



**Centre of Full Employment and Equity**

**The economic and social impact of staff reductions in the South Australian  
public sector**

**Report prepared for the Public Service Association of South Australia**

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## Executive Summary

1. This report considers the impact of the reduction of South Australian public sector staffing of 1600 FTE over the period 2009-10 to 2011-12 announced in the Mid-Year Budget Review in December 2008. There will be staff reductions of 1200 FTEs in 2009-10, 200 FTEs in 2010-11, and 200 FTEs in 2011-12.
2. A Targeted Voluntary Separation Program (TSVP) will be available for those in positions identified as excess to requirements. A payment of 20 weeks pay will be made with an additional 3 weeks of pay per year of service up to a maximum of 116 weeks for non-executive staff. Tenured executives will receive 3 weeks pay in addition to the basic 20 weeks payment, up to a maximum of 52 weeks.
3. Governments have an important role to play in stimulating economic activity and maintaining high levels of employment to overcome inadequate demand in the private sector. In addition, government contributes to economic and social development through a range of services including education, health, housing, transport, social and community services.
4. The reduction in public sector employment and other measures in the Mid-Year Budget Review will detract from the expansionary effect of the Commonwealth government's stimulus packages that have been implemented to address the global economic crisis that has slashed economic growth internationally.
5. Savings accruing to the South Australian government as a result of the downsizing will be in the order of \$251 to \$256 million between 2009-10 and 2011-12. Ongoing savings will be around \$122 to \$127 million. These savings will be offset by the cost of the TSVP which could be approximately \$143 million.
6. The employment effects of the public sector downsizing operate through two components. First, there is the direct reduction of 1600 FTE positions. Second, the reduction in spending in the public sector will have flow on effects in the private sector. These flow-on effects are likely to be in the order of 3668 to 3832 FTEs. Total job losses will be in the order of 5268 to 5432 which span both the public and private sectors.
7. The total number of job losses will be greater since around 32 per cent of those employed in South Australia work on a part-time basis.
8. In addition to direct employment losses there will be detrimental social and community effects including: loss of skills, adverse health effects, social exclusion and deterioration in relationships and family life. These impacts indicate that there will be increased demand for services such as health, further education and training, housing, law and order, family and community services.
9. While the government has given a commitment that frontline staff will be exempt from downsizing there are a number of methods through which frontline services could be affected. Transferring administrative functions to frontline staff divert these people away from service provision thereby reducing services to the public. Such changes in functions are generally inefficient and result in more highly skilled and better paid staff completing work that was previously performed by lower paid staff.
10. Organisations may undergo reduced efficiency and effectiveness after downsizing due to loss of corporate memory, loss of the most experienced and efficient staff, lack of

sufficient attention to implementation, communication and training of remaining staff, increased workload and high stress levels.

11. There will also be adverse implications for the federal government resulting from reduced income tax receipts, increased income support payments and increased use of other government services. The higher level of unemployment may also have adverse long-term consequences if unemployment spells persist for lengthy periods.

# 1 Introduction and Terms of Reference

## 1.1 Background to the report: Impact of global financial crisis (GFC)

The South Australian Government's Mid-Year Budget Review revealed that the net operating balance, net lending balance and net financial liabilities to revenue ratio all indicated that the budget had moved back into deficit which some claimed would threaten South Australia's AAA credit rating. The Mid-Year Budget Review predicted budget deficit of \$112 million but now likely to be larger and budget not likely to return to surplus for at least four years (Kelton, 2009a).

Revised estimates of GST revenues for 2008-09 indicated a decline of \$131 million for 2008-09 and a total reduction of \$679 million over the forward estimates. Returns on government investments were negative in 2007-08 as a result of the GFC and deteriorated further in the first six months of 2008-09, falling by \$3,607 million. The slowdown in the property market reduced revenues from property transactions causing estimates of state revenues to be revised down by \$245 million over the forward estimates (Government of South Australia, 2008). In addition, unfunded superannuation liability increased by \$2.3 billion.

In response to the deterioration in the budget position the government announced a program to achieve operation savings of \$250 million, primarily through reducing public sector staffing by 1600 FTEs by 2011-12; 1200 FTEs in 2009-10, 200 FTEs in 2010-11, and 200 FTEs in 2011-12. In addition, \$700 million investment expenditure was deferred and additional revenue measures of \$209 million implemented.

The staff cuts were portrayed as a fiscal necessity. Since coming to office the Rann Government (Rann, 2008) has attempted to increase the number of frontline workers in the South Australian public sector. It has employed 900 extra doctors, 2800 additional nurses, 400 extra police with another 200 due in the immediate future and 600 additional teachers. The government stated that frontline workers such as doctors, nurses, ambulance workers and paramedics, psychologists, teachers and school support staff, police, firefighters, social and youth workers would be exempt from the downsizing as a result of the Mid-Year Budget Review. The staff cuts would be achieved by natural attrition, not filling vacancies and by offering a Targeted Voluntary Separation Program (TVSP).

Staff will be eligible for a Targeted Voluntary Separation Package (TVSP) if they are classified as excess to requirements. Staff opting to participate in the Scheme must accept the TVSP, resign and separate between 1 July 2009 and 30 September 2009. The redundancy package includes:

- For non-executives there is a minimum component of 20 weeks pay and 3 weeks pay for each year of service, with a maximum of 116 weeks pay (32 years of service).
- For tenured executives the package includes the minimum payment of 20 weeks pay plus 3 weeks for each year of service up to a maximum of 52 weeks (around 10 years of service).

## 1.2 Terms of Reference

The Centre of Full Employment and Equity (CofFEE) was commissioned by the Public Service Association of South Australia to examine the economic impact that this level of staff reduction in the public Sector would have on the South Australian economy and government service provision.

In particular the Report will investigate:

- The role of the public sector in the provision of services in a time of growing unemployment;
- The impact of staff cuts in the public sector in regard to the economic impact on the South Australian economy; and
- How the staff cuts will impact on frontline staff and affect provision of community services

### 1.3 Outline of the Report

This Report is organised as follows. Section 2 provides an outline of major aspects of the South Australian economy. Basic demographic statistics are followed by analysis of the labour force at the state, regional and industry level. The section then describes the size and structure of the economy. Section 3 describes the role of governments in facilitating economic and social development. It then provides an overview of the role played by South Australian governments in state development and the programs and services currently available to achieve the objectives of the SA Strategic Plan: Growing Prosperity; Improving Wellbeing; Attaining sustainability; Fostering Creativity and Innovation; Building Communities; and Expanding Opportunities. This section also summarises the Commonwealth and South Australian government responses to the economic crisis, emphasising that the expansionary program being implemented at the federal level will be counteracted by the contractionary stance of the state government. This will result in higher levels of underutilisation of resources and lower output than would otherwise be the case.

The following 2 sections examine the impact on the state of the implementation of public sector staff cuts announced in the Mid-Year Budget Review. Section 4 provides estimates of fiscal savings accruing as a result of the staff cuts and the costs of redundancy packages. In addition to the direct economic impact of the reduced staffing levels this section uses employment multipliers from input-output tables to estimate the indirect employment effect effects as the cuts flow on to other sectors of the economy. Section 5 broadens the view of the total impact of public sector staffing reductions by examining the literature on impacts of downsizing on social outcomes and service delivery. This section identifies the implications for both retrenched staff and survivors of the retrenchment process and the impact that such exercises can have on organisational efficiency. The section then reviews evaluations of previous cuts in the public sector due to the “efficiency dividend” and considers possible outcomes from the current downsizing of the public sector in South Australia including mechanisms whereby cuts to administrative functions may impact on the efficiency and effectiveness of frontline services. Concluding remarks are in Section 6.

## 2 The South Australian economy

### 2.1 Demography

In June 2008 the South Australian population was 1,602,821 or 7.5 per cent of the Australian population. Table 2.1 shows that the South Australian population is older than the Australian population. Those aged under 15 comprise only 18.1 per cent of the state’s population compared to 19.3 per cent at the national level. Similarly, youth (15-24) represent 13.6 per cent of the South Australian population compared to 14 per cent of the Australian population. The working age population is also smaller than any of the other states except Tasmania, comprising 66.6 per cent of the South Australian population compared to 67.5 per cent nationally. Significantly, the proportion of the population over 65 years, at 15.3 per cent, is well above the national rate of 13.3 per cent. South Australia has the largest proportion of the

population in the over 85 age group (2.2 per cent) which has implications for demand for health and community services.

Table 2.1 Demography

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
<b>Population ('000)</b>	6,967	5,298	4,279	1,602	2,163	498	220	344	21,374
% of Aust. pop	32.6	24.8	20.0	7.5	10.1	2.3	1.0	1.6	100.0
<b>% of state population by age</b>									
% 0-14	19.1	18.8	20.1	18.1	19.7	19.5	23.8	18.6	19.3
% 15-24	13.7	14.0	14.2	13.6	14.3	13.2	15.7	15.8	14.0
% 24-44	28.3	28.9	28.3	26.7	28.8	25.0	32.7	31.0	28.4
% 45-64	25.1	24.8	25.1	26.3	25.3	27.4	22.7	24.6	25.1
% Working age	67.1	67.7	67.6	66.6	68.3	65.5	71.1	71.4	67.5
% 65 +	13.8	13.6	12.3	15.3	12.0	15.0	5.1	10.0	13.3
% 85+	1.8	1.8	1.5	2.2	1.4	1.9	0.3	1.2	1.7

Source: ABS, 2008a.

The population is highly concentrated with 81.5 per cent residing in Adelaide (73.1 per cent) and Outer Adelaide (8.4 per cent) (ABS, 2009a). The population share for regional areas in 2008 was: 5 per cent in Northern; 4.4 per cent in Murray Lands; 4.1 per cent in South East; 2.9 per cent in Yorke and Lower North; and 2.2 per cent in Eyre.

## 2.2 The South Australian labour market

The relatively low participation rate and high proportion of part-time employment in South Australia indicates a significant degree of labour underutilisation. Table 2.2 shows that the participation rate in South Australia in April 2009 (63.8 per cent) was below the Australian participation rate of 65.4 per cent and, in relation to the other states, only exceeded Tasmania (61.2 per cent). The participation rate was higher for males than females (69.4 and 58.4 per cent respectively).

While the 94.3 per cent employment rate in South Australia was around the national figure of 94.4 per cent a greater proportion of South Australians worked on a part-time basis than in most other states. The states with the lowest proportion of full-time employment were Tasmania (66.1 per cent) and South Australia (68 per cent) compared to the national figure of 70.6 per cent.

The unemployment rate of 5.7 per cent is around the national rate of 5.6 per cent. However the unemployment rate for males is significantly higher than for females and the gap between these rates (1.3 per cent) is higher than the national figure of 0.3 per cent.

