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Report 413

The efficiency dividend and small agencies: Size does matter

Joint Committee of Public Accounts and Audit

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Foreword

One of the Committee's roles is to scrutinise the proposed budget of the Australian National Audit Office (ANAO) each year and make recommendations on it to both Houses of Parliament. Most years this has been a straightforward process for the Committee and the Auditor-General. However, this year the Committee needed to express concern about the ANAO's resources. In particular, it had reduced its planned number of performance audits by 10%.

The Committee's interest and responsibility in ensuring that the Auditor-General had sufficient resources to fulfil his mandate led to this inquiry. This investigation appears to have struck a nerve among agencies and their stakeholders gauged by the high number of submissions received. The National Library of Australia, in particular, was well represented in the submissions.

In meeting these agencies face to face, the Committee noted that agencies take their financial responsibilities very seriously. However, the Committee also received a great deal of evidence of agencies scaling back their activities, maintaining service levels at the expense of sustainability, and foregoing opportunities and innovation.

One of the most concerning aspects of this development is that it has occurred because agency budgets have evolved under the Budget funding rules. These place a strong emphasis on agency efficiency and it appears that agency effectiveness has been suffering as a result. Another problem is that there are no guarantees in the system that ministers will undertake any strategic stocktake of agencies' finances and how these relate to their function, performance and risks.

The Committee's broad conclusion is that the system favours larger agencies and agencies with a stronger policy focus over small agencies. This latter type of agency usually has a technical, precisely defined function that gives them reduced discretion over how they manage their operations. They have poorer economies of scale. Further, they have fewer opportunities to top up their funding through new policy proposals because they are rarely involved in new policy.

The various funding rules focus on the major financial and political issues for the Government. In a sense, this is very reasonable. The problem is that they do not take into account the particular circumstances of small agencies.

Although the process for funding new policy appears to be part of the problem, the Committee has declined to recommend changes to it because it is inherently political. Rather, the Committee has recommended a formula for exempting small agencies from the efficiency dividend. The Committee believes this recommendation is workable and reasonable and commends it to the Government.

I would like to thank the agencies and organisations that gave their time and knowledge to the Committee. In particular, the Committee found the evidence of the Department of Finance and Deregulation, the Australian Public Service Commission and the Institute of Public Administration Australia to be very valuable. Their global perspective greatly assisted the Committee.

I would also like to thank my colleagues on the Committee whose deliberations and views helped shape the report. The Committee was firmly of the view it should report in December 2008 in time for the 2009 Budget. I am pleased that through the dedication of committee staff and the professional commitment of committee members we have met this deadline.

The Committee appreciates that there are many more demands on public spending than there are dollars available. Governments need a strong finance agency to keep control of the Budget. Indeed, the Committee would be worried if the Department of Finance and Deregulation did not take a robust approach.

But in this case, it appears that these small agencies, many of whom define our cultural outlook or protect our rights and freedoms, are being devalued through a focus on the big financial picture. This report asks governments to recognise that small agencies are different. With a minor modification to the Budget rules, they will be much more likely to achieve their potential.

Sharon Grierson MP
Committee Chair



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Deputy Chair Mr Petro Georgiou MP
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Committee Secretariat (42nd Parliament)

Secretary Mr Russell Chafer

Inquiry Secretary Mr David Monk

Dr Kris Veenstra

Research Officer Ms Jennifer Eddie



Terms of reference

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

Since 1987-88 an annual 'efficiency dividend' has been applied to the operational appropriations of Commonwealth public sector agencies. The rate of the dividend now stands at 1.25 per cent, with the Government imposing an additional one-off 2 per cent efficiency dividend for 2008-09 appropriations (with a pro-rata reduction in 2007-08 appropriations).

The Joint Committee of Public Accounts and Audit will inquire into and report on the effects of the ongoing efficiency dividend on smaller public sector agencies, including:

- 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;
- whether the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate;
- what measures small agencies are taking to implement the efficiency dividend, and the effect on their functions, performance and staffing arrangements;
- any impact of the efficiency dividend on the use by smaller agencies of "section 31" agreements to secure non-appropriation receipts (eg through user charges and cost recovery) – noting that these receipts are not subject to the efficiency dividend;
- 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; and

- 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.

For the purposes of its inquiry the Committee defines 'smaller agencies' as those with an operational budget (that is to say, departmental as distinct from administrative appropriations) of \$150 million pa or less, and may particularly focus on a selection of such agencies as case studies. However submissions relevant to the terms of reference will be accepted from other agencies.



List of abbreviations

AAT	Administrative Appeals Tribunal
ABC	Australian Broadcasting Corporation
ACMA	Australian Communications and Media Authority
ADB	Australian Dictionary of Biography
AEC	Australian Electoral Commission
AIATSIS	Australian Institute of Aboriginal and Torres Strait Islander Studies
AIHW	Australian Institute of Health and Welfare
AMOS	Australian Meteorological and Oceanographic Society
ANAO	Australian National Audit Office
ANMM	Australian National Maritime Museum
ANSTO	Australian Nuclear Science and Technology Organisation
APSC	Australian Public Service Commission
ARC	Australian Research Council
ASADA	Australian Sports Anti-Doping Authority
AWM	Australian War Memorial
CEA	Commonwealth Electoral Act 1918
CPI	Consumer Price Index

CPSU	Community and Public Sector Union
CSIRO	Commonwealth Science and Industrial Research Organisation
DPS	Department of Parliamentary Services
EOWA	Equal Opportunity for Women in the Workplace Agency
ERC	Expenditure Review Committee of Cabinet
FCWA	Family Court of Western Australia
Finance	Department of Finance and Deregulation
FSANZ	Food Standards Australia New Zealand
IPAA	Institute of Public Administration Australia
IT	Information Technology
ITSA	Insolvency and Trustee Service Australia
NAA	National Archives of Australia
NCA	National Capital Authority
NGA	National Gallery of Australia
NLA	National Library of Australia
NMI	National Measurement Institute
NPP	New Policy Proposal
NSLA	National and State Libraries Australia
NTR	National Tally Room
OIGIS	Office of the Inspector-General of Intelligence and Security
ROMTIC	Return of Materials to the Indigenous Communities
SBS	Special Broadcasting Service Corporation
Viclink	Victorian Public Library and Information Network

VTR	Virtual Tally Room
WCI	Wage cost index



List of recommendations

Recommendation 1

In addition to being adequately funded for other assurance activities, the Australian National Audit Office be funded to conduct the number of performance audits that is determined by the Auditor-General and endorsed by the Joint Committee of Public Accounts and Audit.

Recommendation 2

The Government establish a parliamentary commission co-chaired by the Speaker of the House of Representatives and the President of the Senate and comprising elected representatives to recommend funding levels for the parliamentary departments in each Budget.

Recommendation 3

The Department of Finance and Deregulation, the Australian Public Service Commissioner and each cultural agency jointly develop a new funding model for cultural agencies. This model should recognise the importance of funding the mandate for growth and development of collections and the proportion of their expenses apportioned to depreciation. The Committee notes that recommendation 8 will also apply to these agencies.

Recommendation 4

The Attorney-General establish an independent body to recommend funding levels for the Commonwealth courts. The courts should be treated as a separate 'portfolio' under the Attorney-General in the Budget process and in the Budget papers.

Recommendation 5

The Government investigate whether the courts' appropriations should be included in the appropriation bills for the ordinary annual services of the Government.

Recommendation 6

Where Finance generates savings through coordinated procurement, 50% of the savings should be made available to the agencies for investment in projects designed to lift their efficiency and effectiveness.

Recommendation 7

The Department of Prime Minister and Cabinet convene a taskforce with membership from key agencies, including the Australian Public Service Commission, to conduct and publish further analysis on:

- the relationship between gender wage disparities and agency size and function;
- the relationship between wage disparities generally and agency size and function; and
- whether staff classifications continue to represent equivalent levels of skills, responsibility and experience across agencies.

If collecting further data or enhancing databases is required, the agencies involved should receive supplementary funding.

Recommendation 8

The Government either:

- exempt the first \$50 million of all agencies' appropriations from the efficiency dividend, excluding departments of state (the preferred option); or
- exempt the first \$50 million of the appropriations of all agencies that have departmental expenses of less than \$150 million, excluding departments of state.

These benchmarks to be indexed over time.



Executive summary

Introduction

The efficiency dividend was first introduced in the 1987 Budget. It was part of a package of reforms in the 1980s designed to introduce managerial flexibility within the public service. The other side to these reforms was greater focus on agencies' results and performance.

The current rationale for the efficiency dividend is to give agencies an incentive to find efficiencies; to redirect funds to higher priority activities and to publicly demonstrate efficiency improvements in the public service. In 2008-09, the ongoing 1.25% efficiency dividend returned approximately \$250 million to the Budget. At the same time, the Government imposed an additional one-off 2% efficiency dividend, which returned approximately \$412 million.

The efficiency dividend is just one component of setting agencies' budgets and it only applies to some of their funding. Functions administered on behalf of the Government are largely exempt from the dividend. It usually only applies to revenues for departmental expenses. Further, some of these appropriated revenues are exempt from the dividend, in particular external receipts, special appropriations¹ and funds for new policy proposals in their first year. The dividend generally applies to agencies' appropriations for the ordinary annual services of the Government² ('eligible appropriations').

Agencies that are more reliant on receipts and the other sorts of appropriations tend to be less affected by the dividend. This includes regulators and commercial research agencies that are funded from industry levies. The agencies that are more affected by the dividend include the courts, cultural agencies, oversight agencies and departments of state. For these agencies, eligible appropriations can comprise almost 100% of their funding.

