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The 2014/15 State Budget Examined

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This report could not have been researched, compiled and written without the dedication, knowledge and commitment of CPSU/CSA members, the Some are More Equal Than Others Community Alliance and the broader community, and those union officials who came together to make this report possible. In particular, those members who fearlessly came forward and provided their personal financial information to make the 'household budget' real – we thank you.

Together we can change things.

Contents

Abstract

Public services extend opportunities, protect the vulnerable, and improve everyone's quality of life. They are essential to our economic prosperity and bind us together as a society. This report provides an analysis of the West Australian (WA) 2014-15 state budget by reviewing the budgets for over 15 government agencies and assessing the impact of the state budget on three different households. This report raises fundamental questions about the future of the WA public sector, and our community as a whole, in an era of government fiscal conservatism and 'belt-tightening' in both the state and federal arenas. It also moves beyond the usual government budget rhetoric and questions what kind of future those hardest hit by both the state and federal budgets will have.

The title of this report provided for both immense amusement and serious debate. Rather than seeking to distract from the report's overall credibility, the title is representative of both the depth of our analysis and supports the notion that the content of this report will make for uncomfortable reading.

FOREWARD

The Community and Public Sector Union/Civil Service Association (CPSU/CSA) is a WA union that represents 630 occupations in over 130 public sector agencies. We make work life better for over 40,000 people in WA.

Public services extend opportunities, protect the vulnerable, and improve everyone's quality of life. They are essential to our economic prosperity and bind us together as a society. But the state government is running our public services into the ground; cutting staff and contracting out its obligations to the community – forcing services to run for profit, rather than public good. We acknowledge the significant role of not-for-profit organisations in providing vital services to our communities; these organisations should be adequately funded, particularly in response to the indexation of wage costs. There is an ever-increasing burden being placed upon not-for-profit organisations, as a result of under resourcing within the public sector and the movement away from direct service delivery.[1]

Public services, already struggling to meet demands, are being further undermined through funding and job cuts. We want to see investment in public sector jobs and services and suggest that the state can afford the services our members provide – services that save, protect and enrich lives. The cumulative effect of the service and job cuts in WA will undoubtedly turn back the clock on decades of progress towards equality of opportunity; indeed, this is already occurring.[2]

Our union is committed to tackling discrimination and disadvantage in the public sector, we believe that the WA public sector is uniquely positioned to increase employment of underutilised segments of the population, including; mature people, women, indigenous Australians' and people with disabilities.

We are committed to campaigning against discrimination and disadvantage in our broader community, and hope this report can contribute to an understanding of how well funded, quality public services are vital for a fair and just society.[3]

1. For a broader discussion see Stone, C. (2013), False Economies: Doing less with less, Centre for Policy Development, Sydney
2. The latest OECD report shows that 14% of Australians are surviving on less than 50% of median income, while the OECD average is only 11%. The report also shows that Australia's social spending as a proportion of GDP is lower at 19% than the OECD average of 22%, and that child poverty increased between 2007 and 2010.
3. You can join the Some are More Equal Than Others Community Alliance at join@moreequal.org.au

INTRODUCTION *creating our narrative*

It is clear that 'winning' the economic argument will not suffice, therefore in seeking to broaden the existing social discourse, this report also moves beyond the prevailing economic rationalist paradigm, instead suggesting that in a changing and complex political and policy environment, we must forge a new pathway in order to reset the one-sided nature of our relationship with government.

When it comes to shifting the political economy we are stronger together and emerging from our difference is our common purpose – a fair and equitable society. This rationale sets the stage for the development of our collective narrative and, as the report suggests, our voices must be woven together to form the overwhelming voice. Fundamentally, we are all fighting the same issues and are stakeholders together in our own futures.

This report provides an analysis and evaluation of the 2014-15 WA State Budget. In having reviewed over 15 government departments and agencies in consultation with the community and our members, this report deepens our understanding of the state's fiscal and economic context and importantly its implications. The report brings together that analysis and asks fundamental questions about the future of the WA public sector in an era of fiscal conservatism and budget 'belt-tightening', in both the State and Federal political arenas.

Our report moves beyond the usual government budget rhetoric and investigates what is really growing – the cost of privatisation, and questions what kind of future those hardest hit by both budgets will have.

Whilst the media has tended to concentrate on the broken promises and increase in state debt, little has so far been said about the truth behind the 2014-15 State Budget - the reality that those already disadvantaged within our society will be disadvantaged further by both service delivery and staffing cuts across the public sector. The state government's savage cuts program, including hundreds of job losses in the public sector and the mismanagement of our resources, will clearly be felt well beyond the confines of departmental head offices.

The report draws attention to both social and economic factors effecting WA's fiscal position and economic outlook. In doing so it raises important questions about how the 'real' cost of living is calculated for those most likely to be affected by both State and Federal budgets.

Our analysis highlights that low income families are already struggling and that budget increases push them further into debt. It also demonstrates the disproportionate effect of budget increase and cuts on lower income households compared to higher income and the growth of a new class - the working poor.

We argue that endlessly obscuring real life with broad-brush media grabbing snapshots, which do not explore the realities of 'doing it tough' and the real costs of living, exacerbate the invisibility of those who stand to lose the most.

Through three short narratives this report moves beyond the materiality of the usual budgetary discourse, providing our members, public sector workers, with a voice[4].

Our investigations of key government agencies reveal three significant trends:

1. A reducing level of funding for the sample agencies across the Forward Estimates;
2. Projected growth in salaries expenditure is less than projected growth in Perth's Consumer Price Index (CPI); and
3. The rate of privatisation in the Public Sector is continuing at a rapid pace.

These trends indicate a further erosion of the public sector, whereby departments will be prevented from getting on with their core business of providing efficient and effective service delivery. The cumulative effect of lower funding for services and staff will have a regressive effect rather than the progressive picture which the government likes to paint on budget day.

Moreover, we determine that whilst many hold as true the myth that downgrading of the financial ratings

4. Each narrative is a representation of the stories collected from three families drawn from across our membership. Participants volunteered. Where names have been used they have been changed to protect confidentiality.

for the WA Government is the result of there being too many over-paid public sector workers, the reality is somewhat different. Between 2008 and 2013 the WA public sector workforce increased by only 13%, well short of population growth, even allowing for the effects of privatisation and outsourcing. In constant dollar terms, the average cost of a WA public sector worker (wages, plus on-costs) in 2008 was $60,000, well behind the all-states average of $64,000. By 2013 per employee costs stood at $70,300, only marginally above the all-states average of $69,600. Public sector workers in 2013 had full time earnings at 92% of those in the private sector, not much improved from 90% in 2008. The improved wages of public sector workers has mostly been catch up and the public sector wages bill as a proportion of all expenses has actually fallen.

The budget clearly flags the intention to increase privatisation. ‘Other operating expenses’ in the WA Budget have almost doubled in real terms from 9.3% in 2008 to 17.4% in 2014. This is mostly expenditure for the outsourcing of public services to business and community groups, but the lack of transparency in the budget papers makes it hard to scrutinise and impossible to know if the public is getting value for money.

Moving beyond the confines of this year’s 2014-15 State Budget, we take a view across the forward estimates, and beyond, and provide both an economic and social forecast. Arguably this budget has not put in place an economic plan for the States’ future and does nothing to restore the AAA credit rating; as a result we can expect to see an increase in pro-cuts rhetoric as the discourse inevitably returns to ‘the bottom line’. We argue that whilst responsible leaders will naturally want to balance their books, there is little to suggest that this actually requires smaller government. The services that West Australians have come to expect from their government can be sustainably provided if tax reform and not spending cuts become the focus of the Barnett government.

The report concludes with a headline discussion about how we can collectively fight back through a change to our joint narrative. We posit that there is a need to consider the issues at the heart of the budget (fairness, equity) and not just concern ourselves with its peripheral machinations. Undoubtedly, this requires us to take a view on the State’s revenue volatility, GST tax changes and the role of the public sector, but more broadly, we need to consider what we would do differently.

This could include:

1. Evidencing the ‘ripple effect’ of privatisation, job and service cuts;
2. Suggesting how we might own the budget discourse;
3. Debunking the myth that one size of service delivery fits all; and
4. Providing an alternative State budget that slices the pie differently.

THE STORY SO FAR *the Budget in context*

Over the last 20 years, the state of WA has changed beyond all recognition. Strong economic growth, fuelled by the mining and resources sector, has paved the way for socio-economic and demographic changes on an almost incomprehensible scale.[5] However, evidence suggests that lower income groups, along with those already disadvantaged in society, have not benefited equally from the strong WA economy.[6]

Our social story

The 2011 census confirmed that WA is the fastest growing state in Australia, increasing its population by 280,083 between the years of 2006 and 2011.

Following very strong growth of 3.5% in 2012-13, driven by high levels of net overseas migration, which has now declined over the year to September quarter 2012, population growth forecasts have moderated through to 2017-18 (2.1% per annum)[7].

Arguably, population growth has substantially changed the demographic composition of the entire state – the gender balance has shifted from female to male in the space of five years and the ethnic and religious landscape of both Perth and WA has changed dramatically.

Such growth changes require that the WA government must acknowledge that its people are increasingly diverse in terms of cultural background, age, disability, gender, race or ethnicity, language, faith, religion or belief, sexual orientation and gender identity.