Table 2.2 Labour Force by State, April 2009

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
<b>Participation rate</b>									
Males	70.5	72.0	74.2	69.4	76.7	67.2	80.6	76.2	72.3
Females	57.3	57.3	61.1	58.4	61.2	55.4	70.8	68.6	58.8
Persons	63.8	64.5	67.6	63.8	69.0	61.2	75.8	72.3	65.4
<b>Employed full-time</b>									
Males	1530.6	1202.7	1033.3	356.2	557.0	102.5	57.0	84.9	4924.1
Females	869.8	635.5	572.8	184.9	271.1	52.3	41.0	60.1	2687.4
Persons	2400.4	1838.2	1606.0	541.1	828.0	154.7	98.0	145.0	7611.5
% F/T employed	70.5	69.5	72.2	68.0	71.1	66.1	82.0	74.2	70.6
<b>Employed part-time</b>									
Males	313.2	246.5	171.4	64.6	98.2	23.3	7.2	15.8	940.0
Females	690.4	561.3	448.4	189.7	238.7	56.2	14.3	34.8	2233.8
Persons	1003.6	807.8	619.8	254.3	336.9	79.5	21.6	50.5	3173.8
% P/T employed	29.5	30.5	27.8	32.0	28.9	33.9	18.0	25.8	29.4
<b>Total Employed</b>									
Males	1843.8	1449.2	1204.6	420.8	655.2	125.7	64.3	100.6	5864.1
Females	1560.2	1196.8	1021.2	374.6	509.7	108.5	55.3	94.8	4921.2
Persons	3404.0	2646.0	2225.8	795.4	1164.9	234.2	119.6	195.5	10785.4
% of Employed	93.9	94.1	94.9	94.3	95.3	94.6	95.4	97.1	94.4
<b>Unemployment rate</b>									
Males	6.2	5.9	5.5	6.3	4.4	5.2	5.4	2.9	5.7
Females	6.0	6.0	4.6	5.0	5.2	5.5	3.6	2.9	5.4
Persons	6.1	5.9	5.1	5.7	4.7	5.4	4.6	2.9	5.6

Source: ABS, 2009b.

Table 2.3 shows the unemployment rate and participation rate for ABS Labour Force Statistical regions in April 2009. The participation rate was lower in Adelaide than in the rest of the state (63.2 per cent compared to 65.3 per cent), and the unemployment rate was higher (6.5 per cent compared to 3.7 per cent). Within Adelaide, Western Adelaide had the highest unemployment rate at 9.5 per cent followed by Northern Adelaide at 7.6 per cent. These areas could be particularly vulnerable to the economic slowdown. In December 2008 the Statistical Local Areas with the highest rates of unemployment were: Playford – Elizabeth (17.8 per cent); Playford – West Central (14.7 per cent); Onkaparinga – North Coast (13 per cent); and Onkaparinga – Hackham (11.2 per cent) (DEEWR, 2009).

Table 2.3 Regional labour markets

Region	Unemployment Rate			Participation Rate		
	Male	Female	Total	Male	Female	Total
<b>Adelaide</b>	<b>7.2</b>	<b>5.6</b>	<b>6.5</b>	<b>68.9</b>	<b>57.9</b>	<b>63.2</b>
Northern Adelaide	7.8	7.3	7.6	69.6	58.0	63.7
Western Adelaide	12.3	6.3 <sup>a</sup>	9.5	67.1	54.6	60.6
Eastern Adelaide	6.7	5.8 <sup>a</sup>	6.3	69.2	54.9	61.7
Southern Adelaide	3.7 <sup>a</sup>	3.5 <sup>a</sup>	3.6	69.1	62.2	65.5
<b>Balance South Australia</b>	<b>3.9</b>	<b>3.4</b>	<b>3.7</b>	<b>70.6</b>	<b>59.9</b>	<b>65.3</b>
Southern and Eastern SA	2.5 <sup>a</sup>	2.3 <sup>a</sup>	2.4 <sup>a</sup>	74.0	60.5	67.3
Northern and Western SA	6.5 <sup>a</sup>	5.3 <sup>a</sup>	5.9	64.8	58.7	61.9
<b>South Australia</b>	<b>6.3</b>	<b>5.0</b>	<b>5.7</b>	<b>69.4</b>	<b>58.4</b>	<b>63.8</b>

Note: a - estimate is subject to sampling variability too high for most practical purposes.

Source: ABS, 2009b.

Table 2.4 displays employment by industry and the industry share of employment for South Australia and Australia. The major three industries in terms of employment share in both South Australia and Australia are health care and social assistance, manufacturing and retail trade. These three industries account for 34.6 per cent of total employment in South Australia and 31.5 per cent of total employment nationally. The employment share in South Australia is significantly higher than the national average for health care and social assistance and manufacturing. The other industry with a relatively high employment share in South Australia is agriculture, forestry and fishing.

Table 2.4 Employment by Industry, February 2009

Industry	South Australia		Australia	
	Emp. ('000)	Share (%)	Emp. ('000)	Share (%)
Agriculture, Forestry and Fishing	42.9	5.4	366.4	3.4
Mining	8.0	1.0	165.0	1.5
Manufacturing	90.8	11.5	1014.5	9.4
Electricity, Gas, Water and Waste Services	12.4	1.6	150.5	1.4
Construction	64.3	8.1	990.4	9.2
Wholesale Trade	27.4	3.5	394.5	3.7
Retail Trade	79.7	10.1	1216.4	11.3
Accommodation and Food Services	48.3	6.1	702.4	6.5
Transport, Postal and Warehousing	36.1	4.6	593.3	5.5
Information Media and Telecommunications	12.8	1.6	224.7	2.1
Financial and Insurance Services	23.0	2.9	397.6	3.7
Rental, Hiring and Real Estate Services	12.7	1.6	176.2	1.6
Professional, Scientific and Technical Services	43.3	5.5	769.4	7.1
Administrative and Support Services	31.5	4.0	355.7	3.3
Public Administration and Safety	46.0	5.8	666.0	6.2
Education and Training	58.4	7.4	765.7	7.1
Health Care and Social Assistance	103.2	13.0	1162.5	10.8
Arts and Recreation Services	14.6	1.8	212.6	2.0
Other Services	35.9	4.5	448.3	4.2
Total	791.4	100	10772.1	100

Source: ABS, 2009c.

Table 2.5 shows that between 1985 and 2009 the annual compound percentage growth rate of employment was 2.06 per cent for Australia but only 1.30 per cent for SA. The industries with the highest growth rate in SA were Administrative and Support Services (5.24 per cent), Arts and Recreation Services (4.13 per cent), Professional, Scientific and Technical Services (3.58 per cent), Rental Hiring and Real Estate Services (2.92 per cent). Growth in part-time employment outstripped full-time employment growth in South Australia (3.24 per cent and 0.64 per cent respectively) and in all industries with the exception of Arts and Recreation Services. The increase in part-time employment is particularly noticeable in Electricity, Gas, Water and Waste Services, where part-time employment grew at a rate of 13.53 per cent compared to only 0.08 per cent for full-time employment. Similarly part-time employment increased at a rate of 8.4 per cent in Administrative and Support Services compared to 3.27 per cent for full-time employment.

Table 2.5 Employment growth by industry, South Australia and Australia, 1985 to 2009, (per cent)

	Australia			South Australia		
	Employed F/T	Employed P/T	Total Employed	Employed F/T	Employed P/T	Total Employed
Agriculture, Forestry and Fishing	-0.80	0.91	-0.42	-0.32	0.96	-0.02
Mining	2.30	3.07	2.32	1.13	...	0.98
Manufacturing	-0.59	2.17	-0.32	-0.86	1.77	-0.63
Electricity, Gas, Water and Waste Services	-0.11	8.33	0.24	0.08	13.53	0.47
Construction	2.98	3.87	3.09	1.76	3.46	2.00
Wholesale Trade	0.06	2.80	0.43	-0.68	2.12	-0.15
Retail Trade	1.16	4.33	2.38	-0.05	2.83	1.12
Accommodation and Food Services	1.98	4.62	3.26	1.15	2.64	1.92
Transport, Postal and Warehousing	1.65	6.62	2.30	0.65	3.19	0.99
Information Media and Telecommunications	-0.22	2.16	0.13	-2.54	2.38	-1.55
Financial and Insurance Services	1.44	3.43	1.69	0.13	3.49	0.75
Rental, Hiring and Real Estate Services	2.59	4.96	3.04	2.72	3.83	2.92
Professional, Scientific and Technical Services	4.45	4.92	4.55	3.52	3.80	3.58
Administrative and Support Services	3.45	7.08	4.57	3.27	8.43	5.24
Public Administration and Safety	1.92	5.56	2.30	2.17	4.89	2.45
Education and Training	1.74	4.09	2.42	0.99	3.27	1.71
Health Care and Social Assistance	2.38	4.84	3.24	1.49	4.05	2.58
Arts and Recreation Services	4.22	5.05	4.54	4.83	3.47	4.13
Other Services	1.76	2.86	2.02	0.68	2.46	1.18
<b>Total</b>	<b>1.45</b>	<b>4.21</b>	<b>2.06</b>	<b>0.64</b>	<b>3.24</b>	<b>1.30</b>

Source: ABS, 2009c.

A similar picture emerged at the national level with part-time employment growth of 4.21 per cent compared to full-time employment growth of 1.45 per cent. Part-time employment increased at a rate of 8.33 per cent for Electricity, Gas, Water and Waste Services while full-time employment declined by 0.11 per cent per annum. Other industries with high growth rates for part-time employment nationally include Administrative and Support Services (7.08 per cent), Transport, Postal and Warehousing (6.62 per cent) and Public Administration and Safety (5.56 per cent).

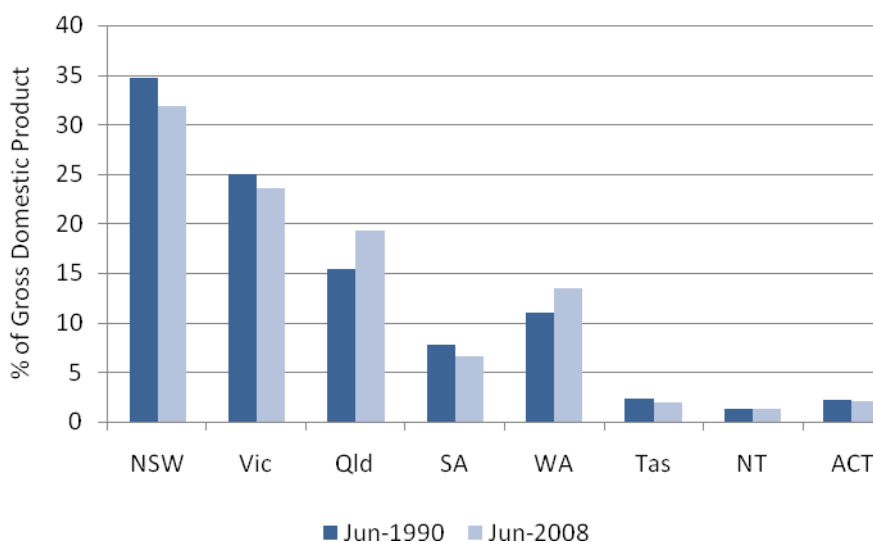
Earnings in South Australia are somewhat lower than the Australian average. Average weekly ordinary time earnings for full-time adults were \$1100.40 in South Australia in November 2008 compared to \$1164.90 for Australia (ABS, 2009d). Weekly full-time earnings were \$1160.70 for males and \$986.90 for females in SA compared to national figures of \$1243 for males and \$1032.90 for females.

### 2.3 The South Australian economy

State final demand in chain volume (trend) terms was \$18,949 million in the December quarter of 2008 which represented 6.6 per cent of the national total of \$284,426 (ABS, 2009e). Household final consumption expenditure (HFCE) in the December quarter of 2008 was \$11,134 million for South Australia which was 7.3 per cent of the national total of \$152,496 million.

Gross State Product (GSP) increased from \$47233 million in 1990 to \$70922 million in 2008. However Figure 2.1 shows that the economic importance of the South Australian economy declined more than any other state or territory over this period as the share of GSP fell from 7.8 per cent of GDP to 6.5 per cent (a decline of almost 16 per cent). In contrast, Queensland's GSP increased from 15.4 to 19.3 per cent of GDP and Western Australia recorded an improvement from 11.1 to 13.5 per cent of GDP.

