



Secretary

Australian Government

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Ms Sharon Grierson MP
Committee Chair
Joint Committee of Public Accounts and Audit
PO Box 6022
Parliament House
CANBERRA ACT 2600

Dear Ms Grierson

Thankyou for your letter of 10 June 2008, regarding the inquiry into the effect of the efficiency dividend on small agencies being run by the Joint Committee of Public Accounts and Audit. Please note that I am responding on behalf of Senator the Hon Kim Carr in my capacity as Secretary of the Department of Innovation, Industry, Science and Research.

A number of agencies within my portfolio have welcomed the opportunity to make a submission. I have attached the following submissions for the secretariat's review and consideration:

- Commonwealth Science and Industrial Research Organisation (CSIRO) at **Attachment A**;
- Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) at **Attachment B**;
- Questacon at **Attachment C**;
- National Measurement Institute (NMI) at **Attachment D**;
- Australian Research Council (ARC) at **Attachment E**;
- Australian Nuclear Science and Technology Organisation (ANSTO) at **Attachment F**;
- The Australian Institute of Marine Science (AIMS) at **Attachment G**.

I have provided the submissions on a coordinated basis from within the Innovation, Industry, Science and Research portfolio. For queries in relation to information contained in the individual submissions, please make contact with the nominated individuals for each submission, listed at the beginning of each document.

Yours sincerely

Mark I Paterson AO

11 July 2008

Attachment A

CSIRO Submission - Inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies

Contact: Dr Katherine Harle, Phone (02) 6276 6368, Fax (02) 6276 06304, Email: Kate.Harle@csiro.au

Introduction

While CSIRO is not in strict terms a small public sector agency, there are unique, functional aspects of being a science agency that mean the impact of the efficiency dividend on the organisation has the potential to be greater than that of the effect of the same dividend on other Government agencies. This is because the cost of science is increasing at a rate that is higher than the usual indexation rates applied by governments to their appropriation funding. In other words, the organisation is subject to an implicit, ongoing efficiency dividend in addition to the explicit dividend imposed on all agencies. For this reason, CSIRO feels that it has an important contribution to make to the Joint Committee of Public Accounts and Audit *Inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies*, specifically in relation to the Terms of Reference 2 and 5:

2. What measures small agencies are taking to implement the efficiency dividend, and the effect on their functions, performance and staffing arrangements;

5. How application of the efficiency dividend is affected by factors such as the nature of an agency's work (for example, cultural, scrutiny or regulatory functions) or the degree of discretion in the functions performed by smaller agencies;

What measures small agencies are taking to implement the efficiency dividend, and the effect on their functions, performance and staffing arrangements

Until the most recent budget, the efficiency dividend has been applied to 30% of CSIRO's appropriation on the basis that this represented the equivalent of departmental running costs. The remaining 70% of appropriation (which funds the direct scientific research components) was exempt through a specific agreement with government. This was because this component is equivalent to a department's administered funds (program costs) such as grants, Medicare rebates or carers' allowance payments. To the best of CSIRO's knowledge, the government has never applied the efficiency dividend to program funding in any department. However, in the most recent Budget the efficiency dividend was both increased in value and applied to 100% of CSIRO's appropriation. Consequently, the total savings required of CSIRO is \$64.3M over 4 years. CSIRO's appropriation will be reduced by \$0.9m in 2007-08, \$14m in 2008-09, \$14.9m in 2009-10, \$16.1m in 2010-11 and \$18.4m in 2011-12.

It is possible to argue that even applying the efficiency dividend to 30% of CSIRO's appropriation disadvantages CSIRO in comparison to departments because, as shown by the organisation's 2008/09 budget, the current figure for enterprise support costs is 24.8%.

Applying an efficiency dividend above and beyond the necessity for increased efficiency imposed by the increasing cost of performing science presents significant challenges if CSIRO is to continue delivering planned science outcomes within its funding envelope. This is especially the case because CSIRO has completed considerable work over the past 5 years to reduce its corporate overheads and maximise the proportion of its appropriation funding available for science. These overheads have remained more or less constant in nominal terms, despite increased demands on services. In real terms these overheads have decreased by over 15% over that same period. There are clearly limits to which overheads and enterprise support costs can be reduced given the speed and extent to which CSIRO has, over the last 5 years, already made reductions. Moreover, the organisation has a policy consolidation strategy, one aim of which is to reduce costs to allow the transfer of funds to science.

The very significant actions CSIRO has taken to reduce administrative and overhead costs, to improve the efficiency of its operations and to use an increasing proportion of its funding for the direct support of research received acknowledgement in the March 2007 Productivity Commission study of public sector support for science and innovation. This report concluded that CSIRO's funding be at least maintained in real terms. This finding was also supported by the Central Agency lapsing program review undertaken in 2006 which noted CSIRO's efforts to improve efficiency and concluded there were no strategies or recommendations to further improve CSIRO's effectiveness, quality or efficiency.

Moreover, while for most organisations the impact of an efficiency dividend is limited to the level of the dividend, CSIRO's need to use its appropriation funding to attract additional external funding through research co-investment activities substantially magnifies the impact of the dividend. A reduction in appropriation funding from the application of the efficiency dividend leads to a decreased ability to attract external funding. This is because many funding bodies require matching funding (or even higher levels of leverage), and being able to provide this co-investment is a pre-condition for gaining access to these funds. CSIRO has assessed that the recent budget decision, the 'Responsible Economic Management' saving measure, will lead to a 1:1 reduction in external revenue. This overall loss will be \$39.8m (\$9.5m in 2008-09, \$9.8m in 2009-10, and \$10.2m in 2010-11 and \$10.3m in 2011-12).

In response to the direct reductions in funding arising from the decision to increase and extend the coverage of the efficiency dividend, CSIRO has used the priorities for investment established within its Science Investment Process to determine where reductions in expenditure will be made. It has sought to target further reductions in fixed costs associated with research infrastructure and overhead costs associated with research management so as to minimise the adverse impact on research outcomes. This has resulted in the announcement to close 4 regional research facilities, to merge a number of research divisions and to defer spending on collaboration activities with university and industry partners. Coupled with the relatively low level of indexation already applied to CSIRO's direct appropriation funding, we anticipate that the efficiency dividend decision will result in staff changes and net job losses. The estimated loss of staff (Full Time Equivalents or FTEs) due to CPI increases on appropriation and external revenue not meeting actual cost increases is 75. The loss due to the efficiency dividend and responsible economic management measures is 81 FTEs. This represents an overall FTE loss of 156, or approximately 200 staff. Although this is offset by a gain of 70 FTEs resulting from the extra funding gained for our areas such as the new Flagships funded in the 2007-08 budget, the net staff loss of 86 FTEs negatively impacts upon CSIRO's ability to implement these new programs.

How application of the efficiency dividend is affected by factors such as the nature of an agency's work (for example, cultural, scrutiny or regulatory functions) or the degree of discretion in the functions performed by smaller agencies

As noted above, the impact of the efficiency dividend on CSIRO, as a research agency, will be greater than the impact experienced as a result of the application of the same efficiency dividend to other, non-research based government agencies. The cost of science is increasing beyond the usual indexation rates applied to base funding. CSIRO has in the past estimated the underlying impact of the costs pressures to be between 4% and 6% p.a. The underlying drivers relate to technological developments themselves which lead to more sophisticated and expensive facilities and equipment – and leading-edge equipment is essential for cutting-edge science and to maintain the productivity of scientists. Basic infrastructure, including collections and data, continues to grow with associated increases in maintenance and management costs. The breadth of science is also increasing, with an associated rise in costs to scientific organisations such as CSIRO. The scale of (and demands set) by problems that require local solutions are also growing – for example water management, climate change, energy issues, security, public health, and new, emerging challenges. Large scale challenges require a large scale response. In addition, shortages of scientific and engineering expertise has resulted in salaries for particular kinds of scientists and engineers increasing at rates faster than the general increase e.g. exploration and mining researchers.

