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Our ref: 2008-112429

4 July 2008

Mr Russell Chafer  
Committee Secretary  
Joint Committee of Public Accounts and Audit  
PO Box 6021  
Canberra ACT 2600

Dear Mr Chafer

**Inquiry into the effect of the efficiency dividend on small agencies**

Thank you for the Committee's invitation to the Ombudsman to make a submission to the above inquiry. Our submission is attached.

Should you wish to contact us in relation to this submission our contact officer is Mr Ron Brent, Deputy Ombudsman, who may be reached on 02 6276 0130 or at [ron.brent@ombudsman.gov.au](mailto:ron.brent@ombudsman.gov.au).

Yours sincerely



Dr Vivienne Thom  
Acting Commonwealth Ombudsman

# INQUIRY INTO THE EFFECT OF THE EFFICIENCY DIVIDEND ON SMALL AGENCIES

## Submission by the Commonwealth Ombudsman

July 2008

### Background

The office of the Commonwealth Ombudsman is established by the *Ombudsman Act 1976* (the Act) and exists to safeguard the community in its dealings with government agencies, and to ensure that administrative action by Australian government agencies is fair and accountable. The Act also confers five specialist roles on the Ombudsman; the Defence Force Ombudsman, Immigration Ombudsman, Law Enforcement Ombudsman, Postal Industry Ombudsman and Taxation Ombudsman.

The Ombudsman has three main statutory roles:

**Complaint handling:** the core activity of the office is handling complaints and enquiries from members of the public about government administrative action. We handle complaints made about 113 Australian Government departments and agencies covering all aspects of public administration providing remedies and assistance to thousands of people around the country. In 2007-08 we received almost 40 000 approaches and investigated almost 4500 complaints.

**Own motion investigation:** investigating on the initiative or 'own motion' of the Ombudsman, the administrative actions of Australian government agencies – often arising from insights gained from handling individual complaints. In 2007-08 we published fourteen own motion and major investigation reports.

**Compliance auditing:** inspecting the records of agencies such as the AFP and ACC, to ensure compliance with legislative requirements applying to selected law enforcement and regulatory agencies. In 2007-08 we carried out nineteen inspections.

The Ombudsman also makes submissions to parliamentary and government inquiries to contribute to the improvement of Australian Government administration and actively participates in the broader debate about good administration. In 2007-08 this office made eight submissions on issues relevant to our work and over fifty presentations to conferences and seminars.

The office is a 'smaller agency' as defined for the purpose of this inquiry: it has estimated income for 2008-09 financial year of \$19.5m which is budgeted to support an average staffing level of approximately 150 people.

Our national office is in Canberra with other offices and investigative staff in state and territory capitals and Alice Springs. To support the core activities of the office we have small teams to deliver information technology, financial, public relations, human resource, business improvement and record management services.

This submission is in two parts – it firstly discusses the constraints on small agencies then, secondly, directly addresses the terms of reference.

## **Constraints faced by small agencies**

### ***Limited flexibility to respond to decreased resources***

As a small agency, the Office of the Commonwealth Ombudsman was established to perform a specific function. Unlike larger agencies, funding is appropriated to deliver only a small number of outcomes. There is less flexibility in the allocation of resources, and fewer opportunities to adjust priorities or balance operations not susceptible to productivity improvement within a single financial cycle. We have little discretion as to how to prioritise key activities: all complaints are handled, all statutory compliance activities completed, and all two-year immigration detention reports prepared. We could respond to diminished resources by investigating fewer complaints, publishing fewer reports or closing a state office but such a response might be regarded not as an efficiency dividend but rather as a failure to deliver a core service.

