



JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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

JULY 2008

OFFICE OF THE OFFICIAL SECRETARY TO THE GOVERNOR-GENERAL SUBMISSION

1. Introduction

1.1 The Office of the Official Secretary to the Governor-General (OOSGG) welcomes the opportunity to make this submission to provide the Joint Committee of Public Accounts and Audit (the Committee). We believe it is time to examine the impact of the efficiency dividend and consider whether the current settings are right.

2. Overview of OOSGG Role and Function

2.1 The Office of Governor-General is a Statutory Office established by the Constitution of the Commonwealth of Australia. Under the Constitution, the executive power of the Commonwealth is exercisable by the Governor-General as The Queen's representative in Australia, and extends to the execution and maintenance of the Constitution and the laws of the Commonwealth.

2.2 The statutory office of the Official Secretary to the Governor-General was established in December 1984 by amendment to the *Governor-General Act 1974*.

2.2 Its role is to provide the Governor-General with the necessary support to enable him or her to carry out their constitutional, statutory, ceremonial and public duties. This includes support for the Governor-General and spouse, planning and management of their programme, management of the Australian Honours and Awards System, stewardship of significant Heritage assets and provision of the necessary infrastructure and services to support this work.

3. Budget Funding

3.1 The Office is a small statutory agency. Table 1 is taken from our 2008 Portfolio Budget Statement and reflects Departmental funding (funding affected by the efficiency dividend).

Table 1 Budgeted Departmental Income Statement (from 2008 OOSGG PBS table 3.2.2)

	Estimated actual 2007–08 \$'000	Budget estimate 2008–09 \$'000	Forward estimate 2009–10 \$'000	Forward estimate 2010–11 \$'000	Forward estimate 2011–12 \$'000
INCOME					
Revenue					
Revenues from government	11,604	11,659	11,602	11,587	11,470
Goods and services	22	22	22	22	22
Resources received free of charge ^a	25	36	36	36	36
Interest					
Other					
Total revenue	11,651	11,717	11,660	11,645	11,528
Gains					
Sale of assets	50	50	50	50	50
Total gains	50	50	50	50	50
Total income	11,701	11,767	11,710	11,695	11,578
EXPENSE					
Employees	7,147	7,307	7,570	7,919	8,042
Suppliers	3,965	3,846	3,491	3,092	2,817
Depreciation and amortisation	539	564	599	634	669
Losses from sale of assets	50	50	50	50	50
Total expenses	11,701	11,767	11,710	11,695	11,578
Surplus (Deficit) before income tax					
Income tax expense					
Surplus/(Deficit)					
Transfer of assets to administered	1,887	2,242	3,058	2,399	211
Surplus (deficit) attributable to the Australian Government	1,887	2,242	3,058	2,399	211

The Office also receives:

- around \$1.2 Million in Administered Funding (in the main for specific costs relating to the Australian Honours and Awards System),
- a Special Appropriation limited to the Governor-General's salary, and,
- a Departmental non-operating equity injection to partly fund a planned 10-year repair and refurbishment program of capital works.

4. History of Efficiencies

4.1 Since efficiency dividends were introduced around 20 years ago much has changed in the way we do our work at Government House. Significant efficiencies include:

- ongoing process re-engineering of all Office functions resulting in a number of changes including;
 - a halving of household and personal support staff (corresponding to a similar reduction in duties),
 - a reduction in gardening staff (due to more efficient mechanisation and similar reduction in duties), and,
 - a reduction in maintenance staff (with some duties redirected to contractors).
- changes to power and water consumption including installation of efficient mechanical units and appliances and the predominant use of tank and other non-potable water supplies for gardening and other suitable purposes, and,
- outsourcing of certain functions including cleaning, maintenance, audit and certain personnel functions including payroll.

5. Financial Impact of the efficiency dividend (and other costs which have to offset against greater efficiency)

5.1 In Financial Terms in 2008-09 the Office will receive \$380,000 less in Departmental funding because of efficiency dividends. The Office will receive around \$1.55 million less in funding over the four years from 2008-09 to 2011-12 because of efficiency dividends.

5.2 Over the same period staff costs (assuming the same level of staffing) would rise from a base of \$7.066 million in 2007-08 to \$8.402 or \$1.34 million in 2011-12.

5.3 Supplier costs rose 10% from 2006-07 to 2007-08 on a base of \$4 million, despite ongoing implementation of environmental efficiencies (in the use of power and water). This trend shows no sign of abating.