Because the indexation to CSIRO's funding does not take into account this higher underlying rate of increase in the cost of maintaining scientific capability and infrastructure costs, CSIRO has in

effect been subject to an additional ongoing efficiency dividend for a significant period of time and has reached the limits of its ability within current parameters to meet these demands without adversely impacting the breadth and quality of its research outputs.

Attachment B



AIATSIS
Australian Institute of Aboriginal
and Torres Strait Islander Studies

AIATSIS and the efficiency dividend

Compromising an Australian treasure

For further information, please contact: Steve Larkin, AIATSIS Principal ph: 02 6246 1118.

AIATSIS AND THE EFFICIENCY DIVIDEND

“The committee was of the view that the efficiency dividend can be characterised as a blunt but effective instrument. It is unfair and takes no account of ability to pay. It does, however, yield results. It also keeps up the pressure to look for efficiencies and it does return a portion of those efficiencies to the budget.”

Mr David Simmons (Calare): *Stand and deliver: Report on the inquiry into the efficiency dividend arrangements: tabling speeches*; Banking, Finance and Public Administration Committee Report; extract from Hansard, **24 March 1994**, Page: 2144+

With “small” agencies defined as those with an operating budget of \$150 million or less, AIATSIS with an operating budget of \$15.5 million barely qualifies. It would be more appropriate to describe AIATSIS as a “micro” agency.

AIATSIS makes important contributions socially and in policy terms that defy the agency's size. The Institute is uniquely positioned to partner with government in addressing acknowledged levels of social disadvantage amongst Aboriginal and Torres Strait Islander Australians.

AIATSIS' PRIMARY FUNCTIONS

- Maintaining and expanding Australia's largest repository of Aboriginal and Torres Strait Islander film, audio and photographic records
- Maintaining and expanding the AIATSIS library, the most comprehensive research collection of print materials on Aboriginal and Torres Strait Islander studies in the world, including manuscripts, language materials, books, records of organisations, newspapers, maps, microforms and CD ROMS, and
- A research program which aims to achieve rigorous, ethical, community based research; policy relevant research and advice to government; research networks and partnerships with community, government and industry; and to foster Aboriginal and Torres Strait Islander researchers within AIATSIS and the community.

Within these primary functions are a range of programs including:

- key research projects of relevance to government such as Aboriginal and Torres Strait Islander health, early childhood education and “Closing the Gap”
- Native Title Research Unit (NTRU) and the annual National Native Title Conference, recognised as the key Aboriginal and Torres Strait Islander policy conference in Australia
- recognising and protecting Aboriginal and Torres Strait Islander intellectual, cultural and property rights in audiovisual materials and collections including the development of a suite of protocols to guide the use of the audiovisual collection
- preservation of unique materials including the digitisation of rare and at-risk materials in the Library and in the Audiovisual Archive
- return of materials to Aboriginal and Torres Strait Islander communities to assist in the development and maintenance of Aboriginal and Torres Strait Islander identity; this includes language materials
- the Family History Unit, which trains and assists Link-Up researchers in family tracing and reunion for members of the Stolen Generations, as well as assisting anyone with Aboriginal and Torres Strait Islander heritage in researching their family background (while this is an essential and core activity, the Family History Unit is completely funded by OATSIH/Dept of Health and Ageing)
- the Aboriginal Studies Press, which shapes a limited but diverse and quality list of up to eight new titles annually, ranging across academic disciplines as well as general interest

books such as children's books, community and family history, biography and autobiography, and

- AIATSIS public programs such as the AIATSIS seminar series, NAIDOC on the Peninsula, the Stanner Award, the Wentworth Lecture and a monthly introductory service for Aboriginal and Torres Strait Islander community volunteers.

However, AIATSIS is under constant funding pressure, to which the application of the efficiency dividend contributes. Since the inception of the efficiency dividend, a significant decline in real terms of government funding for AIATSIS has occurred. The recent increase in the efficiency dividend equates to the loss of funding for 3 core positions for this organisation.

In tabling *Stand and deliver: Report on the inquiry into the efficiency dividend arrangements* in 1994, then Member for Calare Mr David Simmons said "It is obvious that some small agencies do have particular difficulties with the efficiency dividend; however, there is no evidence that any are in dire peril."

Over time, AIATSIS has had to manage a significant decline in its operating budget, increased difficulty in meeting the demands and expectations of client groups and the potential decline of its hugely important collections. This has hampered the organisation's ability to provide innovative solutions, of which one effect is the compromising of the Institute's ability to partner with government to address the real and serious issues currently faced by Aboriginal and Torres Strait Islander people.

The following pages address the Joint Committee's terms of reference for this inquiry. This analysis demonstrates how the current application of the efficiency dividend hinders AIATSIS' ability to deliver important cultural services to Australia's most marginalised and disadvantaged people.

- 1. Whether the efficiency dividend has a disproportionate impact on smaller agencies, including whether or not smaller agencies are disadvantaged by poorer economies of scale or a relative inability to obtain funding for new policy proposals.**

MEETING CLIENT GROUP EXPECTATIONS

The efficiency dividend contributes to an operating budget restriction at AIATSIS. As a consequence of this restriction, vital services to Aboriginal and Torres Strait Islander people are not delivered as effectively as they are entitled to expect. Indeed, the availability of the Institute's services to the wider Australian community is compromised.

The work of the Institute is unique. There is no other Australian Public Service agency that can deliver the range and type services delivered by the Institute. The increased financial pressure on AIATSIS severely restricts its ability to serve Aboriginal and Torres Strait Islander Australians.

As a micro agency, AIATSIS does not occupy a position where economies of scale can offset the effect of the efficiency dividend. AIATSIS has a very limited capacity to find further efficiencies without further adverse effects on staffing levels and the ability to carry out core functions. The range of options available to absorb or offset the dividend is limited, and becomes more so over time. It is the contention of the Institute that the threshold for absorbing the impost of the efficiency dividend without impacting on core human and financial resources has been reached. The only realistic course of action is to further cut core functions and inevitably staff numbers.

NPP PROCESS

The opportunities to access NPP funding as a means to offset the impact of the efficiency dividend are hampered by the smaller size of the agency and its positioning both within both the broader APS environment and the national policy framework. The NPP process is highly competitive, so that smaller agencies are pitted directly against larger departments who have more resources to devote to the process, have ready access to internal and inter-departmental forums to advocate their own proposals, and have policy mandates which favour them against the claims of smaller agencies.

Statutory authorities are largely reliant on the degree of advocacy portfolio departments are prepared to commit to during the assessment and evaluation of NPP bids across the APS. The potential for conflicts of interest in these situations cannot be discounted.

An additional contrast between AIATSIS and larger agencies in the NPP process is that larger agencies are more able to absorb the human resource costs of the preparation process within their agencies. Whilst the AIATSIS is able to identify and locate such costs in the preparation stage, it usually requires significant resources be diverted from core functions.

LACK OF CAPACITY TO GENERATE ADDITIONAL INCOME

It should be noted that larger “small agencies” often have a capacity to generate additional revenue from their goods and services – for example, Aboriginal Hostels Limited can charge hostel residents rent, while Indigenous Business Australia earns revenue from the sales of assets such as properties and also through commercial investments. AIATSIS does not have the range, mix and type of programs and services to generate alternative forms of revenue.

IMPACTS ON VITAL EQUIPMENT

AIATSIS has a responsibility to collect, preserve and return Aboriginal and Torres Strait Islander materials. Given the nature of this work, it is critical that AIATSIS can access and maintain the correct equipment in order to carry out its core functions. However, budget constraints including the efficiency dividend mean that we are often unable to purchase equipment best suited to the highly technical purposes required by a national collecting institution. Often the equipment we purchase is not top of the line or not ideal to function or, indeed, even second hand. In the case of audio and visual equipment, dated materials require antiquated equipment to convert to current day format. We need to maintain antiquated equipment on whose formats original materials were recorded, in order to be able to digitise those materials to the latest formats. This will ensure the ongoing preservation of this priceless material. Outdated equipment is proving difficult to source and is expensive; as such equipment becomes more scarce.

