

## INQUIRY INTO THE DEVOLUTION OF RUNNING COSTS FLEXIBILITIES

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

1(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.

**Noted.**

**Although work on the concept of devolution is not being specifically undertaken these concepts are addressed indirectly in a number of the Department of Finance and MAB/MIAC projects including the "APS Innovation on-line Data Base", a MAB/MIAC project on "Achieving Cost Effective Personnel Services", and other ongoing work in the Department of Finance.**

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;

**Agree.**

**The Department of Finance has recently published a discussion paper on this issue and is engaged in promulgating this across the APS.**

2(b) Greater consideration be given to strengthening the connection between agency funding and agency outputs; and

**Noted.**

**Under current program budgeting arrangements, resources are linked to the achievement of government policy objectives through the performance reporting process. Funding arrangements do not prescribe the outputs that must be produced which leaves Ministers flexibility to determine the most appropriate strategy for achieving program outcomes within the policy parameters established by Parliament.**

2(c) Encouragement be given to the application of computer based information systems, especially in large networked agencies, as a means of improving client access.

**Noted.**

**On 22 January 1996, the then Minister for Finance launched the exposure draft of a blueprint for the future of Information Technology in Government, titled *Framework and Strategies for Information Technology in the Commonwealth of Australia*. This document promotes a variety of initiatives aimed at a more client focused, cost effective approach to the use of technology in the Commonwealth. The key principle is a commitment to a more user friendly access to government services by the public, and includes projects that support the encouragement of the use of computer based information systems as a means of improving client access. These include exploration of options regarding a government enterprise network strategy, standardised operating environments at the desktop and internal data centre consolidation.**

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.

**Noted.**

**As this is a budget funding issue it would not be a usual matter for MAB, which is an advisory body, to consider.**

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.

**Noted.**

**OGIT is reviewing the Government's use of a number of Financial Management Information and Human Resource Management Systems products with a view to establishing a limited list, that all Budget funded agencies could be expected to select from when they next replace or undertake major enhancements to existing systems. Such an approach could enable products to be selected which enhance the ability to integrate personnel and financial information and assist managers and enable them to track resources and funds, allowing for activity-based costing and cost centre tracking and reporting.**

**Decision support systems and executive information systems which provide accountability through monitoring of performance measures are program specific and difficult to implement. (The Health Insurance Commission, for example, took 12 months to develop and implement reporting on the first of its ten key performance criteria. The Department of Defence had a similar experience.) Decision support capability for financial and human resource aspects of programs will be sought for the Financial Management and Human Resource systems to be recommended for Government use. OGIT will also be advising the Government on moves toward standard operating environments across IT architectures, options for rationalising selected IT infrastructure elements, and advising on the development of an overall framework for the cost-effective management of Commonwealth government information.**

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;

**Disagree.**

**It is difficult for the Department of Finance alone to examine whether corporate services functions have been devolved to the most practical level because the appropriate level of devolution differs according to each agency. In some cases, centralisation or a cooperative approach to processing activities within or between agencies could provide significant efficiencies while being accompanied by real devolution of authority to managers. The differing agency approaches to the skill mix and level of training required to make devolution of authority effective are of such significance that Service-wide examinations may not provide useable outcomes. However, program and other evaluations may provide a means whereby Finance could examine the efficiency with which an agency operates which may be indirectly affected by the level of devolution.**

5(b) The Department of Finance identify skills relevant to the devolution of corporate services functions and offer training to agencies in these skills; and

**Noted.**

**Part of the charter of the Department of Finance's regional offices has been the delivery of a range of training services to support resource management across the Australian Public Sector. These services have been valued by agencies. With the closure of the regional offices, Finance is considering options to maintain these services including the establishment of units operating on a cost recovery basis. Training in this area would need to concentrate on skills relevant to the process of devolution as well as the functions which can be devolved.**

5(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 service functions.

**Agree.**

**This is already being done through projects undertaken by MAB/MIAC in particular the report on "Achieving Cost Effective Personnel Services", to which Finance has contributed significantly, and the pilot projects arising from this report. Increased acceptance of the need for and principles of benchmarking amongst managers in areas such as purchasing and financial management provides impetus for the development of a strategic approach to continuous improvement.**

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

**Noted.**

**The Department of Finance makes use of Resource Agreements to fund variations where appropriate and there are established guidelines for the determination of eligibility for such agreements.**

6(b) The Department of Finance develop resource agreements which provide linkages to program evaluation, accountability and improved client satisfaction.

**Agreed.**

**Where appropriate, resource agreements negotiated by Department of Finance with agencies include linkages to program evaluation and performance information.**

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.