Figure 2.1 Gross State Product, chain volume measures, 1990 and 2008



Source: ABS, 2008b.

Table 2.6 Gross State Product using the production approach, 2005-06, \$ per capita

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
Agriculture, Forestry and Fishing	968	1376	1480	2492	2076	2283	1566	59	1418
Mining	822	524	3185	787	10662	487	11814	...	2266
Manufacturing	4884	5769	3869	5561	4395	5035	3266	1241	4836
Electricity, Gas and Water	928	1139	820	1043	1392	1538	964	1302	1035
Construction	3177	2684	3274	2295	4230	1797	4044	4364	3105
Wholesale Trade	2434	2468	2075	1669	2458	1282	1514	1086	2261
Retail Trade	2617	2601	3009	2264	2799	2500	2556	2864	2682
Accommodation, Cafes and Restaurants	1130	761	1328	818	780	873	1488	1213	1018
Transport and Storage	2095	1925	2238	1891	2765	1677	2608	1546	2117
Communication Services	1281	1530	1062	980	1287	884	1420	1694	1276
Finance and Insurance	4585	3708	2117	2290	1987	1912	1358	2367	3318
Property and Business Services	6348	5826	4482	3342	5557	1734	6045	8289	5461
Government Administration and Finance	1682	1095	1896	1346	1218	1880	4287	16128	1773
Education	1888	2079	1899	1887	1674	1822	2359	3274	1942
Health and Community Services	2780	2887	2488	2938	2899	2913	3396	3463	2793
Cultural and Recreation Services	788	743	468	561	533	441	1001	1704	680
Personal and Other Services	792	895	877	893	1115	672	1452	1626	891
Ownership of Dwellings	4204	3586	3327	3314	3387	2449	5080	5126	3710
Taxes less subsidies on products	4190	4280	3363	3738	3228	3085	3209	4043	3880
All industries	47594	45876	43258	40109	54443	35263	59425	61388	46460

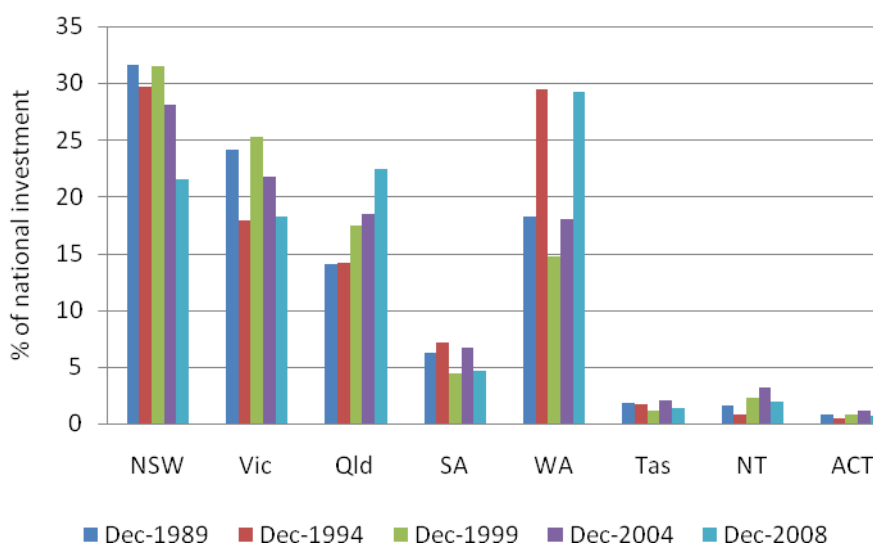
Source: ABS, 2007.

In order to make valid comparisons between states it is necessary to consider population changes by using per capita measures. GSP per capita increased from \$33,135 in 1990 to \$44,696 in South Australia in 2008 but was below Australia's GDP per capita throughout the period (GDP per capita increased from \$35,914 in 1990 to \$51,253 in 2008). GSP per capita declined from 92.3 per cent of Australian per capita GDP to 87.2 per cent between 1990 and 2008. Only Tasmania had lower GSP per capita in 2008 (\$42,200). Therefore South Australia did not share equally in national production increases over the past 18 years.

Table 2.6 shows the contribution of industries to GSP on a per capita basis on 2005-06. For Australia the major industries were property and business services, manufacturing, finance and insurance and construction. In South Australia manufacturing was the industry that contributed most to GSP (\$5561 per capita), followed by property and business services (\$3342), health and community services (\$2938) and agriculture, forestry and fishing (\$2492).

The automotive industry produced 121,543 cars or 37.4 per cent of national production in 2008 and 10,300 people were employed in motor vehicle and parts manufacture in the year to February 2009 (Department of Trade and Economic Development, 2009). Manufacturing has been in decline for a prolonged period and recent developments indicate that trend will continue. The closure of the Mitsubishi plant in 2008 was estimated to cost a total of 1200 jobs consisting of 930 jobs at Mitsubishi and another 280 jobs with component suppliers (Kelton, 2008). General Motors eliminated the afternoon shift and halved production at the Elizabeth plant in May 2009 affecting 3150 employees. The company is developing a new four cylinder car with SA government assistance of \$30 million with production scheduled to commence in 2010 (Martin and Kelton, 2009). However, the fate of General Motors in South Australia is tied to its parent company in the United States that is currently facing possible bankruptcy. Although property and business services make the second largest contribution to GSP, South Australia lags behind all states with the exception of Tasmania on a per capita basis. Agricultural is more important to the South Australian economy than it is in any other state or territory. South Australia produces 11.8 per cent of the gross value of agricultural products in Australia, 19.5 per cent of aquaculture and fisheries production and 45.3 per cent of the wine grape crush (ABS, 2009f).

Figure 2.2 Private new capital expenditure, 1989 to 2008, Chain Volume Measures, sa.



Source: ABS, 2009g.

Figure 2.2 shows South Australia's share of private new capital expenditure between 1989 and 2008. During this period South Australia's private new capital investment grew at an annual compound growth rate of 6.4 per cent which was below the national rate of 7.1 per cent but above the rate of under 6 per cent recorded by NSW, Victoria and Tasmania.

In March 2009 South Australia's exports reached \$807 million and imports were \$567 million. South Australia's exports grew at an annual compound growth rate of 5.1 per cent between January 1988 and January 2009, which was significantly below the national growth rate of 8.9 per cent. The slower rate of export growth was also evident in the other large manufacturing state, Victoria, which had the lowest rate of export growth of any state, only 2.3 per cent (ABS, 2009h). Over the same period South Australia had the lowest growth rate in imports of any state. Imports increased at an annual rate of 5.9 per cent compared to the national rate of 9.8 per cent (ABS, 2009h).

Manufacturing is the state's major export industry accounting for 74 per cent of exports worth \$7.6 billion in the year to March 2009 (Department of Trade and Economic Development, 2009). In the same year exports of road vehicles, parts and accessories totalled \$1.5 billion (14 per cent of exports). Other major exports include \$2.6 billion of food and wine and \$1.4 billion of agriculture, forestry and fishing products.

### **3 The role and impact of the public sector**

#### **3.1 The macroeconomic role of government**

This Section outlines the role of the public sector in economic and social development through consideration of the welfare state that emerged in the post-war period and underpinned economic and social development. The welfare state had three pillars: the economic pillar; the redistributive pillar and the collective pillar (Cook *et al.*, 2008). In the period until the mid 1970s Australian governments maintained full employment and a range of other social services expanded to improve both the economic and social situation. Publicly provided health services greatly improved the health of the population and increased life expectancy. Education and training enhanced human capital resulting in a skilled and adaptable workforce. Income support payments supported those who could not find work or were unable to work due to illness, disability or caring responsibilities. The rationale for public intervention was that the market may equilibrate at a level significantly lower than full employment and market failure would cause undersupply of human capital and health services due to the large discount rates that individuals apply to the future benefits of these types of investment.

Neo-liberals espoused the view that the private sector could generate economic growth through the operation of markets. Macroeconomic policy underwent fundamental change after the end of the post-war boom. Governments in many countries, including Australia, sought to eliminate fiscal deficits or produce surpluses. Monetary policy was reduced to maintaining low inflation rates through the manipulation of interest rates. The ascendancy of neo-liberalism resulted in the abandonment of the commitment to full employment, efforts to reduce the size of government and returning function to the private sector through privatisation or contracting out. The consequence of these policies was severe undersupply of infrastructure necessary to underpin economic growth, along with insufficient resources devoted to health, education, housing and community services.

Many analysts including institutions such as the IMF and World Bank have begun to rethink fiscal policy and the role of government (Rafferty, 2008). Rafferty (2008: 6) makes the point

that the focus on short-term fiscal targets ‘encourages under-investment in infrastructure or shifting the spending off balance sheet (such as via PPP contracts)’.

The advent of the global economic crisis in 2008 is the culmination of policies pursued in the neo-liberal era. Juniper and Mitchell (2008: 2) make the point that:

The crisis has once again exposed the fallacy of the notion that free markets can regulate and generate sustained growth and prosperity.

Juniper and Mitchell (2008) outline the features of a modern monetary economy. They explain that budget surpluses, such as those delivered in Australia between 1996-97 and 2007-08, result in deficits in the private sector so that ‘a growth strategy predicated on fiscal surpluses and increasing levels of private debt was inherently unstable and ultimately unsustainable’ (Juniper and Mitchell, 2008: 5). Sustained budget surpluses mean that the private sector incurs increasing levels of debt. While this may continue in the short-term, eventually the private sector will need to increase savings to reduce debt. This results in insufficient effective demand, an increase in inventories, and ultimately, unemployment rises. Because the private sector generally saves part of its income and pays taxes to the government it will usually be necessary for the government to engage in deficit spending in order to maintain high levels of employment (Juniper and Mitchell, 2008).

As a consequence of the economic crisis Australia’s growth projections have been significantly reduced in the near term and tax receipts revised down by \$210 billion. In the 2009 Budget economic growth was forecast to be zero for 2008-09, -0.5 per cent in 2009-10, and recover to 2.25 per cent in 1010-11. Unemployment is expected to peak at 8.5 per cent in 2010-11.

### 3.2 Economic and social development: the SA Strategic Plan

Historically state governments assumed primary responsibility for regional development through tax concessions and financial incentives. The South Australian government has a long history of facilitating economic development (Cook: 2008). In the post-war period the government provided loans to industry from 1944. Regional policies included the government building factories outside the metropolitan area for sale or rent from 1958 and in 1971 loans were provided for industry to establish or extend business outside the metropolitan area.

South Australia’s regional development policy is delivered by 12 Regional Development Boards (RDBs) under the auspices of Regional Development South Australia which seeks to facilitate balanced economic development and employment outcomes. RDBs are independent entities funded by state and local government and pursue economic outcomes through the delivery of business, employment and skill formation strategies that are developed in consultation with business and the community.

The current role of the South Australian public sector in economic and social development is elaborated in the SA Strategic Plan that was launched in 2004 and updated in 2007. The Strategic Plan lists six objectives:

- Growing Prosperity
- Improving Wellbeing
- Attaining sustainability
- Fostering Creativity and Innovation
- Building Communities
- Expanding Opportunities

According to Premier, Mike Rann (South Australia's Strategic Plan Audit Committee 2008: Front cover):

The fundamental premise of South Australia's Strategic Plan is creating opportunity for our people wherever they are and whatever they do – building on our strengths, creating new abilities and ensuring that our citizens and our State thrive.