SALARY LEVELS

AIATSIS cannot offer salaries at same level as rest of the Australian Public Service due to our level of appropriation. Any further reduction in the operating budget as a result of the efficiency dividend equates to a reduction in the ability to fill core positions at appropriate levels.

Further, the pressure brought about by the differences in indexation rates calculated by the ABS (approx 4.6 percent) and DOFA (2.5 percent) has severely diminished our capacity to save for agency agreement salary increases. The effect of the efficiency dividend is to compound this revenue crisis as we have to deduct the efficiency dividend from the annual indexation top up which would normally provide the capacity to pay salary increases. Staff calculate their salary increase bids on the ABS figure (as they should), but as our annual appropriation doesn't increase by at the same rate, the efficiency dividend erodes our capacity to save.

2. Whether the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate.

IMPACT ON CORE FUNCTIONS

As stated previously, AIATSIS' capacity to perform core functions is increasingly diminished by the application of the efficiency dividend.

The efficiency dividend has required AIATSIS to reclassify a number of positions as non-core and thus abolish essential positions. Functions attached to these positions have had to be spread across remaining positions or not performed at all. This means that often services are unable to be delivered optimally. The AIATSIS circumstance is that the demand for research and other services, the demand by communities for copies of materials, and the requirement to preserve collections is growing at a time when staffing is decreasing.

Impact on innovation

A broad evidence base demonstrates that individuals' links to culture and family history are essential in raising the health and living standards of Aboriginal and Torres Strait Islander Australians. AIATSIS' role in that process is critical. Historical evidence shows that a loss of cultural identity and loss of place are direct contributors to the continuing disadvantage that Aboriginal and Torres Strait Islander people experience today.

The Institute is the repository of the largest collection of Indigenous Australian cultural materials in the world, and supports internationally recognised experts studying many aspects of Aboriginal and Torres Strait Islander contemporary culture.

In the year of the National Apology, there is an acknowledged need for this information to be translated into innovative policy and programs. AIATSIS has a critical role to play in this process, but its ability to carry out this role is compromised by financial impositions that include the efficiency dividend.

Areas of contemporary policy development we could contribute to include:

- water use
- climate change
- native title
- land use and management
- early childhood education, and
- health and “closing the gap”.

The Institute is home to a comprehensive, readily available catalogue of materials which provide a world-class resource for researchers and policy makers. But this vast collection has an important role not only as an adjunct to the AIATSIS research program, but also has intrinsic value as cultural material belonging to Australia's First Nation.

It is obvious to us that many areas of innovation can potentially flow from our collection. Indeed, there are areas where we have led the field in the treatment of the cultural heritage of Aboriginal and Torres Strait Islander Australians.

AIATSIS has developed protocols around the collection, preservation and dissemination of Aboriginal and Torres Strait Islander cultural materials in partnership with Aboriginal and Torres Strait Islander communities; these protocols have been accepted broadly, and are now used nationally and internationally.

The now defunct Community Access program was an innovation program that Aboriginal and Torres Strait Islander communities had long advocated. There are literally queues of Indigenous communities not only requesting the return of materials returned to their communities, but also wanting the skills and expertise to preserve and manage their collections on community. AIATSIS has successfully run community access workshops in Brewarrina, Cherbourg, Palm Island, Fitzroy Crossing and the Torres Strait. However, funding constraints caused by the efficiency dividend have forced AIATSIS to discontinue this program and instead prioritise the preservation of the at-risk collection.

AIATSIS is recognised as the Australian leader in the ethical and professional handling of Indigenous collections. AIATSIS also holds the largest Indigenous collections with over one million items. AIATSIS is the appropriate organisation to develop the National Network of Indigenous Knowledge Centres, a key recommendation endorsed at the Prime Minister's 2020 summit. The idea itself emanated from AIATSIS' commitment to reinforcing cultural identity and pride within Aboriginal Australia as a platform for policy development to address disadvantage.

Whilst AIATSIS is used in a limited capacity by the Australian schools community, it is still often unable to assist to the extent we are requested to or would like to. There is plenty of scope for AIATSIS to expand into the education sector and provide valuable education-support services to schools and other education bodies, but we are unable to develop and implement ideas as result of small budget appropriations and pressures from the efficiency dividend.

INNOVATION TO MAINTAIN CORE FUNCTIONS

Unfortunately, innovation has been largely driven by the need to find alternative ways to maintain the current capacity to perform core functions rather than by considerations of growth and development. The efficiency dividend fails to take account of growth in demand for and increased user rates of core programs and services. The Institute is currently in the position of meeting increased demand with a continual reduction in capacity. The AIATSIS collection is enormous, but it receives only a small fraction of the budget of other collecting institutions.

Research

The capacity of AIATSIS research programs has diminished over time, with a decrease of eight percent in real terms in appropriation over the last decade. By comparison, funding for grants through the Australian Research Council and the National Health and Medical Research Council has increased in real terms by 37 percent and 110 percent respectively over the same period.

As part of this government's commitment to research and innovation, as well as the commitment to improving the wellbeing of Aboriginal and Torres Strait Islander peoples and the social inclusiveness of Australian society, we believe that AIATSIS should be given a prime agenda to conduct and facilitate research and collect and produce resources and information to provide rigorous, ethical, community based research to underpin an evidence base for the evaluation and analysis of the Commonwealth's objectives, policies and programs.

AIATSIS strives to maintain at least a single researcher in each primary discipline and for key issues such as Indigenous health can maintain two researchers. Given the serious research questions that face the nation and the new policy questions being debated, these numbers are miniscule and additionally reduce the capacity of the organisation to react to policy emergencies.

Efficiency dividends also impact on the quantum of funding AIATSIS can make available through its national competitive grant scheme. Funding available for the AIATSIS research grants programs has decreased by 31% in real terms over the last decade:

Evidence and research based policy is critical in Aboriginal and Torres Strait Islander affairs if Australia is to finally meet the challenge of overcoming Aboriginal and Torres Strait Islander disadvantage and building a national identity that respects, includes and celebrates Aboriginal and Torres Strait Islander people.

Audiovisual Archive

The Audiovisual Archive has had to cease the Community Access Program and *Keeping Your History Alive* community archiving courses. The result will be failure to meet community expectations and loss of reputation for AIATSIS among Aboriginal and Torres Strait Islander communities.

The communities of Cherbourg (QLD), Palm Island (QLD), Brewarrina (NSW) and Fitzroy Crossing (WA) have all participated in the Return of Materials to Indigenous Communities (ROMTIC) program and the demand for this service from across the country is simply beyond our capacity to currently deliver.

However, digitisation for preservation and access now must be our core business because the audio, film and photographic industries have abandoned the older technologies. AIATSIS has been granted two lots of three year funding to undertake digitisation of its vulnerable audiovisual collection.

While AIATSIS has funding for digitisation and digital funding for three years, whole-of-life costs are ongoing for hundreds of years, and are at this stage unfunded. Storage costs for original materials and digitised items are large and will continue to become more expensive.

3. What measures small agencies are taking to implement the efficiency dividend and the effect on their functions, performance and staffing arrangements.

AIATSIS undertook a 10 percent cut across all programs in 2005-06 to adjust to increasing costs, new demands and reduced real appropriation. In combination with the impost of the efficiency dividend, the overall loss of appropriation, excluding indexation, is \$.941m over the current year and three forward years. With indexation this is expected to be around a \$.797m loss.

