Legislative Assembly for the ACT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Review of Auditor-General's Report No 5 of 2004: *Leave Management*

NOVEMBER 2006

Report 8

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Resolution of appointment[1]

The Legislative Assembly appointed the Standing Committee on Public Accounts on 7 December 2004 to:

(i) examine:

(A) the accounts of the receipts and expenditure of the Australian Capital Territory and its authorities; and

(B) all reports of the Auditor-General which have been presented to the Assembly;

(ii) report to the Assembly any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;

(iii) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(iv) examine matters relating to economic and business development, small business, tourism, market and regulatory reform, public sector management, taxation and revenue and sustainability.

[1] Legislative Assembly for the ACT, Minutes of Proceedings, Tuesday 7 December 2004, p. 12.

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RECOMMENDATION 4

3.69 The Committee recommends, to the extent that work is not already taking place, that a central ACT Government agency be tasked with monitoring and analysing changes in leave liabilities and patterns on an agency-wide basis so that a complete ACT Public Service picture can be formed.

RECOMMENDATION 5

4.4 The Committee recommends that the Legislative Assembly for the ACT notes the findings and recommendations of Auditor-General's Performance Audit Report No 5 of 2004: *Leave Management*.

1 INTRODUCTION AND CONDUCT OF INQUIRY

Referral of the inquiry

Auditor-General's Performance Audit Report No 5 of 2004: *Leave Management* (the Audit Report)

1.1 The Audit Report was presented to the Legislative Assembly for the ACT on 3 August 2004 and consequently referred to the Committee for inquiry.[2]

1.2 The Audit Report presents the results of a performance audit on whether leave management practices implemented in ACT Government entities are compliant with certified agreements, legislation, and government and agency policy.[3]

1.3 The Audit examined, across a selection of ACT Government agencies:

> '…whether leave management processes complied with the Public Sector Management Act 1994 and relevant standards, policies and guidelines. The audit sought to provide an opinion on the efficacy of the management of staff absence and the completeness and accuracy of management information on leave. The audit report also provides comparative statistics on use of leave'.[4]

Terms of reference

1.4 The Committee's terms of reference were to examine the Audit Report and report to the Legislative Assembly for the ACT. The Committee's inquiry was limited to the information contained within the Audit Report.

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[2] Legislative Assembly for the ACT, Fifth Assembly, Minutes of Proceedings No. 110, Tuesday 3 August 2004, p. 1559.

[3] ACT Auditor-General's Report No 5 of 2004: *Leave Management*, p. 7.

[4] *Ibid.*, p. 1.

Conduct of the inquiry

1.5 The Committee received a briefing from the Auditor-General on the Audit Report.[5] The Committee sought and received a Government submission in relation to the findings of the Audit Report.[6]

1.6 The Committee met on 29 November 2006 to discuss the Chair's draft report, which was adopted on 29 November 2006.

Structure of the report

1.7 The Committee's report examines a selection of the significant issues, including the key findings and recommendations, raised by the Auditor-General in relation to whether leave management practices implemented in ACT Government entities are compliant with certified agreements, legislation, and government and agency policy.

1.8 The Committee's report is divided into two parts and covers the following main topics:

Part 1 – Background to the inquiry

- Chapter 1 – Introduction and conduct of the inquiry
- Chapter 2 – Audit findings

Part 2 – Committee comments

- Chapter 3 – Leave management
- Chapter 4 – Conclusion

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[5] 3 August 2005.

[6] Dated 5 September 2005.

2 AUDIT FINDINGS

2.1 The Audit found that although many agencies managed leave satisfactorily:

- attendance was not managed well in some cases, leading to risks of staff being absent without leave;
- 6% of recorded absences were not reflected in leave records;
- 9% of leave application forms could not be found, making it difficult to check the accuracy of information in the leave records;
- 10% of leave applications were not properly approved; and
- there are opportunities to improve leave management through more comprehensive analysis of leave patterns on a whole-of-government basis for each agency.[7]

Audit opinion

2.2 In relation to the Audit objective, the Auditor-General formed the opinion that leave management practices in many agencies were not fully compliant with certified agreements, legislation, and government and agency policy. In particular:

- management of staff absence and attendance is not always effective;
- management information on leave is mostly accurate but partially complete (some 6% of leave instances are not recorded); and
- there are opportunities for agencies to use leave data to improve leave management and thereby reduce costs or improve workforce productivity.[8]

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[7] ACT Auditor-General's Report No 5 of 2004: *Leave Management*, pp. 1-2.

[8] *Ibid.*, p. 2.

Audit recommendations

2.3 The Auditor-General made ten recommendations for future action to address the audit findings in relation to whether leave management practices implemented in ACT Government entities are compliant with certified agreements, legislation, and government and agency policy.[9] A list of these follows, including the Government's response.

