



Economic Issues

**To Ignore Reform is to Ignore
Opportunity: Creating a more
effective and sustainable
public sector**

South Australian
Centre for Economic Studies
University of Adelaide

Economic Issues

No. 50

To Ignore Reform is to Ignore Opportunity: Creating a more effective and sustainable public sector

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February 2018

South Australian Centre for Economic Studies
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ISSN 1445-6826

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Published by: South Australian Centre for Economic Studies
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Executive Director's Note

Welcome to the fiftieth issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of *Economic Issues* is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within the scope, the intention is to focus on key issues – public policy issues, economic trends, economic events – and present an authoritative, expert analysis which contributes to both public understanding and debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

This paper derives from a commissioned research consultancy from **Business SA**, as one input into their analysis, review and recommendations on the performance of the South Australian economy. The independent review was undertaken with the objective of creating a more effective and sustainable public sector. The principal sources of information used in this *Economic Issues* Paper include the SA Office for the Public Sector Workforce, SA Government Budget Statements, Australian Bureau of Statistics Labour Force, Demographic Statistics, and Wages and Salaries, Programme for International Student Assessment (PISA), The Organisation for Economic Co-operation and Development (OECD), the Productivity Commission and New Zealand Stats.

This paper considers the size and performance of the South Australian Public Sector in a small, open economy. The focus of the paper is to shine a light on the public sector as it is a major component of the South Australian labour force and economy more generally. South Australia requires a high performance public sector; low cost, effective provision of essential services (or the 'low risk' responsibilities of government); high quality far-sighted policy practitioners and excellent human resource managers. We ask the question – is there evidence to suggest these requirements are being met; evidence to suggest the community has experienced higher quality service standards; that South Australians overall enjoy greater benefits from the public sector than in other jurisdictions.

We are not, nor should the reader, be side-tracked into the "big government – small government" debate. The Public Sector has a critical leadership role in cultural change, in monitoring and measurement of outcomes, in demonstrating continual improvement in public services, standards of service and regulation. Ploughing additional resources into activities/functions, while performance is stable or going backwards suggests a fundamental need to review what we are doing.

South Australians need to be concerned with outcomes not inputs or output and the Public Sector has a critical role in meeting this challenge.

The authors of this paper are Associate Professor Michael O'Neil (Executive Director, SACES) and Darryl Gobbett (Visiting Fellow, SACES). The views expressed in the report are the views of the authors.

Michael O'Neil
Executive Director
SA Centre for Economic Studies
February 2018

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Glossary of Terms

ABS	Australian Bureau of Statistics
ALP	Australian Labor Party
AQF	Australian Qualifications Framework
ATWE	Average Total Weekly Earnings
CCF	Civil Contractors Federation
COAG	Council of Australian Governments
CPI	Consumer Price Index
EDB	Economic Development Board (South Australia)
ERP	Estimated Resident Population
ESL	Emergency Services Levy
ETSA	Electricity Trust of South Australia
FIFO	Fly-In/Fly-Out
FTE	Full Time Equivalent
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GRP	Gross Regional Product
GSP	Gross State Product
GST	Goods and Services Tax
LGA	Local Government Association
MAC	Motor Accident Commission
MBA	Master Builders Association
MTAA	Motor Trades Association of Australia
NAPLAN	National Assessment Program – Literacy and Numeracy
NDIS	National Disability Insurance Scheme
NGO	Non-Government Organisation
OECD	Organisation for Economic Co-operation and Development
PAYG	Pay as You Go
PISA	Programme for International Student Assessment
TOD	Transit Oriented Development
VET	Vocational Education and Training

Executive Summary

South Australia's State and Local Government sectors each require urgent investigation into the current and future implications of the impacts of their respective sizes, operations and policy formulation and implementation on the South Australian economy, employment and population growth and living standards.

South Australia is lagging the other States and comparable other small, open economies such as New Zealand and Singapore, in employment and income growth. There has been minimal growth in aggregate hours worked per month in South Australia since the GFC, (4.8 per cent June quarter 2009 to December quarter 2017), a marked contrast to the national rise of some 14.5 per cent. This is despite a 6.8 per cent lift in State and Local Government employment over that timeframe.

Per capita income growth is now amongst the slowest in Australia and increasingly dependent on public employment and social welfare payments. One result has been an increase in South Australian's migrating interstate to levels last seen in the 1990s. In turn this has contributed to a reduction in population growth (0.6 per cent per annum to the June quarter 2017) to the slowest of the Australian States and, because it is the young job seekers who principally leave, an acceleration in the average ageing of the population. The absolute number of 25-35 year olds in South Australia is now less than in the early 1990s.

In the most recent Economic Issues Paper (No. 49)¹ we consider the extent of the growth malaise seems to result from some conditions specific to South Australia. Other economies such as Victoria and New Zealand have faced comparable restructuring pressures on manufacturing industry as a result of global and national change, with consequent reductions in the share of manufacturing of total employment, but have been able to more than offset this with employment and income growth in other sectors. This in turn has helped increase net immigration and population growth.

On a number of measures such as the size of the South Australian public sector expenditure and employment in the South Australian economy; the size of electorates; and the ratios of population, Gross State Product and number of public servants per Minister, South Australia stands out as having a large state government sector in comparison with the other states and comparable market economies overseas. We believe the associated costs, both direct and indirect, are a drag on the business sector and the broader South Australian economy.

Such costs may be justified by the quality and quantity of the public services provided. This is particularly when the South Australian economy and industry are going through accelerating change brought on by global, national and local economic, industrial, technological and demographic changes. South Australia cannot afford to be spending more on its government if there is no commensurate improvement in public sector outputs.

The evidence suggests, however, that in areas of pivotal importance to the capacity of the South Australian economy to compete nationally and internationally such as primary and secondary education and Vocational Education and Training, the outcomes in terms of standards have been declining in absolute terms and relative to the other States. The current issues with TAFESA appear symptomatic of deeper seated issues in the public education sector.

The size, cost and outcomes of the public sector have important implications for South Australian economic growth, employment and living standards.

A high performing public sector can, particularly in times of accelerating change, be a force to assist growth in the private sector, the broader economy and employment and living standards. An integral part of that high performance will be in the proper generation and assessment of policies and their efficient and effective implementation. Our assessment is that on a broad number of fronts:

- the processes of policy making, analysis and review are poor in terms of inputs and policies generated;
- in many instances there is little substantive cost benefit analysis applied prior to policies being implemented;
- the management of implementation appears poor, as witnessed by the issues at TAFESA, Oakden, child protection and Transforming Health; and
- there is little or no analysis after implementation of the costs and benefits against the original plans.

Along with our recommended reduction in the number of Government Ministers to 11, we believe more effective policy formulation and better implementation, including of ongoing management, would help reduce costs in the public sector and to the private sector. This should lead to better employment and living standard outcomes along with an improved capacity of South Australia to support a dynamic and more efficient and

effective public sector, State and Local, to help deal with the accelerating pace of change. Otherwise South Australia will continue to decline relative to the other States and likely face stagnant living standards.

The **first reform** is to the system of political representation. *We recommend:*

- a reduction in the number of Ministers to 11;
- a reduction in the size of the Legislative Council by eight members to a Chamber of 14 seats, and a review of the term of office; and
- a reduction in the size of the House of Assembly by four electorates to a Chamber of 43 seats.

The **second reform** to establish a high performance public sector is to implement significant reforms to the:

- Department of the Premier and Cabinet (Functions: policy development and reform);
- Department of Treasury and Finance (Functions: policy oversight, monitoring and evaluation); and
- Department of State Development (Function: implementation).

It is not within the scope of this paper to provide further details but some additional thoughts on reform to agencies is included at Appendix D.

The **third reform** is to rebalance the relative shares of total employment between the public sector and the private sector. The share of state government employment is highest in South Australia relative to other jurisdictions with one public sector employee for every 16.4 persons (national average 1 : 19.5 persons):

- there is a need to independently review services delivered by government that can be provided outside of government at lower unit cost;
- there needs to be consistent arrangements for competitive and contestable markets in service provision;
- South Australian general government FTE employment is 6,500 (8.5 per cent) more in 2017 than budgeted for in 2013/14 (for June 2017). Redundancies and separate packages have been more than offset by new recruitments.

There appears to be significant “classification creep” in employee numbers within the South Australian public sector without evidence of improvement in performance, employee management and any economic efficiency dividend. The increase in FTEs and the increasing number of public employees in the higher salary classifications is contributing to the significant rise in South Australian government employee costs.

The **fourth reform** is to review the role of local government in the C21st, the potential expanded role they could play in the future and the relationship of local government to state government. A commissioned review by the Local Government Association of SA of local government in South Australia concluded “... that ‘business as usual’ into the future was not a viable option ...”.

1. Introduction

The fundamental role of State Government is to promote the welfare of its citizens. The Federal Government is also involved in promoting the welfare of all citizens through funding and partnership agreements in areas that might be said to be ‘the prime responsibilities of the States’, *inter alia*, in health, education, environmental issues, industrial relations and various regulatory obligations. The dual responsibilities can often lead to complex interactions, excessive administration and reporting, duplication, blame and cost shifting.

Notwithstanding, the responsibilities and exercise of a State’s responsibilities can be seen in practice through annual budgetary allocations for policies, programs and expenditure in the following areas (brackets are approximate percentage allocations): Health (26 percent), Education (24 per cent), Welfare (8 per cent), Housing (5 per cent), Individual and Community Safety (10 per cent), Transport including roads, rail and public transport (10 per cent) and Other (16 per cent) including, for example, Employment and Training, Correctional Services and Emergency Services .

The provision of essential services is the fundamental policy responsibility of State Government. They are often characterised as ‘low risk’, including and because, the lower the cost of these services the less drain on family budgets and enhancement of business competitiveness. Problems arise for individuals, families, communities, business and government where there is an absence or failure to properly address the provision and quality of these low risk services or public goods. That is to say, problems arise in their absence.

South Australia is faced with unique and fundamental challenges. In the SA Centre for Economic Studies Economic Issues Paper (No.47) on the ‘Aged Structure of the Population and Economic Growth – Does it Matter’ we considered fundamental changes in the age structure of the population and the implications for the labour force, employment, gross state product and public policy. We noted the hollowing out of the ‘core aged workforce group’, the outflow to interstate of young, qualified professionals and the higher dependency ratios in our population relative to other states.

In Economic Issues Paper (No.49), ‘Development Strategy for Reinventing South Australia’ we explored necessary institutional reforms across government, the public sector, the business community and economic and social policies and programs. We asked the question:

“What are the competitive enhancing policies South Australia must adopt to generate the wealth required to support social and community objectives and environmental development”.

We concluded the paper with a number of recommendations:

- the restoration of cost effective democracy in South Australia with an examination of the size and influence of our Parliament;
- the requirement to implement a sustainable budget framework including the necessity to enhance policy and program evaluation;
- consideration of a state-based Independent Productivity Commission or a similar body;
- the importance of review and improvements to government service delivery, industry assistance including whether some current activities of government were feasible/justified; and
- the need to prioritise a review of local government/state government relationships, including and because, employment trends were shifting to more local, high quality, human service delivery. Demographic trends were also to be considered.

In this report we provide a comparative assessment of political representation and the size of the public sector, including local government, in South Australia relative to other state jurisdictions and selected countries. Comparative country analysis is used to compare recent economic performance and the scale of political representation.

Local government has a critical role in the provision and management of a range of services; it is important to society and communities in obvious ways; it is a vehicle for collective action; the question worthy of examination, is whether the current number of local councils and most importantly their relationship with state government is “fit for the future”.

State government likewise – we are not interested in the fruitless debate of ‘small or big government’, we are interested in a productive, efficient and effective State government; is there an optimal size of State government?; what is the relationship with local government?

We provide some suggestions/recommendations in the concluding chapter. What is abundantly clear is the balance of responsibilities between State government, Local government and the private sector is not delivering the economic and social outcomes that the community demands.

What are those demands?

- generating wealth and employment opportunities;
- open and honest democracy;
- transparency and accountability;
- effective solutions to obvious problems;
- a political system not beholden to 'money politics'; and
- an effective and efficient public sector that promotes the public interest over vested interest (which includes the self-interest of the political system).

2. An Efficient and Appropriate Size Public Sector is Important for South Australia

It is axiomatic that an efficient public sector is important to any economy and community of any size.

The first reason is that the State Government and the public sector is a major source of spending, investment and employment. It is the dominant provider or funder across major sectors of the economy in cooperation and/or competition with the private sector. Most obviously, in Hospitals, Mental health, Disability care, Primary and Secondary Education, Vocational education, Law and Order, Water, Public Transport and transport infrastructure and the Arts. It is a major funder of business and community infrastructure.

Government may be the provider and funder, the sole provider, the sole funder and/or the supplier of goods and services that are in competition with those provided by the private sector (e.g. hospitals, education including vocational education, marketable services). Public Sector activities deemed to be in competition with similar activities provided by the private sector are in many instances governed by National Competition Principles.

The second reason is that to fund activities referred to above government needs to raise own source revenue supplemented by funds from the Federal Government including GST allocation, tied grants and partnership grants under COAG agreements. Revenues are the biggest draw on business after wages and therefore impact cost competitiveness and household budgets. Own source revenues include, *inter alia*, Payroll Tax; License Fees such as drivers licence and motor vehicle registration, liquor licensing fees; Levies such as ESL (and the previously used Murray River Levy); Approval fees; Transfers from government owned enterprises; Gambling taxes and other user charges, fees and fines.

The third reason is the role of government in regulation and that regulatory impacts are a substantial influence on households and the cost competitiveness of business. Regulation can vary to include market signalling, incentive based regulation, the provision of information, attempts to address 'market failure' and regulation to cover externalities (e.g. environmental directions). Regulations cover, *inter alia*, Development approvals; Shop trading hours and standards; Business activities and Employment conditions; Education, Health, Utilities, Industry and Regional development and Renewable energy; and Taxation.

The Economic Development Board (EDB) has previously commented that "In the past, there has been too much government red tape and too many complex processes that hinder productive outcomes".²

"The EDB supports the State Government's stated goal of making South Australia the most competitive place in which to invest and operate a business in Australasia and therefore recommends continuation of the red tape reduction program and its supplementation by programs of regulation review such that all regulation will be reviewed on a five-year rolling basis".³

The fourth reason is that government through actions of the public sector must endeavour to build and maintain an environment that supports business investment and business activity. Again, the EDB has expressed a view that business expects stable, cost-competitive, predictable and user-friendly laws and regulations, [and] responsive decision-making and a dynamic and high-performance public sector. Ultimately, high costs to business impact on business investment decisions, on employment and growth.

It follows from the reasons just stated that there are some clear principles that underlie public policy and program development. None detract from the important role that government exercises in state economic development.

A high performance, innovative and responsive public sector should itself be exposed to competition where appropriate. The design and implementation of pro-competitive policies should extend to the public sector as much as the private sector. There should be evidence-based, strong justification for exempting functions of government from competition, while acknowledging that there are clear functions and responsibilities of government that it alone must perform and/or supervise (i.e. set standards, regulate and review).

Contestability in contracts, tenders, service delivery and marketable services should always be the preferred option. Again, there should be very strong justification for exempting functions of government from competition. A clear case to favour competition is where marketable services are already being provided by the private sector. In the area of vocational training, contestability that underpins competition is the dynamic force that improves quality and service delivery. Government (with industry) has a role in the setting of standards, regulation and review. It is not always the case, but situations of monopoly provision lead to higher costs and poorer quality outcomes overtime.

A high-performance public sector 'will get the fundamentals right' in terms of setting standards of service, the quality of basic infrastructure and the design of an efficient taxation regime: it will provide high quality, incentive based regulation (and information) and effectively 'steer the economy rather than have to row'.

3. Is There an Optimal Size of State Government?

The prevailing view of development economists is that the level of economic activity is primarily a function of government policies (and institutions) “that frame the economic environment in which people produce and transact.”⁴

The level of economic activity is contrasted with growth rate indicators. That is to say, the growth rate in employment or housing construction is able to be accelerated in the short-run through government subsidies that increase employment or the building of residential housing. The current use of the Job Accelerator Grant program is an example of a short-term, employment stimulating policy.

However, the level of economic activity in the long-term (on both these indicators) is influenced by, *inter alia*, population trends, the rate of family formation, migrant intake, business investment with a sustainable increase in labour demand, the quality of human capital and business start-ups.

In view of the current high degree of public involvement in the South Australian economy, the South Australian Government is responsible for leadership in the task of transforming the South Australian economy through the decisions it takes, the reforms it introduces, institutional changes it orchestrates and the signals it provides to the private sector.

Economic and social reforms are intended to promote the welfare of citizens. This is all the more important when the public sector is a more significant component of the South Australian economy than in other states/territories; all the more important for South Australia when past and present policies and their implementation appear to be adversely impacting current economic, social and demographic outcomes.

Is there an optimal size of state government? Most credible research, and it tends to be at the national level rather than at a sub-national level (including studies conducted by the OECD), conclude that the share of government spending that maximises economic growth is in the range of 26 to 30 per cent of GDP/GSP. There are numerous studies that purport to show levels of expenditure beyond the 30 per cent mark have a negative effect on economic growth.

In Australia in 2016 the ratio of government expenditure to GDP was 37.5 per cent, and unemployment was 5.7 per cent; for New Zealand the ratio was 33.7 per cent and declining and unemployment was 4.8 per cent. However, it is important to note that the stage of development of an economy will influence the scale of government expenditure.

What consistently is reported as those critical factors in maximising the underlying level of economic activity are

- institutional quality (i.e. public sector);
- the quality of government itself;
- long-sighted policy objectives and efficient implementation, monitoring and evaluation; and
- spending on basic or low risk essential services and infrastructure.

Economic and Social Outcome: in South Australia there are 69 members of State Parliament and 14 Cabinet Ministers with the ratio of Members of Parliament and the ratio of Cabinet Ministers to state population the highest of all mainland states. (see Table 5.1) There is no evidence with this level of representation that South Australia has achieved better economic and social outcomes than other states.

Budgetary and Financial Management: each Cabinet Minister is responsible for less than one half to one third the “ratio of GSP per Cabinet Minister” relative to other States. The ratio of GSP to all members of State Parliament is half the Australian average. There is no evidence these lesser responsibilities have resulted in budget surpluses or budgetary discipline that is more exacting than in other states.

Representation and Democracy: there is one member of Parliament (47 in the Lower House and 22 Upper House representatives) for every 24,756 electors whereas in the eastern states the number of electors per Member of Parliament is more than twice this figure (e.g. nationally the average is 1.7 times that of South Australia and over twice the average in New South Wales, Queensland and Victoria).

There is no evidence that South Australian’s enjoy greater benefits from a more democratic, transparent and accountable outcomes or, that in the absence of those outcomes, South Australian’s overall enjoy greater benefits from the public sector in any case.

For example, there is no evidence that requests for Freedom of Information are more expeditiously handled; that South Australian electors get more or better quality meetings with South Australian Parliamentarians; or that there is an above average quality of the debates and legislation when the South Australian Parliament is sitting (and it sits about the same number of days per annum as the Parliaments in the other states).

Public Servants per Minister: as at June 2016 the number of public sector employees per Minister was the second lowest with 7,450 per Minister with New South Wales almost three times this figure at 20,700 and Victorian and Queensland 12,400 and 13,370 respectively. It is doubtful if there is evidence to support any claim to higher quality policy advice, higher quality service standards and more exemplary performance of Ministers relative to their interstate counterparts.

These low ratios referred to above are not a matter in South Australia of a relatively larger number of geographically rural electorates with small populations. The same can be said for other states.

In addition, while the number of electors in South Australian non-metropolitan electorates is on average smaller than the average for the South Australia metropolitan electorates, the difference of 5.2 per cent would not drive the smaller average size of electorates overall compared to the other states. The number of electors at 30th June 2016 in South Australia's nine electorates that are wholly or principally outside of the metropolitan area ranged in size from 22,555 (Giles) to 25,033 (Goyder) for an average of 24,170. This compared with a range of 24,395 (Hartley) to 27,780 (Port Adelaide) for an average of 25,494 for the metropolitan electorates.

The small size of all South Australian electorates is the reason why South Australia has less population per Member of Parliament than the other mainland States. While there may be some justification for a smaller number of electors in South Australian non-metropolitan electorates, there must be some special features of the South Australian situation as to why South Australian metropolitan electorates should be so much smaller than metropolitan electorates in other States.

4. Comparative Country Analysis

In the following discussion we conduct a limited review of four countries as relevant to South Australia to explore political representation and recent economic performance. They are not intended to be “a benchmark” as each are national, sovereign government; they are intended to serve as a review and introduction to South Australia and other state jurisdictions. Several countries have introduced reforms and structural changes to government (i.e. in size, spending, taxation policy) leading to job creation and stronger economic activity. They illustrate that change is possible.

4.1 New Zealand

We believe New Zealand is a particularly relevant comparator for South Australia in public sector management, regulatory load and economic performance.

Each are ex-British colonies with early integration into global trading and capital systems, initial high per capita settler incomes and relatively highly urbanised societies. Each have a history of social and political innovation. They have similar legal systems and are each parliamentary democracies. Each have relied upon high levels of migration, principally initially from Britain; were affected by the economic, social and industrial impacts of the two world wars; and by the ending of Imperial trade preferences and the United Kingdom’s entry into the European Common Market.

From the 1930s until the 1980s each had high trade protection and substantial Government intervention in industry and employment markets, along with high public sector ownership in a number of sectors, including finance and utilities.

We also note that New Zealand has a smaller “ State services” public sector on a number of measures than the South Australia’s public sector. This is despite the inclusion in the former’s State Services sector of Ministers and employees with national responsibilities in areas such as Defence, International Trade, National Intelligence and Security, Social Welfare etc.

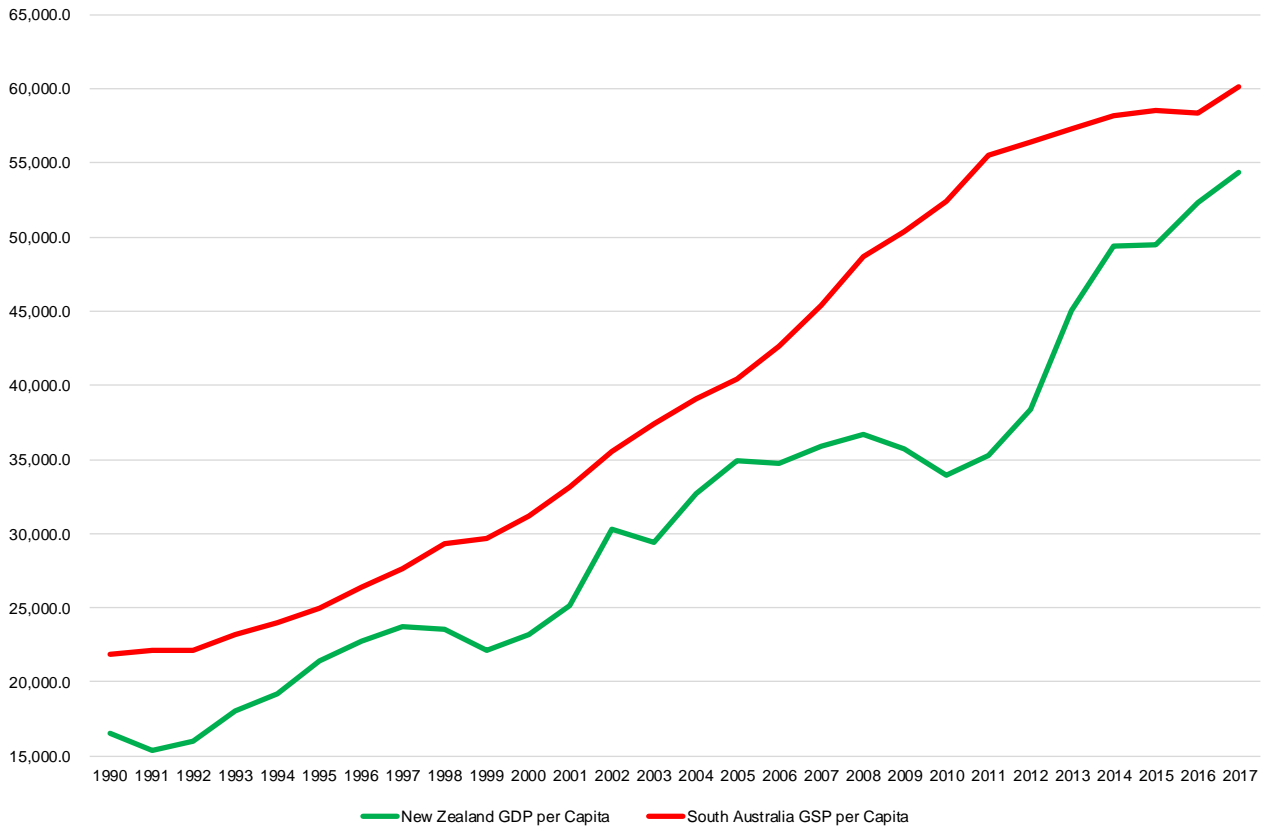
Through the 1980s to the start of the 2000s, starting with Prime Minister Lange and Treasurer Douglas, New Zealand pursued very broad policies of labour market and industry deregulation, including in manufacturing, agriculture and the floating of the \$NZ; substantial reduction in international trade and capital market regulation; reform of the public sector; and privatisation. South Australia was affected by similar forces applied by the Australian Government, starting with Prime Minister Hawke and Treasurer Keating, along with more specific local pressures for reduced public sector debt resulting in privatisations, sales or outsourcings of the assets or operations of many public sector organisations and instrumentalities.

By the mid-2000s, New Zealand and South Australia could each be characterised as small open economies with populations of similar scales (2016 New Zealand 4.7 million and South Australia 1.71 million) and demographics and similar per capita incomes (Figures 4.1 and 4.2) and facing similar opportunities and challenges in increasingly globalised trading and capital markets.

In particular, each was experiencing the often painful and continued structural transformation of their respective Manufacturing sectors, which at the start of the 2000s represented around 13-14 per cent of total employment in each. In addition, poor employment conditions in each relative to Australia in the early 2000s saw out migration flows which resulted in slow population growth, with adverse impacts on broader economic conditions.