1 These are funds appropriated when certain factual circumstances laid out in legislation apply. Special appropriations are made through Acts other than the general Appropriation Acts.

2 This is the wording used in section 54 of the Constitution.

The Department of Finance and Deregulation (Finance) also adjusts agencies' eligible appropriations for inflation. It uses a range of wage cost indices (WCIs) to do this. Agencies reported that these indices were often insufficient. Agencies' costs were generally increasing at 4% per annum, whereas the WCIs increased at approximately 2%. Adding the efficiency dividend meant that agencies had to find annual efficiency improvements of at least 3%, whereas efficiency improvements in the wider economy were approximately 2%.

Previous reviews of the efficiency dividend in the early 1990s did not raise the issue of indexation – it did not appear to be an issue for agencies. This could imply that the difference between indexation and actual cost increases was not as large as it is today. The system also appears to have been more reasonable in other ways: a greater number of agencies received exemptions from the efficiency dividend, and Finance offered budget adjustments to compensate for increased workloads.

Agency budgets are also adjusted for new policy proposals (NPPs). For each Budget, ministers put forward new policy ideas to be considered by the Expenditure Review Committee of Cabinet (ERC). Small agencies stated that they had a low success rate with NPPs. They suggested this occurred because of their clearly defined functions, which are usually laid down in statute.

The Committee accepted that there was a number of reasons why small agencies faced greater financial challenges than larger agencies and departments of state. Firstly, they have poorer economies of scale. Secondly, they are occasionally requested to absorb NPPs. Due to the agencies' size, the dollar amounts are small so a request to absorb does not appear unreasonable. However, a small dollar amount can be large to a small agency. Finally, smaller agencies are often established to fulfil a specific function or purpose. This limits their capacity to reprioritise or trim discretionary activities.

Non-executive agencies

This term is used to describe those agencies that are specifically established to be independent of the executive.

Perhaps the most important of these agencies from the Committee's perspective is the Australian National Audit Office (ANAO). The Auditor-General reported that financial statement audits have become more complex, leading to increased costs. Between 1998-99 and 2007-08, the ANAO's spending on financial statement audits increased by 11.5% in real terms. However, this has resulted in a drop in spending on performance audits of 4.5%. This translates to five fewer performance audits annually.

The ANAO stated that NPPs for extra funding to meet this complexity have had limited success.

This state of affairs concerns the Committee. The ANAO saves the Australian taxpayer significant sums of money each year through reduced opportunity for fraud, better accountability and improved agency performance. Saving small sums on the ANAO's budget only costs the Government larger sums later on. The Committee recommends that the ANAO's budget be increased so that the Auditor-General can conduct the number of performance audits he/she deems appropriate and that is endorsed by this Committee.

Parliamentarians are assisted by three Departments: the Senate, the House of Representatives and Parliamentary Services (DPS). The Department of the House of Representatives and DPS advised the Committee that they will be soon considering service cuts if current circumstances continue. Since 2000-01, their budgets have decreased in real terms by 11% and 19% respectively.

The Department of the House of Representatives raised concerns about the separation of powers. Current arrangements have been developed by the executive and give little chance for the Parliamentary departments to negotiate additional funding. The Committee has suggested that an independent commission be established to recommend funding levels for the Parliamentary departments. This practice is common in other Westminster countries.

The Committee took evidence from other non-executive agencies such as the Ombudsman, Insolvency and Trustee Service Australia, the Inspector-General of Intelligence and Security, and the Australian Human Rights Commission. These agencies have responded to tight financial circumstances through a combination of service cuts, disinvestment and foregone opportunities.

The Committee also took evidence from the Australian Electoral Commission, which argued that the prescriptive nature of the *Commonwealth Electoral Act 1918* precluded it from innovating and finding efficiencies. The Committee notes the Parliament has established the Joint Standing Committee on Electoral Matters (JSCEM) to specifically examine these issues. Therefore, the JSCEM is the preferred forum for addressing them.

Cultural agencies

Many of Australia's flagship cultural institutions are Commonwealth entities. These include the National Library of Australia, the National Gallery of Australia and the Australian War Memorial. The Committee received a significant number of submissions about these agencies, especially about the National Library. In evidence, the National Library stated that it had started cutting services 10 years ago in order to balance its budget.

These agencies made a strong case that current funding arrangements are not appropriate for them. First, most of them have a legislated mandate to grow and develop their collections. This does not sit well with the efficiency dividend's goal of harvesting their resources for government priorities. Second, they have large asset holdings, which means a lot of their expenses are tied up in depreciation. Since depreciation amounts are not indexed, these agencies must find additional efficiencies from their operating expenses to pay for efficiencies they cannot find in their depreciation.

The Committee has recommended that the Government develop a new funding model for these agencies to take into account their growth mandate and their high levels of depreciation.

The courts

A special category of the non-executive agencies discussed in chapter 2 is the courts. The four Commonwealth courts, the Family Court of Western Australia (funded by the Commonwealth), and the Administrative Appeals Tribunal made submissions to the inquiry.

All these bodies demonstrated signs of financial stress. Indeed, they were all running deficits. The exception was the Family Court of Australia, which has been in deficit and expects to soon return into deficit. The courts also expressed concern about their IT resources. They tended to fall into one of two categories. Either they had benchmarked themselves and found they were well below acceptable levels, or they did not believe they would have the necessary funds to innovate in future.

Similar to the Parliamentary departments, the High Court raised the issue of separation of powers. For example, the Budget rules allow the Attorney-General to switch funds between the bodies in the portfolio to meet priorities. This could include shifting funds between an executive-style agency such as the Australian Federal Police and the High Court.

Although there was no evidence that this has occurred, the Committee accepts that it is a risk. Further, the Court has made significant cuts to services due to a process that is controlled by the executive. The Court stated that it started making cuts to services 10 years ago. The Committee therefore suggests that the Attorney-General should establish an independent body to recommend funding for the courts.

Scientific agencies

The Committee received the views of a number of scientific agencies through the Department of Innovation, Industry, Science and Research. This included the

CSIRO, the National Measurement Institute, the Australian Institute of Marine Science and the Australian Nuclear Science and Technology Organisation (ANSTO).

A common theme in their submissions was that there is a combination of increasing demand for their products (for example, relating to climate change) and increasing complexity in their work. These factors have led to budget pressures resulting in a number of opportunities foregone. For example, the National Measurement Institute advised that its progress in biological measurement was limited compared with other developed countries. ANSTO stated that it has scaled back research into atmospheric modelling (understanding past climate change) and radiopharmaceuticals.

Generally, the scientific agencies estimated that financial pressures had led them to start cutting services 10 years ago.

Although the Committee did not believe that the scientific agencies warranted recommendations in addition to those in chapter 6, it did note the special case of the CSIRO. Previously, 70% of its appropriation was exempt because this proportion of its funding was for research and considered to be similar in nature to a grants program. However, the efficiency dividend was applied to all of its funding in 2008-09.

This represented a significant additional burden on the organisation, one that resulted in the closure of regional facilities. The Committee would hope that such seemingly arbitrary and unfair decisions will not be imposed in the future. Furthermore, should any further 'one-off' efficiency dividend or an increase to the existing 1.25% efficiency dividend be imposed in the next financial year, the Committee believes that the CSIRO warrants special consideration.

Conclusions

The Committee agrees with Finance that some sort of efficiency incentive for agencies is warranted. Technologies and people's preferences change as time progresses, meaning that there will always be new and more efficient ways of doing things. The Committee notes that, with current indexing arrangements, abolishing the efficiency dividend for all agencies would still leave the great majority of them with an efficiency incentive. This is because the WCIs are lagging behind increases in the costs of agencies' inputs at a rate similar to productivity increases in the wider economy.

During evidence, Finance argued that many agencies have not explored options for finding efficiencies through joint procurement. The Committee believes that Finance is much better placed to manage joint procurement through its position as

a central agency. Currently, Finance appears to be harvesting all the efficiencies when it manages joint procurement, leaving nothing for agencies.

The Committee would like to see Finance implement something similar to that recommended by Sir Peter Gershon in his review of IT procurement. This review suggested that 50% of the savings generated by central procurement be retained in a central fund to be reinvested in agencies' efficiency and effectiveness. The Committee has made a similar recommendation for when Finance coordinates procurement more generally.

The Committee noted that Finance has set an aggressive efficiency incentive for agencies (more than 1% higher than the private sector achieves). This is an effective way of managing the risk that excess resources might build up in an agency. The other risk is that agencies might be under resourced from the cumulative effects of the dividend. Finance's preferred method of managing this is for agencies to ask their Minister to approach his or her Cabinet colleagues to make the case for extra funds.

One difficulty the Committee has with this approach is that it does not manage the risk of disinvestment. This is a real risk because agencies are reluctant to report financial difficulties. They are concerned it would appear that poor management was to blame when the problem may really be insufficient funding.

Current arrangements place the highest premium on ensuring that agencies do not build up fat and other risks are secondary. This raises the question of whether Finance is placing a higher priority on agencies' efficiency at the expense of their effectiveness. What the Committee would prefer to see is a greater balance between efficiency and effectiveness in the Budget process. Both are required for agencies to be performing at a high standard.

There is a number of unintended consequences from the efficiency dividend and the associated Budget rules:

- some agencies tend to view reducing their regional presence as a source of convenient efficiencies;
- disparities have developed in pay rates between agencies, which may reflect nothing more than an ability to pay;
- some agencies have become very reliant on external receipts when this may not have been the intention when they were established;
- cultural agencies' funding does not support their legislated mandate to grow and develop their collections;
- agencies' capacity to innovate has diminished over time; and

- agencies have implemented false economies to meet their financial targets, including service cuts and cost shifting.