The WA public sector has not been exempt from demographic factors associated with a rapidly expanding population.[8] In June 2013, there were 138,863 employees in the public sector. There was an increase in public sector employment of 2.8% over the year, but this occurred in the context of a 3.4% growth in the WA population in the same year. Whilst the WA public sector does not undertake full equality monitoring, we do know a number of things. Firstly, that there are significantly more women (71.7%) working in the sector than there are men (28.3%) Indeed, women comprise a significantly higher proportion of the public sector workforce compared with 43.8% of the total WA workforce. The “feminisation” of the WA public sector workforce over time has been influenced by changes in occupational demographics, in particular, the privatisation of many ‘blue collar’ roles in the public sector and increased participation of women in human services roles. In the last 25 years, the percentage of women in the WA public sector has changed from 47.0% in 1987-88 to 71.7% in 2012-13. Secondly, younger employees are more likely to leave to progress their careers in other sectors. Thirdly, the representation of indigenous employees has decreased slightly in 2013. Finally, despite an ‘over-reporting error’ between 2009 and 2012, figures indicate the representation of employees with a disability in 2013 (2.6%) is higher than it was in 2007 (1.5%).

As perhaps the largest equality group, women remain disproportionality affected by both economic and public sector changes. In their 2011 report, *Women’s Interests: Strategic Directions*[9], the Department for Communities suggested that whilst women account for 49.7% of the WA population, they are staggeringly underrepresented in leadership roles and representative forums.

Further, that “a range of social and

5. This section draws heavily upon Australian Bureau of Statistics (2013), 2011 Census Quick Stats, Australian Bureau of Statistics, Canberra, viewed 3 June 2014, available at: http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/5
6. Cassells, R., Duncan, A., Gao, G. (2014), Sharing the Boom: The distribution of income and wealth in WA, Bankwest Curtin Economics Centre, ‘Focus on Western Australia Report Series’, No.1, February 2014
7. Department of Treasury (2014), Budget Paper No 3: Economic and Fiscal Outlook, Perth
8. This section draws heavily upon Public Sector Commission (2013), State of the Sector Report 2013, viewed 5 June 2014, available at: http://www.publicsector.wa.gov.au/sites/default/files/documents/state_of_the_sector_report_2013.pdf
9. Department for Communities,Women’s Interests: Strategic Directions, Department of Communities (2011), viewed 5 June 2014, available at: http://www.communities.wa.gov.au/Documents/Women/WO24-2011%20Strategic%20Directions.pdf

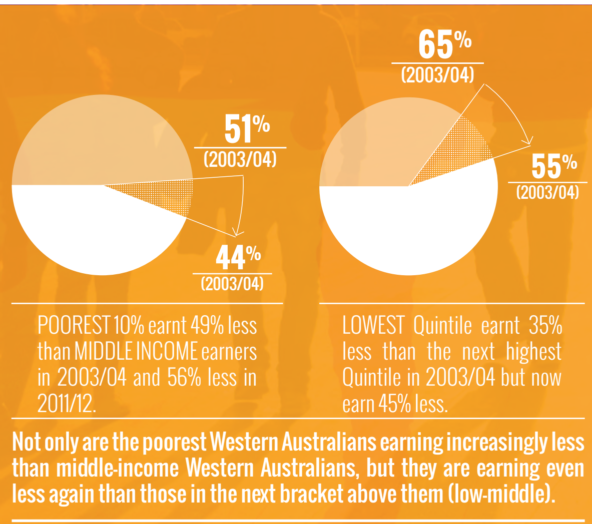


figure 1

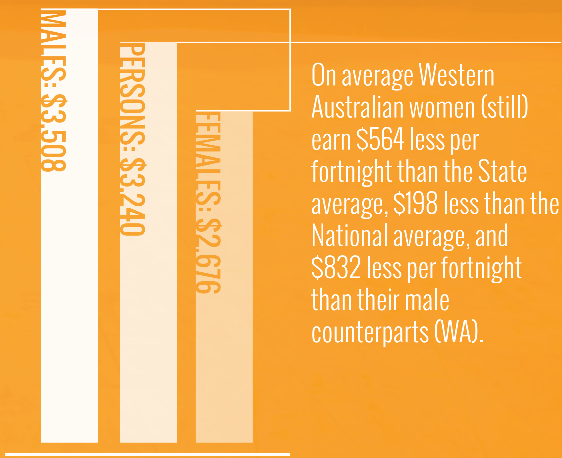


figure 2

cultural factors contribute to many women having a more precarious financial situation than their male counterparts", and that "significant barriers to women's leadership in the workplace and in broader community life continue to exist". Conceivably, the labour of women is more likely to be underutilised than men, with the underutilisation rate in 2011-12 for 20-74 year old women was 13.1% compared to 9.1% for their male counterparts.[10]

Underemployment is the main contributor to the underutilisation of female parents. In the context of public sector cuts to both jobs and service delivery, the fact that the unemployment rate of women has remained significantly higher than for men is worrying.

In our 2013 report[11] we foreshadowed that the effects of the cuts may be three-fold and were likely to be felt within the sector and beyond, primarily by women and those already disadvantaged in society, both now and into the future.[12] Firstly, the demographic composition of the public sector would change as a result of the Barnett government's workforce reforms. Secondly, the barriers already experienced by women, as those more likely to access public services and encounter barriers in doing so, as a result, changes/cuts to public services would disproportionately affect women. Thirdly, as there are more women employed in the WA public service than there are men, fundamentally changing public services and cutting jobs may significantly change our communities. To date a comprehensive impact assessment of the changes already undertaken and proposed has not taken place.

This is concerning given that a quick look at statistics concerning marginalised and oppressed groups show that inequality is rife in our community.

For instance, the increasing gap between the rich and poor, with the State's lowest income households falling behind the rest of the WA population[13] (Fig.1), persistent gender based pay inequality[14] (Fig.2), and that WA has the highest ratio of Aboriginal and Torres Strait Islander to non-Indigenous imprisonment rates in Australia (21 times higher for Aboriginal and Torres Strait Islander prisoners)[15].

Additionally, nearly half of all Australian residents from a culturally and linguistically diverse background have experienced racism at some time in their life[16]; 87% of transgender people have experienced stigma or discrimination on the basis of their gender identity in Australia[17]; and 74% of LGBTIQ people occasionally or usually conceal their sexual orientation or gender identity in public for fear of violence or harassment[18].

In 2012 women made up the majority of carers, representing 70% of primary carers and 56% of carers overall[19], or that forty-five per cent of people with a disability in Australia live in or near poverty, more than double the OECD average of 22%.[20]

In terms of the economy, WA lost its triple AAA credit rating in 2013 and in order to deliver a general government operating surplus in 2014-15 had to implement a new revenue and savings package. So the question is how this did happen and what went wrong?

10. Australian Bureau of Statistics (2013), Gender Indicators, Cat. No. 4125.0, ABS, Canberra
11. CPSU/CSA (2013), Swept Under the Carpet: the truth behind the 2013-2014 state budget report, available at http://www.cpsucsa.org/budget
12. Ibid.
13. Cassells, R., Duncan, A., Gao, G. (2014), Sharing the Boom: The distribution of income and wealth in WA, Bankwest Curtin Economics Centre, 'Focus on Western Australia Report Series', No.1, February 2014
14. Australian Bureau of Statistics. (2013), Average Weekly Earnings, Cat. No. 6302.0, ABS, Canberra
15. Australian Bureau of Statistics. (2013), Prisoners in Australia, Cat. No. 4517.0, ABS, Canberra
16. Markus, A. (2009), Mapping Social Cohesion: the scanlon foundation surveys, Monash University, Victoria
17. Couch, M., Pitts, M., Mulcare, H., Croy, S., Mitchell, A., Patel, S. (2007), tranZnation: A report on the health and wellbeing of transgender people in Australia and New Zealand, Australian Research Centre in Sex, Health & Society, Melbourne
18. Berman, A. and Robinson, S. (2010), Speaking Out: Stopping Homophobic and Transphobic Abuse in Queensland. Australian Academic Press, Brisbane
19. Australian Bureau of Statistics. (2012), Disability, Ageing and Carers, Australia: Summary of Findings, Cat. No. 4430.0, ABS, CanberraOECD. (2009), Sickness, disability and work: Keeping on track in the economic downturn – Background paper
20. OECD. (2009), Sickness, disability and work: Keeping on track in the economic downturn – Background paper

Our economic story

WA has been the nation's star economy throughout the period 2008 to 2013, experiencing economic growth and population growth far higher than Australia as a whole. The driving force behind this has been the mining boom. Periods of strong economic growth typically result in strong public finances. However this is invariably coupled with increased spending to meet the needs of a growing population.

General government revenue has increased strongly over the period 2008 to 2013 largely due to revenue from mining as a share of total revenue increasing from 6 per cent in 2004-05 to an estimated 22 per cent in 2014-15.[21] The hike in royalty income is the result of a dramatic increase in resource output and the decision by the Barnett government to increase the rate at which royalties are levied.

Other state revenue sources for example payroll tax, stamp duty and motor vehicle taxes in WA are similar in proportion to NSW, Victoria, Queensland. The state government will also attribute the deterioration in its financial position at least partly to its receipt of relatively low GST revenue.

WA has received significant tied-grants from the Federal government - more than $2bn in 2012-13, for mining related projects.

The composition of the State's revenue has changed significantly in recent years, with an increasing reliance on own-source revenue (that is, revenue generated in the state) such as state taxes and royalty income. Consequently the State has become increasingly reliant on unstable revenue sources, for example mining revenue and property transfer duty. Mining revenue is impacted by production volumes and changes in the US and Australian dollars and commodity prices, which are inherently volatile.