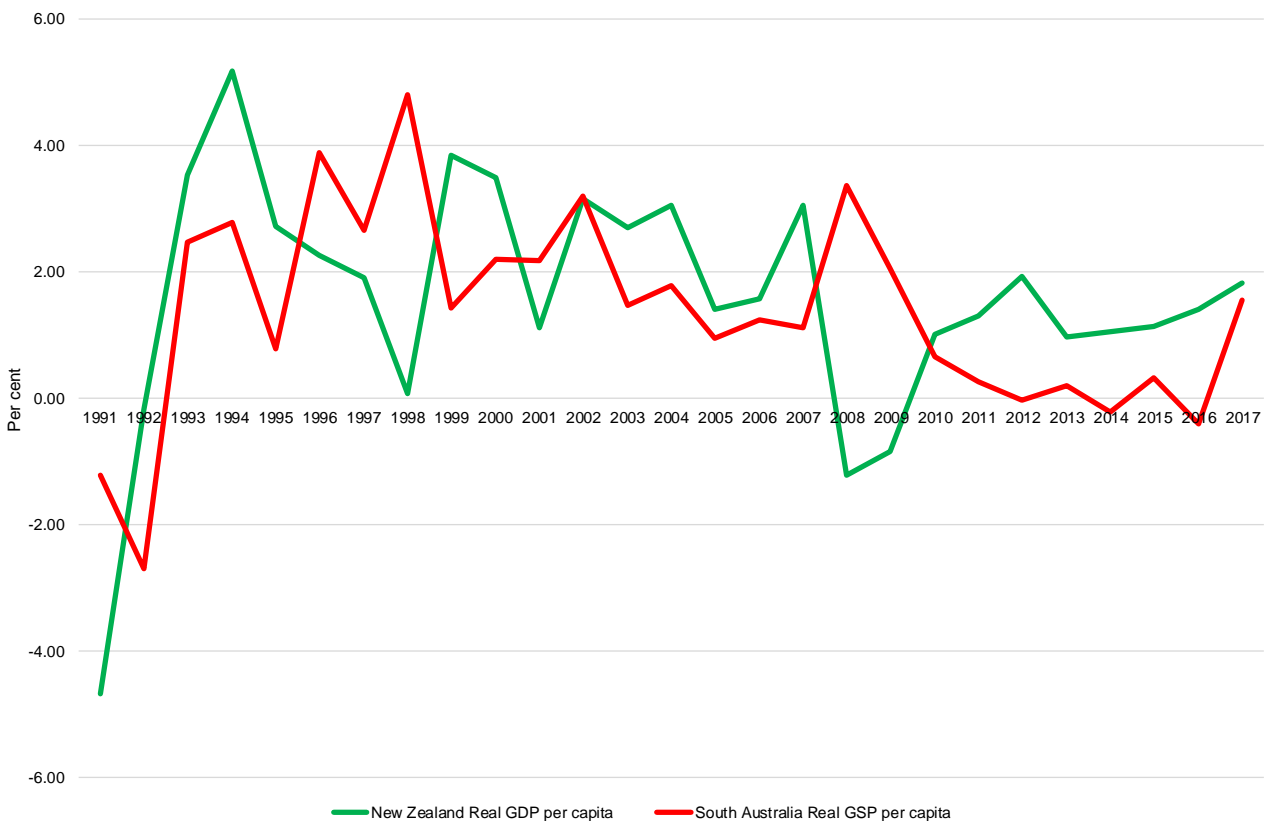
While New Zealand suffered more adverse economic impacts in the immediate aftermath of the Global Financial Crisis in 2008-2010 than did South Australia (Figure 4.2), its recovery in GDP/GSP per head and employment growth (Figure 4.3) has been stronger. This has been despite a comparable reduction in the respective shares of Manufacturing employment (Figure 4.4) and no overall growth in State Services level public sector employment in sharp contrast to the experience in South Australia (see Figure 4.5).

Figure 4.1 New Zealand GDP and South Australian GSP Per Capita
Current Prices, \$A



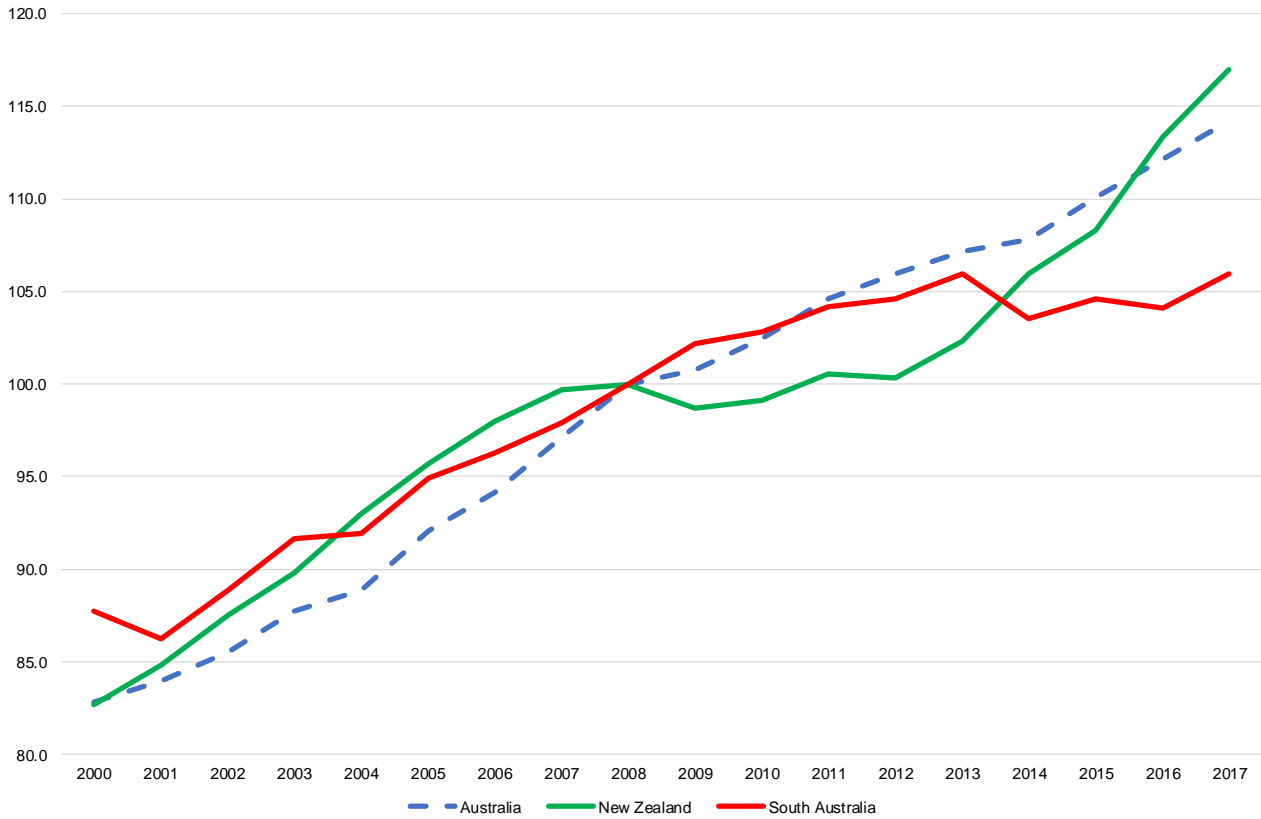
Source: NZ Stats and ABS.

Figure 4.2 New Zealand and South Australia, Capita Real GDP and GSP
Percentage change



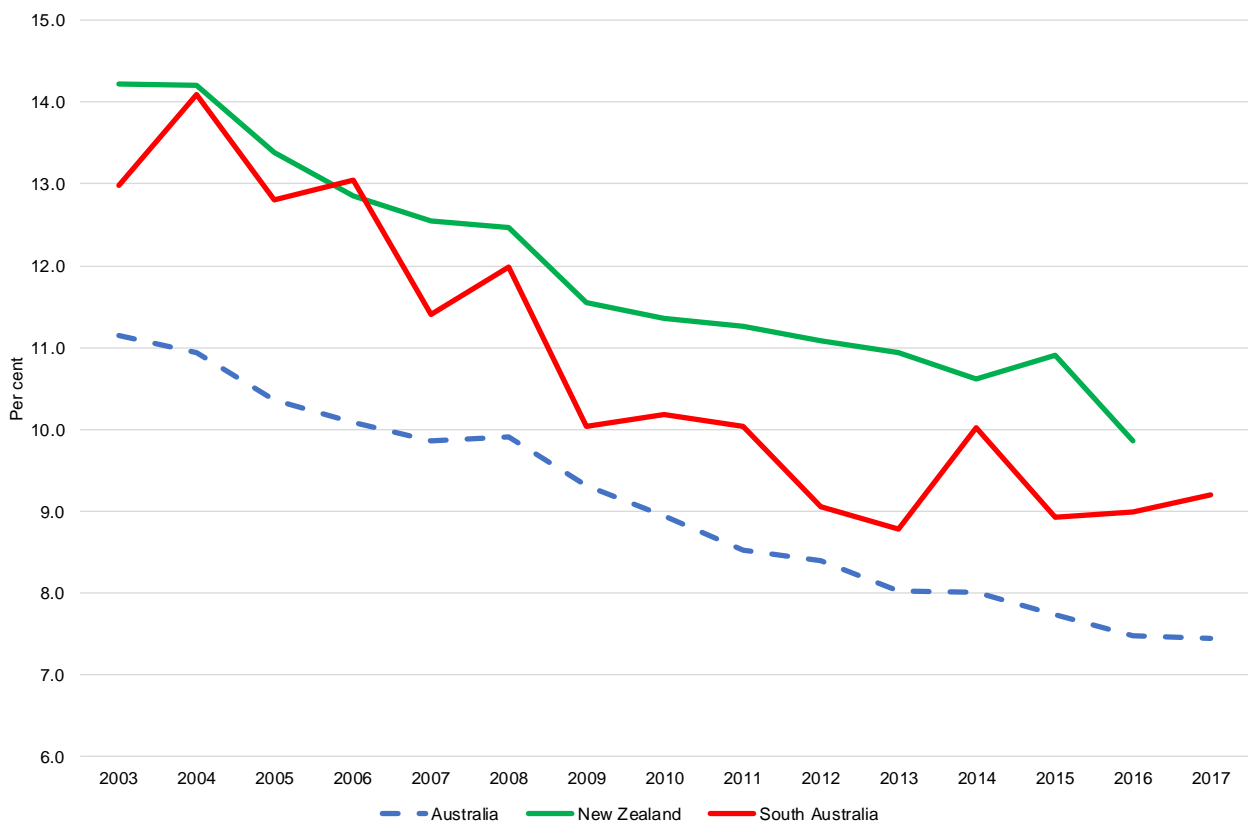
Source: NZ Stats and ABS.

Figure 4.3 Total Employment, New Zealand, Australia and South Australia
(2008 = 100)



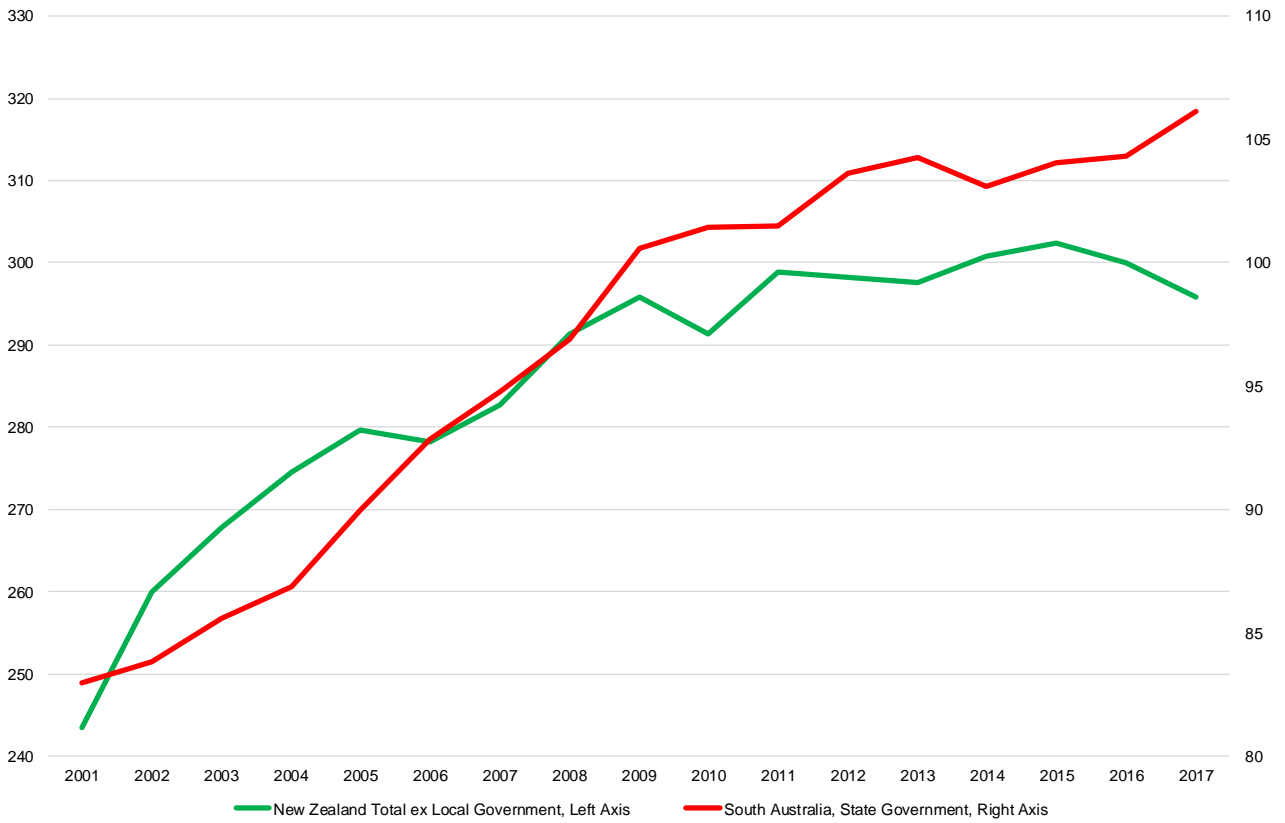
Source: OECD and ABS.

Figure 4.4 Manufacturing Employment, New Zealand, Australia and South Australia
Share of Total Employment



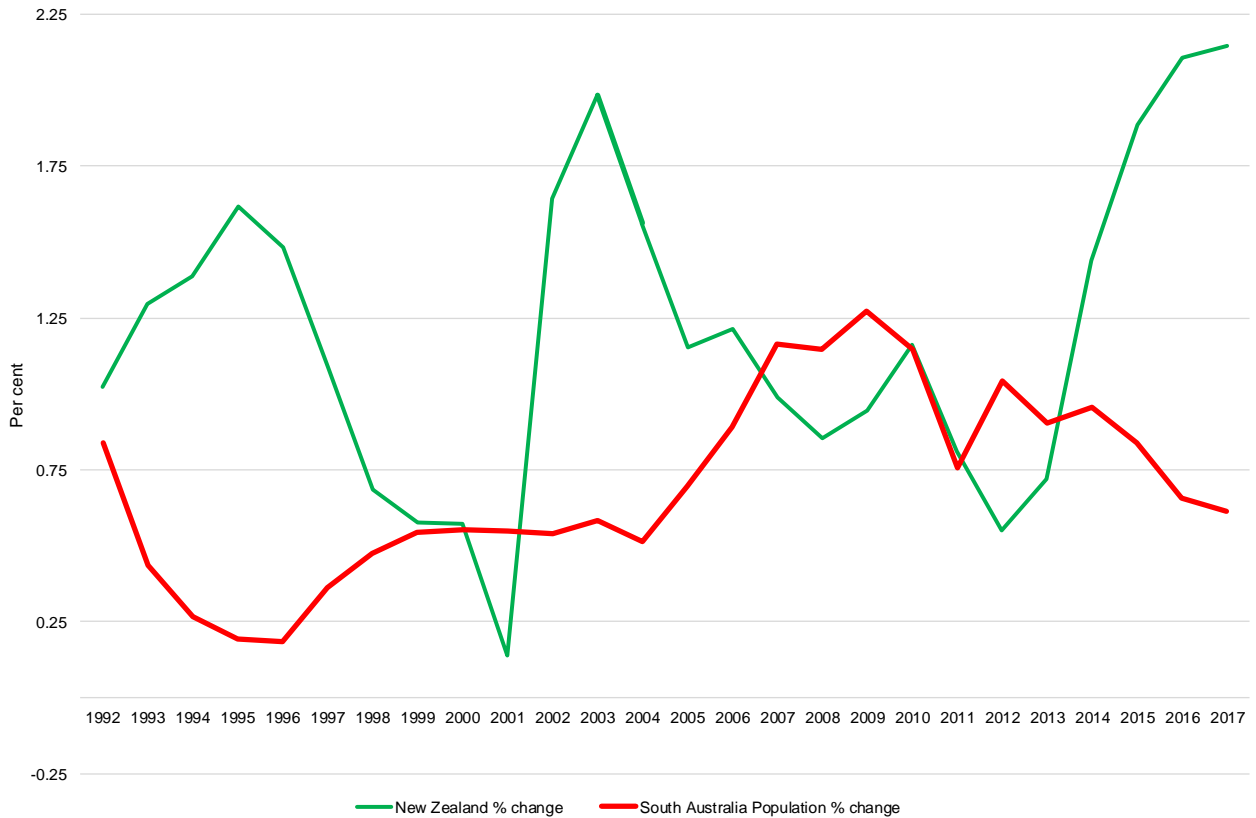
Source: OECD and ABS.

Figure 4.5 Public Sector Employment, New Zealand and South Australia Headcount '000



Source: New Zealand State Services Commission and SA Government Office for Public Sector.

Figure 4.6 New Zealand and South Australian Population Growth
Per cent, per annum: Year to June



Source: NZ Stats and ABS.

The improved economy and stronger private sector employment conditions in New Zealand have helped population growth lift since 2012, in comparison to the previous two decades for New Zealand and against declining population growth for South Australia (Figure 4.6).

This is principally due to a surge in net immigration for New Zealand in contrast to South Australia's slowing net international immigration and increased population losses interstate. This shows it is possible to positively influence the 'brain drain', reduce outward migration and attract inward migration, including of young people who have left, if confidence in economic, business and political spheres improves.

Over the last decade South Australia and New Zealand have experienced analogous structural change forces and faced the same external economic conditions as small open economies.

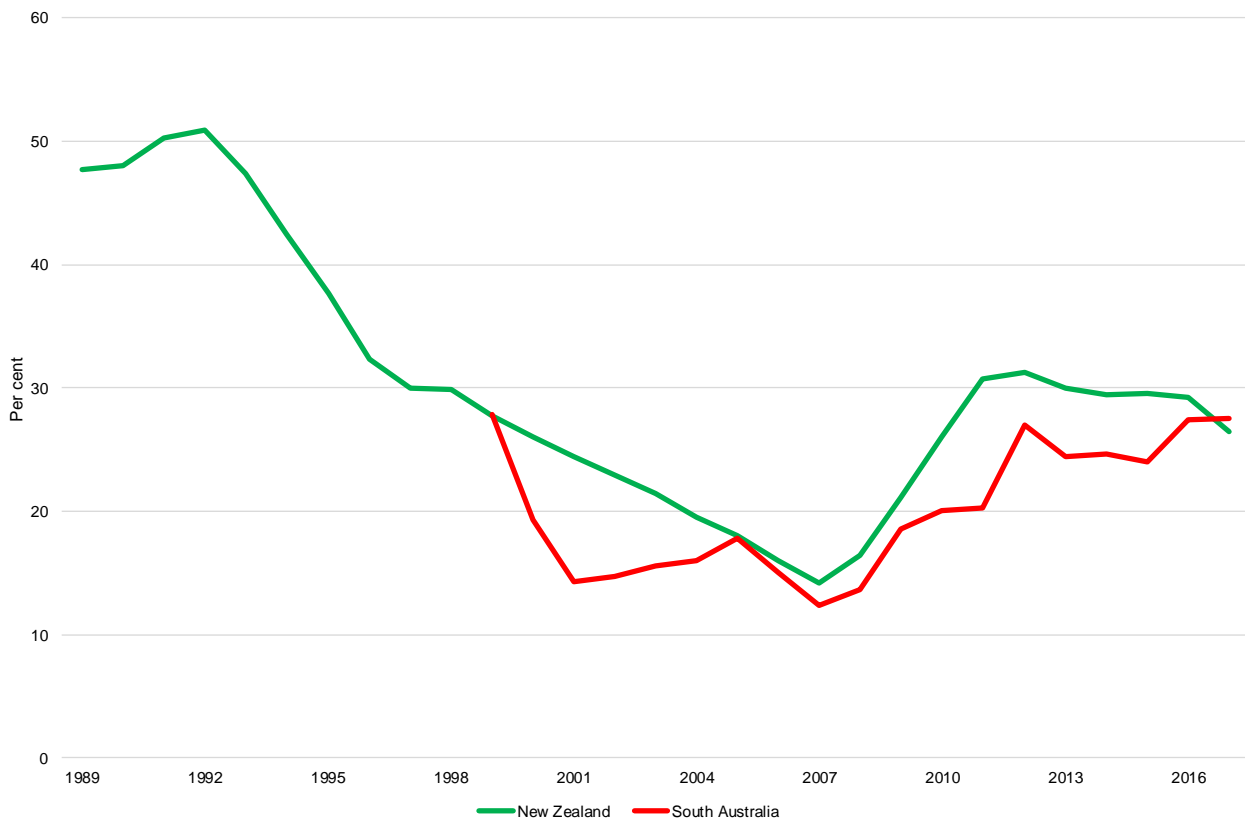
Changes in international competitiveness through exchange rate changes should have been of relative assistance to South Australia. Since 2011 the \$A has depreciated by around 25 per cent against the \$NZ to a level lower than the average of the mid-1980s to mid-2000s i.e. South Australian industry should have become more globally competitive vs New Zealand.

Relevant global commodity price movements since the Global Financial Crisis also would appear to have been in South Australia's favour. For the commodities of most relevance to South Australia, the \$US prices on major markets of Wheat, Copper, Iron ore and Wool have generally risen more than the global prices for Lamb and Dairy products, which are of most importance to New Zealand.

It is of note that while both South Australia and New Zealand experienced increased public sector borrowings in the immediate aftermath of the GFC, from 2011 the absolute level of gross public sector debt and its ratio to GDP has been falling for New Zealand but each have been rising for South Australia.

In Figure 4.7 we show the Gross Public Sector debt of New Zealand as a share of GDP. For South Australia, the only publicly available comparable long term series is for Net Financial Worth of the South Australian Non-Financial Public Sector. This includes the Unfunded Superannuation liabilities of the South Australian public employees but is also net of the South Australian Non-Financial financial assets.

Figure 4.7 Public Debt as a Percentage of GDP/GSP
New Zealand general government gross debt; South Australia non-financial public sector net liabilities



Source: Stats.gov.nz; and SA Government Budget Statement No. 3, 2017/18 and various years.

The rise of public sector indebtedness in each of South Australia and New Zealand in the aftermath of the GFC was consistent with the experience of most other countries as public sector spending increased to offset slower business investment and household spending.

However, even taking into account the national roles of the New Zealand Government and the more limited roles of the South Australian Government, the path of public spending, tax policies and regulatory change have taken quite different paths since the GFC.

Contrasting approaches ...

In New Zealand, Sir John Key was Prime Minister of the National Party Government from November 2008 until December 2016. The policies included restraint of public sector spending and workforce growth, including a strong focus on productivity improvement in the public sector. There was also a focus on regulatory reform and reduction and a high level of policy and cost benefit analysis, particularly of the Social Welfare system; and reductions of corporate tax, to 28 per cent in 2008, and personal income tax rates, at a maximum of 33 per cent, with an increase to 15 per cent in the Goods and Services Tax rate. There is no Land Tax or Payroll Tax in New Zealand.

In contrast, in South Australia the current Government's focus has been on "Strong Government" taking an assertive role in combination with "Strong business" and "Strong Communities". A large, growing, and interventionist public sector is seen as necessary for economic growth in South Australia. Outcomes have included increased corporate welfare; reduced transparency in cost benefit analysis of public sector spending, investment and regulation formation; substantial growth in public sector spending, employment and debt; reduced public service delivery outcomes; and continued relatively high business tax, regulatory and public utilities cost loads.

Political representation ...

With respect to political representation and electorates in New Zealand, there are 71 electorates with an average size of 46,451 electors per electorate which is substantially higher than in South Australia. New Zealand has 31 Ministers and Parliamentary Secretaries with a GDP/GSP per appointee of \$A8.17b (South Australia: \$A7.2b). The share of public sector employment of total employment in New Zealand is 11.7 per cent; South Australia it is 12.8 per cent. This includes public employees involved in national responsibilities such as Telecommunications, Defence, Intelligence Services, Foreign Affairs and Trade Policy and Social Welfare.

On a Minister to total population basis the ratio of New Zealand appointees is 1:154,358 persons and in South Australia (with 14 Ministers) the ratio is 1:122,000 persons. To approach the New Zealand ratio, which includes Ministers with national responsibilities, South Australia would need to cut back to 11 Ministers.

The ratio of the number of New Zealand Ministers (N=31) to the number of public servants is 1:9,452 and in South Australia the ratio currently is 1:7,451. Again, to approach the New Zealand ratio South Australia would need to cut back to 11 Ministers to achieve an equivalent ratio of 1:9,483.

With respect to the employment share of local government to total employment the comparison is New Zealand 2.1 per cent and South Australia 1.3 per cent. New Zealand has 78 local authorities comprised of 11 regional councils and 67 territorial authorities for a population of 4.7 million. South Australia has 68 councils for a population of 1.7 million.