One of the reasons these unintended consequences have arisen is that governments budget at the margin. Each year, agencies have their budget from the previous year adjusted for inflation and the efficiency dividend. They then apply for NPPs. From an annual perspective this may be an efficient process. However, it means that Cabinet is unlikely to conduct a strategic stocktake of an agency's financial position.

Another concern for the Committee is that ministers and the Parliament effectively delegate some decisions to officials that should be made at higher policy levels.

Small agencies argued during the inquiry that they received less funding on a pro-rata basis from NPPs than other agencies. NPPs are important to agencies because it offers them a way of growing. Increased size gives them better economies of scale. Although agencies that receive NPPs are meant to implement new policy, the Committee accepts that they can use the new funds to cross-subsidise old activities.

Small agencies argued that, because they often had a precise technical function instead of a policy role, they tended to get less NPPs. The Committee compared how different agencies fared in receiving NPPs in the 2007 and 2008 Budgets. departments of state, which have the strongest policy role, were the clear winners. They received 6% and 5% of their budgets in NPPs for the respective years. Of the other agencies, those with budgets over \$150 million received 3% and 1% respectively. Small agencies received 2% and 0%.

Although small agencies are disadvantaged by the NPP process, the Committee decided against recommending changes to it. Budgets are largely political processes and are intimately tied to Government policy.

The Committee concluded that the various Budget processes and rules work reasonably well for large agencies and departments of state. While they are subject to tight efficiency requirements through the dividend and the indexation rules, these are offset by a steady supply of NPPs.

Given that billions of dollars are involved in these NPPs, designing the budget rules for larger, more policy-oriented agencies is appropriate. This is the area of greatest financial risk. Finance has developed a set of administrative rules that continually extracts a small proportion of these policy funds and redirects them to the highest priority use. In other words, for these agencies the Budget rules are a way by which policy funds are kept up to date. Administrative rules are supporting policy.

It would be more practical to adjust the efficiency dividend. The Committee has recommended that the first \$50 million of agencies' eligible appropriations (excluding departments of state) should be exempt from the dividend. The 1.25% dividend would then apply to all of an agency's appropriations above this amount. The practical effect of this is an agency with eligible appropriations of less than \$50 million would have a zero efficiency dividend. The old system should continue to apply to departments of state due to their success with NPPs.

Agencies with eligible appropriations over \$50 million start to pay the efficiency dividend, but this is graduated over the size of the appropriation. For example, an agency with an eligible appropriation of \$100 million would pay nil dividend on the first \$50 million and 1.25% on the second \$50 million. This means that the practical efficiency dividend for this agency would be 0.625%.

Although this system would return some money to large agencies, its advantage is its simplicity. By avoiding a 'carve-out', the Committee has reduced the chance of managers facing perverse incentives to stay within thresholds. The estimated cost of this proposal is \$35.3 million, or 17% of the amount that the dividend returns to the Government. The Committee's less preferred option would be to only allow this exemption to agencies with budgets under \$150 million. This would cost \$24.6 million, or 11.9% of the dividend amount. The Committee believes that this improved workability and simplicity is worth \$10 million.

Finally, there will still be a need for some agencies to apply for baseline reviews. The Committee believes that these reviews can be improved in a number of ways, to the benefit of both Finance and the agencies. In particular, the following should be recognised:

- requesting such a review is appropriate when supported by good quality performance data and evidence of systematic expenditure review within the agency;
- systematic expenditure review can include staff involvement;
- the efficiency dividend, without top-ups from new policy proposals, can erode an agency's funding base; and
- downgrading regional services and regional presence needs to be subject to cost-benefit analysis, rather than regarded as a source of convenient efficiencies.

Introduction

History of the efficiency dividend

- 1.1 The Australian Public Service has been serving the Government and people of Australia for over a hundred years. Throughout its long history, the public service has often been encouraged, through policies and funding arrangements, to be as efficient as possible. As early as 1901, parliamentarians were placing strong emphasis on the need for economy and efficiency in the public service.¹
- 1.2 The efficiency dividend was introduced in the 1987-88 Budget as an annual 1.25% reduction of agencies' departmental funding.² It was intended that the efficiency dividend would give managers more responsibility for the efficient use of their staffing and administrative resources. Along with this greater responsibility came greater flexibility and autonomy for agencies.
- 1.3 According to the Department of Finance and Deregulation (Finance), the objectives of the efficiency dividend have been to:
 - provide managers with a financial incentive to continually seek new or more efficient means of carrying out ongoing government business;
 - allow Government to redirect a portion of efficiency gains to higher priority activities; and

¹ Public Service and Merit Protection Commission, *Serving the Nation: 100 years of public service* (2001), p 8.

² The Department of Defence and the Australian Broadcasting Corporation were initially exempt. See John Wanna, Joanne Kelly and John Forster, *Managing Public Expenditure in Australia* (2000), p 207.

- clearly demonstrate public service efficiencies resulting from improvements in management and administrative practices and return these gains to the Budget.³
- 1.4 The efficiency dividend was not a completely new idea. It followed years of arbitrary annual percentage cuts that the Government imposed on departments.⁴ The Committee notes that the efficiency dividend improved upon this by establishing a process and setting a consistent rate. This consistency would have assisted agencies in their budget planning.
 - 1.5 The efficiency dividend was reduced to 1% in the 1994-95 Budget. It remained at 1% for 11 years until it was increased to 1.25% in 2005-06. The efficiency dividend remained at 1.25% for the 2008-09 Budget.⁵
 - 1.6 In 2008, the new Government applied a one-off 2% efficiency dividend on top of the ongoing efficiency dividend. This was part of its election commitment to responsible economic management. A pro-rata adjustment was applied for the 2007-08 year, with the full year impact of 2% applied in 2008-09.⁶
 - 1.7 The 1.25% ongoing efficiency dividend returned approximately \$250 million to the 2008-09 Budget and the one-off 2% efficiency dividend returned an additional \$411.9 million.⁷
 - 1.8 All agencies, with a few exceptions, are subject to the efficiency dividend. Agency size or the capacity of an agency to achieve efficiencies is not taken into account.
 - 1.9 Agencies are only exempt if they have received an explicit agreement from Government that they are not subject to the ongoing efficiency dividend. Three agencies are currently exempt from the ongoing efficiency dividend: the Australian Broadcasting Corporation (ABC); the Special Broadcasting Service Corporation (SBS); and the Australian Nuclear Science and Technology Organisation (ANSTO).⁸ The ABC and SBS are exempt because they are subject to a triennial funding arrangement.⁹

³ Dr Ian Watt, transcript, 19 September 2008, p 1, and Department of Finance, *Running Costs Arrangements Handbook* (1995), p 7.

⁴ John Wanna, Joanne Kelly and John Forster, *Managing Public Expenditure in Australia* (2000), p 207.

⁵ Department of Finance and Deregulation, sub 25, pp 1-2.

⁶ Department of Finance and Deregulation, sub 25, p 2.

⁷ Commonwealth Budget 2008-09 and JCPAA analysis.

⁸ Department of Finance and Deregulation, sub 25, p 3.

⁹ Dr Ian Watt, transcript, 19 September 2008, p 11.

- 1.10 Three other agencies have the efficiency dividend applied to only a percentage of their departmental funding: the Australian Institute of Marine Science (12%); the Commonwealth Scientific and Industrial Research Organisation (30%); and the Department of Defence (11.2%).¹⁰ Defence has traditionally been entirely exempt from the dividend, but in recent years, the dividend has been applied to its 'administrative services that [do] not contribute directly to Defence capability'.¹¹ Some scientific agencies have received exemptions due to the nature of their work.¹²
- 1.11 The Government granted special exemptions from the additional 2% efficiency dividend to the following five agencies: the Australian Trade Commission; the Australian Fair Pay Commission Secretariat; the Workplace Authority; the Australian Prudential Regulation Authority; and the Australian Sports Commission. These exemptions were granted because these agencies were significantly affected by other election commitments.¹³
- 1.12 The efficiency dividend was introduced in 1987 as part of improved managerial arrangements. The Government of the day expected that agencies would meet efficiency dividend requirements by 'improving their administrative procedures, making better use of improvements in technology and in the use of human resources'.¹⁴
- 1.13 Agencies can and do achieve productivity gains through better use of technology, clever purchasing and improved people management. According to the submission from the Institute of Public Administration Australia, gains made across the public service would be close to the average gains made in the Australian economy: between 1.5% and 2%.¹⁵
- 1.14 After 20 years of the efficiency dividend, however, many small agencies report that they are no longer able to find genuine efficiency savings. To meet the efficiency dividend requirement, many small agencies have resorted to reducing or discontinuing activities that they consider to be lower priority or discretionary.¹⁶ For some agencies, their ability to deliver on core functions has been restricted.¹⁷

¹⁰ Department of Finance and Deregulation, sub 25, pp 3-4.

¹¹ Dr Ian Watt, transcript, 19 September 2008, p 11.

¹² Dr Ian Watt, transcript, 19 September 2008, p 11.

¹³ Department of Finance and Deregulation, sub 25, p 4.

¹⁴ Mr Bob Hawke, House Hansard, 25 September 1986, p 1448.

¹⁵ Institute of Public Administration Australia, sub 66, p 2.

¹⁶ Institute of Public Administration Australia, sub 66, p 3.

¹⁷ Community and Public Sector Union, sub 58, p 2.