5.4 Leaving possible parameter adjustments aside, at best, the combination of the efficiency dividend, rises in staff costs and net rises in supplier costs (all of which we must absorb) create an equation in which we need to become around 38% more efficient over the next 4 years to achieve the same outcomes. This equates to 9.5% efficiency per annum.

5.5 This is in addition to managing the impact of efficiency dividends and other efficiency drivers for the past 20 years.

6. Does the Efficiency Dividend have a disproportionate impact on smaller agencies? Are they disadvantaged by poorer economies of scale or relative inability to obtain new policy funding?

6.1 Smaller agencies are faced with economy of scale issues. The need to make efficiency dividend savings from a smaller base and menu of opportunities clearly adds to the challenge.

6.2 The Office has responded to this by taking the opportunities it can to become more efficient. These include:

- Reviewing Staff Cost expenses, e.g.:
 - reviewing and streamlining business processes,
 - eliminating work which we have decided can no-longer be core business, and,
 - outsourcing where cost and/or risk-mitigation advantages exist.
- Reviewing Supplier expenses, e.g.:
 - use Consultants for “value add” work (i.e. where we do not have the mass to retain sufficient expertise),
 - establish or join other Commonwealth agencies with efficient contracts on a case by case basis, e.g. Internet, Legal Services, and,
 - look to reduce consumption, e.g. installing efficient machinery, using Building Management Systems, installing rain-water tanks, reducing watered areas using non-potable water.

6.3 Once a function has been streamlined, or trimmed, it is difficult to realise further savings as significant investment is required. In a small agency, the funds required, for example to automate a process, may represent so many years of savings from that endeavour that it is simply not worthwhile.

6.4 Similarly smaller agencies are by their very nature less able to make space in their budget to save for or directly invest in innovation. The lack of investment funding or size of future payback can act to drive smaller agencies to become risk averse. If we are to internally fund an investment the Business Case must be absolutely compelling in order to go forward. There is little room to test or pilot possible future approaches and certainly no capacity for error.

6.5 There are inherent risks in outsourcing as an efficiency measure. In particular an increased reliance on supplier arrangements means that many costs are now directly subject to the market. Costs for many of these services including cleaning, maintenance and professional services are rising at a greater rate than CPI.

6.6 The state of the labour market in Canberra also impacts on the quality of these services. Generally the cost effectiveness of third party arrangements relies on the capacity of the supplier to staff and manage their organisation. In a competitive job market suppliers can struggle to meet their performance indicators. This has been our experience in particular in Payroll Processing. This places additional pressure on our staff (slow or late processing, errors etc). Opportunities to in-source these services at a competitive rate are limited because of the start-up costs, risks (e.g. loss of key staff) and similar staff cost pressures.

6.7 The Office has raised four New Policy Proposals in recent years, with some success.

2005 Budget :

- Expense - \$1.3 million over 4 years to enhance the Australian Honours information system. \$0.6 million associated capital expenditure to be internally funded.

2006 Budget :

- Expense - \$1.9 million over 4 years for enhanced administration of the Australian Honours and Awards system to cope with a significant increase in nomination rates.
- Capital - \$1.5 million over 2 years to construct a replacement building for the Australian Honours and Awards Secretariat. Remaining costs of \$2.7 million funded internally as directed by government.
- Capital - \$7.7 million over 4 years and an additional \$7.3 million to 2015 for the Heritage Property master plan. A further \$2.6 million (over 4 years) funded internally.

Note: A small supplementation was also made in 2006 for Fedlink Connection.

6.8 As can be seen though, approval of these proposals has come with significant internal commitments – particularly in respect of Capital, against a limited cash base.

6.9 Factors in not raising other New Policy Proposals (NPPs) have included the overhead of implementation of these proposals (in an agency of our size) and, from a process perspective, the \$1 million limit usually applied to NPPs.