The efficiency dividend requires an agency to identify savings annually at the set rate. For micro agencies, there are few options available outside of reductions to core functions and staffing and at AIATSIS those options have now been exhausted over time. Therefore, strategies to achieve core functions are continually re-defined in accordance with Corporate and Business plan objectives to take account of a reduced resource quantum attributed to the efficiency dividend. Levels of staffing are also continually scrutinised as part of this process where the overriding imperative is to reduce numbers so that the efficiency dividend can be met.

In an effort to deal with the dividend, corporate support activities were vigorously reviewed over the four years to 2004-05. This involved scrutiny of in-house / outsourced service provision, revised purchasing arrangements and redirection of staff time to more relevant activities. This resulted in a 44% reduction costs per staff member supported. There is little further scope for cost reduction in this area.

We have already reduced staff numbers to accommodate the demands of the efficiency dividend, decreasing demand on our capital as a consequence. Many AIATSIS staff are overstretched, as they are required to assume several functions. The ultimate consequence is that our position to realise our potential as an effective resource for government and Aboriginal and Torres Strait Islander is compromised.

AIATSIS Library

As a result of an eroding budget and few options left to effect efficiencies, the AIATSIS Library has progressively cut staffing levels and collection budgets as part of the broader AIATSIS budget cuts. In 2005-06, the Library made cuts of 12 percent to its budget, losing its archivist, client services manager and a cataloguer. The ongoing library functions has the equivalent of 11 Full Time Equivalent (FTE) staff which is inadequate for a national cultural collecting agency. The Library may have to cut another position in 2009-10. There is no capacity left to cut the non-salary budget of the Library.

The efficiency dividend further compounds the situation of a decreasing budget and growing gaps in the collections. The AIATSIS Library's purchasing power has decreased substantially in real terms due to the dual effect of continuing large increases in library materials and a decade of unchanged collection budgets. There is no capacity left in the non-salary budget. Any further reductions in the Library (and Audiovisual Archive) budget will have to be to staffing and core functions.

4. Any impacts of the efficiency dividend on the use by smaller agencies of "section 31" agreements to secure non-appropriation receipts (for example, through user charges and cost recovery) - noting that these receipts are not subject to the efficiency dividend.

As a CAC agency the provisions of "section 31" agreements are not applicable to AIATSIS.

In the cultural heritage sector, knowledge and information does not create wealth - it is important to recognise that the value is in the cultural heritage itself. The AIATSIS Council and senior management do not recover costs from Aboriginal and Torres Strait Islander communities for the return of their own materials.

5. **How application of the efficiency dividend is affected by factors such as the nature of an agency's work (for example, cultural, scrutiny, or regulatory functions) or the degree of discretion in the functions performed by smaller agencies.**

AIATSIS OBLIGATIONS AND RESPONSIBILITIES

AIATSIS is the only national Indigenous research and cultural collections agency. The role and indeed the vision of AIATSIS – that of worldwide knowledge and understanding of Australian Indigenous cultures, past and present – imposes on the organisation a cultural obligation to:

- collect, preserve and disseminate Aboriginal and Torres Strait Islander cultural materials
- make those materials available to the general community (where appropriate), and
- provide government with Aboriginal and Torres Strait Islander perspectives and solutions to Aboriginal and Torres Strait Islander problems.

The application of the efficiency dividend is affected because we must make decisions regarding services to which all Aboriginal and Torres Strait Islander people are entitled: which communities get access, and which areas of Aboriginal and Torres Strait Islander life and disadvantage we can address.

The Institute's primary clients are Aboriginal and Torres Strait Islander people, Aboriginal and Torres Strait Islander organisations and Aboriginal and Torres Strait Islander communities.

BROADER CONTEXT OF ABORIGINAL AND TORRES STRAIT ISLANDER DISADVANTAGE

AIATSIS holds a unique position in Australia's public sector. The Institute's core functions are predominantly concerned with the development and promotion of Aboriginal and Torres Strait Islander knowledge, the preservation and conservation of Aboriginal and Torres Strait Islander cultural heritage and cultural transmission.

The level of disadvantage experienced by Aboriginal and Torres Strait Islander people is well documented across a range of quality of life indicators and statistical data. A number of national reports have identified that current overall funding levels are incommensurate with the level of identified need.

The efficiency dividend does not take account of this broader context of Aboriginal and Torres Strait Islander affairs in its application. As a consequence, agencies such as AIATSIS which are similarly affected by chronic under-funding but have a critical role in addressing Aboriginal and Torres Strait Islander disadvantage have to also contend with the impost of the efficiency dividend on its already small resource base. The overall level of Aboriginal and Torres Strait Islander disadvantage does not seem to warrant any special consideration under the current universal application of the efficiency dividend.

Family History Unit

The Family History Unit trains and assists Link-Up researchers in family tracing and reunion for members of the Stolen Generations, as well as assisting anyone with Aboriginal and Torres Strait Islander heritage in researching their family background. An important part of this function is the Family Tracing Catalogue – a database and broader catalogue which can be accessed by Link-Up researchers. However, our inability to fund the Family History Unit beyond OATSIH grant levels results in our inability to enhance or maintain that catalogue to an optimal level. This in turn compromises Link-Up's ability to effect family reunion for the Stolen Generations.

Community access and Return of Materials to Indigenous Communities (ROMTIC)

An important innovation from the Audiovisual Archive was the community access and ROMTIC programs, which not only facilitated the return of materials to Aboriginal and Torres Strait Islander community owners, but also trained communities in preserving and maintaining their collections.

Continuing budget pressure, including that caused by the efficiency dividend has seen this program discontinued. With limited budget, the priority must instead be the preservation through digitisation of priceless and irreplaceable collections.

The discontinuation of these important community access programs affects AIATSIS' ability to effectively return materials to the communities which own them, and further compromises the ability of those communities to manage their own cultural heritage.

- 6. If appropriate, alternatives to an across-the-board efficiency dividend to encourage efficiency in the Commonwealth public sector, including consideration of whether certain agencies should be exempted from the efficiency dividend, or whether the rate of the dividend should vary according to agency size or function.**

EXEMPTION OF AIATSIS AND OTHER "MICRO" AGENCIES

The Institute would strongly advocate it be exempted from the efficiency dividend. Additionally we recommend that government recognise the 'micro' sector as a category for classifying agency size in addition to the current "smaller agency" category as specified in this committee's terms of reference.

The micro sector might comprise small agencies within the APS whose annual appropriation is less than \$20 million per annum. These agencies are usually statutory authorities who have specialised functions and come under the CAC Act.

These agencies could never contribute a significant level of savings to government through the efficiency dividend. The Institute's efficiency dividend contribution for 2008-09 is \$243,000. This amount may seem insignificant contrasted with the impact on larger agencies, but it has significant impact given the Institute's poorer economies of scale. The impact on savings to government through the exemption of the efficiency dividend to micro agencies is minimal if not insignificant.

The Institute has a diverse highly technical, specialised professional staffing base. The limited supply of this workforce means the Institute is in direct competition with other potential employers such as other cultural and collecting Institutions throughout the country for their services and consequently has difficulty in attracting and retaining these staff leading to short term decreased productivity. In addition there is the cost burden associated with the provision of competitive remuneration as both recruitment and retention incentives. Given the unique nature of the Institute's core business as defined by its stated outcome and associated outputs, Government could review the current tax arrangements that apply to micro agencies in the APS and consider amendments to relevant parts of Taxation legislation in order to confer eligibility to micro-agencies for public benevolent institutions (PBI) status. By doing so benefits such as the Fringe Benefit Tax rebate and exemption (up to \$30,000 rebate and exemption) would allow micro-agencies such as the Institute to access the practical range of benefits bestowed by PBI status as a means to offset inequities directly attributable to smaller organisational size, to address chronic issues around the recruitment and retention of staff, as well as provide the basis for real opportunities to attract alternative sources of non-government income through the corporate and philanthropic sectors.

