



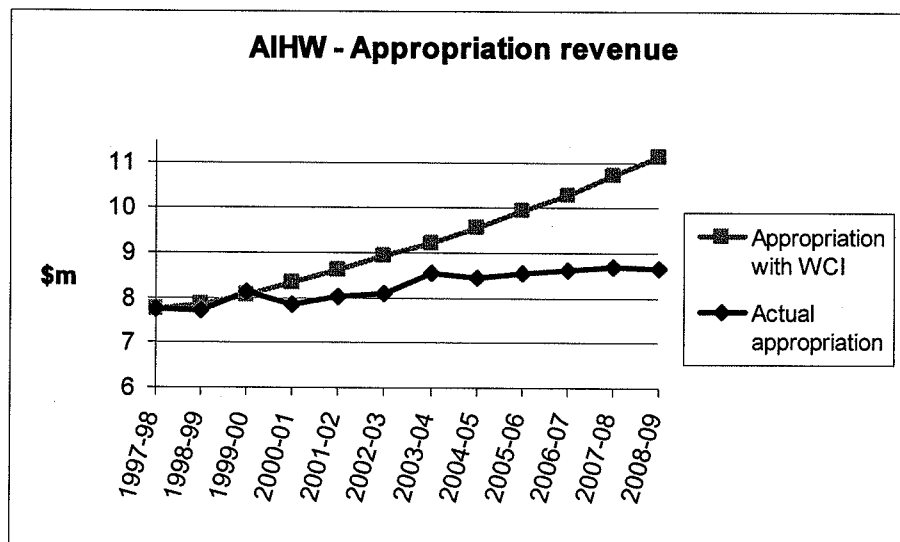
## SUBMISSION TO THE INQUIRY INTO THE EFFECTS OF THE ONGOING EFFICIENCY DIVIDEND ON SMALLER PUBLIC SECTOR AGENCIES

### Financial impact of the efficiency dividend on the AIHW

In 2008-09, the Australian Institute of Health and Welfare (AIHW) will receive an annual appropriation of \$8.6 million, which is 32% of the AIHW's estimated total revenue for the year of \$26.9 million. Most of the remainder of the AIHW's revenue is tied to specific projects for fixed terms of up to three years. Much of the funding for these projects comes from Commonwealth and State Government agencies and the fees are determined on a cost recovery basis.

In 1997-98, the AIHW received an annual appropriation of \$7.75 million. The actual compound annual increase in the AIHW's appropriation from 1997-98 to 2008-09 is just 1.06% per annum.

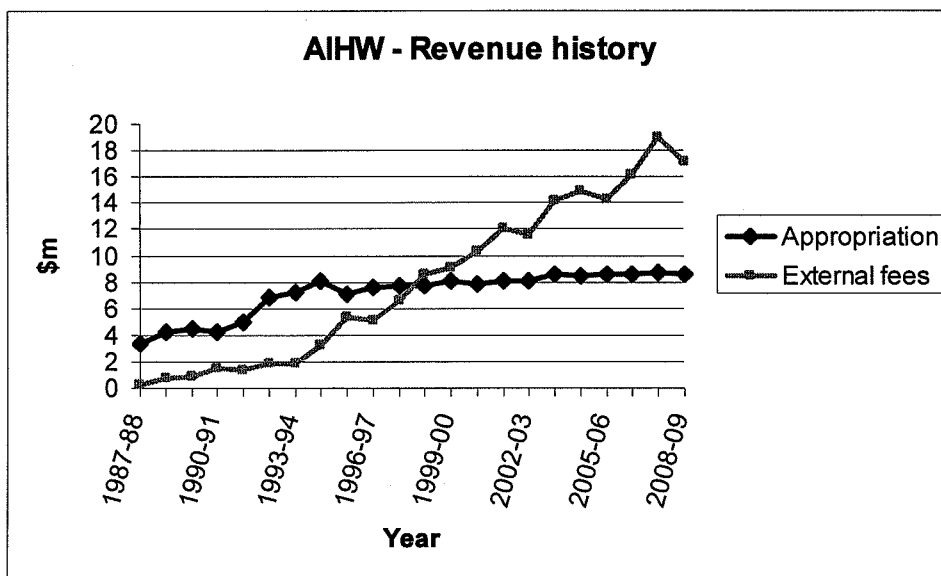
The following graph shows the actual increase in the AIHW's annual appropriation since 1997-98. The graph also shows how much the appropriation would have been had the AIHW's annual appropriation increased by the Wage Cost Index (WCI) each year since 1997-98. If the AIHW's annual appropriation had increased in line with either the Wage Cost Index or the Consumer Price Index (CPI) it would now be more than \$2 million higher than it actually is. This is a result of the compounding effect of the efficiency dividend over the period.



The AIHW has not received any new appropriation through New Policy Proposals since before 1996. The submission of a New Policy Proposal for a small agency is coordinated by the agency's portfolio department. If offsetting savings are required and those savings cannot be found within the small agency, as is likely to be the case with an agency with a small number of programs, then those savings must be found by the portfolio department.

