

Parliament of the Commonwealth of Australia

House of Representatives Standing Committee
on Banking, Finance and Public Administration

KEEPING THE CUSTOMER SATISFIED

Report on the

Inquiry into the Devolution of Running Costs Flexibilities

October 1995

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Contents

FOREWORD	VII
MEMBERS OF THE COMMITTEE	IX
MEMBERS OF THE SUBCOMMITTEE	IX
TERMS OF REFERENCE OF THE COMMITTEE	XI
TERMS OF REFERENCE OF THE INQUIRY	XI
ACRONYMS AND ABBREVIATIONS	XIII
LIST OF RECOMMENDATIONS	XV
CHAPTER ONE	1
RUNNING COSTS ARRANGEMENTS	1
<i>Introduction</i>	1
<i>The Financial Management Improvement Program</i>	1
- <i>Reforms implemented under the FMIP</i>	2
<i>Overview of the Running Costs Arrangements (RCA)</i>	3
- <i>Quantum of running costs funding</i>	3
- <i>Flexibilities of the Running Costs Arrangements</i>	5
- <i>Agency opinion of the principles and practice of the Running Costs Arrangements</i>	6
- <i>The Efficiency Dividend</i>	7
CHAPTER TWO	9
EXTENT OF DEVOLUTION WITHIN AGENCIES	9
<i>Devolution</i>	9
<i>Devolution as a management style</i>	10
<i>Devolution and accountability</i>	13
<i>Development of devolved management structures within the APS</i>	14
<i>The impetus for devolution</i>	18
<i>Cultural change</i>	23
<i>Costing devolution</i>	26
<i>The level to which management of running costs is devolved</i>	28
CHAPTER THREE	31
IMPROVED MANAGEMENT AND BEST PRACTICE UNDER DEVOLUTION	31
<i>Introduction</i>	31
<i>Increased emphasis on planning</i>	32
<i>Budget variation</i>	35
<i>Reduced need for administrative oversight at the highest level</i>	35
<i>Incentives for restructuring along devolved lines</i>	36
<i>Better working relationships</i>	37
<i>Better resource management</i>	38
<i>Impetus to accrual accounting and reporting</i>	38

<i>Increased use of budgeting</i>	40
<i>Enhanced accountability</i>	41
<i>Revised role of corporate services areas</i>	43
<i>Increased use of resource agreements</i>	46
<i>End of year spending</i>	48
<i>Conclusion</i>	51
CHAPTER FOUR	53
OVERCOMING OBSTACLES TO EFFECTIVE DEVOLUTION OF RCA FLEXIBILITIES	53
<i>Introduction</i>	53
<i>New unfunded functions</i>	53
<i>Workplace bargaining</i>	54
<i>Efficiency Dividend and Cash Limiting</i>	56
<i>1995/6 Budget cuts to running costs</i>	57
<i>Other difficulties with the devolution of RCA flexibilities</i>	58
- <i>The pace and nature of change</i>	58
- <i>Balancing the needs of the centre with devolved units</i>	58
<i>Accountability mechanisms</i>	59
- <i>External scrutiny</i>	61
<i>Consistency of service delivery</i>	62
<i>Administration of the RCA</i>	63
- <i>The Department of Finance</i>	63
- <i>Senior Executive Service controls</i>	64
- <i>Limitation on capital amounts payable from Appropriation Bill No 1</i>	66
- <i>Skills and staffing</i>	67
CHAPTER FIVE	69
CONCLUSIONS	69
<i>Improved management and best practice under devolution</i>	70
<i>Overcoming obstacles to effective devolution of RCA flexibilities</i>	70
<i>Some suggested enhancements to the RCA mechanisms</i>	71
- <i>The role of the Department of Finance</i>	71
- <i>Zero based budgeting</i>	72
- <i>Funding for parliamentarians</i>	72
- <i>Changes to legislation</i>	73
<i>A view to the future</i>	74
APPENDIX 1	77
CONDUCT OF THE INQUIRY, EVIDENCE AND WITNESSES	77
PUBLIC HEARINGS	77
EVIDENCE	78
WITNESSES	79
APPENDIX 2	83
REFORMS TO THE AUSTRALIAN PUBLIC SERVICE SINCE 1983	83
APPENDIX 3	87
PREREQUISITES FOR SUCCESSFUL DEVOLUTION	87
ELEMENTS OF SUCCESSFUL DEVOLUTION	89

APPENDIX 4	91
POTENTIAL COSTS AND BENEFITS OF DEVOLUTION	91
POTENTIAL COST ASSOCIATED WITH DEVOLUTION	91
APPENDIX 5	93
THE EXTENT OF THE DEVOLUTION OF RUNNING COSTS	93
HIGHLY DEVOLVED DEPARTMENTS/AGENCIES	93
LESS DEVOLVED DEPARTMENTS/AGENCIES	95
MINIMALLY DEVOLVED DEPARTMENTS/AGENCIES	96
GLOSSARY OF TERMS	99

Foreword

This inquiry into the devolution of running cost flexibilities available to Commonwealth agencies under the Running Costs Arrangements is the third in a series of reviews undertaken by the Committee into aspects of the public sector management reforms instituted in the last decade.

The Committee believes that this process of review, begun in 1990 with a report on the Financial Management Improvement Program and continued in 1994 with an examination of the Efficiency Dividend Arrangements, constitutes a valuable component of the public sector reform exercise. Subjecting the reforms to scrutiny of this nature allows an assessment of their role in producing a more responsive, accountable, efficient and effective public service.

A major conclusion arrived at by the Committee as a result of this review of the devolution of running cost flexibilities is that devolution, as indeed all aspects of public service, should be predicated on the concept of action whose clearly stated and main objective is the benefit of the client; it is this notion of client service which has informed every stage of this inquiry and on it the Committee has based the recommendations contained in this report.

On behalf of the Committee I wish to express our appreciation to the many government departments and agencies that provided information and assistance throughout the course of the inquiry. I thank, too, the members of the Committee, and particularly the subcommittee led by subcommittee chair, Mr John Bradford, for their contribution to all aspects of the inquiry and the preparation of the report.

I especially commend Mr Russell Hearne of the Australian National Audit Office for his professional and expert work in the conduct of the inquiry and thank the members of the secretariat for their able assistance.

THE HON DAVID SIMMONS MP
Chairman

Members of the Committee

Chairman:	Hon D W Simmons, MP ¹
Deputy Chairman:	Mr J W Bradford, MP ²
Members:	Mr A J Abbott, MP ³ Mr R A Braithwaite, MP Mr B T Cunningham, MP Mr M J Evans, MP ⁴ Mr M W Latham, MP Hon L R S Price, MP Mr S F Smith, MP Mr A M Somlyay, MP Mr A P Thomson, MP ⁵ Mr H F Woods, MP
Secretary:	Mr C Paterson
Inquiry Staff:	Ms P Tancred Ms M Cahill Ms M Price
Adviser:	Mr Russell Hearne

Members of the Subcommittee

The Subcommittee appointed to undertake the inquiry comprised:

Chairman:	Mr J W Bradford, MP
Members:	Mr B T Cunningham, MP Mr M W Latham, MP

¹ Replaced the Hon R P Elliot, MP as Chairman from 10 February 1994.

² Replaced Mr P K Reith, MP as Deputy Chairman from 13 October 1994.

³ Replaced Mr A C Rocher, MP as member of Committee from 5 May 1994.

⁴ Replaced Mr E J Fitzgibbon as member of Committee from 5 May 1994.

⁵ Replaced Mr D F Jull, MP as member of the Committee from 24 August 1995.

Terms of Reference of the Committee

The Standing Committee on Banking, Finance and Public Administration is empowered to inquire into and report on any matters referred to it by either the House or a Minister including any legislation proposal, bill, motion, petition, vote or expenditure, other financial matter, report or paper.

Terms of Reference of the Inquiry

On 7 December 1994, the Minister for Finance asked the Committee to inquire into and report on:

1. The extent to which running costs flexibilities have been devolved within departments and agencies from CEOs to managers at lower levels and from central offices to regions;
2. The extent to which the devolution of running costs flexibilities within departments and agencies has contributed to improved management;
3. Examples of best practice in the implementation of running costs flexibilities;
4. *Any obstacles to the effective devolution of running costs flexibilities within agencies and departments, and any difficulties experienced in implementing devolved flexibilities; and*
5. Avenues for enhanced devolution of running costs flexibilities and how any difficulties experienced to date might be overcome.

Acronyms and Abbreviations

AAT	Administrative Appeals Tribunal
AusAID	Australian Agency for International Development
ABS	Australian Bureau of Statistics
ACS	Australian Client Services Division of DIEA
AFP	Australian Federal Police
AG's	Attorney-General's Department
AIRC	Australian Industrial Relations Commission
ANAO	Australian National Audit Office
ANTA	Australian National Training Authority
APS	Australian Public Service
ATO	Australian Taxation Office
ATSIC	Aboriginal and Torres Strait Islander Commission
BOM	Bureau of Meteorology
CES	Commonwealth Employment Service
CPSU	Community and Public Sector Union
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAS	Department of Administrative Services
DoD	Department of Defence
DEET	Department of Employment, Education and Training
DEST	Department of Environment, Sport and Territories
DoF	Department of Finance
DFAT	Department of Foreign Affairs and Trade
DHSH	Department of Human Services and Health
DIEA	Department of Immigration and Ethnic Affairs
DPIE	Commonwealth Department of Primary Industries and Energy
DPRS	Department of the Parliamentary Reporting Staff
DSS	Department of Social Security
DT	Department of Tourism
FCA	Family Court of Australia

FMA	Financial Management and Accountability Bill 1994
FMIP	Financial Management Improvement Program
GDP	Gross Domestic Product
HRD	Department of Housing and Regional Development
HoR	Department of the House of Representatives
HOTSA	Health of the System Assessment
JCPA	Joint Committee of Public Accounts
MAB	Management Advisory Board
MIAC	Management Improvement Advisory Committee of the MAB
MIS	Management Information System
NLA	National Library of Australia
POE	Property Operating Expenses
RCA	Running Costs Arrangements
SBS	Special Broadcasting Service
SES	Senior Executive Service

List of Recommendations

- 1(a) The Department of Finance and the Management Advisory Board promulgate a revised definition of devolution which encompasses the elements of decision-making capacity, allocated budget to implement decisions, and management focus on clients, the target group for program delivery; and
- (b) In its dealings with agencies, the Department of Finance place renewed emphasis on the distinction between decentralisation and devolution as it relates to service delivery. (paragraph 2.8)

- 2(a) Efforts be made to extend the concept of contestable environments within the budget funded public sector where efficiency can be maximised and client service enhanced;
- (b) Greater consideration be given to strengthening the connection between agency funding and agency outputs; and
- (c) Encouragement be given to the application of computer based information systems, especially in large networked agencies, as a means of improving client access. (paragraph 2.66)

- 3 The Management Advisory Board study the merits of funding budget funded programs through business planning, as a possible vehicle for the introduction of output based funding. (paragraph 3.19)

- 4 The Chief Information Officer advise on the specifications for systems which would provide appropriate accountability and decision support functionality for managers in a devolved environment. (paragraph 3.61)

- 5(a) The Department of Finance re-examine whether corporate services functions have been devolved to the most practical level, in line with the recommendations of the MAB referred to above;
- (b) The Department of Finance identify skills relevant to the devolution of corporate services functions and offer training to agencies in these skills; and
- (c) The Department of Finance identify and promote best practice in corporate services, including the concepts of national standards for corporate services and of benchmarking corporate services functions. (paragraph 3.74)

- 6(a) The Department of Finance widen the scope for funding agencies through resource agreements as part of its consideration of the applicability of output based funding models to the APS; and
- (b) The Department of Finance develop resource agreements which provide linkages to program evaluation, accountability and improved client satisfaction. (paragraph 3.86)
- 7 The Department of Finance analyse the spending patterns of budget funded agencies with particular reference to end of year spending and report the outcome in its annual report. (paragraph 3.93)
- 8 The Department of Finance and the Department of Industrial Relations examine the options available to develop a process for measuring productivity which also takes account of the quality of service. (paragraph 4.7)
- 9(a) The Department of Industrial Relations examine the feasibility of using workplace bargaining, without being inhibited solely by quantitative measures, as an alternative to the efficiency dividend; and
- (b) In line with the general thrust to improved client service through devolving management authority to the lowest practical level, workplace agreements between agencies and their staff should be negotiated at each major workplace. (paragraph 4.15)
- 10 The Government affirm its commitment to the efficiency mechanisms of the RCA by resisting attempts to make ad hoc and arbitrary cuts to running costs. (paragraph 4.25)
- 11 Agencies consider the concept of a corporate dividend which may be used to fund emerging central priorities, or may be allocated to projects on the basis of bids from devolved units within the agency. (paragraph 4.33)
- 12 Agencies' information technology plans should specify the place of information technology in their strategic direction, and include the goal of providing the means to ensure sufficient accountability from line managers to central office. (paragraph 4.42)
- 13(a) External reviewers of agency performance take account of recent reforms in the management of the APS which have emphasised client service, risk management and the efficiency mechanisms of the RCA; and
- (b) Reviews of agencies' performance should focus on the quality of program outcomes, and the level of satisfaction of agencies' clients rather than control over inputs and processes. (paragraph 4.50)

- 14 Guidelines and legislation emphasise client service with sufficient accountability to allow for the possibility that local managers may need to adapt guidelines and programs to suit local conditions. (paragraph 4.55)
- 15 The Department of Finance extend and renew its efforts in support of the principles of APS reform, and explore new channels of communication with its client agencies, including improved dispute resolution mechanisms. (paragraph 4.62)
- 16 Financial control through the SES notional item be abandoned, and SES resourcing included with other running costs. (paragraph 4.70)
- 17 The amount for minor capital works to be included under running costs in Appropriation Bill No 1 be increased from \$250 000 to \$750 000. (paragraph 4.79)
- 18 Each agency survey the skills needed for management within their devolved environments and frame training strategies around these identified skill needs. (paragraph 4.87)
- 19 The Department of Finance institute a form of reporting from agencies on progress toward implementation of devolution of running cost flexibilities within agencies, and examples of best practice. (paragraph 5.21)
- 20 The Minister for Administrative Services review the possible use of a global budget approach to parliamentarians' entitlements and allowances. (paragraph 5.28)

CHAPTER ONE

RUNNING COSTS ARRANGEMENTS

Introduction

1.1 This inquiry reviews the devolution of running costs flexibilities available to Commonwealth agencies under the Running Costs Arrangements (RCA). The reference was received from the Minister for Finance, the Hon Kim Beazley, MP on 7 December 1994 and was accepted by the Committee in late January 1995.

1.2 The Committee's brief included an examination of the extent to which running costs flexibilities have been devolved¹ within departments and agencies, the extent to which devolution has contributed to improved management and examples of best practice in the implementation of running costs flexibilities. Also considered were difficulties and obstacles to effective devolution within agencies, and how these might be overcome. Lastly, the Committee considered how devolution of running costs flexibilities within agencies may be enhanced.

1.3 In addressing the terms of reference the Committee was conscious of devolution as a key theme of the administrative and financial reforms of the past decade, and its potential to improve the efficiency and effectiveness of resource management within the Commonwealth sector.

1.4 Financial reform in the Australian Public Service Reforms in public sector financial management since 1983 have brought about profound change. The key objectives of the management reform program over the last decade were to develop a Service that is:

- more responsive and accountable to Ministers and the Parliament;
- more efficient, effective and equitable, with more rational means for the distribution of resources to priorities, and which gave managers greater flexibility in managing those resources; and
- more streamlined, and more effectively pursued merit and equal employment opportunity.²

The Financial Management Improvement Program

1.5 The Financial Management Improvement Program (FMIP) commenced in 1983 and is a subset of a larger reform effort, encompassing structural, industrial, human resource, financial management, budgeting, commercial and planning areas. A summary of these reforms is at Appendix no. 2 to this report.

1 Devolution involves the transfer of decision making authority and capability to lower levels of management, for benefit of the agency's clients. For a full discussion of the concept of devolution and its application to the APS refer to chapter 2.

2 *Building a Better Public Service*, MAB/MIAC, June 1993, p. 7.

1.6 The FMIP aimed specifically to create:

- more effective public services which would produce results consistent with government objectives; and
- more efficient public services, and awareness of the costs of achieving results.³

The FMIP was reviewed by the Committee in its September 1990 report, *Not Dollars Alone: Review of the Financial Management Improvement Program*.

Reforms implemented under the FMIP

1.7 The capacity of government to manage expenditure has been aided by the forward estimates process. The system of rolling three-year forward estimates of Budget outlays overcomes the tendency to view the current Budget year in isolation from subsequent years and removes the consequent annual requirement for detailed reconsideration of all agency expenditures.⁴

1.8 A range of budgeting strategies was introduced under the heading of portfolio budgeting. Budgets are allocated to portfolios and certain spending decisions are devolved to the portfolio level. A range of strategies gives Ministers greater discretion when identifying portfolio priorities.

1.9 The RCA, a new approach to providing salaries and other administrative resources to Budget dependant agencies, were introduced in 1987/88. These allow agencies to decide for themselves, subject to minimal guidelines, how they will utilise the amount of salary and administrative funds appropriated to them through the Budget. A facility to borrow from future appropriations and to carry over surpluses was also introduced. A description of the flexibilities of the RCA is at paragraph 1.21.

1.10 An important element of the RCA is the efficiency dividend by which each year a portion of the savings assumed to have arisen from more efficient agency operations is returned to the Budget. The efficiency dividend arrangements were examined by the Committee. The report of this inquiry, *Stand and Deliver: Inquiry into the Efficiency Dividend Arrangements*, was tabled in March 1994.

1.11 Another reform introduced under the FMIP is the progressive introduction by Commonwealth agencies of financial reporting on an accrual rather than a cash basis. Under accrual reporting the economic effects of transactions and events are recognised in the accounting period in which they occur, irrespective of when cash is paid or received. It is intended that this will enable the users of financial statements to gauge more accurately the true cost of Government. Accrual reporting will also improve accountability and enhance the focus on agency performance. The decision to move to accrual reporting was seen as the

3 1988 FMIP Report, Department of Finance, 1988, p. 6.

4 *The Australian Public Service Reformed: an evaluation of a decade of management reforms*, MAB/MIAC, December 1992, p. 225.

logical progression from departmental reporting guidelines requiring an increasing level of disclosure in financial statements. The first full year of accrual reporting ended on 30 June 1995.

1.12 Changes to the timing of the Budget were announced in December 1993. From 1994/95 the Budget would be brought down in May, before the beginning of the financial year on 1 July. The earlier date is intended to promote certainty by making known to each agency how much will be appropriated for the new financial year. It also negates the need for a supply period and enables State and Territory Governments to bring down their own budgets before the end of each financial year.

1.13 The decision to deliver the Budget earlier each year and the creation of a new Budget cycle has led to a reappraisal of Budget and related documentation. Changes to Budget documentation are intended to enhance parliamentary scrutiny of agency financial plans by providing appropriate information at the right time, while avoiding excessive and extraneous detail.

1.14 Departmental annual reports, which act as instruments of accountability and report on performance for all agency programs, have been streamlined and are required to be tabled by 31 October each year.

1.15 Legislation has been drafted to replace the *Audit Act 1901* to modernise controls over Commonwealth finances and businesses. The anticipated commencement date for the three Bills package is 1 July 1996.⁵

Overview of the Running Costs Arrangements (RCA)

Quantum of running costs funding

1.16 Running costs are the costs of resources used by agencies in delivering the programs of government. They consist of staff costs (salaries and superannuation), administration, recurrent property operating expenses and expenses of a minor capital nature. Costs can be recurrent, for example salary costs, or of a minor capital nature, such as accommodation refurbishment.

1.17 Estimated running costs budgets for all agencies from 1994/95 to 1998/9 are as follows. They are compared with estimated figures for total government outlays.

5 Bills in the package are the *Financial Management and Accountability Bill 1994*, the *Auditor General Bill 1994*, and the *Commonwealth Authorities and Companies Bill 1994*.

Table 1: Running costs compared to total outlays, 1994/5 to 1998/9

<i>Financial Year</i>	<i>Running cost (estimate)</i>	<i>% growth over pervious financial years</i>	<i>Total Budget outlays</i>	<i>Running costs as a % of total Budget outlays</i>
1994/5	\$ 9.4b	2.4%	\$122.4b	7.6%
1995/6	\$10.0b	6.3%	\$123.7b	8.1%
1996/7	\$ 9.7b	-3%	\$130.9b	7.4%
1997/8	\$ 9.6b	-1%	\$136.5b	7.0%
1998/9	\$ 9.7b	1%	\$143.5b	6.7 %

Source: *Budget Paper 1, 1995/6*, Table XIV, p. 3.240, Table 1, p. 3.12, *Budget Paper 1, 1994/5*, Table XIV, p. 3.296

1.18 In absolute and relative terms these figures indicate how much it costs the Commonwealth to deliver the programs of Government. Nevertheless, they should be viewed in context. Running costs figures have been influenced by a number of factors including, originally, the exclusion of a number of agencies, such as the Department of Defence, from the RCA. A more recent factor has been the 1995/96 Budget decision to remove from the normal running costs funding arrangements those agencies which do not operate through the Commonwealth's banking facility.⁶ From 1995/6, some \$2.7b has been removed from the total of running costs paid under the RCA. Commonwealth outlays figures are influenced by offsetting revenue from expected sales of Commonwealth assets.

1.19 Concern has been expressed about the growth in running costs expenditure. The Management Advisory Board (MAB) commented on this in October 1994:

Real growth in running costs is expected to be 3.3% in 1994/5. This growth needs to be assessed, however, within the context of growth in overall government activity. Outlays are expected to grow by 3.1%.⁷

The MAB goes on to explain that large departmental outlays and government initiatives account for over half of this growth in outlays.

1.20 An examination of running costs growth would require a detailed dissection of growth in recurrent and capital outlays and new and existing programs before any conclusion could be drawn as to whether growth has been justified or not.

6 The Commonwealth's bank account is the Commonwealth Public Account, held at the Reserve Bank. New arrangements for non CPA agencies mirror those applicable to CPA agencies.

7 *Ongoing Reform in the Australian Public Service: an occasional report to the Prime Minister*, MAB, October 1994, pp. 11, 12.

Flexibilities of the Running Costs Arrangements

1.21 The RCA, introduced in 1987/8, are a set of rules and procedures administered by the Department of Finance.⁸ They allow agencies almost complete freedom to shift funds around within their running cost allocations to meet competing priorities.

Rothman and Thornton have summarised the threefold objectives of the RCA:

- to improve the efficiency and effectiveness of government services by changing management practices;
- to hold down costs and make efficiency gains visible; and
- to change the working relationship between Finance and agencies, by allowing Finance to withdraw from the detail of resource inputs decisions.⁹

1.22 This last objective merits some explanation. Before 1987/88, Parliament made individual appropriations to each agency for salaries, overtime, office requisites, postage and the like. Not surprisingly, this led to considerable rigidity in the management of agency budgets. The Department of Finance has devolved much more flexibility to agency managers through the RCA.

1.23 The objectives of the RCA are more efficient and effective resource management and program delivery. It is simply more efficient for agencies to decide on their own spending priorities. There are two strong incentives to use the RCA's flexibilities to improve the efficiency of the use of running costs.

1.24 The first of these incentives is cash limiting. This means that, apart from a fairly narrow range of specific circumstances, agencies will have their running costs reassessed only once a year - at Budget time.¹⁰ More funds for running costs will be given to agencies at Budget time to implement new policy, and to compensate for price changes and 'externally generated workload changes'. An agency which brings forward new proposals outside the Budget period must absorb the running costs increases for the first year, and live with the possibility that there may not be supplementation in the Budget context for future increases in running costs.¹¹ Cash limiting was significantly tightened in the 1995/6 Budget.

1.25 The efficiency dividend is the second spur to efficiency. The rationale for the efficiency dividend is that, as agencies become more efficient and can maintain or increase outputs with less inputs, a portion of these efficiency gains should accrue to the owners, the Commonwealth, which can redirect the resources to emerging priorities.

8 *Running Costs Arrangements Handbook*, Department of Finance, July 1995, paragraph 1.1.

9 *Management of Budgetary Expenditure: the Commonwealth Running Costs System*, G Rothman and B Thornton, in J Wanna and J Forster (eds), *Budgetary Management and Control, the public sector in Australia*, Macmillan, 1990, p. 93. The *Running Costs Arrangements Handbook* states that the objective of the RCA is to 'improve the efficiency and effectiveness of resource use in the public sector' (p. 1).

10 *The 1995/6 Budget: What are the implications for the APS now and in the future*, speech by Steve Sedgwick, Department of Finance, 22 May 1995, p. 12.

11 *ibid.*, p. 13.