- 1.15 Some agencies have advocated for the retirement of the efficiency dividend. According to the Department of Finance and Deregulation, however, the absence of an efficiency dividend would require Finance to take a more interventionist approach to assess the efficiency of agencies and reallocate efficiency gains to other priorities.¹⁸

Overview of the Budget process

- 1.16 The efficiency dividend applies to departmental expenses that represent the ordinary operating costs of government departments. These costs were called 'running' costs when the efficiency dividend was introduced, but are now referred to as 'departmental' expenses. These departmental expenses include salaries, operational expenses and depreciation.¹⁹ The efficiency dividend is not applied, however, to receipts governed by section 31 of the *Financial Management and Accountability Act 1997*, such as interest income or receipts from other sources.²⁰
- 1.17 While the efficiency dividend reduces the level of resources available to agencies, the indexation process provides agencies with additional funding. The Government uses the indexation process to adjust agencies' budgets to account for inflation.²¹
- 1.18 Agencies calculate their own budget estimates for submission to the Department of Finance and Deregulation. Agencies develop these estimates based on instructions from Finance. In simple terms, an agency takes the figure that represents their departmental expenses from the previous budget and applies the efficiency dividend to this figure. After applying the dividend, the agency then indexes that funding for inflation using the relevant Wage Cost Index.²²

¹⁸ Department of Finance and Deregulation, sub 25, p 2.

¹⁹ It is worth noting that although depreciation expenses are subject to the efficiency dividend, they are not indexed.

²⁰ Under section 31, the Finance Minister decides which receipts an agency may retain for its operations. This is documented in an agreement with the head of the agency. See Department of Finance and Deregulation, sub 25, pp 2-3.

²¹ Department of Finance and Deregulation, sub 25, p 4.

²² A number of wage cost indices are used by government departments. These indices are weighted averages that reflect changes in both labour and non-labour costs. Some of these indices are weighted more heavily for labour costs than others. See Department of Finance and Deregulation, sub 25, p 4.

- 1.19 The average indexation rate has been about 2% in recent years. This is lower than actual cost increases, which has been about 4% for most agencies.²³ It appears that agencies need to find an additional 2% savings to make up for this difference. This, along with the ongoing efficiency dividend, means that agencies actually have to find savings of 3.25% each year. In 2008-09, with the addition of the one-off efficiency dividend, agencies needed to find 5.25% in savings. This is more than is expected in the private sector. Over the past decade, average labour productivity has increased by 1.8% per year in the Australian economy generally and by 2.2% in the market sector.²⁴
- 1.20 Previous reports on the efficiency dividend did not mention the indexation process – it did not appear to be an issue for agencies. This could imply that the difference between indexation and actual cost increases was not as large as it is today. The system also appears to have been more reasonable in other ways: a greater number of agencies received exemptions from the efficiency dividend,²⁵ and Finance offered budget adjustments to compensate for increased workloads.²⁶
- 1.21 Agencies can request additional funding through the new policy proposal (NPP) process. NPPs are classified as major or minor. Minor NPPs are proposals with a financial impact of \$10 million or less. They go to the Finance Minister, whose decisions are endorsed by the Expenditure Review Committee (ERC). Major NPPs have an impact of more than \$10 million. They go directly to the ERC for consideration.²⁷
- 1.22 In addition, NPPs (major or minor) are more likely to receive endorsement if they are offset by genuine savings. If requested by the Government, offsetting proposals brought forward by ministers can be drawn from anywhere in their portfolios. The Budget Rules do not require the agency that proposed the new policy proposal to bring forward the offsets itself.²⁸

²³ National Gallery of Australia, sub 6, p 1; Australian Public Service Commission, sub 54, p 3; and Community and Public Sector Union, sub 58, p 1.

²⁴ Australian Public Service Commission, sub 54, pp 3-4.

²⁵ By mid-1994, over 40 agencies were exempt from the efficiency dividend. See John Wanna, Joanne Kelly and John Forster, *Managing Public Expenditure in Australia* (2000), p 211.

²⁶ George Rothman and Brian Thornton, 'Management of Budgetary Expenditures: the Commonwealth Running Costs System' in *Budgetary Management and Control* (1990), John Forster and John Wanna (eds), p 93.

²⁷ Department of Finance and Deregulation, sub 25-1, p 2; and Australian National Audit Office, sub 60, p 3.

²⁸ Department of Finance and Deregulation, sub 25-1, p 1.

- 1.23 Through their submissions, many small agencies expressed difficulties in securing NPP funding. According to Insolvency and Trustee Service Australia, this is because smaller agencies often have well established operational responsibilities and thus have limited scope for new policy initiatives.²⁹ The National Library of Australia reported that it has not received any new policy funding for its operations in the last 20 years.³⁰

Smaller public sector agencies

- 1.24 Smaller agencies face particular challenges in relation to the efficiency dividend. One issue is that smaller agencies are often established to fulfil a specific function or purpose. This limits their capacity to reprioritise or trim discretionary activities. Also, such agencies are occasionally required to absorb new functions. The cost of one additional activity may appear small, but it could represent a large proportion of a small agency's total budget.³¹
- 1.25 A smaller agency is often disadvantaged by poorer economies of scale and limited bargaining power. This affects an agency's ability to achieve savings in the procurement of goods and services or the negotiation of rental agreements.³²
- 1.26 All government agencies have reporting obligations, such as publishing annual reports and financial statements. Skilled staff are required to complete these complex tasks. Large agencies might be able to reduce staffing levels in corporate areas, but small agencies might have only one staff member to complete these critical tasks. This gives small agencies fewer options in finding efficiencies.
- 1.27 Smaller agencies tend to be lower paying for most, but not all, classifications. Achieving efficiencies by decreasing salary costs is problematic as many of these agencies already find it difficult to attract and retain staff.³³

²⁹ Insolvency and Trustee Service Australia, sub 13, p 5.

³⁰ The NLA did, however, receive funding for two capital building projects. See National Library of Australia, sub 41, p 3.

³¹ Australian Public Service Commission, sub 54, p 5.

³² Australian Law Reform Commission, sub 3, p 2.

³³ Australian Public Service Commission, sub 54, p 5.

Previous reviews

- 1.28 This is not the first time the efficiency dividend has come under scrutiny. In September 1990, the House of Representatives Standing Committee on Finance and Public Administration tabled a report entitled *Not Dollars Alone: Review of the Financial Management Improvement Program*, which discussed the efficiency dividend. The Committee concluded that most agencies found achieving the efficiency dividend difficult. It recommended that Finance improve its marketing of the dividend and take careful account of the merits of exceptional cases in applying the efficiency dividend. The Government accepted this recommendation.³⁴
- 1.29 In December 1992, the Commonwealth Government's Management Advisory Board published *The Australian Public Service Reformed: An evaluation of a decade of management reform*, which included a section on the efficiency dividend. It expressed concern that the efficiency dividend did not take into account the differences between agencies. It concluded, 'the future of the efficiency dividend lies in resource agreements and workplace bargaining, not in fixed arbitrary annual reductions in running costs'.³⁵
- 1.30 In March 1994, the House of Representatives Standing Committee on Banking, Finance and Public Administration tabled a report entitled *Stand and Deliver: Inquiry into the efficiency dividend arrangements*. The Committee made seven recommendations, which included the recommendations that the dividend be reduced from 1.25% to 1% and that agencies' external receipts be exempt. In effect, the Government accepted all seven recommendations.³⁶

Background of inquiry

- 1.31 The *Inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies* was prompted by budgetary concerns about the Australian

³⁴ House of Representatives Standing Committee on Finance and Public Administration, *Not Dollars Alone: Review of the Financial Management Improvement Program* (1990), p 37; and Management Advisory Board, *The Australian Public Service Reformed* (1992), pp 243-244.

³⁵ Commonwealth Government's Management Advisory Board, *The Australian Public Service Reformed: An evaluation of a decade of management reform* (1992), p 250.

³⁶ Mr Kim Beazley MP, Government Response to the Standing Committee on Banking, Finance and Public Administration's report: *Stand and Deliver: Inquiry into the Efficiency Dividend Arrangements* (1994), 31 May 1994.

National Audit Office (ANAO). In May 2008, the ANAO informed the Joint Committee of Public Accounts and Audit that, for the first time, its budget situation would necessitate a reduction in their planned audit program.³⁷ In a subsequent statement to the House of Representatives, the Committee Chair stated that decreased funding was affecting the ANAO's capacity to provide comprehensive oversight of the public sector.³⁸

- 1.32 The Committee discussed looking into how the efficiency dividend might be contributing to the ANAO's situation. They also considered whether the ANAO's challenges in meeting the efficiency dividend might be indicative of difficulties facing other small public sector agencies.
- 1.33 On 4 June 2008, the Joint Committee of Public Accounts and Audit resolved to review the effects of the ongoing efficiency dividend on smaller public sector agencies. The Committee defined 'smaller agencies' as those with operational budgets of \$150 million or less. The Australian National Audit Office and over 70 other public sector agencies fall into this category.
- 1.34 The purpose of this inquiry is to review the effects of the efficiency dividend on smaller public sector agencies with a view to recommending improvements to the efficiency dividend process and related budgetary processes.

Conduct of inquiry

- 1.35 An invitation for written submissions and the inquiry's terms of reference were advertised in June 2008. The Committee also wrote to a number of organisations seeking submissions.
- 1.36 There was a large response from government agencies, individuals and community organisations. The inquiry received a total of 68 submissions and one exhibit. Lists of submissions and exhibits can be found at appendices A and B respectively.
- 1.37 The Committee held public hearings in Canberra and Sydney. A list of hearings and witnesses can be found at appendix C.