4.2 Canada

Canada has 338 electorates and 31 Ministers, similar to New Zealand with a ratio of Ministers to total population of 1:1,170,645. (Canada's population is 36.3 million, 21 times that of South Australia.) With respect to Canada over the last decade and a half it is interesting to observe the progressively smaller size of government over time without any impacts on international standing, economic growth or social outcomes.

In the early 1990s Canada reversed the longer-term trend to increasing the size of government. From 1970 to 1992/93 government spending as a share of GDP rose from 36 per cent to 54 per cent accompanied by a substantial increase in government debt. In 1993 Canada embarked on a substantial reform program to reduce the size of public debt, reduce public sector employment, implement policies to favour an open, international trading economy and reduce taxation rates. Government spending is now at 36 per cent of GDP and falling and the more recent history confirms strong job creation and economic growth.

4.3 Singapore

Singapore, a country of 5.6 million people with a GDP of \$A373 billion has a Parliament comprised of 101 members, 21 of who are appointed as Ministers. The Cabinet Minister to GDP ratio is more than double that for South Australia at 1: \$A17.8 billion (2.5 times that of South Australia). Singapore's elected members represent on average 46,900 electors double South Australia's of 24,756 electors.

Singapore's GDP per capita is the equivalent of \$A66,600 in the order of 5-10 per cent higher than South Australia's GSP per head of \$A60,000 depending on the exchange rate.

Singapore is renowned for having an efficient, lean and high quality public sector . There are currently '16 Ministries and 50 Statutory Boards' with an estimated 145,000 public sector employees, including again Ministries and public employees involved with national responsibilities. The ratio of public sector employees to total population in Singapore is 1 : 38.6 persons; South Australia 1 : 16.4 persons. There are other more significant arrangements that receive comment later in this paper.

4.4 Malaysia

The bicameral Malaysian Parliament follows the Westminster tradition with a House of Representatives (Dewan Rakyat = 222 members) and an Upper House (senate, Dewan Negara = 70 members). Members of the House of Representatives come from single member electorates with population size the basis for each electorate similar to South Australia and Australia. As a nation state the responsibilities of several Ministers are 'external' to include Foreign Affairs, Defence, International Trade and Security. Similar to Canada the average size of each electorate is 4.5 times that of South Australia (see Table 4.1).

Table 4.1 Summary Table of Representation

Country	Population	Ministers (number)	Seats in Parliament (number)	How many people Ministers represent	Average electors per seat
New Zealand	4,700,000	31	71	151,612.90	66,197.18
Canada	36,300,000	31	338	1,170,967.74	107,396.45
Malaysia*	31,200,000	28	292	1,114,285.71	106,849.32
Singapore	5,600,000	21	101	266,666.67	55,445.54
Queensland	4,900,000	19	89	257,894.74	55,056.18
Victoria	6,100,000	22	128	277,272.73	47,656.25
New South Wales	7,700,000	23	134	334,782.61	57,462.69
South Australia	1,710,000	14	69	122,142.86	24,782.61

Note: Bicameral system, 28 Ministers, 26 Deputy Ministers 21 year is voting age. 222 Lower House seats (Dewan Rakyat), 70 Upper House seats (Dewan Negara).

In summary, four of the comparative jurisdictions are national, sovereign governments with domestic and external responsibilities, two of which have substantial populations. The three Australian states are the most populous with more than double the number of electors per seat when compared to South Australia. The average number of electors per Federal seat is approximately 151,000 based on projected population at a time in the future. Compared to the four national jurisdictions and three states South Australia has a high proportion of Ministers relative to all seats in Parliament (23.4 per cent), New South Wales and Victoria 17.1 per cent and on all other indicators represent fewer people and are responsible for less GSP.

5. Comparative State Analysis: Political Representation

From a representation point of view there are scale economies in terms of outreach to a larger electorate; it might be said the “unit cost” of outreach, publications, and information to constituents declines with a larger base (i.e. there are network economies of scale). The benefits of policy decisions may extend to a wider audience while the costs are more diffuse.

In the absence of compelling special features, there would seem to be a case for substantial reform to the size of electorates in South Australia and hence it follows, representation of electorates. It would be reasonable to review the size of the Legislative Council and certainly the length (eight years) of the term of office. Preserving and strengthening democratic representation requires that we do not return to the days of the gerrymander, but equally the small average number of electors per seat, plus 68 local councils (plus Federal representation) for 1.71 million people is almost farcical (Table 5.1). All this may well represent the ultimate challenge for the Independent State Electoral Commission and indeed Parliament itself.

Table 5.1 Members of Parliament by State and Territory
Number and ratio per head of population and \$m of GSP, 2016

State/Territory	Population and economy		Parliamentarians (number)		Population/parliamentarian (persons)		GSP/parliamentarian (\$m)	
	Estimated resident population (June quarter 2016)	Gross State Product (GSP), June 2016, (\$m) ^(a)	Cabinet ministers	Members of parliament	Cabinet ministers	Members of parliament	Cabinet ministers	Members of parliament
New South Wales	7,725,884	531,323	23	134	335,908	57,656	23,101	3,965
Victoria	6,068,042	373,624	22	128	275,820	47,407	16,983	2,919
Queensland	4,844,473	314,569	19	89	254,972	54,432	16,556	3,534
South Australia	1,708,183	101,096	14	69	122,013	24,756	7,221	1,465
Western Australia	2,617,172	255,214	17	95	153,951	27,549	15,013	2,686
Tasmania	519,128	26,039	9	40	57,681	12,978	2,893	651
Northern Territory	244,880	23,648	8	25	30,610	9,795	2,956	946
Australian Capital Territory	396,141	36,225	-	-	-	-	-	-
Total	24,127,159	1,661,739			211,855	40,981	14,514	2,807

Note: (a) Chain volume measures.

Source: ABS, Australian National Accounts: State Accounts, 2015-16, Cat No. 5220.0, ABS, Regional Population Growth Australia, Cat No. 3218.0 and State Government Parliaments.

The question might reasonably be put: is South Australia more effectively and efficiently governed than other states? Are we getting more and/or better outcomes in health, primary, secondary and vocational education, law and order, industry development, etc. as a result of the higher costs of political representation and a larger state public sector?

The first response might be that the functions of government, the responsibilities are the same irrespective of state boundaries, population size and geography. The counter arguments are:

1. There are clearly service delivery functions currently within the South Australian government that should be reallocated to the private sector, to local government, to Universities and NGOs;⁵
2. There are responsibilities of the South Australian government that are principally national and that would benefit from a clarification of responsibilities and should be negotiated to transfer to the Federal Government;
3. Some current activities of the South Australian government should not be undertaken at all; and
4. There is considerable scope for agency consolidation and improvement in management overall.

The choices are not simply matters of ideology or political preferences. There is a limit to the ability of all governments to absorb employment in low productivity, labour-intensive services such as health, education, human services and law enforcement – and we know that the higher people’s income the more of these services they demand.⁶ These are the sectors of the economy with the strongest employment growth and generally the lowest propensity for labour replacement through automation. And we reiterate, there is a limit to a shrinking private sector taxpaying base to support a relatively large public sector, particularly if current policies at least in part are contributing to that shrinkage.

There is no evidence to suggest or support the contention that South Australia's long-term economic activity has been assisted as a result of the size of political representation. For example, we have not tested for any relationship between government spending and the level of per capita GSP, but it is difficult to isolate or highlight any current South Australian Government economic policies that have unequivocally contributed to a higher rate of growth of GSP. There seems no reason that a trilogy of transformations should not occupy the minds of the political class – first transforming ourselves; then transforming manufacturing and transforming health.

In many areas of government expenditure we have:

- little, if any, assessment of the efficiency and effectiveness of government outlays;
- insufficient monitoring to measure/report outcomes; and
- far too often decisions about resource reallocation are taken to simply address the next crisis. Decisions are often transparently political in nature with an 'eye to the next election' where the cost of resources and time devoted to defending a previous decision (that is simply overturned) are rarely considered.

One example should suffice: industry subsidies (we exclude Investment Attraction SA (DSD) that consistently undertake benefit cost analysis), which in practice have become selective company subsidies, needs proper evaluation to report the outcomes of expenditure of taxpayer dollars.

The subsidies are usually provided to existing companies when a review of the dynamics of employment growth, confirms that it is start-up companies and SME that are responsible for over one million jobs created in Australia since 2006/07. Existing and larger businesses have been shedding labour. A more sophisticated analysis would show jobs are being created on the back of new economic infrastructure, the export economy, specific trends in demographics and migration and businesses that are aligned export/global growth opportunities.

One measure of several current subsidy programs is that they record "jobs retained of existing companies" which may simply serve to entrench industry structures and not add to economic activity or employment growth.

It is now very difficult to identify any change champions in regard to what amounts to a lack of evidence-based policy, defaulting almost continually to blaming the Commonwealth, blaming the bureaucrats or resorting to 'spin doctoring'.

Compounding the current malaise is the lack of dialogue between Government and the community that sets out the argument/s that ultimately provides the basis for change and community support for change.

A rapidly ageing population and the rising cost of health (e.g. higher demand, cost of technology and equipment, etc) now and into the future is one example where the foundations for policy and service reforms were inadequately argued, research was not presented to the community, and the debate became highly politicised, whatever the 'pros and cons' of Transforming Health. In this specific area, the Auditor General has noted there is no evidence the proposed cost savings that were part of the rationale for Transforming Health have actually been delivered.

5.1 State analysis: public sector

South Australia is a geographically large state with a small population. In the past this has often been cited as a reason why scale economies have been more difficult to achieve in many areas of the economy, including the Public Sector. This may be a factor as to why South Australia should have a higher ratio of public sector employees per population although much the same can be said for other states with respect to regional locations and population size.

Queensland and Western Australia are respectively two and three times the geographical size of South Australia but each has fewer public sector employees per head of population (see Table 5.2) and a higher proportion of all employees in the private sector. In fact, South Australia has the lowest proportion of total employment in the private sector. So land size per se does not seem to be a main factor in the relative size of the public sector.

The dispersion of population factor also seems problematic. South Australia has the highest proportion of any of the States of the population living in its capital city, at 68 per cent. This has risen only marginally since 1980 which was about the time Adelaide's population was passed by those of each of Brisbane and Perth.

Table 5.2 Total Employment, Public Sector Employment, Ratio and Shares: States/Territories
Headcount, ratio and share of total employment, 2016

State/Territory	Total employment, Dec 16	Public sector employment (Headcount) (2016) ^(a)	Ratio of population/public sector employment	Share of total employment	
				Public sector	Private sector
New South Wales	3,800,385	393,442	19.6	10.4	89.6
Victoria	3,087,257	285,692	21.2	9.3	90.7
Queensland	2,341,835	254,073	19.1	10.8	89.2
South Australia	815,279	104,317	16.4	12.8	87.2
Western Australia	1,333,202	137,746	19.0	10.3	89.7
Tasmania	238,311	28,000	18.5	11.7	88.3
Northern Territory	-	-	-	-	-
Australian Capital Territory	-	-	-	-	-
Total	11,616,271	1,203,270	19.5	10.4	89.6

Note: (a) = Headcounts for Victoria and Tasmania are for the financial year 2015/16

Source: ABS, Australian Demographic Statistics, Cat No. 3101.0, TABLE 4, Labour Force Australia, Dec 2016, Cat No. 6202.0, Table 12 and various state government public sector annual reports for 2016.

In addition, Queensland and Western Australia have, since 1980, seen increased geographical dispersion in their respective populations compared with South Australia. Despite rapid growth in the populations of each of Brisbane and Perth, Queensland and Western Australia each increased the proportion of their populations outside of their respective capitals by around 10 per cent to 62 per cent and 41 per cent respectively. By number, Queensland and Western Australia's non capital city populations increased respectively by some 1.7 million (130 per cent) and 0.6 million (160 per cent), compared with South Australia's 0.16 million (40 per cent).

In South Australia, national and state industry policy changes affecting heavy manufacturing, e.g. Whyalla, and rail transport, e.g. Port Augusta and Peterborough, have meant that what were in the 1960s large regional centres by national standards have shown little population growth or even decline. This compares with the tourism and mining driven regional centres in Queensland and Western Australia. Our regional centres are now on average much smaller than those in other states.

However, it is not axiomatic that functions and the administration of government (and services) must all be centralised in Adelaide City. This is especially the case with the recent rapid advances in communication technologies, data analytics and other systems' management.

5.2 State analysis: government employment

Table 5.3 shows the changes in the share of government employment as a percentage of total employment for two time periods – 1985/86 and 2014/15. Care needs to be exercised in analysing government employment in its own right and as a share of total employment as there have been considerable changes to the composition of “government employment” for the period shown, where agencies once classified as government were privatised or, otherwise transferred off-budget, or functions were outsourced or simply closed down.

Table 5.3 South Australia, Victoria, Australia: Government Employment
Number and per of total employed

	Commonwealth Government		State Government		Local Government	
	Number employed '000	Percentage of total employed	Number employed '000	Percentage of total employed	Number employed '000	Percentage of total employed
South Australia						
1985/86	36.6	6.2	105.2	17.7	8.3	1.4
2014/15	15.4	1.9	115.0	14.3	10.7	1.3
Victoria						
1985/86	101.7	5.6	304.3	16.7	41.8	2.3
2014/15	44.1	1.5	334.2	11.4	50.9	1.7
Australia						
1985/86	434.7	6.3	1,131.3	16.5	155.9	2.3
2014/15	235.3	2.0	1,476.2	12.7	187.2	1.6

Source: ABS (2007), Wages and Salary Earners, Public Sector, Australia, Jun 2007, cat no 6248.0.55.001; ABS (2014), Employment and Earnings, Public Sector, Australia, 2013-14, cat no 6248.0.55.002; and ABS (2015), Labour Force, Australia, Aug 2015, cat no 6202.0.

It is also well to remember that the composition of government employment has been significantly influenced by these decisions. For example, in agencies and utilities such as South Australian Rail, ETSA, South

Australian Water and nationally in telecommunications (i.e. Telecom) much of the “old employment” was technical in nature with a significant production/manufacturing output. Significant numbers of employees ‘produced things’ while holding multi-trade qualifications, mechanical, chemical, civil and design engineering qualifications, highway construction, etc.

The composition of public sector employment has changed while government has also taken-up, absorbed and created new responsibilities. Hence we reiterate the need for care in examining the data.

The caveat notwithstanding, there is considerable information contained in Table 5.3. In 2014/15, total government employment in South Australia (i.e. Commonwealth, State and Local) was 17.5 per cent of all employees (down from 25.3 per cent in 1985/86) whereas in 2014/15 it was 14.6 per cent in Victoria and 16.3 per cent nationally. Commonwealth Government employment declined significantly in this period in both aggregate and percentage terms principally due to privatisation of government owned businesses, while State and Local Government employment increased.

The share of state government employment was highest in South Australia at 14.3 per cent in 2014/15 and although the proportion had decreased since 1985/86, the aggregate number had increased. Relative to Victoria over the same period, if South Australian state government employment made up the same proportion of total employment as it did in Victoria, there would be 23,000 fewer state government employees in South Australia.

While it is fair to moderate that statement because Victoria is more able than South Australia to achieve scale economies in a number of important service functions, this is not the full story.

The latest headcounts (as at 2017) of public sector employment across Australia show South Australia maintains its place in having the largest public sector as a share of total employment and the highest ratio of public sector employees relative to the total population.

A look back at Table 5.1 shows South Australia has one public sector employee for every 16.4 persons with the national average at one public sector employee for every 19.5 persons. Conversely the share of private sector employment is 2.0 percentage points below the national average.

In recent times (post 2010) there has been relatively little growth in private sector employment in South Australia. Over the five year period June 2010 to June 2015 total employment in South Australia increased by only 7,846 jobs while for Australia there were 736,861 jobs created (Table 5.4). Whereas South Australia accounted for approximately 7 per cent of national employment in June 2010, the state’s job creation rate was only 1.1 per cent of the national total.

Table 5.4 Change in Total Employment from June 2010 - South Australia and Australia

Jobs created	June 2010 to June 2015 (5 years)	June10 to April 2017 (< 7 years)
South Australia	7,846	20,056
Australia	736,861	1,086,655

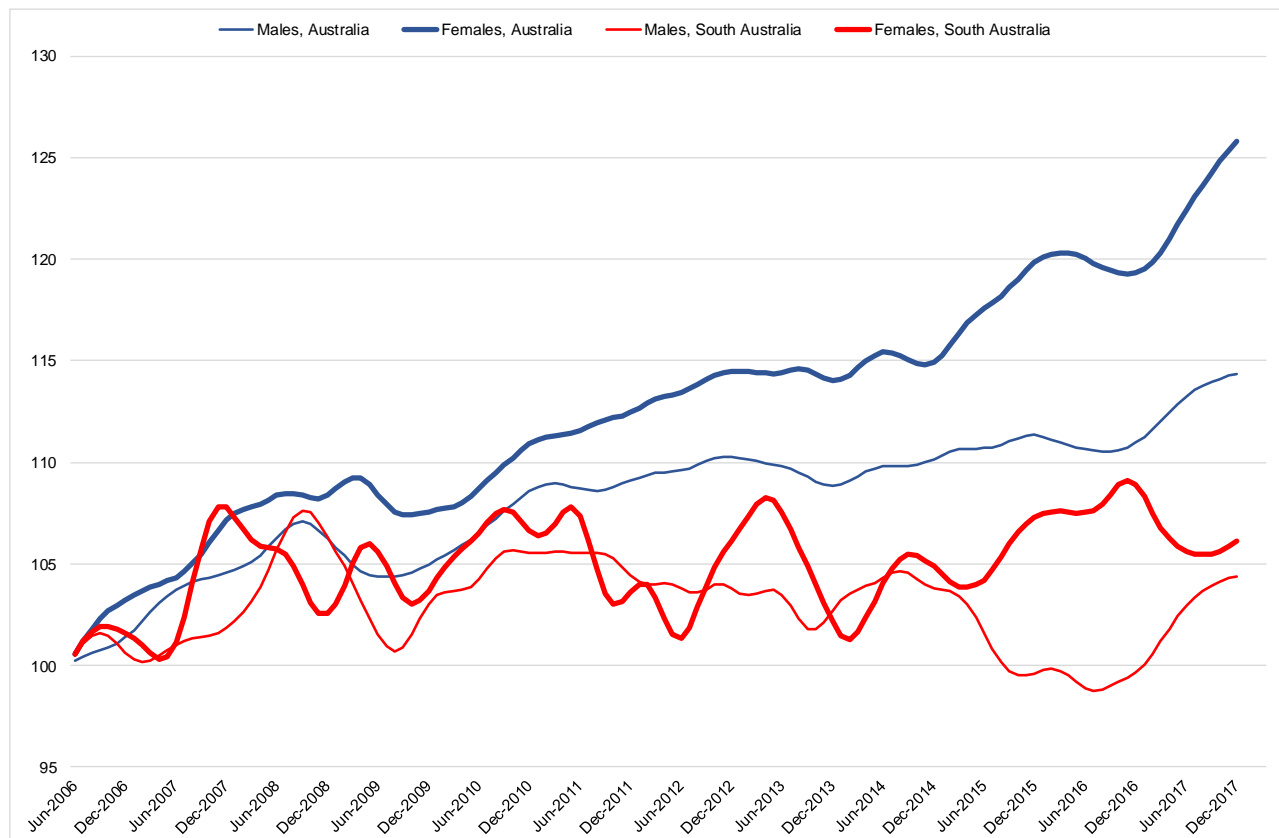
Source: ABS Cat No. 6202.0 Labour Force, Australia, Table 1 & 7.

Even for the slightly longer period June 2010 to April 2017 there were 20,056 jobs created net in South Australia, this was only 1.8 per cent of the more than 1 million jobs created across Australia. The job creating capacity of the private sector has virtually stalled.

More recently employment subsidies through the Job Accelerator Program have been largely responsible for the lift in employment. The job starter subsidy (\$10,000 up to \$15,000 for businesses liable for payroll tax and \$4,000 to \$9,000 for non-payroll tax business) provided by South Australian Treasury in the 2016/17 and 2017/18 Budgets accounts for much (reportedly more than 10,000 positions) of the increase in employment post June 2015 when comparing the two columns in Table 5.4. The original justification for the program was that it would lead to an increase in full-time jobs overall; it was not about savings jobs or increasing male full-time jobs.

We are not able to analyse the take-up of the program by gender; however, Figure 5.1 indicates the possibility of substitution between unemployed males for employed females. This is all the more a possibility when the data for South Australia is compared to the national trend in male and female full-time employment. (This possible substitution outcome should be examined as part of the expected analysis of the success or otherwise of the Job Accelerator Program.)

Figure 5.1 Male and Female Full-Time Employment, Australia and South Australia, Monthly Trend
June Quarter 2006 = 100



Source: ABS, Labour Force, Tables 1 and 7, December 2017.

Table 5.5 for public sector employment (ABS for financial years 2009/10-2014/15) shows that public sector employment increased by 5,800 jobs in roughly the same time period that total employment increased by 7,846. (Note: Monthly ABS labour force data does not completely align with public sector employment data provided in financial years.) That is to say, nearly 75 per cent of the increase in total employment in that time was in the public sector, a situation that is clearly unsustainable.

Table 5.5 Change in Public Sector Employment from 2009/10 - South Australia and Australia

Jobs created	2009/10 to 2014/15 (over 5 years)	2009/10 to 2015/16 (over 6 years)
South Australia	5,800	7,300
Australia	56,100	80,800

Source: ABS Cat No. 6248.0.55.002, Employment and Earnings, Public Sector, Australia, 2015-16.

The respective compound average growth rates for total employment including public sector employment are shown in Table 5.6. The growth rate of public sector employment has been in Health, Human Services, Aged and Community Care, Education, Police and agencies supporting economic development. Principally it is in those human service areas that are labour intensive.

Table 5.6 Growth Rate in Employment: from 2009/10 – South Australia

Jobs created	2009/10 to 2014/15 (over 5 years)	2009/10 to 2015/16 (over 6 years)
South Australia	1.1	1.8
Australia	10.3	9.0

Source: SACES calculations.

Public sector employment growth rates have been higher in South Australia than other states in part as a response to 'crisis issues' within some agencies (e.g. previously named Families SA).

But a major driver relative to other States is likely to be the lack in South Australia of arrangements for competitive or contestable markets in service provision compared to other States where the focus is increasingly on services provided out of government but under the stewardship of government.

The protection provided by the South Australian Government to TAFESA in the Vocational Education Training Sector by directing most of the Federally funded training subsidies to TAFE is an extant example of what seems to be an antipathy to contestability. In this case, there has been a direct adverse impact on private sector employment as private providers were forced out of the market. It is our understanding that the MBA and Business SA ceased training provision while the largest private providers including the MTAA and CCFSA/Civil Train substantially cut back training and employment.

This matter including the “effective use of \$700+ million provided over 6 years from the Federal Government to support vocational education and training in South Australia” has been referred by the Senate to the Education and Employment References Committee.

We note this explicit protection of TAFESA seems at odds with the particular needs in South Australia for an increasing volume and quality of VET services with, *inter alia*:

- the current rapid increase in education capabilities in competitor nations in Asia;
- accelerating structural change in industry and employment being imposed by global, national and local forces including employment in the new export economy of agri/food processing, education, health care and tourism (i.e. need for more training, not less); and
- historically high levels of unemployment and labour underutilisation.

At the same time, the 2017 report by the Australian Skills Quality Authority on certain administrative and marketing irregularities in a number of TAFESA courses does not suggest the lack of contestability is necessarily based on higher standards than in the private sector.

There seems likely however, to be broader consequences of the relative absence of contestability. An important one could be in the weaker development and lack of scale of private sector and NGO capabilities in these services areas compared with similar organisations in the larger states. With increasingly national services markets, this could have adverse employment consequences both immediately and longer term.

5.3 State analysis: employees and employee expenses

One of the drivers of South Australian public service employment costs through the 2010s is the increasing size of State Government public sector.

Employee Expenses and *Other Superannuation Expenses* are budgeted in 2017/18 to account for 46.8 per cent of Total Revenue and 46.4 per cent of Total Expenses. This is up from 43.3 per cent of Total Revenue in 2009/10 and 45.1 per cent of Total Expenses.

These expenses have also risen as a share of GSP, from 8.3 per cent in 2009/10 to a forecast 8.8 per cent in 2017/18.

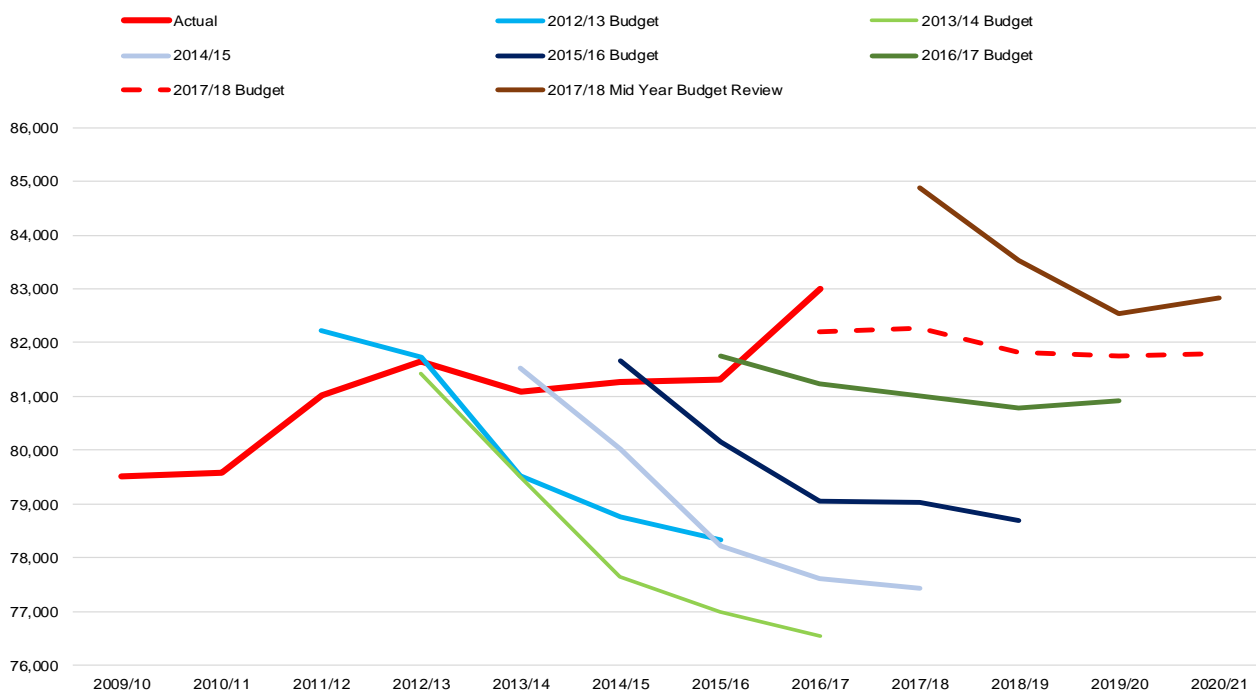
These increases reflect a combination of:

1. increasing public sector employment in absolute terms and as a share of total employment in South Australia;
2. pay increases at or ahead of inflation; and
3. what we call “Classification Creep”, as employees rise through the pay scales.