**Impact on the AIHW's independence of the real reduction in appropriation**

As shown in the following graph, the proportion of the AIHW's revenue that comes from fee-for-service income for specific projects has increased significantly. The AIHW was fully appropriation funded at its formation in 1987 and was predominantly appropriation funded for the first ten years of its existence.



While much of the fee-for-service income comes from Commonwealth Government agencies, it only covers specific new projects and does not pay for work funded by the initial appropriation such as cleansing and maintaining national data sets and production of the biennial reports, *Australia's Health* and *Australia's Welfare*. The amount of work involved in managing this data and preparing these reports has increased considerably as the number and complexity of data sources have risen.

The real reduction in the AIHW's appropriation has eroded the Board's capacity to independently plan its own work program. Project specific income is not a substitute for appropriation income because it limits our ability to independently report on Australia's health and welfare. By not agreeing to fund a specific project external agencies can effectively prevent the AIHW from reporting on important issues. For example the AIHW has not had sufficient funding to fulfil its legislated function of undertaking health technology assessments or to undertake analysis around the mix of public and private health funding.

The much larger Australian Bureau of Statistics (ABS) receives 94% of its revenue from appropriation compared to 32% for the AIHW. This gives the ABS much more real independence than the AIHW.

### **Growth in volume associated with on-going functions**

The *Australian Institute of Health and Welfare Act 1987* (AIHW Act) enumerates 19 functions of the Institute. Nine of these involve statistical tasks whose volume and complexity are increased by any increase in the population of Australia or the number of health and/or welfare services provided. Since 1996 the population of Australia has increased by 15.7% and by 1.6% in 2007 alone. This increase is not taken into account when calculating the annual change in our appropriation. Like many small agencies we are directly affected by New Policy Proposals that produce additional requirements for reporting and analysis (or regulation or other government activities for other small agencies). However we do not receive any additional appropriation funding to manage this increased volume and complexity.

In the Institute's case policy changes have caused the number of National Minimum Data Sets managed by the Institute to increase from 12 in 1996-97 to 29 in 2006-07 and the volume of data held, analysed and reported on by the Institute to grow from 53 gigabytes in 1996-97 to 3200 gigabytes in 2006-07. We have received no appropriation funding to cover this growth, which is now largely funded by fixed term contracts, despite the work being an on-going legislative responsibility of the Institute. As trend analysis over time is often critical to our work, the absence of long-term funding creates major risks for continuity. Also it is difficult to obtain fee-for-service funding to invest in less visible infrastructure that supports data analysis over the long-term and creates a better product. The efficiency dividend has widened the gap between actual appropriation funding and the amount needed to fund the growth in activities that are better funded by appropriation than fee-for-service arrangements.

### **Impact on the AIHW's 2008-09 budget**

The AIHW was able to partly delay the impact of the efficiency dividend by incurring operating deficits in 2006-07 and 2007-08. Our application to budget for a deficit in 2008-09 was not approved. This means that the cumulative effect of the efficiency dividend will affect us severely for the first time in 2008-09. In order to balance our budget we have decided to reduce the number of chapters and size of *Australia's Welfare 2009*. We have also made the following other reductions to our output in our 2008-09 budget:

- Ceased maintenance of the data base and stopped production of *Welfare Expenditure*.
- Reduced funding to our collaborating units that are based at universities and produce most of our publications on perinatal, dental and injury statistics.

- Reduced work on disability issues, including the contribution to international work (World Health Organization data classifications) and some analysis on the Survey of Disability and Carers.
- Reduced housing analysis.

Without increased funding we will have to reduce the scope of the biennial report *Australia's Health 2010* and implement further savings in 2009-10.

### **Constancy of Government accountability requirements**

Our appropriation must be used to fund a wide range of Government accountability and reporting requirements such as:

- Annual reporting requirements
- Portfolio Budget Statements
- Answering parliamentary questions on notice
- Detailed centralised monthly financial reporting
- Requests from Ministers' offices.

There has been no reduction in the time taken to complete these activities, and in some cases the volume of work required has increased.

### **Limits to achieving productivity improvements in knowledge work**

In the early years of the AIHW, when processes were less automated, we were able to reduce the proportion of junior staff as a result of technological efficiencies. The AIHW has become increasingly a knowledge based organisation and over 80% of our staff have at least a Bachelor's degree.

Far from reducing costs, we are finding that further improvements in technology are generating increased demand rather than simplifying existing processes. The cost of new technology continues to increase but the funding available for it remains at the pre-1996 level, less inflation. The increased depreciation costs on purchases of information and communications technology cannot be funded by reductions in staff costs. The funding constraints have severely limited the AIHW's capacity to adopt new technologies and provide Australian consumers and Australian governments with more useful and accessible products.



Dr Penny Allbon  
Director  
18 July 2008