gulargambone, Coonabarabran, Wee Waa, Moree, Warialda, Ashford and Bonshow, shall be paid an allowance ... a teacher appointed to a school within a zone of New South Wales established by the 0 Degrees Celsius July Average Minimum Temperature Isotherm as contained in the Climatic Atlas of Australia, June 1974 as amended, and published by the Bureau of Meteorology, shall be paid an allowance.' NSW Crown Employees (Teachers in Schools and Related Employees) Salaries and Conditions Award.

<sup>20</sup> Nurses and Midwives (Queensland Health) Certified Agreement.

<sup>21</sup> Teachers (Public Sector Primary and Secondary Education) Award.

<sup>22</sup> NSW Crown Employees (Police Officers - 2013) Award.

three days (up to five days per annum).<sup>23</sup> The NES mandates a minimum allocation of personal/carer's leave of ten days each year.

- In Western Australia nurses working full time receive 15 days of personal leave, for sickness or for caring purposes, for each year of continuous service (13 days of which are cumulative). As mentioned above, the NES specifies ten days of this type of leave per annum.<sup>24</sup>

State governments also accord their workers with a range of leave provisions which would generally be familiar to people working in the private sector. However, a common feature of the state public sector industrial relations environment is the provision of leave for staff to undertake trade union, or general industrial relations, activities.

Victorian public hospital nurses who are union representatives (or other employee selected by a union) can be granted up to five days of leave to attend courses approved by the union.<sup>25</sup>

In Western Australia, members of the police force may be provided leave, at an ordinary rate of pay during normal working hours, for the following:

- a requirement to attend or give evidence before an industrial tribunal
- as a union-nominated representative, attending negotiations and/or proceedings before an industrial tribunal and/or meetings with government ministers, staff, or any other representative
- attending union meetings prior to negotiations and/or industrial tribunal proceedings
- attending joint union-management consultative committees or working parties as a union-nominated representative
- where an employee is a director of the union, and is required to attend meetings to fulfil that role.<sup>26</sup>

The South Australian government has enabled members of the Australian Nursing and Midwifery Federation (ANMF) to act as worksite, OHS and learning and professional development representatives in the state's public hospitals. As part of this, the relevant enterprise agreement allows them 'reasonable time, during working hours, to undertake their work as union representatives including meetings with the employer and their representatives and the capacity to visit and interview employees in the workplace,' as well as providing ANMF representatives ten days leave every two years for union training.<sup>27</sup>

State public sector remuneration and benefits not only vary in accordance with occupation, but with regard to seniority in rank. Chief and senior executive officers, who are charged with managing

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<sup>23</sup> Victoria Government Schools Agreement.

<sup>24</sup> Western Australia Registered Nurses, Midwives and Enrolled Mental Health Nurses-Australian Nursing Federation, WA Health Industrial Agreement.

<sup>25</sup> Nurses and Midwives (Victorian Public Health Sector) Enterprise Agreement.

<sup>26</sup> Western Australian Police Industrial Agreement.

<sup>27</sup> Nursing/Midwifery (South Australian Public Sector) Enterprise Agreement.

various state government entities, receive benefits typically well in excess of average earnings attained in the private sector (Box 1).

**Box 1: Senior executive services: Profiling the state public sector ‘one per cent’**

The NSW government maintained 652 senior executive service (SES) positions as at May 2012, in accordance with the *Public Sector Employment and Management Act 2002*.

The SES of the Department of Premier & Cabinet and Education & Communities accounted for about 30 per cent of the state’s senior executive, with the Office of Education maintaining 85 SES positions alone. Other large SES cohorts were also found in the Department of Finance & Services (14 per cent of total), Attorney-General & Justice (13 per cent), and Trade & Investment (11 per cent).

In its latest determination of SES and chief executive officer salaries, the NSW Remuneration Tribunal recommended that the remuneration package for these public sector employees should be fixed in a range between \$163,000 and \$476,200 (not accounting for recruitment or retention allowances). In its latest determination, the Tribunal separately determined that the Director-General of the Premier & Cabinet Department should receive \$545,800 per annum in remuneration from 1 October 2012.

The latest Victoria ‘State of the Public Sector’ report indicates there were 1,942 people employed as executives: 631 within the Victorian Public Service (VPS), and 1,311 in other public sector entities. With regard to the VPS, the largest single SES cohort was found in the Department of Treasury & Finance (98 staff, or 16 per cent of the total) in 2012, followed by Justice (82 staff, or 13 per cent), and Education & Early Childhood Development (76 staff, or 12 per cent).

