

The Workforce Retention Dividend

VALUING KNOWLEDGE AND SKILLS IN THE PUBLIC SECTOR WORKFORCE

Rasika Ranasinghe and John Spoehr
April 2012

Report prepared for the Public Service Association of SA

WISeR
Informing Decisions



THE WORKFORCE RETENTION DIVIDEND

VALUING KNOWLEDGE AND SKILLS IN THE PUBLIC SECTOR WORKFORCE

Rasika Ranasinghe and John Spoehr

April 2012

Report prepared for

The Public Service Association of SA

Australian Workplace Innovation and Social Research Centre
The University of Adelaide
230 North Terrace
Adelaide
South Australia 5005

www.adelaide.edu.au/wiser

Published April 2012.

ISBN: 978-0-9871950-4-3

Suggested citation:

Ranasinghe R & Spoehr J. 2012. *The Workforce Retention Dividend: Valuing Knowledge and Skill in the Public Sector Workforce*. Adelaide: Australian Workplace Innovation and Social Research Centre, The University of Adelaide.

The Australian Workplace Innovation and Social Research Centre (WISeR) focuses on work and socio-economic change. WISeR is particularly interested in how organisational structure and practices, technology and economic systems, policy and institutions, environment and culture interact to influence the performance of workplaces and the wellbeing of individuals, households and communities.

WISeR also specialises in socio-economic impact assessment including the distributional impacts and human dimensions of change on different population groups and localities. Our research plays a key role in informing policy and strategy development at a national, local and international level.

CONTENTS

KEY FINDINGS AT A GLANCE	1
1 WORKERS AND THE VALUE OF WORK	1
1.1 BACKGROUND.....	1
1.2 THE SOUTH AUSTRALIAN PUBLIC SERVICE.....	2
1.2.1 <i>An ageing workforce</i>	2
1.2.2 <i>Recruitment and retention practices in the SA public sector</i>	5
1.3 SOME INSIGHTS FROM THE SOUTH AUSTRALIAN BUDGET IMPACT SURVEY.....	5
2 INVESTING IN THE WORKFORCE	8
2.1 RECRUITMENT COSTS.....	8
2.2 PUBLIC SECTOR EXPENDITURE ON EMPLOYEE TRAINING.....	8
3 VALUING THE COST OF STAFF LOSS	10
3.1.1 <i>Financial costs</i>	10
3.1.2 <i>Impact on work quality</i>	10
3.2 APPROACH TO ESTIMATING THE BASELINE VALUE OF SKILL LOSS.....	11
3.2.1 <i>Assessing the baseline value of the ‘loss’ of staff reductions</i>	11
4 SECURING THE RETENTION DIVIDEND	13
5 REFERENCES	14
APPENDIX A. DATA REQUIREMENTS	15
APPENDIX B. ADDITIONAL DATA TABLES	16

TABLE OF FIGURES

FIGURE 1: SOUTH AUSTRALIAN PUBLIC SECTOR EMPLOYEES, % BY AGE GROUP: 1995 AND 2008	3
FIGURE 2: % CHANGE IN EMPLOYMENT BY AGE GROUP, 1995- 2008, SOUTH AUSTRALIAN PUBLIC SECTOR.....	4

TABLE OF TABLES

TABLE 1: SOUTH AUSTRALIAN PUBLIC SERVICE EMPLOYEES: 2002-2011	2
TABLE 2: JOB VACANCIES, PUBLIC SECTOR: STATES AND TERRITORIES	5
TABLE 3: CAREER INTENTIONS IN THE NEXT 5 YEARS	6
TABLE 4: CAREER INTENTIONS OVER THE NEXT FIVE YEARS BY AGE GROUP: THOSE LIKELY TO LEAVE.....	7
TABLE 5: NUMBER OF YEARS IN PUBLIC SERVICE OF THOSE WHO PLAN TO LEAVE.....	7
TABLE 6: PUBLIC SECTOR EMPLOYEES AND CASH WAGES AND SALARIES , LEVEL OF GOVERNMENT: SOUTH AUSTRALIA	16
TABLE 7: PUBLIC SECTOR EMPLOYEES AND CASH WAGES AND SALARIES, BY INDUSTRY: AUSTRALIA.....	16