Revenue from iron ore royalties is also impacted by the price of iron ore which has become increasingly volatile. To give an idea of the scale of sensitivity: for every US1 cent change in the $US/$A exchange rate the approximate annual impact on revenue is $80m and for every $US1 per tonne change in the price of iron ore the approximate annual impact on revenue is $49m.

As has happened across all the states in Australia, long term spending has increased as a result of policy choices by the relevant state governments. The biggest cost drivers have been health (increase of 68% compared to 2008-09), infrastructure and aged pension spending.

In WA the Barnett government embarked on large and expensive infrastructure projects in Perth, for example the Fiona Stanley Hospital and Perth Children's Hospital.

Since 2008-09 government spending also increased rapidly on education (increase of 40%), disability services (increase of 101%) and Law and Order (increase of 41%). In comparison to other states, WA and Queensland spend at least $1,200 more per person than do New South Wales and Victoria. WA spends more per person in almost every category of spending. Some of this may be due to the higher costs of serving regional and remote populations, but some is probably attributable to WA being under considerably less revenue pressure than other states due to the mining boom.[22]

Growth in government spending on health in WA, for example, was 25% higher than the national average in the decade ending 2012-13.

The other major focus point for the WA economy was the election of the Barnett government in 2008 and subsequent formation of a coalition with the National Party. One of the key commitments Premier Colin Barnett gave to the Nationals at that time was to fund the so-called Royalties for Regions program. Under this program, 25% of all mining and onshore petroleum royalties are invested in regional WA. More than $6bn has been spent to September 2013.[23]

Budget sustainability in WA has also been threatened by major infrastructure spending. After a large increase in capital spending over the last 10 years, interest and depreciation costs are the fastest growing component in the 2014-15 state budget. In recent years, WA could have funded capital expenditure through recurrent operating surpluses, however due to the scale of its infrastructure program it has funded increased capital spending by running down accumulated surpluses and then borrowing.

In good times it is hard for governments to run a surplus as they are invariably tempted to spend money and that is exactly what has been happening in WA. The operating balance has indeed been in surplus every year since 2008, but has overall been falling from a high of $2.5b surplus in 2007/08 to a projected small surplus of $175m in 2014-15.

A combination of lavish, arguably non-targeted spending on services and an overly ambitious infrastructure spending programs are the primary reason for the state of the WA government's finances.[24]

21. Department of Treasury (2014), Budget Paper No 3: Economic and Fiscal Outlook, p 88, Department of Treasury, Perth
22. Daley, J., McGannon, C., and Hunter, A., (2014) Budget Pressures on Australian governments, 2014 edition, Grattan Institute
23. Sloan, J, (2013) 'High-spending Western Australia succumbs to resources curse', The Australian, 28 September, viewed 5 June 2014, available at http://www.theaustralian.com.au/opinion/columnists/high-spending-western-australia-succumbs-to-resources-curse/story-fnbkvnk7-1226728695235#
24. Ibid.


REVENUE FROM MINING
22%
6%
2004-05
2014-15
+/−
$US/
tonne
(Price/tonne)
(Approximately)
$49m
revenue

CUTS TO SERVICES that WA needs

The Barnett government is cutting public services as they implement 'necessary' budget savings. Their actions are usually supported by rhetoric denigrating the public service and promising the cuts will remove inefficiencies and will not impact services. This allows them to claim credit for the budget savings without taking responsibility for service cuts.[25] The government is choosing to take an irresponsible, and ultimately self-defeating, approach to budget 'savings', as the cuts to agencies budgets are across-the-board, rather than targeted. Consequently, these across-the-board cuts have long-term effects including loss of service and loss of workforce capability within the public sector and are likely to be felt beyond the sector primarily by those already disadvantaged in society and by women.

Arbitrary directives to government agencies to cut costs by a set amount generally result in doing 'more with less' and where services are to be maintained, it consists of increasing the workload of those left standing.[26] For example, Landgate, the agency that maintains the state's official register of land ownership and survey information and is responsible for valuing the State's land and property for government interest, lost almost 10% of its workforce in 2011. One effect of the reduction in staffing levels is that the turnaround time for registering transactions against a Certificate of Title almost doubled from 6.03 days in October 2011 to 11.55 days in February 2012. The resultant delays affect business transactions and building developments.'[27] Another example is the Department of Child Protection, which has approximately 600 children across the Perth metro area who do not have an allocated case worker as staff vacancies do not get filled and existing frontline staff struggle to cope with unrealistic workloads.

Coupled with a loss in services, there is also the risk of a loss in workforce capability. Since 2010 the State government has pursued an efficiency strategy that has been described federally as 'death by a thousand cuts.'[28]

Between 2010 and 2012, the WA public sector permanent and fixed term workforce contracted by nearly 6,000[29]. This has been further compounded by the Voluntary Separation Scheme in 2013-14 and the loss of 1,100 full time staff or equivalents. Yet reducing the size of the workforce will result in a loss of knowledge and experience and represents a long-term loss to the sector of workforce capability. This loss cannot be easily reversed as replacing or redeveloping these skill sets is not easy and takes time. An example of this is the Department of Parks and Wildlife which reported a reduction of 30 Full Time Equivalents (FTE) from 2013-14 to 2014-15. The voluntary separation scheme was reflective of terms of service and so more rewarding for longer-serving employees to take up redundancy. The department already has a younger cohort within the agency and so a loss of more senior staff undermines longer term skills development within that agency.

While Barnett contends his public sector cuts will not affect service delivery, in reality these cuts are just as likely to result in a decrease in productivity. Employee engagement is vital to produce gains in productivity and these cuts simply serve to undermine engagement by public servants, and so damage productivity. Not only are the cuts affecting the quality, diversity and availability of services, they are also causing long-term damage to the institutions of government.

We also suggest that the effects of the cuts are likely to be felt beyond the public sector by those already disadvantaged in society. Lower resources in the public sector can disproportionately affect disadvantaged groups as lower income people/families have no other choice other than to rely on the state system. Invariably women will bear the brunt of cuts to services as women are more likely than men to use many service including: social care, libraries, early years care and health care services.

The Barnett government is intentionally choosing to avoid the responsibility for service cuts from budget savings by applying across-the-board cuts. This government is running our public services into the ground; cutting staff and contracting out its obligations to the community. Public services already struggling to meet current demands are being further undermined though funding and job cuts. It is time for the government to change their strategy and target savings in the public sector that would minimise loss of service and unnecessary loss of jobs.

25. MacDermott, K, and Stone, C., (2013), Death by a thousand cuts How governments undermine their own productivity, page 4, Centre for Policy Development, Sydney
26. Ibid., page 6
27. Ibid., page 17
28. Ibid., page 5
29. Ibid., page 6

CUTTING FUNDS TO SERVICES WA NEEDS

HEALTH

$134m

EXTRA TO BE SUNK INTO FIONA STANLEY HOSPITAL

(AND SMHS) IN 2014-15

$284m

TO BE CUT FOR 'ACTIVITY AND COST SAVINGS' IN HOSPITAL SERVICES.

2016-17

$26m

TO BE FOUND VIA COST CUTTING BY THE DISTRICT MEDICAL WORKFORCE IN SOUTHERN INLAND HEALTH DISTRICT.

EDUCATION

$11.9m

LESS TO BE SPENT IN GRANTS AND SUBSI-DIES OVER THE FORWARD ESTIMATES

$13m

LESS INCOME FOR REGIONAL COMMUNITY SERVICE FUNDS OVER THE FORWARD ESTIMATES

$8.4m

REDUCTION IN LEAVE LIABILITIES

2014-15

$50m

PROCUREMENT CUTS

2013-14 & 2014-15

LAW & ORDER

Only 607

MORE POLICE BETWEEN 2008-2017

an AVERAGE OF AN EXTRA 101 OFFICERS EACH YEAR.

Capping of leave liabilities.

IN 2013 - 2014 (Jul - Dec 2014 inclusive)

$12m

CUT TO FUNDS FOR PROCUREMENT

2014-15

$8.4m

REDUCTION TO DISTRICT ALLOWANCE

ACROSS THE FORWARD ESTIMATES

TRANSPORT

9 less FTE

In 2014 - 2015.

$5.8m less

TOTAL AGENCY SPEND IN 2014-15.

$15.2m less

TOTAL AGENCY SPEND IN 2015-16.

Further extension of 'partner' services.