7. Does the Efficiency Dividend affect the capacity of small agencies to perform core functions or to innovate?

7.1 Yes, and quite substantially. Achieving efficiencies over the past 20 years has caused the office to make changes to its processes which have had an impact on core functions. These include:

- a) **Maintenance of heritage properties.** Stewardship of the Official Properties on behalf of the nation is a core function of the Office and a material element of our costs. Over many years funding available for this work did not keep pace with the need. In 2006 this culminated in a significant business case for the capital injection referred to earlier in the submission.
- b) **Governor-General's Program.** The community's demands on the Governor-General and his program continue to increase in a country as large and diverse as Australia. In the last 5 years he has given over 900 speeches and attended 1,188 separate events alone. (A summary of the Governor-General activities since 2003 are attached at Appendix A). The

associated costs are rising at a significant rate – and are now much greater than when base funding for this work was set.

- c) **Household support and upkeep of the heritage gardens.** The Governor-General is expected to provide a standard of hospitality that is appropriate for visitors, whether they be visiting Heads of State or members of the Australian community. Similarly the gardens at Government House and Admiralty House form part of the heritage value of those properties. These core functions have been subject to the most significant changes in staff over the last 20 years (since the efficiency dividend began). Numbers of household and gardening staff have been steadily reduced over the past two decades as indicated earlier in the submission.

Staff numbers	1989	2008
Household staff	28	12
Gardeners (2 locations)	16	12

7.2 As noted at paragraph 6.4 above the lack of space to save for innovation, the smaller scale of benefits and our risk-averse nature act to limit our ability to innovate. It is a fact that business support innovations, for example, which have become commonplace in the public and private sectors are regularly beyond our means. The Office still keeps the majority of its records on paper. We don't have help desk management systems or knowledge management systems. Our Intranet is pre Content Management technology (about 7 years old). We do not have "Executive Dashboards" or "smart-phone" communication devices. We choose longer refresh periods for many key business tools, for example the average age of our desktop computers in daily use is over 4 years (some are 8 years old).

8. What measures are agencies taking to implement the efficiency dividend and the effect on their functions performance and staffing arrangements?

8.1 As recorded earlier in the submission, our focus has been to review work practices, to outsource work where a Business Case existed to do so and to review supplier expenses. As indicated earlier this has impacted staffing in household, gardening and maintenance staffing levels.

9. Any Impacts of the efficiency dividend on the use by smaller agencies of section 31 Agreements

9.1 There are limited genuine options available to the Office to take advantage of section 31 so this has not been a focus for us. Where items are sold, they are usually of little value, and may be 'traded-in' on a more useful item of a similar nature to perform a similar function.

10. How application of the efficiency dividend is affected by factors such as the agencies' nature or their work

10.1 The nature of the Governor-General's work is such that events may drive costs. In particular the representational or community elements of his role may take on a different perspective in times of opportunity, national significance or in adversity. It is often difficult to plan for these times. There is no established mechanism to provide supplementation for the associated costs and our capacity to save for them is tested by the conditions which prevail including the impact of the efficiency dividend.

10.2 Our work impacts directly on others many of them volunteers or people seconded from other agencies or community groups (e.g. members of the Order of Australia Council and the Australian Bravery Decorations Council sometimes what is an efficient process for the Office may not be so for members so we need to consider efficiency in terms which aren't always expressed in the budget bottom line.

11. Alternatives to across-the-board efficiency dividends

11.1 The Possibilities include:

- (a) **Multi-tiered model:** a tiered system of rates (perhaps 3) based on size or other factors;
- (b) **Indicator based model:** a model based on capacity to realise efficiency as derived by efficiency indicators, which may change (to avoid the indicators becoming the sole frame of reference for efficiency);
- (c) **Review based model:** a model based on tripartite review – the three parties being the Agency, the Department of Finance and Deregulation and an Independent Authority. Learnings from the Output Pricing Agreement era would be important in this case – for example roles must be clearly spelt out.
- (d) **One-off exemption or reduction model:** Under this option agencies could apply for a reduction in their efficiency dividend based on their circumstances. A set of criteria could be developed to support this option. This might include savings offered up in earlier years or new policy absorbed. The criteria could also include limitations on available genuine efficiency.

11.2 Past processes for across the board efficiency have had a significant impact but have been less than ideal because:

- whilst simple to administer they were seen to lack equity (e.g. the “one size fits all” efficiency dividend),
- they were too general in their assumptions (e.g. Market Testing), or,
- the investment in them was too significant (compared to the savings, if any, made - e.g. Pricing Reviews).

Whatever solution is proposed should bear these factors in mind.

11.3 We must remember that a more equitable approach may add participation costs (for agencies and The Department of Finance and Deregulation). There must also be a realisation that there is “only so much genuine efficiency available” and a more equitable approach will have a less predictable outcome.