1.26 The RCA, as devolved to agencies from Finance, consist of the following flexibilities:¹²

- agency managers can allocate resources between financial years by carrying over up to 10% of the agency's total running costs budget to the next year. Multiple year carryovers require a resource agreement (see below);
- conversely, an agency is permitted to borrow up to 10 per cent of its running costs budget against a future year's appropriation. A resource agreement is needed for borrowing over 6 per cent of budget. Strict cash limiting may see a renewed interest in the facility to borrow. The borrowing and carryover facilities do not negate the annual appropriation process. If payments are carried over from one year to the next, those additional funds must still be appropriated in the next year's *Appropriation Bill*. Similarly, if funds are 'borrowed' from the next year, they must be included in the current year's *Appropriation Bills* or charged against the Provision for Running Costs Borrowing appropriation;
- an agency may agree with the Minister for Finance to customise the funding arrangements. Under these agreements, known as resource agreements, Finance provides resources in exchange for some consideration, such as an act or undertaking to act. As an example, the ATO entered into a resource agreement where it was provided with funding of \$1 241m for a modernisation program. In return, the ATO undertook to shed 3000 staff;
- agencies can also arrange with Finance to retain an agreed portion of any revenue earned from approved activities. Revenue-sharing arrangements normally apply where agencies recover amounts which are in excess of the costs borne directly by them;
- where resources required by an agency vary in accordance with changes in the volume of workload a specific type of resource agreement, known as a Workload Adjustment Agreement, can be negotiated. The Department of Employment, Education and Training adjusts staffing levels in its CES network commensurate with fluctuations in the unemployment rate. Currently staffing levels in the CES network are decreasing; and
- a reduction in notional items to the extent that only one remains, SES salaries.

Agency opinion of the principles and practice of the Running Costs Arrangements

1.27 In the past, the RCA and the flexibilities they afford have had the overwhelming support of Commonwealth agencies.¹³ Also, it was clear to the Committee at the time of the efficiency dividend inquiry that these flexibilities were a major contributor to efficiency gains.¹⁴

1.28 The current inquiry did not seek evidence on the attitude of agencies to the RCA *per se*. Submissions made in the context of devolution of the flexibilities within agencies confirmed the general wide-ranging support for the current running costs management set-up. The Department of Administrative Services claimed that:

12 *Running Costs Arrangements Handbook*, op cit., chapters 4 to 9.

13 For example, *Not Dollars Alone*, op cit., p.33, *The Australian Public Service Reformed*, op cit., p. 236.

14 *Stand and Deliver*, op cit., p.15.

the ability of managers close to customers to make fully informed decisions on matters of service delivery has resulted in greatly improved customer service performance, financial performance and overall financial management.¹⁵

1.29 SBS broadcasting concurred:

SBS believes that the running costs initiatives have achieved [their] objectives, that being to provide managers with greater authority over resources.¹⁶

1.30 Agencies did take the opportunity to comment more widely on the deficiencies of the current arrangements, particularly the lack of flexibility with regard to SES staff costs. These are discussed in the context of difficulties with the RCA and devolution of flexibilities within agencies.

The Efficiency Dividend

1.31 As noted above, the efficiency dividend is a spur to efficiency under the RCA. The Running Costs Arrangements Handbook states that the dividend provides managers with an opportunity to seek new and more efficient ways of going about their business, while the Government can redirect the savings to higher priority activities. Also, the dividend has a demonstration effect: it puts a dollar figure to at least part of the efficiency gains won by the public sector each year.¹⁷

1.32 In the course of the Committee's inquiry into the efficiency dividend arrangements, the dividend attracted some adverse comment. It was seen by some as 'an anomalous blunt administrative levy', rarely endorsed, unfair, unreasonable and inefficient as a means of cutting costs.¹⁸

1.33 Yet not all comment was adverse. The simplicity of operation of the dividend and the incentive provided by the need to save a percentage of costs each year have lead some to conclude that the efficiency dividend is an important means of returning some efficiency gains to the Budget. Also, contrary to some claims, Finance and the MAB found that there is no evidence of a fall in the quality of service to clients through a reduction in running costs brought about by the imposition of the dividend.

1.34 In conducting its inquiry into the efficiency dividend, the Committee flagged some issues for later examination. These were:

15 Evidence p. S146.

16 Evidence p. S25.

17 *Running Costs Arrangements Handbook*, op cit., p. 7.

18 *Stand and Deliver*, op cit., pp. 5-6.

- the growth of workplace bargaining, with its potential to deliver efficiencies and supplant the efficiency dividend process;¹⁹
- the situation of small agencies in relation to the efficiency dividend;²⁰
- the need to continue to devolve authority within agencies if the impetus for efficiency and effectiveness gains is to continue; and²¹
- the potential for commercialisation and market type mechanisms.²²

1.35 With the exception of the situation of small agencies, these issues are taken up in this report.

19 *ibid.*, p. 28.

20 *ibid.*, p. 42.

21 *ibid.*, p. 32.

22 *ibid.*, p. 48.

CHAPTER TWO

EXTENT OF DEVOLUTION WITHIN AGENCIES

Devolution

2.1 There are difficulties associated with defining devolution.¹ The MAB/MIAC defines it as the transfer of decision-making capacity from higher to lower levels in an organisation.² Associated with devolution is the concept of decentralisation, that is, the redistribution of functions or tasks from central units to more widely dispersed units. Thus devolution is about who is best placed in an organisation to make decisions; and decentralisation is about where functions are best carried out.³

2.2 Wanna and Forster take this a little further by contending that, as well as being about who is best placed to make decisions, devolution should also be about who is capable of implementing them. They also suggest that devolution should include the following elements:

- an identified ability to make decisions which are meaningful and significant within a manager's area of responsibility;
- a designated budget for the area of decision making ability; and
- an ability to use financial resources to implement decisions without reference to higher authority.⁴

2.3 While the Committee agrees that these are the basic elements of devolution, it believes that this view places insufficient emphasis on the end user in a devolutionary situation, that is, the client. Thus, devolution should be about more than simply who has the authority to make a decision; it should be about who is able to take purposive action for the benefit of an agency's clients. The Committee is therefore of the view that there are three elements to any definition of devolution: a decision-making capacity; an allocated budget to implement decisions; and, as the key concept, a management focus on the agency's clients, the target group for program delivery.

2.4 There is a frequent tendency to confusion between the concepts of devolution and decentralisation. In this context an adequate definition of devolution becomes important, especially in light of the MAB's conclusion that 'the single most important contributor to successful devolution is not confusing devolving responsibility with decentralising the doing'.⁵

1 see for example Ian Radbone in *Decentralisation in the South Australian Public Service: a progress report*, Australian Journal of Public Administration, Vol 50 No 4, December 1991 p. 442, who uses the term 'delegation' to refer to relationships between officers of the same agency and 'devolution' to explain relationships between levels of government.

2 *The Australian Public Service Reformed*, op cit., p. 89.

3 *ibid.*

4 Evidence, p. S199, S200.

5 *The Australian Public Service Reformed*, op cit., p. 111.

2.5 In order to devolve successfully, managers and agencies should not only be sure of what devolution is, they should also be especially careful to avoid the confusion between devolution and decentralisation. The Department of Environment, Sport and Territories has recognised this, stating that 'at all times a decision to devolve a power does not necessarily imply a decision to decentralise the corresponding function'.⁶ This, or a similar principle, should be applied by other agencies.

2.6 From the evidence, it would seem that reluctance to devolve the authority to make decisions may result from a reluctance to forego the advantages of centralised processing, such as economies of scale, centralised skill bases and so on. Some of the reasons for retaining centralised control relate to processing functions which flow from the exercise of authority. For example, the decision to grant an increment in salary (a decision based on an authority), results in tasks such as resetting salary levels for automatic crediting to accounts, adjusting superannuation and so on.

2.7 The Committee regards it as crucial to the ongoing success of the devolutionary process that the definition of devolution be revised and reiterated.

2.8 **The Committee recommends that:**

- **the Department of Finance and the Management Advisory Board promulgate a revised definition of devolution which encompasses the elements of decision-making capacity, allocated budget to implement decisions, and management focus on clients, the target group for program delivery; and**
- **in its dealings with agencies, the Department of Finance place renewed emphasis on the distinction between decentralisation and devolution as it relates to service delivery.**

Devolution as a management style

2.9 The theory of devolution is simple: those who are closest to the action of program delivery are best placed to manage efficiently and effectively the resources to effect program delivery. The goal of improved program delivery is enhanced client service. It should be remembered, though, that devolution is a strategy, a management tool, which ought to be applied only after assessment of its costs, advantages and disadvantages

2.10 As with other management strategies, the popularity of devolution, decentralisation and centralisation has waxed and waned. As Wanna and Forster note:

6 Evidence, p. S82.

Recent positive arguments about devolution may reflect current fashion or fads, especially as criticism of traditional public bureaucracies has grown. However, evidence to date may suggest that something of a pendulum effect is operating where agencies may experiment with greater or lesser degrees of devolution (or conversely recentralisation).⁷

2.11 Radbone points out that public sector management history is characterised by swings between centralisation and decentralisation, at least in terms of rhetoric.⁸

2.12 As will become apparent in this report, the application of devolved management styles and structures is, regardless of fashion in management theory, very often a suitable option in public sector management. What must be borne in mind, though, is that devolution has disadvantages as well as advantages and its application can only be considered in conjunction with thorough cost and risk assessment, modification of corporate culture, corporate restructuring and, most importantly, an assessment on the impact of devolution on the agency's level of service to its clients.

2.13 Previous studies of the Australian Public Sector have emphasised the advantages of devolution. The MAB/MIAC study of devolution in a corporate services context found that:

- devolution is a powerful tool to promote and implement organisational change;
- managers are more in control of achieving outcomes;
- managers become more familiar with corporate management issues and can better contribute to the development or acquisition of management tools;
- managers can take the initiative in determining the type and level of service required to achieve outcomes, and the method of service delivery;
- managers are more able to respond to stakeholders;
- job satisfaction increased through handling more responsibility;
- staff acquired new and marketable skills; and
- service providers are closer to their clients and have a better understanding of client needs.⁹

2.14 This last point which is, in the Committee's view, the primary advantage of devolution, has been illustrated by the Department of Finance which notes that:

through effective devolution, customers' needs at their direct point of contact with service providers can be met in a better way. They can have services more tailored to their needs at a cheaper cost. We do not see that there is a necessary trade-off between quality and cost. Through effective application of devolution we can get both higher quality and lower cost services.¹⁰

7 Evidence, p. S204.

8 *Decentralisation in the South Australian Public Service: a progress report*, op cit., p. 422. Radbone uses the term decentralisation to refer to relationships between central and line agencies (p. 442).

9 *Devolution of Corporate Services*, op cit., p. 3.

10 Evidence p. 54. Finance has published a discussion paper written by an interdepartmental service quality group, entitled *Quality for our clients: improvement for the future*.

Finance clearly regards devolution as focusing chiefly on clients, both internal, such as other divisions or portfolio agencies, and external.

2.15 The MAB/MIAC corporate services study points to possible disadvantages and costs of devolved management styles in the public sector. In that study, devolved management was reportedly responsible for:

- loss of quality and increased inconsistency in decision making;
- loss of purchasing power and other economies of scale;
- duplication of tasks and functions;
- a reduction in the number of people skilled in providing corporate services;
- decrease in level of expertise in some functions; and
- loss of corporate identity.¹¹

2.16 Evidence to the inquiry indicated that these disadvantages were of concern to agencies and influenced their decisions on devolution. The MAB/MIAC corporate services study was confident that these difficulties could be overcome if what it termed the 'critical success factors' were observed.¹² Along similar lines, and drawing on this and other studies, Finance has compiled a list of what it considers to be the elements of successful devolution within agencies.¹³

2.17 DoF told the Committee that it considered the preconditions for successful devolution to be:

- trust - that managers will perform; and the means for monitoring this;
- training - in financial management, financial systems and risk management; and
- trade-offs - there are some overheads in getting the best out of devolved decision making.¹⁴

2.18 Devolution, then, should be considered as a tool which offers certain advantages, but which has no intrinsic merit. Its usefulness is assessable according to how much it improves efficiency and effectiveness of program delivery, particularly in respect of the benefit of service to clients. Devolution of operating costs management can have a positive impact, but introduction of it requires a careful appraisal of the circumstances by each agency.

11 *Devolution of Corporate Services*, op cit., pp. 3-4.

12 *ibid.*, pp. 3-4, 9-11. MAB's *Delegated Authority Handbook*, October 1994, p. 21 also sets out steps for agencies to follow when devolving management. These are listed at Appendix 3 to this report.

13 *Resource Management in the Australian Public Service*, edition 1, Department of Finance, Victorian Regional Office, 1994, pp. 36-37.

14 *Evidence*, p. 210.

Devolution and accountability

2.19 Accountability, where those who have stewardship over public resources account for the use of those resources, is a central feature of democratic systems.¹⁵ Under the FMIP changes to public administration the emphasis of accountability has moved from compliance to performance.¹⁶ In other words, the focus has moved from ensuring that the expenditure of resources has been correct according to law and procedure, to reporting on the impact of resource expenditure against qualitative and quantitative criteria.

2.20 It is helpful to think of accountability in terms of information flows. In a devolved environment staff need information on:

- program objectives, the agency's mission, strategies, goals and objectives;
- resources provided to manage programs; and
- mechanisms available for input into decision making up the line.

In return, those receiving devolved authority must be prepared to supply information to central management on resources used and results achieved.¹⁷

2.21 Performance appraisal of senior and middle management is an additional mechanism introduced to promote accountability. Corporate plans and operational workplans are translated into individual performance agreements against which performance is assessed and rewarded with bonuses.¹⁸

2.22 Devolution of authority must be matched by accountability. The importance of accountability should be seen in terms of the efficiency and effectiveness of devolved management itself. Unless there are accountability mechanisms and methods in a devolved environment, the centre has little chance of knowing how devolved units are performing and senior management is unable to ensure the strategic direction of the organisation.¹⁹ Conversely, it is possible that sound accountability mechanisms, which necessarily include fully functional management information systems, may enhance prospects for successful devolution. Senior managers will loosen controls if they can be confident that they can effectively monitor performance without giving up responsibility for strategic decisions and judgements.²⁰

15 *Not Dollars Alone*, op cit., p. 89.

16 *ibid.*

17 *Accountability in the Public Service*, MAB-MIAC, June 1993, p. 15.

18 *ibid.*, p. 16. Effective from 1 July 1995, the former APS senior officers performance pay was amended to allow for a general pay increase for senior officers, and for the introduction of a 'high fliers' scheme into agencies.

19 The effects of this process are explored by Wanna and Forster, *Evidence*, p. S204.

20 *Evidence*, p. S201.

2.23 Measurement of performance in client service oriented public sector agencies, and the use to which such information is put, is a large topic in itself and has exercised the thinking of agencies and program managers since the inception of the FMIP. Performance information is intended to measure the outputs and outcomes that have been produced against the input of resources.²¹ Performance information should be used by all staff in assessing whether they are achieving the given outcomes for the programs they administer.²²

Development of devolved management structures within the APS

2.24 In 1976, the Royal Commission into Australian Government Administration (the Coombs Commission) said that, in the interests of stimulating efficiency and morale:

the aim should be to shift the authority to decide as close to the geographical periphery and as low in the hierarchical structure as possible.²³

2.25 Devolution of authority was a central theme of the FMIP and the larger reform process for the Australian Public Sector. In MAB/MIAC's view:

the emphasis on devolution in the reforms of the 1980's reflects a widespread view that authority for many decisions was held at too high a level and that improvements in public sector performance required, *inter alia*, a better matching of authority and responsibility.²⁴

2.26 It was intended that devolution of authority be carried to the lowest practical level within an agency. The 1984 Diagnostic Study which preceded the FMIP recommended that senior departmental managers ensure that 'the maximum degree of devolution, consistent with accountability and central requirements, is effected within individual agencies'.²⁵ The Committee's 1990 report on the FMIP noted that one of the key developments has been a steady push toward devolution of control from central agencies to operating departments, and down from central offices of agencies to their line managers.²⁶

21 *Current developments in performance information*, paper by S Bartos, Department of Finance, presented to the Royal Institute of Public Administration, Australia National Conference, Adelaide, November 1994, p. 2.

22 *ibid.*, MAB/MIAC has published a study of how managers are using performance information: *Performance information and the management cycle*, February, 1993.

23 quoted by C. Walsh, *Recent attempts in introducing devolutionary attempts in budgeting*, in J Wanna and J Forster (editors) *Budgetary Management and Control*, Centre for Australian Public Sector Management, Griffith University, p. 41.

24 *Devolution and Regional Offices*, MAB-MIAC, June 1991, p. ix.

25 *Financial Management Improvement Program: diagnostic study*, W D Scott and Co, Department of Finance and the Public Service Board, 1984, recommendation 6, p. ix.

26 *Not Dollars Alone*, *op cit.*, p. 59.

2.27 Because of the simplicity of the RCA, Rothman and Thornton believe that it has been designed to facilitate the devolution of running costs flexibilities within agencies. They maintain that 'it is easy and risk free to apply the RCA's principles and practices within a department across its various program areas',²⁷ a view supported by this Committee in its report on the FMP.²⁸

2.28 Despite the intentions of central agencies, making the means available within agencies did not guarantee that devolution would happen. In 1985 the Minister for Finance observed (prior to the introduction of the RCA) that there was a tendency among departmental managers to keep the then new management flexibilities to themselves. This had the effect of depriving regional managers of the enjoyment of relaxed controls over their activity.²⁹

2.29 Similar observations were made in subsequent inquiries. *Not Dollars Alone* concluded that there was scope for greater devolved authority, and recommended that Departments review the appropriateness of devolutionary steps taken to date.³⁰ In describing the 'reform agenda for the future', MAB/MIAC has noted that, while devolution from central agencies to line agencies has been substantial, further steps need to be taken in devolution within line agencies, and 'most importantly between central and regional offices.'³¹

2.30 Other studies have observed that agencies have a range of experience in internal devolution. Internal devolution has been extensive for some agencies, but not for others, as each agency pursued devolution processes which match its own particular circumstances.³²

2.31 Consistent with these findings, the current inquiry has found that devolution of the implementation of budgetary flexibilities under the RCA ranged from extensive within some large or geographically diverse departments, to fairly restricted in cases where the agency is small and centralised. The Committee concludes from these findings that the devolution of running costs flexibilities is uneven throughout the APS. Agencies appear to see the flexibilities available under the RCA as a menu to choose from, rather than a recipe to follow.

2.32 The Department of Administrative Services (DAS) and Attorney General's Department (AG's) are examples of larger agencies which have devolved substantially. Both possess commercialised units within the framework of a Department of State. The Department of Employment Education and Training (DEET) has also implemented devolved management of running costs, but within a substantially Budget-funded framework.

27 *Management of Budgetary Expenditure: the Commonwealth Running Costs System*, G Rothman and B. Thornton, in J Wanna and J Forster, *Budgetary Management and Control*, op cit., p. 101.

28 *Not Dollars Alone*, op cit., pp. 69-70.

29 *Managing the Public Sector*, Senator P Walsh, Canberra Bulletin of Public Administration, Winter 1985, p. 109.

30 *Not Dollars Alone* p.34 (on RCA), pp. 66 - 68 (devolution within agencies), p. 70 (recommendation).

31 *Building a Better Public Service*, MAB/MIAC, June 1993, paragraphs 2.3.9-11.

32 *The Australian Public Service Reformed*, op cit., p. 103, *Devolution and Regional Offices*, op cit., p. ix, *Not Dollars Alone*, op cit., pp. 66, 67.

2.33 DAS has devolved responsibility for both administered funds and running costs allocations, usually to Divisions, which operate as cost centres with responsibility for their own accounting. Annual budgets for these devolved units are set centrally after negotiations with each program manager, and performance against budget is monitored by senior departmental management. The general practice throughout the Department is for Divisional management to devolve running cost flexibilities to the section head level.³³

2.34 The Attorney General's departmental policy on budgetary matters is to 'let the managers manage.' Each Budget-funded Treasury manager (division head or head of portfolio agency) is given a fixed running costs allocation and is able to take advantage of the flexibilities inherent in the running costs guidelines. These include the ability to transfer funds between notional items, carry forward or borrow funds between years and retain and use Section 35 receipts. Some central control is maintained over: POE of a capital nature; carry forwards and borrowings, which are subject to a threshold of 3%; and SES salaries.³⁴

2.35 The Department of Employment Education and Training devolves salaries, staff numbers allocations and administrative responsibilities to its central office divisions and area offices.³⁵ Areas and divisions have established administrative units which are responsible for a range of services including personnel, recruitment, purchasing travel and accounts payment.³⁶ Central control is retained for items such as travel, where discounts are available for bulk department-wide purchases.³⁷

2.36 Agencies which have not devolved their running costs management, or, more accurately, choose to manage functions centrally, do so for several reasons. One such reason is the need to retain central control over resourcing. The ATO implemented devolution within the context of restructuring, the modernisation process, which has been ongoing since 1987/8, and an agency bargaining agreement. The combined effect of these influences, coupled with a need for budget restraint, has caused the ATO to retain some central control over budgets and expenditure. This central control was supported by formal processes of setting priorities, known as the Health of the System Assessment (HOTSA).³⁸ Similarly, the Australian Federal Police chooses to control its staff profile centrally to 'achieve a better deployment of the relatively fixed nature of salary commitments.'³⁹

33 Evidence, p. S146.

34 Evidence, p. S65.

35 The Department has dispensed with State Offices, choosing instead a two-tiered structure comprising Central Office and Area Offices.

36 Evidence, p. S105.

37 Evidence, p. S109.

38 Evidence, pp. 26, 31-2 (HOTSA).

39 Evidence, p. S116.

2.37 Agencies sought to preserve a central skills base for some functions which require specialised knowledge and experience. The Bureau of Meteorology manages salaries and salaries-related expenditure centrally in order to take advantage of centralised expertise in managing staff costs,⁴⁰ although other expenditure items (with the associated RCA flexibilities) are devolved to branch managers in Head Office, and to Regional Managers in each capital city. The Department of Primary Industries and Energy took action to prevent what it saw as the danger of skills in staff training being lost through devolution.⁴¹

2.38 The size and structure of agencies has determined whether and to what extent they have felt able to devolve management tasks. The Department of the House of Representatives has endorsed the importance of devolution of management flexibilities, but its character as a small and centralised department, and a desire to preserve economies of scale, circumscribed the extent to which it has chosen to devolve.⁴²

2.39 The Department of Tourism, a relatively small and recently established department, operates in a semi-devolved environment. It considers that further devolution is not worth the cost, and will result in lost economies of scale. Salary and administrative funds relating to direct staff costs, such as travel, training and vehicle costs are devolved to sub program managers. All other costs, and the carryover and borrowing provisions, are held centrally. Sub program managers are required to bid on an annual basis for salary and administrative funds required to meet their sub program objectives. Once allocations are made, sub program managers can vary expenditures and staffing profiles, subject to executive approval of large staffing variations. At the end of each financial year, carryover funds are pooled, and are subject to bids in the next financial year.⁴³

2.40 The Department of Foreign Affairs and Trade is a large agency and the most geographically diverse agency of the Commonwealth but it has found that its structure is not conducive to devolution. The Department manages 8 regional offices and 81 posts in 70 different countries, and because of the perceived difficulty of this structure the Department's policy is to only devolve in cases where the program manager (the level to which management is devolved in the Department) has real control.⁴⁴

2.41 In summary, agencies have put forward the following reasons for their centralisation of running costs management:

40 Evidence, p. S4.

41 Evidence, p. S141.

42 Evidence, p. S13.

43 Evidence, p. S23.

44 Evidence, p. S85.

- the preservation of economies of scale in processing;
- the conservation of resources in times of budgetary stringency;
- to take advantage of discounts offered by national contracts;
- to preserve central office organisational units which have acquired specialised skills; and
- matching the organisational structure to the size and location, or locations, of the agency.

2.42 As noted previously, the Committee acknowledged in its 1990 report on the FMIP the need for some functions to be centralised.⁴⁵ Yet evidence before the Committee in the current inquiry indicates that agencies may not fully appreciate the potential for efficient and effective program delivery, and greater client satisfaction, through devolving running costs management to the lowest practical level. These gains are well documented.⁴⁶ Agencies also appear to be holding back from devolving authority because they fear losing economies of scale in processing, or the dilution of skills held in central office. This is reasonable but only in so far as it reflects a correct understanding of, firstly, the difference between where the processing is done (a decentralisation decision) and where in the management hierarchy the decision is taken (a devolution decision); and, secondly, the need to focus management activity toward improving services to clients.

2.43 Decisions to hold back the devolution of functions could also indicate unwillingness to manage the risk of embracing a new style and structure of management. Under the influence of new technology, especially that which improves accountability and performance information, it would be expected that this barrier to increased devolution of managerial authority would be removed.

The impetus for devolution

2.44 A major conclusion to have emerged from the Committee's examination of the extent of the devolution of running costs management in the APS is that devolution as a management style needs a motivating force. While incentives exist under the RCA for Budget-funded agencies to be more efficient, there is no direct incentive for agencies to devolve management of operating resources to the lowest level and to realise the benefits of improved client satisfaction through better program delivery.

2.45 Other influences, particularly commercial ones, stimulate a search for improved client service and greater efficiency and effectiveness in program delivery. The Committee observes that the concept of contestability, where agencies are subject to external pressures to control costs and to maximise revenue and client satisfaction, provides the most effective stimulus for the introduction of improved management practices such as devolution.

2.46 Commercial entities operate on the basis of output funding. If a client is attracted to and purchases a good or service offered by a commercial concern, revenue to that concern will result. There is a clear and obvious nexus between what the customer wants and the entity's

45 *Not Dollars Alone*, op cit., p. 69.