KEY FINDINGS AT A GLANCE

- Rapid loss of public sector workers, especially those with more experience and skill, will result in the loss of corporate knowledge and hinder the transfer of skills within the South Australian public service. This loss represents a considerable value which needs to be taken into account in public sector workforce planning.
- Over the next five years an accelerating retirement rate of public servants will coincide with the significant expansion of the resources sector. Combined these forces will result in tightening of the South Australian labour market. In this environment it will be more difficult to attract and retain experienced workers in the public sector. Loss of knowledge and skill in this context is particularly problematic. It may harm the ability of the State Government to deliver its programs effectively and efficiently.
- It is possible to estimate the approximate average value (investment) of a public service worker over his or her tenure in order to understand the implications of the State Governments public sector workforce employment reductions strategy (1600 FTEs or approximately 1913 persons on an FTE to person ratio).
- The total cost of hiring 1913 persons is approximately \$38,259,200. The average total expenditure on training for them during their tenure is \$25,308,460.
- Therefore, the total recruitment and training expenditure on average for the 1600 FTE public sector workforce reductions is around \$63,567,660.
- The State Government needs to develop a better understanding of the implications of staff losses for the knowledge and skill base of the public service as a central element of public sector workforce planning.
- The central challenge to be faced by policymakers is the potential loss of a large number of experienced and skilled public sector workers over a relatively short period of time and the growing difficulty of sourcing suitable replacements in a tighter labour market.
- There is an urgent need to develop a multi-faceted approach to attraction and retention that addresses a range of drivers and barriers. Some progress is being made in this respect. The Treasurers announcement, in the 2011-12 State Budget of the introduction a new Retention Provision represents a constructive contribution to this and should be implemented universally across the public sector.
- There will be particular challenges associated with attraction and retention of public servants in regional South Australia where employment demand generated by mining projects has the potential to starve the public sector of various occupational skills.





1 WORKERS AND THE VALUE OF WORK

The South Australian (SA) budget announced large reductions in public service sector employment in recent State Budgets. This study aims to examine the impact of this proposed policy in terms of the value of skills and knowledge that will be lost in the process. The loss of workers, especially those with more experience and skill, will result in the loss of corporate knowledge and hinder the transfer of skills within organisations. This is particularly relevant to the services sector such as the public service, where the intrinsic quality of work is reflected in the services provided.

The aim of this study is to identify the different aspects of valuing the skills and knowledge that are lost to the organisation (the SA government, in this instance) as a result of staff reductions. The underlying premise is that employers 'invest' in their employees, beginning from the recruitment process, and in the form of professional training during their careers. The returns to these investments are found in improved quality of work, employee morale and efficiency – all of which lead to improved productivity. Hence when such employees leave an organisation, it will in most instances incur an irrecoverable cost to the employers, as well as additional costs.

Given the paucity of available data, this study will focus on this 'sunk' cost and attempt to identify baseline costs of losing skilled staff. However, even this approach is constrained by data limitations. Hence the estimates provided here should be interpreted only as a first step in broadening our understanding of this complicated conceptual and analytical task.

To develop a better understanding of the implications of staff losses for the knowledge and skill base of the public service we recommend that workforce capability and capacity impact statements be undertaken by the State Government in relation to any proposals to increase or decrease staffing levels. This will become increasingly important over coming years as the labour market tightens, making it more difficult for the public sector to recruit and retain workers in the face of more intense competition, particularly from the resources sector.

1.1 BACKGROUND

The public sector staff reductions as announced in the SA budget are distributed across three stages:

- 1200 FTE in 2009-2010
- 200 FTE in 2010-2011
- 200 FTE in 2011-2012

This will be achieved by natural attrition (retirement and other separations), by not filling vacancies, and identifying positions that are no longer required. In addition, a Targeted Voluntary Separation Package (TVSP) scheme has been in operation since November 2010 to implement the staff reductions (Government of SA, 2011). The State government has indicated that it will honour its pledge of a 'no forced redundancy' policy for the remainder of this electoral term.

One of the four new operating savings measures included in the SA Budget Statement of 2011-12, is the public sector workforce reduction strategy.

\$15.2 million in 2012-13, \$31.1 million in 2013-14 and \$31.7 million in 2014-15 by extending the public sector workforce reduction strategy introduced in the 2008-09 MYBR to require a reduction of 200 FTEs in 2012-13 and a further reduction of 200 FTEs in 2013-14. The allocation of savings to agencies is consistent with the 2008-09 MYBR measure (Budget Statement, 2010-2011)

According to Cook and Mitchell (2009), the 1600 FTE reductions first announced in the 2008-09 Mid Year Budget Revisions (MYBR), and affirmed in the 2010-2011 budget, would result in a reduction in employment of between 5286 and 5432 FTE jobs when the full effects of the spending reductions worked through the economy in South Australia. Given that a large proportion of those employed in South Australia are part-time, the actual job loss would be much higher than the 1600 FTE announced.

Another dimension of the impact of the staff reductions is the likely exit of experienced and productive staff, leading to a loss of corporate knowledge. This is particularly important when the older, more experienced staff leaves the workforce, taking with them skills and knowledge accumulated over a number of years.

1.2 THE SOUTH AUSTRALIAN PUBLIC SERVICE

To fully understand the implications of public sector workforce reductions we need to take account of changes taking place in that workforce, particularly growth trends, the composition of employment and demographic change. Table 1 below shows the growth of SA public service employees from 2002 to 2011. While the public sector has continued to grow over this period, the growth rate has slowed significantly in the recent past.

TABLE 1: SOUTH AUSTRALIAN PUBLIC SERVICE EMPLOYEES: 2002-2011

Year	FTE	Persons
2002	69,769.6	83,821
2003	71,372.8	85,576
2004	72,141.0	86,885
2005	76,720.3	89,979
2006	78,210.8	92,848
2007	79,715.2	94,780
2008	81,270.4	96,905
2009	83,885.1	100,597
2010	84,900.0	101,424
2011	84,882.1	101,485

Source: Government of SA, Department of the Premier and Cabinet (2011), South Australian Public Sector Workforce Information, June 2011, table 2.

