



**Electoral Commissioner**

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

Submission No: 42
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Dear Mr Chafer


Thank you for your letter of 11 June 2008 inviting the Australian Electoral Commission (AEC) to make a submission to the JCPAA Inquiry into the effect of the efficiency dividend on smaller public sector agencies.

The AEC's submission addressing the terms of reference for this inquiry is enclosed.

As you may be aware, the Joint Standing Committee on Electoral Matters (JSCEM) is inquiring into the conduct of the 2007 Federal Election. The AEC commented on the impact of the efficiency dividend in its first submission and in oral evidence to the JSCEM. The submission is available at <http://www.aph.gov.au/house/committee/em/elect07/subs/sub169.pdf>

If you require further information or clarification of the AEC's submission please contact Mr Andrew Baker, Chief Financial Officer (phone 02 6271 4646, or by email [andrew.baker@aec.gov.au](mailto:andrew.baker@aec.gov.au)).

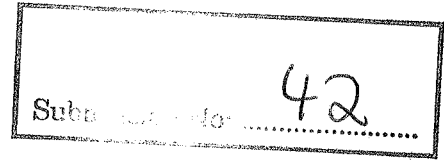
Yours sincerely



Ian Campbell  
Electoral Commissioner

18 July 2008

**AUSTRALIAN ELECTORAL COMMISSION**



**SUBMISSION TO THE INQUIRY BY THE JOINT COMMITTEE  
OF PUBLIC ACCOUNTS AND AUDIT INTO THE EFFECT OF  
THE EFFICIENCY DIVIDEND ON SMALLER PUBLIC  
SECTOR AGENCIES**

**15 JULY 2008**

## 1. Background to the AEC's submission

The AEC is an independent statutory agency established under the *Commonwealth Electoral Act 1918* (the CEA). The AEC is responsible for conducting federal elections and referendums and maintaining the Commonwealth electoral roll. The AEC also provides a range of electoral information and education programs and activities. The AEC's responsibilities under the CEA include:

- Conducting federal elections and by-elections.
- Maintaining the Commonwealth electoral roll as well as maintaining State and Local Government Rolls in accordance with the joint roll arrangements with States and Territories.
- Assisting Redistribution Committees and augmenting Redistribution Commissions in conducting redistributions of electoral boundaries for the House of Representatives.
- Administering election funding and financial disclosure.
- Reporting to the Special Minister of State on electoral matters.
- Conducting electoral information and education programs to promote public awareness of electoral and parliamentary matters.
- Assisting in the conduct of foreign elections and referendums as approved by the Minister for Foreign Affairs and Trade
- Conducting national referendums to amend the Constitution, in accordance with the *Referendum (Machinery Provisions) Act 1984*.
- Conducting elections for registered industrial organisations, in accordance with the *Workplace Relations Act 1996*, and
- Conducting other non-parliamentary elections as appropriate on a fee-for-service basis.

To meet these responsibilities the AEC has a national presence with some 850 staff in 134 locations across Australia. The majority of the locations are Divisional Offices. These support the local electorate and in most instances have a maximum of three staff. This arrangement, although servicing the AEC's responsibilities well, presents significant challenges, including resourcing, in the provision of services.

## **2. Comments on specific points of the Inquiry**

### **2.1. *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***

- 2.1.1.** The AEC believes the efficiency dividend has a disproportionate impact on smaller agencies. Many smaller agencies have a relatively narrow operational focus and their non-discretionary activities are the greater part of their operations. In addition, for some smaller agencies (especially those with networks such as the AEC) overheads such as IT, property and security comprise a disproportionate share of their budget. These two factors mean that a significant proportion of their budget is fixed. The difficulties in managing a largely fixed cost budget are then magnified when an efficiency dividend is imposed.
- 2.1.2.** Governments of the day typically deliver policy initiatives through larger agencies and additional funding in each year of the Budget cycle for such agencies is not uncommon. New policy proposals enhance an agency's capacity for innovation and managing change. Whilst smaller agencies do receive additional funding through new policy proposals, the frequency of receipt is generally less than in larger agencies. As a result smaller agencies lack some of the budgetary and operational flexibility more common in larger agencies.
- 2.1.3.** Similarly, administered items are not subject to the efficiency dividend. Agencies that have responsibility for administered items may also have scope for cost shifting by structuring certain arrangements such that they come within the ambit of an administered item. Larger agencies typically have access to significant administered items. Smaller agencies such as the AEC have very limited or no access.
- 2.1.4.** The AEC notes that the Inquiry's terms of reference relate to the efficiency dividend. However, the indexation regime applied to agency budgets prior to the efficiency dividend is also a critical factor in understanding the circumstances faced by smaller agencies.
- 2.1.5.** FMA agencies' baseline budgets are indexed according to a Wage Cost Index (WCI). There is a range of WCIs applied to agencies depending on their expense profile, although they are all close in quantum. Nonetheless, whilst the WCI varies to a limited degree between agencies, in recognition of differences between each, the efficiency dividend is the same rate across all agencies.
- 2.1.6.** Contrary to the title, the WCI does not reflect the reality of wage cost and other increases faced by agencies. It is substantially less. As a result the efficiency dividend and the WCI combine to magnify financial pressures. For example, for 2008-09 to 2011-12, the net effect of the

