

CPSU submission to the:

***Inquiry into the effects of the
ongoing efficiency dividend on
smaller public sector agencies***

July 2008

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The Community and Public Sector Union (CPSU) is an active and progressive union committed to promoting a modern, efficient and responsive public sector delivering quality services and quality jobs. We represent around 60,000 members in the Australian Public Service (APS), ACT Public Service, NT Public Service, ABC, SBS and the CSIRO.

The CPSU opposes the efficiency dividend approach to agency funding within the APS. The efficiency dividend has outlived any usefulness it once may have had as a productivity measure, and has become an unsustainable imposition on agency budgets. It has caused huge wage disparities to open up between APS agencies that do not reflect efficiency or productivity as much as their relative capacity to pay. For smaller APS agencies efficiency dividend also severely limits their ability to compete for staff with the private sector and with higher paying public sector agencies. These inequitable outcomes have a disproportionate impact on female APS employees.

The efficiency dividend also raises issues of accountability in government decision-making. It is usually regarded as government's role to determine the key functions and priorities for its agencies. By winding back allocated budget without any consideration of the circumstances of particular agencies, decisions on functions and priorities will be made by line managers within those agencies. If the government wishes to reduce the functions of the APS it should say so clearly and publicly. Instead it is relying on the ability of agencies to manage and / or hide the impact of a decreasing budget. The problems of this approach are particularly severe in smaller agencies.

The CPSU believes that in addition to considering the efficiency dividend the Joint Committee's inquiry needs to focus on the broader issue of APS funding. APS agencies have actually been paying *two* efficiency dividends: the first arises from the dividend imposed on agency running costs (1% p.a. in 1987, 1.25% p.a. since 2005, and 3.25% in 2008-9); the second arises from the funding arrangements for wages across the APS, particularly the discounting of the wage/cost index. This situation reduces resources across the APS, hitting smaller agencies the hardest.

The CPSU submission includes comments by APS employees across a range of small agencies. Their experiences of the 'one size fits all' efficiency dividend make it clear that the Government will severely impair its own ability to deliver on an ambitious agenda around the environment, social inclusion and education if it continues to use such a blunt instrument to achieve 'efficiencies'.

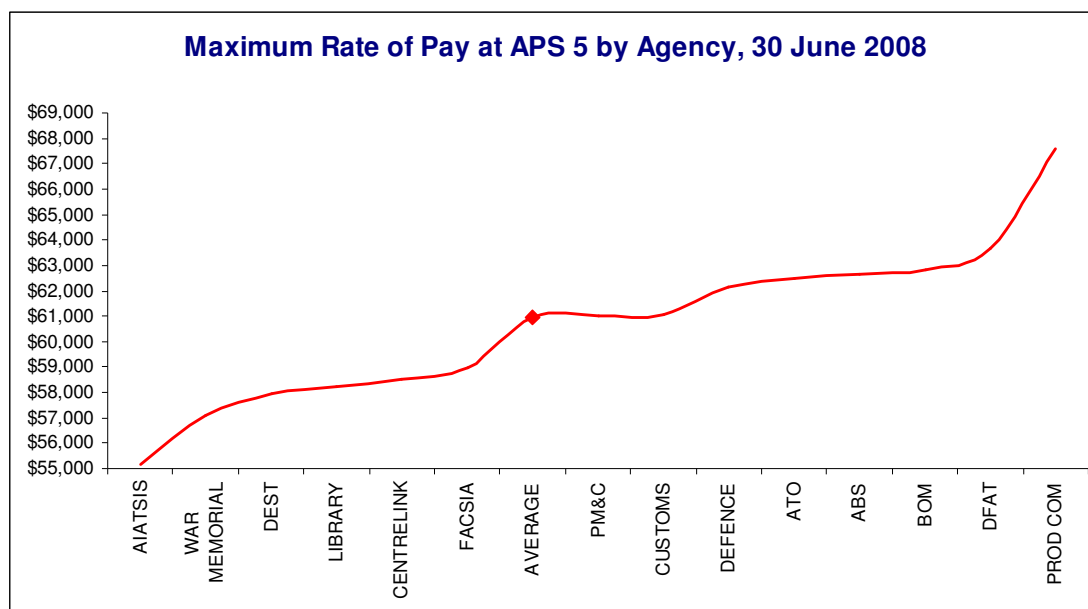
Prior to the last federal election Finance Minister Lindsay Tanner, then shadow finance spokesman, argued that a 'core point of differentiation' between a new ALP government and the previous one would be 'quality of