Regional targets have been set for the SA strategic Plan. There are 12 regions including 4 in metropolitan Adelaide, three in the Greater Adelaide area, and five in regional South Australia – Yorke and Lower North, Murray lands, South East, Eyre and Northern.

The Department of Trade and Economic Development assumes the major responsibility for economic development in South Australia although other departments also make significant contributions through provision of infrastructure, education and training.

There are a number of programmes to assist business. The South Australian Young Entrepreneur Scheme assists young people aged 18-30 to develop and implement a business idea. Similarly, the Young Indigenous Entrepreneur Program assists young people 15-25 to establish a business through training, advice and mentoring. Owners of existing businesses can join the Business Owners Coaching Program which provides a regular forum to discuss issues and problems.

The Government has established a Wine Innovation Cluster to assist the local wine industry to maintain its market position (Government of South Australia, 2007). In addition, the Australian Minerals and Science Research Institute has the task of promoting education, research and development in these sectors. Other notable research centres include the Centre for Innovation, the Mawson Institute for Advanced Manufacturing, and the Australian Centre for Plant Functional Genomics. Workforce skills will be enhanced by new trade schools and the Mineral Resources and Heavy Engineering Skills Centre.

The Regional Development Infrastructure Fund provides grants or loans of up to 50 per cent of the cost of infrastructure such as energy, telecommunications, transport, waste water or water (Department of Trade and Economic Development, 2007). The Rural Town Development Fund assists communities with infrastructure that enhances the appearance of towns. The Community Builders programme is a partnership between the Local Government Association of South Australia, the Commonwealth Department of Family and Community Services and Indigenous Affairs and the South Australian Office of Regional Affairs that attempts to strengthen the social and economic capacity of rural and regional areas. Clusters of towns form a loose association, but each town pursues its own objectives with representatives from each town meeting to exchange ideas, discuss issues and learn about available resources at monthly workshops. The tailoring of employment solutions to local conditions is the objective of Regions at Work which operates through 17 local networks consisting of business, local community representatives, regional economic bodies and representatives from the three tiers of government (Department of Further Education, Employment Science and Technology, 2008).

A number of Departments deliver services to South Australians that can be broadly classified as components of the social wage and contribute to specific objectives of the Strategic Plan such as improving wellbeing, building communities and expanding opportunities. The main components of the social wage are health, education, transport and welfare.

The Department of Health focuses on delivery of public hospital services, strengthening primary health care and improving the health of Aboriginals and people with mental health issues. The Department for Families and Communities has responsibility for delivering a

wide range of services including housing, community development, financial support and grants, and services for the disabled, the elderly, children and families.

The Department of Education and Children's Services delivers early childhood, primary and secondary education in South Australia. In 2008 there were 165,305 students enrolled in the state's 596 government schools (Department of Education and Children's Services, 2008). In 2007 over 17,000 children attended preschool, almost 25,000 attended child care centres and over 12,000 were in family day care. Over 23,000 school aged children participated in out of school hours care and 16,500 attended vacation care. The Department operates a number of programs that contribute to the SA Strategic Plan. The *Premier's Reading Challenge* contributes to Objective 6 – expanding opportunity by achievement of national reading benchmarks and specifically targeting reading achievements for Aboriginal students. The *Student Mentoring Program* attempts to increase the proportion of students who achieve a SACE and the number of 15-19 year olds in full-time education, work or further education. The *Premier's be active Challenge* contributes to the healthy weight and physical activity objectives of the Strategic Plan.

The Department of Further Education, Employment, Science and Technology contributes to human capital development through vocational education and training and fosters innovation to enhance economic growth. The Department contributes to the economic objectives of the SA Strategic Plan by assisting South Australians to develop adequate skills to meet the requirements for economic participation, providing high quality employment and workforce development services. The *South Australia Works* program contributes to the objective of expanding opportunities by supporting young people to participate in education, training and work, and provides assistance for other disadvantaged groups such as Aboriginals, jobseekers facing barriers to employment, and parents returning to the workforce.

The Department of Transport, Energy and Infrastructure is responsible for the provision of public transport services, licensing of motor vehicles, road safety and traffic management as well as oversight of major infrastructure projects. Specific targets relating to infrastructure in the SA Strategic Plan include maintaining infrastructure investment at the national average, maintaining the regional population share and trebling the value of export income by 2014.

The Audit Committee reports on progress against the 98 targets in the plan every two years. In 2008, positive progress had been achieved against 55 targets and there was no movement against 23 others. The remainder either recorded negative movement or the situation was unclear. Areas where there was negative movement included: competitive international business environment; business innovation; strategic infrastructure; interstate migration; regional population levels; affordable housing and housing stress; VET participation and science and maths education; and some health measures (South Australia's Strategic Plan Audit Committee, 2008).

### 3.3 Response to the economic crisis

In October 2008 the Commonwealth responded with the announcement of a \$10.4 billion Economic Security Strategy consisting of:

- \$4.8 billion for one off payments to pensioners and \$3.9 billion for payments to low and middle income families;
- \$1.5 billion boost to the first home buyers scheme;
- \$187 million to create 56,000 new training places in 2008-09; and
- An acceleration in implementation of nation building projects

In February 2009 the government announced the Nation Building and Jobs Plan that included:

- One off payments to eligible families, single workers, students and drought affected farmers;
- Building or upgrading a building in every one of Australia's 9,540 schools;
- Building of more than 20,000 new social and defence homes;
- Free ceiling insulation for around 2.7 million Australian homes;
- A temporary business investment tax break for small businesses buying assets; and
- Significant increase in funding for local community infrastructure and local roads.

In the 2009-10 Budget the government announced the building of the \$43 billion National Broadband Network and a third stimulus package of \$22 billion for nation building infrastructure:

- \$3.4 billion for roads;
- \$4.6 billion for metro rail;
- \$389 million for ports and freight infrastructure;
- \$4.5 billion for the Clean Energy Initiative;
- \$2.6 billion for universities and research from the Education Investment Fund; and
- \$3.2 billion for hospitals and health infrastructure in the Health and Hospitals Fund.

The South Australian government released the Mid-Year Budget Review in December 2008. In contrast to the expansionary stance of the federal government, the South Australian government used the Mid-Year Budget Review to attempt to reduce the deficit in the face of plummeting revenues. As mentioned previously the Review announced job cuts of 1600 FTEs as well as the delay of some infrastructure projects and the sale of government assets. These initiatives will have a contractionary effect on the economy and cause unemployment to increase.

### 3.4 State government finances

The Australian federal system of government is characterised by vertical fiscal imbalance because expenditure required to perform the functions of state governments outstrips their revenue raising capacities. As a result, state governments are heavily reliant on grants from the federal government to fund state government activities. State government revenues consist of property taxes, payroll taxes and various fees for goods and services. These funds are supplemented by grants from the federal government that collects income tax and the goods and services tax.

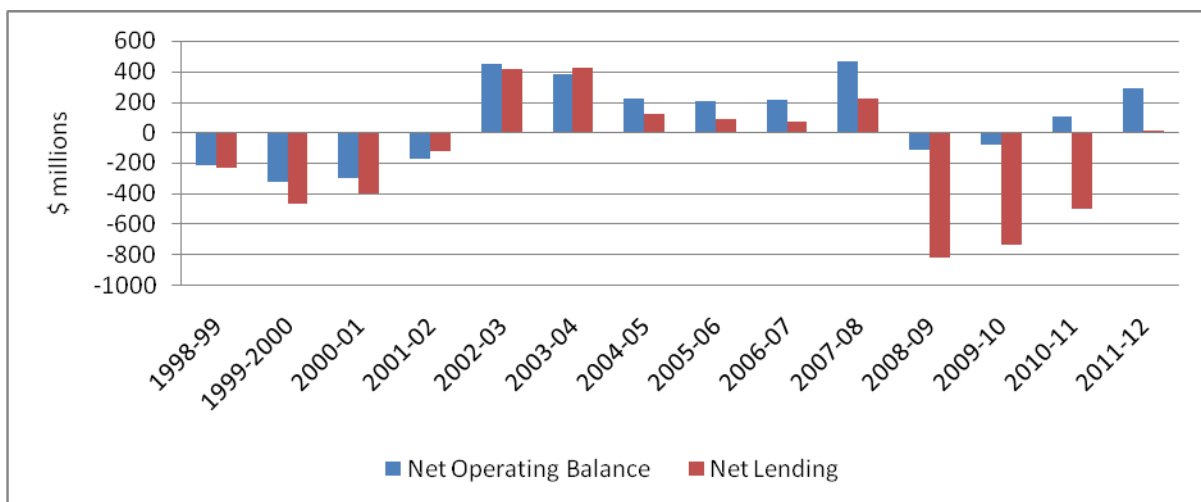
Grants from the federal government constituted 51 per cent of South Australian government revenue in 2007-08. GST revenues are distributed to the states through General Purpose Grants (GPPs) which are expected to increase from \$4.2 billion in 2008-09 to \$4.9 billion by 2011-12 (Auditor-General, 2008). Specific Purpose Grants from the Commonwealth for recurrent and capital expenditure totalled \$2.6 billion in 2008-09. State revenue sources include payroll, property, motor vehicle and gambling taxes that make up 28 per cent of revenues and sales of goods and services that accounted for 12 per cent of total revenue in 2007-08. Other revenue includes distributions from public corporations.

The economic crisis poses a risk to state government revenues via reductions in income and GST taxation revenues. According to the Auditor-General (2008) a variance of 1 per cent in state taxation revenues equates to about \$36 million and a variance of 1 per cent in GST revenue growth has a revenue impact of \$39 million per annum. GST collections by the Commonwealth are expected to decline by \$1.3 billion in 2008-09 which will have implications for state government fiscal positions.

Commonwealth tax receipts for individuals are expected to decline from \$129.9 billion in 2007-08 to \$129.2 billion in 2008-09 and \$126.2 billion in 2009-10 (Australian Government, 2009). Individual income tax receipts will not surpass the 2007-08 level until 2010-11. The situation is even more extreme in relation to company taxation. This is expected to fall from the 2007-08 level of \$78.6 billion to \$68.7 billion in 2008-09, \$64.7 billion in 2009-10 and will not exceed the 2007-08 level until 2012-13. The reduction in all these taxes will reduce distributions to the states.

Figure 3.1 shows the Government Finance Statistics (GFS) net operating balance and GFS net lending from 1998-99 to 2011-12. For 1998-99 to 2007-08 the figures are actual, and for 2008-09 to 2011-13 the figures are projections. The GFS net operating balance indicates is the difference between GFS revenues and expenses. The GFS net lending indicates the differences between the GFS net operating balance and the total net acquisition of non-financial assets. If net lending is positive (negative) it indicates a net lending (borrowing) position. Since 2002-03 both the GFS operating surplus and net lending have been positive. However, for the period from 2008-09 both figures become negative. The net operating balance is projected to be -\$112 million for 2008-09 and -\$81 million for 2009-10. Similarly, net lending is expected to be negative until 2011-12 (-\$819 million in 2008-09, -\$740 million in 2009-10 and -\$501 million in 2010-11).