While the Treasurer and the Budget Statements each year note that public sector employment is being closely controlled and will be reduced in the Budget out years, Figure 5.2 indicates the Government’s record in this regard. South Australian General Government FTE employment at June 2017 is now some 6,446 or 8.4 per cent higher than budgeted in 2013/14 for June 2017.

The 2017/18 Mid Year Budget Review indicates out year FTE are to be above the 2017/18 FTE budgeted numbers. The record would suggest the decline in FTE and associated expenses budgeted in order to meet the budgeted reduction in deficits is fanciful to say the least based on past performance.

Figure 5.2 South Australian General Government Sector Employment, Actual and Budgeted
Full time equivalents, end June each year



Source: SA Government Budget Statement No. 3, various years and Mid-Year Budget Review 2018/18.

Looking at FTE average Employee Expenses for the South Australian Non Financial Public Sector, Table 5.7 shows data from the South Australian Government Budget, from the Office for the Public Sector and the South Australian Government 2017/18 Mid Year Budget Review. We have used this as it is a broader measure than SA General Government employees. It can only be shown since 2009/10 as workforce information for the SA Non Financial Public Sector, or General Government for that matter, is not publicly available for prior years.

It shows the ongoing rises in Headcount and FTE employee numbers, along with the increase in this measure of average employee expenses per FTE. The latter increases have generally been ahead of the increases in the Adelaide CPI.

Table 5.7 South Australian Government Non-financial Sector Employees and Employee Expenses
as at 30 June

	Headcount	Full-time Equivalent	Employee expenses (\$m)	Other Superannuation Expenses (\$m)	Total (\$m)	Percentage change	Average per FTE (\$)	Percentage change
2009/10	100,356	83,936	6,436	628	7,064		81,159	
2010/11	100,513	83,995	6,625	649	7,274	3.0	86,600	2.9
2011/12	102,671	84,826	6,959	692	7,651	5.2	90,196	4.2
2012/13	103,326	85,388	7,299	700	7,999	4.5	93,678	3.9
2013/14	102,140	84,493	7,544	762	8,306	3.8	98,304	4.9
2014/15	103,106	84,730	7,683	764	8,447	1.7	99,693	1.4
2015/16	103,328	84,746	7,913	771	8,684	2.8	102,471	2.8
2016/17	105,116	86,456	8,208	854	9,062	4.4	104,816	2.3

Source: SA Government Budget Statement No. 3 various; SA Government Mid Year Budget Review 2017/18; Workforce Information Reports of the Office of the Public Sector; ABS; SACES calculations.

Increase in base salary brackets, bands 1-5 are shown in Table 5.8.

Table 5.8 Base Salary Groupings¹: Range 2005/06 – 2016/17

	Band 1 Up to (\$)	Band 2 Up to (\$)	Band 3 Up to (\$)	Band 4 Up to (\$)	Band 5 Over (\$)
2005/06	40,399	54,999	67,999	88,999	90000 +
2006/07	43,999	56,999	72,999	91,999	92000 +
2007/08	46,399	58,999	75,499	94,999	95000 +
2008/09	47,999	60,999	78,199	98,499	98500+
2009/10	49,199	62,499	80,099	100,999	101000 +
2010/11	50,399	64,099	82,099	103,599	103600 +
2011/12	51,599	65,699	84,099	106,199	106200 +
2012/13	53,199	67,699	86,599	109,299	109300 +
2013/14	54,799	69,699	89,199	112,599	113000 +
2014/15	56,199	71,499	91,499	115,499	115500 +
2015/16	57,599	73,299	93,799	118,399	118400 +
2016/17	59,039	75,131	96,144	121,359	121360 +

Note: ¹ Excludes Superannuation and FBT. Non-executive employees on salary sacrifice arrangements are shown as pre-sacrifice values. Executive remuneration is calculated according to a Total Remuneration Package Value which identifies both salary (taxable income) and non-monetary benefits, which includes motor vehicle and the government's employer superannuation contribution. Allowances are excluded for all employees.

Source: Office for the Public Sector Workforce Report various years.

Table 5.9 shows that the classification bands have generally moved at least at the same pace or greater than the Adelaide CPI.

The increase in the average per FTE is reflective of increases in salaries in each classification and increasing numbers of employees in the higher paid classifications as shown in Table 5.9.

Table 5.9 Base Salary Groupings¹: 2006/07 – 2016/17 (percentage change on year)

	Percentage Change per annum in above salary bands					Adelaide CPI Year to June Percentage Change
	Band 1	Band 2	Band 3	Band 4	Band 5	
2006/07	8.9	3.6	7.4	3.4	3.4	1.7
2007/08	5.5	3.5	3.4	3.3	3.3	4.6
2008/09	3.4	3.4	3.6	3.7	3.7	1.5
2009/10	2.5	2.5	2.4	2.5	2.5	2.8
2010/11	2.4	2.6	2.5	2.6	2.6	3.9
2011/12	2.4	2.5	2.4	2.5	2.5	1.2
2012/13	3.1	3.0	3.0	2.9	2.9	2.1
2013/14	3.0	3.0	3.0	3.0	3.4	3.1
2014/15	2.6	2.6	2.6	2.6	2.2	1.2
2015/16	2.5	2.5	2.5	2.5	2.5	0.7
2016/17	2.5	2.5	2.5	2.5	2.5	1.6

Source: SACES calculations.

Tables 5.10 and 5.11 are derived from the Workforce Information Reports for each year prepared by the Office for the Public Sector. It is noted in the 2016/17 Report:

“The salary brackets have been constructed as an indication of the level of responsibility, and are based on the remuneration structure of the PS Act Administrative Services Stream at June 2017.”

There appears to be a general shifting up of employees, or “Classification Creep” within these bands.

Between 2009/10, the proportion of South Australian Public Sector employees in Band 1 declined from 32.5 per cent to 26.7 per cent while the proportion in Band 4 and Band 5 combined increased from 15.4 per cent to 22.1 per cent.

In absolute terms:

- the number in the Band 1 fell by 4,652 or 14.1 per cent between 2009/10 and 2016/17; and
- the number in Band 4 and Band 5 combined increased by 7,911 or 50.1 per cent.

As noted above, this increase in the number and proportions of employees in these classification bands came on top of salary bands generally moving up at least in line with inflation or, more commonly, faster than inflation.

Table 5.10 Total Employees in the South Australian Public Sector: Numbers in Each Band by Salary

	Employee Numbers						Total	FTE
	Band 1	Band 2	Band 3	Band 4	Band 5			
2005/06	30,933	26,118	22,431	10,418	2,948	92,848	78,210	
2006/07	33,727	20,693	28,960	8,273	3,127	94,780	79,715	
2007/08	32,962	21,650	29,411	9,499	3,383	96,905	81,270	
2008/09	33,402	21,699	31,595	9,648	4,252	100,597	83,885	
2009/10	33,006	21,302	31,545	10,749	4,822	101,424	84,900	
2010/11	30,360	22,784	32,071	11,406	4,864	101,485	84,882	
2011/12	30,310	22,964	33,039	12,924	4,412	103,649	85,727	
2012/13	29,991	22,993	33,523	13,192	4,563	104,262	86,257	
2013/14	29,060	22,483	33,467	13,011	5,036	103,087	85,372	
2014/15	29,306	22,361	29,121	18,254	5,028	104,070	85,628	
2015/16	28,428	23,203	29,564	18,054	5,038	104,317	85,671	
2016/17	28,354	23,663	30,619	18,383	5,099	106,118	87,432	

Source: Office for the Public Sector Workforce Report various years.

Table 5.11 Employees in Each Salary Band: 2005/06 – 2016/17 (per cent)

	Salary up to:				
	Band 1 \$59,039	Band 2 \$75,131	Band 3 \$96,144	Band 4 \$121,359	Band 5 Over \$121,360
2005/06	33.3	28.1	24.2	11.2	3.2
2006/07	35.6	21.8	30.6	8.7	3.3
2007/08	34.0	22.3	30.4	9.8	3.5
2008/09	33.2	21.6	31.4	9.6	4.2
2009/10	32.5	21.0	31.1	10.6	4.8
2010/11	29.9	22.5	31.6	11.2	4.8
2011/12	29.2	22.2	31.9	12.5	4.3
2012/13	28.8	22.1	32.2	12.7	4.4
2013/14	28.2	21.8	32.5	12.6	4.9
2014/15	28.2	21.5	28.0	17.5	4.8
2015/16	27.3	22.2	28.3	17.3	4.8
2016/17	26.7	22.3	28.9	17.3	4.8

Source: SACES calculations.

It is also the case that for at least recent recorded history, public sector wages per head have historically been higher than for the South Australian private sector.

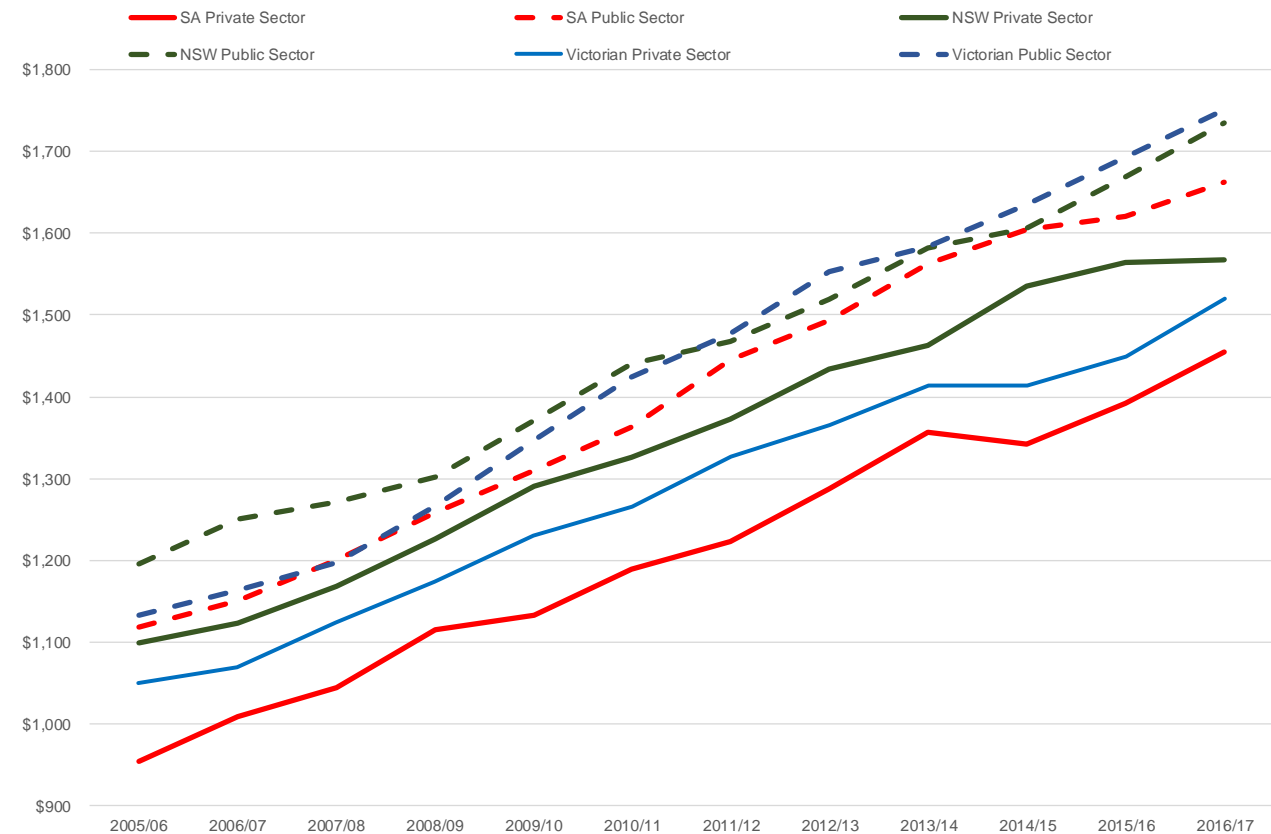
As shown in Figure 5.4 the ABS measure of Average Total Weekly Earnings (ATWE) for Public Sector Adult Full Time employees in South Australia has over the last decade been higher than Private Sector Adult Full Time employee ATWE by some 15.7 per cent on average (range 12.8 per cent to 19.5 per cent).

Figure 5.3 also indicates that Public Sector Adult Full Time employee earnings in South Australia appear to be more closely correlated with the peer group earnings in New South Wales and Victoria, averaging 96.3 per cent of the New South Wales average (range 92 per cent to 99.9 per cent) and 94 per cent of the Victorian average (range 92.2 per cent to 96.0 per cent).⁷

While these numbers include Commonwealth and Local Government employees, these accounted for around the same proportions of around 20 per cent in total in 2016/17 of total public sector employees in each State (Commonwealth: South Australia 10.4 per cent, Victoria 10.2 per cent and New South Wales 9.2 per cent; and Local Government: South Australia 8.0 per cent, Victoria 11.2 per cent and New South Wales 9.7 per cent).⁸

Average earnings per headcount from the ABS Cat. Employment and Earnings, Public Sector shows the South Australian Government cash earnings for employees in 2016/17 at \$77,841 compared with \$74,155 for Victoria and \$76,559 for New South Wales for their respective State Government employees.

Figure 5.3 Full-Time Adult Total Earnings by Sector



We therefore believe the Average Weekly Earnings data gives a fair indication of the movement in South Australian Government Adult Full time total earnings relative to their peers in New South Wales and Victoria and to the South Australian private sector earnings.

The data shows the rise in South Australian Government employee costs through:

- increased headcount and FTE;
- salary classifications moving at least in line with or faster than inflation; and
- increasing numbers of public employees in the higher salary classifications.

While it is important that South Australia can attract and retain the highest calibre public servants, there is an argument about parity with New South Wales and Victoria when we are continually assured about lower living costs in South Australia. There is also an argument about a jurisdiction’s capacity to pay. This is even on the optimistic assumption that the other States and Commonwealth Government further increase their support for South Australia.

This capacity to pay is particularly relevant if the required rising local tax collections to meet overall South Australian Government expenses are an element in weak business growth and employment outcomes.

These increasing employee expenses and the commitments due to rising employee numbers is substantially reducing the flexibility in South Australian public finances and increasing the likelihood of continued growth in public debt and further reductions in net financial worth.

These factors suggest increasingly limited scope for important tax reform and the danger of rising debt service costs, particularly in the likely environment ahead of higher real and nominal interest rates.

5.4 State analysis: superannuation

The South Australian Government *SuperSA Triple S Scheme (Triple S)* available for South Australian Government employees, as a “Constitutionally Protected Fund” provides a number of benefits to members not available to members of most other non-defined benefit superannuation funds.

These benefits should be considered in any analysis of South Australian Government remuneration relative to the private sector and the employees of other public sectors.

First, the Contributions tax of 15 per cent does not apply. For most complying superannuation funds this tax is applied when the before-tax contribution, such as the employer Superannuation Guarantee Charge or salary sacrifice contributions are made (see Appendix C: Fact Sheet).

In the case of members of Triple S, tax is paid when the benefit is withdrawn. For those 60 years or over, tax of 15 per cent would apply on this Taxable (Untaxed Component) up to \$1,445,000 of benefits withdrawn or converted to superannuation income streams. Having the Contributions Tax deferred is a direct financial benefit.

Second, no tax applies to investment earnings such as income received or realised capital gains that are allocated to member benefits. These tax rates are normally 15 per cent for income and 10 per cent for realised capital gains on assets held for 12 months or more. While tax of 15 per cent for over 60s is applied on withdrawal, the deferral represents a direct financial benefit.

Third, the annual limit or cap of \$25,000 that applies to tax deductible contributions for employer SGC, salary sacrifice or personal contributions for most South Australians does not apply to South Australian Government employer and/or salary sacrificed contributions. There is no limit on the amounts that Triple S members can contribute each year from their South Australian public sector remuneration. As noted above, these contributions are not subject to the Contributions Tax of 15 per cent.

While the withdrawals once over age 60 would be taxed at 15 per cent on amounts up to \$1,445,000, the potential benefit needs to be assessed in terms of the PAYG Income Tax saved at the member's marginal tax rate. With the marginal tax rate of 19 per cent plus Medicare Levy of 2 per cent applying from taxable Income of \$18,200, even with tax of 15 per cent payable on withdrawal after age 60 there is a saving of a minimum of 6 per cent per dollar of taxable income from this level rising to 19.5 per cent per dollar of taxable income above \$37,000, 24 per cent for taxable income above \$87,000 and 32 per cent for taxable income above \$180,000.

For the estimated 25 per cent of the South Australian Government employees that earn over \$87,000 per annum excluding the SGC paid by the South Australian Government, the after-tax benefit of being able to salary sacrifice \$10,000 in addition to the \$25,000 cap that applies to other tax payers would be in the order of \$2,400 pa from PAYG tax savings net of final withdrawal tax, along with the other tax deferral benefits.

5.5 South Australia budgetary context: spending and revenue

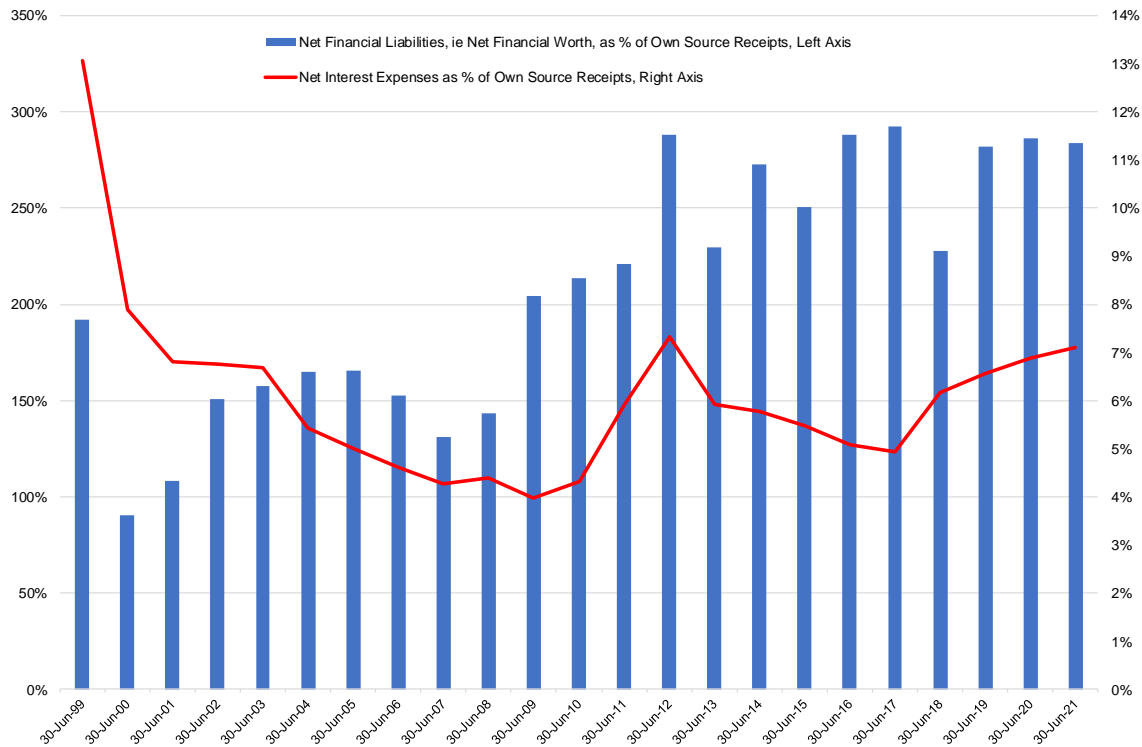
Policy formulation and flexibility in South Australia in support of sustainable growth of employment and economic activity faces a difficult mix of continued rising public sector financial liabilities and increasing dependence on Commonwealth Government Grants, including GST distributions.

Using data from the 2017/18 SA Government's Mid-Year Budget Review, Figure 5.4 shows Net Financial Liabilities, (i.e. the Net Financial Worth measure), are forecast to represent 284 per cent of the South Australian Non-Financial Public Sector Receipts less Commonwealth Government Grants by 2018/19. This ratio has almost doubled over the last decade. It should be noted this rise in the next few years comes despite a projected \$2 billion fall in the projected Unfunded Superannuation liability from June 2017 and receipts of \$2.2 billion of projected Asset sales to 2020/21.

Net Interest expenses of the Non-Financial Public Sector are forecast to lift to around 7 per cent of SA Non-Financial Public Sector Receipts less Commonwealth Government Grants by 2020/21.

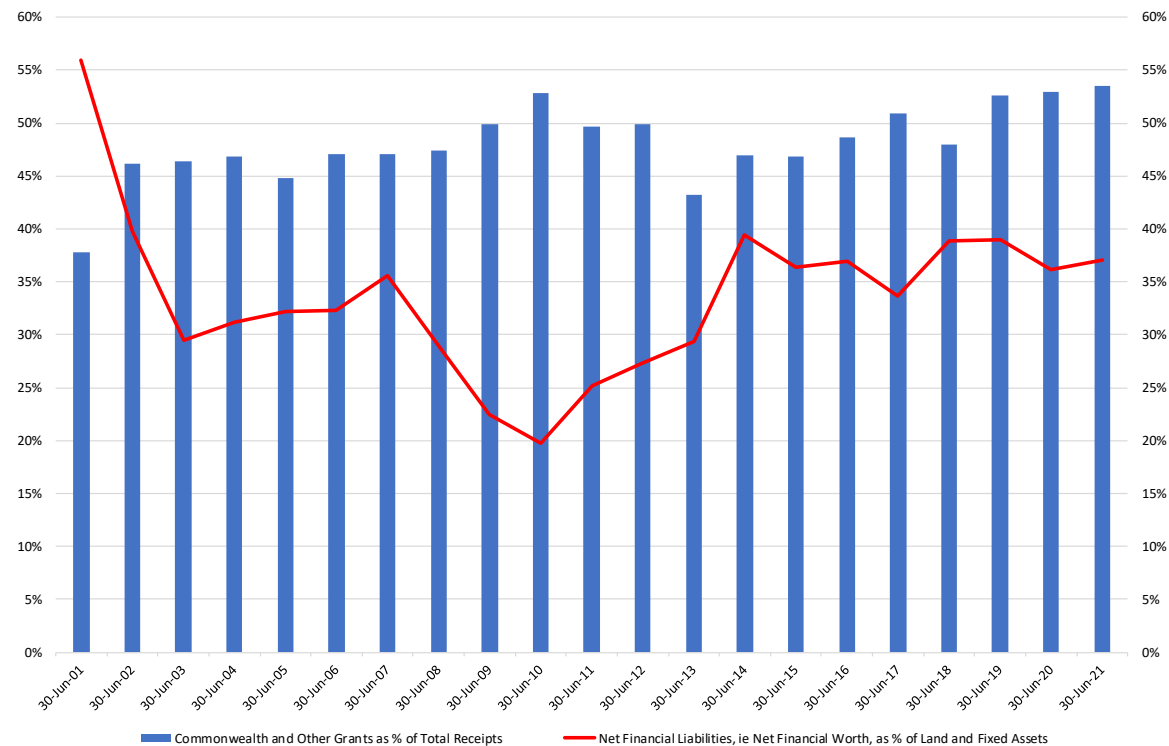
Figure 5.5 shows Net Financial Liabilities of the Non-Financial Public Sector lift through 2017/18 and 2018/19 as a ratio of the forecast values of Land and Other Fixed Assets. Commonwealth and Other Grants as a share of total receipts of the Non-Financial Public Sector rise towards a record high of 55 per cent.

Figure 5.4 South Australian Public Sector Net Financial Liabilities and Interest Expenses
Per cent of Own Revenue (Total Receipts less Grants)



Source: SA Government Budget Paper No. 3, various years. Budget Forecasts for 2017/18 and later years.

Figure 5.5 South Australian Public Sector Net Financial Liabilities and Grant Receipts



Source: SA Government Budget Paper No. 3, various years. Budget Forecasts for 2017/18 and later years.

We believe the Non-Financial Public Sector, which includes instrumentalities such as SA Water, is the more relevant sector for this analysis than the General Government sector because of issues such as:

- the debts and interest payments of the instrumentalities such as SA Water are guaranteed by the Treasurer and in the event of difficulties would be a draw on the South Australian taxpayer;
- the Government’s actions on telling the MAC to pay larger dividends and SA Water to borrow more in order to pay higher dividends leads us to the view it has crossed the Rubicon on destroying any fiscal

or fiduciary separation between the General Government and the instrumentalities. Financial assets of the instrumentalities are seen as suitable sources of funding for General Government recurrent spending; and

- the Treasurer made a comment in presenting the 2017/18 Budget about how South Australia can carry a higher level of debt if gearing was looked at as if the South Australian public sector was a private business. As this implies the assets of the South Australian public sector, such as Roads, Land and Water and Sewerage Infrastructure can support higher levels of debt, it should therefore be the case the financial performance and financial liabilities of those assets are included.