spending’; that is ‘what the money is actually being used for’¹. The experiences of the CPSU survey respondents indicate that the imposition of the additional efficiency dividend has not resulted in ‘quality spending’ by APS agencies. Instead many agencies, particularly those with smaller budgets, are having their ability to deliver on core functions restricted.

Concerns about Attraction and Retention of staff

The CPSU is particularly concerned with the wage/cost effects of the efficiency dividend on APS staff retention and remuneration. The Australian Public Service Commission (APSC) has warned that existing funding arrangements for public sector remuneration constrain the capacity of the APS to compete for talented employees with the private sector. The 2005 *APS Remuneration Survey* commissioned by the Department of Employment and Workplace Relations (DEWR) reported that at every grade above APS 2 total remuneration lagged behind the private sector.² This presents a problem for APS recruitment in a tight labour market in which unemployment is less than 4% (in the ACT it is even tighter).

The CPSU’s analysis of APS agencies, including those concerned with service delivery and policy, shows that there are significant pay gaps opening up within the APS. For example, if you work at the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) and are paid the top increment of APS 5, you earn \$4,825 per year less than someone employed at the Australian Taxation Office (ATO) at the top increment of APS 5. The following graph further demonstrates the gaps at APS 5.



Smaller agencies affected by the efficiency dividend will find it difficult to make sufficient productivity gains to close these pay gaps.

It is not possible to argue that those employed by higher-paying agencies earn more because they are more productive or efficient than workers in lower

¹ Round Table moderated by Glenn Burge *Australian Financial Review* (2 October 2007), p.58.

² Mercer Human Resource Consulting, *APS Remuneration Survey 2005*, commissioned by DEWR, cited in APSC, *State of the Service Report 2005-06*, p.178-9.

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paying agencies. If this is true then the following league table would represent the relative productivity of APS 6 employees across the APS:

Agency	Relative Productivity
Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS), Federal Magistrates Court, Defence Housing Australia, Australian War Memorial, Australian Institute of Family Studies, Australian Centre for International Agricultural Research (ACIAR), Human Rights and Equal Opportunity Commission, Department of Education, Science and Training, Department of Families, Housing, Community Services and Indigenous Affairs (FACSIMIA), National Library of Australia	4% – 9% less productive than the average APS6
Australian Film Commission / ScreenSound, Agriculture, Fisheries and Forestry, Australian Research Council, National Museum of Australia, Department of Employment and Workplace Relations, Australian Valuation Office, Comcare, Medicare, The Office of the Workplace Ombudsman, National Capital Authority, Commonwealth Rehabilitation Service (CRS), Department of Parliamentary Services, Parliamentary Security Service, Family Court of Australia, Royal Australian Mint, Office of the Federal Privacy Commissioner, Australian National Maritime Museum, Equal Opportunity for Women in the Workplace Agency, Department of Transport & Regional Services, Australian Electoral Commission, Australian Public Service Commission, Department of the Environment, Water, Heritage and the Arts, Torres Strait Regional Authority	1.5% -3.9% less productive than the average APS6
Australian Crime Commission, High Court of Australia, Department of Communications, Information Technology and the Arts, Administrative Appeals Tribunal, National Archives of Australia, Australian Trade Commission (Austrade), Migration Review Tribunal & Refugee Review Tribunal, Centrelink, Food Standards Australia New Zealand, Federal Court of Australia, Department of Health and Ageing, AQIS Meat Program, Social Security Appeals Tribunal (SSAT), Australian Securities and Investments Commission, Department of Immigration and Citizenship	0.3% - 1.4% Less productive than the average APS6
Insolvency and Trustee Service Australia, Department of the Treasury, National Blood Authority (DoHA), Office of the Commonwealth Ombudsman, Commonwealth Rehabilitation Service (Rehab consultants), Australian Agency for International Development (AusAID)	Average Pay Rate for an APS6 (-0.2% - +0.2%)
National Measurement Institute, Child Support Agency, Australian Bureau of Statistics, Attorney-General's Department, National Native Title Tribunal, Australian Communications and Media Authority, Australian Institute of Health and Welfare, Department of Veterans' Affairs, National Health and Medical Research Council, ComSuper, Medicare (with performance pay)	0.3% - 1.4% more productive than the average APS6
Human Services (Core Department), Department of the Prime Minister and Cabinet, Bureau of Meteorology , Department of Defence, Department of Industry, Tourism & Resources	1.6% - 2.6% more productive than the average APS6
Australian Customs Service, Office of the Commonwealth Director of Public Prosecutions, Office of the Renewable Energy Regulator, Australian Taxation Office, Department of Foreign Affairs and Trade, Australian Competition and Consumer Commission, Great Barrier Reef Marine Park Authority, Geoscience Australia, Australian Transaction Reports and Analysis Centre (AUSTRAC), IP Australia, Australian Sports Anti Doping Authority, Department of the House of Representatives	2.7% - 5% more productive than the average APS6
Workplace Authority, Office of National Assessments (PMC), Australian Pesticides and Veterinary Medicines Authority, Australian Radiation Protection and Nuclear Safety Agency, Productivity Commission, Department of the Senate	6 – 10 % more productive than the average APS6
Australian National Audit Office, Office of the Official Secretary to the Governor General	More than 10.0% more productive than the average APS6