THE GROWTH FACTOR *what's really growing?*

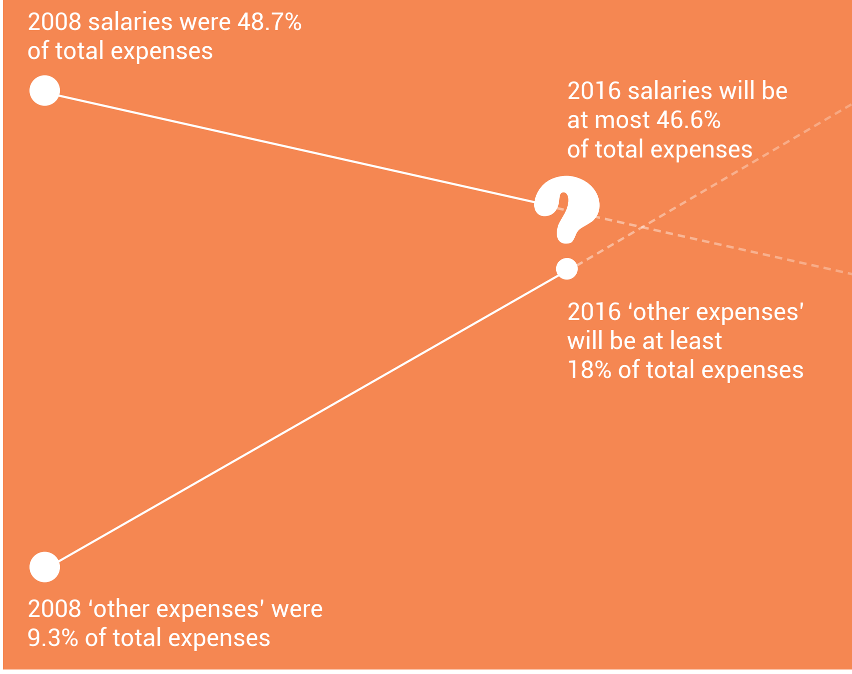
The 2014-15 Budget implemented a package of revenue and savings measures totalling $2 billion over the next four years. This involves further cuts in funding to the public sector – according to the Barnett government, it is a corrective measure necessary to reign in the excessive growth of the costs of service delivery in WA. What the government fails to say is that this is only half the picture.

Before unveiling the other half of the picture, it is necessary to see why the government implemented another round of austerity measures. The Western Australian economy is projected to expand at more modest rates than in previous years as the economy transitions from business investment driven growth to export based growth. Economic growth will slow to 2.75% in 2014-15, down from 3.75% in 2013-14. Business investment is forecast to decline in each year of the budget period, leading to softer employment growth which will result in weaker growth in taxation revenue, especially payroll tax. Total public sector net debt is projected to increase from $22bn at 30 June 2013 to $24.9bn by the end of 2014-15 and then rising to $29.4bn by 30 June 2018. The Government, as part of its fiscal strategy, is still focused on maintaining its AA+ credit rating (or getting back it's AAA rating), however given the subdued economic outlook a package of revenue and savings measures were implemented to ensure the delivery of operating surpluses and to limit the growth in net debt. Without these measures, the Budget would show a deficit in 2014-15.[30]

The State government would attribute this deterioration in its finances as mainly due to declining GST revenue and excessive wage increase coupled with substantial increases in public sector employment. In response to this, the budget has expenses growth pegged at just 2.6% in 2014-15, compared with a 10-year average of 8.1%. The key plank of the strategy is the containment of the Government's total wages bill growth to just 2.9% in 2014-15. Treasurer Dr. Mike Nahan introduced to government wages policy a provision that the total wages growth at each agency be limited to inflation, as a powerful tool to control expense. He stated: "We have to do it to achieve our expense targets....we have to start living within our means..."[31]

However the crux of this reform is the government's assertion that extensive growth in public sector salaries and employment are largely to blame for the deteriorating state's finances.

Wages are increasing, but salaries are decreasing?



the riddle

If overall salary costs are decreasing (despite indications of a 2.5% pay rise), but operating expenses are increasing, who is filling the gap in service delivery and operations?

If Government workers and service providers aren't operating the Government, who is?

30. Department of Treasury (2014), Budget Paper No 3: Economic and Fiscal Outlook, Department of Treasury, Perth

31. Parker, G. (2014), "Pain, No Gain", The West Australian, May 9 2014, p. 5

A recent report by BIS Shrapnel Pty[32] contradicts this assumption by looking at growth in the state public sector workforce for WA and Australia as a whole (see Table 1).

Referring to the changes in the number of employees and also their average cash wage in nominal and real dollars, public sector salaries have been increasing at almost twice the rate in WA compared to all states. However this increase is from a low base, significantly less than Australia as a whole. In 2008, average public sector salary per employee in real terms was $60,000 in WA compared to $64,000 for Australia as a whole. By 2013 the figure for WA had increased to $70,300 compared to $69,600 for Australia as a whole. The increase simply serves to bring Western Australian public sector salaries up to a level which matches that of Australia as a whole. So while the government states the growth in public sector salaries is excessive, it really reflects only half the picture.

The BIS Shrapnel report also looks at the trends in employee benefits expenses and that relationship to total expenses. Over the period 2007-08 to 2013-14, expenses on salaries and wages, including superannuation, have been falling as a share of total expenses, from 48.7% in 2007-08 to 46.5% in 2013-14. Across the Forward Estimates, this percentage reduces slightly more to 46.4% by 2017-18 (see Table 2).

However, acknowledging that Total Expenses for the state have been increasing, the question is what areas of expenses have really been the cause of this growth? The BIS Shrapnel report, concludes that:

"The largest growth will occur in services and contracts (2.1% real), other operating costs (1.7%) and interest (3.1%), the latter reflecting continued growth in net debt. The growth in services and contracts and also other operating costs is thought to reflect the Government's policy position to outsource more activities. Whatever the drivers, this is proving costly, with other operating expenses being the fastest growing component of expenses since 2007/8".

The State government has placed a cap on salary growth for the public service, implemented a voluntary separation scheme which is expected to reduce staffing levels by 1,114 people and cut public sector services while on the other hand is increasing spending on costs associated with privatisation, the real cost driver for the deterioration in the state's finances. Closer scrutiny has shown that the government has only told half the story. Indeed budget sustainability is under threat within WA, but the budget can only be balanced by firstly correctly identifying the source of the problem and not laying blame at the door of the public sector.

Table 1: Public Sector employment, WA and all states and territories, 2207/08 & 2012/13, Number and average cash salary, nominal and real (deflated by the CPI, 2011/12=100)[33]

	Western Australia				All States			
			$ per employee				$ per employee	
Year to June	Number (000s)	$m	Nominal ($000s)	Real ($000s)	Number (000s)	$m	Nominal ($000s)	Real ($000s)
2008	152.4	$8,365	$54.9	$60	1,342.6	$77,218.8	$57.51	$64
2013	172.2	$12,415.6	$72.1	$70.3	1,450.2	$103,237.7	$71.19	$69.9
Change 2008-13	19.8	$4,050.6		$10.4	107.6			
% Change 2008-13	13%	48%		17%	8%			9%

Table 2: Salary Expenses ($m) as % of total expenses, WA 2007-08[34], 2012-13, 2017-18[35]

	2007-08	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	Actual	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	$m	$m	$m	$m	$m	$m	$m
Total Expenses	$16,837	$25,468	$27,787	$28,508	$29,896	$31,109	$31,879
Salaries	$6,906	$10,154	$11,038	$11,345	$11,773	$12,273	$12,498
Superannuation	$1,025	$1,334	$1,409	$1,472	$1,580	$1,698	$1,790
Other Employee costs	$276	$446	$473	$472	$503	$511	$518
Total salaries	$8,207	$11,934	$12,920	$13,289	$13,856	$14,482	$14,806
Total salaries as % of total expenses	48.7%	46.9%	46.5%	46.6%	46.3%	46.6%	46.4%

32. BIS Shrapnel (2014), The Strange Case of Western Australia's government finances, A AA Budget in a five star economy, BIS Shrapnel Pty Limited
33. BIS Shrapnel (2014), The Strange Case of Western Australia's government finances, A AA Budget in a five star economy, p 10, BIS Shrapnel Pty Limited
34. Ibid., page 11 and page 5
35. Department of Treasury (2014), Budget Paper No 3: Economic and Fiscal Outlook, p 217, Department of Treasury, Perth
36. BIS Shrapnel(2014), The 2014/15 Western Australian State Budget, On track or still off the rails? ,p 7, BIS Shrapnel Pty Limited

THE HOUSEHOLD BUDGET *the cost of surviving.*

Effective from 1 July 2014, total expenditure on the basket of government goods and services for the Treasury's 'representative household', in 2014-15 will be $5,224.53. This represents an increase of $324.18, or 6.6%, on 2013-14 levels. Working with our members, we have reviewed this 'representative household increase' and can reveal the real cost to real people and families.

Methodology

Through our organisers, we made contact with three union members who agreed to discuss their current financial situations with us. They are:

- Family 1 are the Smiths who are a dual public sector income, blended family with five children, two of whom have medical needs and live in the Perth metropolitan area.
- Family 2 are the Taylors who are a single parent/single public sector income family with two children, family members with medical needs and live in regional WA.
- Family 3 are the Joneses who are a dual higher income family with one child and live in the Perth metropolitan area.

To complete the analysis and create a fuller picture, we have included each family's incomes. We have also added in expenses which are over and above those listed in the government's average household basket, but are typical of the average family, for example mortgage costs, child care costs, medical costs etc. In addition, we have included the effect of the federal budget's cost increases and cuts which affect the average family for example petrol fuel excise indexation, medical co-payments, Family Tax Benefit cuts, debt levy etc. We then extrapolated out the figures for each family to predict how much better or worse off they would be on a fortnightly basis. Interviews with our union members were transcribed and analysed to create three short narratives which focus upon both the personal choices and consequences resulting from the 2014-15 state and federal budgets.[37]

The results

The Smiths will be $82.62 worse off every fortnight or $2,148 worse off over a full year. The Taylors will be $66.55 worse off every fortnight or $1,730 worse off over a full year. The Joneses will be $27.47 better off every fortnight or $714 better off over a full year. What the findings highlight is that this budget, combined with the federal budget, at worst negatively affects our families' standard of living and at best maintains but does not improve their standard of living.