46 for example, *Devolution and Corporate Services*, op cit., p. 3; Evidence, p. S201.

level of funding. Efforts to maximise revenue are predicated upon the nurturing of existing clients, finding more clients, and to offering both groups what they want, when and where the want it and at the right price.

2.47 The output/funding nexus is not applicable to agencies in the budget sector. Funding is based on amounts of inputs, that is, salaries and administrative expenses, and not on the basis of any measure of output. The relative security of funding which budget sector agencies enjoy, whether they are delivering the goods to their clients or not, may give rise to an internally focused mindset within the agency. This, in turn, may result in individuals in the APS defining good performance in terms of compliance with what the agency culture requires rather than what will advance the interests of the client.

2.48 The Committee is of the view that, at the very least, research and discussion of output based funding models should be stimulated. The Committee understands that DoF is currently planning to circulate a discussion paper on this topic.⁴⁷

2.49 Within the context of current input based funding mechanisms, some of the levers for increased efficiency and improved client service in the budget sector, several of which initiatives have been introduced into the public sector in recent years, have been outlined in evidence to the inquiry. Agencies cited workplace bargaining, continuous improvement programs and renewed emphasis on clients as the stronger incentives to improved efficiency of program delivery and enhanced client service.⁴⁸ There are fewer direct incentives put forward for devolved management per se.⁴⁹

2.50 The structure of the RCA provides for incentives to improve efficiency. These include cash limiting, or preventing agencies accessing further funds between budgets, and the efficiency dividend, which harvests efficiency gains from running costs budgets. How agencies continue to improve efficiency is up to them.

2.51 Devolution is applicable where it is cost beneficial and improves program outcomes and client service. Devolving the flexibilities of the running costs arrangements is part of this general schema of devolved management.

2.52 In one sense, it could be argued that incentives to efficiency are enough if they motivate managers to improve the efficiency of program delivery and the quality of client service. A contrary position may assert that devolution of running costs management should be an end in itself, because the logic of devolution is self-evident. The Committee endorses the first view, that is, that better client service through improved program delivery is the goal, and devolution of management is one way of achieving it. Nevertheless, the RCA, as Rothman and Thornton assert, is structured for devolution within agencies, and will provide benefits to management and clients.⁵⁰

47 Evidence pp. 60-62.

48 Evidence, pp. 88, 93, 94, 103.

49 *Building a Better Public Service*, MAB, June 1993, p. 3 suggests that one such incentive is a better educated staff who want more say in decision making, and the opportunity to exercise devolved authority.

50 *Management of Budgetary Expenditures: the Commonwealth Running Costs System*, op. cit., p. 101.

2.53 Wanna and Forster believe that while both the RCA and Finance's changing standard operating procedures provide a framework within which devolution can occur, neither provides any real incentive for it to happen. Devolution is not regarded as 'home grown' or intrinsic to organisations, but is rather seen as an externally imposed requirement.⁵¹

2.54 This inquiry has revealed that there are a number of organisations where the demands of contestable environments have necessitated the employment of devolution and its attendant need for efficiency gains. One such agency is DEET. Pursuant to a decision by government, DEET's Commonwealth Employment Service (CES) will be subject to competition in the provision of services to job seekers.⁵² The Department referred to this in its evidence to the Committee by alluding to the business environment in which it operates. This, it claimed, has a significant impact on how the Department manages running costs. It went on:

We are a portfolio facing considerable changes and challenges. We are moving toward outsourcing some of our functions in the employment area...we need to show that we can compete effectively with alternate service providers. That impacts on how we devolve our running costs and how we monitor them, including to the Parliament.⁵³

2.55 One way in which DEET proposes to improve its service delivery is by the introduction of automated systems utilising touch screen technology to improve access by unemployed persons to job vacancy information. Some 2250 of these 'kiosks' will be placed in 326 CES offices by April 1996. They will allow job seekers to access information for any particular geographic area, or Australia wide. A similar initiative is being sponsored by DSS, which, unlike DEET, is a wholly Budget-funded agency. Called the Community Information Network (CIN), it is an automated community noticeboard of information on a range of programs and services available from all levels of government. In addition to providing extended service, the application of this technology should significantly lower the unit costs per client of service delivery.

2.56 DAS has gone a long way down the commercialisation path. Approximately 80% of the portfolio's staff work in commercialised areas, and for the current financial year ended 30 June 1996 DAS businesses expect to earn revenue and recover costs of approximately \$1,218m.⁵⁴ It has been operating in a commercial environment for approximately six years, applying the disciplines of business planning, sales forecasting, cost control and full accrual accounting. DAS has employed commercial practices, notably its Budget Planning framework, within the Budget-funded side of its operation.

51 Evidence, p. S194.

52 DEET, 1994 *Annual Report*, p. 132.

53 Evidence, p. 165.

54 *Portfolio Budget Statements 1995/6, Department of Administrative Services (Finance portfolio)*, Budget related paper no. 4.6B, pp. 120-122.

2.57 DAS says of the devolution of running costs:

...use of running cost flexibilities has been modelled on that commercial experience...within DAS responsibility for management of running costs has been devolved to at least branch, divisional and regional levels. Annual budgets are set centrally after negotiations with the program managers, and likewise overall performance is monitored centrally.⁵⁵

2.58 To a lesser extent pressure from market forces to increase efficiency has encouraged the implementation of devolution within the AG's Legal Practice. The Legal Practice is in direct competition with private legal firms for the business of Commonwealth agency clients. In relation to its Treasury centres the Department says that as well as devolving responsibility for resource usage, it has also tried to devolve the associated operational activities such as travel. This, they believe, makes 'the operation of the office more realistic'.⁵⁶

2.59 Both DAS and AG's have also reported increased emphasis on client service. AG's claims that:

...in the last couple of years we have concentrated much more on understanding the clients' requirements better, reflecting their needs better and getting closer to them.⁵⁷

2.60 Obviously, there are many Budget-funded activities which cannot be laid open to direct competition in a commercial setting. The impetus to improved efficiency and improved customer service must be found in the RCA, or from the desire to recover costs, or otherwise to improve outcomes through techniques such as continuous improvement schemes or the application of benchmarking principles.⁵⁸ Indications are that agencies are making efforts to improve their performance by use of these techniques.

2.61 The Department of Human Services and Health told the Committee that efficiency through continuous improvement had become part of the culture of the agency, and that staff at State level are becoming motivated to improve outcomes for clients.⁵⁹

55 Evidence, p. 136.

56 Evidence, p. 8.

57 Evidence, p. 10.

58 Benchmarking is discussed in the MAB publication *Benchmarking: Improving performance in the APS*, November, 1994. Continuous Improvement is discussed in *Building a better public service*, MAB, June 1993, Chapter 3. Other initiatives are mentioned in *Ongoing Reform in the APS*, MAB, October, 1994, p. 4.

59 Evidence, pp. 88-89.

2.62 In the experience of the ABS, client focus has improved by being able to retain the proceeds of sales under section 35 of the *Audit Act 1901*. This is a significant motivating factor for the organisation. Rather than operating as a mere collector of data, the ABS sees its mission as helping people make decisions.⁶⁰ The Department of Social Security has also sought to put in place a client focus.⁶¹

2.63 A number of departments, the Department of Immigration and Ethnic Affairs (DIEA) for instance, have seen workplace bargaining as a significant impetus for efficiency gains.⁶² The ATO's view is that all recent initiatives have brought efficiency gains, although workplace bargaining has further capacity to improve productivity.⁶³

2.64 There are theoretical problems in measuring efficiency gains in the Australian Public Service. If these could be overcome, such measures could provide a ready reference of agencies' success in improving productivity, and become a type of 'bottom line' surrogate. This issue was considered by the Committee in its efficiency dividend inquiry, and is considered in more detail in chapter 5.⁶⁴

2.65 It seems that the best incentives for improved efficiency and client service, and for the application of techniques such as devolution, are related to some form of contestability and output based funding mechanisms, as exemplified in fully commercialised agencies. For those agencies funded from the Budget and not subject to a contestable environment, incentives for increased efficiency and improved client service arise from programs of continuous improvement, benchmarking, and from the provisions of the RCA itself.

2.66 **The Committee recommends that:**

- **efforts be made to extend the concept of contestable environments within the budget funded public sector where efficiency can be maximised and client service enhanced;**
- **greater consideration be given to strengthening the connection between agency funding and agency outputs; and**
- **encouragement be given to the application of computer based information systems, especially in large networked agencies, as a means of improving client access.**

60 Evidence, p. 103.

61 Evidence, p. 157.

62 Evidence, p. 125.

63 Evidence, p. S218.

64 *Stand and Deliver*, op cit., pp. 9-12.

Cultural change

2.67 A second important conclusion reached by the Committee during the course of this inquiry is that devolution of management necessarily involves a shift in agency culture. A key element of this cultural change is a more outwardly oriented focus, encompassing greater emphasis on client satisfaction. This change in culture is related to what is driving devolution. In larger networked agencies, the Committee gained the impression that the culture was one of central control (see Appendix 5). In organisations which still maintain an emphasis on central control, indeed, wherever devolution is implemented, senior management needs to 'let go' and to 'trust' those lower in the management hierarchy, who in turn need to accept responsibility and be prepared to account for the outcomes achieved.

2.68 Corporate culture has been described as:

the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration - a pattern of assumptions that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.⁶⁵

2.69 The character of cultural change appears to reflect the character of that which is driving devolution. In a contestable environment, for example, the culture of the organisation must adapt to a heightened awareness of client needs, arising from the necessity to cover costs and make a surplus at year's end. But whatever is driving devolution, the culture of the organisation should change to adapt to the different way things are done in a devolved environment.

2.70 Cultural change in an organisation can precede, accompany or follow the implementation of any management change, such as devolved patterns of management. The experience of agencies has been that cultural change occurs at all three points in the life of an agency.

2.71 AFP saw cultural change (and staff skilling) as a precondition for devolved management of personnel. An AFP officer put it thus:

In reality I think it [restructuring the levels of skill in the AFP] is an evolutionary process. You need to get the culture right and you need to have the necessary skills in place. I would suggest that had we tried five years ago to devolve the personnel functions that we are currently trying to devolve, it would probably not have been terribly successful. I am quite confident that we do now have the skills in place to permit that to happen.⁶⁶

65 *The role of the founder in creating organisation culture*, E Schein, quoted by R Passfield, *Corporate management and corporate culture in the Australian Public Service*, Research Paper no. 3, Centre for Australian Public Sector Management, Griffith University, 1989, p. 2.

66 Evidence, pp. 189-190.

2.72 Prior to the implementation of devolution, some agencies reported resistance from staff. The Department of Defence, for instance, found that:

If you go down to the lower levels of the organisation, you will find some people who have not heard of devolution who should have. You will hear of others who want more and you will hear quite a number who want less. There is often a temptation to say, 'I would rather not have this extra burden. I would rather be able to just draw resources from above and blame other people rather than myself for the choices that are made'.⁶⁷

2.73 Attorney General's reported the need to overcome such resistance:

In the early days of devolution managers often expressed concern that too much of their time was being devoted to these administrative matters. Some criticism is still received in this regard. However, there is now a greater appreciation and acceptance that those administrative tasks are a legitimate part of the manager's responsibility.⁶⁸

2.74 The evidence from a number of agencies referred to changes of attitude which have resulted from, or been associated with, the implementation of devolved management. Some said that with devolution of authority has come a sense of self-reliance. DIEA found that:

One of the key successes of the devolution of the arrangements has been the change in culture of managers looking at their external environment as something which they cannot control and, therefore, looking for supplementation from the Budget as a means of addressing the circumstances in which they find themselves. It is now quite clear when the environment changes, whether it is internal or external, that the primary resource has to be themselves.⁶⁹

2.75 Customer focus has been improved because of devolved management. Under the devolved running cost environment in DAS there is:

more focus on customer needs during the decision making process resulting in decisions and services better tailored to their needs. The devolution of responsibility for managing running costs has focussed attention within the Department on mechanisms to further improve the delivery of services.⁷⁰

67 Evidence, p. 224.

68 Evidence, p. S66.

69 Evidence, p. 121.

70 Evidence, p. S146.

2.76 Several agencies reported improvements in staff motivation and attitude. In DHRD, for example:

overall job satisfaction for officers has been enhanced through increased control over their management environment. This has led to consideration of innovative options to meet program objectives and better allocation of resources within the manager's sphere of control.⁷¹

2.77 Management culture has also changed as a result of devolution of running cost management. The DIEA submission describes the innovative ways in which managers are now able to operate and lists several initiatives, such as advertising on forms and the development of national purchasing contracts, which have sprung from what it describes as a 'culture of savings' within the Department.⁷²

2.78 As previously noted, the introduction of a contestable environment is a powerful stimulus to efficiency and client service. DAS reports a noticeable difference in culture between its Budget-funded and commercial areas, with Budget-funded areas lagging behind commercialised areas by about two years. There is, they say, 'an improvement in the attitudes in the Budget-funded areas, but.....coming a little later.'⁷³

2.79 Changing the culture of an organisation is not change for its own sake. The public sector operates in a different environment to other sections of the community and economy. For example, the public sector has multiple clients, including specific target groups, Ministers and Parliament, and the public at large. Managing a diverse client group can present problems as, for example, with DIEA whose clients include groups with conflicting interests.⁷⁴ Satisfaction of all client needs in agencies such as DIEA is very difficult to achieve.

2.80 In performing its role the public sector has held to a set of shared values which constitutes a public sector culture. In June 1993, the MAB suggested a set of key public service values which, in the event of their adoption, will result in a *Public Service Act* far less prescriptive than its predecessor. According to Dr Michael Keating, Secretary to the Prime Minister's Department:

this new set of values preserves the traditional emphasis on merit as the basis of staffing and the requirement for the highest standards of probity, integrity and conduct. These traditional values have, however, been expanded and complemented by a recognition of responsiveness to governments, a close focus on results, a strong commitment to accountability, and continuous improvement through teams and individuals.⁷⁵

71 Evidence, p. S10.

72 Evidence, pp. S160, S161.

73 Evidence, p. 146.

74 Evidence, p. 130.

75 *Public Service Values*, 1995 Peter Wilenski Memorial Lectures, Dr M Keating, AO, 27 July 1995, p. 6.

2.81 Applied to a devolved environment, and in the necessary absence of detailed procedures:

we do need to reinforce our staff's appreciation of our values in order to guide their decisions. Staff need to become self-aware and think through how they would be able to justify the manner in which they carry out their tasks in terms of these values.⁷⁶

2.82 Changing an agency's culture means changing the basic assumptions that the agency has used to cope with their 'problems of external adaptation and internal integration'.⁷⁷ As agencies search for greater efficiency and better program delivery with the aim of client satisfaction, they experience cultural change. The nature of the change has been influenced by the nature of the incentive for client satisfaction and greater efficiency, whether the incentive is in the form of a contestable environment, continuous improvement programs, or something else.

2.83 *Contestability, that is, subjecting an agency to external pressures such as market forces, seems to be the greatest spur toward efficient operations, including the introduction of devolved management and cultural change, particularly in the area of greater emphasis on client satisfaction. Budget-funded agencies have, through continuous improvement, benchmarking and other means, also sought to change the culture of their organisations.*

2.84 Some cultural change in the Budget-funded sector has occurred as a result of the introduction of devolution and efficiency measures, but in large agencies, a centralised approach appears to have persisted. There was scant evidence of any change in corporate culture before the implementation of devolution. In other words, agencies are not taking steps toward changing their culture in preparation for the implementation of more efficient decision-making arrangements.

2.85 The Committee believes that cultural change with an emphasis on client service is necessary when changing the way things are done in the public sector. But the culture of the public sector, with its high emphasis on probity, integrity and the highest standards of conduct should not be sacrificed to achieve it.

Costing devolution

2.86 As with any management tool, the introduction of devolution should be rigorously assessed from the point of view of cost versus benefit. DoF noted that:

76 *ibid.*, pp. 11-12. The MAB, of which Dr Keating is the Chair, is currently conducting a research project on APS ethics.

77 *The role of the founder in creating organisation culture*, *op cit.*

devolution should not be gone into lightly as a panacea. There are costs associated with devolution in terms of the need for better coordination mechanisms, better information systems and so on. I suspect that some of the problems agencies have had in the past in implementing devolution are partly because they expected it to be cost free.⁷⁸

2.87 As noted earlier, improved management, efficiency and improved client service are the benefits of devolution. According to Finance the costs of devolution are: changes to structures and corporate culture; improved accountability arrangements and systems; and the risks of and costs incurred by wrong decisions made by managers of devolved units in the agency.⁷⁹

2.88 Necessarily, the decision to devolve management is risky, but risk cannot be eliminated from any action that management may take without incurring unacceptable costs. Risk, says the July 1995 MAB/MIAC exposure draft *Managing Risk*:

is inherent in everything we do, whether it be riding a bicycle, managing a project, dealing with clients, determining work priorities, purchasing new systems and equipment or, indeed, deciding not to take any action at all.⁸⁰

2.89 In the context of public sector management, risk arises from uncertainty and includes the exposure to financial loss as a result of a specific course of action.⁸¹ Coping successfully with risk involves its active management. In the MAB definition risk management is the 'systematic application of management policies, procedures and practices to the task of identifying, analysing, assessing, treating and monitoring risks',⁸² while Finance sees risk management as:

the management of the working environment to control those aspects of the work that will normally lead to undesirable outcomes. It is the recognition that a mistake-free environment can come at great cost. It involves an explicit analysis and determination of an acceptable level of risk.⁸³

2.90 Evidence to the inquiry leaves the impression that while the risks and costs of devolving running cost management have been considered by agencies, the process has not been explicit or formalised. For example the Attorney-General's Department did not conduct

78 Evidence, p. 54.

79 *Delegated Authority Handbook*, op cit., p. 21. On the risks of devolution: the handbook states: 'to decide to what level the power to make decisions should be delegated and what resources should be put into training, etc [and] to ensure that the correctness of decisions taken at that level, one must evaluate the likelihood and consequences of foreseeable risks of wrong decisions' (original emphasis).

80 *Managing Risk*, op cit., p. 1.

81 *ibid.*, p. 3.

82 *ibid.*, p. 4.

83 *Resource Management in the Australian Public Service*, op cit., p. 58.

a cost benefit analysis before introducing devolved running costs management because it sees 'the devolution of running costs flexibilities as only a minor part of the devolution of financial management responsibilities to Treasury managers'.⁸⁴

2.91 Prudent risk management requires that all changes to management practice be costed against the benefits likely to accrue from the change. Devolution should be adopted when the likely benefits exceed the likely costs. Incentives to encourage this process may be qualitative, such as likely gains in staff skills, or quantitative, such as probable increases in output. Ultimately, it comes down to a judgement on the part of senior management whether to accept the risks and costs, including the opportunity costs, of devolving management or not.

The level to which management of running costs is devolved

2.92 The level to which authority is devolved has been a concern of central agencies virtually since the commencement of the FMIP. Whereas central agencies have transferred decision-making power to line agencies, these powers have not been delegated downward to the most practical level of management.

2.93 The Committee has found that, at best, the devolution of running cost flexibilities has been uneven throughout the APS. Most agencies have devolved at least part of the management of RCA flexibilities to program manager level in Central Office, and to regional managers in decentralised areas but, particularly in large networked agencies such as the ATO, a general centralisation of most of the RCA flexibilities continues. As would be expected, this general pattern varies according to the size and function of the agency.⁸⁵

2.94 Programs are groupings of identifiable outlays. Program budgeting (an FMIP initiative) makes it easier to relate those outlays to the goals of government policy and to assess whether goals are being met.⁸⁶ Monies are not appropriated from the Budget on a program basis, although the *Appropriation Acts* refer to program structures.⁸⁷ Some agencies such as the Industry Commission administer only one program. Other agencies may administer many programs. For example, in 1995/6 DSHS is administering 6 programs; program 1 being Health Advancement, program 2 being Health Care Access and so on.⁸⁸

2.95 With the application of program budgeting to agencies, the convergence of program and running costs management is to be expected, as running costs are operating costs incurred in delivering programs.⁸⁹ Devolution below program manager level is often left to the judgement of individual program managers.⁹⁰

84 Evidence p. S213.

85 Evidence, pp. S105, S115, S137, S156, S179; pp. 150, 165.

86 *An Overview of the Commonwealth Budgetary Process* (3rd edition) Department of the Parliamentary Library, 1993, p. 31.

87 for example, Section 6, *Appropriation Act No. 1*, p. 94, *Budget Paper 2*.

88 *Portfolio Budget Statements, 1995/6*, Human Services and Health Portfolio, p. 3.

89 *Running Costs Arrangements Handbook*, op cit., p. 2.

90 Evidence, pp. 34, S146, S137.

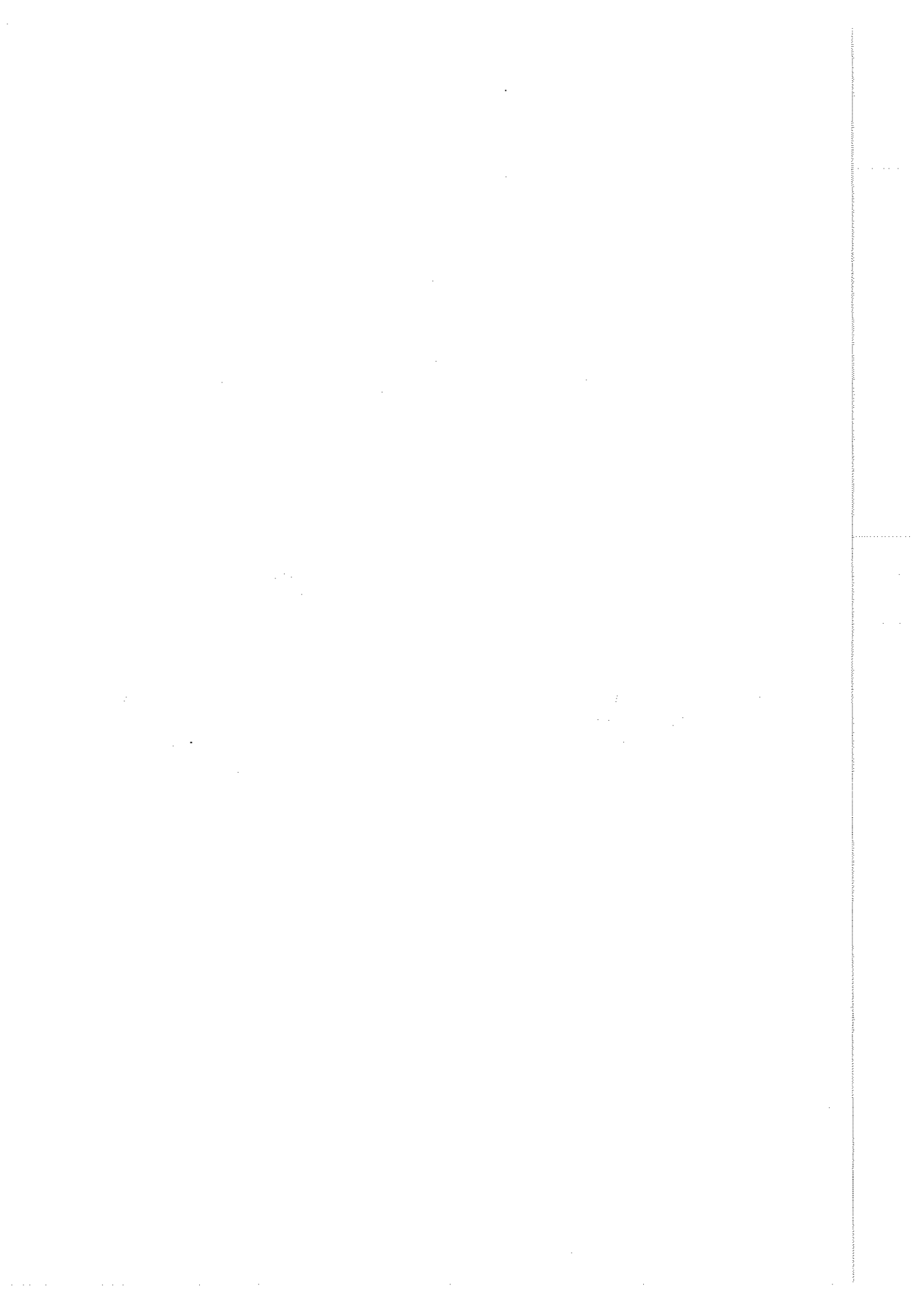
2.96 Devolution rests on matching authority to make decisions with the responsibility for delivering programs, and for remaining accountable for improvements in program outcomes through better service to clients. In a central office, a program manager who is responsible for program outcomes may be the best person to manage the associated running costs. But there is no reason why program managers cannot devolve some powers of expenditure, even to section head level, if the probable benefits outweigh the probable costs.

2.97 The position of regional managers is different to that of the central office manager. Regional managers may possess authority to spend on operating items, but often do not possess any delegation to manage program funds. Wanna and Forster point to a potential difficulty with these differing levels of authority. They argue that programs are centrally determined and managed, whereas decisions on operating expenses are taken locally. Without tight control, senior central office management may find that regional offices are not implementing approved programs, or are being selective in which parts of programs they do apply. This problem could be exacerbated when an agency's regional offices have a strong client focus.⁹¹

2.98 There is no evidence that regional managers have yet encountered problems of this nature, although it is possible that such difficulties may arise as devolution to lower levels gathers momentum. In order to maintain accountability and consistency of program delivery, the need for change to a culture which emphasises client satisfaction will become urgent in those circumstances.