Recommendation 1 Management of attendance

2.4 The Auditor-General recommended methods such as briefings to supervisors on the significance of management of attendance, conducting frequent random audits of flex forms and other attendance records, and counselling of those who are not adhering to timekeeping or certification requirements.[10]

2.5 The Government agreed with the recommendation.[11]

Recommendation 2 Public Sector Management Standard No. 3 (PSM No. 3)[12]

2.6 The Auditor-General recommended that the Chief Minister's Department (CMD) should reconsider removing the exemption from recording hours of attendance for senior officers who take advantage of flexible hours schemes, including access to flex-time, credit hours, or time off in lieu absences.[13]

2.7 The Government agreed with this recommendation, stating that in practice senior officers who participate in flex-time schemes and take time off in lieu absences are already required to record hours of work/attendance.[14]

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9 ACT Auditor-General's Report No 5 of 2004: *Leave Management*, p. 2.

10 *Ibid.*, p. 3.

11 Government submission, September 2005, p. 2.

12 Section 251 of the *Public Sector Management Act 1994* (the Act) empowers the Commissioner for Public Administration, with the written approval of the Chief Minister, to make Public Sector Management Standards (the Standards) for the purposes for the Act. The Act in conjunction with the Standards forms the main ACT PS employment legislative framework.

13 ACT Auditor-General's Report No 5 of 2004: *Leave Management*, p. 3.

14 Government submission, September 2005, p. 2.

2.8 Further, the Government advised that Part 11, Rule 6 of PSM No. 3 can be reworded to explicitly require senior officers who participate in flexible hours schemes to record their attendance.[15]

Recommendation 3 Absences covered by leave applications

2.9 The Auditor-General recommended that agencies should use such means as:

- briefing staff on the importance of correct use of leave in conjunction with any training on fraud and integrity policy;
- instructing all supervisors to certify that all absences are covered by leave applications before signing attendance records such as flex sheets;
- instructing supervisors to submit all leave forms directly to the personnel section rather than handing paper-based leave forms back to staff; and
- providing supervisors with a summary of leave taken by employees on a regular basis and asking them to certify that it is consistent with their records of staff absences.[16]

2.10 The Government agreed with the recommendation.[17]

Recommendation 4 Leave delegations

2.11 To ensure a sound system of leave delegations is in place, the Auditor-General recommended that each agency should:

- brief all supervisors on the extent of their delegated power to approve leave, and the need to ensure leave forms are approved by an authorised delegate; and
- ensure that personnel staff reject leave applications that are not properly approved, and only exercise any delegated powers to approve leave after consultation with the line area.[18]

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[15] Government submission, September 2005, p.3.

[16] ACT Auditor-General's Report No 5 of 2004: *Leave Management*, p. 4.

[17] Government submission, September 2005, p. 3.

[18] ACT Auditor-General's Report No 5 of 2004: *Leave Management*, p. 4.

2.12 The Government agreed with the recommendation.[19]

Recommendation 5 Timeliness for submitting leave forms

2.13 The Auditor-General recommended that agencies, where necessary, should take steps to improve the timeliness of submitting leave forms.[20]

2.14 The Government agreed with this recommendation.[21]

Recommendation 6 Leave form design

2.15 In relation to leave form design, the Auditor-General recommended that CMD should create a template for remaining paper-based leave forms and advise agencies on the need to comply with legislative and policy requirements through proper leave form design.[22]

2.16 The Government agreed with this recommendation.[23]

Recommendation 7 Policy on use & approval of leave in special circumstances

2.17 The Auditor-General recommended that agencies should develop clear and consistent policy on the use and approval of leave in special circumstances (part of personal leave), and promulgate this to all staff.[24]

2.18 The Government advised that it agreed with this recommendation, stating that the approval of leave in special circumstances was discretionary and available to staff for use in special and extraordinary circumstances, for example, when childcare becomes unavailable at very short notice. Further, the Government stated that CMD would provide guidance for agencies on the examples of special circumstance leave.[25]

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[19] Government submission, September 2005, p. 3.

[20] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 5.

[21] Government submission, September 2005, p. 3.

[22] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 5.

[23] Government submission, September 2005, p. 3.

[24] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 5.

[25] Government submission, September 2005, p. 4.

Recommendation 8 — Accuracy of input from leave forms to the HR Management Information System (HRMIS)

2.19 The Auditor-General recommended that agencies should take steps to increase the accuracy of this information by such means as regular peer and supervisory checks.[26]

2.20 The Government agreed with the recommendation.[27]

Recommendation 9 — Filing arrangements

2.21 The Auditor-General recommended that agencies should review the adequacy of the current filing arrangements and improve them where necessary.[28]

2.22 The Government agreed with the recommendation.[29]

Recommendation 10 — Review of leave patterns across the Service

2.23 The Auditor-General recommended that CMD should review leave patterns across the service, and agencies should review their own patterns of leave, with a view to enabling more effective management of leave, consistent with occupational health and safety standards and workplace productivity.[30]

2.24 The Government agreed in principle with this recommendation. It stated that the Template Agreement[31] stipulates that employees will be encouraged to use their annual leave entitlement within the year that it accrues and that Managers and Supervisors should approve applications by employees to take their leave in the accrual year. Further, the Template Agreement also provides guidance on the management of excessive working hours. Deeming provisions are subject to certified agreement negotiations with unions. It is agreed that agencies should regularly monitor and review excessive leave

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[26] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 5.