³⁷ Australian National Audit Office, sub 60, p 5.

³⁸ Ms Sharon Grierson MP, *Report by the Joint Committee of Public Accounts and Audit on the 2008-2009 Draft Estimates for the Audit Office* (13 May 2008), p 3.

Structure of report

- 1.38 The report comprises six chapters. Chapter 2 covers non-executive agencies, including the Australian National Audit Office, the Commonwealth Ombudsman, the Department of the House of Representatives and the Australian Electoral Commission. Chapter 3 outlines how the efficiency dividend has affected cultural agencies such as the National Library of Australia, the Australian War Memorial and the National Gallery of Australia. Chapter 4 discusses the experience of the courts and chapter 5 focuses on scientific agencies. Chapter 6 provides a conclusion and general recommendations.
- 1.39 The Committee makes a number of recommendations for the improvement of the efficiency dividend process. A full list of these recommendations is at the beginning of the report.

Non-executive agencies

Introduction

- 2.1 In this report, the term ‘non-executive agencies’ describes government organisations that are independent of the executive. Their mandates are usually set by legislation rather than Government policy. Many of these agencies are small and within the scope of the inquiry. This chapter includes the Australian National Audit Office, other oversight agencies (such as the Commonwealth Ombudsman), parliamentary agencies and the Australian Electoral Commission.

Australian National Audit Office

- 2.2 The Australian National Audit Office (ANAO) supports the Auditor-General, who is responsible for conducting independent performance and financial statement audits of public sector agencies. The ANAO assists Parliament in holding the Government to account and informs the Australian community about the state of public administration.¹

Funding arrangements

- 2.3 The Committee notes that the ANAO has found it increasingly challenging to absorb the efficiency dividend. The situation is made more difficult by the current indexation arrangements. The Auditor-General

1 Australian National Audit Office, *Annual Report 2007-08*, p 2.

told the Committee that these arrangements 'do not take into account the industry the Audit Office is in, the profession and the various costs and cost pressures that we face'.² According to the Auditor-General, the indexation arrangements have not been sufficient to meet the ANAO's price increases.³

- 2.4 The ANAO has had limited success with the new policy proposal process. Many of its unsuccessful proposals related to the changing nature and increasing complexity of audit tasks.⁴

Increased responsibilities

- 2.5 There has been substantial growth in the public sector over the past decade. Between 1998-99 and 2007-08, the Australian Government's combined revenue and expenditure increased by 49.5% in real terms. In the same period, ANAO expenditure on financial statement auditing increased by only 11.5% in real terms. Spending on performance auditing decreased by 4.5% in real terms.⁵ In the Committee's view, this disparity 'obviously challenges the ANAO's capacity to provide comprehensive oversight of the public sector'.⁶
- 2.6 Public administration is also becoming more complex. Government programs now often involve multiple agencies. This creates particular challenges for the ANAO because it 'requires bigger teams, greater understanding and more resources'.⁷
- 2.7 Government agencies are relying more on technology to achieve outcomes, and IT systems are becoming increasingly complex. Because data accuracy, integrity and security are critical audit considerations, the ANAO has increased its IT audit coverage. This has added to the cost and complexity of auditing.⁸
- 2.8 Another challenge facing the ANAO is the increasing rigour of professional auditing standards. Over the past decade, there has been a 75% increase in the page content of auditing standards. The ANAO has

2 Mr Ian McPhee, transcript, 20 August 2008, p 2.

3 Mr Ian McPhee, transcript, 20 August 2008, p 2.

4 Australian National Audit Office, sub 60, p 3.

5 Ms Sharon Grierson MP, *Report by the Joint Committee of Public Accounts and Audit on the 2008-2009 Draft Estimates for the Audit Office* (13 May 2008), p 3.

6 Ms Sharon Grierson MP, *Report by the Joint Committee of Public Accounts and Audit on the 2008-2009 Draft Estimates for the Audit Office* (13 May 2008), p 3.

7 Mr Ian McPhee, transcript, 20 August 2008, p 8.

8 Australian National Audit Office, sub 60, p 4.

had to absorb the rising costs associated with these changes to standards without any additional funding.⁹

Staffing

- 2.9 The attraction and retention of high-performing skilled staff is critical to the production of quality ANAO reports. In the current labour market, demand for the specialist auditing skills possessed by ANAO staff is high. The ANAO has experienced a large staff turnover in recent years – 30% in 2007-08.¹⁰
- 2.10 Recruitment activities cost the ANAO \$227,000 in 2007-08.¹¹ The ANAO is attempting to improve its retention rate by increased investment in staff development, but the ongoing commitment to recruit and train staff is putting pressure on ANAO resources.¹²

Reduced audit work program

- 2.11 Due to current funding arrangements, the ANAO has been forced to reduce its audit coverage. In May 2008, the ANAO informed the Joint Committee of Public Accounts and Audit that, for the first time, its budget situation would necessitate a reduction in their planned audit program. The ANAO has had to reduce:
- the extent of detailed checking in [its] audits of financial statements of Australian Government agencies; and
 - the number of performance audits and Better Practice Guides ANAO can produce. This will be achieved, in the performance audit area, by reducing the target number of performance audits from 51 in 2007-08 to 45 in 2008-09 and reducing the target number of Better Practice Guides from 4 in 2007-08 to 3 in 2008-09.¹³
- 2.12 In evidence, the Auditor-General told the Committee:
- To quantify the impact on the Audit Office, this year the impact of the efficiency dividend is just over \$2 million which, in our language and in a way the committee will understand, is about

9 Australian National Audit Office, sub 60, p 2.

10 Australian National Audit Office, sub 60, p 6.

11 Australian National Audit Office, sub 60-2, p 3.

12 Australian National Audit Office, sub 60, p 6.

13 Australian National Audit Office, sub 60, p 5.

five performance audits a year. That is the direct impact of the efficiency dividend on an organisation like the Audit Office.¹⁴

- 2.13 Until this year, the ANAO has managed to meet the efficiency dividend without compromising the quantity or quality of its audits. The ANAO achieved this through a 'stronger risk-based approach' to its audit coverage and through a reduction in support functions. Managing cost pressures has become increasingly difficult, however, and the ANAO is now at the stage where a reduction in performance audit reports is necessary in order to maintain quality outcomes.¹⁵
- 2.14 In addition to its audit work program, the ANAO maintains a reputation as an international leader in the adoption of professional auditing standards. The ANAO receives many requests from other countries seeking advice or assistance in the development and implementation of audit standards and methodologies. The ANAO's capacity to respond to these requests and contribute internationally is increasingly limited due to resource constraints.¹⁶ There is a risk that the ANAO's international reputation could be diminished.
- 2.15 There is also a risk to the Parliament. The ANAO is responsible for holding the Government to account on behalf of Parliament. If the ANAO were to lose the respect of the national and international community, the reputation of Parliament would also be diminished. It is important that Parliament maintain the highest standards of accountability and good governance.

Conclusion

- 2.16 The Committee has a statutory responsibility to review the adequacy of the Auditor-General's budget and to make recommendations to the Parliament, in the form of a statement, on budget day.¹⁷ The Committee has repeatedly expressed the view, through its annual budget day statements, that the modest budget of the ANAO is a cost-effective mechanism for identifying areas for better administration on behalf of the Parliament and the Australian people.¹⁸ The work of audit offices leads to

14 Mr Ian McPhee, transcript, 20 August 2008, p 2.

15 Australian National Audit Office, sub 60, p 4.

16 Australian National Audit Office, sub 60, p 4.

17 The ANAO is empowered (under the *Auditor-General Act 1997*) to provide the Committee with their draft estimates before budget day.

18 For example, see Ms Sharon Grierson MP, *Report by the Joint Committee of Public Accounts and Audit on the 2008-2009 Draft Estimates for the Audit Office* (13 May 2008), p 4.

significant financial savings. It could be said that they pay for themselves many times over. The United Kingdom National Audit Office, for example, reports that it generates £8 of savings for every £1 it spends.¹⁹

- 2.17 In its submission, the ANAO stated that a reduced audit program 'is not in the long-term interests of the Parliament, the Government, or the community'.²⁰ The Committee agrees with this statement. The ANAO is the frontline in ensuring government accountability and integrity. The Parliament is not served well by a reduction in the ANAO's audit work program.
- 2.18 The Committee concludes that the ANAO should be funded to conduct an appropriate number of performance audits each year. The actual number would be determined by the Auditor-General, but the Committee notes that 50 performance audits per annum has been considered appropriate in recent years.

Recommendation 1

- 2.19 **In addition to being adequately funded for other assurance activities, the Australian National Audit Office be funded to conduct the number of performance audits that is determined by the Auditor-General and endorsed by the Joint Committee of Public Accounts and Audit.**

Other oversight and regulatory agencies

- 2.20 Oversight and regulatory agencies perform a vital role in the Australian Government and community. The Commonwealth Ombudsman, for example, considers and investigates complaints about government departments and agencies. The Australian Communications and Media Authority regulates broadcasting, the internet, radio communications and telecommunications.
- 2.21 This section includes the following agencies, all of which made submissions and appeared before the Committee:
- Australian Communications and Media Authority (ACMA);

19 United Kingdom National Audit Office, 'About us; Key Performance Information', viewed on 19 November 2008 at <http://www.nao.org.uk/about/performance.htm>.