efficiency dividend/WCI is a reduction in the AEC's baseline funding of 1% each year. Assuming inflation remains at 4%, the "real" efficiency dividend is therefore around 5%. An effective efficiency dividend of 5% each year, in the context of a relatively narrow operational focus and significant levels of non-discretionary activities, is a difficult situation to manage.

2.1.7. The AEC is particularly disadvantaged by the efficiency dividend as a result of its mandated organisational structure. As stated earlier most of the AEC's 134 sites are Divisional Offices; the majority of these have a maximum of three staff. The costs of maintaining the Divisional Office network are significant and fixed by nature. However, Section 38 of the CEA limits the AEC's capacity to alter the network and gain efficiencies (refer Section 2.5.3).

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

2.2.1. The AEC believes the efficiency dividend is compromising its ability to both perform core functions and to innovate.

2.2.2. Before exploring this issue further, the AEC believes it is important to provide brief details of its budgetary circumstances as part of this submission. This will enable the Committee to consider the AEC's views on the efficiency dividend widely and not in an isolated sense that might be conveyed otherwise.

2.2.3. The AEC does not receive a standing appropriation to cover the costs of conducting an election; rather funding is incorporated into the annual appropriations with total funding peaking in an election year. The AEC's total annual appropriations (excluding public funding for parties and candidates) for the last three financial years were:

2005-06	\$95.5 million
2006-07	\$109.8 million
2007-08	\$183.7 million

2.2.4. The AEC's funding was reduced by the following amounts as a result of the decision to impose an additional 2% efficiency dividend per annum:

- 2007-08 \$0.8m
- 2008-09 \$1.9m
- 2009-10 \$2.0m
- 2010-11 \$3.6m
- 2011-12 \$2.0m

- 2.2.5. The reduction of \$0.8 million in 2007-08 requires particular mention. The AEC acknowledges the quantum of the increase (0.46%) recognised the fact it was being imposed half way through the year. However, the across the board nature of the increase did not take account of the AEC's particular circumstances.
- 2.2.6. The activities required to bring the electoral roll up to date and successfully deliver the election were substantially complete by December 2007. As a consequence, by that time the AEC had spent three quarters of its appropriation for the year. The increased efficiency dividend was introduced after the election and by this time, the AEC was left with no means of clawing back savings on expenses and commitments passed at that point (\$146 million to December 2007).
- 2.2.7. The AEC believes it was inappropriate to apply the increased dividend to the whole of the AEC's 2007-08 budget after the cost of the election was incurred.
- 2.2.8. The decision obviously has had an impact on the AEC's operations in the latter part of the 2007-08 financial year. Since January 2008 the AEC reduced staffing levels by approximately 50 full time equivalents and scaled back non-election activities. This meant lower levels of enrolment stimulation activities and the possible risk of a decline in the electoral roll.
- 2.2.9. The CEA's mandatory nature and the prescription of its provisions are fundamentally at "odds" with the application of the efficiency dividend. The prescription in the CEA inhibits contemporary and efficient ways of transacting with eligible enrollees, electors, political parties and associated entities. Efficiencies that can be brought to bear on highly prescribed processes are few in number. For example, enrolment applications, postal vote applications and candidate nominations cannot be transacted electronically. Divisional staff manually process forms received into the AEC's core election systems as they have done for decades.
- 2.2.10. Section 38 of the CEA requires the AEC to maintain the Divisional Office network. Approximately half the AEC's total APS staff are employed in the Divisional Office network and there are significant costs associated with provisioning infrastructure to each site (principally property and IT). Infrastructure costs are unavoidable since each site must be provisioned with a certain level of operational capacity.
- 2.2.11. The AEC has limited scope to reduce staffing in the Divisional Office network. Offices with less than three staff are not viable in any long term sense because of occupational health and safety issues, an inability to meet peak customer demand and an inability to manage succession. An alternative is to co-locate Divisional Offices. However, the AEC must seek the written agreement from the Special Minister of State before pursuing such a course of action by virtue of Section 38 of the CEA (refer Section 2.5.3). This amendment to the Act was only made recently – in 2006.