[27] Government submission, September 2005, p. 4.

[28] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 6.

[29] Government submission, September 2005, p. 4.

[30] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 6.

[31] While ACTPS certified agreements are agency based, government policy requires that agencies adopt a centrally negotiated template agreement as part of their agency agreement. The template agreement includes a set of core conditions for staff in the administrative, professional, technical, general service officer and ambulance classifications, which forms Part One of the agency Certified Agreement. Part Two of the agency agreement includes agency specific conditions.

credits and invoke deeming procedures and/or discuss the need to take regular leave breaks with staff.[32]

[32] Government submission, September 2005, p. 4.

3 LEAVE MANAGEMENT

Background

3.1 For the 2004-05 financial year, the Territory had on average 15,333 employees (14,988 in 2003-04).[33] For many organisations, human resources represent their largest single cost. Effective leave management is central to the management of the human resource workforce, and should provide improved working conditions for employees while minimising costs to the Government.

3.2 At the time of the Audit, employee-related expenses in some ACT Public Service (ACT PS) agencies were in excess of 60% of total agency budgets. According to the Auditor-General, a key component of managing this expenditure is the control of absences through effective leave management.[34]

3.3 At the time of the Audit (in 2002-2003), the cost of leave for agencies using the PERSPECT Human Resource Management System[35] alone was $75.2m, of which $30.7m represented unscheduled leave such as personal leave (which incorporates sick leave and carer's leave) and workers' compensation leave.[36]

3.4 The Committee considers that the aim of effective leave management is to ensure that all public sector employees have the opportunity to clear leave on a regular basis.

3.5 Further, the Committee acknowledges that effective leave management needs to take into consideration both the cash costs and productivity costs. The Committee is of the view that focusing on the cash and productivity components of leave management will ensure that leave costs are contained and the quality of public sector services is maintained.[37]

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[33] Australian Capital Territory, *Consolidated Financial Statements 2004-05 Financial Year*, 2005, p. 37

[34] Auditor-General's Report No 5 of 2004: *Leave Management*, p.1.

[35] At the time of the Audit, PERSPECT was used by 17 agencies across the ACT PS. These agencies collectively employed about 82% of the total Act Government workforce (Auditor-General's Report No 5 of 2004: *Leave Management*, p. 1.).

[36] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 1.

[37] WA Government, *Effective Leave Management*, 2001.

3.6 In conclusion, the Committee is of the view that managing leave is largely an issue of assisting people to manage their lives while maintaining appropriate attendance at work. Whilst it is important that agencies have a structure in place to encourage and facilitate leave clearance, it is vital that systems are established which help to identify which sections of the workforce are accumulating leave and inform those responsible of the options available. Only then can the cash cost of leave and the productivity cost of employees absent from the workplace be minimised.

Accrued leave liabilities

3.7 Annual[38] and long service leave (LSL) is a significant financial liability and workforce management issue. At 30 June 2005, the ACT PS had accrued leave liabilities of $283 million (comprising $138m current liabilities and $145m non-current liabilities).[39]

3.8 An analysis by the WA Auditor-General on management of leave liability in the public sector found:

> 'that the agencies that actively manage their workforce to match staff resources to agency service demands generally have lower leave liabilities'.[40]

Cost

3.9 Analysing the cost of leave liabilities to Government is not straightforward. Fundamentally, there are two forms of leave cost:

- cash costs which arise when an employee leaves the public sector and receives payment for outstanding leave, converts accrued leave to cash or is replaced on leave; and
- productivity costs which arise when an employee takes leave and is not replaced.[41]

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[38] or recreation leave

[39] Australian Capital Territory, *Consolidated Financial Statements 2004-05 Financial Year*, 2005, p. 37; Australian Capital Territory, *Consolidated Financial Statements 2003-04 Financial Year*, 2004, p. 38.

[40] WA Auditor-General, Public Sector Performance Report 1, *Management of Leave Liability*, May 2005, p. 46.

[41] WA Government, *Effective Leave Management*, 2001.

3.10 In the short term, cash cost rather than productivity cost of accrued leave may be a greater problem for the public sector. In particular, an agency that is close to its budget and with a significant number of employees nearing retirement would have difficulties if suddenly faced with the need to make large payments for accrued leave. In the long term, however, if leave liability is not effectively managed, productivity costs will be just as much of a problem. Agencies will either have their activities curtailed or require additional staff to ensure continuity of service (which converts the cost to a cash cost).[42]

3.11 The Committee believes that agencies should proactively manage their leave liability by aiming to strike a balance between the cash costs and productivity costs of leave. This will help to ensure that performance levels remain constant, while costs are contained.[43]

3.12 Increasing leave liability across the public sector has a number of implications for both individual agencies and Government as a whole. The most apparent short to medium term problem is the number of people who are likely to retire in the next few years.