Crucially, the analysis highlighted the fact that our low income families, the Smiths and the Taylors, were already in debt before any budget increases, and the effects of the budgets are to push them further into debt. This is a critical point as any additional debt can only be serviced through borrowing, whether this is by credit card, loans or help from families and friends. Additional credit card or loan debts exacerbate the cycle of financial struggle and rising household debt levels leave these households more vulnerable to adverse economic changes which will affect their debt-servicing capability, and hence, their future consumption. Conversely, the winners are credit card companies, banks etc. who will be reaping the benefits of this rising credit card debt and yet the government is slow to tax these additional profits. This only serves to demonstrate the government's lack of understanding for how difficult it is for working people in this state to make ends meet.

The results also highlight the disproportionate effect the increases have on our low income families the Taylors and the Smiths compared to the higher income family, the Joneses. The budget clearly places a greater burden on those who can least afford it – families on low incomes and single parents.[38] If sharing the burden is judged proportionate to income, then the less well-off are being asked to do more than their fair share, well beyond their means. Others with greater capacity are proportionately sharing a lesser burden of the pain.

Additionally some of the burden on the rich is temporary – the budget repair levy is to last for three years, for example – however the government has made permanent cuts to the family budget through welfare cuts, rises in pharmaceutical scripts and Medicare co-payments. Whilst Federal and State governments would like us to believe that their budget misery is shared amongst everyone, some are feeling it far more.

This disproportionate impact of both budgets' cuts and increases on

37. See 'Making the tough decisions' p13, for comprehensive analysis
38. Probyn, A. (2014), 'It's full of sins but seeks redemption', The West Australian, 14 May, p.2
39. Ward, P., Verity, F., Carter, P., Tsourtos, G., Coveney, J., Wong, K. (2013) "Food Stress in Adelaide: The Relationship between Low Income and the Affordability of Healthy Food," p 1, Journal of Environmental and Public

low income earners causes further ripple effects as they make stark financial decisions which reflect their circumstances.

An example of this ripple effect concerns food choices. Research indicates that low-income families would have to spend approximately 30% of household income on eating healthily, whereas high-income households needed to spend about 10%. The differential is explained by the cost of the food basket relative to household income (i.e., affordability). It is argued that families that spend more than 30% of household income on food could be experiencing 'food stress'. Moreover the high cost of healthy foods leaves low-income households vulnerable to diet-related health problems because they often have to rely on cheaper foods which are high in fat, sugar, and salt.[39] These choices are made more extreme when this phenomenon is coupled with 'housing stress', occurring when households spend 30% or more of their income on housing costs. So adding food stress on top of housing stress, which is already experienced by this population group, many of these people find themselves in extremely difficult economic circumstances.[40] If poverty is measured by disposable income, then we are living in a state with a growing percentage of working poor.

Indeed, Australia is in the grip of an underemployment epidemic, as a growing number of people are joining the ranks of the working poor with jobs that are low paid, unskilled, insecure and offer few career prospects.

Brian Howe, a former deputy Prime Minister of Australia believes there is a new divide in the Australian workforce. It is no longer between blue-collar and white-collar workers, but between those in the "core" of the workforce and those on the "periphery", with 40% of Australian workers on the periphery in insecure work. Those on the periphery are employed on various insecure arrangements – casual, contract or through labour hire companies, on low wages and with no benefits. Many do not know what hours they will work from week to week, and often juggle multiple jobs to attempt to earn what they need.

For the average Aussie family, supporting the average two children on an income of between $57,400-$72,800 means these Australians are the working poor; they live close to the poverty line despite having at least some form of work. Underemployment by its nature puts more pressure on women who inevitably are competing with men, who would under normal circumstances be seeking full time work. While women will seek part time work in order to balance work and family responsibilities, men will not have these same restrictions. Women with children are therefore more likely to be discriminated against for having to leave work earlier to do the childcare pick up, deal with sick children and therefore taking days off work. The high costs of childcare also leave many women unable to work as it isn't financially viable. Academics at the University of Newcastle have determined that 30% of part-time workers are actually in poverty - the reality is that Australia has already developed a subclass of working poor.[41]

Health, vol. 2013, Article ID 968078.
40. Ibid, page 7
41. O'Hara, C, (2013), The Hidden Side of Skilled Migration and the Working Poor, Nationalist Alternative, viewed 5 May 2014, available at http://www.natalt.org/2013/09/02/the-hidden-side-of-skilled-immigration-and-the-working-poor-part-ii

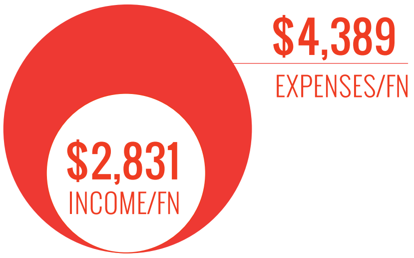
MAKING THE TOUGH DECISIONS

Federal and state governments would have us believe that they are sharing their budget misery amongst everyone, with those most able to pay making the biggest contribution. Arguably their rhetoric, that everyone is doing it tough, seeks to influence the public discourse and ultimately ensure acceptance of budgetary pain from a cohort broader than those ideologically disposed to the fundamentals of economic rationalism, but what does it really mean to be in 'relative income poverty.'[42]

Treasurer Nahan described his first budget as "tough but responsible"[43] and the "...right budget for its time."[44] The picture is no different federally with Treasurer Joe Hockey bringing an end to "...the age of entitlement"[45], replacing it, "not with an age of austerity, but with an age of opportunity"[46]. Whilst there is undoubtedly some truth in these broad statements, arguably they seek to hide the narrative of those most affected by the political driven choices being made at both federal and state levels. Real people already make stark financial decisions which reflect their circumstances, for some these choices are extreme. We argue that endlessly obscuring real life with broad-brush media grabbing snapshots, which do not explore the realities of 'doing it tough' and the real costs of living, exacerbate the invisibility of those who stand to lose the most. Through three short narratives this section moves beyond the materiality of the usual budgetary discourse, providing our members, public sector workers, with a voice[47].

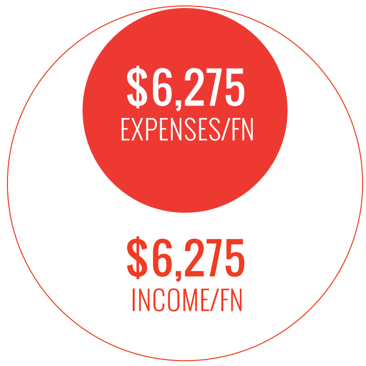
The Taylors

Single parent/single income family with 2 school-aged children, living in regional WA.



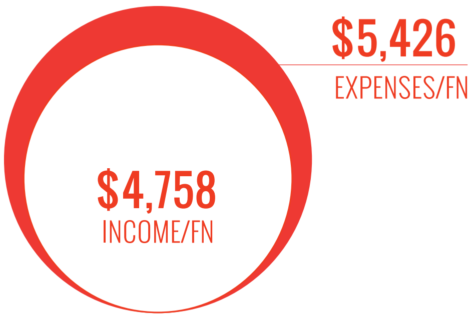
The Joneses

Dual income family with 1 child, 1 income earner working in the resources/mining sector.



The Smiths

Dual income, blended family with 5 children, 4 in primary or high school.



42. Australian Council of Social Services (2012), Poverty in Australia, viewed 5 June 2014, available at: http://www.acoss.org.au/uploads/ACOSS%20Poverty%20Report%202012_Final.pdf
43. ABC News (2014), Households set for financial pain, ABC News, viewed 3 June 2014, available at: http://www.abc.net.au/news/2014-05-08/wa-budget-2014-handed-down/5439454.
44. Perth Now News (2014), State Budget 2014: Families hit before Barnett Government asset sale, Perth Now News, viewed 3 June 2014, available at: http://www.perthnow.com.au/news/western-australia/state-budget-2014-families-hit-before-barnett-government-asset-sale/story-fnhocxo3-1226910585918
45. Hockey, J (2012), 'The end of the age of entitlement', address to the Institute Economic Affairs, 17 April, viewed 3 June 2014, http://www.joehockey.com/media-files/speeches/ContentPieces/100/download.pdf
46. Financial Review (2014), Joe Hockey hands down his first budget, Financial Review, viewed 3 June 2014, available at http://www.afr.com/p/national/budget/joe_hockey_hands_down_the_budget_2lrQ2ujTOsgQZp4CDNvU9K
47. Each narrative is a representation of the stories collected from three families drawn from across our membership. Participants volunteered. Where names have been used they have been changed to protect confidentiality.

The Taylors (Megan)

The Taylors are a single parent/single public sector income family with two school aged children, living in regional WA. Not unlike 10.2% of the WA population Megan's mortgage payments are 30%, or greater, of household income[48]. Her income, slightly above the $618 mean equivalised household income per week for a one parent, one family household with dependent children[49], is supplemented with some government assistance which amounts to $160 per fortnight. In the case of a lone parent with two children, once housing costs have been deducted, the poverty line (50% of the median (middle) disposable income) is $573 per week[50]. Megan does not have any disposable income.

Arguably Megan has done everything right – tried to save a little, bought her own home with a mortgage, improved the opportunities of her children through a decent education and tried to further her own life chances by undertaking university study. However the reality of sharp hikes in utilities and rent, not matched with cost of living increases in wages, leaves low-income families like hers with less money to spend on food and has driven Megan into debt. The choices Megan faces are extreme.