2.99 The level to which authority is devolved under the RCA is an important issue, as to a great extent the success of the application of running cost flexibilities depends on them being exercised at the optimal level. Retaining authority at program manager level to incur expenditure on operational items is acceptable if authority to make decisions is matched with the responsibility for delivering programs and for remaining accountable for those program outcomes. In other words, those managers shouldering the responsibility for program delivery should have the authority to manage running costs and be accountable for the outcome.

91 Evidence, p. S204.



CHAPTER THREE

IMPROVED MANAGEMENT AND BEST PRACTICE UNDER DEVOLUTION

Introduction

3.1 An indication of improvements in public sector management under the devolution of running costs can be gained by using as a yardstick the aims of the FMIP reforms, which encompass the development of more effective public services geared to results; more efficient public services; and an awareness of the costs of achieving results.¹

3.2 As stated in the previous chapter, the Committee believes that devolution of running cost flexibilities is uneven across the APS and is convinced that more can be done to devolve management functions for the benefit of agencies' clients. However, where running costs flexibilities have been applied, indications are that they have assisted in producing a public service better able to deliver program outcomes, that is, a public service which is, in line with the aims of the FMIP reforms, more outcome oriented, efficient, cost effective and client aware. Agencies told the Committee that:

...by introducing more flexibility in the management of inputs available to support the achievement of particular objectives, [managers] have also contributed to improved efficiency and a greater focus on outcomes,²

...the devolution of running costs has improved management in the Department.....To achieve best results managers need to have the authority and flexibility to re-prioritise spending to best achieve set objectives and to be held accountable for their management;³

...the flexibility afforded by the running costs guidelines, together with a detailed knowledge of forward estimates, greatly assists managers in managing their resources;⁴ and

...devolution has given substantially increased flexibility to managers to apply resources to areas of greatest need, thus allowing effective medium term strategic planning. In turn this has led to a clearer understanding of objectives and a sharper focus on results, while strengthening accountability through more direct lines of accountability.⁵

1 *1988 FMIP Report, op cit., p. 6.*

2 *Evidence, p. S4.*

3 *Evidence, p. S23.*

4 *Evidence, p. S66.*

5 *Evidence, p. S85.*

3.3 This chapter examines those areas where devolution has improved management, and highlights some practices worthy of closer examination by the Budget-funded sector.

Increased emphasis on planning

3.4 This inquiry has found that devolution has encouraged an increase in the use of planning as a management tool. Planning involves the clarification and codification by senior management, for the benefit of all staff, of the agency's 'vision', 'mission', 'goals' and 'objectives'. Such clarification and codification is a component of the downward flow of information which contributes to sound accountability.⁶

3.5 There has been considerable development in APS planning with the introduction of program management and budgeting, a component of the FMIP. Now a variety of plans are used at all levels in agencies. These include strategic, corporate, operational, and tactical plans, as well as evaluation, EEO and other specific-purpose plans. Most agencies cast their plans over many future years.

3.6 The main planning mechanisms fall into two categories, strategic and operational. Strategic plans, commonly called corporate plans, give cohesion and direction to organisational, or program, activities. A strategic plan usually relates to corporate values and priorities and covers a longer period, say three to five years, than a financial year. It contains a mission or vision statement (or both), goals and objectives.

3.7 Operational plans cover a limited period, say a year, and detail the strategies, tasks, resources used and targets for that period. Business plans are operational plans for commercial entities, usually with financial targets. Action plans are a more specific type of operational plan, with activity listed in a sequence.⁷

3.8 Corporate planning has become well established in the APS. A June 1992 survey of approximately 6 400 APS staff found that 77% believed that planning and budgetary reforms had, at least to some extent, been incorporated into their work areas. The rate of positive response was even higher in SES and senior officer groupings. Some 50% considered the effects of the reforms to have been positive, including 79% of the SES.⁸

3.9 The penetration of corporate or strategic planning is demonstrated by the structure of DIEA which functions on four levels of planning: corporate planning, strategic program-based plans, work unit plans and individual performance agreements with individual officers.⁹

3.10 Corporate plans, being strategic, are supposed to steer agencies, to provide direction. It could be expected that devolution, being basically a tool, would not figure in corporate or strategic plans, but rather figure more prominently in operational and business plans. This presumption notwithstanding, devolution appears to have affected the strategic planning of

6 *Resource Management in the Australian Public Service*, op cit., p. 36; *Devolution and regional offices*, op cit., pp. 3-4.

7 *Performance Information and the Management Cycle*, MAB/MIAC, 1993, p. 17.

8 *Staff Survey Report*, MAB/MIAC, prepared by the ABS, 1992, pp. 13-15.

9 *Integrated Planning and Reporting - a framework*, DIEA, 1994, pp. 8-11.

some agencies. AusAID, for instance, claims that budget flexibility has assisted branch managers in strategic planning.¹⁰ DAS has found that devolved management of running costs 'is beginning to change entrenched attitudes in the Department on the value of strategic planning'.¹¹ The ABS told the Committee that triennial funding enables a firmer work program to be developed, reducing uncertainty and facilitating better medium-term planning. This in turn has resulted in a more strategic focus superseding the purely operational one.¹²

3.11 Nonetheless, it is operational planning which has gained most from the devolution of running costs management and other reforms. Triennial funding arrangements, although not part of the RCA, have nevertheless greatly assisted planning as they give greater security of funding; and the ability to carry over funds (part of the RCA) assists planning by promoting security of funding. SBS told the Committee, 'the flexibility to carry forward or borrow from future appropriations, especially within a fixed three year funding agreement has improved management by allowing managers to concentrate on longer term planning to achieve program aims'.¹³ CSIRO was of a similar opinion, saying that under triennial funding planning has improved, and better planning has, in turn, improved the quality of its core activity, namely, research.¹⁴

3.12 In a devolved environment, DEET's area and regional structures have been given autonomy to plan with more certainty of resource availability. Operational staff in divisions and areas have become more involved in planning and decision-making and are aware that by operating more efficiently they can achieve savings which can be directed to other priority areas.¹⁵

3.13 The ATO is organised into four business lines, four service lines and the Child Support Agency. It has instituted a process of priority-setting under which is specified what each business line manager will deliver and this, it is claimed, will support the devolution process. Using a priority-setting exercise, the ATO and the local manager agree on what, given a level of resourcing, is expected of him or her. It is up to the local manager to manage the business line, including staffing levels, programs to be implemented and day-to-day operations. This constitutes a three year agreement between the local manager and the ATO.¹⁶ These agreements are formulated in the context of the ATO's corporate plan, which includes a series of performance measures used to test whether resources have been allocated correctly across business and service lines and across regions.

10 Evidence, p. S95.

11 Evidence, p. S146.

12 Evidence, p. S39.

13 Evidence, p. S25.

14 Evidence, p. S91.

15 Evidence, p. S107.

16 Evidence, p. 48.

3.14 DAS businesses, in common with other fully commercialised activities within Commonwealth agencies,¹⁷ are required annually to formulate and revise a business plan for the next three years. This business plan should be submitted to the Ministers for Administrative Services and Finance for consultation prior to the period it relates to.

3.15 The regime of material required for inclusion in business plans is such that they are neither purely strategic nor purely operational plans, but rather hybrids with elements of both the strategic and the operational. They contain objectives (including Ministerially agreed financial and other performance targets), assumptions about the business environment, strategies and other information.¹⁸

3.16 DAS has been innovative in its employment of business planning, using it in its budget funded sectors, although it is under no formal requirement to do so. The department maintains that:

Business planning is just as applicable to budget funded areas....as it is to commercial operations. The major difference is only the source of income. Another key difference is the type of performance indicator. However, it tends to be somewhat more qualitative in a budget-funded area than the commercial areas.Business planning and budget funded activities to some extent overcome the lack of linkage between outputs and inputs, which is present in the traditional public sector approach to budgeting. It also enables management to take a strategic long term approach to service delivery.¹⁹

3.17 DAS went on to say that it unlinks:

the direct linkage between government funding and the amount of money made available to a particular operational unit...that is budget funded. The controlling mechanism from our point of view is the business planning process. The amount of money we allocate from that which the department is given as a whole we determine in accordance with whether we believe or disbelieve that business plan....we do not have a direct linkage with any operational unit from what you might call the parameter adjustments and calculations that the Department of Finance might make to the Department as a whole.²⁰

3.18 This approach has a lot to commend it: it is output-based, so that the level of input is determined on what outputs the unit plans to achieve; and it is an amalgam of corporate and operational planning, but at a program level. It is also likely that, coupled with the RCA efficiency incentives (cash limiting and the efficiency dividend), and other efficiency mechanisms, this approach could be a significant vehicle for achieving efficiency gains, a results focus and, as DAS itself has found, cultural change within the Budget-funded sector.

17 Not to be confused with Government Business Enterprises which may be incorporated by statute or under corporations law, with the Commonwealth having a controlling interest.

18 Estimates Memorandum 95/21, *Operational and accountability framework for user charging and fully commercialised activities and Departments and agencies*, attachment B, paragraph 11.

19 Evidence, p. 137.

20 Evidence, p. 141.

As discussed in Chapter 2, a problem with current funding models is that they are based on inputs, not outputs. Under these arrangements, there is little incentive for agencies to identify client needs and maximise customer satisfaction.

3.19 The Committee recommends that:

the Management Advisory Board study the merits of funding budget funded programs through business planning, as a possible vehicle for the introduction of output based funding.

Budget variation

3.20 The RCA is characterised by the ease with which public sector managers can move funds from expenditure item to expenditure item. The only item of expenditure which is now centrally controlled is senior executive positions and salaries.

3.21 Devolution of running costs flexibilities enables budgets to be moved around to suit local priorities. If devolution has been properly implemented a local manager is not required to seek central permission for changing his or her spending priorities.

3.22 A continuing difficulty where running costs are devolved is that central offices may experience a relative shortfall with regard to funding for centrally emerging priorities. This can be overcome to some extent by the institution of a corporate levy where, before devolving the running costs budget to its devolved units, an agency will extract an amount, usually based on a percentage of total running costs, and retain it at the centre.

3.23 DSHS funds emerging priorities from monies it retains centrally.²¹ DoF calls the central levy the 'Corporate Planning Contribution' and sets it at around 2% of running costs. Central Office then invites bids from the divisions to fund projects using funds from the central pool.²²

Reduced need for administrative oversight at the highest level

3.24 As line managers become more involved in resource management there is a decreased need for central office oversight of functions. This necessitates a trust of the subordinate which is a central tenet of devolution as a style of management. Central management is freed to take more time over strategic planning and maintenance of accountability functions.²³

3.25 There are circumstances (see Chapter 2) where agencies retain some functions centrally. This constitutes a partial brake on the devolution of authority to the lowest levels. The flexibilities that are held centrally vary with each agency so it is not possible to generalise

21 Evidence, p. S44.

22 Evidence, p. S174.

23 Evidence, pp. S20, S146, S160.

concerning those which are most likely to be held back. Based on submissions to this inquiry, the position of each agency in respect of the devolution of running costs flexibilities and management is summarised at Appendix 5.

3.26 The AFP has adopted the idea of management of initial running costs budgets by a central coordinating committee. It meets once per month and considers, *inter alia*, total expenditure and staffing. This committee also has a monitoring and accountability role.²⁴ Likewise ATSIC has adopted a team management model for the management of running costs budgets. Involvement of non-central office personnel ensures that allocations are not biased toward central office functions. The management teams function at all levels of ATSIC, from CEO to State level. ATSIC maintains that this procedure defeats any perceptions of central office domination of budget setting.²⁵

Incentives for restructuring along devolved lines

3.27 This inquiry has found that many agencies have made some changes to their structures in order to improve customer service, shorten lines of communication, assist accountability and to implement devolution. Among the most radical changes was the flattening of agency structures. DSS, for instance, has a three tiered structure consisting of Central Office, 20 Area Offices, and a network of 290 'full time service delivery units'.²⁶ In this environment DSS has only sixty executives in a department of 20,000 staff and has devolved responsibilities down to regional manager level, that is, ASO6, SOG C and SOG B levels. It is these people who manage the network offices around the country.²⁷

3.28 DEET has a similarly flat structure, with 19 Area Offices and a network of CES offices, Youth Access Centres, Student Assistance Centres and other specialised outlets.²⁸ The AFP has also flattened its structures, introducing the concept of 'flexible empowered teams' which exercise a range of devolved management functions.²⁹

3.29 Wanna and Forster assert that 'the flatter the organisational hierarchy, the greater will be the efficiencies likely to be achieved by pushing any given function to a lower level in the hierarchy'.³⁰ They note that the traditional public service hierarchy of division, branch, section and subsection has shown some resilience in the last 70 years or so. This would imply that in the matter of flattening structures, management change such as devolution has had a limited effect. Such a limited effect may be understandable in coordinating or policy departments; it is less understandable in service delivery departments.

24 Evidence, p. S116.

25 Evidence, p. S125.

26 Evidence, p. S177.

27 Evidence, p. 150.

28 Evidence, p. S105.

29 Evidence, pp. 180, 190, 191.

30 Evidence, p. S203.

3.30 While several agencies have adopted flatter structures, there has been a variety of organisational changes in response to the need for greater client focus and improved accountability.³¹ The ATO has moved away from a functional structure and adopted a business unit structure. The running cost flexibilities have been devolved to Business and Service lines and in turn the ATO has recommended that Business and Service devolve to regions as they consider it appropriate.³²

3.31 AG's has adopted a cost centre concept to manage programs and devolved running costs. These 'treasury centres' have most of the RCA flexibilities devolved to them.³³ The Treasury managers' budgets are cash limited, and senior management encourages a self-help culture within them.³⁴ Central corporate overheads are costed and apportioned to respective Treasury centres which are accountable for these services.

3.32 The AFP has also adopted a cost centre structure. It told the Committee that its approach to the management of running costs, which includes giving large amounts of responsibility to the cost centres, 'has the benefit, not only of ensuring a coordinated effort by all areas of the AFP but also of providing the basis for assessing the performance of individual cost centres in managing their resources to best achieve the organisation's priorities'.³⁵

3.33 DIEA has recognised the problems of matrix management, in which a regional manager may report to different managers for program and for administrative purposes, and in response has set up its Australian Client Service Division. This division is responsible for the delivery of all services to clients in Australia. It assists devolution by enhancing accountability, and enabling greater program coordination. It is a new structure, and the Department has identified possible problems, such as a temptation on the part of ACS to develop policy apart from the responsible DIEA divisions. Moreover, it is possible that the ACS is too broad, and may suffer from an excessive workload.³⁶

Better working relationships

3.34 One of the aims of devolution is to put power into the hands of those 'at the coalface'. Where this has occurred in practice, increased staff satisfaction has been a notable result. While some agencies said that staff were reluctant, at least initially, to embrace management responsibilities, which they saw as peripheral to the main task at hand,³⁷ the majority of agencies reported higher levels of staff acceptance and satisfaction.³⁸

31 Evidence, pp. 27, S30.

32 Evidence, p. S34.

33 Evidence, p. S65.

34 Evidence, pp. 7, S65.

35 Evidence, p. S116.

36 Evidence, pp. S158 - S159.

37 Evidence, pp. 7, 118, S66.

38 Evidence, pp. S10, S117.

Better resource management

3.35 Agencies supported the proposition that managers were 'empowered', or given more authority by devolution of the RCA. This empowerment has improved the management of running costs by allowing:

- managers to be better able to move funds to new priorities;³⁹
- the consideration of innovations;⁴⁰
- an increased sense of funding certainty, with a resulting emphasis on planning and budgeting;⁴¹
- enhanced accountability - 'ownership' of the budget;⁴²
- greater economy - a saving mentality;⁴³
- a greater return for running costs dollars expended;⁴⁴
- improved expenditure behaviours, and an appreciation of the ramifications of spending decisions throughout the organisation;⁴⁵
- outcome focus at the lowest levels of management; and⁴⁶
- more ready identification of under-utilised resources.⁴⁷

3.36 In addition to these there have been some other improvements to resource management, for example: new roles for corporate services areas; impetus given to accrual accounting and reporting; greater use of resource agreements to tailor funding to the specific needs of the agency; and variations to end of year spending patterns, the 'end of year spend-up'.

Impetus to accrual accounting and reporting

3.37 Accrual reporting was introduced to the budget sector following a November 1992 announcement by the Minister for Finance. Reporting on an accrual basis recognises all transactions and their economic effects whether cash based or not. Accrual *reporting* ought not to be confused with accrual *accounting*. Under guidelines issued by DoF, agencies are required to report at year end using accrual principles, but their day-to-day accounting can be cash based. Accruals are brought to account at year end as adjustments and additions to cash totals.⁴⁸

39 Evidence, pp. S4, S23, S66, S95, S117, S125.

40 Evidence, p. S10.

41 Evidence, pp. S19, S32, S39, S66, S86, S95, S107.

42 Evidence, pp. S19, S23, S25, S107.

43 Evidence, pp. S20, S107, S117.

44 Evidence, p. S32.

45 Evidence, pp. S20, S25, S38.

46 Evidence, p. S25.

47 Evidence, p. S117.

48 *Accrual Accounting: are agencies ready?*, Report No. 32 of 1993/4, ANAO, March 1994, Appendix 8.

3.38 The virtue of accrual accounting is that it gives a better picture of the value of resources used to produce services. The advantages of accrual accounting for commercial entities are obvious: pricing and competition depends on full and accurate costing of services. Applying the same approach to Budget-funded activity, it could be said that the real costs, for example, of the Commonwealth, become more transparent when not only are the recurrent cash expenses such as salaries taken into account, but also the 'hidden' costs of assets depleted by delivering programs.

3.39 The ANAO conducted a detailed study of the effect of decentralisation and devolution on accounting skills in the budget sector.⁴⁹ The report found that decentralisation (as distinct from devolution) of accounting functions, especially budgeting, costing, accounts processing and cash management, had resulted in only a slight improvement in agency performance. Attention needed to be given to ensuring staff had skills appropriate to accrual reporting, and that financial information systems were sufficient to support decentralised accounting functions.⁵⁰

3.40 A subsequent follow-up report by the ANAO found that over 80% of agencies which had, pursuant to an ANAO recommendation, reviewed some or all of their decentralised functions, indicated that they had achieved some benefit through decentralisation. These benefits were: increased program control, processing efficiencies and increased line management awareness of financial management issues.⁵¹

3.41 The Committee noted that those agencies facing the pressures of a contestable environment displayed the most enthusiasm for the application and extension of accrual reporting and accounting. The Attorney General's Department told the Committee that it produced comprehensive monthly accrual-based financial reports. It is significant that these reports are for the internal use of management, not for external reporting.⁵² The Department, in common with other budget sector agencies, reports externally on an accrual basis.

3.42 In DAS, devolution has increased the level of accrual accounting skills in the Department which, in turn, has assisted in the devolution of running costs.⁵³ DAS is seeking to transfer commercial practices to its Budget-funded sector. It sees improved financial understanding of the real costs of operation (as opposed to the apparent or notional costs of operation) as the major spur to future efficiency.⁵⁴ In DAS's view the real cost of operation can only be measured using an accrual system of accounting and reporting.

49 *Accrual reporting: are agencies ready?*, op cit., especially Chapter 2.

50 *Follow-up audit, accrual accounting - are agencies ready?*, ANAO Report no. 16, 1994/5, p. 23.

51 *ibid.*, p. 24.

52 Evidence, p. 10.

53 Evidence, p. 136.

54 Evidence, p. 145.

Increased use of budgeting

3.43 Under the definition adopted by the Committee, devolution is the placement of authority and budgetary control at the level of management responsible for incurring costs and delivering programs for the benefit of the clients of the agency. The extent to which agencies have devolved control of running costs and the flexibilities under the RCA varies; for a variety of reasons agencies keep at least some functions centralised.

3.44 Against the background of their new responsibilities to manage budgets, there is an expectation that line managers will take more interest in their own budgets, and that skills in accounting and budgeting will be honed and improved. There is also an expectation that procedures will be improved and clarified.

3.45 Increased flexibility encourages managers to be more active in managing resources.⁵⁵ Agencies have introduced some new budgetary techniques to deal with the changed environment. One such tool is the use of cash management plans.

3.46 DEET uses a form of cash planning called Resource Utilisation Plans. These are submitted by all organisational units in the Department. Managers are given an allocation of funds and then required to estimate their expenditure over the financial year. They report every month and this is monitored by the executive. These plans are being linked to national program business plans and will be automated by the department. The executive is able to use this planning and reporting process to monitor performance, to see if there is likely to be an end of year spend up.⁵⁶

3.47 CSIRO reported that cash management was assisted by triennial based funding, and by the ability to carry over surplus funding to subsequent financial years.⁵⁷

3.48 Attitudes to the Budget have been changed by 'ownership' of it at local levels. The AFP has found that better decisions on how money is spent have been made by staff 'closer to the coalface'. They believe that:

culturally it is easier to spend someone else's money than it is to spend your own. When [middle managers] have been specifically tasked with the management of the money, if anything, rather than being generous....they have been a little too tight on occasions in the way they have utilised funds.⁵⁸

3.49 Other submissions have described this attitude as the 'savings mentality'. As managers' confidence in the management of budgets increases, they seek to make savings in order to fund other expenditure. The DIEA regards this savings culture as a cultural change in the department.⁵⁹

55 Evidence, pp. S23, S95, S107.

56 Evidence, pp. 167, S108.

57 Evidence, p. S91.

58 Evidence, p. 184.

59 Evidence, p. S162.

3.50 Another facet of this cultural change has been a realisation that managers' budgets fit into a context of a larger agency-wide budget. DEET staff have become more aware of the Department's resourcing arrangement, and the fact that it is linked to employment growth. For them it means that extra funding is available through savings and efficiencies.⁶⁰ In the ABS, the totality of resources is considered in determining the most cost-effective solution. With the flexibilities that are now available, the 'aggregate and long term effects of numerous micro-decisions have to be assessed corporately'.⁶¹

Enhanced accountability

3.51 Accountability is the companion of devolution. The flow of information up the organisation needs to be as strong as that downwards, or perhaps stronger, given the high levels of accountability required by Parliament and the need to assure senior management that line managers are delivering what they are required to deliver. In fulfilling their accountability obligations, agencies have implemented management information systems (MIS).

3.52 The term MIS is now associated with computer based automated systems. To some extent the term is used generically to describe any automated information analysis and reporting system used by management. But the essence of an MIS is the information it produces, not the hardware and software used to produce it. This information depends in turn on the quality of the indicators that are used to measure performance.⁶²

3.53 Other equally important roles for MIS include informing the decisions of devolved line managers and enhancing service delivery to clients.

3.54 In its accountability role, an MIS provides a framework for managers to report more precisely on the results they were meant to achieve. It is an aid to monitoring and reporting on program performance (including client feedback) up the accountability chain.⁶³ It was noted in *Not Dollars Alone* that the MIS provided the key to simplifying the reporting requirements associated with the devolution of responsibility and accountability,⁶⁴ although a report of December 1992, *The Australian Public Service Reformed*, noted some information 'suggesting inadequacy of present MIS for monitoring the effective use of resources and for costing of user charging and contracting arrangements'.⁶⁵

3.55 This inquiry has found that some agencies had yet to develop an MIS which would support senior management's need for information on grass roots operations in a devolved environment. Others, though, have made good progress towards reliable systems. Examples of the MIS used by agencies include:

60 Evidence, p. S107.

61 Evidence, p. S38.

62 Evidence, p.83.

63 *Accountability in the Commonwealth public sector*, MAB/MIAC, June 1993, p. 15.

64 *Not Dollars alone*, op cit., p.104.

65 *Australian Public Service Reformed*, op cit., p. 318.

- integrated financial and staffing systems which monitor and budget for resource use against the agency's priorities;⁶⁶
- integrated MIS which report on trends in revenue and expenditure to the Executive;⁶⁷
- financial MIS which enable line managers to determine levels of running cost expenditure, and re-allocate expenditure if necessary;⁶⁸
- systems built by purchase of accounting software and upgrade of *in situ* systems;⁶⁹
- revenue tracking systems; and⁷⁰
- executive information systems.⁷¹

3.56 The cash management plans used by DEET to monitor the performance of the devolved units of the Department are being automated to provide a better system for tracking devolved resource usage. The Department has placed financial procedures and guidance information into a networked database and provides access to the financial and personnel system to all staff via a network. Work is proceeding in DEET toward providing an integrated reporting capacity for both financial and personnel systems, which are not currently compatible.⁷²

3.57 AG's personnel and financial systems are fully integrated and networked to all users. This allows unfettered communication between the devolved user and management, who both have access to the same information. The dual purposes of an MIS, that is accountability information and decision support, are thus fulfilled.⁷³ AusAID has a similar system.⁷⁴

3.58 DoF offers some guidance on MIS issues through its Information Technology and Systems Group Consultancy Services Unit. In addition to a consultancy service offering assistance in system acquisition and implementation, the Unit has published a range of information, including a publication on the functionality of accounting and related software.⁷⁵

3.59 The issue of MIS across the whole Australian Public Sector has received renewed attention with the release of an ADP strategy for the Commonwealth sector. Two of the recommendations of this review are especially relevant to this inquiry. Firstly, the review recognises the principles of devolution and recommends that a coordinated approach to the management of information technology across the whole of government should be consistent with those principles. Secondly, it recommends that an Office of the Chief Information Officer

66 Evidence, p. S117.

67 Evidence, p. S140.

68 Evidence, p. S125.

69 Evidence, p. 83.

70 Evidence, p. 117.

71 Evidence, p. S220.

72 Evidence, pp. 167-175.

73 Evidence, pp. 22-23.

74 Evidence, p. S229.

75 *Towards Better Financial Management: a review of financial management information systems*, DoF, 1993.

be set up in DoF.⁷⁶ The CIO will, in conjunction with agency CEOs, coordinate, encourage, monitor and implement information technology policy across the public service in accordance with Government direction.⁷⁷

3.60 The Committee concludes that agencies would benefit from the expertise of the CIO's office in designing MIS which would support the devolved management environment. This expertise would supplement that already available to agencies through DoF and the private sector. Specifically the CIO could advise on the specifications for systems which would provide appropriate accountability and decision support functionality for managers in a devolved environment.