3.13 According to the 2002 ACT Public Service Human Resources Council, *Summary Report of the Retirement Intentions for the ACT Public Service*:

> 'Budgeting for long service leave (LSL) will be an issue as considerable proportions of staff may not use their LSL entitlements before retirement and the older a person is or the closer they are to retirement, the less likely they are to intend to take LSL'.[44]

3.14 Further, the above report found that:

> 'Retirement will have a significant impact on the ACT PS within the next 2 to 5 years, with over 2,300 employees (representing about 21% of the entire ACT PS workforce[45]) intending to retire within the next 5 years. Assuming the workforce data from the Perspect HR system is accurate, the retirement impact

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[42] WA Government, *Effective Leave Management*, 2001.

[43] *Ibid.*

[44] ACT Public Service Human Resources Council, *Summary Report – Retirement Intentions Survey for the ACT Public Service*, July 2002, p. 5.

[45] Includes all staff employed by the ACT PS, excluding temporary and casual staff but including executive staff, who are covered by the *Public Sector Management Act* and whose records are kept on the PERSPECT pay system (ACT Public Service Human Resources Council, *Summary Report –Retirement Intentions Survey for the ACT Public Service*, July 2002, p. 3).

> over the next 5 years is expected to be 214% higher than in the previous 5 years. Given similar costs associated with retirement as in the past, the financial impact would also be 214% higher'.[46]

3.15 One of the main findings of the Report was the need for the ACT PS to assess the financial magnitude of the retirement impact. The Report highlighted that there:

> '…will need to be careful budget planning conducted to ensure that ACT PS is able to absorb costs associated with the anticipated increase in retirement levels. Payments of accrued Long Service Leave (and, to a lesser extent, recreation leave), costs of training and recruitment, payments of superannuation entitlements will all need to be considered'.[47]

3.16 The Committee notes that forward planning will be needed to ensure that appropriate funds are allocated to meet the associated cash cost of outstanding leave owing to employees nearing retirement. Further, the need to manage clearance of leave by employees 45 years and older will be important.

Valuation

3.17 The Committee notes that the audit of the Territory's liabilities at 30 June 2005, showed that almost half of the Territory's liabilities were comprised of borrowings, payables and finance leases with the remainder being mostly represented by employee-related liabilities, including unfunded superannuation liabilities. Of the employee-related liabilities, 40% were unfunded superannuation and 11% were employee benefits.[48]

3.18 The Committee notes that at the time of audit, the applicable accounting standard regarding employee benefits was AASB (Australian Accounting Standards Board) 1028. This standard has since been replaced by AASB 119, which is applicable to financial years beginning on or after 1 January 2005.[49]

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[46] ACT Public Service Human Resources Council, *Summary Report –Retirement Intentions Survey for the ACT Public Service*, July 2002, p. 3.

[47] *Ibid*., p. 8.

[48] ACT Auditor-General Report No 7 of 2005: *2004-05 Financial Audits*, pp. 20-21.

[49] ACT Treasury, ACT AIFRS Policy Summary AASB 119.

3.19 The new standard applied to annual reporting periods beginning on or after 1 January 2006, but allowed for early adoption from 1 January 2005.[50]

3.20 The key feature of the AASB 119 is to prescribe the recognition, measurement and disclosure requirements for all forms of employee benefits, except share based payments. These benefits include short term employee benefits, post employment benefits, other long term employee benefits and termination benefits.[51]

3.21 AASB 119 requires long term employee benefits (e.g. LSL) to be calculated using the same methodology as applied to defined benefit plans. The AASB 119 methodology is more detailed compared to the LSL guidance in AASB 1028.[52]

3.22 AASB 119 also requires short term employee benefits (i.e. due within 12 months) to be measured at a nominal amount. Long term employee benefits (i.e. due after 12 months) must be measured at present value. This is similar to AASB 1028, except that AASB 1028 specified that wages, salaries, annual leave and sick leave must be measured at nominal amounts in all circumstances. So in the rare circumstances where wages, salaries, annual leave and sick leave were long term rather than short term employee benefits, AASB 119 requires present value measurement; while AASB 1028 required nominal measurement.[53]

3.23 The Committee is of the view that the change in accounting treatment of employee benefits as specified under AASB 119 will capture more accurately the extent of accrued leave liabilities.

3.24 In response to a question asked during the 2005-06 Estimates inquiry process regarding the ACT Planning and Land Authority (the Authority) holding a large unfunded liability for employee benefits, the Authority's Manager of Corporate Services stated:

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[50] NSW Treasury, *Analysis of AASB 119*, February 2005, p. 4.

[51] *Ibid*., p. 1.

[52] *Ibid*., p. 3.

[53] NSW Treasury, *Analysis of AASB 119*, February 2005, p. 3; Commonwealth Dpt of Treasury, Finance Brief 21: *International Adoption – Employee Benefits, Provisions & Contingencies*, July 2004, pp. 1-2.