It is important to note that a large proportion of employees in the SA Public Sector Workforce work part-time. Hence the actual number of people employed is higher than the FTE (Full-Time-Equivalent) numbers. In fact in 2011, there were 101,485 persons working in 84,882 FTE positions (Table 1). This has important implications for the workforce reduction strategy proposed in the SA budget, as the actual number of persons directly affected will be significantly higher than the 1600 FTE indicated in the budget.

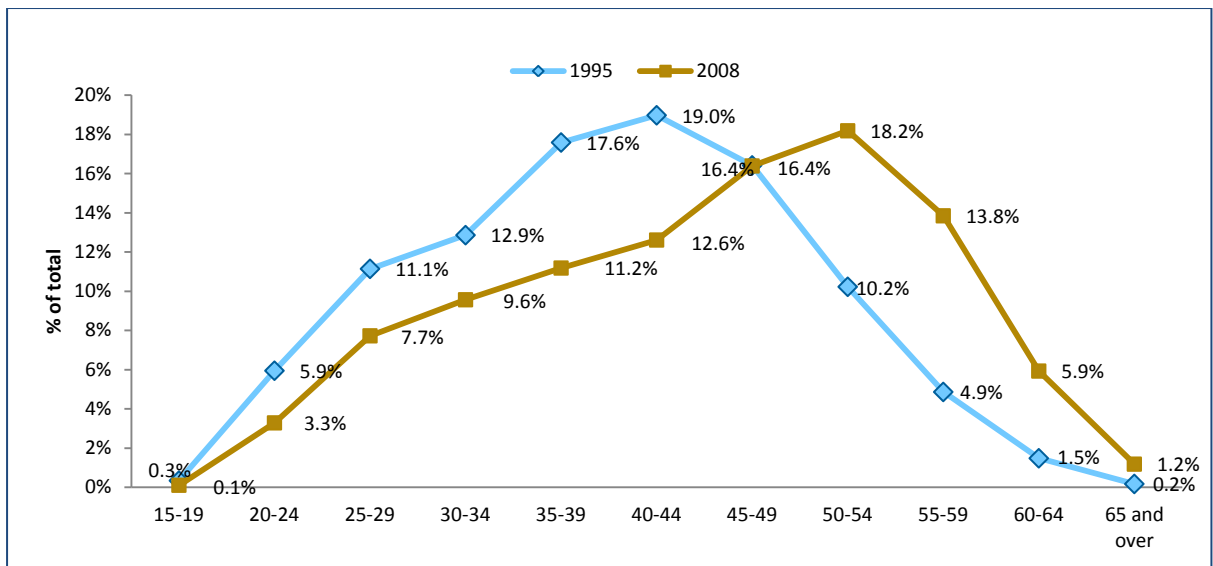
1.2.1 AN AGEING WORKFORCE

Managing the implications of an ageing workforce including an accelerating retirement rate of the baby boom generation is a particular challenge for policymakers in South Australia. The State Government acknowledges that "South Australia has Australia's oldest and most rapidly ageing workforce." (SA Government, 2011). Over the next five years this reality is likely to coincide with a significant expansion of the resources sector resulting in tightening of the South Australian labour market. In this environment it will be more difficult to attract and retain

experienced workers in the public sector. It is important that policymakers appreciate the implications of the interaction between these powerful demographic and economic forces.

The age distribution of SA public sector employees over time is illustrated in Figure 1 below. It is clear that the proportion of public sector workers in younger age groups (less than 45 years old) has shrunk considerably, while the proportion of older workers (over 45 years) has increased from 1995 to 2008.