### ***Proportion of fixed costs is higher***

Our proportion of fixed costs is higher than in larger agencies – property leasing is a clear example. We operate offices in all capital cities and Alice Springs and pay leasing costs at commercial rates. As market demand has grown in each site over the last few years, we have had to address increasing upward pressure on rental costs. This is particularly challenging as our lettable area needs are small limiting the capacity to negotiate price. Accordingly, lease costs are relatively resistant to efficiency dividends (noting that we long ago moved to exploit opportunities for use of joint facilities in areas such as public counters or meeting rooms). This means that there is limited scope to deliver improved efficiency in a significant proportion of our budget and the remainder of our budget – largely salaries – has to bear a higher burden in providing the productivity gains required.

### ***Use of outsourced services***

To exploit the economies of scale of larger organisations this office piggy-backs on the efficiency of larger operations in key areas including travel booking services and payroll services where we use arrangements negotiated by the Department of Prime Minister and Cabinet (PM&C). This further limits the flexibility we have to control costs. Unless the pricing of these services is a target for PM&C efficiency gains, it cannot be one for us. Further, efficiency changes that the larger agency pursues will be targeted at its own usage of services and may not replicate savings for the smaller agency.

### ***Smaller operation units***

This office has small specialist units to enable us to cover key areas of government on a national basis. Some efficiency improvements will deliver the capacity for improved service but might not deliver a gain that can be realised in the form of cost savings. It is not easy simply to discount the salary cost by the efficiency saving and then shave a few hours of labour off the team budget. The average size of our investigation teams is six people. Even a 10% efficiency gain (three times the total efficiency dividend this year) will produce less than is required to reduce the size of the team by a full person. While there is some room to shift workloads and staff, adjust team sizes, or utilise part-time or casual staff, all of these adjustments entail a cost that can offset the original efficiency gains.

### ***Opportunity for scrutiny***

The basis for the efficiency dividend would appear to be that inefficiencies creep into a system over time, or that opportunities to improve efficiency are overlooked unless there is

fiscal pressure. Control of spending is generally more dispersed in a large agency and it is more difficult to apply the same level of scrutiny of individual payments in a larger agency than in a smaller one. Our office has been required to monitor its budget spending in great detail. We regularly review each funding line as it relates to our specific functions and to minimise costs where appropriate: this means that there is less probability of unrealised savings, or inefficient or irrelevant activities.

### ***Scope for innovation***

With the constant pressure to find savings for efficiency dividends there is little scope to release funds for innovation. Often the costs of innovation are not directly related to the size of the organisation, which means that smaller organisations need to find proportionally larger amounts. A clear example is the use of the internet for government service delivery. Developing innovative and effective service delivery via the internet is costly, but the cost is not directly related to the size of this organisation. Thus, as the pressure to fund efficiency dividends increases, the funds available for such innovation have rapidly dwindled.

### **Addressing the Terms of Reference**

#### ***Whether the efficiency dividend has a disproportionate impact on smaller agencies, including whether or not smaller agencies are disadvantaged by poorer economies of scale or a relative inability to obtain funding for new policy proposals***

The capacity for flexible and creative innovation is no less in small organisations but the gains are not always able to be readily realised in financial savings. The impact of the efficiency dividend is often to replace improved service with a need to trim costs at the expense of clients. For reasons set out above, the impact of an efficiency dividend is higher on small agencies. In addition, if an increase in workload does result in additional appropriation, the small size of the base budget cannot buffer inadequate funding. For example, the extra funding obtained by this office for handling the large increase in complaints arising for the Northern Territory response did not cover the extra workload and placed undue pressure on other activities.

#### ***Whether the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate***

This agency has seen a 5% increase in investigations and a 20% increase in approaches to the office over the last 12 months. We expect to see this trend continue in key areas such as complaints about child support arrangements, the Northern Territory intervention, and welfare arrangements. These three high volume complaint areas are all undergoing substantial change and this will generate increased complaints. At the same time we are required to deliver a 3.25% total efficiency dividend and fund much of any pay increase we offer to staff (about 2% net on salaries). The effect is to have to find efficiency gains of about 9.75% in total (5% for overall workload increase adjusted for percentage of workload from complaints and approaches, 3.25% for efficiency dividend and 1.5% for salaries which represent about 75% of our expenditure). This reduction in funding compromises our capacity to perform our core functions and inhibits our ability to innovate.