> 'Those unfunded liabilities relate to rec leave provision and long service leave provision for our employees. It arose when we first became an authority and split away from the Department of Urban Services, where we were required to disclose those entitlements on our balance sheet, but were not able to secure any funding from either the Treasury or urban services to offset that liability.
>
> It is not considered to be a major risk on our balance sheet because we wouldn't expect that all of our employees would call upon their long service and rec leave entitlements at any given point in time. It is just something that is an ongoing accrual that is normally paid out on either an employee's desire to take a long period of leave or when they leave the service of the authority. We are catch-managing that through our normal…'.[54]

3.25 Further, in response to whether the Authority had made a provision in the accounts or just recognised the liability, the Corporate Services Manager stated:

> 'We just recognise the liability. We have no provision or funding to build up any reserve to meet that obligation…our financial statements are in compliance with the accounting standards. We recognise the provisions for the leave in accordance with the standards. The only bit missing is that we have no cash reserve to fund that, if we were called upon to pay up every employee we have got'.[55]

3.26 The Committee notes that the 2003-04 and 2004-05 Consolidated Financial Statements of the Territory set out the accounting policies for LSL used in the financial statements of the Territory and its agencies as follows:

> 'A long service leave liability is recognised for both employees with ten years or more service and employees with less than ten years of required qualifying service. For those employees with less than the ten years of required qualifying service, the liability is calculated through a shorthand approach by recording 100% liability for employees with five or more years service. Use of this shorthand approach is an approximation process to recognise the probable

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[54] Legislative Assembly for the ACT, Select Committee on Estimates (Appropriation Bill 2005-06), *Transcript of evidence*, 24 May 2005, p. 651.

[55] *Ibid.*, p. 652.

liability to eventuate for officers with less then ten years service, when the ten years service is achieved'.[56]

3.27 The Committee understands that the 2003-04 and 2004-05 policies, in effect, assume that:

- it is improbable that LSL payments will be made for employees with less than five years qualifying service; and
- it is probable that LSL payments will be made for employees with more than five years of qualifying service.

3.28 The Committee is of the view that ACT Government departments, statutory authorities and Territory owned corporations should have an obligation, under accounting standards, to formally recognise a provision for long service leave for employees with more than five years of qualifying service, rather than simply know they owe the liability.[57]

Leave balances

3.29 The Audit conducted an analysis of leave records and found that in those ACT agencies using the PERSPECT system, there were 1831 persons (13%) who took no recreation leave at all in 2002-03. This included 11% of senior officers and 15% of other staff. These figures exclude those who were absent for the whole year. Also, in June 2003, there were 504 persons (3.7%) with recreation leave balances in excess of 60 days. Five persons had balances of 200 days or more, representing ten years of untaken leave. All of these five cases were from agencies that had deeming provisions in place (whereby employees can be deemed[58] to be on leave if they have excessive leave credits).[59]

3.30 Given the findings by the Auditor-General, the Committee is of the view that agencies should be encouraged to analyse their own workforce profiles in

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[56] Australian Capital Territory, *Consolidated Financial Statements 2003-04 Financial Year*, 2004, p. 17; Australian Capital Territory, *Consolidated Financial Statements 2004-05 Financial Year*, 2005, p. 18.

[57] Legislative Assembly for the ACT, Select Committee on Estimates (Appropriation Bill 2005-06), *Transcript of evidence*, 24 May 2005, pp. 651- 652.

[58] Many agencies have deeming provisions, such that when an officer's leave credits are in excess of a certain figure at a certain date, they are deemed to be on leave (Auditor-General's Report No 5 of 2004: *Leave Management*, p. 8).

[59] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 23.

terms of outstanding leave liability. Further, forward estimates that focus on the impact of future leave entitlements would also be useful for budgeting and planning purposes.

RECOMMENDATION 1

3.31 **The Committee recommends that ACT Government Agencies should identify reasons for excessive leave accrual and, where appropriate, develop clearance strategies designed to suit their workforces.**

Growth in unscheduled leave

3.32 A trend highlighted in the Audit Report is that unscheduled leave or absence[60] is growing in the ACT PS. According to the Auditor-General:

> 'The overall cost of unscheduled leave increased by 19.9% in two years, slightly more than the salary growth (for all agencies) of 15.8% in the same period'.[61]

3.33 Further, the Auditor-General noted that unscheduled leave, in particular, represents a loss of productivity and it is therefore important to ensure that this type of leave is justified, monitored and reduced if possible.[62]

3.34 International and Australian research indicates that unscheduled absence rates in the public sector are commonly higher than in the private sector.[63]

3.35 Further, studies of unscheduled absence undertaken in countries around the world have found that, for organisations with high absence levels, up to half of the unscheduled absences from the workplace may be avoidable.[64]

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[60] An 'unscheduled absence' is defined as time off from work, whether paid or not, due to sick, compassionate or family leave, workers' compensation and industrial action. There are three categories of leave for which ACT PS data is available: compensation; personal leave (i.e. sick leave, carer's leave, etc); and miscellaneous leave (i.e., industrial action, etc.) (Commissioner for Public Administration, *State of the Service Report 2004-05*, p. 14).

[61] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 19.

[62] *Ibid.*, p. 1.

[63] ABS, *Australian Social Trends*, 1996; Mercer Cullen Egan Dell, *Corporate Benchmark Monitor*, 2001, p. 7.

[64] WA Auditor-General, *Get Better Soon – The Management of Sickness Absence in the WA Public Sector*, Performance Examination, Report No. 5, August 1997, pp. 1-7.