Of course a similar table could be produced for all APS levels which would suggest, if correct, that certain workers in certain agencies are more productive than others at the same level. We do not accept relative productivity as a rational explanation for these wage disparities. The real situation is that agencies able to do more with fewer staff can afford to top up the general level of wage supplementation with internally generated savings while smaller agencies cannot. They reflect neither productivity nor efficiency but capacity to pay.

In this situation the imposition of the efficiency dividend will increase wage inequality between agencies and between individual APS employees, with

perversely inefficient results on the quality of agency core functions and the capacity to innovate.

Equity Concerns

The inequitable outcomes of the efficiency dividend have a disproportionate impact on female APS employees. Analysis by the CPSU has confirmed that small agencies with high proportions of female employees are more likely to be at the bottom of the pay pile. Examples include AIATSIS with 66% female employees; the Human Rights and Equal Opportunity Commission (HREOC) with 72% female employees; the Australian Institute of Family Studies (AIFS) with 80% female employees. Such agencies will not be able to retain existing staffing levels, attract new staff, or maintain their core functions, under the constraints imposed by repeated applications of the efficiency dividend. A real risk is that the Government's social inclusion goals will be undermined within its own workforce by its own budget measures.

A Long Term Problem

The CPSU's concerns about the approach to agency budgets represented by the efficiency dividend are not new. In 1992 the Joint Committee on Public Accounts (JCPA) issued a report called *Managing People in the Australian Public Service*, which made the following point:

The introduction of workplace bargaining is planned to result in work conditions based on productivity and may render the concept of efficiency dividends irrelevant, if not invalid. In [view] of productivity gains associated with the introduction of workplace bargaining the Committee regards it as timely to review the need for continuing the efficiency dividend, with a view to abandoning [it] altogether.

*The Committee Recommends that the efficiency dividend be abandoned.*³

Since the early nineties, wage movements within the APS have been unpinned by the 'productivity assumption' referred to by the JCPA. That is, increases in wages need to be paid for by increases in productivity. At the same time agency running costs have been reduced by the repeated impositions of the efficiency dividend. Supplementation for wage increases has been modest (generally around half the rate of CPI) at an average of 1.25% p.a., while wage growth has been about 3%-4% p.a.

The long term effect of measures like the efficiency dividend has been to constrain the capacity of APS agencies to find additional savings to pay for wage increases and deliver services. Agencies given responsibility for new initiatives have found ways to maintain or increase real wages, but agencies with smaller budgets and/or less dynamic program responsibilities have not. Agencies with skills in high demand have used 'retention' pay rises resulting in fewer staff to provide services and administer programs.