Attachment C

Questacon: Response to the Joint Committee of Public Accounts and Audit inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies.

For Further information, please contact Mia de Tarczynski on 02 6270 2834 or MdeTarczynski@questacon.edu.au

Questacon, Australia's National Science and Technology Centre, welcomes this opportunity to provide input to the Joint Committee of Public Accounts and Audit's inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies.

Questacon plays a vital role in exciting and inspiring young Australians through hands-on learning. Questacon is the national leader in presenting world class creative, interactive science exhibitions and programs. Questacon is internationally acknowledged as the world leader in outreach programs to rural, remote and Indigenous communities.

A visitor's experience of Questacon may be through the centre in Canberra, a travelling exhibition at an urban or regional venue across Australia or overseas, an outreach program to regional, rural and remote Australia, or via the interactive website (www.questacon.edu.au). Questacon's annual reach, through this multi-faceted approach, is over four million people.

Through the machinery of government changes in December 2007, Questacon became a business division of the Department of Innovation, Industry, Science and Research (DIISR). Questacon is a "smaller agency", as defined in the Committee inquiry's Terms of Reference, with an operational budget of \$19.5 million per annum. For 2007-08, Questacon's ASL is 161.

Questacon's current funding arrangement necessitates securing non-appropriation receipts to fully cover operating costs. This non-appropriation funding represents 43% of annual revenue and includes admissions, fees for programs, travelling exhibitions and services, Q Shop (retail) and sponsorships.

As a small organisation which relies on revenue generation, and noting the capacity for that revenue to be significantly variable from year to year, there is a particular pressure on Questacon to manage as efficiently and effectively as possible. The need to be cost and resource efficient is central to Questacon's capacity to operate the Centre in Parkes and deliver national outreach programs.

In addition to the potential variability and unguaranteed nature of non-appropriation revenue funding, Questacon must also absorb increasing costs as these arise. In recent years, costs have increased substantially in relation to electricity rates (as part of the whole of government contractual arrangements), depreciation and staff costs (flowing from new collective agreement arrangements). The application of the efficiency dividend on operating costs, without delineation between discretionary and non-discretionary operating costs, means that the dividend has to be applied in areas where there is limited potential to improve efficiency. For example, Questacon's operational appropriation includes \$3.2 million for depreciation. This is a non-discretionary operating cost through which no efficiencies can be directly gained.

Questacon's capacity to increase revenue is dependent on the health of the education and tourism markets and Questacon's capacity to attract and service these markets and the capacity to source and secure commercial sponsorships. There are limited resources to support submissions for new policy proposal funding and the number of avenues for new policy funding is limited to the scope of Questacon's role (i.e. being a small organisation with a limited area of responsibility restricts the ability to draw new funding compared to larger agencies with a broader policy scope).

The efficiency dividend is applied directly to Questacon with the savings generated within Questacon's own budget. Historically, Questacon has absorbed the efficiency dividend through natural staff attrition and business planning to identify core business and to ensure deliverables can be achieved through the anticipated revenue.

The impact of the efficiency dividend on Questacon for 2008-09 is:

- 2% component = \$227,000

- Total for 2008-09 = \$370,000 (including 2% component).

Questacon has identified the following measures to implement the efficiency dividend:

- reduction in marketing;
- reduction in learning and development for staff;
- limited staff recruitment (including not filling at least two executive level positions);

Questacon's capacity to be innovative and develop new initiatives has been restricted through the requirement to direct resources previously used in this area to support current core activities. This limits future opportunities even where these new initiatives would generate potential efficiency.

The efficiency dividend was established to drive agency efficiency, however the disproportionate impact on Questacon as a small efficient agency is that the dividend is adversely affecting the delivery of core business. Exemptions for small institutions, or at the very least, application of the efficiency dividend only to areas of possible efficiency gain (administrative costs), should be considered. In addition, an opportunity for the rate of efficiency dividend to be varied in relation to agency size and scope would better reflect Questacon's capacity to find significant discretionary operational efficiencies on an annual basis.

Attachment D

The National Measurement Institute - Inquiry into the effects of the ongoing efficiency dividend on smaller public agencies

For Further information, please contact Ms Chris Paterson on 02 6213 7437 or chris.paterson@innovation.gov.au

1. Introduction

The National Measurement Institute (NMI) is Australia's peak measurement organisation, responsible for providing Australia's standards of measurement under the *National Measurement Act 1960*. NMI was formed on 1 July 2004 by bringing together three existing measurement bodies, the National Measurement Laboratory from CSIRO, the National Standards Commission and the Australian Government Analytical Laboratories.

Administratively, NMI is a division of the Department of Innovation, Industry, Science and Research. A statutory officer, the Chief Metrologist, is an appointment of the Secretary and is responsible for key decisions in relation to Australia's measurement standards and infrastructure. Measurement infrastructure is essential to support fair trade in Australia and to support Australia's export activity. It underpins every stage of the innovation process and many government regulatory processes.

NMI operates under its own name, rather than that of the department. NMI has a staff of about 360, mainly scientists, employed under the National Measurement Institute Collective Agreement. NMI operates from six sites at present. The main laboratories are at Lindfield and Pymble in Sydney, smaller laboratories are located at Clayton and Port Melbourne in Victoria and in Kensington, WA. There is a small office in Canberra.

NMI's work covers physical, chemical, biological and legal measurement and it provides technical advice to government agencies on measurement matters. Its services include the dissemination of fit for purpose measurements to industry, government agencies and research organisations. NMI's clients include manufacturing, resources and service industries, agriculture, health, police services, laboratory services, research laboratories and government departments.

NMI is Australia's representative on international metrology bodies and its work ensures the recognition of Australian measurement standards by other nations. NMI undertakes collaborative research with international metrology bodies to upgrade measurement capability to meet the needs of advancing technologies. In Australia, NMI works in partnership with a wide range of research organisations from government, universities, industry and research organisations to develop measurement capability to meet the needs of partner agencies.

2. NMI funding

NMI's revenue comes in two forms, appropriation through the department and revenue earned for services delivered. The \$60m budgeted income in 2007-08 represented about \$30m from each category. However, expenditure using this income is very constrained; the expenditure profile shows that NMI is a capital-intensive operation and that there is very little flexibility in the budget (table 1, 2007-08)

Expense item	Budget
Salaries	\$30.6m
Operational expenses and overheads This includes the following significant cost items	\$29.0m
Direct laboratory costs	\$4.4m
Property and operational expenses	\$8.1m

Depreciation	\$6.4m
e-Business for IT systems	\$2.0m
Insurance	\$0.6m
Australia's annual subscription to Metre Convention	\$0.4m

NMI's appropriation funding is based on the levels of funding of the three predecessor agencies at July 2004. Since 2004, there have been some increases to reflect inflation and reductions as the agency is subject to the efficiency dividend. There have also been increases in funding for specific purposes and a capital injection for equipment as follows:

- \$2.9m over two years (07-08 and 08-09) as part of an NPP to implement the National Nanotechnology strategy. This is for the development of measurement standards for nano-particles;
- \$0.58m over 3 years to support work to scope a national system of trade measurement as part of the implementation of the Banks review (2006-07 to 2008-09);
- \$31.6m implementation and management of a national system of trade measurement (2007-08 to 2010-2011);
- a capital funding injection of \$16 m over three years, 2006-07 to 2008-09, to upgrade equipment and ongoing depreciation funding.

However, with the exception of the one-off capital funding injection, the new funding is for additional work and for the acquisition of existing trade measurement functions from the states and territories. It cannot be used to supplement resources for existing work.

NMI manages its cost structures very closely as part of costing for services provided. The costs for corporate services and information technology services received from the department have been identified and NMI pays for the services it receives.