3.36 The Committee notes that the Commissioner for Public Administration's *State of the Service Report* reports on unscheduled absence in the ACT PS. In 2004-05, unscheduled absence accounted for 4.9 percent of ACT Public Service work days in 2004-05. About 75 percent of unscheduled absence fell into the 'personal leave' category.[65] When compared with the figures for 2003-04[66] and 2002-03[67], the Committee notes a growing trend in unscheduled absence.

Costs of unscheduled leave

3.37 The Committee is of the view that unscheduled absence is costly. The direct remuneration cost of sick leave in 2000 in Australia was calculated at an average of $1550 per employee.[68]

3.38 The Committee notes that in many workplaces the real cost of unscheduled absence does not lie in the payment of leave entitlements but in the replacement of essential staff and the difficulties the actual absence causes through disruption to production/operation.[69] According to US industry estimates, when these and other factors are taken into account, the real costs associated with employee absence can be up to three times higher than the real direct costs to employers.[70, 71, 72]

3.39 As noted earlier in this report, the Commissioner for Public Administration's *State of the Service Report* reports on unscheduled absence in the ACT PS, providing variations by agency and by job groups.[73] The Committee notes, however, that this does not include the aggregate cost of unscheduled absence.

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[65] Commissioner for Public Administration, *State of the Service Report 2004-05*, p. 14.

[66] Commissioner for Public Administration, *State of the Service Report 2004-05*, p. 14; Commissioner for Public Administration, *State of the Service Report 2003-04*, p. 21.

[67] Commissioner for Public Administration, *State of the Service Report 2003-04*, p. 21.

[68] HRM Consulting Pty Ltd, *Sick Leave – Attacking the Wrong Virus*, 2002.

[69] ACCI Best Practice Information Paper No. 3, *Measures to Deal with Absenteeism in Federal Enterprise Agreement*s, May 1997, p. 7.

[70] Cited in Robinson, B., 'An Industry Approach to Managing Absence Supports Greater Organisational Productivity', *Employee Benefits Journal*, June 2002, p. 7.

[71] ANAO, *Absence Management in the Australian Public Service*, 2003, p. 26.

[72] NSW Auditor-General, *Management of Sickness Absence NSW Public Sector*, August 1998, pp. 8-9.

[73] Commissioner for Public Administration, *State of the Service Report 2004-05*, p. 14; Commissioner for Public Administration, *State of the Service Report 2003-04*, p. 21.

RECOMMENDATION 2

3.40 **The Committee recommends that the ACT Commissioner for Public Administration's *State of the Service Report* should report on the aggregate cost of unscheduled absence in the ACT Public Service.**

3.41 The Committee notes that ACT PS agencies are not required to include in their Annual Reports details of the number or percentage of working days lost each year to sickness or other types of unscheduled absence or to disclose the aggregate cost of unscheduled absence in their financial statements.

3.42 The Committee believes that this is in contrast with the present reporting of less significant or lower cost aspects in financial statements, such as separation and redundancy expenses or other employee expenses.[74]

RECOMMENDATION 3

3.43 **The Committee recommends that the *Annual Reports (Government Agencies) Act 2004* and the *Chief Minister's Annual Report Directions* be revised to require ACT Government agencies to include in their annual reports details of the number or percentage of working days lost each year to sickness or other types of unscheduled absence or to disclose the aggregate cost of unscheduled absence in their financial statements.**

Monitoring and mitigating unscheduled leave

3.44 Regarding action taken by agencies to monitor and mitigate unscheduled leave, of the twenty-nine agencies responding to the Audit Office's survey, eighteen (62%) stated that they conducted regular reviews of the level of unscheduled absences, and eleven (38%) collected and reported statistics on unscheduled leave to managers. However, only one agency, ACTION, reported conducting a study to identify the main factors that contribute to unscheduled absence, and ACTION was also the only agency to set targets for unscheduled absence. Eight agencies (28%) reported initiatives such as flu

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[74] ANAO, *Absence Management in the Australian Public Service*, 2003, pp. 43-45.

injections, incentives for health club memberships and active intervention to minimise unscheduled leave.[75]

3.45 The Committee is of the view that responsibility for identifying and addressing avoidable unscheduled absence rests with the Chief Executive of each agency as part of his or her duty to ensure that public funds are administered efficiently, effectively and ethically.[76]

3.46 To effectively maintain attendance at optimal levels in the wider public and employee interest, the Committee believes that visible accountability and commitment is required from the executive management of an agency and this should be reflected at other organisational levels.[77]

3.47 The Committee notes that the Auditor-General observed:

> '…in some agencies a general lack of attendance management by managers and supervisors. This included no reliable methods of recording absences requiring leave and no specific controls that ensured leave forms are completed and provided to the personnel section'.[78]

3.48 A report by the UK National Audit Office also states that:

> 'A number of organisations…claim noticeable reductions in sickness absence where senior management have been made directly accountable for it'.[79]

3.49 The Committee notes that most employees are likely to suffer genuine illness or injury from time to time or are likely to be absent from work for other essential reasons, such as to care for a sick family member or close relative. Almost all staff take some sick/carer's leave at some time during their working lives. Such unscheduled absences are traditionally classified into two categories:

- involuntary and unavoidable – caused by sickness or injury sufficiently severe to render the employee unfit for normal work duties;

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[75] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 23.