- 2.2.12.** The provisions of the CEA mean that the AEC has to operate in a relatively rigid manner, and that administrative arrangements such as the Divisional Office network cannot be substantially changed. Under these circumstances the application of the efficiency dividend is problematic, as retention of the Divisional Office network and the high level of mandated and prescribed processes means the AEC's budget is substantially fixed. Applying the efficiency dividend to the AEC in the same way as other agencies that have greater freedom to determine administrative arrangements and business processes does create difficulties.
- 2.2.13.** Another example of the difficulties raised by the efficiency dividend relates to the provision of the National Tally Room (NTR). The NTR is not required in an operational sense. The counting of votes occurs in polling places and Divisional Offices and results are tallied by the AEC's computer systems. Results are available in near real time via the Virtual Tally Room (VTR) on the AEC's website. The VTR's figures are always more up to date than the Tally Board at the NTR.
- 2.2.14.** The NTR costs approximately \$1 million to run. Given the cost involved and the fact it is not required operationally, the NTR could be reasonably regarded as a discretionary activity. Therefore its cessation could be considered to be a possible natural and expected consequence of the efficiency dividend. Yet in the AEC's experience this is not a straightforward matter.
- 2.2.15.** In the lead up to the 2007 election the AEC raised doubts about its budgetary capacity to run the NTR. In its submission to the Joint Standing Committee on Electoral Matters Inquiry into the 2007 election, the AEC indicated it would require additional funding to run the NTR at the 2010 election. On both the occasions concerns were raised about the NTR, the AEC was the subject of intense stakeholder scrutiny and media attention<sup>1</sup>.
- 2.2.16.** The AEC is placed in a difficult position. The AEC might well regard the NTR as a discretionary activity, however some key stakeholders view it as an essential part of the electoral process. This tension sits uncomfortably with the concept of the efficiency dividend. At the end of the day, the AEC is left with fewer and fewer options to find efficiencies if stakeholders demand the NTR continue.
- 2.2.17.** The AEC's circumstances are clearly different to other agencies that are not subject to such high levels of prescription and "political" expectations, and have greater freedom to determine their organisational structures, the methods through which business will be transacted and their administrative arrangements. The efficiency dividend does not recognise these differences between agencies.

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<sup>1</sup> At the public hearing of JSCEM on 27 June 2008, the Committee Chair stated "I am just telling you now, hell can freeze over before I ever recommend the end of the national tally room" (see <http://www.aph.gov.au/hansard/joint/commtee/J10932.pdf> EM 39)

2.2.18. As a result of the factors detailed above, the AEC must, in effect, quarantine a large component of its operations, including the Divisional Office network, from the efficiency dividend. Consequently the rest of the agency carries a disproportionate burden each year the dividend is applied.

2.2.19. Over time the amount of residual discretionary funds diminishes and scope for business improvement becomes limited, since seed funding can only be devoted to areas of critical need. Under these circumstances agency capacity for innovation simply declines.

2.2.20. Of course, the AEC will always deliver an election within the budget reductions imposed through the efficiency dividend. However, this will result in lower standards of service delivery and reductions in what would normally be regarded as non-discretionary activities. For example, the AEC could reduce the number of polling places and reduce the number of staff it hires during the election period. However, stakeholders would become dissatisfied and some members of the community would be likely to disengage from the electoral process. This is not a desirable outcome.