12. Summary

12.1 While Governments understandably continue to seek efficiencies, looking at this in simple ‘bottom- line’ figures does not present the full picture, and may in fact be inefficient as smaller agencies fail to invest, become risk adverse or simply lower the standard of their outputs to comply in the short term.

12.2 The efficiency dividend and other factors have driven efficiency. The Efficiency dividend has served its purpose. But we believe that to push ahead with it in a one size fits all format, may risk unintended consequences.

APPENDIX A

GOVERNOR-GENERALACTIVITY STATEMENT (AS AT END JUNE 2008)

Since taking office as Governor-General of the Commonwealth of Australia on 11 August 2003, Major General Jeffery has concentrated on fulfilling the commitment he gave to the nation at that time – to do his best to fulfil the constitutional and public obligations of his high office with dedication, dignity and integrity. He has sought to encourage and articulate those things which unite us, as Australians.

Since taking office, the Governor-General has:

- Visited every State and Territory, in all cases more than once, including a major two-stage tour of the Outback.
- Delivered 917 speeches.
- Attended 1188 separate events throughout Australia and Territories.
- Presented hundreds of honours and awards at 34 separate investitures.
- Hosted 819 official functions, including a reception for 500 family members after the Bali bombings.
- Received over 633 callers, many of whom were representatives of the approximately 180 organisations for which the Governor-General and Mrs Jeffery are Patrons or have a similar relationship.
- Opened the grounds and residence at Government House to more than 19,940 school children who visited to learn more about the role of the Governor-General and who were given a conducted tour. The numbers of students visiting the House has risen each year.
- Represented Australia at the Royal Wedding in Denmark, the State Funerals for President Reagan in Washington and His Holiness Pope John Paul II in Rome, the wedding of The Prince of Wales and Mrs Parker-Bowles in London and at the VE Day 60th anniversary commemorations in Moscow. The Governor-General has made official visits to Germany, Singapore, United Kingdom, Solomon Islands, East Timor, China, Belgium, Malaysia, Saudi Arabia and the UAE. He also visited Saudi Arabia to express condolences on behalf of the Government and people of Australia and represented Australia at celebrations for the 30th anniversary of Papua New Guinea independence. Over the 2005 Christmas period His Excellency visited deployed forces of the ADF in Afghanistan and Iraq. In April 2006 the Governor-General visited Turkey and Egypt in the context of ANZAC Day and other commemorations. He also attended the funeral of the King of

Tonga and visited Singapore and The Netherlands (to celebrate 400 years of bilateral relations between Australia and The Netherlands). In 2007 the Governor-General attended the State Funeral for the King of Samoa. He also attended the 90th Anniversary of the Battle of Passchendaele in Belgium; and the 50th Anniversary Celebrations of Malaysian Independence. During a second visit to Belgium, the Governor-General attended the interment of five WW1 soldiers at Buttes Cemetery. In April 2008 the Governor-General visited the UAE and Australian troops in Iraq and Afghanistan; he made the first State Visit by a Governor-General to Israel to mark the 60th Anniversary of Israel, and to open the Park to the Australian Soldier at Beersheba.

- Received the credentials of 137 Ambassadors and High Commissioners to Australia.
- Received the Presidents of Lithuania, East Timor, Chile, Indonesia, Pakistan, China, United States of America, the Russian Federation, Finland, Philippines, Singapore, Israel, Republic of Korea and Bosnia-Herzegovina, the Prime Minister of Turkey, the Crown Prince of Thailand, The Crown Prince and Crown Princess of Denmark, the Sultan of Brunei, the King and Queen of Sweden, the Governor-General of Solomon Islands, The Prince of Wales, The Princess Royal, Prince Harry of Wales and Her Majesty The Queen and His Royal Highness The Duke of Edinburgh. The Prince of Orange and Princess Maxima of The Netherlands also visited Government House in October 2006; the Governor-General of New Zealand, His Excellency the Honourable Anand Satyanand and Mrs Satyanand visited Government House in February 2008; the President of the Republic of Kiribati, H.E. Anote Tong.
- Presided over 138 meetings of the Federal Executive Council, which has considered over 2,796 agenda items.
- Assented to over 830 pieces of legislation passed by the Commonwealth Parliament.
- Coordinated a meeting of Australia's front-line aid agencies in response to the tsunami in South East Asia.