[76] ANAO, *Absence Management in the Australian Public Service*, 2003, p. 32.

[77] *Ibid.*, p. 43.

[78] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 12.

[79] UK Comptroller and Auditor-General, *The Management of Sickness Absence in Her Majesty's Land Registry*, January 1996, p. 3.

- voluntary and avoidable – when employees take time off work although they are not medically unfit for normal work duties.[80]

3.50 The Committee believes that information on whether the cost of unscheduled absence in an organisation is rising, falling, remaining constant or exhibiting a seasonal pattern over time can assist managers in determining whether some intervention (including positive initiatives) is required and can also assist in evaluating the success of previous initiatives.[81]

3.51 In summary, the Committee recognises that unscheduled absence is a complex issue and that ACT PS agencies have finite resources and face increasing pressure to continually improve their performance and productivity. The level of unscheduled absence can have a significant impact on their overall performance and productivity. The Committee is of the view that effective and efficient management of both genuine and non-genuine absence can lead to improved outcomes in service delivery by the ACT PS and the minimisation of costs to ACT taxpayers.[82]

Human resource management information systems (HRMISs)

3.52 The Committee notes that the Auditor-General found that, although many agencies managed leave satisfactorily, management of staff absence and attendance was not always effective:

> '…attendance was not managed well in some cases, leading to risks of staff being absent without leave'.[83]

3.53 An effective human resource planning system relies on reliable and valid information about the organisation's current and potential workforce. The Committee notes that HRMISs allow organisations to collect, store, maintain, retrieve and analyse data about employees across all human resource

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80 ANAO, *Absence Management in the Australian Public Service*, 2003, pp. 31-32.

81 *Ibid.*, p. 39.

82 *Ibid.*, p. 31.

83 Auditor-General's Report No 5 of 2004: *Leave Management*, pp. 1-2.

management activities. Further, HRMISs are intended to automate several processes of human resource management.[84]

3.54 HRMISs in organisations today tend to be software-enabled systems that are developed by specialist vendors and promoted to organisations and human resource professionals. Today, there is a wide range of HRMIS applications available from consulting firms, software houses and organisations that own HRMISs developers.[85]

3.55 In many organisations, HRMISs have been used for three broad functions: transaction processing, reporting and tracking[86]; decision support systems[87]; and expert systems[88].

PERSPECT system

3.56 At the time of the Audit, the Auditor-General noted that the ACT Government was currently in the process of replacing the PERSPECT system:

> 'It is proposed that the new system will have electronic access for all staff of agencies currently using PERSPECT. An electronic system will have advantages over a paper based one with respect to avoiding some issues such as misfiling of leave forms. As the new system will be introduced progressively from late 2004 and will not be fully implemented until 2006, it remains important that agencies address the findings applicable to paper records'.[89]

3.57 The Committee notes that not all ACT Government agencies use the PERSPECT system.[90]

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[84] De Cieri, H. et al,. *Human Resource Management in Australia*, 2005, pp. 221-225.

[85] *Ibid.*, pp. 221-225.

[86] Refers to computations and calculations used to review and document HR decisions and practices. This includes documenting relocation, training expenses and course enrolments and filling out government reporting requirements (De Cieri, H. et al,. *Human Resource Management in Australia*, 2005, pp. 223-224).

[87] Decision support systems are designed to help managers solve problems. They usually include a 'what if' feature that allows users to see how outcomes change when assumptions or data change (De Cieri, H. et al,. *Human Resource Management in Australia*, 2005, p. 224).

[88] Expert systems are computer systems incorporating the decision rules of people deemed to have expertise in a certain area. The system recommends actions that the user can take based on the information provided by the user (De Cieri, H. et al,. *Human Resource Management in Australia*, 2005, p. 224).

[89] Auditor-General's Report No 5 of 2004: *Leave Management*, p. 10.

[90] *Ibid.*, p. 17.

Chris21 system[91]

3.58 The Committee understands that Chris21 went live on 1 July 2005 in the first instance to replace PERSPECT functionality. A representative of the Chief Minister's Department stated:

> 'Our commitment in the initial project is to replace PERSPECT functionality. On 1 July [2005], we will be replacing that functionality. As I said before, we will be using the remaining months to stabilise that system and to roll out some additional enhancements that we currently do not have available'.[92]

3.59 In response to a question asked, however, regarding what functions would not be available on 1 July 2005, the Chief Executive of CMD stated:

> 'It is only additional functionality. Chris 21 provides additional things which we do not have at the moment. As at 1 July, we will have everything that we have at the moment and then the capacity in the future to roll out additional stuff that we do not have at the moment'.[93]

3.60 The acting Commissioner for Public Administration advised the 2006-07 Select Committee on Estimates:

> 'The functionality that did not come online on 1 July [2005] was related largely to annual leave, long service leave and superannuation. They progressively came online past that date'.[94]

3.61 The Committee understands that a rigorous risk assessment process to inform the implementation plan conducted by external consultants in August 2004 and revisited in January 2005 concluded:

> '…that it was the right plan, that it was being implemented efficiently and effectively, and that we had very low levels of risk of not achieving the desired outcome'.[95]

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91 Frontier Software's complete human resource information system product chris21 – an integrated HR and payroll solution, incorporating absence, learning and development, recruitment, expense and health and safety (www.hrzone.co.uk/members/fontier).