We also believe analysis should include that of the South Australian public sector “Own Source” revenue as separate from the rising dependence on Commonwealth Grants. This is in view of likely longer term issues relating to, *inter alia*, possible changes in the GST distributions between the States and difficulties for the Commonwealth’s own revenue raising

5.6 Local government

In the following discussion it is important to remember that local councils are not homogeneous when compared by population size, revenue and administrative and service delivery capacity. In fact as in Table 5.13 the smallest council numbers 1,200 persons and the largest council is 140 times this number.

Local government in South Australia consists of some 68 councils. The average population in local councils in other jurisdictions (see Tables 5.12 and 5.13) are twice to three times that found in South Australia (average 25,120 persons). From the perspective of economic, social and community services delivery the larger size councils interstate inherently provide some economies of scale.

Table 5.12 Councils by State and Territory, Number and Average Persons/Council, June 2016

State/Territory	Estimated resident population (June quarter 2016)	Number of councils (ABS, 2014-15)	Average persons/council
New South Wales	7,725,884	152 ^(a)	50,828
Victoria	6,068,042	79	76,811
Queensland	4,844,473	78	62,109
South Australia	1,708,183	68^(b)	25,120
Western Australia	2,617,172	138	18,965
Tasmania	519,128	29	17,901
Northern Territory	244,880	17	14,405
Australian Capital Territory	396,141	-	-
Total	24,127,159	561	43,007

Note: (a) There are now 128 councils in New South Wales, 96 regional/country, 32 metropolitan so average person per council is 60,000+.

(b) LGA listed 68 councils, there are 5 listed Aboriginal Community Councils and Roxby Downs does not yet have an elected council.

Source: ABS, Australian Demographic Statistics, Cat No. 3101.0, TABLE 4 and ABS, Regional Population Growth Australia, Cat No. 3218.0

There are 19 metropolitan councils with a combined population of 1.29 million people or an average of 68,000 persons per council; there are 49 non-metropolitan councils servicing 410,000 people or an average of 8,400 persons.

Very small councils in South Australia continue to experience population decline or zero population increase and as a consequence councils are faced with declining rate revenue. In turn they are increasingly reliant on grant funding to maintain services and infrastructure in their council area. They are also forced in some instances to increase council rates above CPI increases (at least to the local government price index or above). At the same time the comparative per annum earnings (full-time adult) of those in local government are greater than those in the private sector with the ratio of public sector to private sector at 114.6 per cent.

On the basis of ‘grants/subsidies’ per person, the metropolitan councils are heavily subsidising their small and regional partners (Table 5.14).

There is very little if any scope in individual smaller councils for an efficiency dividend and savings in the absence of scale economies, notwithstanding that some councils have implemented shared services as a way to address small size, declining rate revenue and the demand for more services.

As in New South Wales, it is well to ask: is local government in its current structure “fit for the purpose” when some councils are experiencing real difficulties in meeting even their legislated obligations.

Table 5.13 Councils, Population, Comparative Earnings, three state comparison

	South Australia	Victoria	New South Wales
Councils			
Metropolitan (No.)	19	31	34
Non-metropolitan (No.)	49	48	94
Total Councils (No.)	68	79	128
Metropolitan (per cent)	27.5	39.2	26.6
Non-Metropolitan (per cent)	72.5	60.8	73.4
Population			
Largest (No.)	168,000	292,000	339,328
Smallest (No.)	1,200	3,917	1,917
Average metropolitan council population (No.)	67,894	150,645	154,412
Average metropolitan council land areas km2 (No.)	171.5	280.5	363.8
Average population/km2 (No.)	411.3	587.2	424.5
Local government employees 2015/16 ('000)	10.9	51.6	54.3
Local government cash wages & salaries 2015/16 (\$m)	735.1	3,021.7	3,558.1
Average per employee pa, 2015/16 (\$)	67,440	58,560	65,527
Per annum earnings; person, full-time; adult; total earnings; private sector ^(a) , (\$)	73,689	76,014	81,604
Per annum earnings; person, full-time; adult; total earnings; public sector ^(a) , (\$)	84,422	88,670	87,079
Ratio public sector to private sector (per cent)	114.6	116.7	106.7

Note: (a) May 2016.

Source: LGA website, ABS, Population and Housing; ABS, Employee Earnings.

Equally important is that the 'voice of local government' (particularly smaller regional councils as measured by population) is muted relative to the voice of metropolitan and larger councils that may encompass one or two voting electorates.

We are not advancing a case for amalgamations but serious consideration should be given to the formation of much larger metropolitan and regional councils to provide integrated planning and a voice for all communities, and especially regional and rural communities (e.g. Eyre Peninsula – 11 councils, 9 of them with an estimated resident population between 1,200 to 4,300 persons, 58,000 people in total across the region). Greater regional collaboration was a key theme of the Expert Panel Review in 2013.

Change is possible. The Local Government Association (LGA) notes that by 1890 there were 170 councils in South Australia; there was an adjustment to 140 councils in the 1930s as the depression contributed to population decline in rural towns; and in 1997/98 voluntary council amalgamations resulted in 68 councils, down from 118.

Councils and the LGA commissioned an Expert Panel in 2012 to 'recommend a vision for the future of local government in South Australia' and produced a final report⁹ that concluded:

"... the Panel's view that 'business as usual' into the future was not a viable option, and that some fundamental change would either be forced upon local governments, by Federal and State Governments, or instead, could be initiated and driven by Local Governments."¹⁰

Local government is a key provider of community and human services and its activities in these areas continues to expand. Community expectations are increasing demands on local government, as are a plethora of legal and compliance requirements. It is axiomatic that integrated planning for transport, residential housing, industrial land use, and environmental management are issues that require collaboration simply because they transcend 'lines on the map'. Strategic plans for a single council area almost always have implications for adjoining councils; groups of rural councils share the same regional objectives.

As economies are in constant transition so too are government and administrative arrangements, populations, community expectations and demand for services. A review of the capacity of local government to deliver planning, programs and services to their communities, including a consideration of whether they are better placed to deliver programs and services than State and Commonwealth governments, might well be undertaken.

Table 5.14: Average GRP and ERP per Council Employee and Rates Revenue as a Share of Operating Revenue, Metro and Non-Metro Councils
Financial years 2004/05, 2009/10 and 2014/15

Type of council	Average GRP/Council employee (\$m)	Average persons per council employee (number of residents) - Efficiency			Average rates revenue as share of operating revenue (per cent) - Revenue raising capacity			Average grants and subsidies per person (\$) - Self sufficiency		
	2014/15	2004/05	2009/10	2014/15	2004/05	2009/10	2014/15	2004/05	2009/10	2014/15
Metro (18 councils)¹	12.2	269.0	259.4	254.8	73.5	74.9	81.4	73	105	126
>100,000 persons	12.3	264.1	272.6	274.6	75.6	77.2	83.7	78	98	108
50,000 - 99,999 persons	10.9	266.5	249.7	265.6	75.2	76.4	85.9	73	88	103
0 - 49,999 persons	13.1	245.2	233.5	208.6	71.7	73.1	76.8	71	117	153
Non-metro (50 councils)	5.7	141.6	127.3	122.3	53.2	54.9	58.7	393	578	863
>10,000 persons	7.2	187.4	172.1	171.2	61.2	64.2	71.2	151	219	294
5,000 - 9,999 persons	6.9	148.4	132.9	131.6	56.6	60.0	59.8	248	362	488
2,500 - 4,999 persons	4.6	135.5	122.0	97.9	55.6	57.5	57.1	332	489	796
0 - 2,499 persons	3.8	86.0	73.2	71.6	39.6	38.6	44.6	824	1,216	1,815

Note: 1 One council in the intervening period 2004/05 to 2014/15 was reallocated between metro and non-metropolitan status. No material impact on calculations in Table 5.10.

Source: id. the Population Experts, SA Local Government Grants Commission Database Reports 2004-05, 2009-10 & 2014-15 and ABS, Regional Population Growth Australia, Cat No. 3218.0.

5.7 Local government employment

In an earlier Economic Issues Paper¹¹ the researchers noted that local government employment as a percentage of total employment in South Australia (1.3 per cent) is well below that in Victoria (1.7 per cent), the national average (1.6 per cent) and local government in New Zealand. An examination of the composition of local government employment in South Australia relative to state government employment provides a very interesting insight into the centralisation of functions at the state government level with the result that local government in South Australia is less diversified by functions and occupations than in other states.

For example, South Australian local government appear to employ proportionally less 'Community and Personal Service Workers' at 6.8 per cent of its own employment compared to the average of other states at 11.4 per cent. It also employs more 'Technicians and Trades Worker' at 12.8 per cent, almost twice the average of other states at 6.6 per cent.

While South Australian local government employed less 'Community and Personal Service Workers' compared to other local governments, the South Australian government employed proportionately more 'Community and Personal Service Workers' than other state governments. This is mostly due to the narrowly defined occupation groups of 'Health and Welfare support workers' and 'Carers and Aides'¹², accounting for 5.7 and 5.9 per cent respectively of South Australia's state government employees in comparison to the average of 2.3 per cent and 2.1 per cent in other states.

That is to say, local government in South Australia (while having very much more diversified responsibilities than in years gone by) is still much more "roads, rates and rubbish" in comparison with other states where the occupational profile illustrates much more diverse functions and responsibilities that are associated with larger scale of operations, the population size of communities, greater local provision of human services and much greater decentralisation by level of government in service delivery than in South Australia. This relatively lower diversification is especially the case for the smaller councils in South Australia, where revenue constraints mean some have difficulty in even meeting statutory compliance obligations.

It is true that South Australia's geography (i.e. a large state with a sparse population outside of its major capital city) does not enjoy the same advantages in terms of centralising services in major regional centres as the more populous eastern states.

It can equally be argued that given geography, a number of human/personal services and service support functions (those that are principally labour rather than capital intensive) need to be located closer to regional and rural populations, but would require greater size, scale and capacity of local government to assume service delivery.

Apart from the expected benefits to the local communities and the service consumers, there would be important employment and community capability building outcomes of a more decentralised human services delivery approach. Employment growth is shifting more and more to human services – in aged care, child care, mental health, disability care, etc. and these areas collectively now represent the largest areas of employment in South Australia.

They also represent strongly growing fields for higher education and vocational training, research, construction and other services. These local opportunities are increasing with the roll out of the NDIS.

The general trend, however, driven by public policy and the market and private investment decisions is that providers will merge and get bigger. The risk is that scale economies and access to finance could see the ownership and management and consequent decision making of these providers increasingly concentrated in Adelaide or interstate. This is already a major trend in aged care, with a number of local not for profits having moved out of providing institutional care.

With more scale and the right focus, however, overseas and interstate experience would point to local government and local-based non-government organisations (NGOs) being best placed to provide these human service delivery functions.

It is time to review the role of local government in the C21st and the potential (most likely expanded) role they might play in future.

Much economic development planning is conducted on a regional basis and there would be related benefits of bigger councils including scale economies in development assessment and land use planning; access to a larger revenue/rate base; in meeting compliance and regulatory/inspectorial functions (as regional economic and health alliances demonstrate) and in more general support for 'civil society'.

Take the case of urban planning and urban consolidation which requires the involvement of 19 metropolitan councils and state government (including and because, Adelaide is a highly urbanised society).

All councils are potentially required to contribute to consolidated land use and medium density housing but we have seen some councils (and communities) adopt an attitude of "not in my backyard". Proposals for medium density housing proximate to transport corridors (TOD) have been rejected yet opponents then argue the desire to reduce greenhouse gases, address climate change, improve public transport, reduce urban sprawl and reduce government infrastructure costs.

In combination, a number of recent decisions contain the implication that young people, young families and the less well-off are forced to locate further out from the city centre into more marginal employment environments and so need to travel longer distances for employment. At the same time the low density outer suburban populations and long distances mean public transport systems cannot cost effectively or at reasonable subsidies move people to where the jobs are.

The end result is that many new urban settings simply lack the full range of opportunities that others enjoy, civic amenity lags the increase in population, there is 'forced' greater reliance on the private motor vehicle in the outer metropolitan suburbs and infrastructure costs increase. Adelaide CBD centric policies can further disadvantage outer metropolitan populations and negatively impact on local employment opportunities.

To its credit, the State government has sought to use public sector employment location as a driver of local economic development, an example being the \$40 million office block in Port Adelaide¹³ which will create some short-term disruption/adjustment for existing public servants but provide an incentive/signal for private sector investment. This move is consistent with significant changes in employment in the Port Adelaide-Enfield area: in the 2011-2016 Census periods, the area lost more than 3,000 manufacturing and transport/warehousing jobs but gained more than 1,000 jobs in health, education, arts, administration and professional services. In short, the economic profile is gradually changing.

6. Performance on Low Risk Essential Service

6.1 Public sector: education

In a recent country comparison McKinsey research team mirrored OECD commentary on rising government unit costs relative to outcomes, concluding they found that:

“with the exception of spending on public safety and tax collection, unit costs in government sectors have been rising faster than inflation – on average between 2 per cent to 4 per cent per year. In most sectors, this increase in expenditure has been associated with better outcomes, but there are exceptions. In primary and secondary education, for instance, average unit costs rose by about 2 per cent and 4 per cent, respectively, but average levels of skills and knowledge attained – as measured by the Program for International Student Assessment – fell by 0.7 per cent and 0.4 per cent, respectively. By any measure, this indicates deteriorating productivity.”¹⁴

The ‘inputs’ into education in South Australia are broadly in line with other states. A short summary of students numbers, staff and the staff/student ratio for the two Census periods 2011 and 2016 include:

- the increase in student numbers in government schools (2011-2016) was 3,705 and the increase in ‘in-school staff’ was 1,196 over the same period;
- the student/In school staff ratio was 10:2 in Government schools (2011) improving to 9.7 (2016) which was not much different to Catholic schools, Independent schools and the national average (see Appendix A for full tables: A.1, A.2, A.3);
- at both time periods South Australian Government schools accounted for 65 per cent of all enrolments; and
- the teaching workforce accounted for 63 per cent of in-school staff.

Generally, resource allocation to the school system – funding, technology, fixed buildings and equipment and the number of teachers – continues to rise in all states and territories, but the outcomes are mixed. The following is a broad, dot point summary of NAPLAN results (2011 to 2017) and results from the Program for International Student Assessment (PISA) results (2000-2015):

- with respect to NAPLAN results, in 2011 some 2.8 per cent were below the benchmark in Year 3 in writing and assessment of the same group through to Year 9 (2017) reported some 16.5 per cent were below the relevant benchmark for that year. So in the intervening years the outcomes had declined;
- PISA results for reading literacy, science literacy, and mathematics literacy show for all states and territories a decline in all scores and a decline in the per cent at or above the National Proficient Standard for the entire period 2006-15;
- generally in states/territories on the three measures above the per cent of low performers in 2006 has increased to 2015 and the per cent of high performers has declined. That is to say, overall the number of low performing students has increased and the number of high performing students has decreased; and
- international comparisons show Singapore, Canada and New Zealand have had steady to improving performance.

The results, and generally South Australia sits “in the middle of the pack” (but declining) on the proportion of low and high performers and National Proficient Standards suggest that schools, students and parents are not rising to the challenge of greater complexity and deeper and more comprehensive skills development. It would appear at Year 3 most students have the basics but their competence deteriorates over time. Perhaps this raises the question of the (some would say) crowded school curriculum; perhaps a lack of attention to school attendance and insufficient emphasis and pursuit of excellence in basic skills. Certainly, it does suggest that the issue of resource allocation to schools needs a close review particularly in the middle and upper primary school years 4 through to 7.

It is too easy and unhelpful to criticise individuals or the system as a whole. What is generally acknowledged in OECD reports, McKinsey report and as shown in interstate comparative data, is that greater attention to reading, comprehension, writing and mathematical literacy is required. What else explains the drop-off between years 3 and 9 in all jurisdictions?

There are implications for students, employers and the local industry/economy from the comparative data:

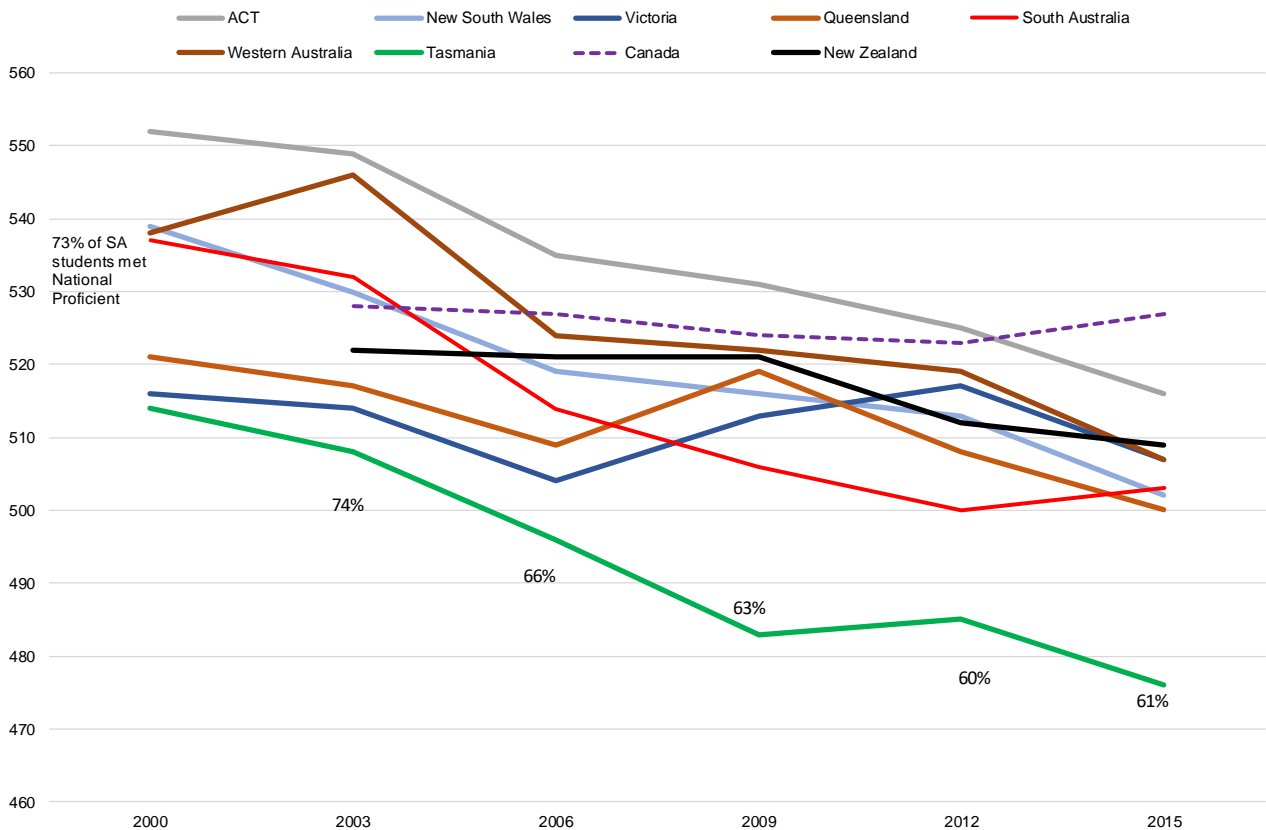
- the OECD PISA results are against national and international standards and so would give some indication of how South Australian students would fare in competition for university and other higher education places nationally and globally;

- these standards give a pointer to the quality of the education and preparedness of the students as the employees that South Australian employers would look to principally employ. If the quality and preparedness is falling absolutely and relative to other jurisdictions, that presumably would make it harder for South Australian business to compete nationally and internationally; and
- these declines are coming despite increased resourcing, lower ratios of students to teachers and educators being increasingly paid on national benchmarks.

In **Reading Literacy** (PISA) 2006-2015:

- average number 514 declined to 503;
- national proficient standard declined from 73 to 61 per cent;
- low performers increase from 12 to 18 per cent; and
- high performers was stable at 10 per cent.

Figure 6.1 Reading Literacy, Students Aged 15, Mean Scores

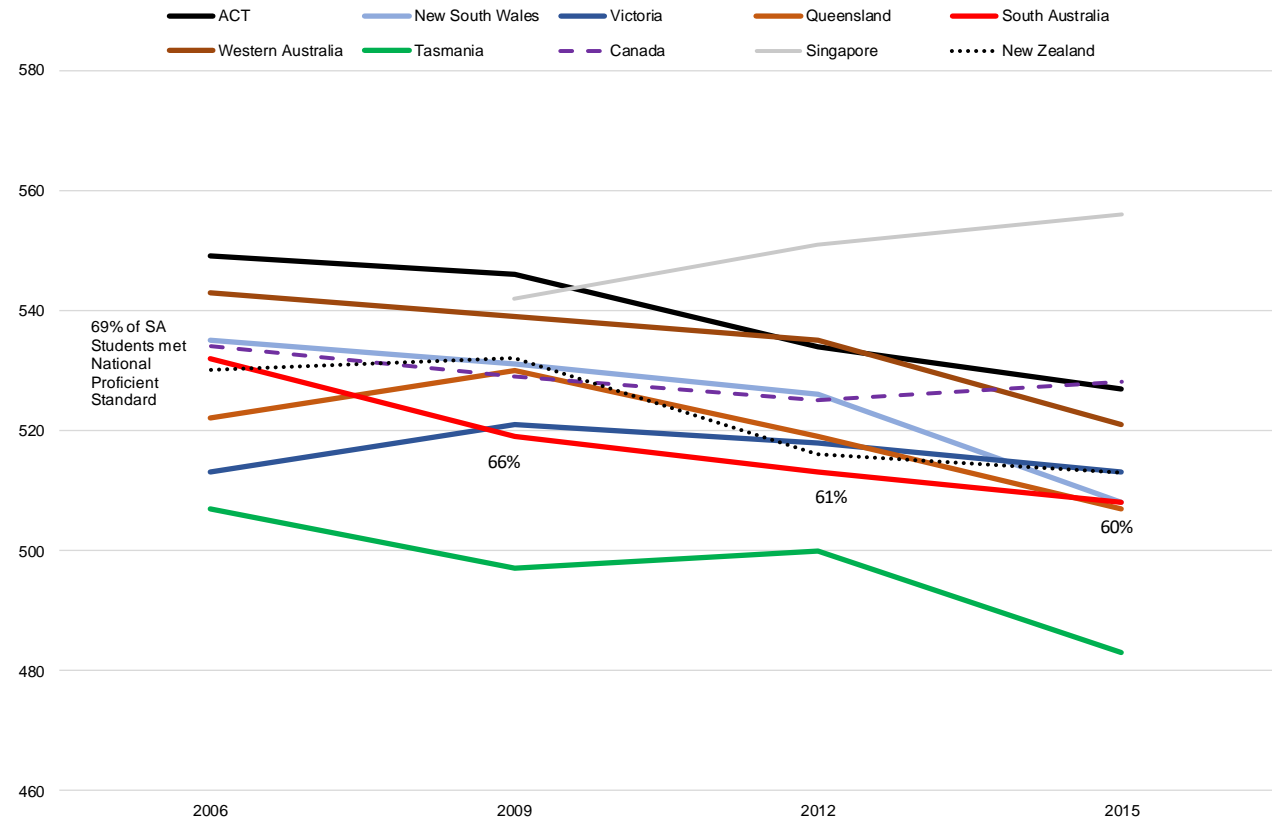


Source: Programme for International Student Assessment, OECD.

In **Science Literacy** (PISA), South Australia 2006-2015:

- average number 532 declined to 508;
- national proficient standard declined from 69 to 60 per cent;
- low performers increased from 11 to 17 per cent; and
- high performers declined from 15 to 10 per cent.

Figure 6.2 Science Literacy, Students Aged 15, Mean Scores



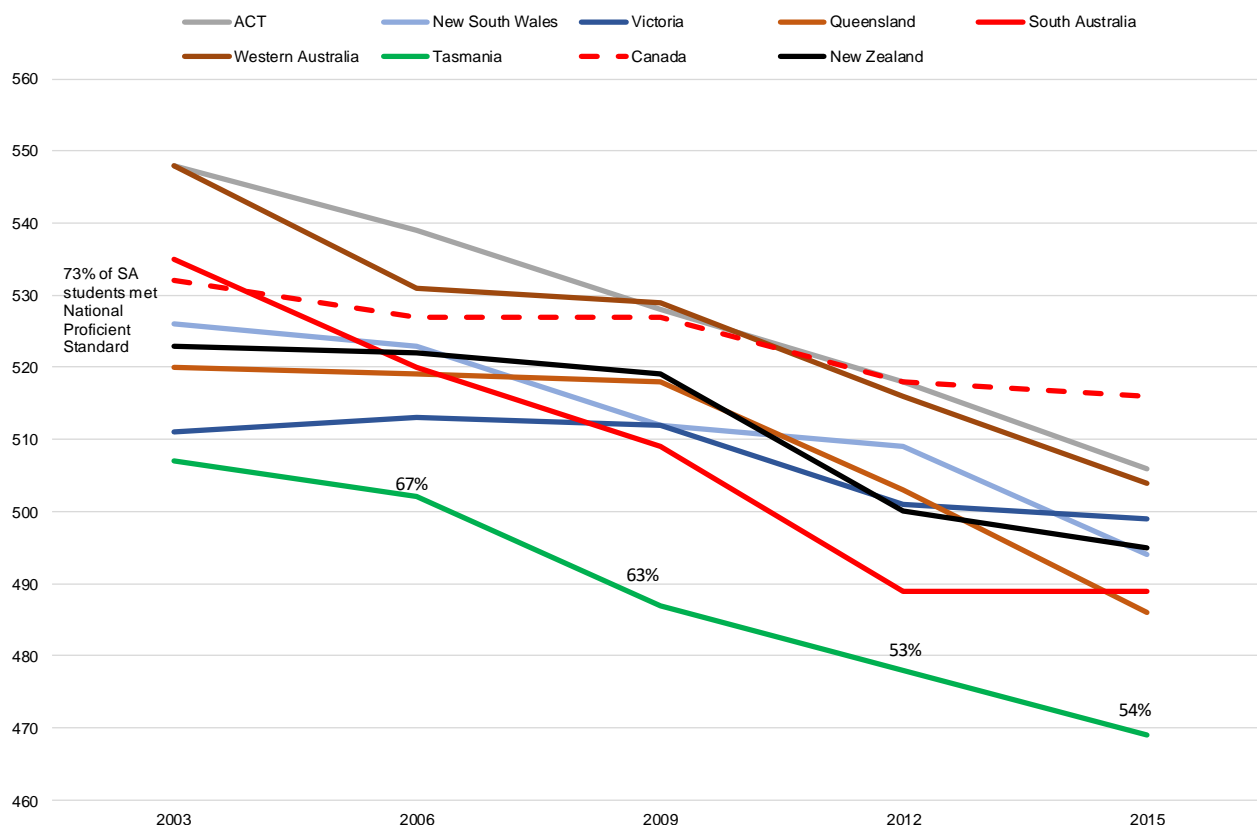
Source: Programme for International Student Assessment, OECD.