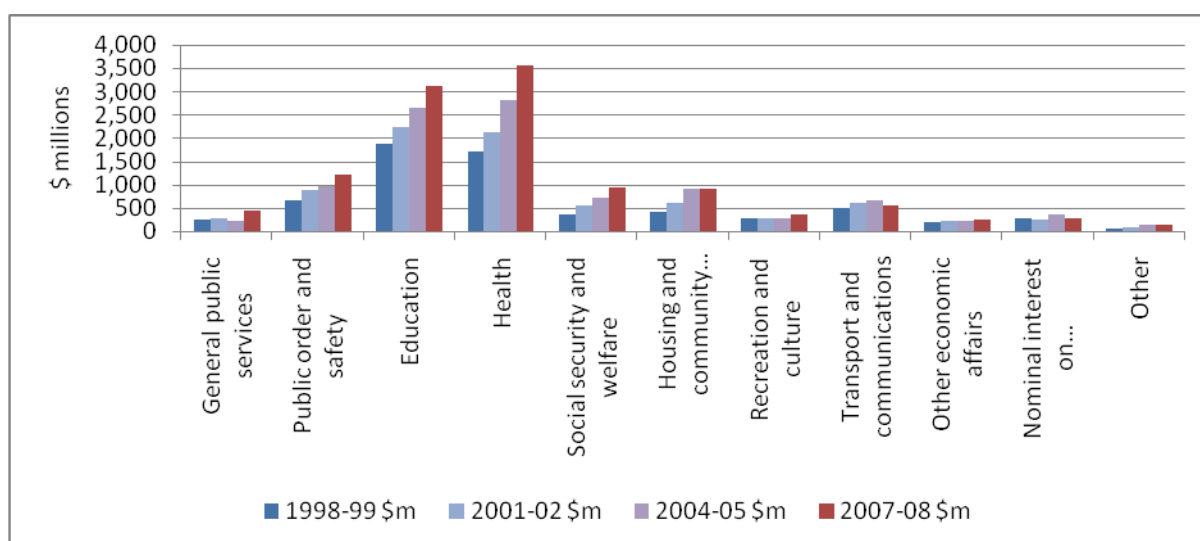
Figure 3.1 South Australia State General Government Operating Statement, 1998-99 to 2007-08



Source: Government of South Australia, 2008.

Figure 3.2 shows the distribution of state government expenditures from 1998-99 to 2007-08. Over this period total expenditure increased from \$7.5 billion to \$12.4 billion. In 2007-08 the largest expense was for employees at \$5.9 billion or 47 per cent of total expenses. Other operating expenses totalled \$3.1 billion while transfers accounted for \$2.4 billion, and interest expenses and depreciation were \$0.5 billion each (Auditor-General, 2008).

Figure 3.2 South Australia General Government Expenses by Purpose, 1998-99 to 2007-08



Source: ABS, 2009i.

In terms of portfolios the greatest areas of expenditure were health, education, public order and safety, social security and welfare, housing and community amenities and transport and communication. These accounted for almost 85 per cent of general government expenses (Table 3.1).

Table 3.1 Expenses per function South Australian budget 2008-09

	Expenditure \$m	Proportion % of total
Health	3826	29
Education	3321	25
Public order and safety	1254	10
Housing and community amenities	1161	9
Transport and communications	752	6
Social Security and welfare	838	6
Recreation and culture	287	2
Other	1654	13
Total	13093	100

Source: Auditor-General, 2008.

### 3.5 Future directions for South Australia

The Commonwealth government responded to the economic crisis by attempting to stimulate the economy to compensate for reductions in private sector activity. The \$42 billion *Nation Building Economic Stimulus Plan* will increase economic growth by 0.5 per cent of GDP in 2008-09 and 0.75 to 1 per cent in 2009-10 (Australian Government, 2009).

South Australia will benefit from the *Nation Building Economic Stimulus Plan* through major infrastructure expenditure and other assistance (Australian Government, 2009):

- South Australia will obtain \$18.3 million for Community Infrastructure Program Projects

- road and rail projects: The Northern Expressway; new and extended rail loops on rail lines between: Cootamundra and Crystal Brook; Melbourne and Adelaide; and Adelaide and Kalgoorlie
- South Australia will share in \$6 billion funding over 3 years for construction of public, community and defence housing, plus \$400 million for repairs and maintenance of existing housing (over 2 yrs)
- all states will benefit from: \$14.7 billion over 3 years for the Building the Education Revolution program to build and rebuild school infrastructure; \$110 million of funding for Trade Training Centres in Schools Program (spending brought forward); \$2.6 billion for the Back to School Bonus; and \$511 million for the Training and Learning Bonus
- all states will benefit from federal government grants for home insulation and solar hot water
- small business will benefit from the Small Business and General Business Tax Break and
- all eligible Australians received bonus payments as income support recipients or taxpayers.

A countervailing influence on the expansionary effect of these Commonwealth policies is the South Australian government announcements in the Mid-Year Budget Review. The timetable for major infrastructure projects will be extended to reduce net debt by over \$700 million by June 2012. Public sector staffing will be cut by 1600 FTE staff over the three years 2009-10 to 2011-12. The reduction in public sector staffing will cause the economy to contract due to the direct impact of the reduction in government spending and flow on effects for other industries. The impact of this policy is considered in the remainder of this report.

#### **4 Economic impact of staff cuts in the South Australian public sector**

This section examines the impact that the proposed public sector staff reductions of 1600 FTEs will have on the South Australian economy, focusing primarily on the employment impacts. First we contextualise the staff cuts by looking at the trajectory of the SA public sector from the early 1990s. The remainder of the chapter estimates the direct and indirect effects of the staff reductions on the South Australian economy. In the first instance the reduction of the public sector will reduce the consumption expenditure of those who have lost their jobs. Secondly, there will be flow on effects to other sectors of the economy due to reduced demand for output. Finally, there are other economic costs, particularly for the federal government due to the increase in demand for income support payments and reduced taxation receipts, and other costs as demand for health and community services increases.

##### **4.1 Staff cuts in the South Australian public sector**

As outlined in Section 1, the South Australian Government responded to the deteriorating budget position resulting from the global economic crisis by announcing several measures including staff cuts to the public sector in the 2008-09 Mid-Year Budget Review. Initiatives included deferring infrastructure projects, selling government buildings and 600 employee houses. The major component of the savings was the reduction of 1600 FTEs from the public sector, as Treasurer Foley enunciated:

Operating savings of \$250 million will be implemented over the forward estimates as a result of a package of measures, most notably a reduction of 1600 public servants not

directly involved in the delivery of frontline services (Government of South Australia, 2008: 4)

The staff savings will be realised over three years:

- 1200 FTE in 2009-10
- 200 FTE in 2010-11
- 200 FTE in 2011-12

Staff reductions are to be achieved by not filling vacancies or identifying positions that are no longer required. Staff in positions identified as excess will be eligible for a Targeted Voluntary Separation Package (TVSP). There will be no forced redundancies. Importantly, the government has made frontline workers such as police, health workers and teachers exempt from the staff cuts.

#### 4.2 Recent developments in the SA public sector

The proposed expenditure savings and staff cuts are in addition to past savings. The 2006-07 Budget incorporated savings of \$695.1 million over four years following a review of spending priorities to prioritise frontline services and included a 0.25 per cent efficiency dividend expected to save \$51.8 million per annum (Government of South Australia, 2006). Expenditure reductions were to be achieved primarily through cuts to administration and restructuring. Savings from departmental efficiencies were estimated to reduce expenditure by \$47 million over four years while structural changes would save \$40 million over the same period (Auditor-General, 2008).

Shared services reform would reduce duplication and improve the quality of services. This involved centralising services such as Information Communication and Technology Services, Human Resources (including payroll) and Finance and Procurement in Adelaide (Shared Services Reform Office, 2007). The government expected annual savings of \$45 million by 2009-10 and \$60 million per year by 2009-10 (Auditor-General, 2008). Savings would be redirected to improving services such as health, education and community safety. Regional staff involved in these functions (approximately 256 FTEs in 2005-06) had the choice of moving to Adelaide, being redeployed to other positions or being declared surplus.

Efficiency savings in the 2007-08 Budget included \$193 million in Health and \$9 million in Families and Communities. The Auditor-General (2008) noted that in addition to existing measures the 2008-09 budget identified new savings of \$290 million over four years.

Employment levels in the South Australian public sector have declined in both absolute and relative terms during the period 1991 to 2007. FTE employment declined from 101,647 in 1991 to 79,715 in 2007, a reduction of 21.6 per cent. Employment declined from 1991 to 2000 and then increased for the remainder of the period. There has been an increase in the number of frontline staff under the current government with 2,800 additional nurses, 900 doctors, 600 teachers and 400 police (Government of South Australia, 2008). Between 1991 and 2007 public sector employment shrank from 18.1 per cent of the South Australian workforce to 12.5 per cent. Section 5 considers the impact of additional staff cuts on service delivery in this environment of significant reductions in expenditure and staffing over a prolonged period.

Table 4.1 South Australian public sector employment, 1991 to 2007

Year	FTEs	Persons	Change	% Change	% of SA workforce
1991	101647	115700			18.1
1992	96960	111025	-4675	-4.04	17.7
1993	96259	110781	-244	-0.22	17.4
1994	90885	105836	-4945	-4.46	16.7
1995	86498	102899	-2937	-2.78	15.9
1996	79432	94808	-8091	-7.86	14.4
1997	76392	91812	-2996	-3.16	13.9
1998	77601	91818	6	0.01	14.4
1999	70517	84199	-7619	-8.30	12.7
2000	68615	83543	-656	-0.78	12.4
2001	68884	82953	-590	-0.71	12.3
2002	69770	83821	868	1.05	12.1
2003	71373	85576	1755	2.09	12.1
2004	72141	86885	1309	1.53	12.1
2005	76720	89979	3094	3.56	12.1
2006	78278	92848	2869	3.19	12.4
2007	79715	94780	1932	2.08	12.5

Source: Spoehr, 2006; Commissioner for Public Employment, 2007.

Key facts about South Australia public sector employment in June 2007:

- Females constituted 65.2 per cent of all employees; males only 34.8 per cent.
- Men occupied the bulk of the executive and senior management positions (69.7 and 63 per cent respectively).
- The median age was 45.4 years.
- Youth were underrepresented in the public sector: 15-24 year olds accounted for only 5.7 per cent of employees compared to 17.1 per cent of the state workforce.
- Older workers were over-represented: those aged 55 or older made up 18.5 per cent of the SA public sector workforce compared to 16.4 per cent for the state workforce.
- 64.5 per cent were employed on an ongoing basis; 26.4 per cent on contracts and 9 per cent through other arrangements.
- 62.3 per cent worked full-time and 37.7 per cent part-time. 84.3 per cent of part-time employees were female.
- 77.5 per cent of employees worked in the Adelaide metropolitan area and 22.5 per cent in regional areas.

Table 4.2 shows the size of the South Australian public sector in comparison to the other states. The number of employees per 1,000 population provides a measure of the relative size of the various public sectors. The size of the public sector varies by state/territory, ranging from 100 state public employees per 1,000 population in the Northern Territory to 56 in

Victoria. South Australia lies in the middle with 69 state public sector employees per 1,000 population. This is around the level of public sector employment in Western Australia but larger than the most populous states of NSW, Victoria and Queensland that are likely to benefit from economies of scale that facilitate similar levels of service provision with relatively smaller workforces.