**Noted.**

**Given the degree of flexibility available to department and agencies to carry funds forward, end of year spending does not necessarily indicate wasteful usage of resources. Monitoring end of year spending, to ensure that it is an appropriate use of resources, should be the responsibility of management within each agency. However, the Department of Finance does monitor end of year spending from time to time and would take action where appropriate.**

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.

**Agree.**

**This will be addressed in the evaluation and review of Workplace Bargaining.**

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

**Noted.**

**Under the arrangements for the APS Enterprise Agreement 1995-96, while the efficiency dividend of 1 per cent is restored as the minimum obligation to be met by all agencies, phased pay rises totalling 5.6% were negotiated centrally and are fully supplemented. Under the 1992-1994 Agreement and the Interim Framework Agreement agencies did gain some offset to their efficiency dividend obligations in the context of them contributing a share of their productivity gains to the foldback pool. The Committee's recommendation to examine the feasibility of using agency bargaining as an alternative to the efficiency dividend will be taken up in preparation to any negotiation of new arrangements prior to the expiration of the current**

**Agreement at the end of 1996. This should include consideration of a return to non-supplemented wage bargaining at the agency or workplace level.**

9(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.

**Noted.**

**The current APS Enterprise Agreement provides scope for agreements to be reached at either an agency or more devolved level such as an individual workplace with scope for agency adaptations of classification structures and more flexible employment conditions, while maintaining the essential features of a single APS. The Agreement seeks to encourage a constructive approach to managing change, directing both management and union attention to a Service-wide menu of productivity initiatives. Renegotiation of enterprise bargaining arrangements in late 1996 will provide an opportunity to review the current arrangements, including the potential for the application of the provisions of new industrial relations legislation in the APS.**

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.

**Noted.**

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.

**Noted.**

**Chief Executive Officers determine the most appropriate approach to the management of funds within agencies, among which the corporate dividend is one option.**

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.

**Noted.**

**The document entitled *Framework and Strategies for Information Technology in the Commonwealth of Australia* includes a strategy to enhance departmental plans so that they better integrate with departmental business plans. This includes the promotion of IT plans to support departmental needs, not those of central agencies, and will focus on the place of information technology in agency strategic directions. Providing greater public visibility for agency IT plans can be achieved by placing them on the Internet and other information networks and by distributing them to interested parties within and outside government.**

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

**Noted.**

**Internal and external reviewers of agency performance are expected to take account of recent APS management reforms including those referred to in the recommendation.**

13(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.

**Agreed.**

**The thrust of the recent management reforms has been to evaluate performance in terms of effectiveness not just efficiency. Effectiveness assesses how well program outcomes coincide with the objectives or desired outcomes of the program. The provision of quality services is an important part of effectiveness and often quality is related to the level of client satisfaction.**

**The emphasis is on outcomes rather than processes per se. However, in some cases particular processes may form an aspect of quality service ensuring equity and redress for errors. Another focus of evaluations is the efficient use of resources to achieve the objectives and this may also involve consideration of inputs and process issues.**

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 condition.

**Noted.**

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.

**Noted.**

**This is currently a subject of considerable activity, including work being done by Finance through the database of promising practice and a new Central Agency publication to be called "Innovations".**

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

**Noted.**

**During 1995 the SES control arrangements were amended in recognition of reforms to the APS financial management framework, to provide greater flexibility of resource management within financial aggregates and with a greater focus on accountability for results.**

**Ministers approved the following changes to the SES resource control arrangements:**

**SES profile controls to be discontinued;**

**SES funding controls (exercised through the SES salaries notional item) to continue to apply only to agencies operating on the Commonwealth Public Account (CPA), excluding CPA agencies whose operations are commercial in nature; and**

**Bodies not operating on the CPA no longer to be subject to SES profile or funding controls.**

**This is consistent with the current policy that the running costs arrangements no longer apply to bodies which do not operate on the Commonwealth Public Account.**

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.

**Agree.**

**The arrangements for appropriating minor capital funds in Appropriation Bill 1 are governed by the Compact between the Executive and the Parliament. The possibility of seeking the agreement of the Presiding Officers to a change in the value of minor capital items that can be included in running costs appropriations will be considered in the context of a review of capital budgeting arrangements being undertaken by the Department of Finance.**

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

**Agree.**

**It is a matter for each agency to determine the necessary skills base required and implement appropriate training strategies.**

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.

**Disagree.**

**The extent of devolution needed for effective program delivery varies between agencies and it is the responsibility of CEOs to determine the best arrangements for their organisation. It is not appropriate for the Department of Finance to report on progress using uniform targets and standards.**

**However, there are currently a number of major initiatives in train to identify best practice in this area, including through MAB/MIAC and the "APS innovations On-Line Database".**

20 The Minister for Administrative Services review the possible use of a global budget approach to Parliamentarians entitlements and allowances.

**The Department of Administrative Services is currently reviewing this issue.**