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

2.3.1. In the short term, the AEC is taking the actions detailed below to implement the efficiency dividend.

- Reductions in staffing allocations. For example, staffing in state offices will be reduced which, in turn, will diminish the AEC's ability to plan and conduct proactive strategies for ensuring roll growth, election preparation and community awareness.
- Divisional staff will be expected to increase their involvement in industrial elections, Protected Action Ballots and fee for service elections, in addition to their existing responsibilities for maintaining the electoral roll and preparing for the next electoral event.
- APS2 and APS3 staff in divisions will undertake some fieldwork in 2008-09, reducing the need to hire casual staff. However, funding restrictions are likely to further reduce the effectiveness of these activities (particularly as there are limited funds for after hours canvassing).
- IT development will be significantly curtailed and the number of IT contractors supporting core systems will be reduced.
- The AEC is analysing options to better target enrolment mail-outs and fieldwork. The AEC is developing a plan for 2008-09



encompassing both activities in line with available resources. Mail-outs will generally use only those data sources that yield the most cost effective results. Fieldwork will focus mainly on those locations where limited responses have been received to mail-outs, rather than more broad based door knocking.

- Procurement is being planned and coordinated on a national basis with a view to minimising the overhead of multiple approaches to market, and the prospect of obtaining better pricing through greater volume.

2.3.2. In the medium to longer term, the AEC may be able to harness more fundamental efficiencies following legislative change arising from the Government's Green Paper process and/or the 2007 Joint Standing Committee on Electoral Matters Inquiry into the 2007 Election. However, the quantum, likelihood and impact of these measures is largely unknown, and unlikely to ease the AEC's budgetary difficulties in the short to medium term.

#### **2.4. Any impact of the efficiency dividend on the use by smaller agencies of "Section 31" agreements to secure non-appropriation receipts (eg through user charges and cost recovery) noting that these receipts are not subject to the efficiency dividend**

2.4.1. The AEC expects to receive approximately \$1 million from cost recovery/user charging activities in 2008-09. This represents less than 1% of the AEC's total budget for the year.

2.4.2. The AEC conducts Protected Action Ballots (PABs) on a cost recovery basis under the *Workplace Relations Act 1996* (WR Act).

2.4.3. The AEC is obligated to undertake other industrial elections under the WR Act, in accordance with each organisation's schedule as defined by their rules. These include large scale national union elections. Industrial elections require a higher level of expertise than PABs due to their increased complexity, and are much more labour intensive. Unlike PABs, the AEC cannot recover the costs involved and must deliver industrial elections from its baseline budget. The increase in efficiency dividend reduces resources to undertake them, notwithstanding their mandated nature and requirement for the AEC to follow the organisation rules.

2.4.4. Whilst the AEC will take advantage of opportunities for increased cost recovery and fee for service income, it will not be able to offset the impact of the efficiency dividend as the relative share of the agency total budget is too small. The AEC's core business is meeting obligations under the CEA. There is no value proposition in investing scarce operating funds to significantly grow fee for service activities in a competitive market.

**2.5. 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**

- 2.5.1. The application of the efficiency dividend is undoubtedly affected by the nature of an agency's work and it is a blunt, if not arbitrary instrument, as it does not discriminate on the basis of the nature of the work.
- 2.5.2. Regulatory and cultural agencies have arguably less flexibility to manage an efficiency dividend regime since some, if not most of their activities have little room for discretion. It is not open to the AEC for example, to decide to reduce or cease altogether its reviews of political party returns required under the CEA as a means of meeting the efficiency dividend. Nor can it reduce the opening hours of polling booths. These activities must be delivered and must be completed within a set timeframe. The list of non-discretionary activities for regulatory and cultural agencies is likely to be substantial relative to their total available resources.
- 2.5.3. A key distinguishing feature of the AEC is its geographic dispersion. As stated earlier most of the AEC's 134 sites are Divisional Offices; the majority of these have a maximum of three permanent staff while some have only two. When the CEA was amended in 2006, Section 38 was inserted to require the Electoral Commissioner to obtain the written agreement of the Special Minister of State before locating a Divisional Office outside the electoral boundary of the division.
- 2.5.4. However, the costs of maintaining the Divisional Office network are significant and fixed by nature. In fact there are significant resources involved in managing individual property leases, IT and communications services for a network of small offices. Infrastructure (public access, enquiries counters, office signage, voice and data lines, office machines) is by necessity provisioned to each site thereby limiting efficiencies that can be gained.
- 2.5.5. There are clear limits to staff reductions the AEC can make to the Divisional Office network. Staff reductions have occupational health and safety implications. The quality and timeliness of work delivered can also suffer in the absence of a sufficient number of staff to build a team dynamic, enable a decision hierarchy and provide business continuity in the event of unscheduled absences.
- 2.5.6. Timely and effective communication, training and a sense of belonging are key imperatives for the AEC to harness in order to maintain high morale and continuity of its workforce. Geographic dispersion requires close management to ensure these imperatives are realised and maintained. Whilst information technology provides increased opportunities for remote communication and training channels, it is no substitute for face to face contact on a regular basis. The effort invested

in training, staff engagement activities, and associated travel are not without cost.