The 'productivity assumption' remains central to workplace bargaining within APS agencies. The recently issued *Australian Government Employment Bargaining Framework* specifically states that:

³ Joint Committee of Public Accounts, *Report 323: Managing People in the Australian Public Service*, (Canberra, Commonwealth of Australia, 1992), p.105.

Improvements in pay and conditions are to be linked to improvements in productivity.

Bargaining around productivity at the workplace level has been severely undermined by the 'top-down' imposition of measures such as the efficiency dividend and less than full budget subsidisation of wage increases. Since 1992 the efficiency dividend approach has co-existed with productivity based workplace bargaining within the APS. This combination has had more than enough time to demonstrate its effectiveness. The view of CPSU members is that the results have been neither productive nor efficient for APS agencies. The JCPA's 1992 observation remains valid: the efficiency dividend is a relic of a bygone era of public sector management, running counter to the very idea of a flexible and responsive APS. The wage analysis carried out by the CPSU, and the experiences of CPSU members bear this observation out. Accordingly the CPSU asks the current Joint Committee to recommend that the most recent efficiency dividend be the last one imposed on all APS agencies.

Inquiry Terms of Reference and CPSU response

The CPSU has chosen to respond to the following terms of reference for the inquiry concerning the efficiency dividend's impact. Specifically:

- *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;*
- *whether the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate;*
- *what measures small agencies are taking to implement the efficiency dividend, and the effect on their functions, performance and staffing arrangements;*
- *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; and*
- *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.*

The CPSU's response draws upon the union's experience over decades in dealing with the efficiency dividend. The terms of reference also formed the basis for questions in a survey sent by the CPSU to members and staff across a selection of 'smaller agencies' in the APS.

Has the efficiency dividend had 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 efficiency dividend negatively impacts smaller agencies with most falling on the wrong side of the significant pay gaps opening up within the APS. An agency that can take advantage of 'economies of scale' (maintaining their functions with fewer employees), or has sufficient new projects to use creative accounting practices is in a better position to handle the efficiency dividend than a smaller agency whose functionality depends on an optimal staffing level.

A CPSU respondent from AIATSIS made the point that as '*a small agency with a big brief*' reductions in their budget have a direct impact on their ability to meet rising expectations in indigenous affairs. Respondents in the National Archives of Australia (NAA) reported that other agencies are increasingly using the Archives to meet their information requirements. NAA is thus in the position of facilitating the ability other agencies to make savings, while increasing the workloads of its own employees. Members report that the Archive's project to 'digitise' its collection in order to facilitate public access through its 'Record Search' database is being severely limited by budgetary restrictions. The Archive can only digitise within its existing budget (except for high profile projects), so under the efficiency dividend the question inevitably becomes: what are we *not* going to do?

Smaller agencies such as AIATSIS and NAA cannot use 'economies of scale' to meet the requirements of the efficiency dividend. Successive efficiency dividends have already stripped the capacity of these agencies to fund wage increases and maintain staffing levels. This has resulted in a disconnect between staffing levels and workloads and the continuation of the efficiency dividend will only make the situation worse - to the detriment of core agency functions.

Is the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate?

CPSU members provided many examples of how the efficiency dividend (ED) is having a detrimental effect on smaller agency core functions, and their ability to undertake new projects.

Members were asked what the impact of the implementation of the efficiency dividend was on the ability of their agency to deliver quality public services. As Table 1 shows, CPSU members overwhelming reported that the impact was negative.

Table 1: Impact of the ED on Quality Services

	% Response
Negative	94.6
Neutral	2.7
Don't know	2.7
Total	100.0

Members were also asked if their own work had been directly affected by the efficiency dividend. Again the responses were very clear – nearly two thirds reported that there had been a direct impact on their work as a result of the efficiency dividend (Table 2).

Table 2: Impact of ED on work

	% Response
Yes	63.5
No	14.9
Don't know	21.6
Total	100.0

CPSU members provided examples of how their work had been affected. An employee of the Great Barrier Reef Marine Park Authority (GBRMPA) reported that: *'A number of unresourced projects have been shared around my team, and my workload has been increased.'*

Seventy per cent of members reported that future planning activities in their agencies had been delayed or stopped because of the efficiency dividend. One member described how *'some operations have been halted/suspended while the highest internal operations committee has refused submission of new applications for two to three months.'*

The efficiency dividend is clearly having a negative impact on the capacity of agencies to undertake core functions, let alone innovate. The reported delays in future planning activities are a particularly troubling development for a government focussing on the long term issues.