Firstly, the family have moved a number of times in recent years and Megan "...promised her children that the latest would be the family's last". Megan believes she will need to break the promise she made to her children and move to Perth in the coming months to decrease her outgoings. This will involve leaving the job she loves and has trained for, but staying would mean sinking further and further into debt.

Secondly, Megan has an underlying complex medical need. She spends $120 per fortnight on prescription charges and cannot afford private health insurance; as a result Megan has been "unable to seek much needed dental treatment for her son". The realities of 'doing it tough' are severe for Megan and the longer term implications for the family's health are troubling.

The extreme nature of the choices Megan faces reveal the inherent unfairness and effect of being on a lower income, arguably Megan doesn't have any 'real' choices. Faced with putting food on the table and keeping a roof over the family's head her choices are based upon the 'lesser of two evils'.

The Smiths

The Smiths are a dual public sector income, blended family with five children, four of which are in public primary of secondary school. The children in this family have multiple and complex medical needs, as a result their health insurance and other medical costs are high. They receive the child care rebate but do not qualify for any other welfare payments. The Smiths do not have any disposable income. The Smiths "don't have crazy extras" in their fortnightly budget and like Megan's family, over 30% of their monthly household income goes towards their mortgage payments[51], they "struggle to make ends meet every fortnight" and can't afford to "lose money to inflation and unrealistic price increases". Their fortnightly income is higher than the WA weekly median family income ($2,497) for those with children[52].

In recent years, faced with increasing pressure on the household budget, they have put down the family dog because they simply couldn't afford the vets fees, never been on a family holiday and reduced the amount that they pay towards their outstanding credit card debt. The proposed budget changes coupled with the family's income increases capped at government wages policy will ensure this family has yet further and arguably more difficult choices to make. The Smiths will be forced to make savings to budget items which can be reduced i.e. health insurance and their children's sporting activities. Choosing to reduce the family health cover places this family at further risk, in reality for them this means no dental care for the whole family.

This family came together because they wanted to live together and share their lives, unfortunately the Smiths believe that financially they would be better off apart and given the financial pressure on their relationship they are considering this drastic action. The mother in this family feels that the financial reality they are in requires that she consider sending her children to live with their father, despite this being "an unsafe environment". She believes that "they stand a better chance with him" given his financial position.

On top of this, and most worryingly, are the concerns that the family has regarding treatment for their two autistic children and the level of health care they will now be able to access. The Smiths are faced with a choice between dental treatment for the whole family or psychological treatment for one of their children, staying together or separating, and their children being safe or not.

48. Australian Bureau of Statistics (2013), 2011 Census Quick Stats: Dwellings – mortgage and rent, Australian Bureau of Statistics, Canberra, viewed 3 June 2014, http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/5
49. Australian Bureau of Statistics (2013), Household Income and Income Distribution, Australia, 2011-12, Australian Bureau of Statistics, Canberra, viewed 3 June 2014, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6523.0Main+Features22011-12?OpenDocument
50. Australian Council of Social Services (2012), Poverty in Australia, viewed 5 June 2014, available at: http://www.acoss.org.au/uploads/ACOSS%20Poverty%20Report%202012_Final.pdf
51. Australian Bureau of Statistics (2013), 2011 Census Quick Stats: Dwellings – mortgage and rent, Australian Bureau of Statistics, Canberra, viewed 3 June 2014, http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/5
52. Australian Bureau of Statistics (2013), 2011 Census Quick Stats: Families – Weekly Incomes, Australian Bureau of Statistics, Canberra, viewed 3 June 2014, http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/5

The Joneses

The Joneses are a dual income family with one child. The majority of this family's income comes from employment in the resources/mining sector with the family's secondary income coming from employment in the public sector. Their fortnightly income is significantly higher than the WA weekly median family income ($2,497) for those with children[53] and they are representative of the 14.1% of households with a weekly income of more than $3,000[54].

Outside of household and grocery costs, this family takes one holiday per year, pays towards their childcare expenses, runs two cars, saves some money each fortnight and has limited medical expenses. In acknowledging the increased cost on the family from both State and Federal changes, the Jones suggest that they will "consume" the additional costs and they accept that the personal effect of the budgets is limited. That said "it is the flow on effect" of increased financial pressures upon their extended family which will see this family move to further financially support those around them.

Indeed, whilst this family are arguably 'well off' their immediate family are not, with close family in receipt of government welfare and pension assistance. This family shoulders significant cost-of-living pressures, paradoxically, though these are not their own. In fact they financially support the lives of those around them, whether this is through "paying for lunches and meals out" with friends and family or "paying for dance lessons" for their niece.

Arguably this notion is further extended by the family's desire to make decisions which 'fit' with the financial capabilities of the extended family. On a practical level, this family moderates their lifestyle to accommodate their loved ones. They suggest that often the financial reality faced by those around them goes "unspoken" with the resulting subconscious decisions having significant implications for the activities the family can do together.

This family isn't exempt from financial pressure, rather they feel it in different way to those we might expect, for example a down-turn in the resources sector in recent months led to the loss of the family's main income through redundancy. Given that this family supports an extended family there are many 'losers' here.

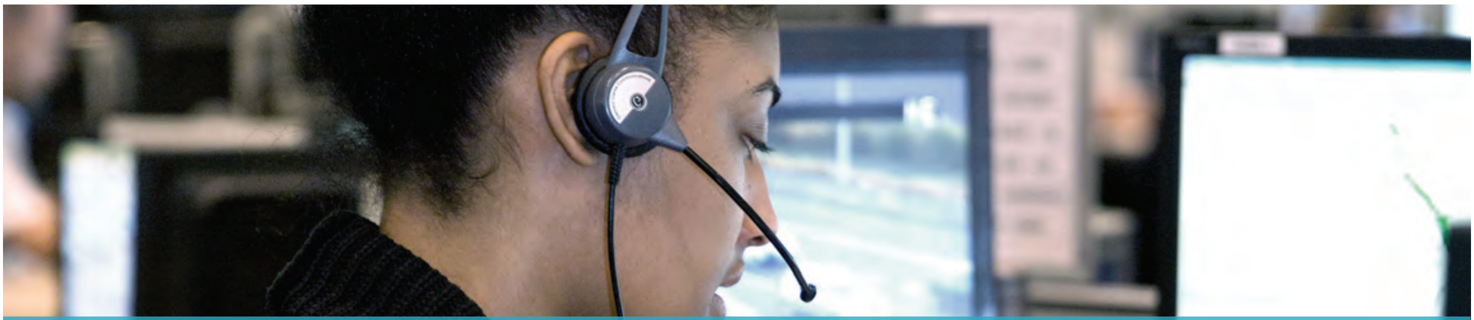
53. Ibid.

These case studies illustrate that how we define poverty is relative to the standards of living in a society at a specific time and arguably there is no one single definition of what constitutes poverty. The most commonly utilised way to measure poverty is based on income. In Australia and beyond, poverty is measured using the Organisation of Economic Co-Operation and Development (OECD) 'poverty lines' which measure the number of people living below an income level that is deemed to be unacceptably low. Households with less than this specified level are in 'relative income poverty'. In 2012, the Australian Council of Social Services revealed that "one in eight people, including one in six children, were living at or below the poverty line" in Australia. Specifically, when real household cost, like those described in this report, are taken into account an estimated 2,265,000 people or 12% of all people in Australia, including 575,000 children, (17.3%) of all children, in Australia, live in households below the most conservative OECD poverty measure .

In the context of seeking to unpack the quantification of poverty, the notion of social exclusion, the "restriction of access to opportunities and [a] limitation of the capabilities required to capitalise on these [opportunities]," provides a more nuanced and less controlled interpretation of poverty in modernity. That said social exclusion is not simply the opposite of poverty (i.e. a lack of economic resources) or hardship, rather social exclusion is fundamentally about a lack of connectedness, opportunity and participation. Conceivably social exclusion is a useful concept because it can enhance our understanding of social disadvantage, highlighting, for example, that the way in which we experience hardship may not only involve financial difficulties but also extend to the choices we are forced to make and the consequences of our choices thereafter. That said, continuing income inequality should not be solely viewed through the lens of disadvantage, but rather through the continued marginalisation of groups within our society. Arguably the disadvantage discourse normalises inequality and removes the need for those within the political sphere to take responsibility for their actions.

Finally, the case studies illustrate that far from public sector union members "holding the public to ransom" through their demand for a decent and fair wage increase, arguably the Taylors, the Smiths and the Joneses encapsulate the degrees by which we can seek to understand this request.

54. Ibid.
55. Australian Council of Social Services 2012, Poverty in Australia, p. 6, viewed 5 June 2014, available at: http://www.acoss.org.au/uploads/ACOSS%20Poverty%20Report%202012_Final.pdf
56. Ibid
57. Hayes, A., Gray, M., & Edwards, B. (2008). Social inclusion: Origins, concepts and key themes. Canberra: Australian Government. Retrieved from http://pandora.nla.gov.au/pan/142909/20130920-1300/www.socialinclusion.gov.au/index.html .
58. ABC News (2014), WA public servants 'holding public to ransom' with rolling strikes: Attorney-General Michael Mischin, ABC News, viewed 5 June 2014, available at: http://www.abc.net.au/news/2014-04-02/wa-public-servants-to-strike-in-pay-dispute/5360600



WA GOVT AGENCIES *analysis*

In his budget speech, the WA Treasurer Dr. Nahan maintains that this budget implements new corrective measures which enable significant additional funding to be directed to meet ongoing demand and community expectations for frontline services.[59]

He also confirms the government's commitment to the public sector wages policy which caps growth in wages at the projected growth in the Perth CPI which is forecast to be 2.75% in 2014-15 and 2.5% in subsequent years. After a systematic review of 15 key government agencies, we have identified three main trends which highlight Dr. Nahan's speech only paints half the picture.

