

## NATIONAL BLOOD AUTHORITY (NBA) SUBMISSION TO THE INQUIRY INTO THE EFFECTS OF THE ONGOING EFFICIENCY DIVIDEND ON SMALLER PUBLIC SECTOR AGENCIES

The National Blood Authority (NBA) appreciates the opportunity to make a submission to the inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies. With approximately 50 staff and a departmental budget of approximately \$8.5m in 2008/09, the NBA is at the lower end of the Committee definition of "smaller agencies" as those having an operational budget of \$150m pa or less.

The NBA is established under a largely unique legislative and funding framework. Under the *National Blood Authority Act, 2003*, the NBA is responsible for performing clearly defined functions on behalf of all Australian governments. To perform these functions it is jointly funded by the Commonwealth (63%) and all state and territory governments (37%). The efficiency dividend applies to the total NBA Budget due to the nature of this fixed funding ratio.

The NBA has a demonstrated record of delivering highly effective outcomes disproportionate to its size when compared to larger public sector organisations. A small agency, combined with clearly defined roles and responsibilities, creates a range of inherent efficiency drivers and characteristics:

- Resource allocation to required outcomes is highly targeted, measurable and transparent.
- Corporate or internal overheads are subject to intense scrutiny to ensure they are warranted and effective.
- Staff assume multiple tasking and a greater range of responsibility in order to deliver the breadth of required outcomes.

These benefits can be achieved despite some inherent inefficiencies such as lack of purchasing power, and a smaller base against which unavoidable costs such as accommodation and other outgoings can be spread.

In summary, an effective small agency is by nature finely balanced, which brings with it a high level of sensitivity to any variation in total available resourcing.

Specific comments in relation to each of the elements of the Terms of Reference for the inquiry are as follows:

***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 efficiency dividend does have a disproportionate impact on small agencies. By their very nature, resource allocation in an effective small agency must be more precisely monitored and managed than in larger organisations. An element of this resource management is a risk based judgement on the level of redundancy (backup) available to be provided for these specific functions. When resources are reduced, there is less flexibility to absorb reductions in resourcing without a commensurate reduction in outcome delivery.

Under its unique shared funding arrangements by all governments, the NBA retains an ability to obtain funding for new policy proposals where all governments agree to the prioritisation of such initiatives. Governments have largely required the NBA to drive the research and analysis that will inform new policy proposals. Ongoing reductions in funding will impact on our capacity to develop new proposals or support other policy deliberations of governments, as against maintenance of ongoing business.

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

The efficiency dividend has a longer term impact on the future capacity of the NBA rather than the present. Our activities and the level of resources dedicated to these activities are approved by all governments as part of a detailed operational plan and progress against these activities are detailed through regular reporting to governments. The absorption of the efficiency dividend necessitates a re-prioritisation of planned new activities to minimise the impact on core responsibilities or outcomes. This would affect the NBA's ability to initiate or support innovative work.

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

Under current funding arrangements, the NBA has a long term financial planning position into which the efficiency dividend has now been incorporated. This has been done by reducing or constraining future initiatives. This will allow the organisation to deliver our currently agreed objectives and functions for about the next two to three years.

However, after that our situation will become critical.

The already targeted nature of resource allocation and inherent efficiency of the organisation will mean that without supplementation, staffing level reductions will be required. This will bring with it a disproportionate reduction in delivered outcomes that will need to be negotiated with all governments. Specifically we would have concerns at our ability to:

- Maintain our degree of research and analysis on the sector which drives the basis of our negotiations with major suppliers and which over the life of the NBA has resulted in savings to governments approaching hundreds of millions of dollars and improved choice and quality of product for consumers;
- Drive reduction in the appropriateness of use of product thereby reducing risks to patients and reducing wastage in the system; and
- Maintain the rigour and quality of our contract management which again has over the past five years resulted in substantial improvements in the accountability of suppliers to governments.

***Any impact of the efficiency dividend on the use by smaller agencies of "section 31" agreements to secure non-appropriation receipts.***

There is no impact in relation to the use of section 31 agreements.

***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.***

The shared funding arrangements for the NBA result in a high level of scrutiny of resource allocation which further limits the organisation's capacity to move resources between functions. Governments have an expectation that resource allocation should not be deployed to new priorities without their consensus agreement. The blunt nature of the efficiency dividend does not take into account the wider policy and budget setting framework agreed with other Australian governments under the National Blood Agreement.

***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.***

For the reasons outlined above, the NBA supports consideration of options to vary the percentage of the efficiency dividend according to size of an agency. That is, the smaller the agency, the smaller the required percentage dividend. Please note that a 2% dividend results in a required saving of \$0.193m in FY2008-09. This equates to approximately 1.5 full time officers at the EL1 level. To again put this in context the entire new Australian haemovigilance program has been developed and is being coordinated by the NBA with a resource allocation of 0.50 of a EL1 full time officer. Ongoing efficiency dividend reductions will hinder our capacity to advance reform initiatives such as this for the sector.

Alternatively, the required efficiency dividend could be linked to the implementation of collective arrangements for smaller agencies that realise a demonstrable saving. For example, the provision of common supporting processes to meet FMA obligations, such as Chief Executive Instructions and or some HR functions, currently replicated across agencies. It is noted that the area of common corporate functions should be approached with caution. The establishment of common support services can result in a commensurate loss in the effectiveness of smaller agencies, particularly where the services are provided by a significantly larger organisation.