FIGURE 1: SOUTH AUSTRALIAN PUBLIC SECTOR EMPLOYEES, % BY AGE GROUP: 1995 AND 2008

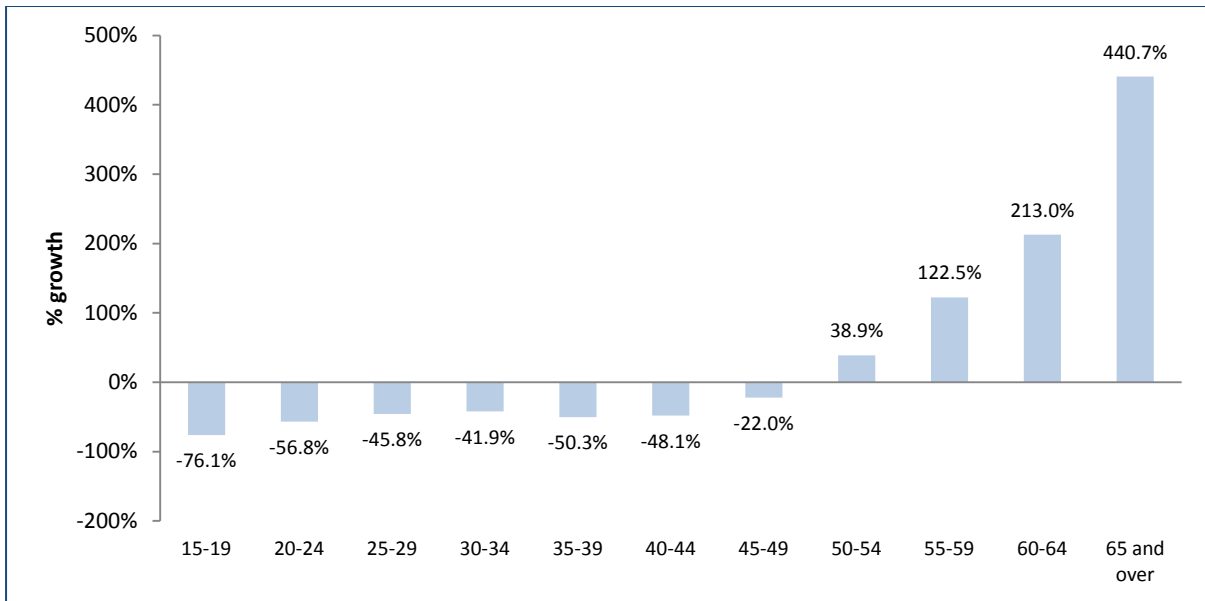


Source: Office for Ethical Standards and Professional Integrity, Commissioner for Public Sector Employment

While this demographic transition in the public sector workforce is a reflection of wider trends in workforce ageing, the specific changes taking place are staggering – from 1995 to 2008 there was a 76% decline in the youngest age group of 15-19 year olds, and an incredible 440% increase in the oldest group - those 65 years and older (Figure 2). In fact, the proportion of employees who are less than 50 years old has declined during this time, while the proportion aged over 50 years has increased.

It is vital that the implications of the demographic change taking place in the public sector are taken into account in forming workforce development policy over the next five years. There is a danger that short term ‘cost cutting’ strategies will fuel an underlying trend towards knowledge and skill loss that will harm the capacity of government to realise key policy objectives and meet community expectations. The central challenge to be faced is the potential loss of a large number of experienced and skilled workers over a relatively short period of time and the growing difficulty of sourcing suitable replacements in a tighter labour market.

FIGURE 2: % CHANGE IN EMPLOYMENT BY AGE GROUP, 1995- 2008, SOUTH AUSTRALIAN PUBLIC SECTOR



Source: Office for Ethical Standards and Professional Integrity, Commissioner for Public Sector Employment

KEY FEATURES OF THE SA PUBLIC SERVICE

- The public sector comprised 84,882 Full Time Equivalents (FTE) or 101,485 people as at 30 June 2011.
- The proportion of the workforce in ongoing employment has declined (73.2 per cent in 1995-96 to 63.9 per cent in 2008-09), whilst the proportion of the non-ongoing workforce has risen (26.8 per cent in 1995-96 to 36.1 per cent in 2008-09).
- Labour hire costs have risen 62.2 per cent from \$46.3 million in 2006-07 to \$74.4 million in 2008-09.
- The SAPS is older and ageing faster than the State's workforce. In June 1998, the median age of the SAPS workforce was 41.8 years and this had increased to 46.5 years in June 2008 (compared with 38.1 years and 40 years respectively in the State's workforce).
- Table 2 shows the number of job vacancies across Australia in 2010 and 2011. The percentage change of the number of vacancies from the previous quarter (lower panel) indicates that there has been a decrease in the vacancies in the public sector across Australia (with the exception of WA).

TABLE 2: JOB VACANCIES, PUBLIC SECTOR: STATES AND TERRITORIES

	NSW	Vic.	Qld	SA	WA	Tas.	NT	ACT	Australia
Vacancies ('000)									
2010									
August	3.9	3.1	4.6	1	1.9	0.6	1.3	1.3	17.6
November	4.5	3.5	4.3	0.9	1.9	0.4	1.5	1.3	18.4
2011									
February	4.1	*3.6	4	1.1	1.6	0.5	1.2	1.6	17.8
May	3.5	3.4	4.3	1	2.1	0.3	1.1	1.9	17.7
August	3.1	2.7	4.6	0.9	2.3	0.3	0.9	1.8	16.8
November	3.4	3.2	6	0.8	1.9	0.3	0.9	1.6	18
Change from previous quarter (%)									
2010									
August	3.4	13.8	48.9	23.8	13.9	25.3	8.3	-4.4	17.4
November	17	14.5	-7.5	-1.3	-1.3	-38.3	15.1	4.2	4.1
2011									
February	-8.9	2.6	-6.4	14.7	-13.6	33.5	-18.1	23.4	-2.8
May	-14.9	-5.1	6.2	-5.7	29.2	-34	-5.4	12.4	-1
August	-10.1	-21.2	8.4	-13.6	11.9	-6.3	-21.3	-1.2	-5.1
November	7.9	16.8	28.6	-7.7	-18.5	-22.2	-2.1	-12.7	7.2

* estimate has a relative standard error of 25% to 50% and should be used with caution
Source: ABS(2011) Job Vacancies, Australia, catalogue no. 6354.0

1.2.2 RECRUITMENT AND RETENTION PRACTICES IN THE SA PUBLIC SECTOR

In February 2010, the Public Sector Performance Commission (PSPC) conducted a study on the recruitment and retention practices across the public sector (The McClelland Review, 2010). While this report was not available for this study, information gathered from the PSPC report to the government (2010) are presented below.