In **Mathematics Literacy** (PISA 2006-2015):

- average number 509 declined to 489;
- national proficient standard declined from 73 to 54 per cent;
- low performers increased from 12 to 23 per cent; and
- high performers declined from 21 to 12 per cent.

(See Appendix A for full tables: A.4 – A.6)

Figure 6.3 Mathematics literacy, students aged 15, mean scores



Source: Programme for International Student Assessment, OECD.

6.2 Vocational education

The deterioration in the South Australian labour market is illustrated in several ways including a decline in the participation rate, an increase in the underutilisation of labour with those in employment seeking more hours and an increase in the duration of unemployment. The long-term trend is an increase in unemployment but of most concern is the increase in long-term unemployment measured at 12 months or more. (see Table 6.1) SACES has previously estimated that the cost of unemployment in South Australia, based on the profile and characteristics of the unemployed, is in the order of \$6.5 billion to \$8.0 billion per annum. This could be doubled when underemployment is added.

Table 6.1 Unemployment by Duration, South Australia, persons, 12 month moving-average, March 2007 and March 2017 (original series)

Unemployed	March 2007	March 2017	Increase over 10 years	
			No.	Per cent
All durations	39,983	58,475	+18,492	+46.2
Less than 1 year	32,575	41,925	+9,350	+28.7
1 year or more (long-term)	7,392	16,550	+9,158	+123.9

Source: ABS, Cat No. 6291.0.55.001, Labour Force, Australia, detailed, April 2017, unemployed persons by duration of job search, state and territory, January 1991 onwards, Table UM2.

Skilling the workforce for an economy in transition, including to support other endeavours of government to attract business investment and businesses seeking to locate in South Australia, is critical to the level of economic activity. For these and other reasons, it is imperative that South Australia has a properly functioning and efficient vocational training sector, including cooperation with the Commonwealth for creative programs to assist those unemployed gain new skills.

Early intervention to reduce the flow through to long-term unemployment is a key objective, particularly through ensuring the skill sets and workforce readiness and aptitudes meet employer needs. Getting whole of government policies right, along with effective and efficient implementation and cooperation with the private sector and private sector trainers, is increasingly important in the context of the accelerating change facing employers and employees. This is not about *Transition* or *Transformation*, as each implies some destination. This is about ongoing change and adaptation.

This is why policy regarding TAFESA as part of an effectively performing VET system is so important to South Australia's future. Recent policy has, however, been directed at the protection of TAFESA including by way of disadvantaging private providers.

It has still not fully been explained as to how and why TAFESA has found itself the subject of a Senate Inquiry into course accreditation and general performance. There have been redundancies and separation packages, the "gift of almost monopoly provision" to the detriment of private providers, the closure of institutes and the opening of new facilities. The Auditor-General report (2017)¹⁵ refers to 583 targeted voluntary separation packages at a cost of approximately \$65 million over the last five years. It is also apparent that the number of international students (fee paying) has declined over the last six years, where in other states enrolments have increased. There is little evidence that the agency is formally linked to 'job and investment arms' of government and that it is able to constructively respond to the rise in long-term unemployment.

By way of example, was TAFESA involved in the recent announcement by Tourism SA of increased marketing, of an unspecified cost due to Commercial in Confidence issues, to the Chinese middle classes. This is to ensure South Australia can meet the expected, although as yet also unspecified, increase in demand for example, of Mandarin speaking tour guides, appropriate hospitality etc. or will this be accommodated by FIFO workers?

Tables 6.2 to 6.6 indicate a broad picture of declining spending by the South Australian Government and falling outputs as measured by VET AQF Qualifications completed. Such outcomes would seem the very opposite of what is needed with the accelerating changes in the economy and employer needs. Presumably, however, these reflect policy decisions.

Table 6.2 Allocation of Government Real Funds for VET (\$m, 2016 dollars), 2012-16

Government appropriations and program funding	2012	2013	2014	2015	2016
Australian Government recurrent funding	89.5	89.9	88.3	89.1	90.7
State/Territory Government recurrent funding	222.7	330.8	296.5	216.8	179.7
Total	335.4	454.5	395.3	334.2	298.5

Source: Productivity Commission, "Report of Government Services 2018", Table 5A.5.

Table 6.3 Allocation of Government Real Funds for VET (2016 dollars) and Percentage Allocations, 2012-16

Government appropriations and program funding	2012	2013	2014	2015	2016
Open competitive tendering (\$m)	47.2	19.6	6.8	3.7	3.9
Limited competitive tendering	9.2	8.8	7.9	4.7	5.6
User choice	36.4	7.6	0.8	-	-
Entitlement funding	156.4	328.9	299.0	132.1	40.2
Total	249.2	364.9	314.5	140.6	49.7
Open competitive tendering (per cent)	14.1	4.3	1.7	1.1	40.2
Limited competitive tendering	2.7	1.9	2.0	1.4	1.9
User choice	10.8	1.7	0.2	-	-
Entitlement funding	46.6	72.4	75.6	39.5	13.5
Total	74.3	80.3	79.5	42.1	16.7

Note: **Open competitive tendering:** The fall in 2015 is due to the finalisation of activity funded under the Productivity Places Program after it concluded in 2012 and changes to the Skills in the Workplace program. **Limited competitive tendering:** Funding may fluctuate between years as programs are demand driven. Funding for 2015 was revised due to a miscalculation of the VET component of the total budget. **User choice:** Funding for apprenticeships and traineeships was subsumed into entitlement funding from 1 July 2012. **Entitlement funding:** The falls in 2015 and 2016 are primarily due to the implementation of WorkReady on 1 July 2015 which supports the transformation of TAFE SA under alternative arrangements.

Source: Productivity Commission, "Report of Government Services 2018", Table 5A.5.

Table 6.4 Total South Australian Government Real Recurrent Expenditure (\$ million) and Expenditure Per Annual Hour (both in 2016 dollars)

Year	Total Expenditure	Per annual hour
2016	312.7	16.47
2015	411.8	17.66
2014	474.1	16.10
2013	543.6	13.0
2012	419.4	13.07
2011	438.2	16.64
2010	429.9	17.76
2009	429.4	17.76
2008	385.0	18.36
2007	428.0	20.20
Total	4,272.1	167.48
Average	427.2	16.74

Source: Productivity Commission, "Report of Government Services 2018", Tables 5A.1 and 5A.2.

Table 6.5 South Australian Government Payments to Non-TAFE Providers for VET Delivery (\$m in 2016 dollars)

Year	
2016	41.4
2015	70.7
2014	93.2
2013	129.5
2012	82.0
2011	51.8
2010	38.9
2009	34.9
2008	23.1
2007	21.9
Total	587.5
Average	58.70

Note: Real change in payments to non-TAFE providers between 2015 and 2016 is -41.4 per cent.

Source: Productivity Commission, "Report of Government Services 2018", Table 5A.4.

Table 6.6 Participation of 15-64 and 18-24 year olds in South Australian Government-funded VET ('000)

Age Group	2012	2013	2014	2015	2016
18 – 24 year olds	34.2	40.7	29.7	24.3	21.0
15 – 64 year olds	120.3	146.9	105.5	84.2	69.3

Source: Productivity Commission, "Report of Government Services 2018", Table 5A.8.

Table 6.7 Government-funded VET AQF Qualifications Completed per 1,000 People Aged 15-64 years, by AQF Level ('000)

	2012	2013	2014	2015	2016
Number of VET AQF qualifications completed					
Diploma and above ('000)	5.9	7.6	6.3	3.9	3.1
Diploma ('000)	4.7	6.4	5.4	3.3	2.6
Advanced Diploma ('000)	1.1	1.1	0.8	0.6	0.4
Certificate III or IV ('000)	23.0	31.8	23.8	15.4	9.7
Certificate I or II ('000)	11.4	22.2	12.9	10.8	4.5
Total ('000)	40.3	61.6	42.9	30.1	17.2
VET AQF qualifications completed per 1,000 people aged 15-64 years					
Diploma and above (No.)	5.4	6.9	5.7	3.6	2.8
Certificate III or IV (No.)	21.1	29.0	21.6	13.9	8.7
Certificate I or II (No.)	10.5	20.2	11.7	9.8	4.1
Total (No.)	36.9	56.2	39.0	27.2	15.6
VET AQF qualifications completed per 1,000 people aged 15-64 years					
Diploma and above (No.)	2.8	2.9	1.3	2.5	1.6
Certificate III or IV (No.)	29.1	22.5	19.8	19.6	10.0
Certificate I or II (No.)	33.0	32.0	29.7	22.1	12.3
Total (No.)	64.9	57.5	50.7	44.3	23.8

Source: Productivity Commission, "Report of Government Services 2018", Table 5A.19.

6.3 Public sector: child protection

Child protection is acknowledged as a complex and sensitive area. Government is responsible for the protection and welfare of children on behalf of all citizens. Recent events in South Australia caused a review of child protection and a major overhaul of the entire child protection system is on-going. The Productivity Commission (2018) has provided a comparative information on government services in the area of child protection.

Overall, child protection notifications (i.e. people reporting a problem) have been flat in South Australia. Notifications per 1,000 children in the target population 0-17 years have remained flat over the period 2007/08 to 2016/17 (see Figure 6.5). Investigations in South Australia have been trending down and were relatively low as a percent of notifications in any case (Figure 6.6), but critically important, the response rate within seven days or less is reasonable (at around 75 per cent). Cases finalised within 90 days have more than doubled from 20 per cent to 50 per cent in the last three years (Figure 6.7).

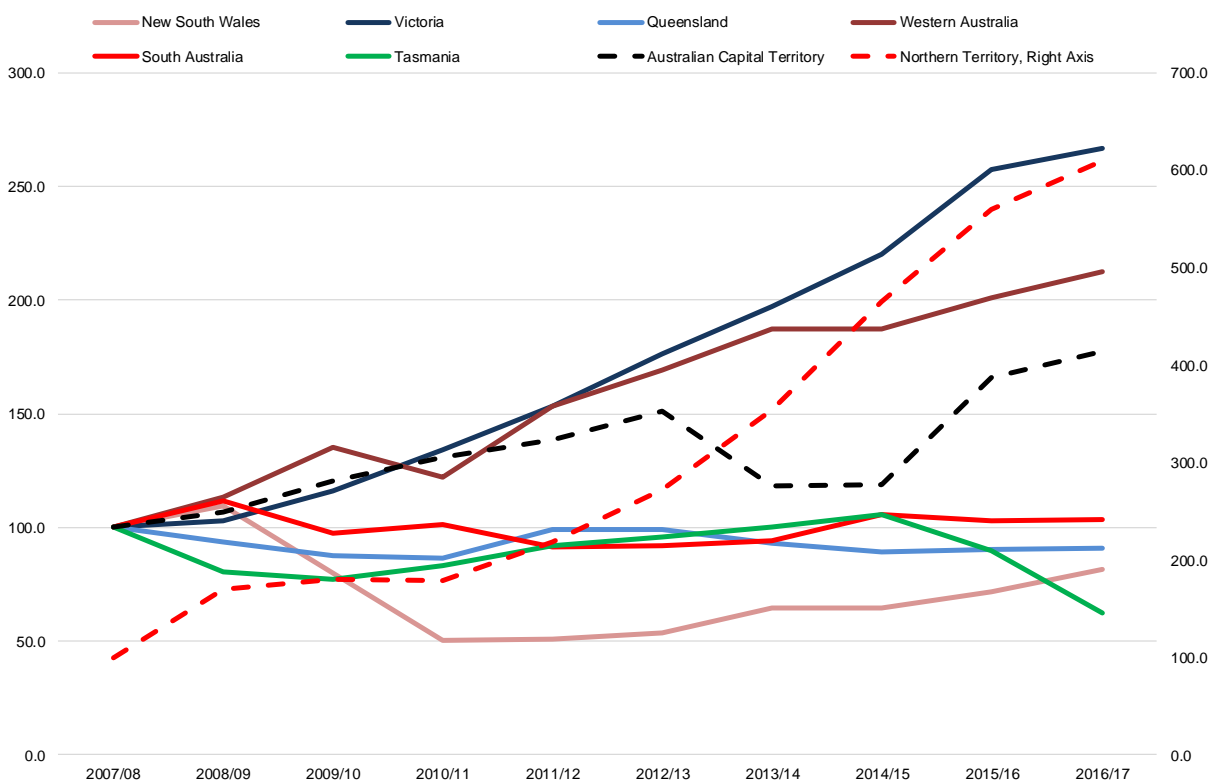
The rate of substantiation is on par with other states which is an insight to suggest that cases in South Australia are 'not harder/more difficult' to resolve than in other jurisdictions. The pathway from substantiation to finalisation of investigations is low and falling (Figure 6.8) but this could be interpreted as a higher degree of caution is being exercised to ensure protection of the child; similarly South Australian children on 'care and prevention orders' is rising which also suggests stronger interventions and a greater degree of caution.

Service improvements are then resulting in higher intervention service costs in out of home care and intensive family support services per South Australian resident child, second only to the Northern Territory (i.e. costs per child, not cost of those in care, Figure 6.7).

In order to evaluate the performance and quality of services delivered to improve the health, education and welfare of the community, it is critically important that State agencies collect and collate the highest quality data so as to be able to compare services with other jurisdictions. Information on performance towards quantifiable targets and goals is essential to guide and improve policy and resource allocation. The Sustainable Budget Commission (2010) made a specific recommendation on 'more cost effective service delivery':

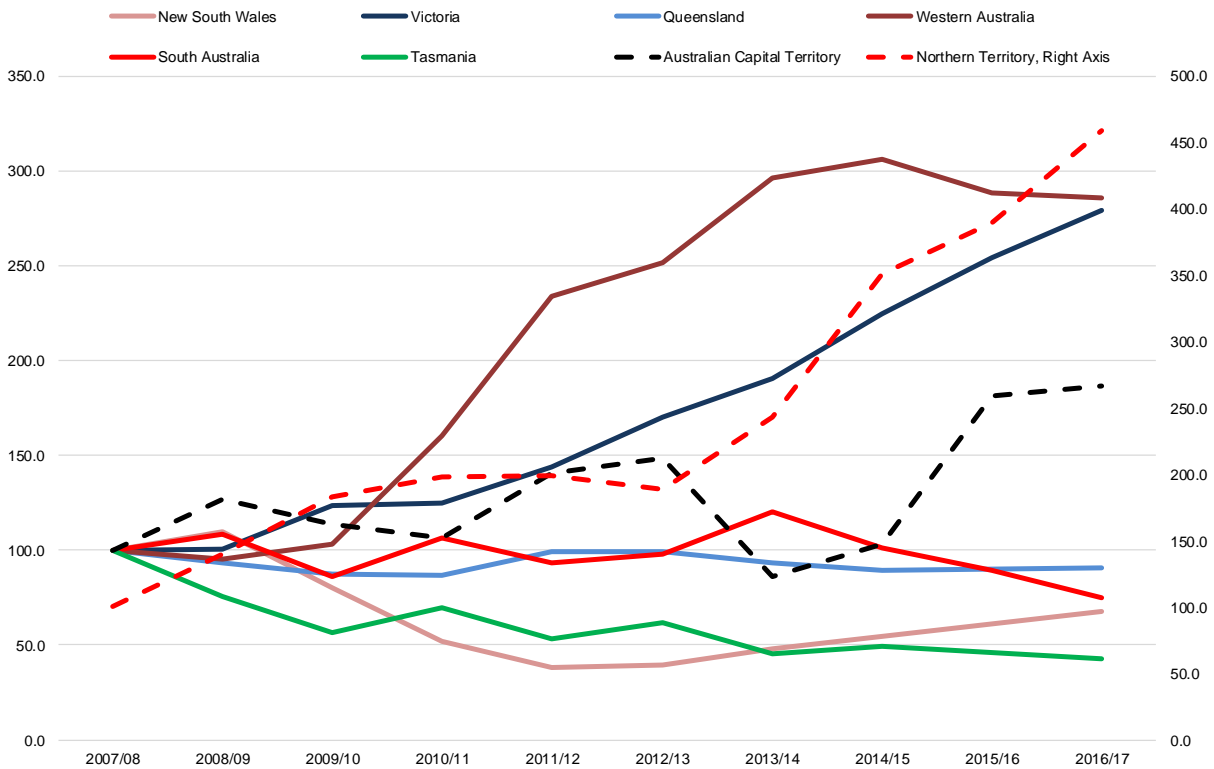
"Major South Australian government programs should be benchmarked against 'best practice' performance across all Australian state governments. Where appropriate, agency funding for those programs should be limited to that required for 'best practice' service delivery, either immediately, or over a short, defined period within the forward estimate years".¹⁶

Figure 6.5 Child Protection Notifications, per annum (2007/08 = 100)



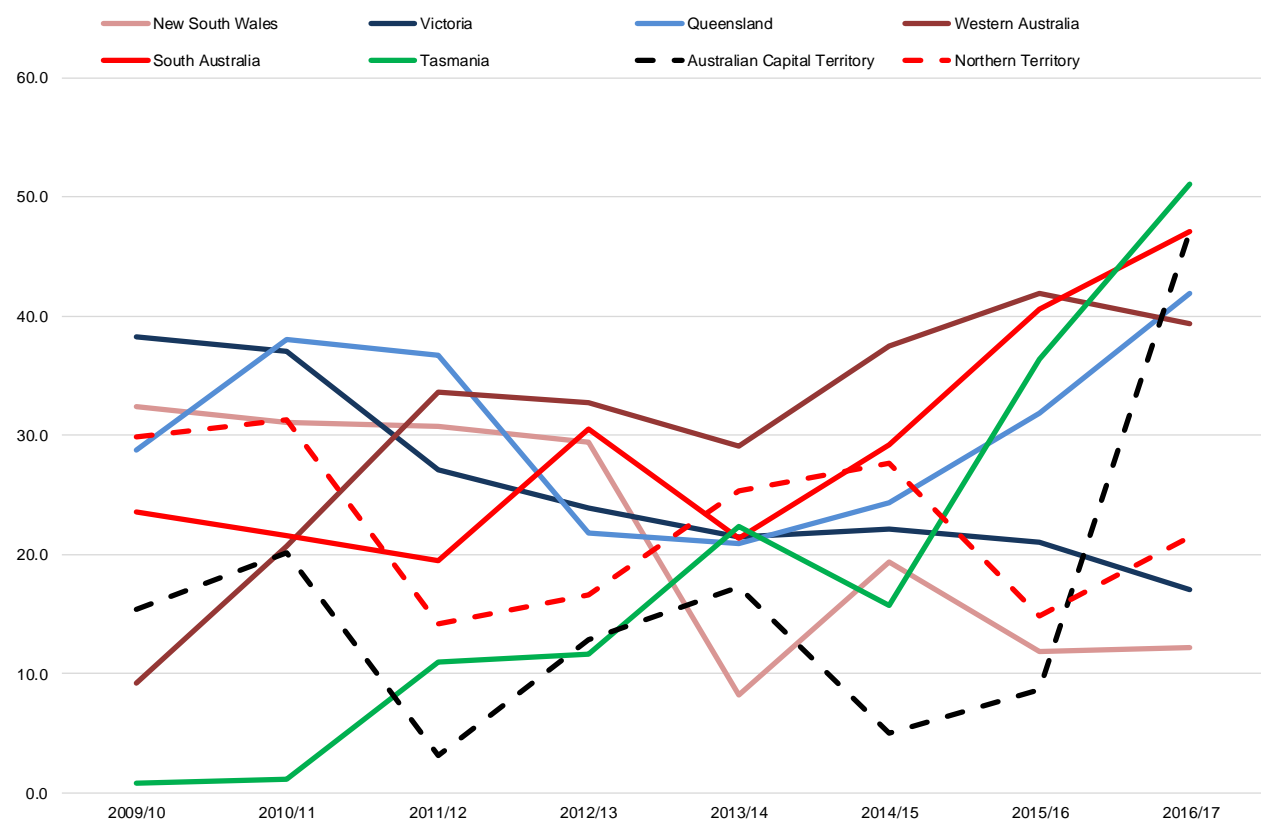
Source: Productivity Commission Report on Government Services 2016/17.

Figure 6.6 Child Protection Investigations, per annum (2007/08 = 100)



Source: Productivity Commission Report on Government Services 2016/17.

Figure 6.7 Child Protection Investigations Finalised after 90 days (per cent)

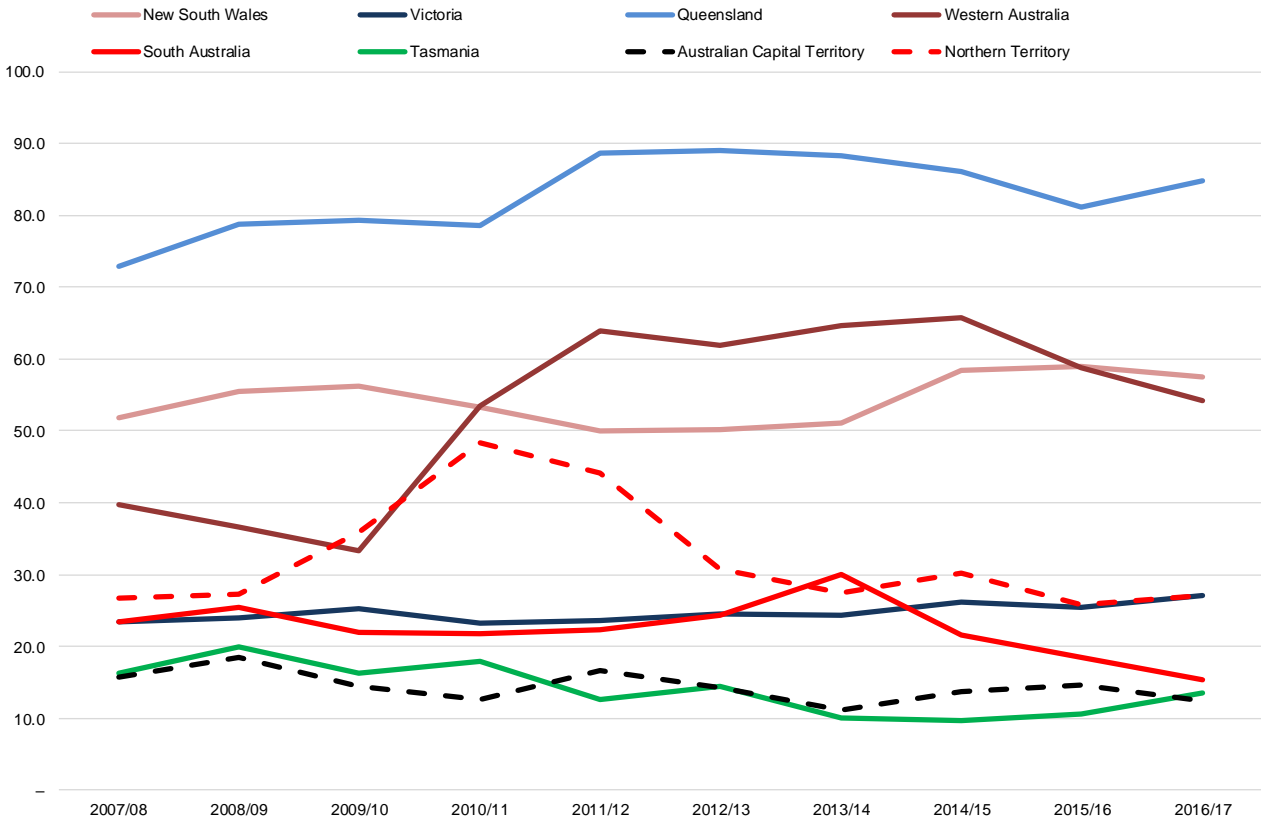


Source: Productivity Commission Report on Government Services 2016/17.