What measures small agencies are taking to implement the efficiency dividend and what have been the effects on their functions, performance and staffing arrangements?

Members were asked to describe the impact of the implementation of the efficiency dividend on the staffing arrangements in their agency. Eighty five per cent responded that staffing levels had gone down as a result (Table 3)

Table 3: Impact of ED on staffing levels

	% Response
Yes, staffing levels have gone down	85.1
Yes, staffing levels have gone up, but not enough to cover the workload	1.4
No, there has been no change	4.1
Unsure at this stage what the impact is	9.5
Total	100.0

When asked to specify particular staffing measures their agency had put into place, members indicated that the most common measure was using natural attrition to reduce staff numbers (92%). Cancelling or not renewing contracts was also the experience of many members and nearly two thirds reported that redundancies had occurred at their agency as a result of the efficiency dividend (Table 4).

Table 4: What measures have been used to meet ED?

	% Response
Redundancies	65.3
Natural Attrition	92
Staffing Freeze	44
Cancelling or Not Renewing Contracts	78.7

Note: Multiple responses were permitted for this question

Additionally, more than one third of respondents reported that projects in their agency had been shortened because of the efficiency dividend, and just under half reported that they had been cancelled altogether.

Members were asked to report other measures undertaken by their agencies. These included: *'involuntary transfers within the agency'* and *'a move away from performing the core business of the agency towards less resource intensive activities'*. A consequence for many of the efficiency dividend staffing reductions was increased workloads *'[b]ecause of staff not being replaced, or proposed new staff resources not being approved, more work is being spread around the teams'*.

Asked if their workload has been directly affected by the efficiency dividend, sixty one per cent of members reported that it had gone up (Table 5).

Table 5: Impact of ED on workloads

	% Response
Yes, it has gone up	60.8
No, it has stayed the same	33.8
Yes, it has gone down	5.4
Total	100.0

More than half (54.7%) of members reported that the efficiency dividend had increased the time taken for agencies to complete projects, and nearly two thirds (65.3%) said that it had led to a decline in the quality of agency core business. Just over sixty one per cent agreed that the efficiency dividend had resulted in slower customer/client service, and 62.7 per cent reported that specific projects in their agencies had been cancelled as a result of the efficiency dividend. One member in a cultural agency reported that they *'[w]ould normally be handling one of the year's biggest grant rounds but, as I've been made redundant, this work now devolves to an Admin Assistant - temporarily acting in a higher position - who has very little direct experience of preparing applications for an assessment meeting.'*

The measures taken by agencies to implement the efficiency dividend are having negative impacts on their functions, performance and staffing arrangements. CPSU members reported low workplace morale, increasing workloads and a lack of direction within their agencies. One member remarked that:

I am now 60 years old and in the twilight of a very fulfilling career, but I have had a reasonable bite at the cherry career pathing wise, but my younger colleagues face a very bleak promotional and advancement outlook.

The measures being taken by agencies, regardless of size include not replacing staff, redundancies, cancelling projects and increasing staff workloads. If governments continue with the efficiency dividend approach year after year, they will be increasingly acting at cross purposes to the goal of 'efficiency' within the APS. Skilled employees will not be prepared to stay in workplaces where the level of work they are expected to do is unrealistic.

How is the application of the efficiency dividend been 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?

A 'one-size-fits all' measure such as the efficiency dividend will inevitably be influenced by agency-specific factors when it is implemented at the workplace level. For example, a National Gallery (NGA) employee remarks:

Because the Government has stipulated that public programs must not be cut... the work load is exactly the same but we do not have enough staff to run the programs properly.

Many members made specific observations about how efficiency dividend measures were applied in their agencies. Respondents in cultural agencies were particularly concerned about the effects the implementation of the efficiency dividend would have on their agency's reputation with clients and the broader public. A respondent from the Australia Council argued against the whole idea of an 'equal cut across the board to all agencies' when some agencies have the capacity for revenue generation and others do not.