The average executive remuneration in the VPS was \$193,395 per annum, with 80 people earning \$250,000 or above and only five people earning \$400,000 or above.

In June 2013 there were 400 SES staff employed in the Queensland Public Service (QPS), with the largest single cohort employed in the Education, Training and Employment Department (52 people, or 13 per cent of the total). According to a Public Service Commission directive on employment conditions, SES staff receive a base salary of between \$112,667 and \$202,655, with total benefits (including leave loadings and vehicle expenses) ranging between \$149,543 and \$258,213.

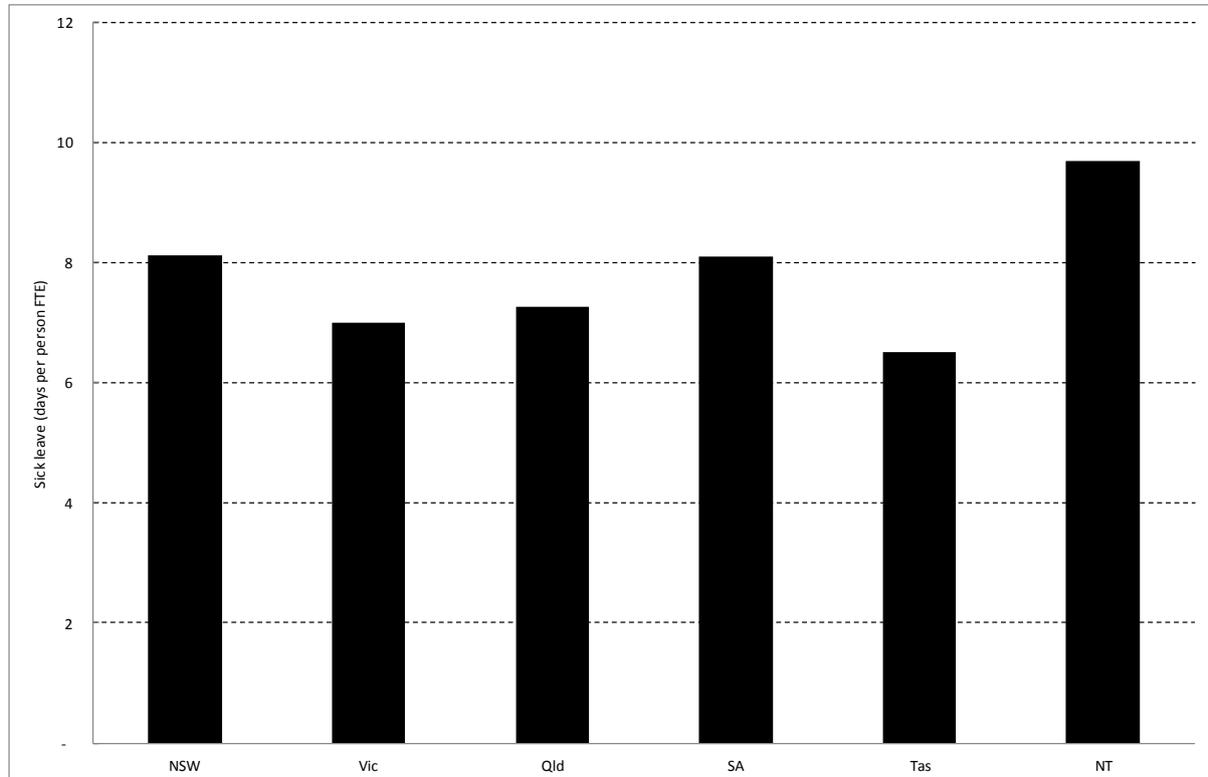
In South Australia there were about 1,330 FTE staff working in the state executive service as at June 2013, with about 44 per cent employed under the provisions of the *Public Service Act* and 34 per cent under the auspices of the *Education Act*. In 2012 it was reported that more than 1,800 state public sector employees were earning in excess of \$130,000 a year.

According to the 2012 report of the former Tasmanian State Service Commissioner, there were 239 people employed in the Tasmanian senior executive. Base salaries for these employees ranged from \$114,321 to \$195,977, with total salary packages from \$131,469 to \$235,172.

Amidst the background of relatively generous leave provisions, growing concerns have been levelled at the extent of absenteeism from state public sector workplaces in recent years.