- Labour hire costs in the public sector have risen by over 60 per cent from \$46.3 million in 2006-07, to \$85.6 million in 2009-10.
- Attrition of workers across the public sector has reached 38,000 over the last three financial years (2007 to 2010)
- The public sector loses a significant return on its investment in trainees and graduates, with a retention rate of only 50% of recruits in those categories.
- Temporary labour hire for the administrative workforce, such as ICT, finance, and clerical support cost as much as \$85 million per year
- From approving a vacancy to induction - is 53 days, with a minimum of 29 days and a maximum of 90 days.

1.3 SOME INSIGHTS FROM THE SOUTH AUSTRALIAN BUDGET IMPACT SURVEY

The *South Australian Budget Impact Survey* was conducted in December 2010 by the Australian Institute for Social Research (AISR) in collaboration with the Public Service Association (PSA) of South Australia. Two separate studies based on this survey examine the perspective of PSA members on the impact of the State Budget on staff,

and the effects of the Budget on the delivery of government services (AISR, 2010; AISR, 2011).

This section utilises specific information on career intentions over the next five years of survey respondents in order to examine the effects of the proposed staff reductions in the State budget (Table 3). As evident from Table 3 below, 13% of all respondents have indicated that they would be enticed by the TVSP, and a further 11% would consider resigning from their current positions to look for non-State sector employment opportunities.

TABLE 3: CAREER INTENTIONS IN THE NEXT 5 YEARS

	Freq.	Percent
Was already planning to retire/resign	205	6.07
More likely to retire earlier	110	3.25
Would consider a separation package if available	451	13.34
More likely to leave job & seek other State gov job	270	7.99
More likely to resign from job & seek non-State gov job	384	11.36
Likely to work longer	180	5.33
No intention to resign/retire in next 5	743	21.98
Other	102	3.02
Don't know	240	7.1
No response	695	20.56
Total	3,380	100

Source: AISR SA Budget Impact Survey of PSA members (2010)

Approximately one third of the respondents indicated that the State budget affected their career intentions in the next 5 years in such a way that they would consider leaving the public sector. Of those who indicated that they would likely leave public sector employment in the next five years:

- 61% are female
- 81% are from metropolitan Adelaide
- 91% are currently employed on-going (employment status is ongoing)
- 32% indicated the usual nature of their role as 'administrative', and 11% are 'community and social services'

Table 4 presents the age group distribution of career intentions of respondents who indicated that they were likely to leave their current employment because of the State budget. Around 46% of the less than 45 year olds and 37% of 45-49 year olds indicated that they are more likely to resign from their current position and seek non-State government jobs. A somewhat different pattern emerges in the older age groups; the majority of those aged over 50 years said that would consider a separation package if available. Indeed, this seems to be a major factor for those over 55 years old. Around 57% of 55 to 59 year olds, and 67% of those aged over 60 years said that they would consider the separation package. From this it would seem that the TVSP scheme would be a major determinant of workforce reduction, leading to the exit of a large number of older staff at a rapid pace.

TABLE 4: CAREER INTENTIONS OVER THE NEXT FIVE YEARS BY AGE GROUP: THOSE LIKELY TO LEAVE

	Age group (yrs)					Total
	Less than 45	45 to 49	50 to 54	55 to 59	60+	
More likely to retire earlier than planned	0.3	3.5	11.2	16.0	21.5	8.5
Would consider a separation package	17.6	32.4	40.2	57.4	67.3	38.0
More likely to leave job & seek other other State gov job	36.2	27.7	17.9	10.1	4.7	22.3
More likely to resign from job & seek non-State gov job	46.0	36.5	30.7	16.5	6.5	31.1
Total	100	100	100	100	100	100

Source: SA Budget Impact Survey of PSA members (2010)

As the older workers who are also the more experienced, tend to be those who are more likely to either retire early or take up a separation package, the cumulative loss of professional knowledge and skill will be considerable. The average number of years in public service of those who indicated that they would leave their current positions is 18, implying that employees with considerable experience would potentially be lost. Table 5 below shows the number of years in public service of those who plan to leave their jobs in the next 5 years.

TABLE 5: NUMBER OF YEARS IN PUBLIC SERVICE OF THOSE WHO PLAN TO LEAVE

Career intentions over the next 5 yrs	Number of yrs in public service				Total
	less than 10 yrs	10-20 yrs	21-30 yrs	30+ yrs	
More likely to retire earlier than planned	2.9	7.9	11.3	18.4	9.1
Would consider a separation package	11.7	34.0	49.5	67.0	37.2
More likely to leave job & seek other other State gov job	36.7	23.3	15.7	5.0	22.1
More likely to resign from job & seek non-State gov job	48.7	34.8	23.5	9.5	31.7
Total	100	100	100	100	100

2 INVESTING IN THE WORKFORCE

Investing in human capital has long been considered an important factor in improving efficiency, productivity and quality of the workforce. For the employer, training is an investment in personal and professional development, as well as a contributor towards better business performance and productivity.