Table 4.2 State Public Sector employees, June 2008

	Employees	Population	Employees (per 1,000 pop)	Rank
New South Wales	423,200	6,984,172	60.6	6
Victoria	295,900	5,313,823	55.7	8
Queensland	280,300	4,293,915	65.3	5
South Australia	111,100	1,603,361	69.3	4
Western Australia	152,400	2,171,197	70.2	3
Tasmania	38,200	497,529	76.8	2
Northern Territory	22,000	219,818	100.1	1
Australian Capital Territory	19,600	345,551	56.7	7

Source: ABS, 2008c, 2008d.

### 4.3 Economic impact of staff reductions in Public Sector

Since 37.7 per cent of public sector workers in South Australia work on a part-time basis the reduction of 1600 FTEs is likely to result in the loss of significantly more jobs. Public Service Association of South Australia General Secretary, Jan McMahon stated “When the Government talks about cutting 1600 full-time equivalents it will be more like 2500 actual people losing their jobs” (Sunday Mail, 2008).

The 1600 FTE reductions will be apportioned between agencies. While details of the reductions for each Department and location have not been publicly released at this stage some information has been reported in the media. These include 400 FTEs in Health, 127 in Further Education, Employment, Science and Technology, 82 in Families and Communities, 77 in Environment and Heritage and 30 in both Correctional Services and the Courts Administration Authority.

Table 4.3 shows current SA public sector employment by region and the proportion of employment in each region. The table also shows an indicative distribution of the staff cuts based on proportional reductions across regions. If the actual distribution of reductions in FTEs followed this pattern there would be over 500 FTE positions eliminated from Adelaide CBD and another 719 from the metropolitan area. Regional areas would lose 360 FTE positions.

Table 4.3 Indicative staff cuts

	Total employees	% of Total	Staff cuts
Adelaide CBD	30808	32.5	520
Metropolitan Adelaide	42604	45.0	719
Eastern Adelaide	8417	8.9	142
Northern Adelaide	9013	9.5	152
Southern Adelaide	13131	13.9	222
Western Adelaide	12043	12.7	203
Total Regional Areas	21299	22.5	360
Eyre	2397	2.5	40
Murray Lands	4282	4.5	72
Northern	5487	5.8	93
Outer Adelaide	3239	3.4	55
South East	3782	4.0	64
Yorke and Lower North	2112	2.2	36
Other/Interstate	69	0.1	1
Total	94780	100	1600

Source: Commissioner for Public Employment, 2007.

The estimates of FTE staff reductions in the Mid-Year Budget Review are based on required expenditure savings. Since the expenditure targets are the primary consideration individual agencies may make larger/smaller staff reductions depending on whether staff costs are below/above the average required. There are incentives for Departments to identify more senior staff so that the staffing reduction necessary to achieve the required savings can be smaller.

#### *Direct Economic and Employment Effect*

Table 4.4 shows the savings accruing to the SA Government as a result of the staffing reduction of 1600 FTEs between 2009-10 and 2011-12. The bulk of the staff reductions will occur in 2009-10 with the loss of 1200 FTEs. According to advice from the Under Treasurer (Wright, 2009) the savings for the 2009-10 year are based on an administrative salary of \$72,000 per annum (including on-costs). The estimates are calculated on the basis that around half the salary costs will be realised in the year of departure and the full salary costs will be saved in subsequent years.

The impact of wage indexation needs to be taken into account to estimate savings after 2009-10. Departmental budgets in the public sector, including South Australia, typically do not include full funding for wage increases. The wage cost index applied in South Australia allows for increased wage costs of around 2 per cent per annum. However, annual wage increases in the current enterprise bargaining agreement are 3.5 per cent. Therefore, the budget reductions for Departments are calculated on the basis of wage increases of 2 per cent while the actual savings due to the staff reductions are likely to be higher in years 2 and 3 due to higher indexation rates. The actual impact of wage indexation is currently unknown since enterprise agreement negotiations are currently ongoing. For this reason we have included

calculations of savings based on 2 per cent indexation and 3.5 per cent which provide a plausible upper and lower estimate.

Table 4.4 Estimates of direct savings of employment reduction of 1600 FTEs

Year	FTEs	2 per cent wage indexation		3.5 per cent wage indexation	
		Salary (\$)	Expenditure reduction (\$m)	Salary (\$)	Expenditure reduction (\$m)
2009-10	1200	72000	43.2	72000	43.2
2010-11	200	73440	95.5	74520	96.9
2011-12	200	74909	112.4	77128	115.7
Total 2009-10 to 2011-12			251.0		255.8
Ongoing savings		76407	122.3	79828	127.7

In the first year there will be a reduction of 1200 FTE staff producing savings of \$43.2 million. In 2010-11 savings increase to between \$95.5 million and \$96.9 million based on full year savings for the 1200 FTE reduction in the previous year and half year savings for the 200 FTE reduction in the current year. Similarly, in 2011-12, full year savings accrue for the 1400 staffing reduction from previous years and half year savings for the 200 FTE reduction in the current year, producing expenditure reductions of \$112.4 million to \$115.7 million. Over the period 2009-10 to 2011-12 the total savings amount to between \$251 million and \$255.8 million, meeting the Mid-Year Budget Review target. In the following year savings will reach between \$122.3 million and \$127.7 million.

These savings will be reduced by the costs incurred in the Targeted Voluntary Separation Package (TVSP) scheme for those opting for voluntary redundancy (Department of Treasury and Finance, 2009). The TVSP scheme will be available to staff who are identified as excess to requirements because their position has been or is about to be abolished. Staff opting to participate in the Scheme for 2009-10 must accept the TVSP, resign and separate between 1 July 2009 and 30 September 2009. Similar arrangements are expected to apply in the following two years. The components of the scheme are:

- For non-executives there is a minimum component of 20 weeks pay and 3 weeks pay for each year of service, with a maximum of 116 weeks pay (32 years of service).
- For tenured executives the package includes the minimum payment of 20 weeks pay plus 3 weeks for each year of service up to a maximum of 52 weeks (around 10 years of service).

In order to estimate the cost of the redundancy packages to the SA government it is necessary to make assumptions about parameters regarding characteristics of staff and take-up rates; length of service, salary level, and the proportion of the 1600 FTEs who qualify for the redundancy package.

In 2007 45.1 per cent of employees had less than 5 years service with their current organisation (Commissioner for Public Employment, 2007). Less than 10 per cent of women and around 18 per cent of men had more than 25 years of service. Based on evidence from international and Australian literature (Clarke, 2007) we assume that those taking the packages are likely to have been employed for longer than average. We assume that those taking TVSP will have an average of 20 years service. Similarly, we assume that the average salary level will be the top increment of the ASO4 classification. The government has made

1600 TVSPs available for the redundancy exercise. In the absence of any information to the contrary we assume that all 1600 packages will be utilised.

Thus our calculations are based on the assumptions that 1600 packages will be available, and the average payment will be around that payable to a staff member on the top increment of the ASO4 classification with 20 years service.

Table 4.5: Cost of redundancy packages

	FTEs	2% indexation		3.5% indexation	
		Salary \$	Cost \$m	Salary \$	Cost \$m
2009-10	1200	57514	106.2	57514	106.2
2010-11	200	58664	18.1	59527	18.3
2011-12	200	59838	18.4	60718	18.7
	1600		142.6		143.2

Total government savings of \$251 million (2 per cent indexation) to \$255.8 million (3.5 per cent indexation) will be offset by the cost of the TSVP of between \$142.4 million and \$143.2 million based on the assumption that 1600 TSVPs will be used. To the extent that take-up falls short of this number the cost of TSVPs will be reduced and savings will increase. Therefore the total savings to the SA government will be around \$108.4 million to \$112.6 million over three years to 2011-12. Ongoing savings for future years will be in the order of \$122.3 million to \$127.7 million.

#### *Total impact of reduction in Public Sector employment*

In addition to the direct effect of the reduction in Public Sector employment there will be flow on effects to other industries as a result of the reduction in expenditure. Government expenditure stimulates other sectors of the economy through direct government purchases and through the spending power of employees. This section will attempt to estimate the potential impact on the South Australia economy of spending reductions calculated in the previous section using employment multipliers that have been derived using input-output analysis. It is important to emphasise that this analysis does not model the effect of the impact on the South Australian economy by developing state input-output tables using the latest ABS input-output data from 2004-05. This task is outside the scope of this analysis and a possible future research task. The estimates produced here therefore should be considered only as indicative of the size of the effect of changes in the level of spending.

Input-output analysis can be used to estimate levels of output and employment required by a particular amount of final demand and to estimate changes in output and employment resulting from changes in final demand. Employment multipliers show the flow on effect of a change in output in one industry on other industries. In this instance the reduction in final demand is a direct result of reduced government expenditure due to the proposed staffing reduction of 1600 FTEs.

Employment multipliers represent the impact of a change of output in one industry on employment in other industries and vary by industry. The public sector is characterised by large employment multipliers. This means that an increased in expenditure in the public sector will induce a large amount of employment in other industries. Conversely, a reduction of public sector expenditure will result in relatively large job losses in other industries.

Spoehr (2006: 10) states that employment multipliers for public services are about 50 per cent higher than for the average of all industries and therefore: ‘Public investment in public services generates around 30 full-time equivalent jobs for every \$1 million’. Large employment multipliers have also been identified for education, health and community services in SA (Econosearch, 2005).

As can be seen from Table 4.6 below the industries that pertain to the public sector in South Australia have employment multipliers of between 26.5 (Government Administration and Defence) and 42 (Community Services). Spoehr (2006) used employment multipliers derived by Carmen (1999) to estimate the impact of a reduction of 4000 public sector positions in South Australia. He used an employment multiplier of 29 that represents 29 jobs for each \$1 million of expenditure. These multipliers were derived from the 1993-94 input- output tables (see Table 4.6). Valadkhani (2003) used employment multipliers from 1996-97 to identify high employment generating industries in Australia.

Since Government Administration has a higher multiplier than Defence, and other industries with public sector workers have multipliers in excess of 30, this analysis uses an employment multiplier of 30 to estimate the indirect employment effects of the reduction of expenditure due to the public sector staffing reductions.

Table 4.6 Input-output employment multipliers

Industry	Employment Multiplier		
	Carmen (1999)	Valadkhani (2003)	ABS (1994)
Education	35	34.3	
Community Services	33		42
Health Services	29		
Health and Community Services		30.8	
Government Administration	28		
Defence	24		
Government Administration and Defence		26.5	36

Source: Carman, 1999 cited in Spoehr, 2006; Valadkhani, 2003; ABS, 1994.

The results are presented in Table 4.7 below. Columns 1 and 3 show the net reduction in government spending due to the staff reduction based on Table 4.4 above (Column 1 is for 2 per cent indexation and Column 3 is with 3.5 per cent indexation). In the first year expenditure on salaries of public servants will be reduced by \$43.2 million. Subsequently:

- In the second year the government will save a total amount of \$95.5 to \$96.9 million. This represents an additional spending reduction of amount of between \$52.3 million and \$53.7 million (with 2 per cent or 3.5 per cent indexation respectively).
- In the third year the government will save a total amount of \$112.4 to \$115.7 million which represents new spending cuts of between \$16.9 million to \$18.8 million.
- In the fourth year the government will save a total amount of \$122.3 to \$127.7 million but only \$9.9 million to \$12 million represents new savings.

The final reduction of employment in other industries is shown for each year (in Columns 2 and 4). Using 2 per cent indexation the reduction on employment in other industries will be around 1296 as a result of reduced spending in year 1; 1568 in year 2; 507 in year 3 and 297

in year 4. Similarly, using 3.5 per cent indexation, employment reductions will be 1296 due to expenditure cuts in year 1; 1610 in year 2; 564 in year 3 and 361 in year 4.