Sick leave is the most prevalent of the unplanned absences within the public sector, and elsewhere. In Figure 9 the average number of days taken in sick leave per person (FTE) within state public sectors is shown, with sick rates ranging from 6.5 to 9.7 days per person in 2009 or 2010.<sup>28</sup>

**Figure 9: State public sector sick leave rates**



Full-time equivalent data. Sick leave rates for 2010, except for Victoria and Tasmania (2009). The ACT publishes information on general personal leave rates (including sick and carer’s leave), which are not included in this Figure.

**Source:** New South Wales Auditor; state public sector commission reports.

Despite machinery of government changes, and other relevant factors, there is some indicative information to suggest that, in some states, public sector absenteeism has risen in recent years.

According to the NSW Public Service Commission, the number of average sick leave days taken by non-casual FTE staff had increased from 8.01 days in 2011 to 8.47 days in 2013.<sup>29</sup> A Queensland public sector workforce profile has shown, in trend terms, an increase in sick days taken and general

<sup>28</sup> It is difficult to draw firm conclusions from the scant amounts of information available, but it has been suggested that public sector absentee rates (across all levels of government) tend to be greater, though at least only modestly so, than those found in the private sector. Adam Creighton, 2013, ‘Bureaucrats take it easy’, The Australian, 12 September.

<sup>29</sup> New South Wales Public Service Commission, 2013, Workforce Profile Report 2013. Conversion from hours to days on the assumption that staff worked seven hours per day.

absenteeism since 2008.<sup>30</sup> The taking up of sick leave provisions per FTE staff has also increased, in trend terms, in South Australia over the last few years.<sup>31</sup>

State audit reports of recent years have exposed what has been the traditionally underreported problem of unplanned worker absences from public sector entities. A particularly damning report on non-genuine absenteeism, potentially masquerading as sick leave, was presented by the Queensland Auditor-General in 2012.<sup>32</sup>

Noting an increasing trend in unplanned absence rates from 2006-07 to 2010-11, it was estimated in the Queensland report that the direct and indirect costs of absenteeism could be as high as \$2 billion per annum.

The Queensland Auditor-General castigated an 'entitlement culture' within the QPS impacting on unplanned absences, and that '[p]assive acceptance, rather than active management, would serve only to reinforce the entitlement mentality should it exist.'<sup>33</sup> It was also noted that '[d]epartments generally do not undertake appropriate analysis of their available unplanned absence data, to identify 'hotspots' where unplanned absence rates are demonstrably higher.'<sup>34</sup>

A 2010 report by the NSW Auditor-General found evidence of a reduction in sick leave being taken, although previously announced policy targets had not been met. It was also noted that 'agencies with a higher entitlement tended to have a higher sick leave rate,' with perceptions expressed that some public sector employees view sick leave as a 'use-or-lose' entitlement.<sup>35</sup>

The description of pay and benefit conditions in this section does not ignore the specific circumstances (e.g., dangerous police work; continuous and complex patient demands) informing the basic architecture of industrial relations regimes at the state government level, and nor does not obviate from the fact that certain private sector businesses, particularly of larger size, provide their own generous conditions to attract scarce and skilled labour.

In the private sector, there is ultimately the 'safety valve' that customers can avoid paying for goods or services which become too expensive in light of rising production costs, such as those resulting from higher wages and other employee expenses.

Indeed, there seems a growing consensus that the difficulty faced by certain Australian manufacturers to remain commercially viable reflects, in part, the maintenance of excessive enterprise-level industrial relations agreements over a long period of time.

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<sup>30</sup> Queensland Public Service Commission, 2012, *Queensland Public Service Workforce Characteristics 2011-12*.

<sup>31</sup> Information based on recent editions of South Australia Office of Public Employment and Review, *SA Public Sector Workforce Information Summary Tables*.

<sup>32</sup> Auditor-General of Queensland, 2012, *Managing employee unplanned absence*, Report No. 4, Queensland Audit Office, Brisbane.

<sup>33</sup> *Ibid.*, p. 3.

<sup>34</sup> *Ibid.*, p. 2.

<sup>35</sup> Audit Office of New South Wales, 2010, *Sick Leave: Performance Audit*, Audit Office, Sydney, p. 3, 11.