Australian employers, both in the public and private sectors have recognised this, and in 2002, 81% of all employees provided some form of training for their employees. The latest available data on employer expenditure on training states that South Australia spent about 1.2% of gross wages and salaries on training costs in 2002 (ABS, 2003). The per capita training expenditure in the same year was \$735 in the public sector in Australia.

2.1 RECRUITMENT COSTS

While there are no detailed records of public sector recruitment costs in South Australia, a study by the Office of the Youth (2007) indicated that some SA Government agencies had estimated that it costs approximately \$20,000 to recruit one employee. According to the Public Sector Performance Commission (2010), the South Australian public sector spent more than \$62 million per year in recruitment costs. Moreover, the same report states that the cost of temporary labour hire for the administrative workforce is approximately \$85 million per year.

2.2 PUBLIC SECTOR EXPENDITURE ON EMPLOYEE TRAINING

The latest data available from the ABS on employee training expenditure is for the year 2001-02 (ABS, 2003). While a more recent report on the recruitment and retention issues in the SA public sector is cited in PSPC (2010)¹, it is not publicly available; hence was not used in this study.

During the year ending June 2002, 81% of all Australian employers provided some training for their employees (ABS, 2003). Training levels were high in South Australia at 91% of employers providing some form of training for their employees.

Public sector investment in employee training is higher than in the private sector as the following key points drawn from the ABS (2003) indicate;

- On a per capita basis, public sector employers that provided structured training spent the equivalent of \$735 per employee (1.7% of total gross wages and salaries) on net direct training costs, compared with \$530 per employee (1.5% of gross wages and salaries) for private sector employers.
- More public sector employers (84%) provided structured training than those in the private sector (41%). Additionally, more public sector employers reported an increase in their provision of structured training from the previous financial year (32% compared with 14%).
- Net direct expenditure on structured training during the 2001–02 financial year totaled \$3,652.8 million. This reflected gross expenditure of \$1,036.7 million on trainers' wages and salaries and \$2,981.5 million on other direct structured training costs,¹ offset by the receipt of \$365.5 million in training-related subsidies and payments. Net direct training expenditure averaged \$458 per employee and 1.3% of total gross wages and salaries.

¹ Public Sector Performance Commission, Review of South Australian Public Sector Recruitment and Retention, Department of the Premier and Cabinet, South Australia (2010)

- More public sector employers (84%) provided structured training than those in the private sector (41%). Additionally, more public sector employers reported an increase in their provision of structured training from the previous financial year (32% compared with 14%).

3 VALUING THE COST OF STAFF LOSS

In many instances workforce reduction policies are driven by a desire to increase savings. Any short-term savings appear to be at the cost of the entitlements and job security of the workers. There are however significant potential costs in this approach. A number of these are set out below.

3.1.1 FINANCIAL COSTS

RECRUITMENT COSTS

There are significant costs involved in the recruitment of an employee. It is an investment that is made by the employer, which is lost when employees leave. If the position is replaced, additional recruitment costs will be incurred. If the position is not replaced, the sunk cost of hiring the person will be foregone. While there is no detailed information on the recruitment costs of SA public service, a study by the Office of Youth (2007) suggests that on average SA government agencies spend approximately \$20,000 per employee on the hiring process. Other studies suggest that these costs may be as much as 30% of an employee's first year annual salary (AISR, 2010).

LABOUR HIRE COMMISSION

The increasing number of contract workers in the public sector has resulted in the rising cost of labour hire commissions. While there is no detailed information on the labour hire costs in the public sector, it is reported to be considerable (CPSU, 2012).

HIGH COST OF SKILLED CONTRACTORS

Studies have shown that staff reductions in the public sector has often resulted in an increase in contractor or labour hire employees, leading to increased costs. A study by CPSU (2012) shows that in 2010 when the Northern Territory Government introduced a two-year public sector staffing cap on non-frontline services, labour hire and associated costs increased. This is particularly relevant where high skilled or in-demand workers are required, as this represents significant costs to the employer. A study cited in the CPSU (2012) report indicates that the Commonwealth Government's extensive use of ICT, legal and other skilled contractors has been significantly more expensive than using in-house employees². For example, on average, an ICT contractor cost an agency \$186,000 per annum, which is approximately \$94,000 more than the average directly employed ICT employee (CPSU, 2012).

3.1.2 IMPACT ON WORK QUALITY

LOSS OF CORPORATE KNOWLEDGE

Long-term regular employees gain valuable skills and corporate knowledge over time, gathered by training programs, on-the job training or by many years of professional experience. When such workers leave, they take with them these skills and knowledge. Whilst the cost of this loss is hard to quantify, it has genuine and explicit implications for employers.

² Gershon P (2008), 'Review of the Australian Government's Use of Information and Communication Technology', pp.48-49

In the Australian Public Service, an Australian National Audit Office (ANAO) audit of the use of non-APS employees, found that being dependant on the retained knowledge of contractors can expose agencies to risk and increase costs further³.

