

IGIS SUBMISSION TO THE JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT INQUIRY INTO THE EFFECT OF THE EFFICIENCY DIVIDEND ON SMALL AGENCIES.

Agency Profile

The Office of the Inspector-General of Intelligence and Security (OIGIS) is a small agency, including by comparison with the size of the Australian Intelligence Community (AIC) agencies which it is responsible for monitoring.

OIGIS currently comprises the Inspector-General and 9 employees and for 2008/2009 will receive a departmental appropriation of \$1,899,000. Two additional staff will be recruited in 2008/2009. Approximately 78% of the appropriation relates to employee costs.

OIGIS meets its objectives through a targeted inspection program, handling complaints and the conduct of inquiries. The inquiries, in particular, can be unpredictable, and depend largely on factors outside the control of the agency.

In recognition of the modest size of the OIGIS budget, significant resources are provided free of charge to the agency by other Commonwealth agencies. These include office space and IT support. For 2008/2009 the value of the resources received free of charge will equate to about 6 per cent of the departmental appropriation.

Due to the small size of the OIGIS and the nature of the activities it undertakes, the opportunities to reduce expenditure without reducing its current range of activities are very limited.

Impact of the efficiency dividend on small agencies

An across-the-board budget reduction often has a disproportionate impact on smaller agencies that are less able to absorb the reduction and are often left without an alternative but to reduce output.

By contrast larger organisations often have a number of means available to them to deal with budget reductions. These commonly include reducing discretionary expenditure by:

- tightening administrative expenditure such as travel expenses and staff training/development
- flattening the organisational structure
- finding efficiencies through technological or staffing practices
- making quality and timeliness trade-offs, and
- reducing the range of activities/projects undertaken.

These options are rarely available to small agencies to any significant degree, and this is especially true of OIGIS because its budget consists largely of fixed costs.

OIGIS has limited opportunity to reduce travel expenditure. OIGIS expends approximately 2% of its total appropriation on travel expenses. The travel undertaken by OIGIS personnel relates, almost exclusively, to the office's inspection program. A reduction in travel expenses would directly impact the office's ability to undertake the inspection program.

Whilst reducing expenditure on staff training & development can be expedient in the short term, there is a longer term cost for any agency. However, it can generate sharp problems for small agencies even in the short term. Small agencies often have fewer promotional opportunities, so it is essential for staff to at least feel they are advancing their career by enhancing their skills.

In relation to flattening the organisational structure, the OIGIS structure has already been modified to facilitate cost savings. In 1996 the only SES position (a Band 1) supporting the Inspector-General was discontinued. While this had the advantage of expanding (or at least preventing the erosion of) the working level of the organisation it also affects the capacity to undertake a number of large formal inquiries at the same time.

Larger organisations can achieve efficiencies through technology (e.g. automation of processes or parts of processes) or staffing practices (e.g. reducing absenteeism, increasing retention, more effective rostering). Again, these are often not available to small agencies, particularly where it is the application of human judgement which is the essential feature of the work performed. In a small agency staff are more conscious of the impact of absence on their colleagues, and can have a high commitment to the purpose the agency serves. Certainly these are features of OIGIS.

For some activities, often more of a processing nature, managers can engage in trading off some level of quality or timeliness against cost. For OIGIS there is little that can be gained in this area. Contacts with this office are screened quickly and many are dealt with in a relatively informal way. Formal inquiries are only commenced when necessary and the legislation permits a flexible approach to each to be taken. When a formal inquiry is undertaken, there is a legitimate expectation by various stakeholders that the matter will be examined thoroughly and effectively. Inspections are targeted and must be performed in an incisive manner if they are to be of any value (indeed, it is arguably counter productive if they are not).

The small size of OIGIS by comparison with the AIC agencies which it monitors, necessarily means that the range of monitoring activities undertaken is highly targeted and based on ongoing risk assessments and changing trends which reflect the increased range of activities undertaken by the AIC agencies. For this reason the scope to reduce activities in response to budget reductions is very limited.

Impact of efficiency dividends to date

As a consequence of the two increases in funding, the existing structure of OIGIS is appropriate for the current activities. However, OIGIS does not have scope to streamline its structure further without reducing its current range of monitoring, complaint and inquiry activities. OIGIS would need to seek additional funding via New Policy Proposals if additional outcomes were sought.

In recent years OIGIS has been able to accommodate the efficiency dividends imposed mainly due to recruitment delays. However, it is anticipated that in future years OIGIS will be fully staffed so the ability to absorb further reductions will be seriously limited.

It should also be recognised that many of the activities of the Office such as complaints, inquiries and additional monitoring activities are demand driven. As a consequence expenditure on items such as legal fees and travel expenses can vary significantly from year to year. Consequently, OIGIS needs to maintain the capacity to undertake additional unforeseen activities throughout the year. It would be incorrect to assume that if OIGIS did not fully expend its budget allocation in one year that at least the equivalent level of funding will not be required in the following year.

Alternatives to the across the board efficiency dividend

Whilst it is recognised that all agencies have a responsibility to achieve greater efficiency and costs should always be scrutinised on an ongoing basis, it is contended that an across the board efficiency dividend has a magnified and inequitable effect on small agencies such as OIGIS. Whilst the savings produced for the Commonwealth from the efficiency dividend applied to OIGIS would not be considered material on a whole of government basis, it has the potential to significantly impact on OIGIS due to the nature of its activities and the limited scope to absorb reductions. If such further reductions were to occur it could jeopardise the effectiveness of OIGIS.

For the reasons outlined above, the preferred option would be for small agencies, such as OIGIS, to be exempt from further efficiency dividends. If this was not acceptable, it is suggested that a varying percentage based on the size of the agency's budget would be a more equitable approach.