The three main trends are:

A reduction in the level of funding for the sample agencies across the Forward Estimates;

The projected growth in salaries expenditure is less than projected growth in Perth's CPI; and

The rate of privatisation is continuing at a rapid pace.

A reduction in the level of funding for the sample agencies across the Forward Estimates

Looking at the total of all costs for the agencies in the sample and the percentage change in funding compared to the previous year, it can be seen that across the Forward Estimates the percentage change from the previous year is decreasing, highlighting a reducing level of funding by the State Government.

The table below summarises the total costs for all the agencies which have been looked at in this review and shows the percentage change from the previous year. What this reveals is that beyond any spending cuts announced in the budget, further cuts will probably be implemented, especially in the last two years of the Forward Estimates. As no detailed financial analysis is provided, exact cuts cannot be identified. However, the broad brush budget detail can provide some possible examples.

One example is Vocational Education and Training Reform, where the government believes that in order to ensure the State's contribution to training is sustainable, the level of student tuition fees has had to be increased. On average, it is anticipated that the level of fees will rise from 7% of the total cost of training in 2012-13 to 19% by 2016-17.[60] This reform leads to reduced funding by the government and consequently transfers the burden of payment to the users. There is little doubt that this will be a disincentive for students applying to TAFE.

Table 3: Total costs of key agencies

	2014-15 Budget Estimate	2014-15 Forward Estimate	2016-17 Forward Estimate	2017-18 Forward Estimate
	$m	$m	$m	$m
TOTAL COSTS OF KEY AGENCIES	11,173	11,662	11,943	12,096
% Change from previous year		4.4%	2.4%	1.3%

59. Department of Treasury (2014), Budget Paper No. 1: Budget Speech, p 2, Department of Treasury, Perth
60. Ibid, page 5
61. Ibid.

The Government also remains committed to local government reform, and this Budget provides a $60 million assistance package for the proposed boundary changes to metropolitan local government.[61] The department of Local Government and Communities is working with the local government sector to ensure that the new local governments are in place by 1 July 2015.[62] According to the Minister for Local Government, Tony Simpson, in the first three years of metropolitan reform program, once established, there would be $75 million in savings.[63] Undoubtedly a portion of these savings will result in reduced funding from the government to this department. The effect of this reform on local governments will almost certainly result in job losses and changes to the levels of service offered.

Another of the government's savings measures is that $243 million in infrastructure spending has been deferred beyond 2017-18.[64] These changes in timing will result in savings in interest on the debt borrowed to build and resultant depreciation savings. Agencies affected by the deferral of these asset investment programs include Education and Transport. The question here is what improvements in education and transport are delayed in order to procure short-term savings for the government?

The Health Department, although not included in the sample group, will also be affected. The 2014-15 Budget settings aim to ensure the long-term sustainability of public hospital services across WA, with the implementation of an Activity Based Funding model for hospital services from 1 July 2014. Currently, the State Price (which is WA's average cost in delivering hospital services) exceeds the national projected average cost by around 8%. However, it is intended that WA Health will transition to the national average cost by 2017-18. The government believes that this will ensure the sustainable delivery of health services in WA while allowing the State's hospitals to deliver the efficiencies needed to achieve national price settings, consistent with the National Health Reform Agreement. This will be a major reform[65], which once achieved, will result in savings for the government, but at what cost to medical staff and the delivery of their service?

Project growth in salaries expenditure less than projected growth in Perth's CPI

The second trend relates to projected growth in salaries expenditure which is less than projected growth in Perth's CPI. In 11 government agencies in the sample, Employee Benefits in most years across the Forward Estimates increased at rates lower than the government's forecast CPI increases of 2.75% in 2014-15 and 2.5% in subsequent years.

Table 4 below details Employee Benefits for the Department of Transport, by year for the period 2014-15 to 2017-18 and the percentage change in those benefits compared to the previous year. The percentage changes from 2015-16[67] to 2017-18 are all less than 2.5%.

If employees' annual salary increment increases are not growing at the projected CPI, this implies there will be a further reduction in the size of the public service. It infers there could be additional job losses in these agencies. Herein lies a new problem: if total General government agencies' salaries expenditure is budgeted to increase by 4.27% in 2015-16[67], and some agencies are budgeting for increases less than projected CPI (as per the Department of Transport below), then other agencies will be predicting

Table 4: Department of Transport employee benefits[66]

	2014-15 Budget Estimate	2014-15 Forward Estimate	2016-17 Forward Estimate	2017-18 Forward Estimate
	$'000	$'000	$'000	$'000
Employee benefits	134,367	135,078	137,640	**139,192**
% Change from previous year	-1.1%	0.5%	1.9%	1.1%

62. Department of Treasury (2014), Budget Paper No.2, Vol. 2, p 647, Department of Treasury,Perth
63. Western Australia, Legislative Assembly (2014), Estimates Div 57 Local Government and Committees, 21 May, p 2
64. Department of Treasury (2014), Budget Paper No 3: Economic and Fiscal Outlook, p 3,Department of Treasury, Perth
65. Department of Treasury (2014), Budget Paper No. 1: Budget Speech, p 7, Department of Treasury, Perth
66. Department of Treasury (2014), Budget Paper No 2, Vol. 2, p 804, Department of Treasury, Perth
67. Department of Treasury (2014), Budget Paper No 3: Economic and Fiscal Outlook, Appendix 1, p 217, Department of Treasury, Perth

83% OF DISABILITY SERVICES ARE NOW BEING PROVIDED BY NON-GOVERNMENT ORGANISATIONS.

60% OF DSC ACCOMMODATION SERVICES ARE TO BE TRANSITIONED TO NGOs

60% OF EARLY-CHILDHOOD INTERVENTION PROGRAMS WILL BE TRANSFERRED TO NOT-FOR-PROFIT ORGANISATION BY END 2014.

increases greater than CPI. While an increase in salaries expenditure could be attributed to additional staff numbers, it may also relate to a group of public servants negotiating wage increases above CPI. This is a situation which can ultimately position worker against worker. Additionally if some government agencies wage outcomes exceed CPI growth, these agencies will be forced to cut funding from service delivery.

The rate of privatisation is continuing at a rapid pace.

Indicators within the 2014-15 Budget suggest that the Barnett governments drive to privatise within the public sector continues unabated. For example, 83% of disability services are now being provided by NGOs.

Approximately 60 per cent of accommodation places provided directly by the Disability Services Commission are transitioning to alternative service providers to increase choice. Approximately 60% of early childhood intervention positions offered by the Commission will be transferred to the not-for-profit sector in late 2014.[68] Child Protection has seen the number of out-of-home placements provided by the not-for-profit sector grow by an average of 16% from 2009-10 to 2012-13.[69] Since 2011, the Local Government and Communities agency has seen average increases of 32% in funding to improve the sustainability of the not-for-profit sector.

As part of the new savings measures announced in the 2014-15 budget, general government agencies will be required to reduce non-essential procurement by 15%, delivering estimated savings of $169 million. Non-essential procurement includes spending on communications, consultants, consumables, and staff travel. However, the procurement savings do not apply to contracts and services purchased from the not-for-profit sector[70].

The Barnett Government will say that in response to increasing demands on WA's public services, it has provided some additional spending in priority areas, including health, education, disability services, and child protection. The question is how much funding subsequently goes to NGOs? It is very difficult to identify from this budget how much public money is being redirected from public sector agencies to alternative service providers. For example, "significant operating subsidies are being paid to public corporations due to services being delivered at prices below full cost recovery"[71], yet the amount of the subsidies are not disclosed. However, as discussed in a previous chapter[72], we do know that certain categories of government expenses, which undoubtedly include costs of privatisation, are growing faster than other categories. As vague as the government is about the cost of privatisation, it is equally vague about the future impacts on the public sector in terms of job losses and service cuts, both of which are inevitable as the push to privatise services delivered by public servants continues.

Strikingly, the three trends which have been identified across the sample group of government agencies all result in an erosion of the public sector, whereby departments are prevented with getting on with their core business of providing efficient and effective service delivery. The cumulative effect of lower funding for services and staff will have a regressive effect rather than the progressive picture which the government likes to paint on budget day.

68. Department of Treasury (2014), Budget Paper No.2, Vol. 1, p 407, Department of Treasury, Perth
69. Ibid., p 417
70. Department of Treasury (2014), Budget Paper No.3: Economic and Fiscal Outlook, p 3, Department of Treasury, Perth
71. Ibid., p 43
72. See 'The Growth Factor' p9

RECOMMENDATIONS FOR THE FUTURE

This budget has not put in place an economic plan for the States' future, does nothing to restore the AAA credit rating, and does nothing to ensure equity - that all West Australians get a fair share of the state's wealth. The fiscal outlook is that the economy is slowing and the government is struggling to contain its finances. In order to address its financial mismanagement and genuinely improve the situation for West Australians, we suggest the government needs to look beyond spending and service cuts to other more equitable measures.

tax reform, no cuts

WA and Australia need tax reform. Any change in economic conditions in WA would mean the government's slim budget surplus could disappear over the next four years. The increasing reliance on more volatile own-source revenue means that it is imperative that the Government take action to ensure general government operating surpluses are achieved over time, and that the size of these surpluses is sufficient to provide a buffer against adverse movements in commodity prices, the exchange rate and other key revenue (and expenditure) parameters. Additionally, the lack of industry diversity does leave the state exposed and dependant on China's consumption economy. The potential revenue hole needs to be filled.