A NAA respondent insisted that: *Governments need to understand that smaller government bodies like the National Archives can only implement efficiency measures for a set number of years before they impact on staff morale and actual work levels.* Another NAA employee observed that:

The efficiency dividend, coupled with generally decreasing budgets, and mixed with increasing workloads is meaning that National Archives is losing its focus on preserving records for the future.

An agency that has an external client or service focus will inevitably have a decline in the quality of the service they can deliver when applying the cuts necessary to meet the efficiency dividend. Delayed or cancelled projects, substandard output, and an inability to retain staff can seriously impact on the quality of services provided to the Australian public.

The impact of the efficiency dividend is clearly affected by the nature of the work undertaken by an agency as well as its size. The successive annual applications of the efficiency dividend mean that small agencies are already working with very little 'fat' from which to fund wage increases or grow staffing numbers. Smaller agencies generally have little discretion in their functions meaning that cuts inevitably fall to staffing levels with corresponding negative impact on the services provided by the agency.

Are there 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?

A genuine approach to improving productivity and efficiency must start from an analysis of the work that is being performed by each agency. Such an analysis may well conclude that agencies should reprioritise, or even cancel, certain activities. However those decisions should be made at a political rather than an administrative level.

CPSU members stressed that any efficiencies should result from consultation. For example, one member commented that a *'majority of employees would engage positively to the challenge of efficiency reviews if the management had given the opportunity to all staff to contribute.'* Alternative approaches seeking genuine efficiencies within agencies should disavow 'blunt instruments'. They should involve sitting down with employees, in order to determine the best means to deliver on policy and services within the APS. Such approaches at the very least will take account of the *size* of particular agencies when decisions on efficiency are made, so that smaller agencies no longer bear the disproportionate brunt of an across the board measure. Alternative approaches should also confirm that decisions on policy and services are political decisions, not administrative decisions driven by budgets.

What CPSU members and the JCPA in 1992⁴ identified is that true efficiencies can only be gained by consultation among those actually undertaking the work. An imposed, uniform, top-down measure such as the efficiency dividend will inevitably create distress and demoralisation as employees are given little chance to influence how their work is undertaken in the most productive way. A consultative, negotiated approach to finding efficiencies that take account of local circumstances will yield far more effective and longer lasting dividends for the APS and for the Australian public.

⁴ Workplace level bargaining around productivity was identified as an alternative to the efficiency dividend by the JCPA as early as 1992.

Conclusion

The 'efficiency dividend' approach to APS agency budgeting is inappropriate and outdated for the contemporary public sector which is striving to provide quality public services. By using such a blunt instrument to restrain spending the Government is damaging the future success of its own policy agenda. The efficiency dividend has a particularly severe impact on smaller agencies.

The efficiency dividend's effect of increasing wage inequality between agencies will erode the public sector's capacity to compete for employees with the private sector in a tight labour market. It has also caused significant pay gaps to open up between APS agencies. These inequitable outcomes have already had a disproportional impact on female APS employees.

Smaller agencies cannot use 'economies of scale' to meet the requirements of the efficiency dividend. Instead they delay vital activities such as planning for the future. Measures taken to cope with an arbitrary efficiency dividend will also potentially harm the ability of agencies, large and small, to serve the Australian public. They also undermine accountability within government, as what should be political decisions on functions become administrative decisions on spending.

The CPSU maintains that good faith bargaining around productivity at the workplace level has been severely undermined by the 'top-down' imposition of measures such as the efficiency dividend. If governments continue with the efficiency dividend approach year after year, skilled employees will not be prepared to stay in the APS for yet another annual demonstration that they have little influence over their workplace. One practical alternative to the efficiency dividend is already operating within the public sector. Workplace bargaining is only one example of a consultative, negotiated approach to achieving workplace efficiencies. APS employees are willing to engage with the government to find efficiencies that suit local circumstances if the government is willing to engage with them.

The CPSU asks the Joint Committee to recommend that the efficiency dividend approach be no longer be used within APS. Instead it should recommend that agencies set up genuine, good faith consultative mechanisms with APS employees and their representatives to identify new and innovative ways of building a modern, efficient and responsive public sector.