3.61 **The Committee recommends that:**

the Chief Information Officer advise on the specifications for systems which would provide appropriate accountability and decision support functionality for managers in a devolved environment.

Revised role of corporate services areas

3.62 Corporate services areas oversee the operations of agencies' non-core activities. For example, Dash's sub program 6.1 (Corporate Leadership and Resource Management), provides such services as financial management and planning, staff management, facilities and management support, corporate and staff development, ministerial and parliamentary services, legal services and internal audit.⁷⁸

3.63 With the devolution of authority to spend on running costs, corporate services areas have been an obvious target for change. The MAB/MIAC has undertaken a study of devolution of corporate services in the APS, some of the findings of which have already been discussed in this report.

3.64 In addition to more general findings on the worth and 'how to' of devolution in the corporate services context, the study made certain findings on the size, costs and staffing of corporate services areas. *Inter alia*, the study concluded that:

- the size of the corporate services area is best decided by the agency;
- getting the size right is more achievable when the corporate services area is focussed on the agency's goals;
- devolution is most successful when line managers are given a real choice about how they will obtain or undertake corporate services functions. Central corporate services could be decentralised if line managers so desired;
- fully costing corporate services functions will lead to better decision making;
- all corporate services functions are able to be devolved;

76 *Clients first: the challenge of Government Information Technology*, Report of the Minister for Finance's Information Technology Review Group, Department of Finance, 1995, p. 67.

77 *ibid.*, p. v.

78 Department of Human Services and Health, *Annual Report, 1993-94*, p. 299.

- devolution of corporate services may not realise any cost savings in the short to medium term;
- corporate services staff need to be able to accommodate change, to be multi-skilled;
- post devolution, there may be a need for a new description of the functions of corporate services; and
- the challenge for corporate services managers is to find ways of preserving a pool of expertise in a devolved environment.⁷⁹

3.65 This inquiry has found that corporate services areas have increased in size, or that they have not been substantially decreased, under the devolution of running costs management. In the ATO's case this was because:

...the central corporate services area has taken on increased responsibility to make budget holders aware of the responsibilities that go with devolved functions...Responsibility for people management, accommodation and work allocations must also be managed. It has had to ensure the ATO overall maintains a healthy financial state. It has taken on an increased role of providing guidelines, tools and education to budget holders to ensure they manage their 3 year budgets. The monitoring and reporting role to senior management has been maintained.⁸⁰

3.66 This result may appear somewhat anomalous, as it may be presumed that functions previously carried out by central corporate services areas would go out to the divisions, area offices or to whatever other organisational unit responsibility has been devolved to. But in many cases processing is not decentralised, although authority has been devolved to lower levels.⁸¹

3.67 AG's has applied the MAB/MIAC's guidance in relation to the size and location of corporate services. Central overheads are costed and these costs are apportioned to respective Treasury centres. The Department's aim is to make the cost of services transparent to the Treasury centre managers. This imposes a discipline on the providers of corporate services to supply a cost effective service.⁸²

3.68 DSHS is changing the way it delivers corporate-type services by developing 'an increasingly robust culture in the organisation in terms of internal clients, particularly in ...corporate service and information technology areas.'⁸³

79 *Devolution of corporate services*, op cit., pp. 12-17.

80 Evidence, p. S220. Other agencies report a similar situation: evidence, pp. S229, S236.

81 Evidence, pp. 222, 228, S216.

82 Evidence, p. S66.

83 Evidence, p. 93.

3.69 It has produced a set of national service standards for corporate services. These standards describe the function to be performed, such as to implement and advise on occupational health and safety (OH & S) policy, and detail service standards. In this case one such standard is that all staff will have access to current, accurate information on occupational health and safety issues. Client obligations are also documented. Supervisors are required under OH & S service standards to disseminate information provided by corporate services.⁸⁴

3.70 The AFP has benchmarked the provision of its corporate services function. This process found that the hallmarks of best practice were devolution of responsibility and decision-making, and centralisation of more routine functions which did not add value to decision-making for line managers. The results are currently being incorporated into operations.⁸⁵

3.71 To improve efficiency and client service DEET has adopted a flatter structure based on Area Offices. Line managers are responsible for many functions previously carried out by central office corporate service areas. Corporate services' continuing function is to develop and implement strategies to assist Areas and Divisions (the devolved units) with resource management. Their main priorities now are financial policy, planning issues, systems, monitoring running costs usage, centralised purchasing and other corporate priorities.⁸⁶

3.72 Corporate services areas are probably those most affected by centripetal tendencies. Fear of loss of expertise and economies of scale particularly have kept these functions centralised, particularly in smaller and non-decentralised agencies. Added to this are new corporate service-type functions which have been adopted, such as workplace bargaining and senior officer bonuses and expense allowances. As noted in Chapter 2, it is valid that processing should be centralised, if the authority to incur expenditure has been devolved. The trap to avoid is confusing devolution with decentralisation.

3.73 The current state of corporate services is that there has been little penetration of the recommendations of the MAB report and consequently little devolution. The reasons for this were discussed in Chapter 1. In light of the experience of some agencies, as described above, the Committee concludes that there is plenty of scope for the further devolution of corporate services functions within APS agencies.

3.74 **The Committee recommends that:**

- **the Department of Finance re-examine whether corporate services functions have been devolved to the most practical level, in line with the recommendations of the MAB referred to above;**

84 *Quality standards for corporate services national minimum standards for corporate services*, Department of Human Services and Health, internal document, 1995.

85 Evidence p. 180.

86 Evidence, p. S241.

- the Department of Finance identify skills relevant to the devolution of corporate services functions and offer training to agencies in these skills; and
- the Department of Finance identify and promote best practice in corporate services, including the concepts of national standards for corporate services and of benchmarking corporate services functions.

Increased use of resource agreements

3.75 The *Running Costs Handbook* defines resource agreements thus:

....an agreement for the provision of resources in return for some action, undertaking to act, or some other consideration. It provides the agency with additional resourcing flexibility outside the confines of the regular budget process in order to achieve some stated objective.⁸⁷

3.76 A key characteristic of a resource agreement is that it provides room to manoeuvre beyond that available in the Budget process. Resource agreements can be negotiated between agencies and DoF, or within a portfolio.⁸⁸ Some common types of resource agreements are:

- receipts retention and sharing (including Section 35 agreements);
- multiple year carryovers and borrowings;
- carryovers of greater than 10% and borrowings of greater than 6%;
- workload adjustment formulae;
- property resource agreements; and
- workplace bargaining agreements.⁸⁹

3.77 Resource agreements are an output-based funding model for running costs provision in the form of a quasi-contract. The Committee noted in its 1990 report on the FMIP that resource agreements establish more explicitly the link between inputs, outputs and outcomes for programs and services, so that achievements such as increased efficiencies and improved program delivery can be assessed. Resource agreements 'can ultimately produce a more finely tuned picture of the productivity gains agencies should pursue as a whole or in specific areas.'⁹⁰

87 *Running Costs Arrangements Handbook*, op cit., p. 8.

88 *Resource Agreements: an update and extension of the 1991 MAB/MIAC Resources Agreement* booklet, DoF, 1993, p. 1.

89 *Running Costs Arrangements Handbook*, op cit., p. 8.

90 *Not Dollars Alone*, op cit., p. 38.

3.78 In relation to resource agreements MAB/MIAC concluded that:

- they are most suited to circumstances where innovation is required;
- most resource agreements encourage efficiency gains, but do not make the link between resources and effective program delivery;
- they are a cooperative effort, with net benefits to the agency and the broader budget; and
- they provide a number of benefits, including encouraging certainty of funding, enabling large capital purchases, encouraging innovation in management and focussing attention on outputs.⁹¹

3.79 The most ambitious, and most commented on, resource agreement is the ATO's modernisation agreement. Over the ten years from 1987/8 to 1997/8, the ATO received funding of \$1 241m in return for staff savings equivalent to 3 000 persons. The ATO has delivered all but 150 of the required staff savings, although total staff numbers have not fallen. This is because the ATO has been charged with new responsibilities and functions.⁹² The link between resources and change was an efficiency link: more output is gained from fewer resources in the medium to long term.

3.80 Most of Idea's running costs are covered by resource agreements, as the work of the Department is highly demand driven. These agreements guarantee that more resources are provided as workloads and outputs increase, and resources fall as demand decreases. The necessity for protracted negotiations with Finance is removed.

3.81 The Department believes that resource agreements provide a 'discipline on managers to achieve the shift in focus...away from inputs *per se* to the relationship between inputs and outputs and outcomes'. Despite some disadvantages the overall effect of this type of funding has been positive.⁹³

3.82 In the view of DSHS, the effect of resource agreements was that they 'fine tune the awareness of those decision makers within the Department as to not just managing a cost but managing the impact of that cost'.⁹⁴ These overall assessments, and the conclusions of previous studies (notably the MAB/MIAC study), point to the fact that resource agreements can be a vehicle for improving efficiency.

3.83 The DoF study, which followed up that of the MAB/MIAC, notes that there is potential to derive greater benefit from resource agreements. There is, it says, virtually no linkage between resource agreements and agency evaluation. An evaluation of the program or other activity prior to the resource agreement negotiations would inform discussion on the resource agreement. Further, resource agreements can act as accountability tools. In some cases a more direct link to the outcomes of additional resources could be drawn. Such a link

91 *Resources Agreements*, MAB/MIAC, June 1991, pp. ix - xi.

92 Evidence, pp. 29, S30.

93 Evidence, pp. S163-164.

94 Evidence, p. 96.

would point to the improved effectiveness of programs or activities funded via a resource agreement. Also, resource agreements have the potential to be more general and holistic in scope, relating more broadly to an agency's overall funding and management.⁹⁵

3.84 With more stringent cash limiting between budgets, resource agreements will take on a new importance. Cash limiting is one of the two incentives to efficiency in the RCA, and requires agencies to be, in effect, self funding between budgets. If, perhaps as a result of overspending, an agency wishes to borrow from a future budget allocation, it will be required to enter into a resource agreement if the borrowing exceeds 6% of its running costs budget. Through these resource agreements Finance will be required to negotiate and supervise what could amount to 'bail outs' for agencies which have been fiscally imprudent.

3.85 Resource agreements are an interesting development in the resourcing of APS agencies. They are oriented toward tangible outputs, to which funding is tied, and have potential for further development of linkages to evaluation, accountability and program effectiveness. They may be needed more regularly in the future in a more stringently cash limited environment. The Committee believes that this potential, as noted in dove's own report, should be fully exploited.

3.86 **The Committee recommends that:**

- **the Department of Finance widen the scope for funding agencies through resource agreements as part of its consideration of the applicability of output based funding models to the APS; and**
- **the Department of Finance develop resource agreements which provide linkages to program evaluation, accountability and improved client satisfaction.**

End of year spending

3.87 The end of year spend up is part of APS folklore. The House of Representatives Standing Committee on Industry, Science and Technology noted in its report, *Australian Government Purchasing Policies: buying our future*, that many suppliers still talk informally of end of year splurging by agencies to meet annual expenditure allocations, which are viewed by agencies as targets to be met. The Committee recommended that the efficiency and flexibility of annual budget carry-over arrangements for agencies be reviewed by an appropriate Parliamentary committee.⁹⁶

95 *Resource Agreement: an update*, op cit., pp. 4-6. DoF comments that broader agreements are 'more complex, expensive and time consuming' to produce but that they 'more than repay the effort required' to develop them.

96 *Australian Government Purchasing Policies: buying our future*. First report, House of Representatives Standing Committee on Industry, Science and Technology, March 1994, pp. 49, 50.

3.88 Under the RCA, agencies are able to carry over up to 10% of their running costs budget into the next financial year.⁹⁷ The aim of this facility is to provide agencies with the flexibility to respond to changing priorities, allow managers to plan spending without being restricted by cut-off dates, and, significantly, to reduce the incentive for unnecessary end of year spending by agencies.⁹⁸

3.89 Agencies indicated that they made full use of all the flexibilities under the RCA, including the ability to carry over⁹⁹ and were of the view that carryover provisions obviated the need for unnecessary end of year spending.¹⁰⁰ With this in mind, one would expect end of year 'panic' expenditure to decline as a result of the new carryover flexibilities and that patterns of spending would smooth out over the whole year.

3.90 It is interesting to note that the graph of expenditure over the financial years 1986/87 to 1994/5 shows that end of year expenditure continues to be prominent. Agencies explained this apparent inconsistency by arguing that careful husbandry of resources required that discretionary spending be left to the end of the year. Data for the following chart was supplied by the Department of Finance.

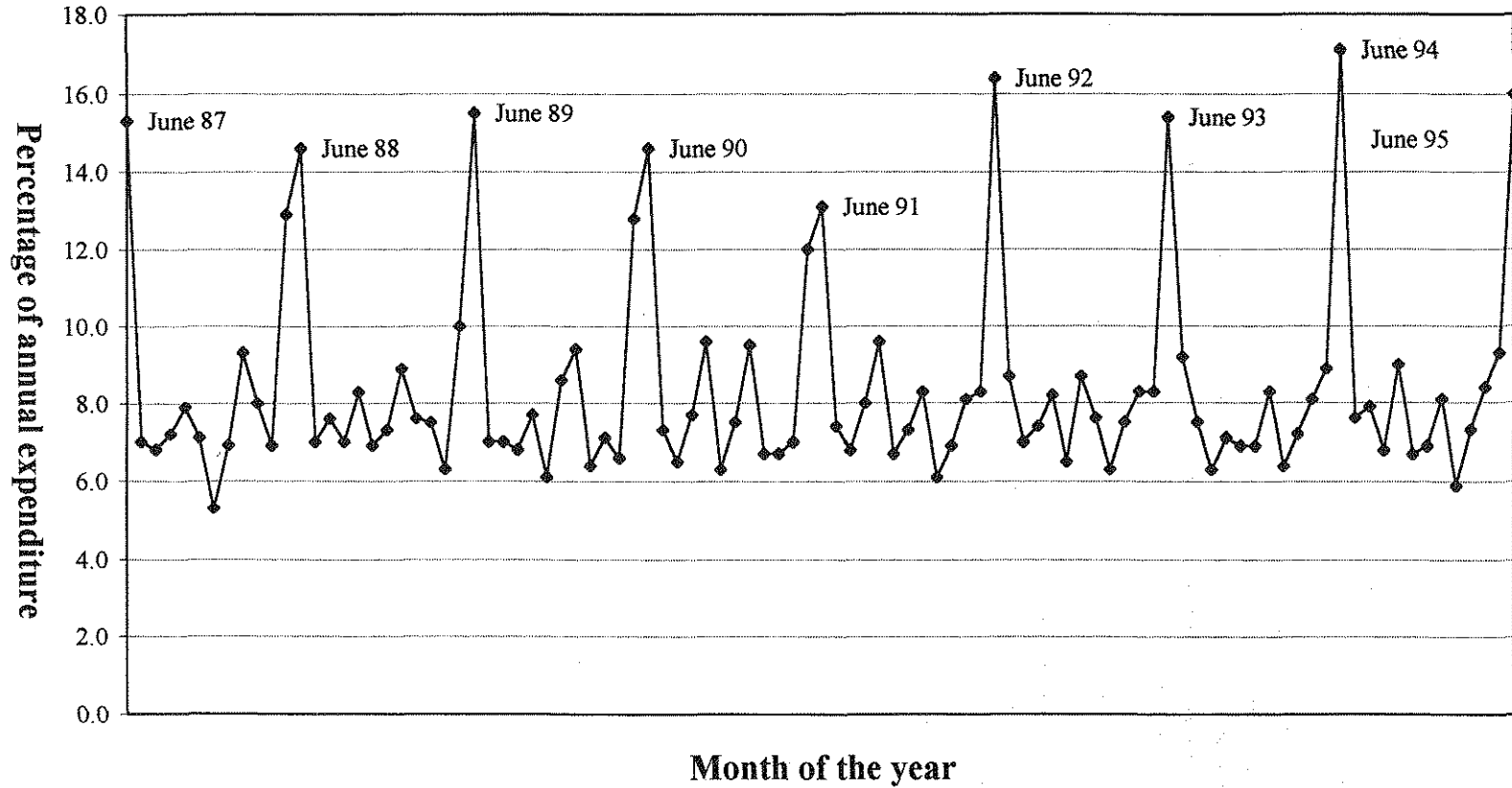
97 This percentage was increased from the commencement of the 1995/6 financial year. The first carryover to be affected will be amounts carried over from 1995/6 to 1996/7.

98 *Running Costs Arrangements Handbook*, op cit., p. 9.

99 Evidence, pp S213, S217, S228.

100 Evidence, pp. S4, S25, S39, S66, S74.

Administrative Expenses - monthly expenditure June 1987 to June 1995



3.91 A June 1991 MAB/MIAC report encountered a similar situation in a sample of agencies. Those which had devolved the ability to carry forward funds showed a similar pattern to those that did not devolve this RCA flexibility. In acknowledging the (possibly valid) reasons for end of year spending increases, the report notes that 'it is not possible to draw a firm conclusion that it is an indicator of good or bad management.' The report details action which is being taken on the issue of the end of year spending surge. This action includes review and upgrade of MIS, strengthening internal reporting and introducing cash flow reporting.¹⁰¹

3.92 Since the MAB report was published the tendency to an end of year surge in spending has not abated. In light of the findings of this inquiry, and the comments of the House Industry Committee, it seems that this subject is worthy of independent study.

3.93 **The Committee recommends that:**

the Department of Finance analyse the spending patterns of budget funded agencies with particular reference to end of year spending and report the outcome in its annual report.

Conclusion

3.94 Notwithstanding the uneven devolution of running costs management throughout the APS, there is no doubt that the devolution of the RCA flexibilities has delivered some benefits where it has been applied. These include a greater interest in and focus on planning, including budgeting, improved orientation toward clients, changes to structures, especially the adoption of flatter structures, and better resource management practices.

3.95 The Committee believes that despite some encouraging manifestations of better management practice, there is much more to be done. Output-based funding mechanisms, such as business planning and resource agreements deserve greater examination and application. Agencies' continued propensity for end of year spending also deserves further investigation. MIS requirements in a devolved environment need clarification, and the role of central corporate services areas need to be further devolved and decentralised.

101 *Budget flexibility, carryover provisions between financial periods*, MAB/MIAC, 1991, p. 5.

CHAPTER FOUR

OVERCOMING OBSTACLES TO EFFECTIVE DEVOLUTION OF RCA FLEXIBILITIES

Introduction

4.1 The Committee reiterates its belief that the application of devolution to the management of running costs is uneven throughout the APS. The Committee is not convinced that the flexibilities contained in the RCA have been applied in all agencies and departments at the appropriate level with resulting improvement to client services. In those agencies which have made efforts to implement a devolved environment, both agency management and client service has benefited.

4.2 The Committee recognises that there are difficulties in and obstacles to the effective devolution of running costs flexibilities. However, the Committee also believes that none of these difficulties is insurmountable. Among the problems facing devolution are the resourcing of running costs budgets, and the effects of the continued application of the efficiency dividend and cash limiting, both of which exert pressure on budgets in the interest of promoting more efficient use of running costs.

4.3 Cash limiting presumes that additional running costs resources are not available between budgets. Under the efficiency dividend, 1% of the running costs budget is retained by Finance for return to the Budget. There was a variation to this in 1995/6 when, in addition to the normal efficiency dividend, a cut of up to 2% to running costs budgets was made as part of the deficit reduction strategy. In return for submitting to these stringencies, agencies receive access to a range of funding flexibilities and can be reasonably certain of funding for the current and following two years.

New unfunded functions

4.4 It has been pointed out to the Committee by a number of agencies that they are required to carry out many new non-core functions without supplementary funding. This point was also made in the efficiency dividend report.¹ This, agencies claim, jeopardises their capacity to carry out the programs for which they are accountable.² Since then, access to supplementation has been further tightened by new cash limiting arrangements which virtually eliminate any supplementation except for new policy in the Budget context.

4.5 Claims of budget stringency having a serious impact on the capacity of agencies to function, and DoF's counter claim that productivity increases over the last few years have more than covered the amount of the efficiency dividend, raise the question of the

1 *Stand and Deliver*, op cit., p. 23.

2 *Evidence*, pp. S5, S86, S97.

measurement of efficiency gains. This matter was considered in the efficiency dividend report. At that time the Committee recommended that DoF and the Department of Industrial Relations examine the possibility of developing a process for measuring productivity.³

4.6 DoF has told this inquiry that it has done nothing about implementing this recommendation, and is vague about its intentions for future action with regard to the matter.⁴ While the Committee is aware of the methodological problems intrinsic to any such efficiency measure,⁵ it regards as self-evident the usefulness of a measure which demonstrates whether or not productivity gains have been made. Certainly, the Committee does not regard the recommendation as deserving to be dismissed, especially as it was accepted by the government in its response to *Stand and Deliver*. Furthermore, a measure of actual efficiency gains could be used as feedstock to gain sharing arrangements under workplace bargaining. In other words, prior to determining which share of efficiency gains should accrue to the respective parties in a workplace bargain, an accurate picture could be provided of actual gains made.

4.7 **The Committee recommends that:**

the Department of Finance and the Department of Industrial Relations examine the options available to develop a process for measuring productivity which also takes account of the quality of service.

Workplace bargaining

4.8 Workplace bargaining was introduced after a 1992 APS-wide framework agreement between the unions and government was certified by the Australian Industrial Relations Commission. This framework agreement was not considered by the AIRC to be an essential element of the registration of individual agency bargains, but served as a template for agency agreements, thus maintaining a unified approach to agency bargaining across the APS. At central office level unions and management negotiate directly on measures to improve productivity, flexibility and efficiency in exchange for improved pay and conditions. Any changes to pay were to be consistent with the notion of an integrated public service, and all agency agreements had to be certified by the AIRC.

4.9 The initial framework agreement expired at the end of July 1995. A replacement agreement has been drafted and awaits certification by the AIRC. It is essentially the same as the interim agreement, but with the key difference that individual agencies can no longer negotiate pay rises for their own staff. These are now managed APS wide. At September 1995, 84% or 121 000 APS staff in 58 agencies were covered by 48 certified agreements.

4.10 Despite its name, workplace bargaining, for reasons related to the nature of the deal struck between the unions and government, is not devolved to individual workplaces but is conducted at a macro level. In the Committee's view, this is out of step with moves to foster a

3 *Stand and Deliver*, op cit., p.16.

4 Evidence, p. 64.

5 Evidence, pp. S206 - S210.

devolved environment, in which responsibility for decision making and the administration of budgets in the APS is placed at the lowest practical level of management, resulting in improved client service.

4.11 As with the efficiency dividend, workplace bargaining relies on agencies and their staff identifying avenues for productivity improvements. Under workplace bargaining, gains in the form of better wages and conditions accrue to staff, whereas gains from the efficiency dividend go to the budget.

4.12 It is the view of many agencies, expressed before both this inquiry and its predecessor, that the efficiency dividend does not take sufficient account of workplace bargaining or other productivity improvement mechanisms.⁶

4.13 In *Stand and Deliver*, the Committee recognised the potential for the efficiency dividend to be replaced by workplace bargaining, particularly in small agencies, but at the time of that report's tabling, there had been insufficient progress in the bargaining process for a definitive judgement to be made on the issue.⁷ The Committee's conclusion at that time was that, when agency bargains became due for re-negotiation (as is the case at present), government should examine the possibility of replacing the efficiency dividend with some form of workplace bargaining, and that this revised arrangement should take into account a dollar return from workplace bargaining to the Commonwealth's annual Budget.⁸

4.14 The earlier report also concluded that the efficiency dividend had no long term future, although it was achieving its aims by stimulating the search for savings and returning a portion of these to the budget.⁹ The Committee is still of the view that workplace bargaining offers an efficient and sophisticated alternative to the efficiency dividend.

4.15 **The Committee recommends that:**

- **the Department of Industrial Relations examine the feasibility of using workplace bargaining, without being inhibited solely by quantitative measures, as an alternative to the efficiency dividend; and**
- **in line with the general thrust to improved client service through devolving management authority to the lowest practical level, workplace agreements between agencies and their staff should be negotiated at each major workplace.**

6 see, for example, evidence, p. S86.

7 *Stand and Deliver*, op cit., pp. 25-29.