LACK OF BUSINESS CONTINUITY AND INFERIOR SERVICES

This stems directly from the loss of corporate knowledge.

OTHER RISKS

- Less accountability
- Security of information

3.1.3 APPROACH TO ESTIMATING THE BASELINE VALUE OF SKILL LOSS

When an employee exits the workplace, they take with them the skills and knowledge gained while they were employed. This includes organizational-specific skills that are gained by many years of experience and/or on-the-job training, as well as general skills that can be obtained by training and education.

Estimating the value of the loss of skill and knowledge that result from the loss of workers is a complicated task, and requires extensive data to capture all dimensions. In the absence of detailed data that is required, this study will attempt to get an understanding of the costs involved in the loss of a worker.

A simplified approach will consist of the following steps;

1. Cost of hiring- recruitment costs
2. Training costs – over the entire tenure of employees

These are sunk (irrecoverable) costs for the organisation that has invested in the employee that are lost when they leave.

Note that while wage costs form a significant if not the largest proportion of the overall 'costs' of the workforce, it was not possible to include this in the current estimate due to data limitations. It should be noted that in order to better understand the 'value' of employee skills in terms of the investment made by employers, detailed and current data on wages, benefits, separations, and recruitment processes are required. A list of data requirements is provided in Appendix A.

3.1.4 ASSESSING THE BASELINE VALUE OF THE 'LOSS' OF STAFF REDUCTIONS

This analysis is based on the few available data on recruitment and training costs – most of which are now outdated. Current ones are not available or accessible.

ASSUMPTIONS:

1. The 1600 FTE represents approximately 1913 persons (based on FTE to persons ratio) in 2011.
2. The average cost of hiring a worker in the SA government service is \$20,000 (this is based on 2007 information).
3. Cost of training one worker, per year in South Australia PS is \$735 on average.
4. The average number of years worked in the SAPS by those who indicated that they would leave the SAPS in the next five years (in the survey of PSA members) is 18.

³ The Australian National Audit Office, Audit Report No.49 2006–07, "Non-APS Workers", 2007, p 19

Based on the information above, it is possible to estimate the approximate average value (investment) of a public service worker over his or her tenure as a Public service employee.

The total cost of hiring 1913 persons is approximately \$38,259,200. The average total expenditure on training for them during their tenure is \$25,308,460. Therefore, the total recruitment and training expenditure on average for the 1600 FTE that will be reduced, is \$63,567,660.

This provides a baseline estimate of the investment in these workers. Note that the wages are not included in this estimate, as relevant data was not available for this study. The actual value therefore will be significantly higher than this baseline estimate. In addition to the direct measurable costs, the value of the skills lost must be interpreted within the framework of the intrinsic value of experienced workers which is much harder to measure.

This study is a preliminary estimate of the value of skill and knowledge that is lost when an employee exits the public sector workforce. Data limitations as well as the difficulty in conceptualising the intrinsic value of work quality in a predominantly services sector, determined the limits of this study. Hence, the value of work is defined for the purpose of this study as the cost of recruitment and training provided throughout a worker's tenure. This approach is inherently limited, but provides a baseline estimate of the investment in workers by employees – a sunk cost that is irrecoverable, once the worker exits the workforce.

4 SECURING THE RETENTION DIVIDEND

The challenge for policymakers going forward is to implement strategies that help to secure the retention dividend. Valuing the investments that government make in the recruitment, training and development of staff is an important ingredient for well informed strategy development. This report has demonstrated the efficacy of this.

There is an urgent need to develop a multi-faceted approach to attraction and retention that addresses a range of drivers and barriers. Some progress is being made in this respect. The Treasurers announcement, in the 2011-12 State Budget of the introduction a new Retention Provision represents a constructive contribution to this and should be implemented universally across the public sector. Specific provisions will also be necessary to attract and retain staff in occupational areas that are currently difficult to fill or will prove to be difficult to fill in the future in the face of the growth of the mineral and energy resources sectors. There will be particular challenges associated with attraction and retention of public servants in regional South Australia where employment demand generated by mining projects has the potential to starve the public sector of various occupational skills.

