



Inquiry into the operation, effectiveness, and consequences of the Public Governance, Performance and Accountability (Location of Corporate Commonwealth Entities) Order 2016

Regional Australia Institute Submission

Overview

1. The Regional Australia Institute supports the development and implementation of a long term decentralisation policy for the Australian Government. This submission is focused on the wider merits of decentralisation policies for the public service. It responds to Terms of Reference b(ii), b(iii) and d.
2. Currently the Australian Public Service (APS) is highly centralised with 83 per cent of jobs located in Australia's largest cities. Most of the 17 per cent of APS jobs located outside Canberra and the big five cities are lower paid and have little influence in the decisions impacting how government policies are made and delivered.
3. The direct economic benefits of APS employment flow primarily to major cities. On a per capita basis, the APS spends four times more on wages in metropolitan areas than in regions (\$1001 vs \$281). For senior roles, the spend is 12 times higher per person (\$436 vs \$36) due to the concentration of senior roles in Canberra.
4. Relocation can have risks for the APS and regions. Benefits are limited if the transition is poorly managed by agencies, if the relocation is short term and if it is used as a mechanism to artificially cover a regional economic weakness.
5. International and local evidence confirms that there are significant benefits to locating additional APS staff beyond Canberra and the five largest Australian cities. These include lower costs for the APS and our largest cities and more jobs, enhanced career pathways and specialist employment clusters in regional Australia.
6. The aims of a long term decentralisation policy should be to:
 - a. Achieve a better balance in the spend on APS wages in metropolitan and regional economies;
 - b. Provide a wider range of public sector career options for residents in regional areas;
 - c. Enable local decision making and strengthen policy implementation for regional issues;
 - d. Foster regional economic development by strategically locating APS agencies in regional areas in combination with related public or private sector activities; and
 - e. Maintain decentralisation effort over the medium term to ensure benefits are realised.
7. As well as identifying relocation options and setting clear goals for relocations, the policy should embed the Scottish approach which requires the consideration of location whenever:
 - a. The creation of a new unit, agency or organisation occurs;
 - b. The merger or reorganisation of an existing organisation occurs; or
 - c. A significant property break, such as the termination of an existing lease, occurs.

This would serve to embed the process of decentralisation within the regularly changing activities of government and support a long term effort for decentralisation to regions.

State of Decentralisation in the Australian Public Service

8. The APS accounts for around 2 per cent of Australian jobs and over \$16 billion in annual wages. In December 2016 there were approximately 165,000 Australian Public Servants.
9. In 2013, according to the Australian Public Service Commission (APSC), 83 per cent of Commonwealth employment was located in Canberra and the five largest Australian cities (Figure 1)¹. Recently, there has been a trend towards further centralisation of the public service in Canberra and the major cities. Senior roles are overwhelmingly located in the ACT.