It is of interest to note that the Commission made a specific recommendation to conduct “an external review of the Families and Communities portfolio ... by an independent party, and identify reforms that will deliver efficiency, improvements ... [and] the review should commence as a priority and be completed no later than end March 2011.”¹⁷

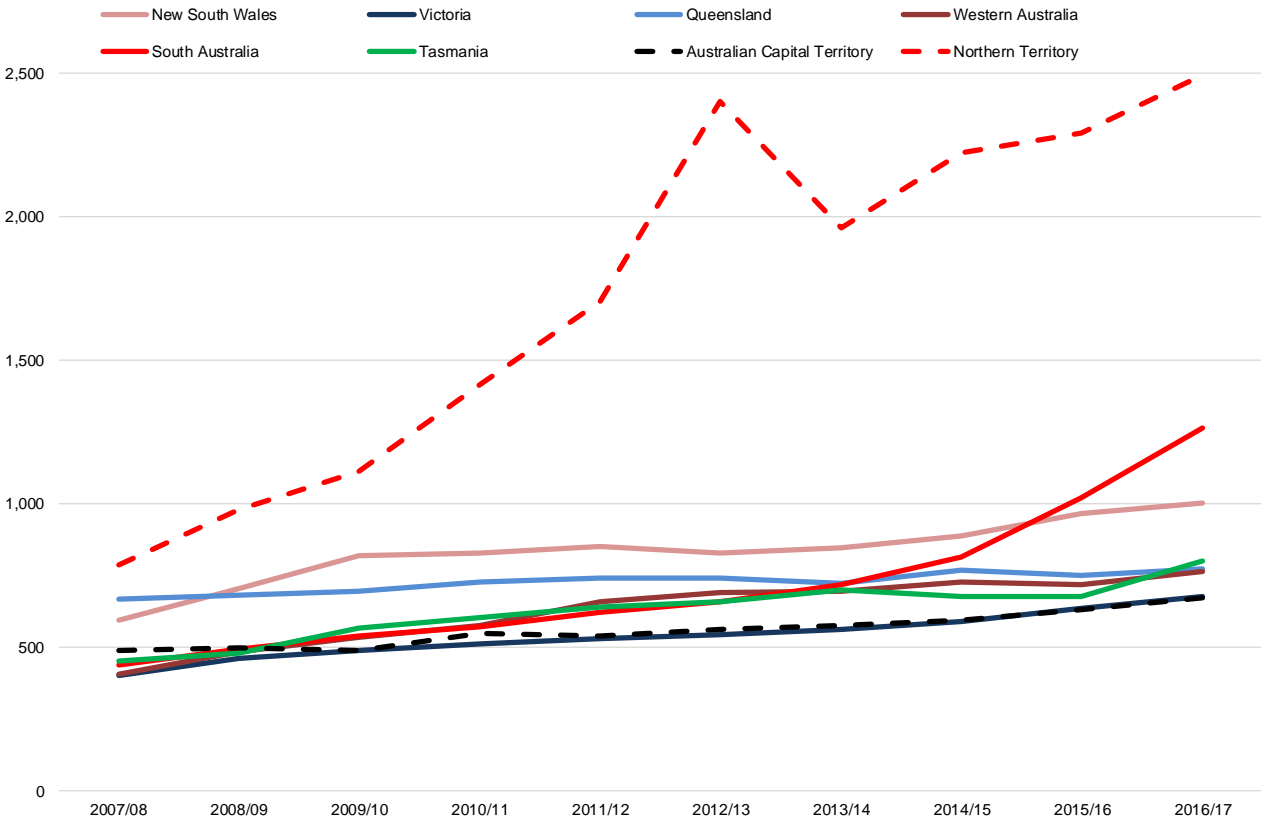
This recommendation suggests the Commission was alerted and concerned about problems in the portfolio identified in 2010.

Figure 6.8 Child Protection Investigations Finalised by 31 August (per cent)



Source: Productivity Commission Report on Government Services 2016/17.

Figure 6.9 Protective Intervention Services, Out-of-Home Care and Intensive Family Support Services, Real Expenditure per Child in Residential Population, 2016/17 (\$)



Source: Productivity Commission Report on Government Services 2016/17.

7. Conclusions and Recommendations

South Australia's State and Local Government sectors each require urgent investigation into the current and future implications of the impacts of their respective sizes, operations and policy formulation and implementation on the South Australian economy, employment and population growth and living standards.

South Australia is lagging the other States and comparable other small, open economies such as New Zealand and Singapore, in employment and income growth. There has been minimal growth in aggregate hours worked per month in South Australia since the GFC, (4.8 per cent June quarter 2009 to December quarter 2017), a marked contrast to the national rise of some 14.5 per cent.

Per capita income growth is now amongst the slowest in Australia. One result has been an increase in South Australian's migrating interstate to levels last seen in the 1990s. In turn this has contributed to a reduction in population growth (0.6 per cent per annum to the June quarter 2017) to the slowest of the Australian States and, because it is the young job seekers who principally leave, an acceleration in the average ageing of the population.

The extent of the growth malaise seems to result from some conditions specific to South Australia. Other economies such as Victoria and New Zealand have faced comparable restructuring pressures on manufacturing industry as a result of global and national change, with consequent reductions in the share of manufacturing of total employment, but have been able to more than offset this with employment and income growth in other sectors.

On a number of measures such as the size of the South Australian public sector expenditure and employment in the South Australian economy; the size of electorates; and the ratios of population, Gross State Product and number of public servants per Minister, South Australia stands out as having a large state government sector in comparison with the other states and comparable market economies overseas. We believe the associated costs, both direct and indirect, are a drag on the business sector and the broader South Australian economy.

The evidence suggests, however, that in areas of pivotal importance to the capacity of the South Australian economy to compete nationally and internationally such as primary and secondary education and Vocational Education and Training, the outcomes in terms of standards have been declining in absolute terms and relative to the other States. The current issues with TAFESA appear symptomatic of deeper seated issues in the public education sector.

A high performing public sector can, particularly in times of accelerating change, be a force to assist growth in the private sector, the broader economy and employment and living standards. An integral part of that high performance will be in the proper generation and assessment of policies and their efficient and effective implementation. Our assessment is that on a broad number of fronts:

- the processes of policy making, analysis and review are poor in terms of inputs and policies generated;
- in many instances there is little substantive cost benefit analysis applied prior to policies being implemented;
- the management of implementation appears poor, as witnessed by the issues at TAFESA, Oakden and Transforming Health; and
- there is little or no analysis after implementation of the costs and benefits against the original plans.

Along with our recommended reduction in the number of Government Ministers to 11, we believe more effective policy formulation and better implementation, including of ongoing management, would help reduce costs in the public sector and to the private sector. This should lead to better employment and living standard outcomes along with an improved capacity of South Australia to support a dynamic and more efficient and effective public sector, State and Local, to help deal with the accelerating pace of change. Otherwise South Australia will continue to decline relative to the other States and likely face stagnant living standards.

The **first reform** is to the system of political representation. *We recommend:*

- a reduction in the number of Ministers to 11;
- a reduction in the size of the Legislative Council by eight members to a Chamber of 14 seats, and a review of the term of office; and
- a reduction in the size of the House of Assembly by four electorates to a Chamber of 43 seats.

The **second reform** to establish a high performance public sector is to implement significant reforms to the:

- Department of the Premier and Cabinet (Functions: policy development and reform);
- Department of Treasury and Finance (Functions: policy oversight, monitoring and evaluation); and
- Department of State Development (Function: implementation).

It is not within the scope of this paper to provide further details but some additional thoughts on reform to agencies is included at Appendix D.

The **third reform** is to rebalance the relative shares of total employment between the public sector and the private sector. The share of state government employment is highest in South Australia relative to other jurisdictions with one public sector employee for every 16.4 persons (national average 1 : 19.5 persons):

- there is a need to independently review services delivered by government that can be provided outside of government at lower unit cost;
- there needs to be consistent arrangements for competitive and contestable markets in service provision; and
- South Australian general government FTE employment is 6,500 (8.5 per cent) more in 2017 than budgeted for in 2013/14 (for June 2017). Redundancies and separate packages have been more than offset by new recruitments.

There appears to be significant “classification creep” in employee numbers within the South Australian public sector without evidence of improvement in performance, employee management and any economic efficiency dividend. The increase in FTEs and the increasing number of public employees in the higher salary classifications is contributing to the significant rise in South Australian government employee costs.

The **fourth reform** is to review the role of local government in the C21st, the potential expanded role they could play in the future and the relationship of local government to state government. A commissioned review by the Local Government Association of SA of local government in South Australia concluded “... that ‘business as usual’ into the future was not a viable option ...”.

The ultimate objective is to improve the delivery of services to all South Australians and thereby improve community welfare. A highly productive, efficient and effective public sector is vital to support the level of economic activity in the State and to contribute to generating the wealth required to support social and community objectives. The four reforms follow from recommendations considered in an earlier paper¹⁸:

- the restoration of cost effective democracy in South Australia with an examination of the size and influence of our Parliament;
- the requirement to implement a sustainable budget framework including the necessity to enhance policy and program evaluation;
- consideration of a state-based Independent Productivity Commission or a similar body;
- the importance of review and improvements to government service delivery, industry assistance including whether some current activities of government were feasible/justified; and
- the need to prioritise a review of local government/state government relationships, including and because, employment trends were shifting to more local, high quality, human service delivery. Demographic trends were also to be considered.

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Appendix A: Education Tables

Table A.1 Number of School Students (Full and Part-time), States and Territories, Government, Catholic and Independent schools, 2011 and 2016

State/Territory	2011				2016			
	Government	Catholic	Independent	Total	Government	Catholic	Independent	Total
New South Wales	746,307	244,034	140,315	1,130,656	781,430	256,035	157,678	1,195,143
Victoria	542,657	193,870	122,781	859,308	591,688	207,972	134,708	934,368
Queensland	496,275	135,114	109,385	740,774	540,606	146,001	117,520	804,127
South Australia	168,104	48,186	44,956	261,246	171,809	46,856	47,267	265,932
Western Australia	238,387	66,971	60,642	366,000	271,820	72,127	65,017	408,964
Tasmania	59,536	14,608	9,150	83,294	56,561	15,036	9,209	80,806
Northern Territory	29,343	4,561	5,694	39,598	29,574	5,188	6,456	41,218
Australian Capital Territory	34,644	17,250	9,039	60,933	40,314	17,835	9,519	67,668
Total	2,315,253	724,594	501,962	3,541,809	2,483,802	767,050	547,374	3,798,226

Source: Australian Bureau of Statistics, Schools, Australia, 2016, Table 90a Key Information by States and Territories, 2011-2016, (Cat No. 4221.0).

Table A.2 Number of In-school Staff (FTE), States and Territories, Government, Catholic and Independent schools, 2011 and 2016

State/Territory	2011				2016			
	Government	Catholic	Independent	Total	Government	Catholic	Independent	Total
New South Wales	69,501	20,745	16,915	107,160	72,173	22,647	20,027	114,847
Victoria	53,543	18,053	16,497	88,093	58,872	20,697	18,851	98,419
Queensland	48,348	12,680	12,754	73,783	56,747	15,118	14,729	86,594
South Australia	16,421	4,635	4,895	25,950	17,617	4,606	5,496	27,718
Western Australia	26,070	6,706	7,405	40,180	30,101	7,692	8,473	46,267
Tasmania	6,165	1,400	1,267	8,832	5,860	1,506	1,363	8,729
Northern Territory	3,918	602	755	5,275	3,621	760	964	5,345
Australian Capital Territory	3,594	1,429	983	6,006	4,101	1,547	1,196	6,844
Total	227,559	66,250	61,471	355,280	249,093	74,572	71,098	394,762

Source: Australian Bureau of Statistics, Schools, Australia, 2016, Table 90a Key Information by States and Territories, 2011-2016, (Cat No. 4221.0).

Table A.3 Student/In-school Staff Ratio, States and Territories, Government, Catholic and Independent schools, 2011 and 2016

State/Territory	2011				2016			
	Government	Catholic	Independent	Total	Government	Catholic	Independent	Total
New South Wales	10.74	11.76	8.30	10.55	10.83	11.31	7.87	10.41
Victoria	10.14	10.74	7.44	9.75	10.05	10.05	7.15	9.49
Queensland	10.26	10.66	8.58	10.04	9.53	9.66	7.98	9.29
South Australia	10.24	10.40	9.18	10.07	9.75	10.17	8.60	9.59
Western Australia	9.14	9.99	8.19	9.11	9.03	9.38	7.67	8.84
Tasmania	9.66	10.44	7.22	9.43	9.65	9.98	6.76	9.26
Northern Territory	7.49	7.58	7.54	7.51	8.17	6.83	6.70	7.71
Australian Capital Territory	9.64	12.07	9.19	10.14	9.83	11.53	7.96	9.89
Total	10.17	10.94	8.17	9.97	9.97	10.29	7.70	9.62

Source: Australian Bureau of Statistics, Schools, Australia, 2016, Table 90a Key Information by States and Territories, 2011-2016, (Cat No. 4221.0).

Table A.4 Trend in Science Literacy: 2006-2015

Science Literacy	2000	2003	2006	2009	2012	2015
Average (Number)						
Australian Capital Territory			549	546	534	527
New South Wales			535	531	526	508
Victoria			513	521	518	513
Queensland			522	530	519	507
South Australia			532	519	513	508
Western Australia			543	539	535	521
Tasmania			507	497	500	483
Canada			534	529	525	528
Singapore				542	551	556
New Zealand			530	532	516	513
Low Performers (per cent of total)						
Australian Capital Territory			10	11	12	14
New South Wales			11	12	14	19
Victoria			16	13	13	16
Queensland			13	12	13	18
South Australia			11	12	15	17
Western Australia			10	11	11	15
Tasmania			18	20	20	27
High Performers (per cent of total)						
Australian Capital Territory			21	20	17	14
New South Wales			17	15	16	12
Victoria			11	13	11	10
Queensland			13	15	12	10
South Australia			15	10	11	10
Western Australia			19	18	16	12
Tasmania			11	8	10	9
Per cent at or above National Proficient Standard						
Australian Capital Territory			75	74	71	68
New South Wales			69	69	66	59
Victoria			62	65	64	63
Queensland			66	68	64	60
South Australia			69	66	61	60
Western Australia			73	71	70	65
Tasmania			59	57	57	48

Source: PISA 2015: Reporting Australia's Results, Australian Council for Educational Research, www.oecd.org/pisa/

Table A.5 Trend in Reading Literacy: 2000-2015

Reading Literacy	2000	2003	2006	2009	2012	2015
Average (Number)						
Australian Capital Territory	552	549	535	531	525	516
New South Wales	539	530	519	516	513	502
Victoria	516	514	504	513	517	507
Queensland	521	517	509	519	508	500
South Australia	537	532	514	506	500	503
Western Australia	538	546	524	522	519	507
Tasmania	514	508	496	483	485	476
Canada		528	527	524	523	527
Singapore				526	542	535
New Zealand		522	521	521	512	509
Low Performers (per cent of total)						
Australian Capital Territory	8	8	10	13	13	16
New South Wales	10	11	13	14	15	19
Victoria	14	13	15	14	12	16
Queensland	14	15	14	14	15	19
South Australia	10	10	12	15	16	18
Western Australia	11	8	10	13	12	17
Tasmania	17	16	19	23	21	26
High Performers (per cent of total)						
Australian Capital Territory	25	22	16	18	15	14
New South Wales	18	16	13	13	13	13
Victoria	14	11	8	12	11	10
Queensland	16	13	10	14	11	10
South Australia	19	15	10	10	8	10
Western Australia	21	20	12	14	13	11
Tasmania	15	10	8	7	7	7
Per cent at or above National Proficient Standard						
Australian Capital Territory	77	78	75	70	72	65
New South Wales	73	71	67	66	64	59
Victoria	64	67	63	65	68	63
Queensland	66	66	64	66	62	60
South Australia	73	74	66	63	60	61
Western Australia	71	77	71	68	67	63
Tasmania	65	63	59	52	53	48

Source: PISA 2015: Reporting Australia's Results, Australian Council for Educational Research, www.oecd.org/pisa/

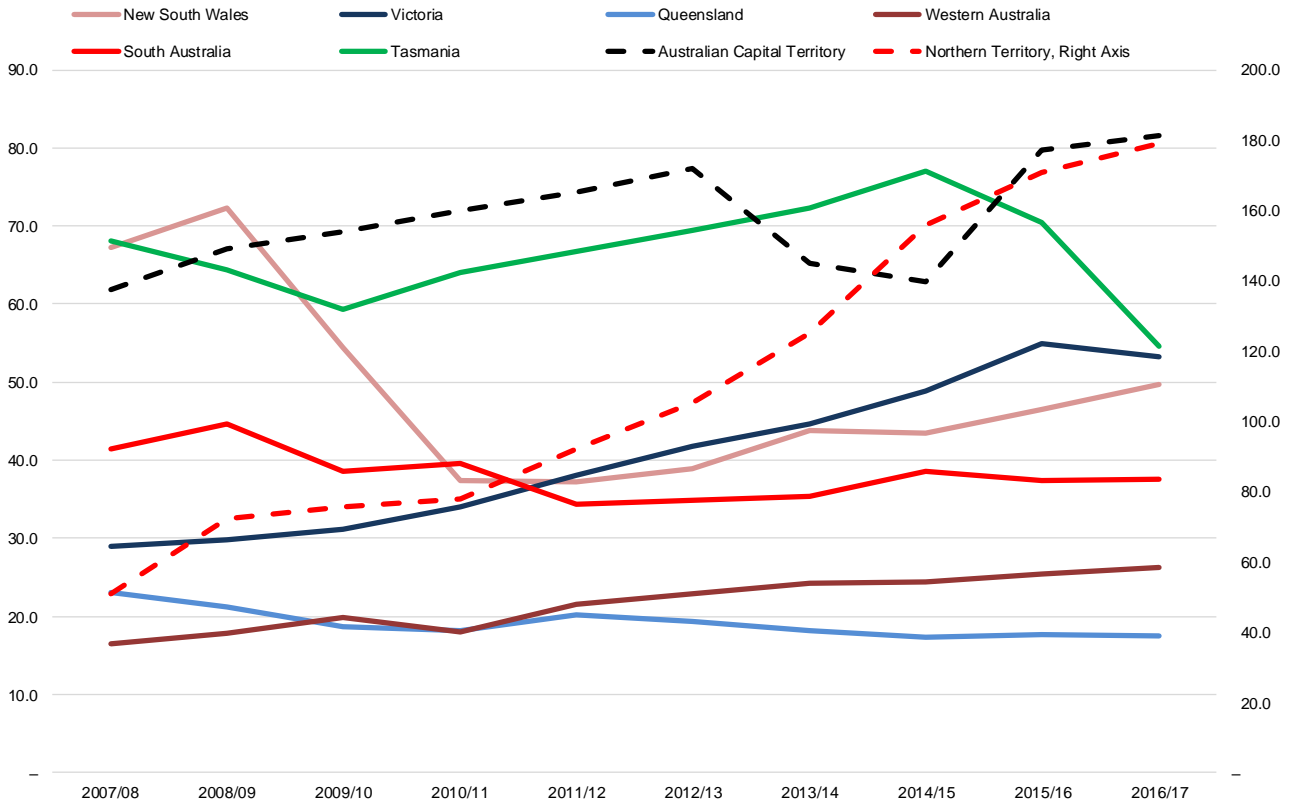
Table A.6 Trend in Mathematics Literacy: 2003-2015

Mathematics Literacy	2000	2003	2006	2009	2012	2015
Average (Number)						
Australian Capital Territory		548	539	528	518	506
New South Wales		526	523	512	509	494
Victoria		511	513	512	501	499
Queensland		520	519	518	503	486
South Australia		535	520	509	489	489
Western Australia		548	531	529	516	504
Tasmania		507	502	487	478	469
Canada		532	527	527	518	516
Singapore						
New Zealand		523	522	519	500	495
Low Performers (per cent of total)						
Australian Capital Territory		11	10	14	16	10
New South Wales		14	13	17	20	21
Victoria		17	14	16	19	19
Queensland		16	13	15	20	24
South Australia		11	12	16	23	23
Western Australia		8	11	13	16	18
Tasmania		18	18	24	27	32
High Performers (per cent of total)						
Australian Capital Territory		27	23	21	19	14
New South Wales		20	18	16	18	13
Victoria		15	14	15	12	11
Queensland		18	16	18	15	9
South Australia		23	21	22	17	12
Western Australia		28	21	22	17	12
Tasmania		14	12	10	9	8
Per cent at or above National Proficient Standard						
Australian Capital Territory		76	74	69	65	61
New South Wales		67	67	63	59	55
Victoria		63	64	63	58	58
Queensland		66	67	65	58	58
South Australia		73	67	63	53	54
Western Australia		76	72	69	63	60
Tasmania		61	58	52	48	44

Source: PISA 2015: Reporting Australia's Results, Australian Council for Educational Research, www.oecd.org/pisa/

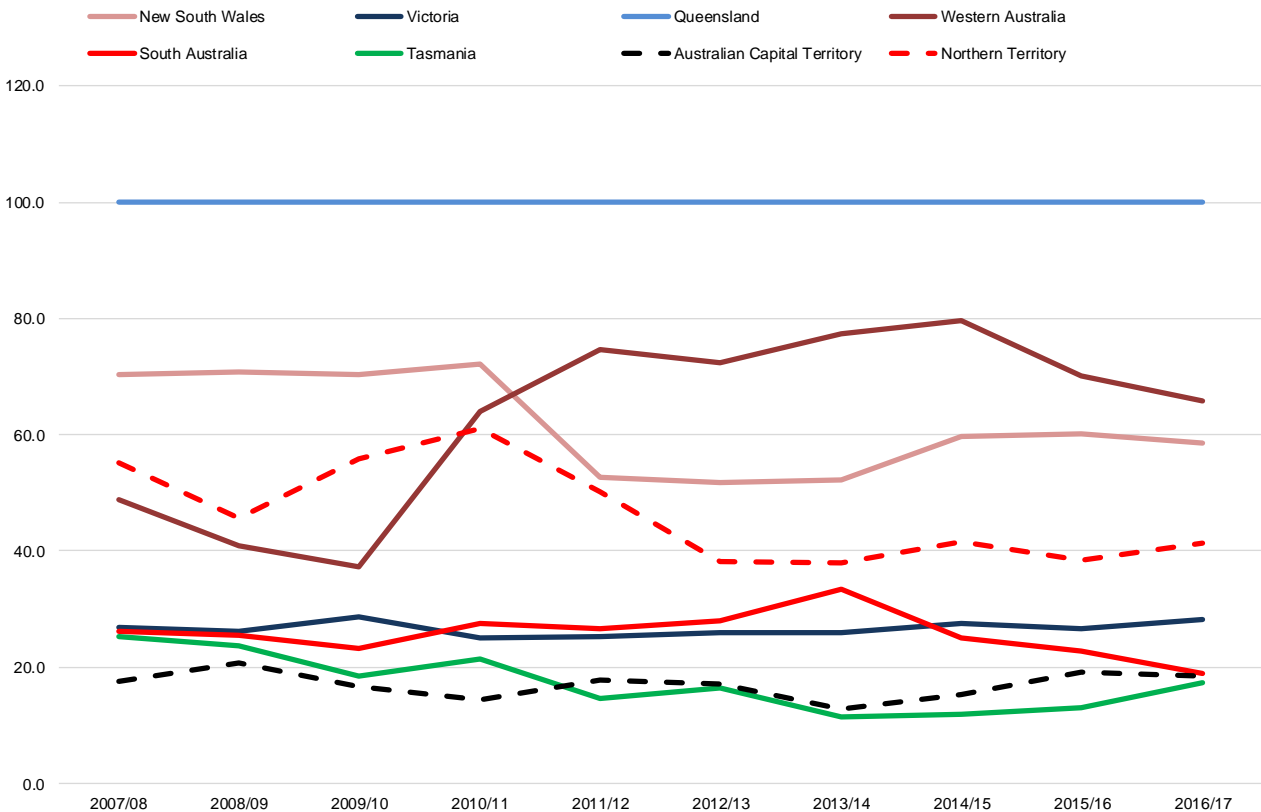
Appendix B: Child Protection – Additional Graphs

Figure B.1 Children 0-17 Years in Notifications per 1,000 Children in the Target Population



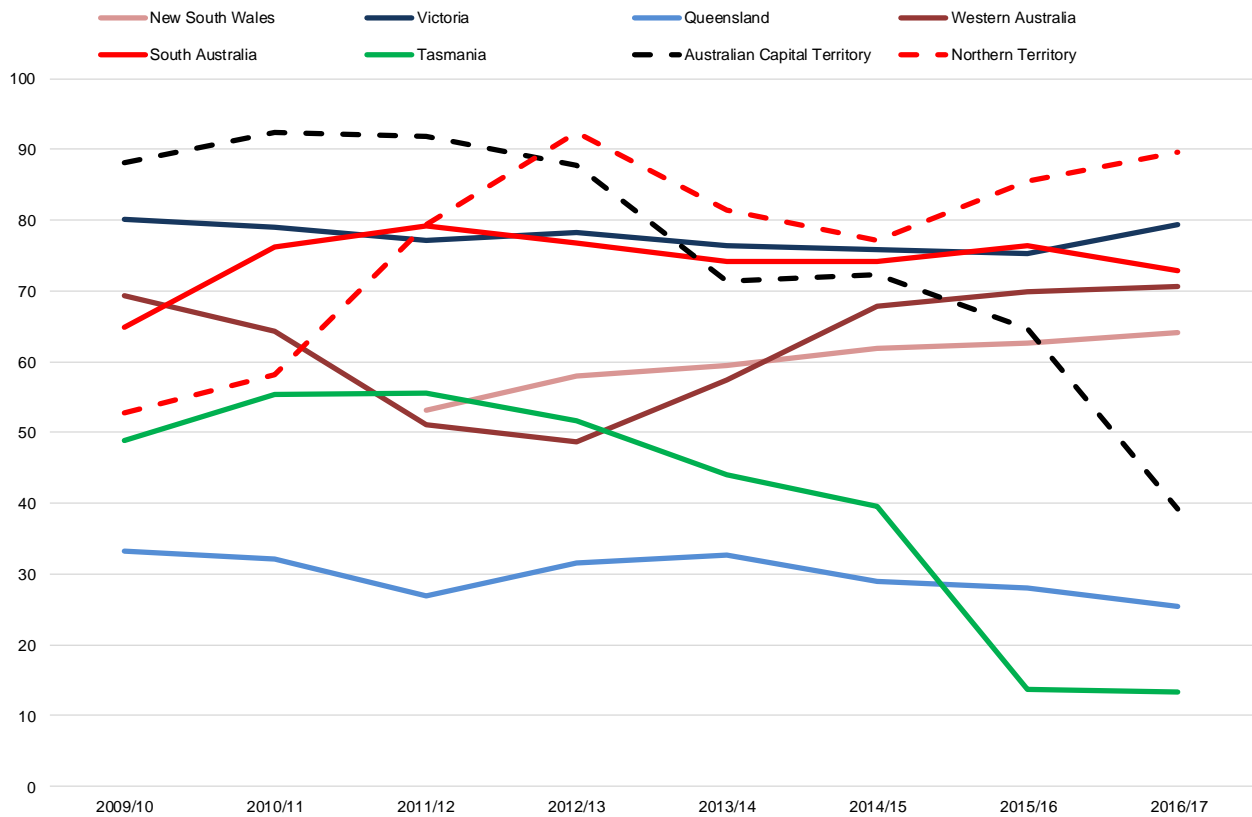
Source: Productivity Commission Report on Government Services 2016/17.