Taxpayers cannot afford the same luxury as consumers for private sector outputs, because the burden of financing public sector services does not reflect a voluntary choice. A fundamental reason why the general public should be concerned about the level of, and trends in, public sector employee remuneration is that, in their capacity as taxpayers, they cannot avoid wearing the fiscal burden of salaries and benefits paid by state governments to their employees.

Given the significant extent to which recurrent government expenses are absorbed by the wages and salaries offered to their employees, it is no surprise that jurisdictions have publicly specified state wages policies intending to limit wage increases.

In recent years, NSW, Victoria, Queensland, South Australia and Tasmania had committed to capping public sector wage increases at 2.5 per cent per annum.<sup>36</sup> These policies, at least on paper, are undoubtedly maintained as a political reflection of community concern that public sector salaries and conditions remain reasonable.

But the effectiveness of these policies critically depend upon the credibility with which they are maintained by governments. Experience has shown, however, that in the face of intense political pressure by influential public sector unions, various state governments have conceded generous salary provisions for police, teachers and nurses, which have overridden the global wages cap policies.

Time-inconsistent policy applications of wage caps not only affect the ability of governments to attain their medium to long term fiscal projections. They invite other public sector employee groups to seek inflationary wage increases by utilising the threat of strikes or other industrial actions, disrupting the provision of services to the general public.

With the ever-present risk that public sector employees, through the flexing of union muscle, can attain even more generous benefits for themselves, at the expense of the general taxpayer, the need for more effective measures to restrain the future growth in public sector entitlements presents itself.

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<sup>36</sup> The Tasmanian system was for a two per cent cap, with a tied 0.5 per cent 'productivity bonus.'

## 4 Why is restraining public sector employment growth important? What can be done to restrain it?

It is widely acknowledged that some level of public sector administration is indispensable for a functioning system of constitutional government under the rule of law.

Indeed, a competent and professional bureaucracy and public sector workforce is necessary to help ensure provision of those limited set of tax-financed outputs, primarily associated with the tasks of ensuring protection of life and property, which cannot be provided through competitive private markets guided by freely adjusting relative prices and profit-and-loss mechanisms.

Economist Ludwig von Mises explained that the fundamental rationale for public sector employment lies in the inherent distinction between bureaucratic and profit managements in the economic and social domains:

'[a] bakery serves a definite number of people - its customers - in selling them piecemeal what it has produced; it is the patronage of its customers that provides the social legitimacy - the profitability - of the bakery's business. A police department cannot sell its "products," its achievements, however valuable, even indispensable as they may be, have no price on the market and therefore cannot be contrasted with the total expenditure made in the endeavors to bring them about.'<sup>37</sup>

Elsewhere, Mises explained that '[a]s long as the activity of the state is restricted to the narrow field that liberalism assigns to it, the disadvantage of bureaucracy cannot, at any rate, make themselves too apparent.'<sup>38</sup>

However, modern governments have extended their roles and activities well beyond the range of protective functions, and into those more efficiently and effectively managed by enterprises or individuals in their private capacities. It is under this scenario, typifying the Australian experience, that the costs of public sector employment become overly burdensome and, therefore, more apparent to the community at large.

There are a number of reasons why fiscally prudent and economically responsible governments should seek to reduce public sector employment, to levels consistent with performing the core roles and activities of government:

- public sector employment is financed by distortionary taxes reducing private sector activities;
- public sector employment tends to draw highly skilled labour away from private sector enterprises;
- public-policy bureaucrats advise and administer taxes and regulations compromising economic growth; and

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<sup>37</sup> Ludwig von Mises, 'Preface to the 1962 Edition', *Bureaucracy*, Ludwig von Mises Institute, <http://mises.org/etexts/mises/bureaucracy.asp>.

<sup>38</sup> Ludwig von Mises, [1927] 2005, *Liberalism: The Classical Tradition*, Liberty Fund Edition, Liberty Fund: Indianapolis, p. 73.