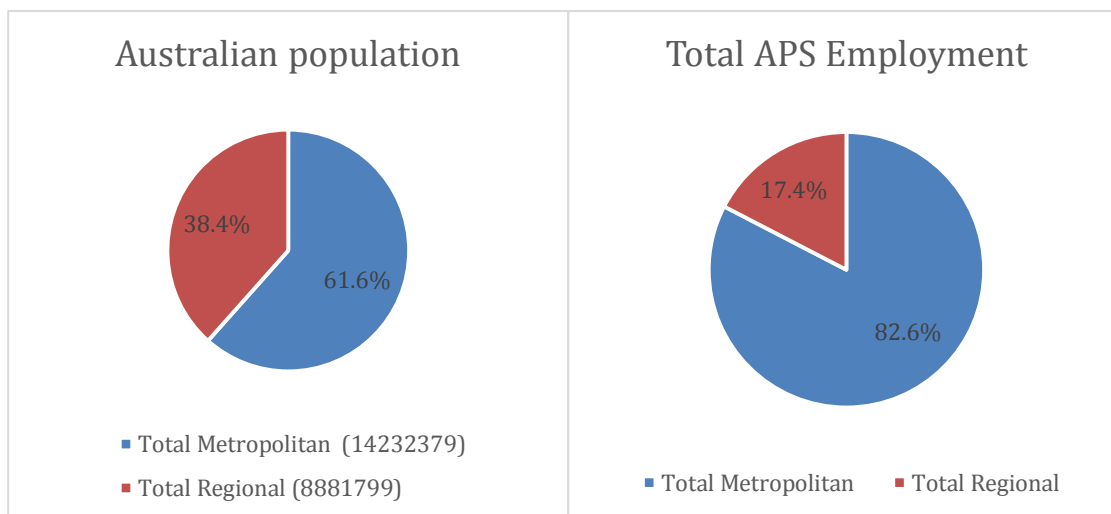


Figure 1. Australian population by Regional and Metropolitan distribution, APS by Regional and Metropolitan distribution

10. For the public service headcount in regional Australia to equitably reflect the regional population, 32,000 positions would need to be moved from metropolitan to regional areas.
11. This level of centralisation means that using the latest available APS decentralisation data (2013), the RAI estimates that of \$16.7 billion in Public Sector remuneration, only 15 per cent or \$2.5 billion was spent outside Canberra and the big five cities.
 - a. On a per capita basis, the relative spend is estimated to be \$1001 per resident in metropolitan Australia compared to only \$281 per resident in regions.
 - b. Of this per capita spend, an estimated 44 per cent (\$436.18 per capita) of APS remuneration is for senior roles in metropolitan areas. In regional areas only 13 per cent (\$36.58 per capita) of the wages bill goes to senior positions.

More details on these estimates including a breakdown of spends in different locations are provided in the Appendix.
12. APS jobs also tend to be located in relatively affluent regions (Figure 2) in both regional and metropolitan areas.
13. Most regional public service roles are lower paid and regional public servants have little say in the decisions impacting how government policies are made and delivered.

¹ The RAI defines for regional Australia as all non-capital city areas as well as Hobart and Darwin.

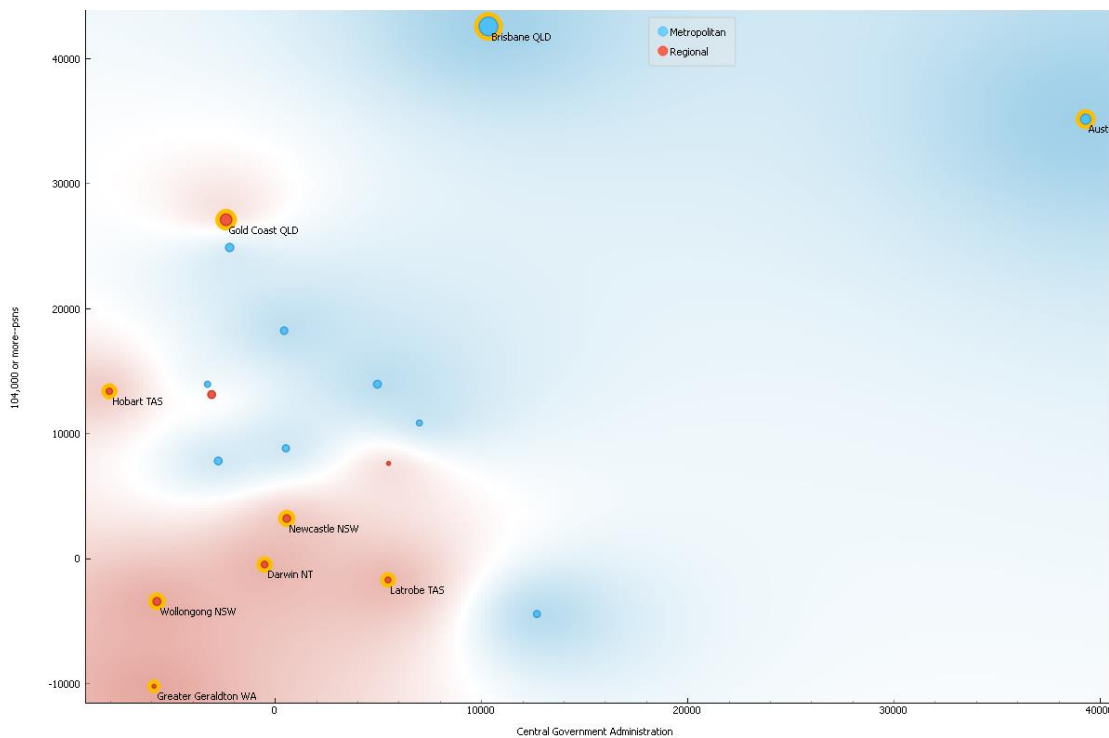


Figure 2. Scatter plot- selected Local Government Areas (LGA): number working in APS (measured as 'Central Government- Administration' by number of people earning over \$104,000