Figure B.2 Child Protection Investigations, Per cent of Notifications



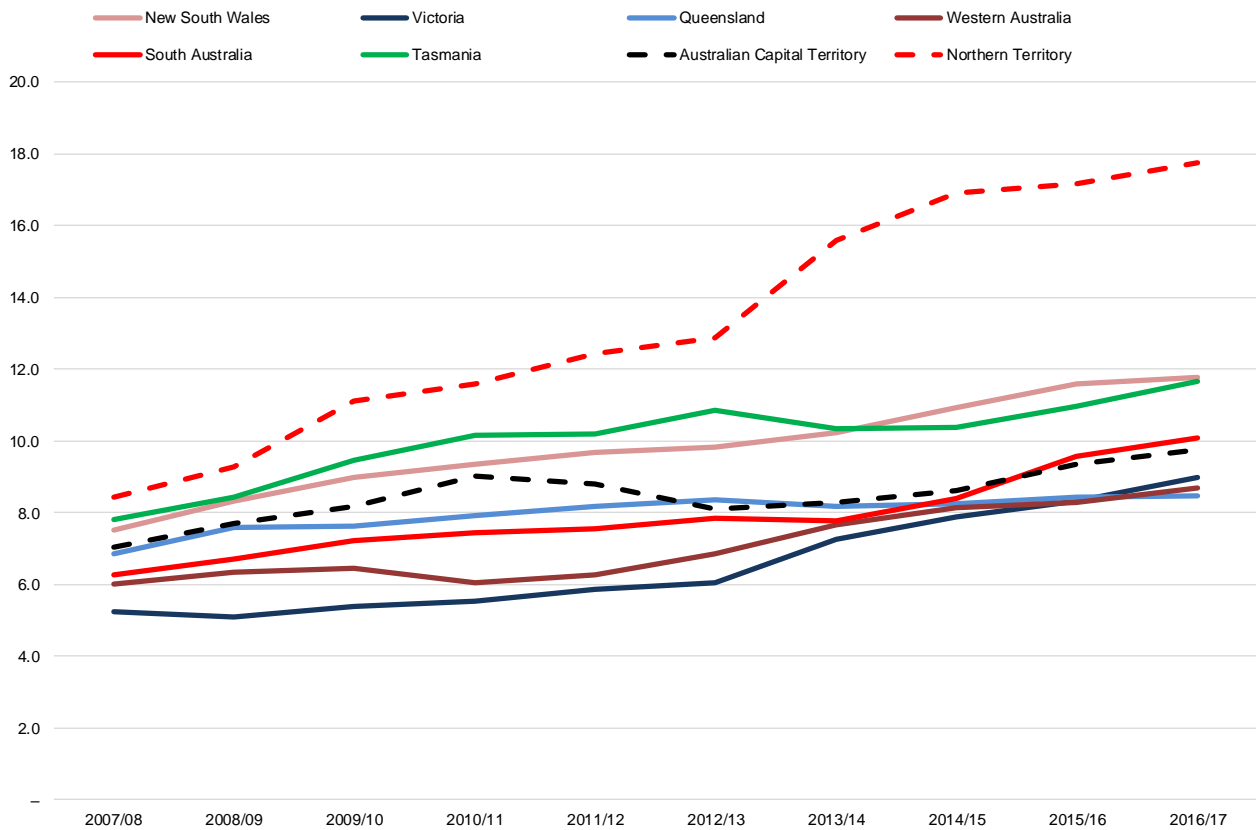
Source: Productivity Commission Report on Government Services 2016/17.

Figure B.3 Child Protection Investigations, Response Within 7 Days (per cent)



Source: Productivity Commission Report on Government Services 2016/17.

Figure B.4 Children 0-17 Years on Care and Protection Orders per 1,000 Children in the Target Population



Source: Productivity Commission Report on Government Services 2016/17.

Appendix C: Fact Sheet > SuperSA > Triple S

Fact Sheet > Super SA > Triple S

TAX

The information in this document forms part of the Triple S Product Disclosure Statement dated 3 October 2017

> 1

SUPER SA

contributing to your future

IN THIS FACT SHEET

- > Untaxed funds and tax
- > Tax on withdrawals
- > Tax and contributions
- > Contribution caps
- > Division 293 tax
- > Superannuation Surcharge
- > Tax File Number

Understanding how super is taxed can help you develop tax-effective strategies that can give your super a boost.

Unlike many other forms of savings, super is taxed concessionaly. This essentially means that super is treated favourably under current tax legislation.

Triple S is an untaxed, or tax-deferred, super scheme. This means that tax is deducted from your super entitlement when it is withdrawn from the scheme.

The two main factors that impact how your super is taxed are:

1. the various components that make up your balance, and
2. your age when you take a benefit.

- Table 1 shows the names of the major components that may make up your entitlement. These tax components, or parts, make up your entitlement when it is paid.
- Table 2 shows the concessional tax rates that apply at certain ages.
- Table 3 shows your Commonwealth Government preservation age (page 2).

! Triple S is an untaxed scheme, which means that the Commonwealth Government does not tax either the contributions your employer makes on your behalf or your investment earnings until you leave the fund.

Rather than paying tax up front, tax is charged when an entitlement is paid, in accordance with the Australian Taxation Office rules for untaxed funds.

Table 1: Names of common tax components of your entitlement

Names of tax components	Meaning	Example
Tax free component	Monies already taxed	After-tax contribution from net salary
Taxable (untaxed) component	Monies yet to be taxed	Employer contributions, salary sacrifice, investment earnings
Taxable (taxed) component	Super already taxed	Funds rolled over from a taxed scheme

Table 2: How tax is calculated on your Triple S entitlement from 1 July 2017

Your Age	Tax on taxable (untaxed) component	Tax on taxable (taxed) component
Under Commonwealth preservation age	30% maximum tax rate up to \$1,445,000	20% maximum rate (no limit)
Commonwealth preservation age up to age 59	15% tax up to \$200,000 30% tax on balance up to \$1,445,000	Taxed at 0% up to \$200,000 15% tax on balance (no limit)
60 or over	15% tax on amounts up to \$1,445,000	Tax free

Assumes TFN provided. If you do not provide your TFN you will be taxed at the highest marginal tax rate plus Medicare levy. The 2% Medicare levy is deducted when tax is payable and you take your Triple S entitlement in cash.

Taxable (untaxed) amounts over \$1,445,000 will be taxed at the top marginal rate plus Medicare levy.

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Fact Sheet > Super SA > Triple S TAX

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SUPER SA
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How your super will be taxed if rolled over to another fund

If you roll over your entitlement to the Super SA Flexible Rollover Product or another taxed super fund, 15% contributions tax will be deducted from the part of the entitlement called the taxable (untaxed) component.

NOTE: The Medicare levy is not payable when your Triple S entitlement is rolled over to a taxed fund. If your taxable (untaxed) component is over \$1,445,000 the excess will be taxed at the highest marginal rate plus Medicare levy before your entitlement is rolled over. If you have super invested in the Lump Sum or Pension schemes, a separate cap of \$1,445,000 applies for each scheme. You should therefore seek professional financial advice should you wish to consolidate super held in other untaxed schemes into Triple S, or vice versa.

Proportioning of entitlements

Any entitlement taken in cash or rolled over to another fund will have the tax components calculated in the same proportions as the components that make up your total entitlement.

You are not able to select only your tax-free component. This means that payments in cash or rollovers to another fund will contain taxable amounts and you may need to pay tax on these.

Tax payable upon your death or total and permanent disablement, including terminal illness

In accordance with Commonwealth tax legislation, if you are totally and permanently disabled, your Triple S entitlement will be taxed concessionaly.

If your entitlement is paid due to a terminal illness, it will be tax free.

If you die, your Triple S entitlement is tax free if it is paid to your spouse/putative spouse.

Table 3: Your Commonwealth Government preservation age depends on your date of birth:

Date of birth	Commonwealth Government preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

Important note: Commonwealth preservation rules are different from preservation rules in Super SA schemes. You need to be aware of this if you are rolling money out of a Super SA scheme and into the Super SA Flexible Rollover Product.

If you die but have no spouse/putative spouse, your Triple S entitlement will be paid to your Estate.

If you have nominated a legal personal representative (estate) with Super SA then your benefit will be paid to your Estate and distributed according to your Will or the Statutes.

Where your Estate then pays your entitlement to your dependants, as defined in tax law, it will be tax free, however if it is paid to a non-dependant, tax will be payable.

Tax and contribution limits

The annual employer and salary sacrifice limits, or caps, that apply to other funds don't apply to Triple S. This means that generally there is no limit on the concessionaly taxed contributions (eg employer contributions and salary sacrifice contributions) that the accounts of Triple S members can receive each year.

Individuals whose income and relevant concessionaly taxed super contributions exceed

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How can I provide my TFN?

Online:

Sign in to the secure member area at www.supersa.sa.gov.au and type your TFN into the *My Details* page.

Post:

Download the *Tax file number notification form* and send it to Super SA.

¹Subject to transitional arrangements. Please visit www.ato.gov.au for more information.

\$250,000 pa will pay 15% tax on the amount of relevant concessional contributions that exceed the \$250,000. More information is available in the *Division 293 tax for high income earners* section.

Tax and breach of limits

The Commonwealth Government has set certain limits. Exceeding the following limits will incur the highest marginal rate plus Medicare levy:

- After tax contributions are limited to \$100,000 each financial year or, if you are under age 65 during the financial year, you can bring forward the limit for two years to contribute up to \$300,000 in one year¹.
- When claiming your super, any portion which has not been taxed and exceeds \$1,445,000, will be taxed at the top marginal rate plus Medicare levy.

Division 293 tax for high income earners

If the sum of your income and relevant concessional contributions is over \$250,000 per year, you'll be taxed at 15% of your relevant concessional contributions above the \$250,000 threshold. If you are liable for the tax you'll receive notification from the Australian Tax Office (ATO) advising you of the amount payable and your payment options. The ATO will issue a Division 293 tax notice that may be made up of:

- A due and payable amount in respect of accumulation interests (eg Triple S)
- A deferred payment in respect of defined benefit interests (eg Lump Sum and Pension schemes)

For information about your payment options, including the option to have your Division 293 tax liability paid from your Super SA account, please refer to the *Division 293 Tax* fact sheet on the Super SA website.

It is also noted that different rules apply to individuals who are classified as 'State Higher Level

Office Holders' whose employers make certain contributions to constitutionally protected funds. They are generally exempt from Division 293 tax unless the contributions are made as part of a salary package (ie Salary Sacrifice).

Superannuation Surcharge

The Superannuation Surcharge, was a tax imposed by the Commonwealth Government on your surchargeable contributions once your Adjusted Taxable Income had reached certain levels. The tax was introduced on 20 August 1996 and levied until 30 June 2005.

Surchargeable contributions were the total contributions paid into your scheme by your employer and included your salary sacrifice contributions. Any surcharge liability accrued prior to 1 July 2005 will be payable upon leaving Triple S, however members can elect to use a portion of their super entitlement to pay any outstanding surcharge liability rather than paying this with after-tax money.

Further information on the Superannuation Surcharge is available in the *Triple S Surcharge* fact sheet on the Super SA website.

Tax file numbers

Your Tax File Number (TFN) is a unique number issued to you, as a taxpayer, by the Tax Office. It enables the Tax Office to match information it receives about income earned with details disclosed in your tax return.

Providing your super scheme with your TFN will have the following benefits:

- your super scheme will be able to accept all types of contributions to your account
- you will not pay additional tax on your contributions
- other than the tax that may ordinarily apply, no additional tax will be deducted when you start drawing down your super entitlement

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Fact Sheet > Super SA > Triple S TAX

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SUPER SA
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IN THIS FACT SHEET

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- > [Tax on withdrawals](#)
- > [Tax and contributions](#)
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- > [Division 293 tax](#)
- > [Superannuation Surcharge](#)
- > [Tax File Number](#)

- it will make it much easier to trace different accounts in your name so that you receive all your super when you retire
- your super fund will be able to accept payment of your Commonwealth Government Co-Contribution to your account.

Your TFN will only be used for lawful purposes. These purposes may change in the future as a result of legislative change. The Super SA Board may disclose your TFN to another super fund when your entitlements are being transferred, unless you notify the Super SA Board in writing that your TFN may not be disclosed to any other trustee.

Super SA can tell you if we already have your TFN or you can check your Annual Statement.

Further information

The following fact sheets and Product Disclosure Statements (PDS) may be of particular assistance if read in conjunction with the information presented here:

- [Grow your super](#)
- [Member Entitlements](#)
- [Surcharge](#)

Fact sheets on a range of topics relating to your super are available on the Super SA website. Alternatively, if you have any enquiries regarding tax or any other matters raised in this fact sheet, please contact Super SA.

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Disclaimer

The information in this document is intended to help you understand your entitlements in Triple S. Super SA does its best to make sure the information is accurate and up to date. However, you need to be aware that it may not include all the technical details relevant to the topic. For the complete rules of Triple S, please refer to the *Southern State Superannuation Act 2009* and *Southern State Superannuation Regulations 2009*. The Act and accompanying Regulations set out the rules under which Triple S is administered and entitlements are paid. You can access a copy from the Super SA website.

Triple S is an exempt public sector superannuation scheme and is not regulated by the Australian Securities and Investments Commission (ASIC) or the Australian Prudential Regulation Authority (APRA). Super SA is not required to hold an Australian Financial Services Licence to provide general advice about Triple S.

The information in this document is of a general nature only and has been prepared without taking into account your objectives, financial situation or needs. Super SA recommends that before making any decisions about Triple S you consider the appropriateness of this information in the context of your own objectives, financial situation and needs, read the Product Disclosure Statement (PDS) and seek financial advice from a licensed financial adviser in relation to your financial position and requirements.

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Appendix D: Reforms to Agencies

It is not within the scope of this paper to fully expand on reforms to agencies. Notwithstanding, we have pointed to uncoordinated policy development, a lack of reform and insufficient focus on productivity; poor coordination between economic, social and training policies, a lack of oversight and evaluation of programs which is critical to report on outcomes and key development strategies that “hang in the wind”. It is simply not plausible to have the situation of TAFE SA, with declining enrolments and standards yet claim we have the skilled labour force for defence, aviation, electronics, etc or that our ‘first priority is jobs’. The chasm in policy and then implementation is obvious to all.

The three key agencies to lead reform with our (admittedly suggestions only as to key functions) are the Department of Premier and Cabinet, Treasury and Finance and State Development.

Premier and Cabinet (Function: lead agency for policy development and reform)

- cabinet office, executive services and legal;
- public sector reform and accountability;
- corporate services;
- premier’s (or) state’s priorities unit;
- economic strategy and productivity (support sub-committees of cabinet and share inter-governmental relations with social policy group as required);
- social policy and service delivery (including reform and new programs, share inter-governmental relations);
- infrastructure planning, major projects.

Treasury and Finance (Function: budget sustainability, policy oversight, monitoring and evaluation)

- budget and finance (budget strategy, fiscal strategy, analysis and performance);
- economics and social policy division (includes economic forecasting, regulation, tax, strategy and reform in human services, education, health, justice, skills and across portfolio analysis/evaluation);
- commercial division (SAFA, infrastructure, financial policy and assets/ liabilities);
- corporate and government services (corporate finance, trading enterprises, legal, IT, procurement); and
- revenue division (Revenue SA, SuperSA, payroll tax, others taxes, fees and charges, royalties, business development).

State Development (Function: implementation for export economy, new economic infrastructure)

- economic strategy group (includes investment attraction but to set medium to long-term planning);
- industry development (Office of Industry Advocate, small business, science and technology)
- international engagement (includes overseas offices, immigration, and higher education);
- skills and employment (includes OTSC, TAFESA policy, funding and review);
- office of regional economic development (potentially to include Aboriginal Affairs and development); and
- tourism strategy and development (includes SATC).

Appendix E: Review of Job Separations, Leave and Sick Days

Job Separations and Recruitment

The Office for the Public Sector (OFTPC) acknowledges it cannot actually identify the number of Separations from the Public Sector. The existence of multiple payroll systems in the SA Public Sector results in some complexity identifying the movement of employees from one agency to another. Detailed information is also not always captured when an employee separates, resulting in some difficulty identifying where all employees have moved to. Fluctuations in casual employment can also skew analysis in this area. Data is intended to provide an indicator of recruitment and separation activity, not to reconcile with net changes in the active and paid FTE and headcount throughout the report.

Data is derived from the Workforce Information Reports (various) of the Office for the Public Sector. Certain numbers are identified as:

- exits from the public sector; and
- moves from a job in one Department to another Department within the public sector. This is classified as a separation and a recruitment.

However, a large number of job separations don't seem to be able to be identified as representing either exit from the public sector or moving to another job within the public sector.

SACES estimates the actual exits from the public sector at around 7,500 per annum or 7.5 per cent. This assumes, as shown in Table E1 that 50 per cent of the unidentified separations are real exits. The 7.5 per cent seems to be consistent with what the Commissioner for the Public Sector reports as anecdotal evidence from the units.

It is apparent that natural attrition and more serious attempts at performance management could well provide the capacity for both net reductions in headcount and faster renewal. The risk is that if agencies don't specify where separatees went, particularly if under a cloud, it is not possible to know whether an individual moved to another agency.

Table E1 Estimating Public Sector Separations and Recruitment¹⁹

	2011/12	2012/13	2013/14	2014/15	All SAPS 2015/16	2016/17
A Start period Headcount ¹	101,485	103,649	104,262	103,087	104,070	104,317
B End period Headcount ¹	103,649	104,262	103,087	104,070	104,317	106,118
C Net Change in Headcount (B-A)	2,164	613	-1,175	983	247	1,801
D Recruitments ²	17,229	15,141	14,618	14,804	12,805	16,539
E Separations as Movements within SAPS, Identified ¹	3,264	2,259	2,444	2,419	2,036	4,396
F Separations as Movements within SAPS, Additional Estimates	3,382	3,082	2,001	2,057	2,164	2,012
G External Recruitments Estimates (D-E-F)	10,583	9,801	10,174	10,329	8,606	10,131
H Separations – Left SAPS ¹	4,171	4,228	6,504	5,365	5,145	5,492
I Separations – Destination Not Stated ¹	6,764	6,163	4,001	4,113	4,326	4,024
J Estimated Proportion as Movements within SAPS (per cent)	50.0	50.0	50.0	50.0	50.0	50.0
K Estimated Exit Separations – Destination Not Stated (I-F)	3,382	3,082	2,001	2,057	2,163	2,012
L Total Estimated Exits (H+K)	7,553	7,310	8,505	7,422	7,308	7,504
M Total Estimated Exits as a per cent of Start Period Headcount (L/A) (per cent)	7.4	7.1	8.2	7.2	7.0	7.2
External Recruitment Estimated (D)	10,583	9,800.5	10,173.5	10,328.5	8,606	10,131
External Separations Identified (E)	4,171	4,228	6,504	5,365	5,145	5,492
Implied External Separations Not Identified						

Note: 1 Workforce Information Report, Office for the Public Sector.

2 This is sum of Agency data so includes recruitment from other SA Public Sector Agencies.

Source: SACES calculations drawn from Workforce Information Reports. Notes from the 2016/17 report

Sick Leave/Carers Leave

The upward trend in Sick Leave/Carers Leave since 2013/14, from when publicly available comparable data is available, likely reflects a variety of factors. The rise varies between the different Agencies but 19 Agencies show what would be considered a significant increase. While there appears to be higher levels of leave and more increases in the expected more stressful areas such as related to the social welfare, healthcare and

criminal functions, this is not a direct relationship with SA Police being 1.5 days below average in leave taken per FTE and Department of the Premier and Cabinet being 2 days above average.

Table E2 Sick Leave/Carer's Leave Days per FTE

Agency/Department	Number of Days					
	2016	2017	2013/14	2014/15	2015/16	2016/17
Ambulance Service	1,244	1,349	9.5	9.7	9.9	12.5
Attorney Generals	1,491	1,535	9.3	10	9.6	10.5
Auditor Generals	123	122	6.5	8.1	7.4	11.6
Child Protection	1,642	1,804				10.8
Communities and Social Inclusion	3,591	3,522	11.7	12.4	14.3	13.6
Correctional Services	1,933	2,085	10.3	11.1	11.9	11.3
Country Fire Service	146	150	4.7	9.9	9.7	6.3
Courts Administration Authority	625	638	11.4	9.5	9.6	9.4
Education and Child Development	22,482	23,210	6.2	6.5	7.2	6.8
Electorate Offices	190	206	6.2	6.1	8.1	5.9
Environment Protection Authority	210	214	9.6	8.5	11.3	11.1
Environment, Water and Natural Resources	1,610	1,562	8.8	8.2	9.2	9.5
Health and Ageing	2,038	1,702	8.1	8.9	9.7	9.9
Health Units	27,343	27,915	11.7	12.4	11.8	13.1
Legislature	176	181	5.2	6.6	6.2	6.1
Libraries Board	139	134			13.1	11.8
Metropolitan Fire Service	948	965	13.6	13.3	12.5	11.3
Planning, Transport and Infrastructure	2,900	2,996	10	10.5	8.8	10.3
Police SA	5,686	5,884	8.2	9.4	9.7	8.6
Premier and Cabinet ¹	1,398	1,726	10.2	10.6	11.1	12.1
Primary Industries and Regions	871	927	7.5	7.8	9	8.9
State Development	971	665	8.6	10.1	9.4	9.4
TAFESA	2,245	2,134	6.6	5.9	7.5	7.7
Tourism Commission	127	128	5.7	7.1	7	6.2
Treasury and Finance	393	436	8.7	10.7	10.9	9.9
Other General Government	783	816				
Total General Government	81,305	83,006				
Average for All of Public Sector			9.2	9.7	9.8	10.1
SA Water Corporation			8.7	8.8	9.3	5.8

Note: 1 Department of the Premier and Cabinet: In 2015 was 1,553 but excludes SafeWork SA, Arts SA entities, Aboriginal Affairs and Reconciliation, Office of the Economic Development Board, and Invest in SA. In June 2017 headcount was 1,836.

Source: SACES calculations drawn from Workforce Information Reports.

The increase in the General Government Sector to 10.1 days per FTE in 2016/17 is still below the 10.9 days per FTE for Sick and Carers Leave reported for 2016/17 for the Australian Public Service²⁰ but the latter has shown little change from the 10.8 days in 2013/14.

We estimate that the rise on average across the General Government Sector from 9.2 FTE to 10.1 FTE between 2013/14 and 2016/17 would involve increased costs of at least some \$33 million to \$40 million per annum in replacement staffing salary and on-costs and/or lost output. In addition there would be increased adverse impacts on the morale and productivity of other staff.

We note above that what appears to be a trend increase in Sick/Carers Leave per FTE over the last four years will likely have a variety of causes. It should be recognised, however, that sustained unscheduled increases in absence from work across a business or institution are often indicators of personal stress or withdrawal strategies resulting from broader organisational, cultural and management issues and practices.

Improving policy formulation and implementation, with the latter including ongoing management, would be important elements in reversing this trend of rising unscheduled absences and the associated personal and budgetary costs.

End Notes

- 1 SA Centre for Economic Studies (2018), "Development Strategy for Reinventing South Australia", Economic Issues Paper No. 49, University of Adelaide, January.
- 2 A Framework for Economic Development in South Australia, Economic Development Board May 2003 p. vii.
- 3 Economic Statement: South Australia's Prospects for Growth March 2009 p. x.
- 4 Hall, R.E. and C.I. Jones (1997), "Levels of Economic Activity Across Countries", *American Economic Review*, Vol. 87, No. 2.
- 5 *Charting The Way Forward: Improving Public Sector Performance*, Report of the South Australian Commission of Audit (Adelaide: SA Government, April 1994, Vol. 1 xxxii + 379 pp; Vol. 2 xxviii + 476 pp.
- 6 Example of William Baumol "cost disease". We consider this further in a concluding section.
- 7 Source: 6302.0 - Average Weekly Earnings, Australia, May 2017.
- 8 Source: 6248055002DO001_2016-17 Employment and Earnings, Public Sector, Australia, 2016-17).
- 9 "Strengthening South Australian Communities in a Changing World", Expert Panel, LGA (SA), 2013.
- 10 "Introduction to Local Government Handbook", LGA (SA), 2015, p. 32.
- 11 SACES (2018), "Development Strategy for Reinventing South Australia", Economic Issues Papers No. 49, Table 49, p. 23.
- 12 Includes Aged and Disabled Carers.
- 13 Public servants protest plan to move them to new office block in Port Adelaide,
<http://www.adelaidenow.com.au/news/southaustralia>
- 14 For more on educational outcomes, see Mona Mourshed, Marc Krawitz, and Emma Dorn, "How to improve student educational outcomes: New insights from data analytics," September 2017. <https://www.mckinsey.com/industries/social-sector/our-insights/how-to-improve-student-educational-outcomes-new-insights-from-data-analytics>
- 15 Auditor-General, Annual Report for the Year Ended 30 June 2017, Government of South Australia.
- 16 Sustainable Budget Commission (2010), Second Report, Government Response to the Report, September, p. 2.
- 17 Ibid, p. 6.
- 18 SA Centre for Economic Studies (2018), op. cit.
- 19 Includes employees who permanently left their individual agency during 2016-17. Excludes temporary assignments to other public sector organisations, unpaid leave, or casual employees who did not work in the last pay period.
- 1 Employees that moved internally within the SA Public Sector. This includes employees moving to a different role within the same agency, or transferring to a different agency within the SA Public Sector.
- 2 Employees that separated from the SA Public Sector. This includes employees resigning to a non SA Public Sector role, or who left the workforce due to: a Targeted Voluntary Separation Package (TVSP); a worker's compensation settlement; death; retirement; ill health; study; or family responsibilities.
- 3 Those who ended employment in a role during 2016-17, but whose subsequent employment was not specified. Reasons for ending employment in a role include; dismissal, contract expiry or resignation. Agencies did not specify whether these employees subsequently moved to a different role within the SA Public Sector or whether they separated entirely from the SA Public Sector.
- 20 APS data is <http://www.apsc.gov.au/publications-and-media/current-publications/absence-toolkit>