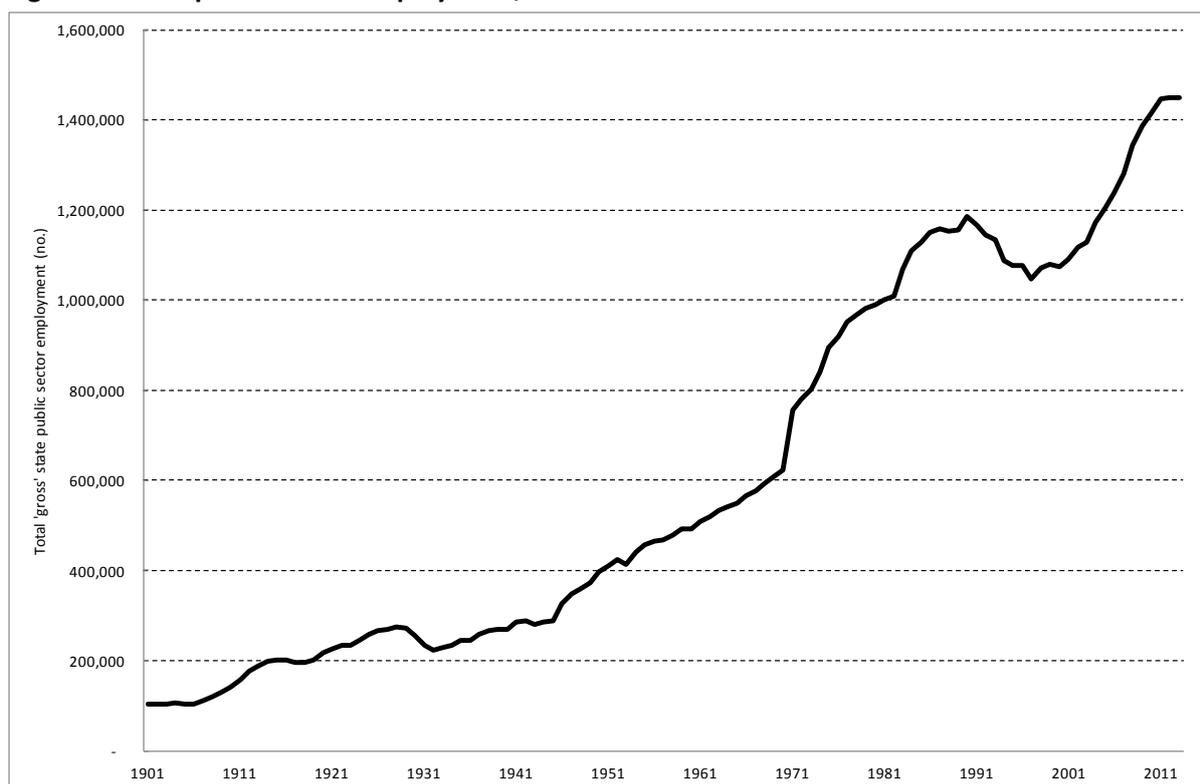
- service delivery public sector employees tend to provide higher-cost, lower-efficiency services compared with their private sector counterparts.<sup>39</sup>

To ensure that the size and scope of public sector employment is retained at economically appropriate levels, without compromising the capability of state governments in providing core goods and services to the public, several reform strategies should be adopted by jurisdictions.

The first of these, and one of the more pressing elements of reform to be undertaken, is that of privatisation, which refers to the transfer of asset ownership from the public to private sector which, in turn, entails the transfer of employees between the two sectors of the economy.

The first wave of state privatisations, during the 1990s, contributed to a reduction in total gross public sector employment from 1.19 million people in 1991 to 1.05 million in 1997 (Figure 9). However, subsequent decisions about employment has meant that the state governments have more than nullified the beneficial effects of privatisation ‘Mark I’ which ensured more sustainable public sector employment levels.

**Figure 9: Gross public sector employment, 1901 to 2013**



Data from 1901 to 1949 adjusted to include public hospital and university employment by state governments.  
**Source:** ABS, Employment and Earnings, Public Sector, Australia; Julie Novak, 2013, *Australia's big government, by the numbers*, Institute of Public Affairs Occasional Paper.

The second wave of state privatisation reform is now long overdue.

<sup>39</sup> Julie Novak, 2012, *Razor cuts, not paper cuts: A framework for rightsizing commonwealth government employment*, Institute of Public Affairs Occasional Paper, p. 2.

In 2012 the federal government body Infrastructure Australia recommended that certain state-owned transport-related assets - such as electricity generation and distribution, ports and water facilities - be subject to a sale process, estimated to yield a cumulative total of \$92 billion.<sup>40</sup>

It is roughly estimated, using 2007 shares of state public sector employees by industry, that privatising electricity and water facilities in all jurisdictions, where governmental ownership is maintained, would lead to the transfer of up to 52,000 jobs (or just under four per cent of total gross public sector employees) out of the public sector.

