H4 Consulting Brief

(In)Efficiency Dividends

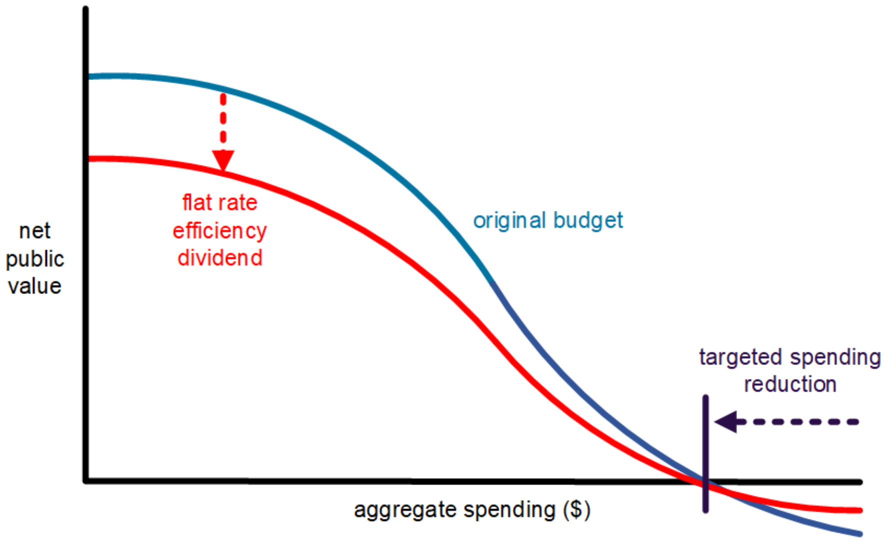
Efficiency dividends seek to save public funds by imposing fixed rate constraints (e.g. 2%) on budgets across diverse publicly funded organisations. This locks in historical proportions of funding across organisations, despite changes in delivery options and public expectations. It also shifts accountability for reprioritisation onto publicly funded organisations, without addressing the forces that distort decision making and reduce public value.

Publicly funded organisations can be slow to respond to changing public needs and expectations. The changing nature of public demands requires that gross allocations of public resources be reviewed and reprioritised from time to time. Resources allocated to less effective or relevant pursuits should be reduced, creating opportunities for higher value initiatives.

Using efficiency dividends as a mechanism for funding new policy initiatives exacerbates this problem by reducing or constraining investments across publicly funded organisations in equal proportions, regardless of the public value they create. This uncritically reinforces historical proportions of resource allocation and leaves newly funded initiatives as the only mechanism to change those proportions over time.

Efficiency dividends assume that each agency or department will achieve savings by improving internal efficiency. This fails to account for existing differences in efficiency across organisations, economies of scale, frictional costs of change, or flexibility to expand or contract operations.

In practice, internal decisions about withdrawing resources are subject to distortions. There is no mechanism for efficiency dividends to exclusively target technical efficiencies, where outcomes are maximised per unit of resources invested. Publicly funded organisations have the same constraints—such as political commitments, stakeholder concerns, and pressure from vested interests—that make it difficult for governments to withdraw resources.



Efficiency dividends tend to require accumulating efficiency gains year after year. Opportunities for operational efficiencies are, however, not infinite, free, or evenly distributed. Efficiency improvements may be possible in one or two annual cycles, but quickly become more challenging to find. Some require up-front investment to realise benefits over many years, but resource constraints mean that this investment is not available. Some services are highly labour intensive, and therefore unit costs do not diminish significantly with scale or experience.

Blunt budget constraints can reinforce silos and trigger perverse behaviours, such as deliberate or unintended cost shifting, that erode or eliminate apparent savings.

A better approach would target spending reductions at investments that deliver less net public value. This requires estimating and expressing net public value in a common currency, and rigorously assessing the current value of even longstanding recurrent investments. This type of rigour is often applied to new investment proposals, but not to business-as-usual recurrent investments of much larger sums.

Decisions about the appropriate distribution of resources between public policy priorities is the legitimate domain of governments, not publicly funded organisations. Efficiency dividends do not address this duty, transferring accountability rather than driving greater efficiency or public value.

To find out more about how you can use this approach in your organisation, contact us: info@h4consulting.com.au
Find additional resources at www.h4consulting.com.au/resources

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