20 Australian National Audit Office, sub 60, p 8.

- Australian Human Rights Commission;²¹
 - Australian Public Service Commission (APSC);
 - Commonwealth Ombudsman;
 - Equal Opportunity for Women in the Workplace Agency (EOWA);
 - Insolvency and Trustee Service Australia (ITSA); and
 - Office of the Inspector-General of Intelligence and Security (OIGIS).
- 2.22 According to evidence received by the Committee, the efficiency dividend has had a disproportionate impact on oversight and regulatory agencies as they are often small and have narrow mandates.
- 2.23 Oversight agencies are also challenged by other aspects of the current budget process. The indexation process does not compensate them for their rapidly increasing costs, and they feel disadvantaged by the new policy proposal process.²²

Mandate and service delivery

- 2.24 Smaller agencies have legislated mandates and specific responsibilities. It is difficult to find savings in their core function areas. Larger agencies have more flexibility and are often able to meet the dividend by reprioritising or downgrading services. This is seldom an option for smaller agencies. The Inspector-General of Intelligence and Security told the Committee:

A small agency simply does not have the sort of flexibility that is a key part of the rationale for the efficiency dividend. In my case, I have a very specific role, it is set out in legislation and I have a very high percentage of fixed costs – costs over which I have no control.²³

- 2.25 Many oversight and regulatory agencies do not have control over their workloads. They respond to requests from the Government and the public. These requests must be dealt with and these agencies can rarely reduce or find savings in core service areas. Unfortunately, these core

21 In September 2008, the Human Rights and Equal Opportunity Commission (HREOC) changed its name to the Australian Human Rights Commission. Both names have been used in this report.

22 Human Rights and Equal Opportunity Commission, sub 62, p 4.

23 Mr Ian Carnell, transcript, 20 August 2008, p 47.

services often comprise a large part of their budgets. The Australian Public Service Commission noted in its submission:

There are thresholds for agency size, with respect to budgets and staffing, below which it is not easily possible to go without affecting functions. Small agencies have the same core operational functions as large agencies in meeting accountability, governance and workplace relations responsibilities.

- 2.26 The Equal Opportunity for Women in the Workplace Agency (EOWA) stated that the efficiency dividend affects its ability to administer its legislated mandate under the *Equal Opportunity for Women in the Workplace Act 1999*.²⁴ Insolvency and Trustee Service Australia told the Committee that they will not be 'as proactive as [they] might like'.²⁵

Micro agencies

- 2.27 Within the group of smaller agencies, there is a subset of agencies that are so small they have been referred to as 'micro' agencies. According to the Department of Finance and Deregulation, a micro agency is an agency with 20 or fewer staff members.²⁶ Several oversight and regulatory agencies are in this subset. They are finding the efficiency dividend particularly difficult.
- 2.28 The Office of the Inspector-General of Intelligence and Security (OIGIS) is a micro agency. At the end of 2007-08, the Inspector-General had only nine staff members. In evidence, the Inspector-General stated that he saw no scope to achieve efficiencies. The Office receives complaints that must be dealt with and they 'already deal with them in an efficient but adequate way'.²⁷ Their standards for complaint handling cannot be dropped.
- 2.29 Many of the Inspector-General's activities, such as complaints, inquiries and additional monitoring, are demand driven. This makes budgeting difficult:

Expenditure on items such as legal fees and travel expenses can vary significantly from year to year. Consequently, OIGIS needs to maintain the capacity to undertake additional unforeseen activities through the year.²⁸

24 Equal Opportunity for Women in the Workplace Agency, sub 12, p 2.

25 Mr David Bergman, transcript, 20 August 2008, p 31.

26 Dr Ian Watt, transcript, 19 September 2008, p 10.

27 Mr Ian Carnell, transcript, 20 August 2008, p 49.

28 Mr Ian Carnell, transcript, 20 August 2008, p 48.

- 2.30 The Inspector-General also told the Committee that some cuts could be seen as false economies:

With integrity agencies...to cut too deeply is to be self-defeating, because the sorts of activities that the integrity agencies undertake ensure good public administration in the first place. Saving all the costs of things being done poorly, illegally or improperly in the first place always makes good business sense.²⁹

- 2.31 The Equal Opportunity for Women in the Workplace Agency (EOWA) is another micro agency. It has 19 staff.³⁰ According to EOWA,

The role of the Agency as determined by legislation is very specific, leaving little room for cost cutting if the Agency is to administer the Act appropriately and to effect.³¹

- 2.32 Other examples of micro agencies include: the Australian Commission for Law Enforcement Integrity, the Professional Services Review and the Office of the Renewable Energy Regulator.³² The Committee did not receive submissions from these agencies, but this itself might be an indication that these agencies do not have the capacity to deploy resources to additional tasks such as parliamentary submissions.

- 2.33 The Committee notes that micro agencies such as EOWA and OIGIS are more affected by the efficiency dividend than are other small agencies. This is because the legislated roles of these agencies provide few opportunities for cost savings and little flexibility for reprioritisation. Micro agencies have small budgets so the actual cost of the efficiency dividend is small when compared to larger agencies,³³ but micro agencies find that even 'amounts of this level are difficult to absorb'.³⁴

Economies of scale

- 2.34 Smaller agencies reported that they suffer from poor economies of scale and limited bargaining power. The Commonwealth Ombudsman said they try to exploit economies of scale by having the Department of Prime

29 Mr Ian Carnell, transcript, 20 August 2008, p 48.

30 Equal Opportunity for Women in the Workplace Agency, sub 12, p 2.

31 Equal Opportunity for Women in the Workplace Agency, sub 12, p 1.

32 Australian Public Service Commission, sub 54, p 11.

33 In 2008-09, EOWA had its appropriation reduced by \$54,000 as a result of the efficiency dividend.

34 Equal Opportunity for Women in the Workplace Agency, sub 12, p 2.

Minister and Cabinet handle their travel arrangements and payroll.³⁵ This achieves some savings, but it limits their flexibility in seeking further efficiencies:

Unless the pricing of these services is a target for PM&C efficiency gains, it cannot be one for us. Further, efficiency changes that the larger agency pursues will be targeted at its own usage of services and may not replicate savings for the smaller agency.³⁶

- 2.35 The Ombudsman also mentioned that, because of their size, they have limited bargaining power in negotiating lease agreements.³⁷

Staffing

- 2.36 Small oversight agencies find it difficult to attract and retain staff. According to the Australian Human Rights Commission, 'the comparative disadvantage in remuneration levels is especially difficult in Sydney where the employment market is highly competitive'. As a result of this, 'staff retention is a major issue'.³⁸
- 2.37 The Ombudsman stated that their 'salary bands for staff lag behind the mean for the APS'.³⁹ As the office slips behind other agencies in the public service, 'recruiting quality staff will become harder'.⁴⁰
- 2.38 The Committee appreciates that the quality of the work in oversight agencies can assist them in attracting staff and perhaps offset the disadvantage of lower wages. It is the Committee's view, however, that these agencies need to employ staff of high calibre because of the importance of their work and the demands of the services they provide. The Committee expects that oversight agencies such as the Commonwealth Ombudsman's Office would be paying their staff more than the public service average.

Rising expectations

- 2.39 Smaller agencies are also experiencing rising expectations and increasing demands from the Government and the community. Insolvency and Trustee Service Australia said they were 'finding it increasingly difficult to

35 Commonwealth Ombudsman, sub 16, p 3.

36 Commonwealth Ombudsman, sub 16, p 3.

37 Commonwealth Ombudsman, sub 16, p 3.

38 Human Rights and Equal Opportunity Commission, sub 62, p 8.

39 Commonwealth Ombudsman, sub 16, p 5.

40 Commonwealth Ombudsman, sub 16, p 5.

satisfy all demands within what is, effectively, a shrinking budget'.⁴¹ The Australian Human Rights Commission mentioned that demand for their services had 'increased substantially' in recent years.⁴²

- 2.40 The Australian Communications and Media Authority (ACMA) expressed concern about increasing unfunded requests from Government:

ACMA is the kind of agency that is subject to a significant number of one-off requests from Government to undertake support activities, many of which are not funded. For the last 12 years, agencies have generally been required to absorb new proposals that cost less than \$5 million. Given ACMA's size and the nature of our work, we have been required to continue to absorb many such activities. ACMA's experience since its inception in July 2005 is that the scale of these unfunded one-off requests had been, if anything, increasing.⁴³

Reduced investment and innovation

- 2.41 Some agencies reported that they are finding it difficult to invest in the future. According to ACMA, the efficiency dividend does not take into account its need to reinvest to ensure sustainability.⁴⁴ ACMA stated:

ACMA has a particular concern about the innovation issue identified in the Committee's Term of Reference 2... If the current small agency funding arrangements continue in their present form, ACMA is likely to lose its strategic capacity to frame regulatory responses to the convergent environment when that capacity is most needed.⁴⁵

- 2.42 Insolvency and Trustee Service Australia told the Committee that they had limited capacity to do the type of research that would more broadly assist them in their policy formation role.⁴⁶

- 2.43 The Commonwealth Ombudsman also mentioned that it is difficult to fund innovation in the current budget environment:

With the constant pressure to find savings for efficiency dividends there is little scope to release funds for innovation. Often the costs

41 Insolvency and Trustee Service Australia, sub 13, p 4.

42 Human Rights and Equal Opportunity Commission, sub 62, p 5.

43 Australian Communications and Media Authority, sub 56, p 2.

44 Australian Communications and Media Authority, sub 56, p 5.

45 Australian Communications and Media Authority, sub 56, p 2.

46 Mr David Bergman, transcript, 20 August 2008, p 26.

of innovation are not directly related to the size of the organisation, which means that smaller organisations need to find proportionally larger amounts.