8 *ibid.*, p. 39.

9 *ibid.*, pp. 45-46.

Efficiency Dividend and Cash Limiting

4.16 During this inquiry it was the application of cash limiting and the efficiency dividend which attracted the most negative comment.¹⁰ In the main, the current criticism of these matters reflects that noted by the Committee in *Stand and Deliver*. In that report the Committee made seven recommendations, all of which were accepted by government.

4.17 *Stand and Deliver* comprehensively canvassed the issues related to the efficiency dividend. In the present inquiry, agencies expressed most concern about the application of the dividend to property operating expenses and the relationship of the dividend to the process of identifying productivity gains through workplace bargaining. Agencies also pointed to the fact that, under cash limiting, government requirements not related to an agency's core business, such as the resources required to implement work place bargaining, were unfunded.

4.18 The efficiency dividend will remain problematic as long as agencies continue to see it as related to cost cutting, rather than as a return to the budget of proven efficiencies. As recommended by the Committee, the efficiency dividend should be replaced by a resourcing arrangement under workplace bargaining which is tailored to agencies' individual needs. With more experience in workplace bargaining, and the renewed interest in resource agreements (see Chapter 3) the tools are available to build resourcing frameworks which impose stringency but avoid any of the potentially adverse consequences for programs of the blanket imposition of the efficiency dividend.

4.19 In the devolutionary context, budget stringency tends to lead to centralisation. As DFAT said:

*resource management and alignment will become so difficult that a move to recentralisation of control over budgets will become a distinct possibility. Thus the loss of flexibility in the budget process could have an unintended consequence of forcing agencies to pull back from the reforms worked through over the last 10 years and which are now starting to produce some real benefits.*¹¹

4.20 Criticism of the efficiency dividend notwithstanding, it is clear that it was reasonably effective in imposing a certain discipline on agencies and that through it agencies were able to demonstrate efficiencies, a portion of which were returned to the budget.¹² It is now clear, though, that a viable alternative to the efficiency dividend could be built around workplace bargaining, a process which elicits the cooperation of agencies and their staff in identifying efficiencies, while maintaining budget discipline and an emphasis on client service.

10 Evidence, pp. S5, S86; for a contrary view, see p. 144.

11 Evidence, pp. S86 - S87.

12 *Stand and Deliver*, op cit., p. 45.

1995/6 Budget cuts to running costs

4.21 Over and above the efficiency dividend and tightened cash limiting, most agencies were subjected under the 1995/6 Budget to a further 1% reduction in their running costs base and certain agencies submitted to an additional 1% reduction. Those exempted from this second tranche of cuts included small agencies and those with global budgets (Defence and AusAID) or triennial funding arrangements. This is expected to save \$122.7m in 1995/6.¹³

4.22 This is a budget savings measure and is not related to increasing the efficiency of public administration. The effects of these cuts were outlined by ABS:

The devolution of running costs within agencies depends on having a stable budgeting environment. All of the changes in the department's financing arrangements have been premised around an increasingly predictable budget outlook for us with an efficiency dividend that we know about and options to go through the budget process for new policy and so on. This year, the rules were changed by having an additional cut in our running costs. Obviously, that throws all your plans into disarray.¹⁴

4.23 The FMIP reforms, the success of which has been demonstrated, aimed to promote efficiency in resource management by providing managers with the opportunity to manage resources by way of the devolution of RCA flexibilities from DoF to agencies. Managers also had certainty of funding for the current year, and for the next two years. The rules of the game were known and even when they were not popular, as is the case with the efficiency dividend, they were accommodated.

4.24 To return now to an environment of arbitrary and ad hoc cuts to running costs damages the credibility of the current system and imperils the gains which have been made. Such a reversion engenders a climate of uncertainty where indications of future funding can at best be only tentative, where government priorities appear to be temporary, and where expediency seems to carry the day over planning. The effect of this on agencies is to stifle planning and to encourage a short term outlook, both of which are inimical to efficiency gains and changes to public service culture. In the Committee's view this is a deplorable situation which should not be allowed to recur.

4.25 **The Committee recommends that:**

the Government affirm its commitment to the efficiency mechanisms of the RCA by resisting attempts to make ad hoc and arbitrary cuts to running costs.

13 *Estimates memorandum, 1995/18, Department of Finance, paragraph 7; Budget paper No. 1, 1995/6, pp. 3-31 to 3-35.*

14 Evidence, p. 99.

Other difficulties with the devolution of RCA flexibilities

The pace and nature of change

4.26 Since 1983 the APS has undergone profound change (see Appendix 2). Some agencies argue that the amount and pace of change has been such that it has contributed to the difficulties associated with devolution. ATSIIC, for example, told the Committee that:

the timing and introduction of....changes to an agency's Running Cost arrangement and levels of funding....mitigate against a longer term planning process within the agency.¹⁵

4.27 Other agencies consider that the time for consolidation is now desirable. One such agency is the ATO which has certainly been at the forefront of reform, having dealt with changes in both the commercial environment and in the public service arena. As one representative put it:

It has been difficult for staff....I could go through a whole list of things that have impacted on us. In that environment things are changing rapidly. New functions are taken on board and the system itself is changing because of modernisation.....Managing those operational changes has been very difficult, involving, as it does, managing an office in an environment where agency agreements have been entered into and implemented.¹⁶

4.28 The ATO hopes that the next three years will be a period of stabilisation, providing the opportunity to consolidate.

4.29 The way change is implemented also affects the confidence of agencies in implementing more change. The recent 2% across the board cuts to running costs in the May budget disrupted plans. This does not promote the confidence to implement changes to management responsibilities or culture.

Balancing the needs of the centre with devolved units

4.30 One of the problems that agencies have with devolution is balancing the needs of the centre with the needs of devolved units.¹⁷

4.31 One response to this has been the notion of a corporate levy. Several agencies have used this practice (see Chapter 3). Other agencies do not advocate it for various reasons such as that central office can be regarded as a safety net by retaining some funds, thereby at least partially defeating the discipline that cash limiting imposes; or that line areas may not fully justify funding proposals before submitting them to central office.¹⁸

15 Evidence, p. S128.

16 Evidence, p. 47.

17 Evidence, pp. S46, S140, S201.

18 Evidence, pp. 5, 33, S148.

4.32 Despite these objections, the Committee regards a system of corporate levies as worthy of consideration. Corporate levies perform the dual functions of internal efficiency dividend and a source of funds for emerging corporate priorities. DoF uses the corporate levy to promote a contestable environment between devolved units. On the basis of bids from devolved units, senior management decides which unit will receive funds from the central pool.

4.33 **The Committee recommends that:**

agencies consider the concept of a corporate dividend which may be used to fund emerging central priorities, or may be allocated to projects on the basis of bids from devolved units within the agency.

Accountability mechanisms

4.34 This report has already emphasised the strong relationship between devolution and accountability. Agencies and their managers are accountable for the results they achieve, and devolution of running costs flexibilities must be accompanied by a flow of performance-related information upwards to central management.

4.35 The goal of an accountability information system is to give all parties as much as they need to know, when they need it, and in the form they need it. Aspiring to this goal, many agencies have implemented automated MIS as a means to control the accountability of devolved units.

4.36 Notwithstanding some commendable efforts in this regard, evidence before the Committee indicated that the want of reliable systems remains a brake on devolution.¹⁹ According to DSHS, 'one of the biggest challenges we have had in devolving running costs is having the support information systems to monitor how the funds are expended'.²⁰

4.37 As outlined to the Committee, the major problems in this area seem to be:

- systems which are inadequate to the task of coping with the additional information needs generated by devolution;²¹
- systems development has been production focussed, and producing performance information has been a secondary consideration;²²
- systems are not integrated; and²³
- systems are large, expensive and require a long lead time to develop.²⁴

19 Evidence, p. S148.

20 Evidence, p. 82.

21 Evidence, p. S148.

22 Evidence, p. S184.

23 Evidence, p. 175.

24 Evidence, pp. 82, 188.

4.38 The hardware and software of an accountability information system are important, but with the development of sophisticated automated systems high levels of system functionality are available, to the extent that the focus can move away from the agency's need for information to the tool used to provide it.

4.39 Integrated automated systems, which capture information about all types of resources used in delivering programs and present the processed information in a form useful to management, are the best options for agencies wanting to maintain accountability across all levels of management. To build or acquire such systems should be the aim of all agencies. Agencies should not lose sight of the fact that information is the important ingredient, and that a new system should meet the information needs of the agency.

4.40 The place of information systems within a devolved management structure can be affirmed by a rejuvenation of agencies' information technology corporate plans. Since 1987, agencies have been required to develop these strategic plans on a three yearly basis. Regrettably, plans have 'deteriorated to a low level process with inadequate linkages to an agency's corporate plan despite the (DoF) guidelines recognition of links between an agency's corporate and information technology plans.²⁵ The Report of the Minister for Finance's review group recommended that these plans should 'demonstrate a high degree of integration with the business objectives of the agency and the APS as a whole.²⁶

4.41 As already noted (see Chapter 3), it is incumbent on the CIO to develop advice for agencies in implementing decision support and accountability type systems for agencies.²⁷ The JCPA made a recommendation along these lines in its recent report on accrual reporting in the Commonwealth budget sector.²⁸ This Committee also agrees that the information technology corporate plan is vital to the functioning of an agency and supports the recommendation of the Minister for Finance's IT Review Group aimed at improving them. The Committee notes that under this recommendation, information technology plans should focus on serving clients' needs.²⁹ But in addition to what the Review Group has recommended thus far, the plan should also specify the place of information technology in the agency's strategies and include the goal of providing sufficient accountability from line managers to central office.

4.42 **The Committee recommends that:**

agencies' information technology plans should specify the place of information technology in their strategic direction, and include the goal of providing the means to ensure sufficient accountability from line managers to central office.

25 *Clients first: the challenge of government information technology*, op cit., p. 35.

26 *ibid.*, p. 36.

27 *ibid.*, See chapter 7 which sets out the role of the CIO.

28 *Accrual accounting - a cultural change*, page xvi, recommendation 7.

29 *Clients first*, op cit., p. 36, recommendation 6.

External scrutiny

4.43 The Committee was concerned at the possibility that risk taking and devolution may be stifled by misapplied standards of accountability. This was discussed in a 1989 paper by John Uhr which suggests that, whereas the reforms of the 1980's directed attention to the quality of decision making and results-oriented management, parliamentary accountability is 'closer to that of fairness and the public interest than to risk management'.³⁰ According to Uhr:

public servants are in for an awkward time, because two opposed models of accountability are about to collide. On the one hand 'risk management' with its celebration of let the manager manage..... and on the other hand 'responsible public administration: with its presumption in favour of public accountability'.³¹

4.44 The MAB/MIAC exposure draft on Managing Risk also discusses this point:

In the public sector, due regard in managing risk must be given to APS values and accountability requirements in order to satisfy parliamentary expectations. Conversely it is necessary for parliament to recognise and take account of the different approaches to managing risk in the public sector.³²

4.45 The role of parliamentary scrutiny and external scrutiny in general was aired during informal discussion the Committee held with managers in areas outside of Canberra. In particular managers felt that parliamentary committees and other agencies such as the ANAO were focussed on minor breaches of procedure and administrative oversights, not on the worth of systems and the quality of risk management within the agency.

4.46 On the subject of Parliament's role in the accountability mechanism, it has been said that:

....the temptation to score political points often gets in the way of rational scrutiny of and feedback on performance which the Department of Finance sees as the major function of the estimates scrutiny process.....[However] the main task for parliament in strengthening public accountability is to bring important arguments about government into the public sphere, not to take or promote any definitive position on them.³³

30 J Uhr, 'Dilemmas in administrative responsibility', *Canberra Bulletin of Public Administration*, August 1989, p. 26.

31 *ibid.*

32 *Managing risk*, op cit., p. 11.

33 Senator J Coates, 'Parliamentary use of performance data in program performance statements', *Australian Journal of Public Administration*, December 1992, p. 451.

4.47 Equally, such comments have been applied to the ANAO and other agencies of external scrutiny, although the MAB Risk Management exposure draft acknowledges a change in the attitude of the ANAO toward the risk management environment of the APS.³⁴

4.48 Although the emphasis on detailed scrutiny of inputs has been identified by DoF as a problem for agencies undertaking a risky policy like devolution,³⁵ evidence to the Committee on this point was ambivalent: some felt that the emphasis of external scrutiny was changing, others did not.³⁶ DIEA found a 'marked and positive change' in attitudes held by the Parliament and ANAO.³⁷

4.49 The current situation then is not clear. It would appear that some change of attitude is currently occurring, and this, in the Committee's view, is encouraging. The test of accountability which agencies are required to live up to should reasonably be that which is set for them by the policy under which they operate, that is, to manage for results. If external reviewers, including parliamentary committees, do not apply these standards and continue to focus on accountability for inputs it is possible that they will imperil the success of the reforms that the Parliament itself has championed. Under threat of intense examination by, for example, parliamentary committees, line managers may be less likely to direct their attention to innovation and client service, and will be content to ensure that inputs are tightly controlled and accounted for. In the Committee's opinion this is inimical to devolution and the progress of reform in the APS.

4.50 **The Committee recommends that:**

- **external reviewers of agency performance take account of recent reforms in the management of the APS which have emphasised client service, risk management and the efficiency mechanisms of the RCA; and**
- **reviews of agencies' performance should focus on the quality of program outcomes, and the level of satisfaction of agencies' clients rather than control over inputs and processes.**

Consistency of service delivery

4.51 Of some concern to agencies was the prospect of losing control over consistency of service. This was seen as a particular disadvantage to large networked agencies. It would seem that some agencies retain central control over some functions to avoid inconsistent service delivery.

34 *Managing risk*, op cit., p. 11.

35 Evidence, pp. 66-68, 216.

36 Evidence, pp. S214, S218, S225, S235.

37 Evidence, p. S225.

4.52 The ATO is a case in point. It has found that taxpayers go 'forum shopping' for the best possible outcome in the application of the tax law to their particular circumstances. It is significant that this problem predates the ATO's recent resourcing and structural changes, to the time when the ATO had only a relatively small number of main offices. In response to this problem the ATO central office publishes detailed guidance to taxpayers through the rulings program, and has instituted a networked interactive inquiry tool called Grapevine. Through this tool tax officers can ask all other ATO officers for information when addressing the unique circumstances of a taxpayer. The ATO has also networked relevant law, including tax related cases.³⁸

4.53 DEET encountered a similar problem with its CES network. It maintains that decision-making could become inconsistent through different interpretation of instructions, rules and regulations. In order to improve consistency the Department has moved its Secretary's Management and Financial Instructions to a networked database.³⁹

4.54 The Committee recognises that even in a non-devolved environment, decisions are never likely to be perfectly consistent, and that concerns over inconsistent quality of service in a devolved environment may arise as a result of an agency's desire to assure service quality throughout their networks. This is, however, a different matter to ensuring that all clients receive a uniform product through all branch offices. Devolution could create opportunities for local managers to customise products for local conditions, and this would provide an opportunity to maximise client satisfaction by enabling the local manager to use his or her discretion to address the client's needs. The risk of inconsistency exceeding reasonable bounds is lessened by promulgation of useful and easy-to-use guidelines and legislation, and the use of modern communication tools.

4.55 **The Committee recommends that:**

guidelines and legislation emphasise client service with sufficient accountability to allow for the possibility that local managers may need to adapt guidelines and programs to suit local conditions.

Administration of the RCA

The Department of Finance

4.56 DoF is a central coordinating agency, providing advice, information, accounting services and systems to agencies. In addition it analyses new spending proposals, and advises on techniques to evaluate the financial and economic impact of expenditure. It has a major role in advising government on budgetary and financial policy issues.

4.57 DoF is charged with the administration of the RCA, pursuant to an Administrative Arrangements Order of 6 June 1994. DoF assumed the administration of the RCA when Cabinet decided to take a more strategic focus on government management. According to

38 Evidence, pp. 35-37.

39 Evidence, pp. 173.

Finance, the RCA is intended to 'provide just sufficient resources...to enable the Government's objectives to be achieved while providing disciplines and incentives to maximise the efficiency of service delivery.'⁴⁰

4.58 DoF's broad mandate to oversee agencies and its reputation for parsimony make it a fitting target for agencies and individuals who are disgruntled with resourcing or government decisions. DoF is fated always to be condemned to the Cassandra role when agencies approach it for more resources. While this in no way denigrates the legitimate causes for concern which some agencies have, such considerations should be kept in mind when reviewing DoF's performance from the perspective of its client agencies.

4.59 Neither is criticism of DoF's role new. During its review of the FMIP the Committee concluded that DoF needed to foster an 'appropriate culture, attitudes and skills that support a role and approach which is consistent with the government's public sector resource management reforms'.⁴¹

4.60 In some instances, difficulties with DoF were found to have resulted from misunderstanding on the part of either or both DoF or the agency regarding the provisions of the RCA.⁴² More disturbingly other agencies report some suspicion, interference and adversarial feelings existing between DoF and themselves.⁴³ The fact that this unhappy climate appears to be persisting indicates that whatever mechanisms exist to resolve such disputes are not working.

4.61 The conclusion drawn by the Committee in its 1990 report appears to stand, in that there is still a problem of perception regarding DoF's motives. The Committee notes that DoF acknowledged in the FMIP inquiry that more needed to be done within its own organisation to alter the culture and foster developments of appropriate attitudes and skills in support of FMIP principles.⁴⁴ In the Committee's view DoF could be making greater efforts in this regard.

4.62 **The Committee recommends that:**

the Department of Finance extend and renew its efforts in support of the principles of APS reform, and explore new channels of communication with its client agencies, including improved dispute resolution mechanisms.

Senior Executive Service controls

4.63 The Senior Executive Service is a product of the Public Service Reform initiatives of 1984. Persons are selected to SES positions on the basis of their leadership abilities, corporate management skills and judgement. Separate arrangements for their recruitment,

40 Department of Finance, *Annual report 1993/4*, p. 4.

41 *Not dollars alone*, op cit., p. 65.

42 Evidence, pp. S118, 33, 34, 181.

43 Evidence, pp. S5, S10, S84, S141.

44 *Not dollars alone*, op cit., p. 65.

promotion, human resource development, performance appraisal, mobility and separation 'all reflect the particular needs of a flexible, Service-wide cadre'.⁴⁵

4.64 Before the advent of the RCA, DoF exercised detailed control over the running costs budgets of budget sector agencies, including their staffing budgets. Budgets were partitioned and these 'notional items' set a maximum on the amount that could be spent on a component within an appropriation.⁴⁶ With the exception of funding for SES staffing, notional items have all been folded into one running costs budget, and agencies exercise unfettered control over their internal management.

4.65 Control over SES positions in agencies is exercised in two ways. The Minister for Finance maintains funding control through a notional expenditure item, pursuant to section 29 of the *Audit Act 1901*. In addition, the Secretary of the Department of Finance exercises control over the number of SES positions in agencies. The Committee understands that this will be relaxed in the near future.

4.66 There was widespread support for the abolition of SES financial controls and some agencies also favour the abolition of numerical controls. Agencies argued that to separate out and maintain tight control over one type of staff was artificial, anomalous and passed the point of any utility it might once have had.⁴⁷

4.67 The Committee was not presented with any documented reasons for the continuing controls over the SES. It is inappropriate for this control over input to continue in an environment geared toward results. While eschewing direct comment on the propriety of a government policy, DoF remarked:

At the time the running costs arrangements were created, there was a bit of concern, fuelled partly you would have to say, by a media comment that senior Public Service levels would blow out if Public Service managers were given greater freedom, there would be an excess of fat cats and so on.⁴⁸

4.68 There is no evidence before the Committee to suggest the occurrence of such a blowout if SES controls are loosened. In the absence of such evidence, it could equally be argued that SES staff numbers, being expensive per unit, may actually fall if agencies had control over funding and numbers. The AFP has no restrictions on the number of SES officers it may employ under contract, but has experienced no blowout. Indeed, it is currently implementing a flatter structure, which implies fewer senior executives.⁴⁹

4.69 Continuing nervousness over a blowout in SES numbers reflects a view that the RCA mechanisms which promote more efficient use of budget funds, namely cash limiting and the efficiency dividend, would be ineffective against burgeoning SES numbers. Moreover,

45 see *The Australian Public Service Reformed*, op. cit., p. 173.

46 *Running costs arrangements handbook*, op cit., paragraph 1.3.

47 Evidence, pp. 167, 174, 205, 206, 223, S35, S39, S67.

48 Evidence, p. 65.

49 Evidence, pp. 191, 184.

continuing restrictions on SES numbers and the maintenance of the SES notional item in agency running cost budgets is restrictive of agency flexibility. Indications are that agencies need this flexibility in managing under tighter cash limiting, ad hoc running cost cuts and the efficiency dividend.

4.70 The Committee recommends that:

financial control through the SES notional item be abandoned, and SES resourcing included with other running costs.

Limitation on capital amounts payable from Appropriation Bill No 1

4.71 Under the RCA, minor capital items, up to a value of \$250 000, can be purchased from running costs budgets. This amount is insufficient, according to the ABS, an assessment with which DoF concurs.⁵⁰

4.72 The adjustment to the amount for minor capital payable under the RCA raises issues which have their origin in the *Constitution*. Under section 53 of the *Constitution*, the Senate may not amend proposed laws appropriating monies for the ordinary annual services of the government. The meaning of 'ordinary annual services' was clarified by agreement between the Houses of Parliament in the Compact of 1965. The Treasurer of the time set out the contents of what would be *Appropriation Bill No 2*, expenditure that was not the ordinary annual services of government. This included provision for 'items of plant and equipment which are clearly definable as capital expenditure'.⁵¹

4.73 A Senate committee considered the question of ordinary annual services in 1967.⁵² It recommended that 'as a working rule, expenditure on items of plant and equipment below the value of (\$100 000) be included.....for ordinary annual expenditure'.⁵³ The figure of \$100 000 in 1967 would be approximately equivalent to \$750 000 in 1995.⁵⁴

4.74 No 'working rule' was established, and the issue lapsed until the advent of the RCA. In August 1988, the Department of Finance suggested to the Presiding Officers and the Chairs of the Senate and House Committees on Finance and Public Administration, that a figure of \$250 000 could be regarded as minor capital and included in *Appropriation Bill No 1*. This figure was adopted from the 1989/90 budget. Although it was intended to index this figure for inflation, no adjustments have been made.

50 Evidence, p. 218. S39.

51 *Hansard*, House of Representatives, 13 May 1965.

52 *Report from the Committee appointed by the Government Senators on Appropriation Bills and the Ordinary Annual Services of Government*, Commonwealth Government Printer, 1967.

53 *ibid.*, paragraph 93.

54 The Gross non-Farm Product Price deflator was 14.7 in March 1967. By March 1995 it had risen to 109.9. Applying the deflator to the original amount of \$100 000 yields a money equivalent value at March 1995 of approximately \$750 000.

4.75 The amount of \$250 000 is not relevant if the total funding proposal is for greater than \$2m (for IT systems), or is wholly or partly related to new policy not yet approved by government.

4.76 It is not known how the figure of \$250 000 was arrived at by DoF, or whether it was to be revised for any real increase in minor capital costs. Indications are that a figure of far greater than the \$250 000 which currently applies was intended by the government in 1965, if the 1967 report is a reliable indicator. For agencies which are funded mainly by running costs, such as the ABS, increasing the limit for minor capital will increase the flexibility available to them in purchasing plant and equipment.

4.77 The downside for most other agencies is that any increase in the minor capital funding amount will bring more of their total budget under the shadow of the efficiency dividend. What remains to be determined is whether the even greater flexibility available to agencies will compensate them for efficiency dividend imposts.

4.78 The aims of the RCA are flexibility and providing managers with the opportunity to seek efficiencies. Increasing the amount available for minor capital works can only increase the flexibility of the system and give managers greater room to manoeuvre. It is reasonable that a new figure should be set for minor capital works which will adequately cover the costs of most plant and equipment in this category.

4.79 **The Committee recommends that:**

the amount for minor capital works to be included under running costs in *Appropriation Bill No 1* be increased from \$250 000 to \$750 000.

Skills and staffing

4.80 Previous reports on devolution have pointed to the need for appropriate skills as an essential element of any strategy to devolve management.⁵⁵ The ANAO's reports on accrual accounting found that agencies needed to give considerable attention to the training and other development needs of staff in decentralised locations.⁵⁶

4.81 Consistent with these findings, agencies reported to the current inquiry their concerns over the level of financial skills in their devolved environments, and have directed their training efforts to that end.⁵⁷ Agencies provide training inhouse or through consultancies, and DoF runs courses through each of its Regional Offices.

4.82 Agencies are very happy with the training provided by DoF, through which they have access to a range of subjects concerning compliance with accountability and reporting responsibilities, including risk management. In addition, the cost of attendance at a DoF

55 MAB/MIAC *Devolution and regional offices*, op. cit., p. 5; *Devolution of corporate services*, op. cit., pp. X, 10; *Delegated authority handbook*, op. cit., p. 20.

56 *Accrual accounting: are agencies ready?*, op. cit., paragraph 2.17; *Follow-up report to accrual accounting*, op. cit., paragraph 2.51.

57 Evidence, pp. 95, S16, S126.

course is well below rates for comparable commercial courses. DoF also runs a regional managers' forum in each State and Territory which those agencies who have attended regard as very useful.