14. Regional employment is also concentrated near major cities. Regional APS employment is mostly located around Canberra, Sydney, Melbourne and Adelaide with regional centres primarily around Sydney and Brisbane (Figure 3). New South Wales has the highest levels of regional APS employment.

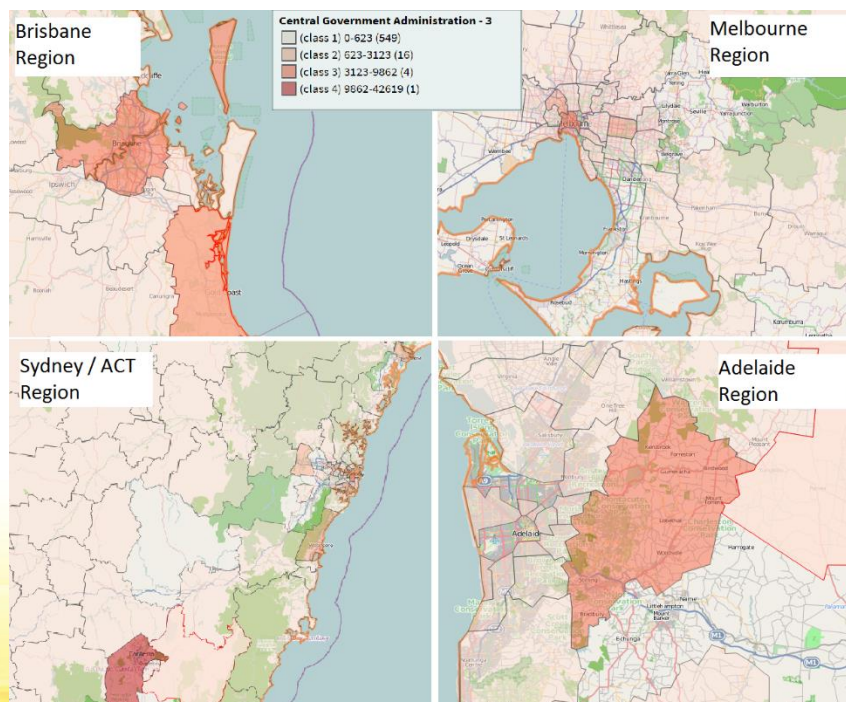


Figure 3. Dispersion of APS jobs across regions of Brisbane, Melbourne, Sydney/Canberra and Adelaide (reds representing higher numbers of APS employees)



Decentralisation Benefits

15. Decentralisation of government employment is not a radical idea. Many governments in Australia and internationally have active and long standing decentralisation strategies (e.g. NSW Decade of Decentralisation which has achieved bipartisan support).
16. Research and analysis of these efforts confirms that well designed and implemented decentralisation policies can have a range of medium and long term benefits for both regional areas and the public service (box).

The potential benefits from relocation (or decentralisation) policies include:

1. Reduction of costs: By moving away from capital cities, it might be possible to avail of lower rent and labour costs;
2. Improvement in the quality of services: Provincial areas may offer opportunities to attract and retain better quality staff, since labour markets are less tight;
3. Catalyst for change: This motive was central to the French, Irish and UK proposals for relocation, and has become increasingly significant given a growing European emphasis on improving efficiency and modernising the public sector;
4. Making government open and accessible: This has been a stated objective of the Scottish relocation policy;
5. Improving policy delivery: By moving staff closer to the origin of policy, policy-makers' local knowledge may be improved. The Norwegian proposals for dispersal suggest that the spatial separation of regulatory agencies increases their ability to be independent of the agencies that they seek to regulate;
6. Improving balance between the centre and the periphery: In France, Finland, Ireland and the UK, relocation has been used to create jobs and encourage economic development in provincial regions while simultaneously reducing inflationary pressures in the property and labour markets of the capital cities;
7. Making national policy more effective by reducing regional disparities: This is a less frequently cited objective of relocation policy; it was argued that reducing the uneven geography of a country makes monetary policy more effective;
8. National security: It is also argued that the dispersal of government functions, and/or the creation of back up offices away from capital cities, is a prudent security measure. Japan has used this approach as part of their natural disaster planning.