As part of CSIRO, the National Measurement Laboratory was exempt from the efficiency dividend for its research activities. As part of the department, all NMI's appropriation funding is subject to the efficiency dividend.

3. The use of the New Policy Process (NPP) to provide additional funding

NMI used the NPP process to gain the capital injection for equipment listed in section 2. The thresholds for NPPs are subject to change from year to year. Recently, the minimum requirement for an NPP was a minimum of \$10m in any year within the period of the forward estimates. For an agency with an annual appropriation of the order of \$30m and a total budget of \$60m this is generally out of scope except for major capital works or the addition of major functions such as a national trade measurement system.

The funding NMI received for other purposes was part of joint initiatives. In relation to national trade measurement, it was part of wider government regulatory reforms. The funding for nanometrology was part of the Government response to the National Nanotechnology Taskforce.

4. Impact of the efficiency dividend on core functions and the ability to innovate

The primary impact of the efficiency dividend is on NMI's ability to maintain core functions and to innovate. This is because the efficiency dividend results in a reduction in R&D activity needed to develop and maintain a relevant suite of capabilities and severely limits NMI's ability to implement a viable succession plan.

NMI's primary function under the National Measurement Act is to ensure that Australia has a suite of primary measurement standards, capabilities and infrastructure that meet the requirements of

industry, government and the community. Most of the capabilities NMI uses to address Australia's measurement needs arise from applied R&D carried out by NMI staff, often in collaboration with Australian and international research bodies. The R&D programs are targeted at developing innovative solutions that meet existing and future requirements, and are necessarily often at the forefront of the field of science in question. Due to the specialised nature of NMI's scientific and technical capabilities, the maintenance of these capabilities and the intellectual property behind them requires careful succession planning

Most of NMI's staff are scientists. They are a group of highly skilled measurement scientists with the expertise to deliver NMI's core mandate. In general they have PhDs and well established scientific reputations. Experienced measurement scientists are generally trained only in national measurement institutes and are in extremely short supply world wide. As in other countries, it is almost impossible to recruit mid-career professional measurement scientists in Australia and in practice NMI usually employs young scientists and trains them in metrology. It is important that their remuneration goes some way towards recognising their expertise.

Over many years of very limited funding staff numbers, especially in the physical metrology branch, have been reduced substantially. This is an area where a broad range of expertise at a very high level is needed to support Australia's measurement capability. Because of the diversity of scientific expertise needed at a high level, there is very little opportunity to move staff between areas of work so that capability is very thinly spread over the wide range of the measurement standards it is required to maintain. The age structure of that group is of particular concern with about 25% of its staff at, or soon to reach, retirement age. Funding is simply not adequate to put in place a robust succession plan. Some senior scientists who have retired are also employed part time as post-retirement fellows in order to maintain the availability of their expertise to NMI.

In order to recover salary costs the balance of activity has been tilted towards greater service delivery rather than research and public good activities. Research needed to maintain the currency of measurement standards and services has been reduced and NMI's ability to support the measurement needs of leading-edge technology is constrained. This has a direct impact on NMI's capability to support Australian innovation and ultimately on Australia's ability to retain innovative companies and to attract investment in innovation.

NMI has little scope to further reduce the range of existing primary standards activities, due to its position at the top of the measurement chain. This is particularly true of the physical measurement area, where one major output of NMI is the calibration of instruments for clients. A single instrument calibrated by NMI may be used by a client to calibrate hundreds of lower level instruments, some of which may in turn calibrate other instruments, and so on. The availability of NMI's expertise in the particular measurement area concerned supports this chain at all levels, for example by committee service, consultancies and accreditation activities. Consequently revenue from NMI's services is in many areas not proportional to their importance to Australia.

The capital injection in 2005-06 made a significant difference to NMI's capability and had a very positive impact on staff morale. At the time of the capital injection, in excess of 60 percent of NMI's equipment used for national interest purposes was more than 10 years old and 58 percent of NMI's equipment had less than 3 years of useful life remaining. The asset register is now much better balanced. A capital budget of the order of \$10m per year is needed to maintain adequate infrastructure.

The demands on NMI continue to increase. In physical measurement this tends to be for higher levels of accuracy and for new services. Meeting such demands is sometimes a matter of adapting existing methods; sometimes it requires radically different approaches to developing measurement standards. Nanotechnology is an example and there are pressing demands in other areas such as temperature and high voltage measurements.

Chemical measurement infrastructure is increasingly important to meet the needs of industry for their own processes and also to meet the health, safety and environmental regulation imposed in Australia and by export destinations. Biological measurement is a new field in which most advanced nations are making significant investments. NMI has moved resources into these areas but activity is limited. However, where sufficient expertise is available, NMI looks for opportunities to partner with other organisations in solving measurement problems.

5. *Scope for increasing efficiency*

The real cost to operate NMI is rising by 5-6 % each year and the allocation for 2008-09 has been reduced by 3.5%. If the efficiency dividend continues to be applied to NMI a further 3.5% reduction will be required in 2009-10 in addition to further cost increases. Efficiencies of this scale are not possible without cutting core capabilities.

NMI introduces efficiencies into its work wherever possible and the investment in new equipment has increased efficiency. Greater efficiencies can be achieved in service delivery rather than research for which there is little scope for increased efficiency. Measurement scientists work at very high levels of accuracy and much of the work is detailed and painstaking. Staff reductions actually decrease the efficiency of research, since some of the time of research staff is diverted to activities not requiring their higher level skills and knowledge.

NMI has entered into a number of research collaborations with overseas national measurement institutes. This approach shares costs and provides access for NMI to expertise not readily available in Australia. Similarly, NMI works with a wide range of organisations in Australia where its measurement expertise complements the expertise of partners.

Most of NMI's costs are not negotiable and are increasing. These comprise salaries, rent and increasingly electricity. IT, insurance and depreciation are steadily rising in cost and these are outside NMI's control. Similarly, asset revaluations increase depreciation payments and reduce available operating funding.

The cost of salaries is increasing at the rate of 4% per year. Failure to pay salary increases in line with the market would see the decline in the quality of staff and ultimately undermine NMI's capability to act as a peak national agency. NMI cannot dispense with staff and then rehire. The expertise required. As discussed in section 2 many of the staff have expertise in acute shortage world wide and will not be available again.

NMI is dependent on the private sector rental market in Pymble and Port Melbourne. Other properties are rented from CSIRO. In respect of the Lindfield building NMI pays at the internal rate of rent charged to CSIRO divisions. This rose 16% in 2007-08.

Plans for co-location of the two Melbourne laboratories from July 2009 will increase efficiency. The new building in Port Melbourne has lower rent than the previous property and the laboratory layout will promote efficiencies, however, this will mainly affect revenue from services.

NMI is a heavy user of electricity for air conditioning and running scientific equipment. Some equipment needs constant air conditioning and precise environmental control to operate properly. Electricity costs \$1m this year. The advice is that commercial electricity prices are likely to double next year. Energy saving measures have been implemented where sensible and within the scope of a tenant. Further energy savings require major capital investment. For example, a recent study¹ of energy usage at the Pymble laboratory indicated that a capital upgrade by the landlord estimated at \$1.06m would be needed for more energy efficient operation. The Lindfield building was built in the late 1970's and reflects the building standards of that time. Discussions are underway, including with CSIRO, to look for better ways of addressing NMI's accommodation needs in Sydney.

6. *Revenue earning capability*

NMI's ability to increase its income is rather restricted. NMI provides services to industry and government under two Government funding arrangements. The first is cost recovery where the marginal cost of calibration services is charged to the private sector. The charges are calculated in accordance with the Australian Government Cost Recovery Guidelines, and NMI's method of compliance with these guidelines is documented in the department's Cost Recovery Impact Statement (CRIS).