Table 4.7 Employment reductions in other industries from reduction of 1600 FTEs

	2 per cent wage indexation		3.5 per cent wage indexation	
	Expenditure reduction \$m	Employment reduction	Expenditure reduction \$m	Employment reduction
Year 1	43.2	1296	43.2	1296
Year 2	52.3	1568	53.7	1610
Year 3	16.9	507	18.8	564
Year 4	9.9	297	12.0	361
<b>Total</b>		<b>3668</b>		<b>3832</b>

The reduction in employment in other industries will be between 3668 and 3832 FTEs. The total reduction in employment from a reduction of 1600 FTEs in the public sector will be between 5268 (1600+3668) and 5432 (1600+3832) when the full effects of the spending reduction work through the SA economy. The fact that 32 per cent of those employed in South Australia work part-time (see Chapter 2, Table 2.2) means that many of the job losses will be part-time positions so that the total number of people affected will be higher than these figures indicate.

#### *Other economic impacts*

In addition to the direct and indirect effects for the South Australian economy there are other effects that warrant consideration. In the first instance reduced employment in both the public and private sector of over 5000 jobs will result in an increase in the number of unemployed people. Spoehr (2006) estimated that around 30 per cent of redundant public sector workers would be likely to remain unemployed for six months or more. If this rate were to be replicated in the private sector the increase in unemployment resulting from the reduction of 1600 FTEs in the public sector could be between 1580 and 1630.

Retrenchment of state public sector workers could shift the fiscal burden from the state to the federal government. An increase in unemployment has a direct impact on the fiscal position of the Commonwealth because it simultaneously reduces taxation receipts and increases outlays in the form of income support payments. Moreover, there will be increased demand for public services such as Centrelink, the Job Network, community services and possibly health services and housing, increasing expenses for both the state and federal governments and putting additional strain on the non-profit sector.

There could be long-term adverse financial impacts for individuals who are retrenched. In a study of the post retrenchment experience of Australian workers Murtough and Waite (2000) found that the probability of being retrenched increased markedly in recessions for people who had less than 5 years service with their current employer and that chances of re-employment were greater for people aged under 50 years who had been working in a high skill occupation. They also found that one in four females and one in ten males retrenched between 1994 and 1997 left the labour force. Adjustment costs include the length of time displaced workers remain unemployed, lower hours of work or earnings when re-employed.

Murtough and Waite (2000) found that readjustment costs were likely to be higher if displaced workers were over 50 years of age, female, or from low skill occupations.

## **5 Social impact of reduced public sector employment**

### **5.1 Introduction**

The reduction in public sector staffing has been portrayed as a necessary response to the detrimental impact of the global economic crisis on the budgetary position of South Australia and an attempt to maintain the state's triple A credit rating.

Section 3 outlined the important role that governments play in supporting and promoting economic growth. The cuts to the South Australian government's activities proposed in the Mid-Year Budget Review - savings of \$250 million, increased revenue measures of \$209 million and deferral of investment expenditure and operating expenditure of over \$700 million – will all act to stifle economic activity rather than stimulate it.

This section examines the possible consequences of the reduction in public sector staffing on the delivery of state government services and the wider social consequences. The question that immediately comes to mind is: Can staffing be reduced without impacting on frontline service delivery? Evaluations will need to consider a number of outcomes to determine the total impact of this policy decision. These include quantitative indicators such as achievement of KPIs, the number of people assisted, the number of complaints, and the achievement of targets set in the SA Strategic Plan, as well as qualitative changes such as staff morale and skills (HM Treasury, 2003).

The next two sections briefly review the literature on the impact of public sector staffing reductions both in Australia and internationally. This is followed by a review of the current level of public satisfaction with government services, including quality, accessibility and timeliness. Finally we consider the possible consequences of public sector staff cuts for the delivery of services to the people of South Australia.

### **5.2 Other negative consequences of unemployment**

In the previous chapter we estimated that a total of up to 5,432 jobs could be destroyed in SA due to staff reductions in the public sector. The economic benefits of full employment are well understood. As explained in Cook et al. (2008: 57):

the economy produces at maximum capacity; microeconomic efficiency is enhanced through the improved process of structural adjustment; and, the provision of local employment opportunities militates against the forced migration of workers to higher growth urban centres in search of employment opportunities, with the attendant likelihood of increased congestion, resulting from higher commuting flows.

In addition to the loss of production and economic costs associated with the increase in unemployment there are wider social costs. The economic costs faced by individuals were explained in the previous section. Long-term unemployment is also associated with deleterious effects such as: social exclusion; loss of skills; psychological harm, adverse health effects; deterioration in relationships and family life; racial and gender inequality; and a loss of social values and responsibility (see Cook et al., 2008 for further details).

Increased unemployment due to public sector downsizing, particularly in the current period of recession and rising unemployment, will increase the demand for family and community services, health services, housing assistance, law and order.

### 5.3 Literature review

The international literature has identified several issues with downsizing that limit or negate its effectiveness as a means of improving efficiency or cutting costs as well as wider negative social impacts. This section briefly discusses major issues related to the impact on the organisation, employees who take redundancy packages and remaining employees as well as other social impacts.

#### *Impact on those who take packages*

Those who accept voluntary redundancies may face a range of adverse impacts. First many people accept redundancy in a situation where volition is severely constrained. Clarke (2007) points to the significant differences between a general offer of redundancy and targeted redundancy where people make decisions with the knowledge that their job is gone. Alternatives may include being transferred to a different job or location within the organisation, or facing the prospect of involuntary redundancy in the future with unknown financial consequences. After studying retrenchment in the public and private sectors in Australia Clarke (2007: 81-82) makes the point that for some voluntary redundancy 'was a chance to escape ongoing organisational change and uncertainty, to get away from the negative environment associated with constant downsizing and restructuring'. For others there was little alternative since there was no career path for them in the organisation or no suitable positions.

Interestingly, Clarke reports that the majority of people in this study reported an improvement in health after accepting the redundancy after working in an organisation undergoing continuing downsizing and increased workloads. However the loss of the job can reduce social contacts and self-esteem and have severe financial impacts if a new job cannot be found relatively quickly (Clarke, 2007)

#### *Impact on the organisation and service provision*

While organisations downsize to improve efficiency and productivity these outcomes are not guaranteed. UNDP (1999: 2) contextualise these issues:

Cost containment is an important aspect of civil service reform. BUT THERE ARE OTHER EQUALLY IMPORTANT ASPECTS. An efficient and motivated civil service is critical for governance, production and distribution of public goods and services, formulation and implementation of economic policy, and management of public expenditure. The broader aim of civil service reform is, therefore, the creation of a government workforce of the size and with the skills, incentives, ethos, and accountability needed to provide quality public services and carry out the functions assigned to the state. (emphasis in original)

Voluntary redundancy avoids the acrimony experienced with involuntary redundancy (Clarke, 2007) but increases the risk that the most productive and experienced workers may leave the organisation (Rama, 1999). This is because individuals assessing the benefits of redundancy weigh up the financial gains of the redundancy package against potential losses from unemployment. The most productive workers are more likely to secure employment quickly and therefore reap greater financial gains from accepting the package. The danger for the organisation is that losing the most productive workers will impact negatively on productivity and that the less experienced workers who remain require additional training and may struggle to cope with the extra workload. The UNDP (1999) also point to the counter-productive result of skill reduction if the most productive workers accept voluntary redundancy or early retirement.

A major phenomena identified in the literature is the loss of institutional memory due to downsizing so that efficiency is impaired rather than enhanced (Feldheim, 2007). A GAO (1996: 39) study of downsizing in the US public sector between 2003 and 2006 reported that half of the respondents said that ‘downsizing somewhat or greatly hindered their agency’s mission.’ Negative consequences of downsizing included loss of institutional memory, service shortfalls, skill imbalances, increased use of overtime, increase in work backlogs, lowered morale and the productivity of the remaining workforce. Some organisations estimated that it may take several years to return to the previous skill levels and some had found it necessary to reemploy some of the downsized employees, either directly or on a contract basis. Similarly, an ANAO (1999: 34) report on the APS found that ‘there was anecdotal evidence that ex-APS staff were being reemployed, through a third party, on contract in the APS after receiving voluntary redundancy.’

The negative consequences for efficiency in downsized organisations is highlighted by Dunford, Bramble and Littler (1998) who describe the effects of work intensification as work that was previously done by specialist staff (such as administrative staff) is redistributed. In addition they contend that in a period where the role of management becomes more critical to manage the process of change, many managers are unable to handle the increased complexity of their role and consequently suffer increased stress and psychological problems.

Firms, Travaglione and O’Neill (2006) studied absenteeism in a major public sector transport organisation in Australia during a period of modernisation and downsizing and found that absenteeism increased amongst employees who intended leaving the organisation.

#### *Impact on survivors*

Redundancies have a major impact on the remaining workforce. They have to adjust to the new environment of changes to their jobs, workplaces, changing relationships within the workforce and often increased workload. They also need to deal with the loss of former work colleagues and perhaps the stress and uncertainty associated with the possibility that they would lose their job (Amundson et al., 2004).

Dunford, Bramble and Littler (1998: 399) sum up the experience of downsizing thus:

downsizing programs in the public sector have been driven by broader corporate and organizational demands, have focused on the issue of staffing (both its costs and its use) and client service, and have left behind a significant sense of aftershock among the survivors.

One of the most frequent issues mentioned in the literature is the fact that survivors of downsizing feel that the employer has broken the implicit employment contract; the security of employment in return for employee loyalty, career paths within the organisation and the like. Kelman (2006) conducted a survey in the United States and found that employees resented that management had breached the “social contract” and therefore reduced their work effort. Amundson et al. (2004) also reports that survivors often felt less and less valued by the organisation and that these feelings reduced morale. They found that survivors resented things they felt were unfair, lack of support and information and felt that the costs of downsizing outweighed the benefits. Respondents described the impact of downsizing, commenting on the difficulty of managing workloads in an unstable environment resulting in increased tension and negative results for families and relationships. Some also reported health problems such as sleep disturbances, irritability and headaches.

Similarly, Feldheim (2007: 263) contends that ‘The most significant implications of downsizing for public administration are moral. Integrity, fairness, social justice, civic duty, and compassion are compromised in downsizing.’

Kivimäki et al. (2000) found that much of the increase in sick leave of municipal employees in Finland after downsizing remained unexplained after controlling for the greater physical demands of work, job insecurity and loss of control. They also found that downsizing had adverse consequences for social relationships and health related behaviours.

#### 5.4 Australian Experience with cuts to the public sector

Annual “efficiency dividends” which reduce funding and staffing levels have been a feature of the public sector since they were imposed by the Hawke Labor government in 1986 and have more recently been a feature of state administrations. Table 5.1 shows the various levels of efficiency dividends imposed at the federal government level.