Source: Carson 2008, The Relocation of Public Sector Jobs in England, Scotland and the Republic of Ireland

<http://archive.niassembly.gov.uk/finance/2007mandate/research/080130.pdf>

17. Regional Australia is the natural priority for any relocation policy. In addition to the benefits noted above, decentralisation targeting regional Australia can lead to:

- a. Career opportunities. Higher wage, skill and leadership jobs are a feature of APS employment. The average working age person earns 20 per cent less in regional areas. The average wage in metropolitan areas is \$51,829 but only \$41,154 in regional Australia, where the corresponding number of hours worked is significantly higher.
- b. Local Industry Clusters and CBD Activation. The co-location of APS agencies with research capabilities and/or relevant private sector activities can be a useful strategy in developing specialist labour pools and economic activities with long term growth potential in regions.
- c. Pressure off the cities. The RAI estimates that for every additional 100,000 Australians who choose to live in small cities rather than the capital cities, that around \$42 billion dollars is be released into the economy over the next 30 years through reduced interest payments on mortgages alone. This is a source of considerable additional national economic benefit from relocations in addition to the benefits for local economies.
- d. Policy. Many parts of the APS are focused on or find their greatest challenges within regional areas. Entrenched issues that dominate policy making in indigenous affairs, health, education, employment and industry are substantially regional. The tendency towards centralisation of the APS agencies with responsibilities for these areas is one factor undermining the ability of Australia to make substantial progress on these issues in regional areas.

Australian Decentralisation Experience

18. To provide practical insights into the Australia experience, the RAI discussed the outcomes of several moves of State and Federal Agencies with leaders from the regions who benefited from the relocations. Their perspectives are captured below.

19. Geelong

Geelong leaders assisted relocation of the Transport Accident Commission (TAC) to Geelong in 2007-08. It is seen as a success story – from a staff and productivity point of view - with over half the staff relocating. The subsequent Worksafe move had bipartisan support and is now sharing services with TAC. Both agencies put considerable effort into socialising the relocation with staff – Worksafe had a 1-week ‘trial in Geelong’ option, for example – with many who tried the week opting to move.

From the City’s perspective, the TAC move was a crucial catalyst for civic leadership and the region building a stronger cohort of higher end professional jobs in the CBD. It has also played a major role in revitalising the CBD. Because TAC was followed by WorkSafe and soon by the National Disability Insurance Agency (NDIA), the region has built a significant new capability in insurance services.

Recruitment for the new NDIA has been more difficult – partly as the Agency started with a requirement that applicants have a specified level of Commonwealth Public Service work

experience. This narrowed the potential field considerably (and unnecessarily) and the requirement has now been removed.

There are signs of cross fertilisation across these agencies. And also clear signs that relocated workers are staying in the region while they move through other employers – e.g. into Council, large private employers, and Barwon Health.

Another benefit has been the provision of private business services into the insurance agencies, with a critical mass of demand sparking new suppliers and new innovation in these services. This is developing a complementary private sector, and activating G21's plans to have greater local procurement of business services and the associated second round of local jobs.

20. Ballarat

Relocations are an important part of Ballarat's economic development strategy. Scale is important as Ballarat City sees little value in small agency relocations, and the City is looking for combined scale via agglomeration. Suitable large format office space has been a constraint and several smaller agencies have relocated, many to a new technology park.

Ballarat City is planning for a new purpose built large office building in the CBD to host future jobs. Ballarat City is keen to see co-locations and cross-fertilisation of skills and connections, and the design for a new CBD office building reflects these ambitions. The new building is designed around flexible activity spaces and to facilitate interactions between workers in different agencies.