¹ *Scoping Study into Energy Efficiency Strategies for Australian Government Laboratories*. Hyder Consulting for the Department of Environment, Water, Heritage, and the Arts 2007

Calibration services are the principal form of dissemination of measurement standards. NMI calibrates high level measuring equipment for advanced technology firms and for calibration laboratories that calibrate most of the measuring instruments used by industry. The service relies on national primary measurement standards and capabilities which are provided as a public good and appropriation funded. Neither is subject to the efficiency dividend.

The second approach meets the government's competitive neutrality guidelines. This applies where there is actual or potential competition in the market. The policy ensures that there is no unfair competition with actual or possible private sector organisations. Most chemical measurements are carried out on this basis. NMI carries out high level analytical services and supports the government's regulatory objectives in food, health and environmental matters.

NMI has successfully sought additional funding through contracts for work sometimes as an outcome of a competitive tender or through grants. In some cases this funding has enabled NMI to develop capability required as part of its national mandate while meeting the specific measurement needs of the contracting agency. This approach has been particularly successful in developing chemical reference methods under contract to organisations such as World Anti-Doping Agency and the Australian Federal Police. External funding has also extended the development of capability in biomeasurement through work for the Agriculture Department and the Office of the Gene Technology Regulator. NMI is not eligible for competitive research grants for example from the Australian Research Council and National Health and Medical Research Council.

Service activity is essentially a means of disseminating measurement standards and making NMI's expertise available to industry, government and the community. It also provides feedback and a means of understanding emerging needs. Revenue contributes to NMI's budget and enables it to employ a diversity of skilled people. Revenue earned is not subject to the efficiency dividend. However, work required from NMI by other government agencies may be reduced as these agencies' budgets are reduced by the efficiency dividend that they pay.

7. Comment

Rises in fixed costs such as salary, rent, laboratory consumables and electricity squeeze NMI's ability to deliver its mandate and the efficiency dividend adds to this pressure. There is no mechanism for regular review of funding for ongoing activities or for consideration of funding for new activities requiring modest funding below the NPP threshold. Cost pressures are such that the cost of new activities cannot be absorbed and options for reallocating existing funding are limited.

NMI, as a small agency has increased compliance costs also. To some extent these are mitigated by being part of a department. The operation is very different from the office based environment of the rest of the department and NMI has to be considered separately for many compliance purposes which adds costs.

The NPP process is essentially designed for new activities and in any case is generally inaccessible except in concert with other policies. New activities must be delivered and are not a means of supporting existing ongoing activity. Tying new funding for new measurement infrastructure into new policy initiatives may be seen as good policy in that NMI is responding to government objectives. However, the time taken to develop measurement infrastructure may be much longer than the period of an NPP. Ideally measurement infrastructure should anticipate policy requirements.

In considering efficiency, it is usual to also consider effectiveness. Cost reductions that undermine the effectiveness of an agency to deliver its responsibilities, either now or in the longer term, are false economies. Effectiveness must be considered over the longer term. NMI is being forced to make sure that immediate needs are met but despite working hard to keep its key people and capabilities, and looking for alternative funding wherever possible, it has not been able to invest in the future to the extent that Australia needs. For example, although identified as a priority by NMI's predecessor agency ten years ago, it was only last year that significant investment could be put into measurements to support nanotechnology through additional funding.

Reviews of government functions may include small agencies. For example, the current review of the National Innovation System included consideration of the infrastructure for innovation including

NMI. Between the occasional large scale reviews, a mechanism is needed to review and adjust funding arrangements to ensure that small agencies are funded sufficiently to fulfil their mandates.

Attachment E



Australian Government
Australian Research Council

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THE AUSTRALIAN RESEARCH COUNCIL: INQUIRY INTO THE EFFECT OF THE EFFICIENCY DIVIDEND ON SMALL AGENCIES

For further information, please contact Mr Andrew Cameron on 02 6287 6676 or andrew.cameron@arc.gov.au

The one-off 2% efficiency dividend resulted in a reduction of approximately \$300,000 per year across the forward estimates to the Australian Research Council's (ARC) operating budget. This is in addition to the annual efficiency dividend of 1.25% which equates to a reduction of approximately \$190,000 per year.

The impact of the annual efficiency dividend has been accomplished through careful management of staffing numbers and reducing expenditure on discretionary items such as travel and consultancies. The \$300,000 reduction from the additional 2% efficiency dividend will be achieved by reducing the management structure at the ARC by not filling two senior executive positions which became vacant due to separations in 2007-08.

While these reductions are manageable at present, beyond 2008-09 it will be increasingly difficult for the ARC to maintain its core activities if there were any further reductions to its operating budget.

In 2008-09 the ARC's operating budget of \$15.856m represents approximately 2.7% of the \$595.8m research funding budget that it is administering, compared to an average of 4% administration costs for similar international research funding bodies (See graph at Attachment A).

This percentage decreases further across the forward estimates with the ARC estimated operating costs accounting for 2.1% of research funding by 2011-12. This is the result of increased research funding and a steady operating budget. Table 1 at Attachment B shows the ARC's operating and administered funding since 2001-02.