Table 5.1 Efficiency dividends for the Australian Public Sector

Year	Efficiency Dividend (%0
1986-87	0.5
1987-8 to 1993-4	1.25
1994-5 to 2004-5	1.0
2005-06 to 2006-7	1.25
2007-8	1.25 plus pro-rata of 2.0% from 1 March 2008
2008-9	1.25 plus 2.0%
2009-10	1.25

Source: (CPSU, 2009)

The Joint Committee of Public Accounts and Audit (2008: xxiii) investigation of the impact of the efficiency dividend on small federal agencies questioned whether the efficiency dividend was ‘placing a higher priority on agencies’ efficiency at the expense of their effectiveness.’ The Committee found that small agencies were particularly disadvantaged by application of the dividend and there were a number of deleterious unintended consequences such as reductions in services to regional areas, pay disparities, expansion of collections for cultural agencies and impediments to innovation. Specific cuts have included:

- the National Library cut services in reading rooms, reduced opening hours, reduced touring exhibition schedules, reduced core collecting activities in the Asia Pacific region, and curtailed work on digitising its collection. The Library has been reducing staffing for the past decade. (Joint Committee of Public Accounts and Audit, 2008)
- the Insolvency and Trustee Service Australia (ITSA) has reduced investigation of alleged offences (APSC, 2008)
- the efficiency dividend has resulted in closure of CSIRO regional facilities on 2008-09 (Joint Committee of Public Accounts and Audit, 2008)
- the National Gallery of Australia reduced staff by natural attrition and some activities were wound back. For example, travelling exhibits were to be halved and the number of publications reduced (APSC, 2008)
- the Australian National Maritime Museum (ANMM) has reduced its core programmes and services (APSC, 2008)

- the Australian National Audit Office (ANAO) has reduced the number of performance audits it conducts (APSC, 2008)

The impact of the additional 2 per cent dividend from March 2007 were summarised by the *State of the Services 2007-08* report the Australian Public Service Commission (APSC, 2008). Agency responses included: reduced recruitment (51 per cent of agencies); reduced staffing levels (44 per cent); reduced staff travel (38 per cent); reprioritised activities; introduced more efficient systems; and reduced the number of contractors or consultancies.

The efficiency dividend, combined with partial supplementation of funding for wage increases meant that there was a real reduction in funding since 2005-06 of 3 to 3.25 per cent (wage increases of 3.75-4 per cent plus the efficiency dividend of 1.25 per cent offset by funding supplementation of around 2 per cent), which increased from March 2008 to 5 to 5.25 per cent (due to the additional 2 per cent efficiency dividend) (Joint Committee of Public Accounts and Audit, 2008). The consequence of these cuts has been that:

the pressure on agency budgets from the cumulative, combined effect of the efficiency dividend and the partial supplementation for wage increases has resulted in some agencies having to reduce the quality and/or quantity of their outputs (APSC, 2008: 131)

The APSC (2008) points to the increase in unscheduled absence across the APS as a warning sign that there may be insufficient resources to cope with the workload. A survey of 2785 Commonwealth public servants by the Community and Public Sector Union found that 88 per cent felt their workload was increasing, 56 per cent said there were cutbacks in their agencies and 45 per cent felt less secure about their jobs (AAP, 2009). Alam, Robinson and Pacher (2006: 743) conducted a study of middle management in the ATO in 1999 and found that ‘a substantial number of middle-managers, survivors of years of restructuring, downsizing and organizational change, were unlikely to display high-quality decision-making behaviours.’

An ANAO report on downsizing in the APS during the latter half of the 1990s found that ‘there was little evidence that, during the strategic planning for and implementation of staff reductions, consideration was given to the impact of the reductions process on the ability of retained staff to fulfil operational requirements, maintain their morale, or to tailor activities to assist them to deal with the changes under way in the workplace’ (ANAO, 1999: 30).

## 5.5 Public satisfaction with government services in South Australia

As part of the SA Strategic Plan a survey was conducted to obtain information about areas of the plan where there was no data or only limited data to measure achievements (Population Research and Outcome Studies Unit, 2008). One of the five areas of interest in the survey was customer and client’s satisfaction with government services. The survey was conducted with SA residents over 18 years of age and included 6088 completed interviews from a sample of over 11500. Results were weighted by age, sex, SA government regions and probability of selection in the household. The survey used a 5 point Likert scale and reported results based on a score of 3 or more on this scale. This report compares responses with the score of 3 omitted since this indicates neither agreement nor disagreement.

70.3 per cent of respondents had used government services within the past year compared to 27.7 per cent who had not. Use of services varied by region and ranged from 65.7 per cent in the Western Adelaide area to 73.9 per cent in Northern Adelaide. The most frequently used services were Health (39.1 per cent), transport, energy and infrastructure (38 per cent) Justice (7 per cent) and education and children’s services (6.3 per cent)

In response to a question regarding overall satisfaction with government services in South Australia 43.8 per cent were either satisfied or very satisfied while only 11.4 per cent were dissatisfied or very dissatisfied. When this question was restricted to those who had used services in the past year 44.2 per cent were satisfied or very satisfied while 12.1 per cent were dissatisfied or very dissatisfied.

More specific questions were asked. For quality of service 63.3 per cent were satisfied/very satisfied compared to 16.5 per cent who were dissatisfied/very dissatisfied. For satisfaction with accessibility of services 65.7 were satisfied/very satisfied compared to 15.5 who were not. 81.6 per cent agreed that they were treated with fairness by staff compared to only 5.9 who disagreed. When asked whether they had been informed of everything they had to do to receive a service 72.9 agreed and 9.6 disagreed. Similarly 72.5 per cent of respondents agreed with the proposition that staff were knowledgeable and competent compared to 9.2 per cent who disagreed. 82.4 per cent of respondents had received the service or product they required compared to 9.6 per cent who received part of what was needed and 7.1 per cent who did not receive the service.

Reductions in public sector staffing levels have the potential to affect client's satisfaction with services relating to access, quality and quantity. Future surveys may provide evidence of any effects on client's perceptions of public services.

## 5.6 Possible effects of staff cuts on frontline services

The CPSU (2008: 6) contend that the government preoccupation with reducing the public sector has been short-sighted and has had a negative impact on services:

While governments have focussed on cutting costs, cutting jobs and outsourcing, they have failed on building the long-term capacity that is required to deliver quality public services. Agencies struggle to deliver quality services under a funding regime that extracts artificial efficiencies by inadequately funding agencies both for public services they provide and for wage increases. The result has been a decline in services, cuts to program delivery and/or job losses.

The South Australian government presented the staff cuts as a financial necessity that would not impact on frontline services. In order for this to be the case efficiencies would need to be achieved in administrative functions so that frontline staff would not be diverted from their duties to carry out tasks that were previously performed by staff in the positions declared surplus. It is not possible to assess the impact of the staffing reductions on frontline services *a priori*. This section considers some of the issues and possible inefficiencies that this policy may encounter.

The quantum of staff reductions was predetermined in order to meet budgetary requirements rather than by an exhaustive investigation of staffing in relation to workload in various agencies. The cuts have been handed down to agencies that are expected to identify which positions will be eliminated. This approach to downsizing is fraught with danger since there is no immediate connection between the budgetary position in the midst of a global economic crisis and the number of staff necessary to provide high quality public services in a professional and timely manner.

The evidence from the APS in the previous section strongly suggests that arbitrary staff cuts result in a diminution of programs and services.

An important consideration is that diverting frontline staff away from their primary function due to inadequate levels of administrative support increases rather than reduces inefficiency. The Gershon Review (2004: 15) in the UK emphasised this point saying 'Front-line staff are

there to deliver services to the user and reducing the amount of time they spend away from these core activities is an important part of efficiency.’

There is some evidence that frontline staff in the South Australian public sector are currently diverted from their primary tasks due to insufficient levels of administrative support staff. The Paxton report on public hospitals in South Australia found that ‘Nursing staff at the hospitals currently perform a material amount of non-nursing duties (duties which could be undertaken by clerical staff)’ (Paxton Partners, 2008: 9). Further cutting of positions such as ward clerks in the hospital system will shift the workload to nurses, reducing the time for patient care

Similarly, reducing administrative staff in South Australia Police in positions such as station clerks, or police records clerks simply shifts the work to police officers and reduces their time for frontline duties. Only 2875 of the 4200 police officers in South Australia (68 per cent) are working in a local service area office (Vaughan, 2009).

The number of school service officers employed in South Australian schools fell by 550 in the two years to 2008 (ABC News, 2008). Further staff cuts as a result of the Mid-Year Budget Review will reduce the support and administrative assistance for teachers which could have adverse impacts on the quality of education.

There have been some announcements of cuts to services. The Courts Administration Authority will open registry offices in some locations only while courts are in session (Kelton, 2009b). Further, cuts to back court staff and Office of Director or Public Prosecutions staff means greater backlogs throughout the justice system. The chief executive of the Department of Environment and Heritage informed the Budget and Finance Committee that ‘Reducing programs and staff was the only way to achieve this target’ (Emmerson, 2009).

There are many other examples where the impact of the cuts in administrative staff will have a direct impact on service delivery:

- Cuts to Department of Families and Communities could severely compromise the ability of Social Workers to respond to children at risk in the community and this has been the topic of a recent Parliamentary Select Committee.
- Cuts to Land Services Group means delays in land and property transfers.
- Cuts to Customer Service Centres mean longer queues and delays to the public in licenses and registrations.

As mentioned in Section 3.2 achievement against the SA Strategic plan in the area of VET participation has not just failed to meet the target but has recorded negative movement. The demand for VET places is likely to increase as a result of the recession as more people seek qualifications and it becomes more difficult for disadvantaged job seekers to obtain employment. The impact of staff reductions will make it difficult to provide additional courses in response to greater demand and the increase in training places announced by the federal government in the stimulus package in October 2008.

In addition to the job cuts, reduced budgets will impact on the capacity of agencies to deliver services. The Department of Families and Communities has reduced expenditure on travel and accommodation, advocacy and information referral services (Kelton, 2009c).

This section has demonstrated that there are several avenues through which the reduction of public sector staff could have adverse effects on service delivery, both by direct reductions in service to the public and by transferring the administrative burden to frontline staff who will

be diverted from direct service delivery. Moreover, the transfer of routine administrative functions from more junior staff on lower levels of remuneration to more highly skilled and higher paid professionals is an inherently inefficient use of human resources.

## **6 Conclusion**

This Report has reviewed the important role of the public sector in facilitating economic growth and providing social and community services. Reductions in public sector employment and spending have a contractionary impact on the economy and reduce services to the public. In the current recession any reduction in public sector stimulus will have a detrimental impact on the economy, reduce employment levels and increase unemployment with detrimental consequences that may last for many years to come.

The proposed reduction in public sector employment of 1600 FTEs will result in a reduction in South Australian employment of between 5268 and 5432 including the direct effect in the public sector and the flow on effects to other sectors of the economy. The reduced economic activity will compound the slowdown that is already occurring as a result of the economic crisis and delay economic recovery.

In addition to the lost production and reduced consumption there will be detrimental impacts on service delivery which will be exacerbated by increasing demand for services due to the recession. There is extensive evidence of the detrimental impact of downsizing on the efficiency and effectiveness of service delivery. This is partly attributable to increased workload and the inherent difficulty for remaining staff to upskill in a resource constrained environment. In addition, the adverse impact on morale, loyalty and commitment of staff due to the organisation breaching the social obligations to staff implicit in the employment relationship can have a detrimental effect on output and commitment to the organisation. The combination of these factors can result in higher rates of absenteeism and greater stress levels for employees. Therefore, the focus on short-term expenditure reductions may result in negative outcomes in the long-term and reduce efficiency and the effectiveness of services.

If the resources released in the process (the retrenched staff) are not re-employed quickly there can be adverse financial and social impacts for the individuals concerned and a decline in economic efficiency since these resources are idle and are not contributing to output.

There will also be adverse implications for the federal government resulting from reduced income tax receipts, increased income support payments and increased use of other government services. The higher level of unemployment may also have adverse long-term consequences if unemployment spells persist for lengthy periods.

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