The benefits recognised by Ballarat include better ability to keep talent in the region, and strengthen Ballarat's capability as a regional capital. The City recognises a weakness in the local labour market for good employment options for early and mid-career professionals, and sees relocation of mid to senior public sector jobs in suitable agencies as one way to address this problem.

21. Newcastle

Newcastle has had some large state and Commonwealth government relocations including around 600 Australian Taxation Office (ATO) jobs, 600 NSW health workers, and a NSW Roads and Maritime Services (RMS) office. The NSW health workforce recently moved to Charlestown, and the ATO staff are moving to Gosford. As a result, medium-large good quality office space is currently available at rents around half that in Sydney and Canberra.

Newcastle is well placed to build on its current specialisations in defence and innovation as foundations for relocations of related government workers. Newcastle has around 7000 defence personnel and a large footprint of defence housing. Defence Housing Australia could be a good candidate for location in Newcastle to service this asset base.

Newcastle also has a strong base in innovation – with CSIRO energy research, HMRI (health & medical), NEER (engineering), University of Newcastle and existing business networks in advanced manufacturing like Hunternet. Relocated Commonwealth staff involved in industry development and innovation would benefit from these foundations.

Benefits to relocated workers are in lower housing costs, shorter commuting times and better lifestyle. Benefits for relocating organisations include lower rents.

Benefits for Newcastle include provision of deeper professional employment pathways. Even though Newcastle is a large city, it has a shallow market for high level professional jobs (\$100-\$150,000 pa) and addressing this is a key part of the City's economic development strategy.

The City recognises that the labour market hollows out for people 25-35 years old, as a proportion of this group leave Newcastle for or after tertiary studies and do not come back as they cannot see good employment prospects. The City is working to address this problem.

Another benefit for Newcastle is the potential for relocations to accelerate activation of the CBD – alongside the redevelopments currently underway bringing University of Newcastle staff and students into the CBD.

22. Gosford

Gosford has seen several sizeable government service relocations – starting with the relocation of 480 staff from what was the WorkCover Authority NSW (now Safe Work NSW) in 2002.

This was the start of a growing specialisation in insurance and legal services in Gosford, and there are now over 620 staff in a building housing not only Safe Work NSW but also the State Insurance Regulatory Authority, Insurance and Care NSW, and Legal Aid NSW.

The NSW Government has also recently announced a further 300 public service roles to move to Gosford from the Department of Finance, Services and Innovation. In addition, around 470 ATO positions will be relocated from Newcastle to a new building in Gosford in the next year.

Relocations to Gosford have the scale and complementarity to have significant influence on the regional economy. They have been a high priority as the NSW Central Coast has a high unemployment rate, high level of long distance commuting to Sydney, and a relative lack of mid to high level positions to augment the regional labour market.

Decentralisation Risks

23. Relocations are not a panacea and there are risks that can lead to poor outcomes for regional communities, the APS and the taxpayer. Key risks result from the internal disruption to the agencies involved in relocation and the risks that public service relocation are used as a substitute for important economic transitions in regional economies.

24. The Irish experience with a major decentralisation effort in the early 2000s provides a guide on the risks that must be managed within the agencies being wholly or partially relocated. The review in Ireland identified issues related to:

- Business continuity;
- Staff churn;
- Corporate knowledge;
- Management presence, staff allocation and workloads;
- Hidden costs.

These issues are common in any organisational restructuring – now a frequent occurrence in the APS – and need to be well managed in any relocation.

25. Attractive as it may seem at first glance, relocation is often not an effective response to resolving economic weaknesses in regional areas. This is because relocation:
- Alleviates some local economic weakness in the short term but exposes the region to further risks if the decision is reversed in the future;
 - Can mask underlying economic weakness and prolong adjustment issues;
 - Distracts regional leaders from focusing their inward investment advocacy on private sector opportunities towards prioritising lobbying for public sector jobs in competition with other regions.

The Australian Government should be cautious about using relocations as purely a response to economic problems in regions, even though these measures may have significant public support.