REFERENCES

- ABS (2003), *“Employer Training Expenditure and Practices, 2001-02”*, Cat. no: 6362.0, Australian Bureau of Statistics, Canberra.
- ABS (2010) *Labour Force, Australia, Detailed*, Cat no. 6291.0.55.003, Australian Bureau of Statistics, Canberra
- ABS (2011), *“Job Vacancies, Australia”*, Cat no. 6354.0, , Australian Bureau of Statistics, Canberra
- ABS (2011), *“Employment and Earnings, Public Sector, Australia, 2010-11”*, Cat no. 6248.0.55.002, Australian Bureau of Statistics, Canberra
- ABS (2012), *“Average Weekly Earnings, Australia”*, Cat no. 6302.0, Australian Bureau of Statistics, Canberra
- Australian Public Service Commission (2003), *“The Australian experience of Public Sector reform”*, Occasional Paper 2, Barton ACT
- Cook, B and W. Mitchell (2009), *“The Economic and Social Impact of Staff Reductions in the South Australian Public Sector”*, report prepared for the Public Service Association of SA, Centre for Full Employment and Equity (CofFEE), University of New Castle, NSW, Australia
- Cook, B and W. Mitchell (2010), *“Analysis of the 2010-11 South Australian Budget”* report prepared for the Public Service Association of SA, Centre for Full Employment and Equity (CofFEE), University of New Castle, NSW, Australia
- Community and Public Sector Union, CPSU (2012), *“CPSU Submission: ACTU Inquiry into insecure work”*, CPSU, January 2012
- Government of SA (2009), *“South Australian Public Sector Workforce Information”*, Office of Ethical Standards and Professional Integrity, June, multiple tables.
- Government of SA (2010), 2010-11 Budget Statement – Budget Paper 3
- Government of SA (2010), Government response to the Sustainable Budget Commission’s second report, September.
- Government of SA (2010), *“Budget Improvement Measures: Restoring Sustainable State Finances”*, Second report by the Sustainable Budget Commission, August, Volumes 1 & 2.
- Government of SA (2011), *“ South Australian Public Sector Workforce Information”*, Department of the Premier and Cabinet, June, multiple tables.
- Government of SA (2011), *Mid-Year Budget Review, 2011-12 Budget*
- Government of SA (2011), 2011-12 Budget Paper 1, Budget Overview
- Government of SA (2011), 2011-12 Budget Paper 3, Budget Statement
- Government of SA (2011), 2011-12 Budget Paper 6, Budget Measures Statement
- Hordacre, A-L & Spoehr, J (2011), *“South Australian Budget Impact Survey- Report 2: Staff Impact”*, , report prepared for the Public Service Association of SA, Australian Institute for Social Research, University of Adelaide.
- The Office for Youth (2007), *“ SA Public Sector- One Generation away from Extinction?”*, The recruitment and retention of Generation X and Y. A collaboration between the Office for Youth and the Government Reform Commission, June 2007.
- Rafferty, M., Schutz, H. and Yu, S. (2010) Staffing cutbacks in the South Australian public sector and their likely effects: Results of a survey of state public sector employees, Faculty of Economics and Business, University of Sydney.

Appendix A. DATA REQUIREMENTS

- Recruitment process including costs, timelines
- Data on training (cost, frequency)
- Data on separations – including demographic and professional data
- Wage data for those who are separated
- Demographic data
- Workforce related data

Appendix B. ADDITIONAL DATA TABLES

TABLE 6: PUBLIC SECTOR EMPLOYEES AND CASH WAGES AND SALARIES , LEVEL OF GOVERNMENT: SOUTH AUSTRALIA

	Employees				Cash wages and salaries			
	Commonwealth govt	State govt	Local govt	Total	Commonwealth govt	State govt	Local govt	Total
	'000	'000	'000	'000	\$m	\$m	\$m	\$m
2007–08	14.9	111.1	10.1	136.0	910.8	6,011.0	474.7	7,396.5
2008–09	15.9	108.8	10.2	134.9	989.2	6,339.0	530.9	7,859.1
2009–10	15.0	109.5	10.7	135.2	978.9	6,697.3	592.0	8,268.2
2010–11	15.2	111.2	10.9	137.3	1,053.1	6,805.6	615.8	8,474.5

Source: ABS (2011),

TABLE 7: PUBLIC SECTOR EMPLOYEES AND CASH WAGES AND SALARIES, BY INDUSTRY: AUSTRALIA

	Employees				Cash wages and salaries			
	June 2008	June 2009	June 2010	June 2011	2007–08	2008–09	2009–10	2010–11
	'000	'000	'000	'000	\$m	\$m	\$m	\$m
Electricity, gas, water and waste services	54.3	57.7	60.5	63.7	4,420.4	4,755.6	5,272.4	5,805.6
Construction	13.0	14.7	13.2	10.3	858.7	994.9	942.9	996.9
Transport, postal and warehousing	79.6	82.1	107.1	103.6	5,064.3	5,481.6	7,503.1	7,406.8
Information media and telecommunications	10.6	11.2	11.5	11.8	664.9	717.0	761.0	813.0
Financial and insurance services	12.3	11.4	11.8	12.7	909.3	916.1	987.4	1,108.5
Rental, hiring and real estate services	7.4	7.8	9.4	9.7	464.0	498.9	633.6	656.4
Professional, scientific and technical services	25.6	27.6	28.5	32.1	1,786.2	2,007.7	2,090.6	2,333.1
Public administration and safety	580.8	595.9	578.0	598.5	34,775.5	37,644.6	37,890.8	41,129.9
Education and training	543.8	560.1	578.6	591.2	26,628.1	28,597.4	30,174.0	30,738.2
Health care and social assistance	395.2	407.7	412.7	431.4	23,493.6	24,878.8	27,649.0	30,351.5
Arts and recreation services	14.9	16.0	16.8	16.5	684.3	741.2	777.2	838.2
Other industries	13.9	15.3	16.0	14.7	731.3	900.9	994.7	903.8
All industries	1,751.4	1,807.4	1,844.0	1,896.1	100,480.7	108,134.8	115,676.7	123,081.8