The second broad reform strategy that should be countenanced by states seeking to engage in fiscal consolidation relates to the excision of unnecessary functions from the coverage of public sector functions.

This reform directly concerns ceasing the involvement of the states in industries predominated by private sector involvement, in areas such as agriculture, manufacturing, construction, finance and insurance, property and business services, and tourism. In addition, state governments should consider withdrawing their involvement from cultural and recreational services, which can be readily financed and provided by willing customers in their private capacities.

Again using shares of state public sector employment by industry in 2007, it is estimated here that up to 58,000 positions could be affected by this reform. The attendant 'crowding in' of substitute private sector activities should ensure that many of these public sector personnel could be absorbed within the private sector more broadly.

The bulk of existing state public sector employees, or about two-thirds (about 995,000 people) as an estimate, are involved in the education, health and community sectors. These areas also account for much of the increasing expenses threatening the sustainability of state public finances, and serve as the base for increasingly powerful public sector unions across Australia. It is these areas, perhaps more than most, that urgently require the application of meaningful economic reform.

Several proposals have been put forward over the years to encourage greater private sector involvement in education, health and welfare services, providing at least a means to reduce the relative share of public sector employment in these areas of social services delivery.

Arguably, the most popular proposal is the provision of portable subsidies, commonly known as 'vouchers,' rather than the public subsidies mainly allocated to governmental entities on the basis of historical or cost-based distributional patterns. These would enable the end-users of services, often on lower incomes, to reduce their consumption of governmental outputs by being able to select from a wider array of service providers, including for-profit and not-for-profit entities.

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<sup>40</sup> Infrastructure Australia, 2013, *Australia's Public Infrastructure Update Paper - Balance Sheet Impacts of Sell and Build*, Commonwealth of Australia, Canberra.

Another proposal which has gained traction in reform circles is the devolution of management of entities, such as hospitals and schools, to either the private sector or to a group of managers sourced from the wider community. The non-managerial staff in those facilities, and in others subject to chartering, remain on the government payroll.

Nonetheless, it is possible to take the charter idea one step further, enabling entire facilities, or groups of facilities, to be owned, administered and managed outside of the public sector sphere, preferably on a permanent basis or, at least, on a 'franchising' arrangement for a set period of time.

Even if these reform principles are not pursued by state governments in any meaningful way, there remains the matter of ensuring that existing rules covering public sector employment and entitlement growth are more effectively maintained.

There is a good argument for tightening the enforcement of public sector employment or wage caps by the political class, for the sake of ensuring good value for money to taxpayers. To incentivise greater adherence to these rules, minimising the risk of their *ex-post* violation, there should be legislative or regulatory provisions which lead to a reduction in remuneration, or the foregoing of benefits, for politicians and senior bureaucrats who fail to enforce strict limitations upon employment or wage and entitlement growth.

## 5 Conclusion

In its 2009 paper on trends in state government employment, the Institute of Public Affairs warned that: '[a]n inability to manage expenses, particularly with regard to labour inputs, is a key cause of the budgetary straightjacket now being worn by state and territory governments.'<sup>41</sup>

Regrettably these fears have been largely realised, as budgetary difficulties persist under a general environment whereby, until very recently, state government employment and wage conditions have continued to grow. These trends have transpired in spite of fragilities in the broader economy imposing harder constraints upon the capacity of governments to compulsorily collect revenues from taxpayers.

Whilst politically unpopular, public sector rationalisation needs to be part of a broader plan to get state government budgets under control, reducing the overall financial call upon the taxpayer thus contributing to a revival in Australian economic fortunes.

What is needed at the state level is a return to the all-too-brief reforming spirit of economic reform, which through privatisation and seeking greater public sector efficiencies, contributed to a marked reduction in public sector employment especially during the 1990s.

Importantly, these reform strategies provided, at the time, governments with fiscal room to deal with their 'budget emergencies' in the guise of severe budget deficits and yawning public sector debts, and can do so again in the 2010s.

Given the adverse impact that funding a growing state government employment base has upon hard-working businesses and individuals, and signs of inefficiencies rife in state public sector management, the potential rewards from a meaningful agenda to rightsize aggregate state public sector employment is highly likely to prove most worthwhile for our future economic prospects.

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<sup>41</sup> Julie Novak, 2009, *A growing risk: The impacts and consequences of rising state government employment*, Institute of Public Affairs Occasional Paper.