Conclusion

26. The centralisation of the APS is significant. Real benefits can accrue from an enhanced decentralisation effort, but not to all places or for all organisations.
27. A policy development process is needed that goes beyond the simple cost-benefit analysis of an individual relocation to also weigh up the wider potential regional impact in terms of developing specialisations, better career pathways and reducing pressure on overheated central city economies.
28. The RAI is supportive of a wider inquiry being undertaken into these issues to provide the foundations for a long term decentralisation policy that can achieve bipartisan support.

Appendix – APS Regional Wages Expenditure Calculations

	Population		Total APS Employment		Wages	EL and SES Wages	Emp/Person	Wages/Person	Senior Wages/Person	% Senior Wages
	Number	%	Number	%						
Canberra	380914	1.6%	65069	39%	\$ 7,251,583,809.25	\$ 4,213,112,762.86	0.171	\$ 19,037.33	\$ 11,060.54	58%
Sydney	4371548	18.9%	21692	13%	\$ 2,071,276,793.77	\$ 554,665,722.09	0.005	\$ 473.81	\$ 126.88	27%
Regional NSW	3035515	13.1%	9939	6%	\$ 890,434,981.17	\$ 113,790,972.02	0.003	\$ 293.34	\$ 37.49	13%
Melbourne	4176801	18.1%	23074	14%	\$ 2,245,643,046.88	\$ 707,534,615.22	0.006	\$ 537.65	\$ 169.40	32%
Regional Victoria	1556744	6.7%	3663	2%	\$ 323,342,986.45	\$ 26,755,246.39	0.002	\$ 207.70	\$ 17.19	8%
Brisbane	2140443	9.3%	12213	7%	\$ 1,162,896,934.61	\$ 319,480,874.42	0.006	\$ 543.30	\$ 149.26	27%
Regional QLD	2510916	10.9%	5825	4%	\$ 519,915,386.58	\$ 60,251,878.17	0.002	\$ 207.06	\$ 24.00	12%
Adelaide	1263437	5.5%	9420	6%	\$ 907,011,281.93	\$ 272,618,962.36	0.007	\$ 717.89	\$ 215.78	30%
Regional SA	406837	1.8%	410	0%	\$ 35,645,581.04	\$ 1,359,476.73	0.001	\$ 87.62	\$ 3.34	4%
Perth	1899236	8.2%	6500	4%	\$ 609,449,419.91	\$ 140,517,370.59	0.003	\$ 320.89	\$ 73.99	23%
Regional WA	616151	2.7%	1128	1%	\$ 99,309,455.21	\$ 9,330,023.02	0.002	\$ 161.18	\$ 15.14	9%
Hobart	206491	0.9%	3649	2%	\$ 335,550,626.85	\$ 59,793,391.64	0.018	\$ 1,625.01	\$ 289.57	18%
Regional Tas	306576	1.3%	589	0%	\$ 52,405,169.25	\$ 5,370,762.05	0.002	\$ 170.94	\$ 17.52	10%
Darwin	120584	0.5%	2133	1%	\$ 197,233,613.66	\$ 44,265,545.83	0.018	\$ 1,635.65	\$ 367.09	22%
Regional NT	121985	0.5%	495	0%	\$ 43,688,636.35	\$ 3,948,508.73	0.004	\$ 358.15	\$ 32.37	9%
Total	23114178	100.0%	165799	100%	\$ 16,745,387,722.91	\$ 6,532,796,112.14	0.007	\$ 724.46	\$ 282.63	39%
Total Metro	14232379	61.6%	137968	83%	\$ 14,247,861,286.36	\$ 6,207,930,307.54	0.010	\$ 1,001.09	\$ 436.18	44%
Total Regional	8881799	38.4%	27831	17%	\$ 2,497,526,436.55	\$ 324,865,804.59	0.003	\$ 281.20	\$ 36.58	13%

These estimates have been compiled based on data from the Australian Public Service Commission (State of the Service and Remuneration Report 2013) and the Australian Bureau of Statistics (State and Significant Urban Area Population Estimates 2013). Use of average wage figures for bands of employment may result in some discrepancies from actual aggregate statistics for wages estimate. Actual figures are not currently publicly available from the APSC.