2.5.7. The AEC is the custodian of one of the pillars of Australian society – the democratic electoral process. The community rightly expects the AEC to manage the electoral process effectively and the AEC cannot afford operational failures as this would undermine public confidence. As a result, the AEC's risk management approach to the election is critical.

2.5.8. The AEC must be ready to run a major national event without set dates. This introduces a range of operational issues, and, like redundancy, translates into higher costs. For example, some products have to be ready at the earliest possible time and placed in storage for the months leading up to the announcement. Other products such as ballot paper can only be produced within a very small window after the announcement. Staff training may need to be delivered several times if there is a delay between the estimated and actual timing of announcement.

2.5.9. The higher costs involved represent the premium the AEC must pay to ensure the success of an electoral event. The non-discriminatory nature of the efficiency dividend does not recognise any of these factors and works against the AEC's inherent desire to mitigate all significant risks.

**2.6. *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***

2.6.1. The AEC believes the WCI/efficiency dividend regime should be reviewed as a matter of priority.

2.6.2. The AEC notes the use of an inadequate base index (WCI) and imposition of an efficiency dividend will realise savings for the government of the day. However, such a regime does not, of itself, guarantee or enhance the efficiency of smaller agencies. One way to meet budget reductions is simply to reduce output and/or provide lower standards of service. Another way is to accept the operational risks and subsequent consequences that arise.

2.6.3. The WCI should reflect the cost increases smaller agencies actually face. It would be possible to construct a more tailored WCI/efficiency dividend regime that takes account of individual agency circumstances. Such a framework is likely to be complex. Machinery of government changes and technological and societal change mean the framework will become out of date within a few years, therefore significant effort will be required to maintain it over time.

- 2.6.4. Another alternative is to retain the current regime but allow smaller agencies particularly to bring forward proposals in the Budget context to vary or exempt application of the efficiency dividend to certain parts of their operations. The proposals could be assessed against pre-determined criteria agreed by government. A variance or exemption could be approved for finite time periods. Again this is likely to be complex and involve significant effort for agencies and the Department of Finance and Deregulation.
- 2.6.5. A variant of this approach is for smaller agencies to bring forward proposals in the Budget context to vary their forward year funding according to an agreed formula that recognises their particular circumstances. The agreed formula could legitimately have regard to an appropriate level of efficiency expected from agencies. For example, the AEC might propose that funding for the 2010/2011 election recognise expected growth in the eligible enrolment and voting population, as opposed to merely rolling forward the budget from the 2007 election. If considered in the Budget context, this would retain integrity of the Budget process and enable scrutiny by Parliament through Estimates Committees etc.

## **2.7. Summary of the AEC's submission**

- 2.7.1. Many smaller agencies have a relatively narrow operational focus and their non-discretionary activities are the greater part of their activities. Many smaller agencies receive funding from new policy proposals less frequently than larger agencies. Accordingly, they lack the operational and budgetary flexibility more common in larger agencies.
- 2.7.2. The application of the efficiency dividend on an "across the board" basis therefore has a disproportionate impact on smaller agencies.
- 2.7.3. The Wage Cost Index (WCI) is inadequate. It does not reflect the reality of wage and other cost increases faced by smaller agencies.
- 2.7.4. Currently the real impact of the efficiency dividend is effectively around 5% per annum. A 5% efficiency dividend is a very difficult situation to manage given the narrow operational focus and responsibility for non-discretionary activities common to many smaller agencies.
- 2.7.5. The efficiency dividend may initially impact on discretionary activities. Ultimately, it adversely affects service delivery as agencies simply run out of options to make savings.
- 2.7.6. Continued application of the WCI/efficiency dividend may be counter productive in the medium to longer term through realisation of operational risks, costs of remediating such risks and lower levels of public sector innovation.
- 2.7.7. The AEC supports Australia's democracy through its independent delivery of electoral services. The AEC must mitigate all significant risks

given the one-time nature of these services and the absence of set dates.

- 2.7.8. The CEA mandates most of the AEC's activities and prescribes most of the AEC's processes. Even where the CEA does not regulate AEC administration, there are significant stakeholder expectations that limit the AEC's flexibility.