The State government will continue to argue strongly to reform the way in which GST revenue is distributed among the States. This discussion around GST will undoubtedly expand to include broadening the base of the GST and increasing the rate. However, any discussions about broadening the base should not start by including food as this will disproportionately affect poorer Australians, as they spend a larger share of their budget on food compared to high income earners. Instead it should consider imposing GST on items that affect high-income earners for example private school fees and private health insurance. The rhetoric about sharing the budget pain would then become more meaningful.

While increasing the GST to 12% would collect an additional $10 billion in revenue this year, there are other more equitable measures which should be looked at by the Federal government. Tax concessions for superannuation cost about $35 billion and are projected to rise to $50 billion in 2017. Of the current years cost of $35 billion, about $13 billion flows to the wealthiest 5%. The unsustainability and incredible inequity of this tax rort should be curbed. While superannuation is the biggest tax rort, it's not alone. The 50% tax discount for income from capital gain, which cost the budget $5 billion this year, is as inefficient as it is inequitable. The 100% tax discount on capital gains on family homes worth more than $5 million makes even less sense.[73] Instead of asking low-income earners to accept even lower incomes due to cuts in benefits and higher taxes, governments should be asking wealthier individuals to do more lifting and less leaning.

And what about the miners, who have been promised a tax cut and get to keep their fuel subsidies? The mining industry currently benefits from the fuel tax credit scheme which allows them to write off the diesel tax they pay. This will be worth $11 billion to mining companies over the forward estimates. In fact, the fuel tax credit scheme is currently the 15th most expensive government spending program. The government spends more on the scheme than it does on income support for parents, support for government schools and child care. The $11 billion also dwarfs the $3.4 billion the government will collect from reintroducing indexation to fuel excise. To replace the excise increase the government wouldn't even have to fully remove the subsidy to mining. They need only cut it by a third.[74]

no privatisation

Faced with the 'difficult decisions' of upsetting the super-rich, the state government will undoubtedly be partial to the option of continued privatisation, for that might offer a quick and ready route to repairing some of the financial indicators. The government has already stated that it is considering a public-private partnership package of at least $300 million to build 16 primary schools and three high schools in the next four years. However, continued privatisation leads to a change in the role of the state and to the questions: who do we want delivering our services, and who really benefits? In the case of public private partnerships, the windfall gains go the private sector and not the public sector, hence benefitting only a few at the expense of many. If delivery of service isn't a fundamental role of the state, then what is?

Privatisation in WA has been plagued with controversy, with numerous examples of private companies providing substandard service, which is often due to companies trying to cost-cut to outbid others for contracts. The result is service delivery on the cheap – poorly paid workers who often do not receive the training their public-sector counterparts would, for instance. One example is multinational company Serco, who have a $50 million per year contract with the WA government to deliver court security and prisoner transport services. They were recently responsible for the escape of three prisoners in January in two separate incidences; two of the prisoners were maximum security prisoners.[75] This is just the most recent example of the poor quality service that results from privatisation, which could have serious implications for the safety of our community. Ultimately, these problems occur because the services are being run for a profit, rather than for the public good.

A slow burn issue is what will be the result of the Commonwealth's proposals to withhold $80 billion earmarked for schools and hospitals over the next decade. In the name of making States "sovereign in their own sphere", each state has now got to fill this funding hole. The potential impact on service delivery and staffing levels could be enormous. Indeed the government may also come back and determine that it needs to collect more money from users, as they have already done with the deregulation of university fees and a co-payment for seeing the doctor.[76]

invest in the public sector

The WA government has gone through an ambitious program of infrastructure spending since coming to office in 2008 and in recent years funded this increased capital spending by running

73. Denniss, R., (2014), Forget GST, hit the rorts on super, The Australian Financial Review, viewed 5 June 2014, available at http://www.afr.com/Page/Uuid/a8093cf2-def1-11e3-b22f-11f518dec445
74. Grudnoff, M., (2014), Abbott delivers a billionaires' bonus, New Matilda, viewed 4 June 2014, available at https://newmatilda.com/2014/05/14/abbott-delivers-billionaires-bonus
75. Moulton, E., (2014) "WA Budget 2014: Serco contract to be reviewed two years before it's due to end", Perth Now, viewed 12 June 2014, http://www.perthnow.com.au/news/western-australia/wa-budget-2014-serco-contract-to-be-reviewed-two-years-before-its-due-to-end/story-fnhocxo3-1226910863246

down accumulated surpluses and then borrowing. This massive increase in capital expenditure increases depreciation and higher debt increases interest costs, both of which result in increased recurrent expenditure in future years. Future generations will be asked to pay for the mistakes of the current government but will they receive any benefit? Assessing the allocative efficiency (this is allocating resources to produce and provide items and services of the highest total value) of the state government's spending, the indications are as yet inconclusive. However, it appears relatively little of the increase in total spending over the last decade paid for investments that benefit future generations[77], for example the need to build roads has nothing to do with job creation and everything to do with population growth. Alternatively per million dollars spent, investment in teachers, nurses and aged-care workers creates nearly 10 times as many jobs as investment in the kinds of infrastructure that Australian governments prefer[78]. What Barnett's government needs to do is realign its priorities away from poorly targeted investment strategies to better targeted investment in the public sector.

plan for the benefit of future generations

Net debt is forecast to increase from $22 billion to record levels of almost $30 billion by 2017-18. It is almost impossible to live debt free and indeed all debt isn't bad, as long it's kept at manageable and realistic levels with future gains outweighing the cost of the debt. However, the message from Standard and Poor's is that there is a lack of measures to address long-term structural issues in the 2014-15 state budget. Grattan argues that high government debt may force governments to cut spending dramatically in a crisis. They posit that this will inevitably hurt the most vulnerable in society the hardest as the majority of government spending relates to welfare, health and spending on older people.[79] This is exactly what we have seen in this budget through our member family analysis. Whilst the debt issue cannot be ignored, Gratton suggests:

> *"rather than perpetuating the economic rationalists narrative of debt is bad and if we don't do something about we'll have to cut welfare spending and who should pay for what, why don't we talk about what we want the state to deliver and work out how much it would cost?"*[80]

Indeed, providing debt levels are sustainable, money should be spent at times of economic uncertainty.

As mentioned throughout this report, this budget will hit the most vulnerable groups in our population the hardest. The combined impact of both the federal budget and state budget will most likely have long-lasting effects, and we posit that the budget could have a 'ripple effect' into the future. By this we mean that the impact of these budgets could be felt far into the future by this generation and future generations, and manifest in various ways – for instance, cuts to health and the imposition of a fee to visit a doctor are likely to lead to a decline in the general health of the whole population. Similarly, cuts to education, and increases in fees to TAFE and university are likely to have a detrimental impact on the social outcomes of future generations, as well as an economic impact due to a potential shortage of skills, knowledge, and research-capacity in our country.

undertake equality monitoring and act to ensure representation of marginalised groups in the public service

We argue that this budget will have a detrimental impact on the WA public sector; in particular, job cuts will lead to a loss of skills and expertise in the sector, and have a detrimental impact on those marginalised groups employed by the public sector – for example, Aboriginal employees and disabled employees. We fear that across-the-board job cuts will reduce the diversity in the sector and the opportunities for marginalised groups – turning back the clock of years of positive achievement in relation to equality of opportunity. We argue that government agencies must undertake equality monitoring to quantify the impacts of cuts to marginalised groups, and to ensure that diversity and the principle of equal opportunity employment is maintained. Undertaking effective strategic equality monitoring across the public sector would ensure that departments and agencies could examine how their employment policies and processes are working and identify areas where these may to be impacting disproportionately on certain groups of staff. Doing so could lead to the development of better and more informed, inclusive decision making, including; decisions on recruitment and promotion, service focus and impacts upon groups within the community. Effective monitoring can also help departments minimise possible legal, financial and reputational harm.

Somewhat inevitably the discourse will always return to 'the bottom line'. Whilst leaders will see the need to balance their books there is little to suggest that this actually requires smaller government. The services that West Australians have come to expect from their government can be sustainably provided if tax reform - and not spending cuts - becomes the focus of the Barnett government. The Barnett government must cease privatisation, invest in the public sector for the future, and invest in the state for the benefit of future generations.

76. Grudnoff, M., (2014), Budget hacks away at our core principals, The Drum, viewed 4 June 2014, available at http://www.tai.org.au/content/budget-hacks-away-our-core-principals
77. Daley, J., McGannon, C., and Hunter, A., (2014) Budget pressures on Australian governments, 2014 edition, p 8, Grattan Institute
78. Denniss, R., (2014) Stand down, there is no budget emergency at all, Crikey, viewed 3 June 2014, available at http://www.crikey.com.au/2014/05/13/denniss-stand-down-there-is-no-budget-emergency-after-all/
79. Daley, J., McGannon, C., and Hunter, A., (2014) Budget pressures on Australian governments, 2014 edition, p 8, Grattan Institute
80. Ibid

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