92 Standing Committee on Public Accounts, *Inquiry on 2003-04 Annual and Financial Reports*, *Transcript of evidence*, 22 February 2005, p. 25.

93 *Ibid.*

94 Select Committee on Estimates, *Inquiry on Appropriation Bill 2006-07, Transcript of evidence*, 22 June 2006, p. 62.

95 Standing Committee on Public Accounts, *Inquiry on 2003-04 Annual and Financial Reports*, *Transcript of evidence*, 22 February 2005, p. 25.

3.62 Despite the rigorous risk assessment process, the Committee also notes that the implementation of Chris21 has not been problem free. In March 2006, the *Canberra Times* reported:

> 'Small armies of personnel staff in ACT Government departments have been working overtime to deliver basic information on staff leave and superannuation entitlements because of the failure of a human resource computer system introduced last year'.[96]

3.63 In response to a question concerning problems with the transfer and migration of data from PERSPECT to Chris21, the Chief Executive of CMD stated:

> 'It is certainly true that the migration of data, particularly annual leave and long service leave information, was more difficult than expected. That is the case for a variety of reasons. One primary reason is caused by the withdrawal of the then provider of these services some six to 12 months earlier than originally indicated. That meant that we had to compress the implementation process for chris21, which required more resources in order to achieve an outcome we had expected to be able to achieve over a longer period of time'.[97]

3.64 Further, in response to a question seeking clarification as to whether problems with Chris21 had been resolved, the Chief Executive of CMD stated:

> 'There were some deviations initially, but very short-lived, as I am advised. As far as I am aware, there has not been any difficulty with the amounts people have been paid, effectively since implementation. There have been, as I have indicated, difficulties in getting annual leave, long service leave and superannuation correct. Annual leave, as I am advised, is now correct and has been for some little time progressively implemented across agencies. Unless Ms Kelly has some different information, I understand all agencies' annual leave issues have been resolved'.[98]

3.65 Notwithstanding the ongoing problems experienced with the implementation of the Chris21 system, the Committee is of the view that if its functionality is fully realised it has the capacity to centrally maintain and monitor ACT PS information on leave management.

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[96] Malone, P., 'Computer failure hits PS leave, super data', *Canberra Times*, 13 March 2006.

[97] Select Committee on Estimates, *Inquiry on Appropriation Bill 2006-07, Transcript of evidence*, 22 June 2006, p. 61.

[98] *Ibid.*, p. 62.

3.66 The Committee notes that due to new administrative arrangements in April 2006, responsibility for Chris21 was transferred to the Shared Services Centre in the Department of Treasury.[99]

3.67 The Committee understands that most HRMISs provide the facility to record absence and the reasons for absence. Consequently, such systems can provide useful management reports, which can inform executives and their staff on the extent, nature and overall cost to the agency of absence.[100]

3.68 The Committee hopes that the Government will give due consideration to the ownership of the data contained within Chris21 and the opportunities for ACT Government agencies to use leave data to continually improve leave management and thereby minimise their costs and/or improve workforce productivity.

RECOMMENDATION 4

3.69 **The Committee recommends, to the extent that work is not already taking place, that a central ACT Government agency be tasked with monitoring and analysing changes in leave liabilities and patterns on an agency-wide basis so that a complete ACT Public Service picture can be formed.**

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[99] Select Committee on Estimates, *Inquiry on Appropriation Bill 2006-07, Transcript of evidence*, 22 June 2006, pp. 60-61.

[100] ANAO, *Absence Management in the Australian Public Service*, 2003, pp. 53-54.

4 CONCLUSION

4.1 The Committee acknowledges the views presented and the conclusions made in Auditor-General's Performance Audit Report No 5 of 2004.

4.2 The Committee believes that the Audit Report made a number of important findings and suggestions in relation to leave management in the ACT public service.

4.3 The Committee welcomes the Government's agreement to the ten recommendations made by the Auditor-General. Further, the Committee notes that the Government advised that the:

> 'Chief Minister's Department will ask all Government agencies to ensure that all measures identified within the Government's submission to the Standing Committee on Public Accounts are implemented as a matter of urgency'.[101]

RECOMMENDATION 5

4.4 **The Committee recommends that the Legislative Assembly for the ACT notes the findings and recommendations of Auditor-General's Performance Audit Report No 5 of 2004: *Leave Management*.**

4.5 The Committee has made five recommendations in relation to its inquiry into Auditor-General's Performance Audit Report No 5 of 2004: *Leave Management*.

Richard J Mulcahy MLA

Chair

29 November 2006

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[101] Government submission, September 2005, p. 4.