A clear example is the use of the internet for government service delivery. Developing innovative and effective service delivery via the internet is costly, but the cost is not directly related to the size of this organisation. Thus, as the pressure to fund efficiency dividends increases, the funds available for such innovation have rapidly dwindled.⁴⁷

Loss of public trust

2.44 According to the Commonwealth Ombudsman, the current budget strategy could diminish its effectiveness as an accountability institution and could pose a 'costly danger' for government because problem areas in administration might not be properly targeted.⁴⁸

2.45 Because of reduced funding, the Ombudsman cannot respond to all requests and sometimes sends members of the public to other agencies to seek assistance. The Office has been criticised for increasing the number of these referrals.⁴⁹ The Ombudsman said that if their office cannot provide an effective service to the public, it runs the risk of losing the public's trust.⁵⁰ According to public awareness surveys conducted by the Ombudsman:

People are critical of being redirected to an agency when they approach the Ombudsman for assistance, and yet it is something we necessarily have to do. People are critical if there are delays in investigations. Generally, an essential component of an effective accountability institution is that the public can have trust in the integrity and the effectiveness of accountability institutions.⁵¹

Efficiencies versus cuts

2.46 A few agencies have managed to find genuine efficiencies. The Australian Human Rights Commission, for example, has achieved high levels of efficiency in its service delivery, especially in its handling of complaints:

47 Commonwealth Ombudsman, sub 16, p 4.

48 Prof John McMillan, transcript, 20 August 2008, p 15.

49 Commonwealth Ombudsman, sub 16, pp 4-5.

50 Prof John McMillan, transcript, 20 August 2008, p 16.

51 Prof John McMillan, transcript, 20 August 2008, p 16.

HREOC has become increasingly more efficient in its complaint management processes. In the last four years, the same relative total staffing resources have resolved on average around 6% more complaints each year.⁵²

- 2.47 It qualified this statement, however, by saying that there is a widening gap between demand and the delivery capacity of complaint handling services. HREOC forecasts complaint handling delays if the current funding system continues.⁵³
- 2.48 The Commonwealth Ombudsman Office has achieved savings in the areas of travel and office facilities. It also closed down its library a number of years ago and rarely conducts off-site training for staff.⁵⁴
- 2.49 The Australian Communications and Media Authority has streamlined a number of its regulatory functions and downsized its regional operations.⁵⁵
- 2.50 Many agencies are unable to find efficiencies and are forced to make 'cuts' to meet the efficiency dividend requirement. These cuts have affected oversight functions, service delivery, regional service, innovation investment, risk management and staffing arrangements.⁵⁶

Conclusion

- 2.51 Small oversight and regulatory agencies are currently meeting the efficiency dividend, but many are finding it increasingly difficult. In particular, the Committee is concerned that a process of disinvestment is under way as their relative pay rates drop, they reduce training and draw on the finite goodwill of their staff.
- 2.52 The Committee does not make any specific recommendations in regard to oversight agencies. The Committee believes, however, that these agencies are prime candidates for the recommendations in chapter 6. The proposed systems should address their budgetary concerns.

52 Human Rights and Equal Opportunity Commission, sub 62, p 7.

53 Human Rights and Equal Opportunity Commission, sub 62, p 7.

54 Commonwealth Ombudsman, sub 16, p 5.

55 Australian Communications and Media Authority, sub 56, p 7.

56 See Equal Opportunity for Women in the Workplace Agency, sub 12; Insolvency and Trustee Service Australia, sub 13; Commonwealth Ombudsman, sub 16; Australian Communications and Media Authority, sub 56; Human Rights and Equal Opportunity Commission, sub 62.

Parliamentary agencies

- 2.53 Parliamentary agencies provide the House of Representatives and the Senate with a range of advisory and support services related to the exercise of the Commonwealth's legislative power.
- 2.54 This section covers the Department of the House of Representatives, the Department of the Senate and the Department of Parliamentary Services (which includes the Parliamentary Library). The Department of the Senate receives less coverage in this section because it told the Committee, 'the efficiency dividend so far has not caused the department to reduce staff or services'.⁵⁷

Core functions

- 2.55 The Committee notes that parliamentary departments have little discretion in the services they provide.⁵⁸ They must deliver certain services to the Government, members and senators. These include building maintenance, security, catering, procedural services for the chambers, IT support, Hansard, broadcasting, research and document drafting. Institutions as vital to Australian democracy as the Senate and the House of Representatives must be supported effectively and professionally.
- 2.56 The Clerk of the House of Representatives is concerned about the pressure that is being put on staff to maintain service levels:
- I am worried about the pressure on staff. We do have top-rate staff, but there is a limit to the amount that they can do. There has been a great delegation of responsibility throughout the department.⁵⁹

Funding arrangements

- 2.57 The Department of the House of Representatives' funding is affected by several factors: the efficiency dividend, rising costs, the indexation arrangements and an inability to obtain new policy funding.⁶⁰ Since 2000-01, the Department of the House of Representatives' budget has decreased

57 Department of the Senate, sub 1, p 1.

58 Department of the House of Representatives, sub 10, p 11.

59 Mr Ian Harris, transcript, 20 August 2008, p 82.

60 Department of the House of Representatives, sub 10, pp 5- 6.

in real terms by 11%.⁶¹ The Department has had to cut staff numbers to sustain its budgetary situation.⁶²

- 2.58 The Department of Parliamentary Services reported a reduction in real funding of 19% between 2000-01 and 2008-09. This included a 10% reduction in staff without a reduction in services.⁶³ The Department advised the Committee that 2008-09 has seen a great increase in workload. If this continues, it will need to discuss its service priorities with the Presiding Officers: the Speaker of the House of Representatives and the President of the Senate.⁶⁴

Innovation

- 2.59 According to the Department of the House of Representatives, 'There is no capacity for the Department to consider either new initiatives or innovation, given the lack of discretionary expenditure allowed within the current budget position'.⁶⁵ For example, the Department had considered funding an additional staff member to identify and develop its historical records, which it saw as important step for maintaining parliamentary knowledge and culture. It will not be able to fund this position.⁶⁶
- 2.60 The Department of the House of Representatives has had to absorb the cost of some innovative new functions, such as the establishment of the Main Committee in 1994.⁶⁷ The department did not receive funding to establish the Main Committee and it has not received any additional funding to support and administer it.⁶⁸

Efficiency measures

- 2.61 Parliamentary agencies have managed to find some savings. In 2008, for example, the Department of Parliamentary Services negotiated three new contracts for communication and IT services, which will save an expected

61 This was calculated using the CPI. Department of the House of Representatives, sub 10, p 6.

62 Department of the House of Representatives, sub 10, p 6.

63 Department of Parliamentary Services, sub 29, pp 5-6.

64 Department of Parliamentary Services, sub 29-2, p 5.

65 Department of the House of Representatives, sub 10, p 8.

66 Department of the House of Representatives, sub 10, p 8.

67 The Main Committee is a debating chamber similar to the House of Representatives. It is subordinate to the House: it can consider only those matters referred to it by the House and it reports to the House.

68 Department of the House of Representatives, sub 10, p 10.

\$1.67 million per year. The Department has also reduced water consumption by more than 40% since 2006.⁶⁹

- 2.62 The Committee was pleased to note that the Department has implemented a systematic Continuous Improvement Review process where it reviewed all aspects of its operations from 2005-06 to 2007-08. The Department reported that this process was effective.⁷⁰
- 2.63 The Department of the House of Representatives has made savings through changes to staffing arrangements. In 1995, for example, the department reduced its SES staff from seven to four and in 1996-97, committee secretariats each took on the responsibility of managing two committees instead of one. The department has also made 'significant savings' in printing costs by providing electronic access to parliamentary documents and reports.⁷¹
- 2.64 The Parliamentary Library has found savings through an improved staffing structure and a new contract for news services.⁷²

Prospects for the future

- 2.65 The Department of the Senate has managed to absorb the efficiency dividend without reducing services. They have achieved this through productivity gains, which are reflected in reduced staff numbers. The Department pointed out, however, that this cannot continue without consequences:

The indefinite continuation of the efficiency dividend must mean that eventually the department will have to reduce the level of its services. It is not clear when this point would be reached.⁷³

- 2.66 According to the Department of the House of Representatives:

It will not be possible to maintain the current funding model into the future without reducing the provision of core services to the Chamber, committees or Members. In short, the model is not sustainable for the Department in the near and longer term.⁷⁴

69 Department of Parliamentary Services, sub 29, p 6.

70 Department of Parliamentary Services, sub 29, p 6.

71 Department of the House of Representatives, sub 10, p 9.

72 Joint Standing Committee on the Parliamentary Library, sub 35, p 3.

73 Department of the Senate, sub 1, p 1.

74 Department of the House of Representatives, sub 10, p 4.

2.67 According to the Clerk of the House of Representatives, the Department has tried to insulate members of parliament from the effects of previous applications of the efficiency dividend. The Clerk cannot guarantee that this will continue if he is 'faced with the prospect of operating in a negative financial situation, as appears to be the case'.⁷⁵

2.68 The Department of Parliamentary Services (DPS) stated that they have little room for further efficiencies:

Put simply, costs have been growing at a rate greater than revenues since the formation of the DPS in 2004. To date, persistent cost cutting has kept expenditure in line, or slightly below available revenue. It is unlikely that further early gains are available without dramatic re-engineering given that DPS has already identified a range of efficiencies from the CIR process, all of which will have been implemented by the end of 2008...⁷⁶

There is a real possibility that any future savings measures or funding future pay increases will only be achieved by cutting employee numbers and/or activities, including services to Senators and Members.⁷⁷