Appendix A

Administration as percentage of total budget

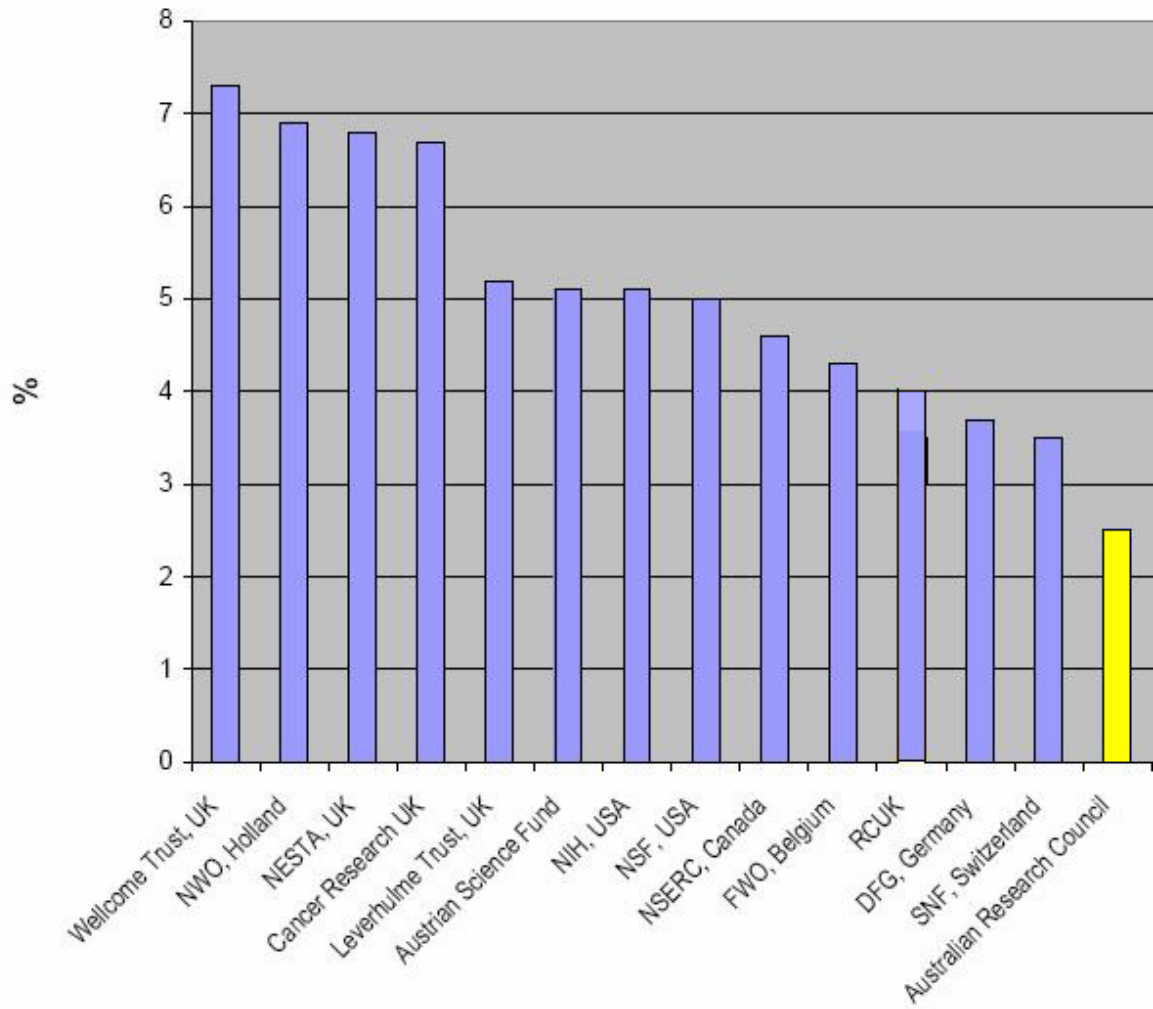


Table 1 - ARC Program and operating budget 2001-02 to 2011-12

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 est actual	2008-09 Budget	2009-10 est	2010-11 est	2011-12 est
NCGP funding (\$m)	265.8	298.3	399.6	480.9	544.4	569.9	571.8	595.8	669.8	712.3	775.3
Operating costs (\$m)	9.7	11.2	12.6	12.8	14.9	14.7	21.4	15.9	15.7	16.0	16.1
Operating costs as % of NCGP budget	3.7%	3.7%	3.2%	2.7%	2.7%	2.6%	3.7%	2.7%	2.4%	2.2%	2.1%
Total staff (as at 30 June)	56	60	60	71	67	71	91	74	73	73	73

Attachment F

ANSTO Submission into the review of the effect of the efficiency dividend on small agencies

For further information, please contact: Ian Baker, Budget/Insurance Accounting on 02 9717 9570 or idb@ansto.gov.au

The terms of reference of the inquiry are limited to the effects of the ongoing efficiency dividend on smaller public sector agencies. However, the effect of the efficiency dividend on asset-intensive agencies is also of concern. ANSTO owns and operates a number of major capital assets on behalf of the Australian government. Approximately 85% of our expenditure is fixed, with a large portion of that due to operating and maintenance costs associated with those assets. Reductions in funding associated with those assets would either result in their unavailability or compromise safety. ANSTO is also subject to strict safety and security regulation, chiefly by the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA). Compliance with that regulation, which is not optional, imposes additional costs.

A comprehensive pricing review undertaken jointly by ANSTO and the then Department of Finance and Administration in 2000-01 considered ANSTO's cost structures, as outlined above. It recognised that the imposition of an efficiency dividend on ANSTO (then assessed on the basis of 30% of total expenditure) was inequitable and inefficient. We were therefore exempted from the efficiency dividend until the 2008-09 Budget. In the 2008-09 Budget, an efficiency dividend of 2% was imposed across the entire budget (i.e. not just the 30% taken into account prior to the 2000-01 pricing review).

The terms of reference for this inquiry implicitly acknowledge that for large policy agencies, the impact of the efficiency dividend can be largely counteracted by the provision of funding for new policy proposals. Those terms note that smaller agencies may be disadvantaged by a relative inability to obtain funding for new policy proposals. That disadvantage also applies to other non-policy agencies, such as ANSTO.

The calculation of the parameter adjustment for inflation is also relevant. ANSTO's operational costs in the 2008/9 year are increasing substantially. Two of the key increases are:

- Electricity: up by 20% (\$600,000); and
- Insurance: we understand that the increase is likely to be around 33% (\$1 million).

The overall increase in operating costs, which cannot be avoided, is likely to be between 6 and 8%. At the same time, our parameter adjustment was 2.2%.

Taken together with the costs and loss of income associated with the OPAL reactor shutdown from July 2007 until May 2008, the imposition of the efficiency dividend, and other budgetary cuts, the discrepancy between the increase in operational costs and the parameter adjustment meant that ANSTO faced a total deficit of around \$16 million for 2008-09. Given the large portion of our costs which are fixed and the safety and regulatory considerations outlined above, such a deficit could not be addressed without significant cuts in staff numbers. We have therefore been forced to cut approximately 80 positions, or 8% of our workforce. Savings from those staff cuts will amount to approximately \$10 million.

Attachment G

Australian Institute of Marine Science (AIMS)

Effect of the Efficiency Dividend on Small agencies

July 2008

For further information, please contact: Susan English on 07 4753 4254 or s.english@aims.gov.au

AIMS is a small research organisation specialising in marine science. It was established by the Australian Institute of Marine Science Act 1972 in recognition of the importance of marine assets, especially the Great Barrier Reef, to Australia. AIMS' mission is to conduct innovative research that advances understanding of our oceans and coastal ecosystems, facilitates good stewardship of marine resources and supports sustainable wealth creation opportunities from marine resources.

Today AIMS is recognised worldwide for the quality of its research. The organisation has 175 staff of which 60% are science staff – support areas that provide specialised skills to deliver research include data management, information technology, engineering, field operations, information services, science communication and corporate services. The annual appropriation of AIMS is approximately \$26.6M.

The impact of the Efficiency Dividend on AIMS is shown in Table 1.

Table 1. Impact of the efficiency dividend on AIMS' appropriation (\$'000s)

Year	Appropriation	ED Total	ED breakdown (applied to 12%)*		
			ongoing	EM 2007/42	EM 2008/03
		Total	1%	0.25%	2%
2011-12	28,951	105	35		70
2010-11	28,525	112	34	9	69
2009-10	27,888	109	34	8	67
2008-09	27,626	108	33	8	67
2007-08	26,630	55	32	8	15

* since 2007-08 the ED has applied to the administrative portion of AIMS' appropriation

Effects of the ongoing efficiency dividend

- Research agencies must maintain a core capability in administrative and research support functions to provide safe and efficient research programs. In small agencies like AIMS there is limited capacity to find ongoing cost reductions in these areas without compromising effective research delivery. The outcomes from this research are public good and contribute to Australia's future prosperity.

Small agencies are also disadvantaged by the thresholds set for New Policy Proposals (NPPs). The current threshold is \$5M for a major NPP, proposals below this (minor NPPs) must be funded by offset savings. However, within a small base the agency does not have the flexibility to find the 'saving' it is usually found by the agency's Department or not supported. Small agencies are also disadvantaged when putting forward major NPPs since these are often judged to be too large when considered as a proportion of existing appropriation funding.

- Limited capacity to reduce costs associated with the administrative needs of the agency means that the efficiency dividend directly affects program costs (i.e. research). Moreover, AIMS has limited flexibility with respect to its research program due to a high

level of co-invested research activities, it is the strategic research funded by appropriation that is most at risk in a declining budget.

- AIMS has a continuous improvement program and actively reviews operations and budgets to deliver an efficient research program – this is part of management strategy and not a direct response to the efficiency dividend.
- AIMS is not subject to “section 31” agreements. AIMS does co-invest to add value to government investment in marine research. While this co-investment has buffered the impact of the efficiency dividend rising costs and ongoing application of the efficiency dividend will impact AIMS ability to maintain its current research effort.
- The nature of an agency’s work should influence the application of the efficiency dividend. For example, high quality marine research has specialised infrastructure and operational requirements. Costs associated with these are high, and many are fixed (e.g. outsourced services such as building maintenance, ship management etc) or are increasing (e.g. fuel, electricity, water, compliance). A reduction in budget through efficiency measures makes it difficult for agencies to meet rising costs despite improved efficiencies therefore impacting the ability of research agencies to deliver its research program (i.e. program costs). At a minimum program costs should be exempt from efficiency measures.
- Small agencies, and research agencies, should be exempt from the efficiency dividend. The exemption of the efficiency dividend.