#### ***What measures small agencies are taking to implement the efficiency dividend and the effect on their functions, performance and staffing arrangements***

The office is rigorous in pursuing its fiscal responsibilities. Historically we have responded to budget pressure by contracting core functions including reducing outreach, referring more

complainants to the agencies that were the subject of the complaint and conducting fewer major investigations. These measures led to criticism of the office.

To reduce the impact on services to the public, a number of other measures are already in place within the office:

- The salary bands for staff lag behind the mean for the APS
- The office does not pay any performance pay or bonus beyond annual salary for employees (including SES)
- Staff, including SES, generally fly economy class unless the flight is longer than three hours in duration
- The office provides paid parking only for the Commonwealth Ombudsman
- Staff benefits are at a minimum with no recreation facilities, a stringent approach to study support and restricted use of higher duties allowances
- There are limited office facilities such as meeting rooms or break-out spaces
- We rarely conduct off site seminars or training for staff
- We have no video conferencing facilities despite being a national office (conferences are conducted via telephone)
- The office closed down its library facilities and terminated associated support staff a number of years ago.

The office has also pursued productivity gains through many reforms. Over the past three years we have introduced a new complaints management computer system, completely overhauled work practices, reviewed delegations, and introduced two major changes to office structures including creating a 'public contact team' as the first point of contact for all complainants, and specialist handling of complaints for most agencies. We have also put in place a team focused on delivering improved business and work practices.

Further efficiencies being pursued include reviewed travel arrangements for staff, increased commitment to and reform of performance management, better management of personal leave, more flexible work arrangements in regard to working from home and part time, and commitment by staff to continuing business process reform.

Despite all these measures we are forced to be more restrictive on salary increases. As we continue to slip behind public service medians for salary levels recruiting quality staff will become harder. Expecting high levels of commitment and working extra hours becomes less realistic when staff see much greater financial rewards for this level of work in the larger departments.

***Any impacts of the efficiency dividend on the use by smaller agencies of "section 31" agreements to secure non-appropriation receipts (for example, through user charges and cost recovery) - noting that these receipts are not subject to the efficiency dividend;***

This office's only substantial s 31 receipts are from the ACT Government for the performance of the ACT Ombudsman function. Although these receipts are free of the dividend, they are strictly tied to the ACT Ombudsman function, and subject to their own efficiency expectations, leaving no room for a softening of the impact of the Australian government efficiency dividend.

***How application of the efficiency dividend is affected by factors such as the nature of an agency's work (for example, cultural, scrutiny, or regulatory functions) or the degree of discretion in the functions performed by smaller agencies***

As noted above, our functions are tightly tied to our service delivery and leave little scope for control over priorities or service standards. We have legislative obligations that we cannot modify or ignore. Given the nature of our work, involving substantial interaction with other government agencies and requiring a high degree of legislative compliance there is limited further room for us to modify work practices to reduce operational costs.

***If appropriate, alternatives to an across-the-board efficiency dividend to encourage efficiency in the Commonwealth public sector, including consideration of whether certain agencies should be exempted from the efficiency dividend, or whether the rate of the dividend should vary according to agency size or function.***

Given that the total cost to budget of smaller agencies is a small fraction of the resources allocated to larger agencies, a reduction in the quantum of savings expected of the smaller agencies would have relatively small impact on the overall budget outcome but a disproportionately large impact on the quality of government service delivery in key areas. It is important to note that we are not contemplating a reversal of savings achieved to date but rather allowing small agencies to recover from the impact of cumulative cuts to date.

In the last four years alone the nominal total cost to our budget from the efficiency dividend has been over \$1 million. These savings have been achieved while generally maintaining service levels (although there has had to be a tightening of the resource we can allocate to each complaint) but the ongoing impact of further reductions even at the lower levels of recent years will be almost impossible to accommodate without significant compromise to service quality.