4.83 The need to build or maintain a skills base to match the responsibilities of devolved management presents some problems and agencies report that training is expensive.⁵⁸ Recruiting and retaining appropriate staff, in both central and outlying areas, also present problems.⁵⁹

4.84 The AFP has dealt with this by promoting attendance at training courses run by DoF or other agencies, and supporting attendance at tertiary institutions through studies assistance schemes. Close liaison between the decentralised elements also assists in coping with skills gaps.⁶⁰ DEET uses computer assisted learning packages, and uses the DSS's television network for training purposes.⁶¹

4.85 The local level of skill in financial management need not be high for effective and efficient devolved management to occur. Processing tasks requiring expertise may be centralised, although authority to make decisions can be held away from the centre.

4.86 Financial management is naturally the prime concern of agencies in devolved running costs management. This reflects the effects of recent budgeting and reporting changes, as well as high standards of financial accountability in the APS. Yet it is necessary to maintain a training effort in other areas of management such as risk management, personnel management and property management, to name but three. Agencies also need to be aware of training needs in a devolved environment. In relation to financial skills, recent research by the ANAO indicates that this is being done.⁶²

4.87 **The Committee recommends that:**

each agency survey the skills needed for management within their devolved environments and frame training strategies around these identified skill needs.

58 Evidence, pp. S20, S126.

59 Evidence, pp. S110, 175, 186-187.

60 Evidence, pp. 186, 187.

61 Evidence, pp. 175, 176.

62 ANAO *Follow up report*, op. cit., paragraph 2.51.

CHAPTER FIVE

CONCLUSIONS

5.1 This inquiry has enabled the Committee to examine closely several aspects of the devolution of the RCA flexibilities. A number of distinctive features, problems and conclusions have emerged.

5.2 Since 1983 an agenda of reform has been pursued under the umbrella of the FMIP. The objective of these reforms has been to create a more efficient and effective public service, producing results in line with government objectives and with an awareness of the costs of achieving results. Devolution has been undertaken within the context of this reform agenda. Reviews of the FMIP have emphasised the success of the reforms, although the reform process itself was judged to be incomplete.¹

5.3 Greater devolution of management authority within agencies, including the devolution of the flexibilities available to agencies under the RCA, has been a major, though incomplete, aspect of the reformed resource management environment.

5.4 A number of observations about devolution need to be reiterated. As this report has sought to emphasise, the key concept underpinning devolution concerns who is able to take purposive action for the benefit of the agency's clients. In light of this devolution should be regarded as a management tool, not an end in itself. Further, devolution must be matched by accountability. Essential for the efficient and effective administration of a devolved environment is a two-way flow of information, from the administrative centre to the devolved unit and back again.

5.5 In devolving the flexibilities under the RCA, agencies have treated the flexibilities as a menu, and have chosen to devolve them according to their own requirements and circumstances. A variety of reasons has emerged for not devolving the right to manage running costs and the flexibilities under the RCA. While some of these reasons may be valid the Committee is not convinced that agencies have taken up the challenge of devolution and the opportunity it provides to improve client service. Also, it is apparent that many agencies have not distinguished between decentralisation and devolution when decisions are being made to centralise the management of running costs.

5.6 Two important conclusions have emerged from this inquiry. The first of these is that the search for ways to implement more efficient management structures, including devolution, will be spurred on by the need for efficiency gains and better program delivery, resulting in improved client service. It seems that the introduction of contestability, for example, through opening up a function to market forces, constitutes one of the most potent incentives for efficiency. For the budget sector, whose functions have not yet been, or cannot be, opened to competition from other providers, programs of continuous improvement, benchmarking and the inherent RCA disciplines of cash limiting and the efficiency dividend are the most likely incentives for increased efficiency. Related to the concept of contestability is that of output

1 for example, see *Not dollars alone*, op cit., p. 121.

based funding, where, as in commercial entities, satisfying customer needs leads to the generation of revenue. This linkage does not currently exist in the budget sector, which is funded on inputs. Using techniques such as resource agreements and business planning it may be possible to introduce output-based funding in the budget sector, thus improving its client emphasis.

5.7 The second conclusion which the Committee has drawn from this inquiry is that a necessary component of devolution is change to agency culture, the shared attitudes or values of an agency. A key element of this change in culture is a focus on clients. The character of this cultural change reflects the character of the impetus for the introduction of devolution. In turn, changes to attitudes occur as a result of the introduction of devolved management. Any cultural change should pay attention to public sector values, with their emphasis on probity, integrity and highest standards of conduct.

5.8 In introducing devolution agencies should pay due regard to its inevitable costs, and weigh these against the likely benefits.

Improved management and best practice under devolution

5.9 The Committee's misgivings aside, where devolution has been applied, indications are that the aims of the FMIP reform process have been advanced by the devolution of running costs flexibilities. This is consistent with the findings of previous reports, especially those by the MAB and by this Committee. Areas where devolution has improved management are operational planning, ease of budget variation, reduced need for central office oversight, changes to structures, increased job satisfaction and better resource management practices.

5.10 These changes, which will improve the quality and value for money of programs delivered by the APS, have been encouraging. The Committee noted some practices of agencies which deserve consideration by the broader APS. Among these are business planning in Budget-funded entities, central corporate levies and the introduction of flatter structures.

5.11 Despite some encouraging developments, there are areas, even where the general picture is positive, where change has yet to occur. For example, despite the influence of the carryover provisions, the end of year surge in spending appears to have carried through unabated.

Overcoming obstacles to effective devolution of RCA flexibilities

5.12 The Committee notes that the devolution of running costs flexibilities is uneven throughout the budget sector, despite the wide acceptance of the theory behind the RCA flexibilities. As reflected in the Committee's report on the efficiency dividend, agencies feel that cash limiting and the efficiency dividend are placing them under excessive pressure and in some cases may even be reducing their operational capacity.

5.13 The evidence for this is largely anecdotal, and DoF maintains that the efficiency dividend in particular merely harvests some, not all, of the efficiency gains which agencies have made by the application of the flexibilities of the RCA. While some form of objective quantitative measure of efficiency gains or losses is lacking, both DoF and agencies will continue to maintain their respective positions on this question. The Committee made a

recommendation in its efficiency dividend report concerning the development of a measure of productivity for the APS. As this recommendation appears not to have been considered seriously by either DoF and the Department of Industrial Relations, the Committee has reiterated it.

5.14 Until now, for all their faults, no viable replacements to cash limiting and the efficiency dividend have emerged. Agency bargaining, where a return to the Budget as well as to agency employees is generated, has potential as an alternative and is worthy of further consideration, providing that discipline over agency budgets is maintained. If workplace bargaining arrangements are to replace the efficiency dividend, it will first be necessary to develop an effective approach to measuring productivity change and service quality.

5.15 The Committee considered the cuts to running costs announced in the 1995/6 Budget and is of the view that these cuts were a deficit reduction strategy, an expediency, which will not promote certainty or the aims of the resource management reforms under the FMIP.

5.16 Other general and administrative difficulties associated with devolution of resource management have been noted. These include the inability of large agencies to cope with major and sustained change, difficulties in dealing with DoF and with certain aspects of central control such as SES funding and minor capital expenditure. These were not chronic problems and should, with resolve on the part of DoF and agencies, be overcome.

Some suggested enhancements to the RCA mechanisms

5.17 In spite of the difficulties and problems with devolution noted by the Committee, it considers that there is considerable scope for enhancements to the management of operating costs in the budget sector.

The role of the Department of Finance

5.18 DoF takes a hands-off approach to the implementation of devolution within agencies. It sees its role as a disseminator of information, rather than as a watchdog overseeing whether agencies are devolving appropriately.² The evidence suggests that this perception is not widely shared by client agencies. Nevertheless, according to the theory of devolution, this is the appropriate role for DoF to take: once it has 'let go' of control of Budget-funded agencies, it must trust them to do what they are supposed to in the context of devolution. In DoF's view, agencies are to promote maximum efficiency in service delivery by devolving decision-making authority to the lowest practical level.

5.19 What may be missing from this equation is the flow of information back to DoF from agencies as to how they are discharging their devolutionary responsibilities. In line with its own overall responsibility for the implementation of the running costs arrangements, DoF is concerned that some agencies are not devolving to the optimum level. This reluctance to devolve, documented in previous reviews of the RCA, has been referred to elsewhere in this report. The lack of information on where devolution is not working inhibits DoF's ability to provide assistance to agencies.

2 Evidence, pp. 64, 70.

5.20 Reference has already been made to DoF's Regional Managers' networks in providing intelligence to DoF on the situation within each agency at the Regional Office level. But what may be needed is a form of reporting by agencies on difficulties, or, alternately, best practice, in devolving the management of resources.

5.21 **The Committee recommends that:**

the Department of Finance institute a form of reporting from agencies on progress toward implementation of devolution of running cost flexibilities within agencies, and examples of best practice.

Zero based budgeting

5.22 ZBB is a form of budgeting which periodically, usually annually, re-bases the budget of an entity back to zero. The requirement is then to justify all expenditure from the bottom up, imposing on managers the necessity for continual re-examination of all aspects of their spending. It is not assumed that just because spending was valid in one period, it is valid in another.

5.23 At present, expenditure is re-based irregularly, and increments or decrements to budgets use the present budget, with some adjustments, such as for the efficiency dividend and price rises.

5.24 The Commonwealth sector does not use ZBB, although some agencies have referred to similar mechanisms used internally on a small scale.³ DoF advised the Committee that the annual use of ZBB would impose a great burden of review on Ministers and central agencies as each Budget cycle would involve an analysis of each item of expenditure made by an agency⁴ Also it would re-involve DoF in detailed consideration of the internal working of agencies, a position it is reluctant to reassume.

5.25 If all agencies' budgets were to be re-based annually, then the DoF view is difficult to refute. But there is no particular reason why re-basing running costs, as distinct from program budgets, could not occur on, say, a 5 yearly basis. Under this scenario, one fifth of agencies would be re-based each year.

Funding for parliamentarians

5.26 Currently, parliamentarians' entitlements and allowances are managed by DAS under its Ministerial and Parliamentary Services subprogram. In the year ended 30 June 1994, the subprogram had total net outlays of \$160.5m (of which 49% was running costs)⁵ and has used 113 staff years. Parliamentary salaries are tied to APS SES salaries, while allowances are determined by the Remuneration Tribunal.

3 Evidence, pp. S44, S48, S93.

4 Evidence, pp. 61, 62.

5 Department of Administrative Services, *Annual Report 1993/4*, p. 66.

5.27 Control over the administration of parliamentarians' entitlements and allowances by DAS resembles the line-by-line control which DoF exercised over agencies prior to the RCA, and has since relinquished. Such control could be replaced with a global budget, from which parliamentarians would meet all their commitments, such as travel, postage, and electorate offices expenses. Such a measure would be similar to agencies' budgets and funding for parliamentarians would then be subject to cash limiting and the efficiency dividend. Appropriate public scrutiny, such as audit, could be built into such a scheme.

5.28 The Committee recommends that:

the Minister for Administrative Services review the possible use of a global budget approach to parliamentarians' entitlements and allowances.

Changes to legislation

5.29 In June 1994 the Government introduced a package of three Bills and associated measures designed to modernise controls over Commonwealth finances and businesses owned by the Commonwealth. These were: the *Financial Management and Accountability (FMA) Bill 1994*, the *Commonwealth Authorities and the Companies Bill 1994*; and the *Auditor-General Bill 1994*. The most conspicuous feature of these initiatives is the repeal and replacement of the *Audit Act 1901*. The Bills are currently before the Senate, and the Government intends that they will commence from 1 July 1996.

5.30 The *FMA Bill* seeks to provide a regulatory framework for Commonwealth instrumentalities which financially are agents of the Commonwealth, that is, broadly speaking, those bodies which do not 'own' their funds and operate squarely within the provisions of sections 81 and 83 of the *Constitution*. Agencies covered by the *FMA Bill* include the budget sector agencies and many statutory authorities.

5.31 Amongst other things the *FMA Bill* modernises the accounting system for public money generally, and, importantly from the point of view of devolution, outlines the powers and responsibilities of agency chief executives. CEOs have an overarching responsibility to manage the affairs of the agency in a manner that promotes efficient, effective and ethical use of Commonwealth resources. (Clause 45 of the *FMA Bill*).⁶

5.32 The JCPA reviewed the legislation in 1994. It argued that the *FMA Bill* is probably the most significant of the package of three Bills introduced. The JCPA welcomed the introduction of the Bill and stated its belief that the *FMA Bill*, 'will establish an appropriate structure for the financial management and accountability of the Commonwealth's assets'.⁷

6 see B. Bennet, *The Financial Management and Accountability Bill 1994*, Bills Digest Service, Parliamentary Research Service, 1994.

7 quoted in Bennet, *op. cit.*

A view to the future

5.33 Predicting what will drive public service efficiency in the future is not easy, but the MAB has attempted to do so in several of its publications.⁸ *Building a Better Public Service* presents a strategic base to an ongoing reform program, focusing on the following three factors:

- making performance count by closely looking at client needs and service quality, evaluating achievements, rewarding good performance at all levels, learning from and building on past performance, and being accountable;
- leadership, emphasising the key responsibility of agency heads in managing for results and clarifying the roles of central agencies and other mechanisms for sharing knowledge and experience; and
- strengthening the culture of continuous improvement, through better people management and development, and by embedding attitudes and a culture that continually seek to find better ways to achieve results.⁹

5.34 The Committee asked some agencies to indicate from where future efficiencies in the APS would come. This is relevant to the current inquiry as it is in the search for greater efficiency and better service that devolved management styles are employed. The range of responses was as wide as the range of activities and functions undertaken by government agencies. Predictably, agencies subject to competition from the private sector cited competition as the driving force behind efficiency improvements.¹⁰ Another factor is the knowledge, made possible with the use of accrual accounting techniques, of full costs of activities and programs.¹¹

5.35 Budget-funded agencies cited a variety of influences prompting them to efficiency gains. These included workplace bargaining,¹² and the application of some or all of the RCA flexibilities.¹³ The ATO observed that it is impossible to single out any one measure as being more effective than any other.¹⁴ The process is a synergistic one.

5.36 In the current climate of reform to the public service, it is valid to speculate on the future profile of government. Under the influence of information technology and the global economy the fundamental processes and role of government will be reassessed. The salient questions for government will be the same as those for business: where do we add value? What do governments need to do well in order for their citizens to compete in a global economy and meet their social objectives?

8 see *Australian Public Service Reformed*, op. cit., *Building a Better Public Service* op. cit.; and *Ongoing Reform in the Australian Public Service*, op. cit.

9 *Building a Better Public Service*, op. cit., p. 13.

10 Evidence, pp. 176, S213.

11 Evidence, pp. 145, 176.

12 Evidence, pp. S213, S217.

13 Evidence, pp. S217, S224, S246.

14 Evidence p S217, S234.

5.37 A possible result of this process of government's being 're-engineered' is a shift in who does what. As the Committee has stressed throughout this report, enhanced client service is, or should be, the goal of management, including devolved management. The Committee believes that in pursuit of this goal new directions in public sector management are worthy of further deliberation.

5.38 The probability is that government in the future will become less monolithic, will be relatively smaller and will be delivering services in very different ways to those that are currently employed. For this reason it is important that the public sector continue to canvass options for reform.

DAVID SIMMONS MP

Chairman

16 October 1995

APPENDIX 1

Conduct of the Inquiry, Evidence and Witnesses

1. The House of Representatives Standing Committee on Banking, Finance and Public Administration is established under Standing Order 28B. The Committee is empowered to inquire into and report on any matters referred to it by either the House or a Minister.
2. On 7 December 1994 the Committee received a reference from the Minister for Finance, the Hon Kim Beazley MP, to inquire into and report on the devolution of running costs flexibilities.
3. The Committee appointed a subcommittee comprising Mr J Bradford MP (Chairman), Mr B Cunningham MP and Mr M Latham MP on 2 February 1995 to inquire into and report on the reference.
4. The reference was advertised in the Weekend Australian and the Canberra Times on 18 February 1995. The advertisement asked for submissions to be lodged by 31 March 1995. The Committee also wrote to all portfolio agencies inviting them to make submissions to the inquiry.

Public Hearings

5. The subcommittee carried out the following series of public hearings in the course of the inquiry:

Canberra	29 May 1995
Canberra	5 June 1995
Canberra	19 June 1995
Canberra	4 July 1995
Canberra	11 July 1995

Informal Discussions and Private Meetings

6. The subcommittee carried out the following series of informal discussions and private meetings in the course of the inquiry:

Canberra	29 March 1995
Sydney	18/19 April 1995
Melbourne	15 June 1995

Evidence

7. The evidence consists mostly of written submissions made to the Committee, oral evidence taken at public hearings and documents received in the course of the inquiry.

8. Thirty five submissions were received. The written submissions which have been authorised for publication along with the oral evidence will be bound and copies sent to the National Library and Parliamentary Library. A set will be retained in the committee secretariat.

9. The submissions authorised for publication are as follows:

Submission	Name of person/organisation
1	Bureau of Meteorology
2	Administrative Appeals Tribunal
3	Department of Housing and Regional Development
4	Department of the House of Representatives
5	Australian National Training Authority
6	Department of the Parliamentary Reporting Staff
7	Department of Tourism
8	SBS
9	<i>National Library of Australia</i>
10	Australian Taxation Office
11	Australian Bureau of Statistics
12	Department of Human Services and Health
13	Community and Public Sector Union
14	Attorney-General's Department
15	Department of Environment, Sport and Territories
16	Department of Foreign Affairs and Trade
17	CSIRO
18	AusAID
19	Department of Employment, Education and Training
20	Australian Federal Police
21	Aboriginal and Torres Strait Islander Commission
22	Department of Primary Industries and Energy
23	Family Court of Australia
24	Department of Administrative Services
25	Department of Immigration and Ethnic Affairs
26	Department of Finance
27	Department of Social Security
28	Centre for Australian Public Sector Management
29	<i>Attorney-General's Department</i>
30	Commissioner of Taxation
31	Department of Immigration and Ethnic Affairs
32	AusAID
33	Department of Transport
34	Department of Employment, Education and Training
35	Department of Social Security

Witnesses

10. The following witnesses appeared before the Committee and were examined:

Witness/ organisation	Date(s) of appearance
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Australian Agency for International Development	11 July 1995
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Mr Robin Casson
Assistant Director-General
Financial and Resource Management Branch
Corporate Development and Support Division

Mr John Domitrak
Acting Director
Staffing and Personnel Management Section
Financial and Resource Management Section

Ms Wendy Messer
Director
Finance Section
Financial and Resource Management Branch

Ms Deborah Stokes
Deputy Director-General
Corporate Development and Support Division

Mr Peter Vardos
Acting Assistant Director-General
Development Issues and Corporate Policy Branch

Australian Bureau of Statistics	4 July 1995
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Dr Richard Madden
Deputy Australian Statistician

Mr Christopher Dent
Assistant Statistician
Office of the Statistician

Australian Federal Police

11 July 1995

Mr Phillip Baer
Assistant Commissioner
Officer in Charge
Eastern Region

Mr Arnold Hoytink
Acting Associate Commissioner

Mr Gregory Thompson
Acting Assistant Secretary
Government and Public Relations Division

Attorney-General's Department

29 May 1995

Mr Terrence Gallagher
General Manager
Resources

Mr Geoffrey Hine
Acting Manager
Financial Management Branch

Australian Taxation Office

5 June 1995

Mr Ray McNicol
Assistant Commissioner
Corporate Directions

Ms Vicki Woolley
Corporate Budgeting
Corporate Directions

Department of Administrative Services

4 July 1995

Mr Trevor Barrell
General Manager
Corporate Resources

Department of Defence

11 July 1995

Mr Robert Tonkin
First Assistant Secretary
Resources and Financial Programs

Department of Employment, Education and Training

11 July 1995

Dr Trish Mercer
Assistant Secretary
Financial Management Branch

Mr Pat Watson
Financial Resources Section
Financial Management Branch

Department of Finance

19 June 1995

Mr Stephen Bartos
Principal Adviser
General Expenditure Division

Mr Peter Wild
Acting Director
Resource and Running Costs Policy Section

11 July 1995

Mr Stephen Bartos
Principal Adviser
General Expenditure Division

Mr Peter Wild
Acting Director
Resource and Running Costs Policy Section

Department of Human Services and Health

4 July 1995

Mr John Ayling
Assistant Director
Business Improvement Unit
Financial Management Branch

Ms Sue Hamilton
Acting First Assistant Secretary
Corporate Services Division

Mr Nick Mersiades
State Manager
Queensland State Office

Mr John Reynolds
Acting Assistant Secretary
Financial Management Branch

Department of Immigration and Ethnic Affairs

4 July 1995

Ms Jenny Bedlington
Acting Deputy Secretary

Mr Vincent McMahon
Acting First Assistant Secretary
Corporate Services Division

Mr Bernard Waters
Acting Assistant Secretary
Resource Management Branch

Department of Social Security

4 July 1995

Mr Andrew Phelan
Acting First Assistant Secretary
Corporate Services

Mr Graham Maloney
Acting Assistant Secretary
Resources Branch

APPENDIX 2

Reforms to the Australian Public Service since 1983

Structural reforms

- a significant number of functions, and staff, have been transferred to new Government Business Enterprises (GBEs);
- the Public Service Board was disbanded and its functions either devolved to CEOs or transferred to the new Public Service Commission, the Department of Industrial Relations or the Department of Finance;
- departments and functions were amalgamated as part of the 1987 Machinery of Government changes. These major changes saw the creation of "mega departments", a substantial reduction in the number of departments and the appointment of more than one minister to head each of the expanded departments;
- organisational and performance measurement changes were instituted because of the move to program management and budgeting;
- within agencies, many corporate services and other functions have been devolved to operational areas;
- increased devolution from central agencies was matched by an increased emphasis on accountability; and
- service delivery was moved away from central offices to areas closer to clients. This is known as "regionalisation".

Industrial and human resource management reforms

- "flatter" structures were introduced, reducing the number of vertical supervision, communication or decision making layers in an agency;
- the wage fixing principles set down by the Australian Industrial Relations Commission in National Wage Case decisions were applied to the APS;
- permanent part time work was expanded;
- progress was made toward industrial democracy. In making decisions, agencies draw on the experience and expertise of staff at all levels;
- workplace bargaining was introduced, giving agencies scope for adaptation of pay and classification structures and for more flexible employment conditions where this is consistent with the continuation of an integrated, merit-based career service conducive to staff mobility;

- the Senior Executive Service was formed to replace the former second division of the APS;
- career planning and performance appraisal was promoted with a system of rewards for outstanding performance; and
- Occupational Health and Safety (OH&S) and Equal Employment Opportunity (EEO) initiatives.

Commercial reforms

- reforms have been made to the method by which Commonwealth agencies purchased goods and services, or contract out functions to the private sector or to other Commonwealth agencies;
- user charging has been introduced for certain services; and
- agencies were permitted to retain certain revenue earned through commercial activities, user charging or asset sales. Agencies enter into resource agreements with the Department of Finance as part of these revenue retention arrangements.

Planning and reporting reforms

- the Corporate planning process establishes a rationale for the organisation and its broad direction for development. It provides the strategic focus for the other elements of "managing for results"; and
- there has been an increase in evaluation activity, to the extent that evaluation is being incorporated into management culture.

Financial reforms were part of this broader framework of change. These reforms were introduced under the umbrella of the FMIP.

- the capacity of government to manage expenditure has been aided by the new forward estimates process. Under this system managers have been given more flexibility to achieve departmental objectives with their running costs;
- a range of budgeting strategies was introduced under the heading of portfolio budgeting. This means that where a minister wishes to put forward a new policy proposal he or she should review priorities within the portfolio to identify offsetting savings;
- a new approach to providing salaries and other administrative resources to Budget dependant agencies was originated. The Running Costs Arrangements which were introduced in 1987/88, allow agencies to decide for themselves, subject to minimal guidelines, how and when running costs will be met. Facilities to borrow from future appropriations and to carry over surpluses were also introduced;
- introduction of accrual accounting and reporting, to replace traditional cash-based accounting and reporting;

- the efficiency dividend was an element of the Running Costs Arrangements. It is intended to return (to the Budget) each year a portion of the efficiency gains made by agencies as a result of the global reforms of the 1980's;
- resource agreements, made between Finance and agencies, provide resources to agencies in exchange for, amongst other things, offsets to running costs, meeting specific objectives and formulating, or monitoring and executing an agreed plan. Resource agreements provide room for an agency to manoeuvre, beyond that normally available to it during budget negotiations, and provide guaranteed funding based on workload changes;
- government departments are to move progressively to accrual reporting to improve further the focus on departmental performance and enhance accountability. The decision to move to accrual reporting was seen as a logical step from current departmental reporting guidelines which have required an increasing level of disclosure about assets and liabilities in their financial statements. The first full year of accrual reporting ends on 30 June 1995;
- changes to the timing of the Budget for 1994/5 were announced by the Treasurer in December 1993. The earlier Budget, brought down in May rather than August, was intended to help departments and agencies to plan on a full financial year basis with Budget funding available on a similar time frame, to render a supply period unnecessary and to provide States with the opportunity to bring down their own budgets before the end of the financial year;
- the decision to deliver the Budget earlier and the creation of a new Budget cycle has led to a reappraisal of Budget and related documentation; and
- legislation has been drafted to replace the *Audit Act 1901* to modernise controls over Commonwealth finances and businesses. The intended commencement date for the Three Bills package is 1 July 1996.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that proper record-keeping is essential for ensuring transparency and accountability in financial reporting. This section also highlights the role of internal controls in preventing errors and fraud, and the need for regular audits to verify the accuracy of the data.

