

Office of the Chief Executive Officer

11 July 2008

Mr Russell Chafer
Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Mr Chafer

Thank you for your letter of 11 June 2008 inviting Food Standards Australia New Zealand (FSANZ) to make a submission to the Committee's inquiry into the effect of the efficiency dividend on small agencies.

FSANZ is a statutory authority established by the *Food Standards Australia New Zealand Act 1991*. We are responsible for setting food standards in both Australia and New Zealand, covering both the content and labelling of food. The standards are incorporated into the *Australia New Zealand Food Standards Code*.

We receive applications from industry to develop new standards or change existing ones. We also raise proposals ourselves.

The FSANZ Board makes decisions on food standards and refers these to a Ministerial Council – the Australia and New Zealand Food Regulation Ministerial Council. The Council has ministerial representatives from each of the Commonwealth, State, Territory and New Zealand Governments. The Council is able to request that the standards be reviewed and can ultimately decide to accept, reject or amend any new standards or proposed changes to existing ones.

Following a review initiated by the Ministerial Council, amendments to the Act were passed last year which will streamline the standards development process. The changes include new assessment and consultation procedures, shorter timeframes, and requirements for applicants to provide information to support the application at the beginning of the process.

In recognition of the increasing demands on our resources, FSANZ's base funding was increased in 2007-08 by approximately \$3.1 million. For the previous two years, we had been forced to run an operating deficit funded from our reserves.

The total budget for FSANZ in 2008-2009 is \$20.4m. Of this, the Australian Government appropriation is \$17.2m. Other income includes the New Zealand Government's contribution of \$1.7m to FSANZ's running costs and a relatively small amount from fees charged for a limited number of applications to vary the Food Standards Code.

As a small agency, FSANZ is disproportionately affected by the efficiency dividend. This is because of the limited flexibility we have with regard to our resources, the specific nature of our functions, and the specialist skills that are required to perform these functions.

The full amount of the Australian Government appropriation – which represents 85% of our budget – is subject to the efficiency dividend. For 2008-09, the impact of the dividend will be \$351,000, increasing to \$357,000 in 2009-10.

The bulk of our expenditure – approximately \$17m or 70% – is on staffing. We have 155 employees, 139 of whom are located in Canberra, 15 in Wellington and one in Tasmania. The other large component of expenditure is on scientific and consumer research.

We have limited discretion in the way we administer our responsibilities. Our functions and priorities are, to a very large extent, governed by legislation and decisions made by the Ministerial Council. The *Food Standards Australia New Zealand Act 1991* prescribes the processes that we must follow in assessing applications for changes to the Code. Council requests for reviews, initiated by one or other of the jurisdictions, can impact substantially on our workloads.

The Act also requires that in developing or reviewing food standards we must have regard to, among other things, the need for standards to be based on risk analysis using the best scientific evidence. This is a core element of our work and any dilution of this approach risks compromising the quality and credibility of our advice and, ultimately, the confidence that the public can have in the food supply.

Additionally, as part of the Government's deregulation reform agenda, there is an increasing imperative for the development of our food regulatory measures to be based on evidence. Obtaining this evidence is an expensive exercise – often involving consumer and social research

To fulfill this function, FSANZ needs to have a mix of specialist skills. Our scientific competencies include qualifications in agriculture, biology, chemistry, environmental health, food technology, genetics, medical science, microbiology, molecular biology, nutrition, physiology, toxicology and virology.

Because of the small size of our workforce, however, we often have no more than one or two staff undertaking a specific function or service. Where feasible, we seek to move existing staff to meet changing priorities and circumstances, however the nature of the work is such that the relevant skills are generally not transferable or require development over a considerable period of time.

We also adopt other measures to maximise flexibility and efficiency, for example engaging some staff on short-term contracts to undertake specific projects, contracting out, and peer reviews. However, these options can only supplement and not supplant our core workforce and expertise.

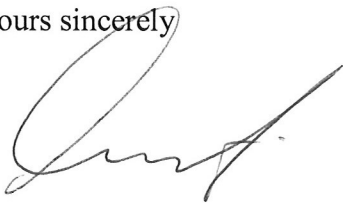
We are continually looking at ways to increase our productivity and improve efficiency in other areas. For example, we are making greater use of technology to enhance our internal communications and information management capabilities. However, because of the relatively small scale of our operations, the investment in technology does not produce the same dividends as it might in larger departments.

Economies of scale are not available to us in other areas. For example, we have similar reporting obligations and corporate governance requirements as do large departments, but not the same level of resources at our disposal to achieve this.

In summary, the impact of the efficiency dividend will largely be felt in our staffing levels and expenditure on research. The longer term consequences of this are likely to pose some risks for our capacity to provide the required level of scientific/regulatory advice and our capacity to gather the required evidence to underpin our assessments and recommendations.

From our perspective, the issue is not the efficiency dividend per se but rather its uniform implementation across the Commonwealth public sector. An approach that allows for supplementation or exemptions in special cases where the need has been clearly demonstrated through external review and assessment, offers scope for small agencies to continue to meet their responsibilities.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve McCutcheon', written in a cursive style.

Steve McCutcheon
Chief Executive Officer