2. The second part of the document focuses on the importance of communication and collaboration between different departments and stakeholders. It stresses that effective communication is key to ensuring that everyone is on the same page and that information is shared in a timely and accurate manner. This section also discusses the importance of documenting all communications and decisions to avoid misunderstandings and ensure a clear trail of information.

3. The third part of the document discusses the importance of staying up-to-date on industry trends and regulations. It emphasizes that the business environment is constantly changing, and it is crucial to stay informed about the latest developments in the industry. This section also discusses the importance of staying up-to-date on relevant laws and regulations to ensure compliance and avoid legal issues.

4. The fourth part of the document discusses the importance of maintaining a strong relationship with customers and clients. It emphasizes that customer satisfaction is a key driver of business success, and it is essential to provide high-quality products and services that meet the needs and expectations of the customer. This section also discusses the importance of listening to customer feedback and using it to improve the business.

5. The fifth part of the document discusses the importance of maintaining a strong relationship with suppliers and vendors. It emphasizes that a strong relationship with suppliers is essential for ensuring a steady flow of goods and services, and it is crucial to communicate effectively with suppliers to resolve any issues that may arise. This section also discusses the importance of negotiating favorable terms and conditions with suppliers to ensure the best possible value for the business.

6. The sixth part of the document discusses the importance of maintaining a strong relationship with the community and other stakeholders. It emphasizes that a business is not just a collection of people and resources, but a part of the community, and it is essential to be a responsible and active member of the community. This section also discusses the importance of supporting local businesses and organizations to help the community thrive.

7. The seventh part of the document discusses the importance of maintaining a strong relationship with the government and regulatory agencies. It emphasizes that the government plays a significant role in the business environment, and it is essential to maintain a good relationship with these agencies to ensure compliance and avoid legal issues. This section also discusses the importance of staying up-to-date on government policies and regulations to ensure the business is always in compliance.

APPENDIX 3

Prerequisites for successful devolution

From the *Delegated Authority Handbook*, MAB/MIAC, October 1994, pp. 20- 21.

Good practice for proper devolution of power includes the following steps:

- (a) Identify the *complexity of the issues* that may arise in exercising the particular power.
 - (I) This may require *legal advice about the legal and factual issues* that may need to be addressed by those who will make the decisions.
- (b) Identify any *different classes* of complexity decisions.
- (c) Identify the *lowest level* at which decisions of a given complexity may be handled.
 - (i) This involves considering the *appropriate classification* of the officers to which the power will be delegated.
 - (ii) The existing legislative framework may give scope to support a more devolved decision making structure where *rules or guidelines* may be made or decisions can be reviewed following *internal review* (see part 1 of this chapter).
 - (iii) It may be appropriate to delegate a *new power* only to senior delegates so that *precedents and models for the appropriate use of the power* can be developed before it is further devolved.
- (d) Confirm that suitable *staff* can be *recruited* at that level and given *training* in a cost effective manner.
 - (i) This also requires that selection and training procedures provide a pool of *replacements* to maintain quality of decision making in periods of leave or staff turnover.
 - (ii) Staff must be trained to *identify relevant legal, factual and policy considerations* (and to *distinguish between law and policy*) for the decisions they are to make and to identify those cases on which they should seek advice or refer for decision at a higher level.
- (e) Ensure that any *formal requirements* for the devolution of power are complied with (eg instruments of appointment, delegation, etc) and continue to be complied with (eg to take account of *changes to establishments*, etc where delegations are to specified offices.)
- (f) Ensure systems are put in place to monitor and evaluate the quality of decision making.
 - (i) This includes, where relevant, systems to identify possible changes to legislation to alter the system.

(ii) Wherever practicable, monitoring of quality during the decision making process should be arranged rather than relying only on review of decisions that have been made.

(g) Identify particular cases where corrective action may be required.

(h) Ensure that adequate information is available to people who will, or who may be called upon to, exercise the powers.

(i) Staff are aware of current delegations, rules and guidelines (and have access to copies of these as required).

(ii) Staff are given feedback on their performance.

From Devolution of corporate services, MAB/MIAC, April 1992, pp. x - xi.

Ways of streamlining and facilitating devolution: success factors

- Commitment from the chief executive officer is the most critical success factor. It needs to be echoed by the top management team and the benefits of devolution need to be sold throughout the agency. (7.1)
- Communication is of paramount importance, and strategies are needed to ensure good vertical and horizontal communication. Linked with this is the issue of transparency: people need confidence in the transparency of decision-making about devolution and the associated issues. (7.2)
- It is essential that those devolving authority should trust those now exercising it, and should allow them to find new ways of performing functions. (6.2,6.3)
- Adequate on and of-the-job training and retraining is important, both for staff with newly devolved authorities and those with newly decentralised functions. (7.3) The Personnel Operations Program provides a useful means and model for the provision of training in personnel functions (6.5) and the range of management education and training programs offered by the Public Service Commission can help managers with the people management side of devolution. (10)
- Good management information systems are an aid to streamlining corporate service functions. Commercial, off-the-shelf solutions should be considered first. (7.4)
- Corporate services are more closely aligned to client requirements where there is some form of user charging in place. (7.5)
- Monitoring and evaluation will minimise duplication of functions and identify dysfunctions. (7.6)
- Time should be allowed to identify and work through problems; it is important not to withdraw functions or delegations too quickly. (7.6)
- The consideration of appropriate size for a corporate service area should be approached on a case by case basis. The situation in each agency is different and the result will consequently also be different.

- Getting the size of corporate service areas right is more achievable when managers and staff are firmly focussed on supporting the organisation's real purpose. (8.1)
- Devolution is most successful when line managers are given a real choice about how they will obtain or undertake corporate service functions. (8.1)
- Agencies may consider eliminating corporate services as a budget centre and allocating these funds to the program area, so that managers can choose the type and level of service they require, and use resources where they will best achieve objectives. (8.1)
- Functions should be assessed against the premise that there are no corporate service functions that cannot be devolved. (8.2)
- Functions usually considered core corporate functions may be more efficiently performed by one program or contracted out rather than retained at the corporate centre, and corporate service areas may need to be re-named to reflect the new emphases. (8.2)
- Contracting out should be considered as a means of reducing the overheads associated with delivery of corporate service functions (8.1) but accountability requirements should be taken into consideration when making decisions on contracting out corporate functions. (8.2)
- *Determining the full costs of corporate service functions will enable better decision-making about how and where to provide such functions.* (8.1)
- Managers should recognise that devolution of corporate services should increase efficiency in the longer term but should not be expected to bring about savings in the short term. (9)

From *Resource management in the Australian Public Service*, Edition one, Department of Finance, Victoria, 1994, pp. 36 - 37.

Elements of successful devolution

6. The principles of devolution:
 - organisations need to set clear objectives, strategies and guidelines (with direct input from staff) for devolving tasks / functions;
 - divisions of responsibility, authority and accountability need to be clearly articulated to minimise duplication and to avoid misunderstanding;
 - the rules and guidelines relating to the legislation need to be clear, simple and unambiguous to avoid misinterpretation;
 - as devolution brings about change, an effective change strategy should be implemented to support the devolved functions/tasks;
 - adequate resources must be allocated to address training requirements as a precursor to the introduction of devolution;

- those devolving authority must be prepared to let go, to trust those who are now accountable, and not interfere;
- the reasons why particular functions are being devolved should be clearly articulated;
- those who gain the functions must be prepared to accept the additional accountability;
- organisational structures that cannot cope with devolution must be modified;
- *management information systems must be established to allow for the monitoring of the devolved centre's performance;*
- a strong and clearly articulated commitment from the chief officer supporting the devolution activity; and commitment from line managers to working through any teething problems and to seeking long term, rather than short term, efficiency gains.

APPENDIX 4

Potential Costs and Benefits of Devolution

Potential Benefits Associated with Devolution

- greater transparency of operational performance to Parliament, minister, central government agencies and the central offices of individual agencies (this applies both within agencies and to agencies as a whole);
- greater freedom for strategic decision-making especially at the departmental central office - senior executives are more able to concentrate on strategic/policy matters rather than detailed operational matters (but this does not absolve managers from overall concern or accountability);
- greater accountability of budget and program managers, in particular individual accountability for resource decisions;
- better ability to manage public funds to extract value for money (agencies can make decisions with respect to budget limits rather than being concerned with detailed resource profiles at the sub-agency level);
- greater ability for forward planning at operation levels to maximise resource flexibilities;
- greater ability for line managers to coordinate operational decisions with budget decisions;
- where devolution of resource management is practiced throughout a department or agency, there can be greater scope for internal 'levies' on programs, running costs, or cost centres to be allocated to new initiatives decided by the department;
- greater potential exists for the 'ownership' of programs at operational levels, and hence greater commitment from operational staff to the implementation of program objectives; and
- managers should be more committed when they consider that a higher degree of discretion and trust has been placed in them.

Potential Cost Associated with Devolution

- devolution may lead to diseconomies of scale, some unnecessary duplication or convoluted accountability paths;
- there will be a decrease in coordination and control, especially felt by central agencies and to some extent central offices of departments; these central agencies may define this trend as one of undirected centrifugal tendencies;

- managers and staff may suffer a loss of loyalty to central policy concerns, which may result in perverse behaviour and serious implications for policy-making;
- greater financial uncertainty at the central office of departments;
- it is difficult to find the appropriate level of devolution for best practice, efficiency and effectiveness;
- the provision of adequate information to the central office of departments will not be resource neutral, and may represent significant costs to the administrative budget;
- the central department office may lose some capacity to hold contingency funds;
- line managers may be reluctant to come forward with real or understandable problems, mistakes or errors because of the greater visibility (hence deteriorating standards or maladministration may not be uncovered or rectified);
- some operational managers may be reluctant to take risks because it may also be harder to admit mistakes when exposed to individual scrutiny;
- risk and the need for contingency funds may increase with devolution - perhaps causing or adding to a larger expenditure surge at the end of the budget year (such funds may lie 'idle' and then become involved in a surge of end-of-financial-year spending);
- devolution in conjunction with the efficiency dividend may lead to ineffectiveness or lower standards of service particularly in smaller agencies if administrative budgets are reduced below sufficient levels;
- the more devolution occurs the greater the requirement for financial management skills at lower levels of the organisation;
- by adding levels of competing priorities and complexities to operational managers' tasks devolution may cause managers to lose some capacity to focus clearly on their core operational tasks;
- devolution within severe resource constraints may simply be in name alone (form rather than substance) perhaps leading to some cynicism and disillusionment,¹

APPENDIX 5

The extent of the devolution of running costs

From the evidence presented to it during this inquiry, flexibilities within the Australian Public Service the Committee has concluded that devolution has not achieved widespread acceptance or implementation across the spectrum of government departments and agencies. The following summary of the degree to which devolution has been achieved within departments and agencies is based upon information contained in submissions, provided at hearings or communicated to the Committee through more informal channels.

Highly devolved Departments/agencies

Special Broadcasting Service

Management is devolved firstly to Divisions, then to cost centre and projects or programs. Corporate and operational plans set out objectives for the management of resources.

Australian Bureau of Statistics

Management of running costs is formally devolved to Division and State Office heads, while informal devolution occurs below that level, depending on the nature of the budget each manages.

The ABS has a limited requirement to use the running costs system as it has its own 3 year work plan and resources are managed within the context of that work plan.

Department of Human Services and Health

The Department tries to balance devolution and corporate flexibility. Program and State managers hold authority to manage budgets, including staffing, and have the facility to carryover and to borrow up to two thirds of the departmental limit for these flexibilities.

The Department has promulgated "management rules" to set out principles and processes of running costs management, and collects a corporate levy to fund centrally managed expenditure items. Base allocations are reviewed periodically using benchmarking principles.

Department of Employment, Education and Training

The Department has adopted a flatter structure by replacing State offices with area offices. Functions which have been devolved to Divisions and Areas include accounts processing, purchasing, asseting, staffing, personnel and recruitment.

Divisions act autonomously in borrowing and carryover, with National Office acting as banker. Some functions such as carryovers and transfers between salary and administrative expenses remain subject to National Office endorsement. National Office Corporate Services division is now mainly responsible for planning and financial policy.

Australian Federal Police

A central coordinating committee oversees the management of running costs throughout the AFP. Devolution of authority has occurred to where administrative expenses, such as travel and office expenses, are incurred. Salary is centralised to improve staff deployment and because staff costs are relatively fixed.

Department of Primary Industries and Energy

The Department's Groups and Bureaux are managed as autonomous business operations. Each group decides on devolution in its own area, so devolution is not consistent across the Department. Where operations are conducted away from the centre devolution is more extensive. Central management maintains accountability through a system of monthly expenditure and revenue reports.

Department of Administrative Services

Responsibility for funding decisions has been devolved to those responsible for program outcomes. Budget funded areas have usually devolved running cost management functions to a Division Head, however, the Department has observed that, in practice, flexibilities are usually passed down to Section managers.

Department of Immigration and Ethnic Affairs

Key budget holders in the Department are Division Heads and State Directors. The extent of devolution within each Division varies. Devolved unit managers now focus on planning, ensuring funds are properly allocated to achieve plans and priorities and monitoring resource usage. DIEA has set up internal budget rules which mirror those of the RCA, but with some modifications for carryover and borrowings.

Difficulties experienced under a matrix management environment (where both State Directors and Program Managers have an interest in program delivery in the State offices) has led to the establishment of an Australian Client Services Division which has financial responsibility for all State/Territory operations.

Department of Social Security

The Department has adopted a flatter structure, with Area managers and Division heads holding RCA delegations. These managers are allocated a budget for salaries and administrative expenses and have the flexibility to deploy financial and staff resources. Area managers allocate budgets to Regional and Teleservice managers with whom resides the lowest level of devolved responsibility in the DSS network.

Devolved units can carry forward up to 2% of budget and may borrow up to 1% of budget, however, these limits may be increased in special circumstances. POE is largely centralised, as are other functions which require central office expertise.

Less devolved Departments/agencies

Department of the Parliamentary Reporting Staff

Management of running costs has been devolved to program manager level. The scope for further devolution is limited by the Department's small size and significant proportion of middle ranked specialist staff, who in the view of the Department, do not have a requirement to manage running costs.

National Library

Management of running costs is devolved to program managers who manage funds, staff establishment and purchasing. Limitations are placed on devolution by the necessity to preserve economies of scale.

Australian Taxation Office

Business and Service lines will have full access to all flexibilities from 1995/6. These include conversion of funds between salary and administrative items, carryovers and borrowings.

The Office's reluctance to devolve until now has been the product of other change factors including a tight resourcing situation, an internal reorganisation, agency bargaining and the Modernisation Agreement.

Department of Environment, Sport and Territories

Running costs management is devolved to program managers although some items such as telecommunications, IT and vehicle costs are more efficiently controlled by central office.

Commonwealth Scientific and Industrial Research Organisation

For CSIRO, the key element of financial reform has been triennium funding arrangements which are not part of the RCA. Appropriations are guaranteed for three years in real terms, minus the efficiency dividend, and the agency can retain all external earnings without affecting annual appropriations.

AusAID

Approximately two thirds of the total RC budget, including salaries, is devolved to branches, sections, State offices and overseas posts. Most allocations and central monitoring rests with central office's Financial and Resource Management branch.

Aboriginal and Torres Strait Islander Commission

Running costs are allocated by the Commission to State and Divisional management teams. Some items, such as fringe benefits tax and audit fees, are managed corporately.

Allocations to States and Divisions are based on previous years' budgets, planned outcomes, current and planned staffing levels, travel costs, staff allowances, program complexities, policy advising and coordination complexities.

Department of Housing and Regional Development

Salary and administrative expenses have been devolved to Division Heads and Regional Managers. In the 1995/6 financial year salary costs will be devolved from Divisions to Branches and Sections and POE will be administered by Regional Managers. Carryover and borrowing will probably be devolved in future years.

Attorney General's Department

Division heads, who are designated as Treasury Managers, are given a running costs budget and, with some exceptions, all the RCA flexibilities are available to them. Some items of expenditure, for example POE, carryovers and SES salaries, are not wholly devolved. Each devolved unit operates its own corporate services cell.

Minimally devolved Departments/agencies

The Bureau of Meteorology

Programs are managed and resourced in central office. All running costs, except salaries, are devolved to Branch and Regional Managers. Managers are allocated a physical amount of staffing resources which can be varied depending on the numbers of staff hired.

The Bureau justifies centralised management of staff costs by requirements to retain overall central control over the budget and to access a pool of expertise in managing budgets, training and induction of staff.

Administrative Appeals Tribunal

Devolution has partially occurred from the CEO to regional managers. Funds are allocated to the district registries and principal registry sections for salaries and administrative expenses, and spending priorities are decided at that level consistent with the Tribunal's national priorities.

Department of the House of Representatives

The Department is not devolved for reasons related to its size, single location and specialised role. The Department believes that, prior to devolving, it would need to address certain issues such as funding for Department-wide priorities and the appropriate borrowing and carryover thresholds for program managers.

Department of Foreign Affairs and Trade

Some RCA flexibilities, such as carry over and the efficiency dividend, have been devolved to program managers. Personnel and Finance remain centralised because of the highly mobile nature of the workforce, the size of network and the lack of suitable information systems.

The Department perceives difficulties in implementing devolution to its geographically widespread fields of operations. It is the Department's policy to devolve responsibility only where the manager can exert control over the function.

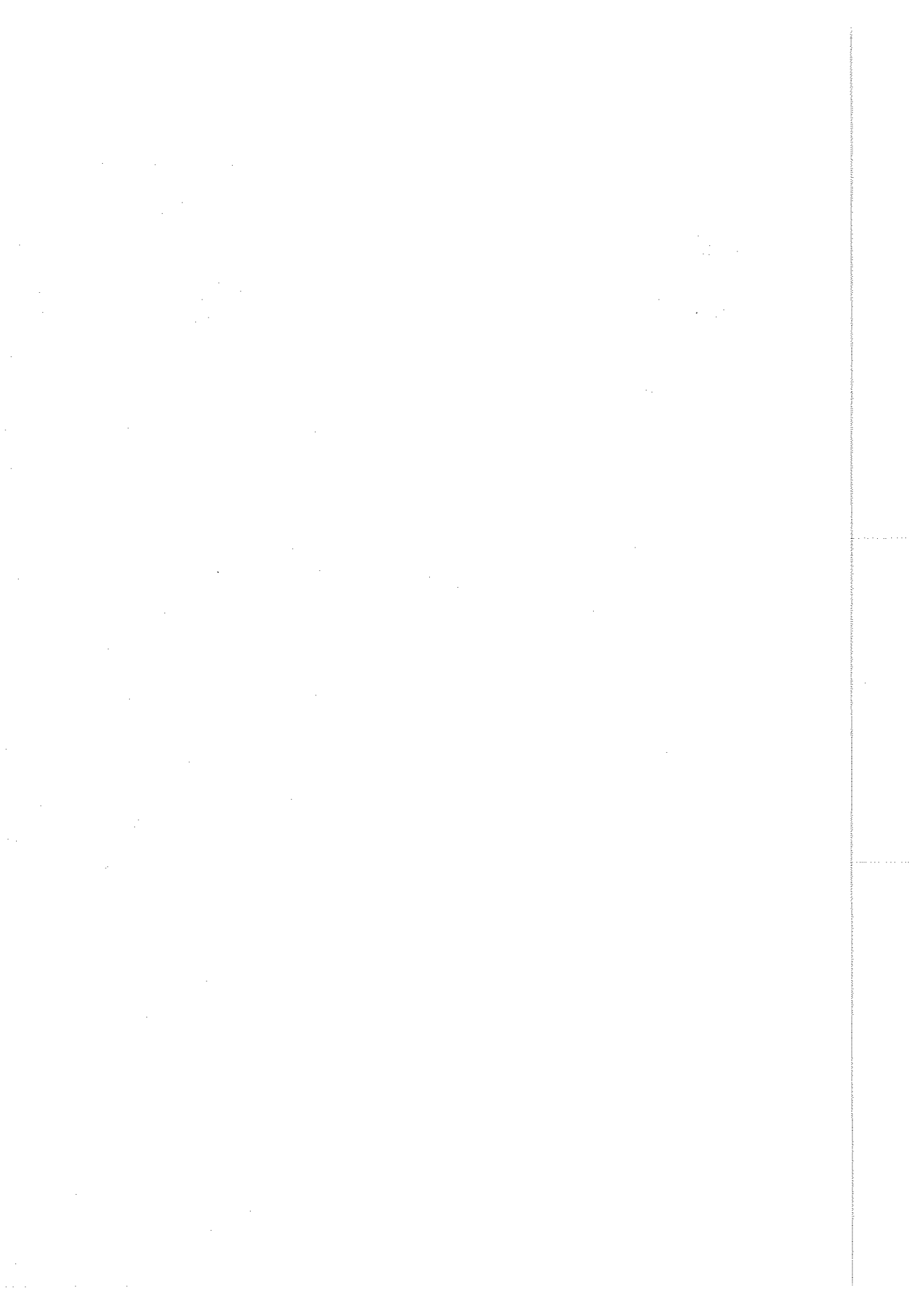
Family Court of Australia

As a small agency, the Court centralises the management of its running costs. Most administrative activities are performed within the Office of the Chief Executive.

Department of Tourism

Management of running costs is semi-devolved, in that most expenditure items except salary and direct staff costs are centralised. Also, major staffing variations and carryover are centrally managed.

Salary and related expenses are devolved to sub program managers. Further devolution is not viable due to additional administrative costs and loss of purchasing economies.



Glossary of Terms

Accrual accounting	A system of financial recording and accounting which recognises the economic effects of transactions and events at the time they occur, irrespective of whether cash is paid or received. It seeks to match the costs incurred during a period with the benefits earned in that period.
Accrual reporting	A method of year end financial reporting which involves the preparation of general purpose financial statements on an accrual basis, that is, recognising the economic effects of transactions and events at the time they occur, irrespective of whether cash is paid or received.
Cash limiting	The requirement that agencies manage within the confines of a set running costs budget. Under cash limiting agencies must absorb all running costs associated with new policy decisions outside the Budget context.
Contestability	In economic theory, a contestable market is one in which competitive pressures from potential entrants to the market exercise strong constraints on the behaviour of firms currently operating in the market. There are no entry barriers to other firms entering the contestable market, so incumbent firms must be efficient in their pricing and allocation of production, and earn only normal profits. Applied to the budget sector, contestability implies exposing agencies to external challenge in the delivery of their programs, as is the case in commercialisation, in order to promote efficiency in resource use.
Corporate Plan	A plan which is intended to give direction and cohesion to an entity's activities. It sets out the entity's mission, goals and objectives.
Devolution	A style of management which consists of three elements: <ol style="list-style-type: none">1. transfer of decision making from higher to lower levels in an organisation;2. an allocated budget for the area of decision-making ability; and3. a management focus on the agency's clients.
Decentralisation	The redistribution of functions or tasks from central units to dispersed units.

Efficiency dividend	Both an incentive for efficiency applied to agencies under the RCA and a quantification of some of the efficiency gains made by agencies. Each year, around one percent of running costs is taken from an agency's budget and redirected by government to other priority activities.
Financial Management Improvement Program (FMIP)	Part of the Government's overall public sector reform strategy, the FMIP was a program of financial management reforms. It encouraged management by results and aimed to create more effective and efficient public services and an awareness of costs.
Forward estimates	A system of rolling three year financial estimates intended to promote a longer term perspective in agency budgets. After the Budget is passed by parliament, the first year of the forward estimates becomes the base for next year's budget bid and another outyear is added to the forward estimates.
Notional item	This is a quarantined tranche of funds which can only be applied to the expenditure item to which it is directed by the Minister for Finance, pursuant to Section 29 of the Audit Act 1901.
Operational plan	A lower level plan to a corporate plan which translates the broad level strategic direction of the corporate plan into strategies, tasks, activities and resource budgets.
Output based funding	A system of funding where appropriations are structured to reflect agreed output costs, rather than input costs.
Program management and budgeting	A program is an identifiable group of outlays administered by budget sector agencies. The program structure provides a basis for resource management decisions centred on objectives and results, and for allocation decisions.
Resource agreement	An agreement between an agency and the Department of Finance for the provision of resources in return for some action, undertaking to act, or some other consideration.
Risk management	The management of the working environment to control those aspects of the work that will normally lead to undesirable outcomes. Risk management involves an explicit analysis and determination of an acceptable level of risk.
Running Costs	The full recurrent costs and minor capital costs consumed by an agency in providing to the government the services for which the agency is responsible.

Running Costs Arrangements (RCA)

A set of rules and procedures which enable agencies to make the most efficient use of resources available for running costs.

Workplace bargaining

Also known as agency or enterprise bargaining. The APS version of collective bargaining over pay and conditions. Within the context of the general APS-wide agreement, which has been certified by the Australian Industrial Relations Commission, agencies reach agreement with their staff on changes to conditions of service, but not to rates of pay.

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