2.69 The Parliamentary Library stated that the cumulative effect of the efficiency dividend and rising costs means that senators and members are able to access fewer resources each year. The Library also reported:

Without further funding for the collection, Senators and Members will not be able to fully and effectively respond to issues in the Parliament.⁷⁸

2.70 The Library stated it will especially struggle in providing resources to help parliamentarians stay well-informed about regional issues.⁷⁹

Independence of Parliament

2.71 The Department of the House of Representatives raised an interesting and important point in its submission:

The Department, together with the other parliamentary departments, supports the Parliament, a quite separate arm of the

75 Mr Ian Harris, transcript, 20 August 2008, p 77.

76 Department of Parliamentary Services, sub 29, p 8.

77 Department of Parliamentary Services, sub 29, p 9.

78 Joint Standing Committee on the Parliamentary Library, sub 35, p 5.

79 Joint Standing Committee on the Parliamentary Library, sub 35, p 5.

state from the executive government. It is completely unsatisfactory that the funding of the departments that support the Parliament is dictated by a model developed by the executive, with little capacity for the departments to negotiate additional funding.⁸⁰

2.72 There is an important principle involved here. According to the Commonwealth Parliamentary Association:

Parliaments should have control over, and authority to set out and secure, their budgetary requirements unconstrained by the executive.⁸¹

2.73 The Department of the House of Representatives stated there is an additional issue:

A further constraint on the Department has been the approach of the Executive to treat the parliamentary departments as a 'portfolio', not recognising the important constitutional separation within the Parliament between the two Houses.⁸²

2.74 The Department proposed that the Parliament needs to be treated differently from a government agency and that 'the independence of the Parliament to be able to influence its budgetary outcomes should be recognised in any funding model'.⁸³

2.75 Other funding models are used for parliamentary departments in countries such as Canada, the United Kingdom and New Zealand.

2.76 In Canada, funding for the House of Commons is managed by a 'Board of Internal Economy', which is established as a management board by the *Parliament of Canada Act*. It is not a standing committee and is therefore not controlled by the House of Commons. It has full decision-making authority. Only its budget is referred to Parliament for approval in the same manner as all voted parliamentary appropriations. The administrative matters of the House of Commons have been the responsibility of the Board since 1868. The Speaker of the House is the

80 Department of the House of Representatives, sub 10, p 1.

81 A Study Group Report published by the Commonwealth Parliamentary Association, *Administration and Financing of Parliament*, May 2005, p 13. As quoted in the Department of the House of Representatives, sub 10, p 1.

82 Department of the House of Representatives, sub 10, p 1.

83 Department of the House of Representatives, sub 10, p 1.

Chair of the Board, and the government and opposition each appoint an equal number of members of parliament as board members.⁸⁴

- 2.77 In the United Kingdom, the 'House of Commons Commission' is the overall supervisory body of the House of Commons Administration. It was established by the *House of Commons (Administration) Act 1978*. The Commission prepares and lays before the House the estimates for the House of Commons Service. The Treasury has no formal control over the estimates. The Commission meets every month to consider matters relating to the administration and services of the House and, in particular, the three-year financial plans and Estimates for the House Service. The Commission has six members who are all members of parliament. This includes the Speaker of the House, who serves as Chairman.⁸⁵
- 2.78 In New Zealand, the 'Parliamentary Service Commission' was established in 1985. It exercises control over the budget and services provided by the Parliamentary Service. The Speaker chairs the Commission, which has six other members of parliament.⁸⁶
- 2.79 Canada, the United Kingdom and New Zealand readily accept the concept of the legislature independently maintaining control of its own staffing and funding. Such an arrangement has operated in Canada for the last 140 years. In Australia, however, the Executive continues to see the funds allocated in support of Parliament as within its jurisdiction – subject, of course, to parliamentary approval of the appropriations.⁸⁷
- 2.80 The Department of the House of Representatives made the following suggestion:
- The Minister for Finance and Deregulation meet with the relevant Presiding Officer(s) and agree the proposed budgets of the parliamentary departments prior to the finalisation of the Budget bills and papers.⁸⁸

84 Parliament of Canada 2006, viewed 14 November 2008, http://www.parl.gc.ca/compendium/web-content/c_d_boardinternaleconomy-e.htm.

85 United Kingdom Parliament 2008, viewed 14 November 2008, http://www.parliament.uk/about_commons/house_of_commons_commission_.cfm.

86 New Zealand Parliament, viewed 14 November 2008, <http://www.parliament.nz/en-NZ/Admin/Speaker/PSC/>.

87 Australian Public Service Commission, *Parliament: Master of its own Household?* (October 2002), p 19.

88 Department of the House of Representatives, sub 10, p 15.

- 2.81 The Department of Parliamentary Services supported this proposal in evidence.⁸⁹
- 2.82 This recommendation is an improvement over the current arrangements. The Committee is of the view, however, that a more transparent model is needed. If, for example, the Government and the Parliament were to disagree over funding levels, their respective arguments should be publicly available. Further, the chambers comprise elected representatives from a range of political parties. It would be advantageous if this were incorporated into the process.
- 2.83 The Committee notes the precedent set by the United Kingdom, Canada and New Zealand. Taking this into account, the Committee believes that establishing a commission comprising elected representatives would be a useful enhancement of the proposal put forward by the Department of the House of Representatives.
- 2.84 It is the Committee's view that a parliamentary commission should be established to recommend funding for parliamentary departments. This commission would include two subcommittees. One subcommittee would cover the House of Representatives, comprise members of parliament and be chaired by the Speaker of the House. The other subcommittee would cover the Senate, comprise Senators and be chaired by the President of the Senate. The commission would meet as a whole to determine funding levels for the Department of Parliamentary Services. The Speaker of the House and the President of the Senate would serve as co-chairs of the commission. Membership of the commission would also reflect party membership in the chambers.

Recommendation 2

- 2.85 **The Government establish a parliamentary commission co-chaired by the Speaker of the House of Representatives and the President of the Senate and comprising elected representatives to recommend funding levels for the parliamentary departments in each Budget.**

89 Mr Alan Thompson, transcript, 20 August 2008, p 89.

Australian Electoral Commission

- 2.86 The Australian Electoral Commission (AEC) is an independent statutory agency established under the *Commonwealth Electoral Act 1918* (CEA). The AEC is responsible for conducting federal elections and referendums and for maintaining the Commonwealth electoral roll.⁹⁰
- 2.87 The AEC is the custodian of the democratic electoral process, which is one of the pillars of Australian society. Australians expect the AEC to manage the electoral process effectively and professionally. The AEC cannot afford operational failures that would ‘undermine public confidence’.⁹¹ Australia’s international standing as an established democracy is supported by the AEC’s effectiveness and independence.
- 2.88 According to the AEC, its ability to perform core functions is currently being compromised by the efficiency dividend.⁹²

Funding arrangements

- 2.89 The Australian Electoral Commissioner told the Committee that the AEC is struggling under the current funding arrangements:
- The combination of the efficiency dividend with the indexation arrangements [...] means that we are suffering quite significant, real losses in our running-cost appropriations and that is what we are actually struggling with.⁹³
- 2.90 The AEC’s main functions relate to conducting federal elections. Its funding at each Budget is adjusted on the likelihood that an election will be held in the year ahead. Therefore, its total funding peaks in an election year. Its total annual appropriations for the last three financial years were \$95.5 million in 2005-06, \$109.8 million in 2006-07, and \$183.7 million in 2007-08 (which was an election year).⁹⁴
- 2.91 The Government’s decision to impose an additional 2% efficiency dividend on a pro-rata basis in January 2008 presented a particular challenge to the AEC:

90 Australian Electoral Commission, sub 42, p 2.

91 Australian Electoral Commission, sub 42, p 10.

92 Australian Electoral Commission, sub 42, p 4.

93 Mr Ian Campbell, transcript, 21 August 2008, p 60.

94 Australian Electoral Commission, sub 42, p 4.

The activities required to bring the electoral roll up to date and successfully deliver the election were substantially complete by December 2007. As a consequence, by that time the AEC had spent three quarters of its appropriation for the year. The increased efficiency dividend was introduced after the election and by this time, the AEC was left with no means of clawing back savings on expenses and commitments passed at that point (\$146 million to December 2007).

The AEC believes it was inappropriate to apply the increased dividend to the whole of the AEC's 2007-08 budget after the cost of the election was incurred. The decision obviously has had an impact on the AEC's operations in the latter part of the 2007-08 financial year. Since January 2008 the AEC reduced staffing levels by approximately 50 full time equivalents and scaled back non-election activities. This meant lower levels of enrolment stimulation activities and the possible risk of a decline in the electoral roll.⁹⁵

- 2.92 The AEC also mentioned that, as a smaller agency without a policy role, it is less likely to receive additional funding through the new policy proposal process. This gives it less budgetary and operational flexibility than is available to larger agencies.⁹⁶ The AEC reported that it mainly receives additional funds as a result of inquiries conducted by the Joint Standing Committee on Electoral Matters and the related Government responses.⁹⁷

Commonwealth Electoral Act 1918

- 2.93 The AEC is required to work within the confines of the *Commonwealth Electoral Act 1918* (CEA). This Act is long, detailed and prescriptive. Although the Electoral Commissioner did not want to appear critical of the CEA, he did mention that certain prescriptions in the CEA make it difficult to achieve efficiencies:

The Act is quite clear about a number of factors. For example, we can not accept enrolments electronically. We have to actually have a paper enrolment form with a signature.⁹⁸

95 Australian Electoral Commission, sub 42, p 5.

96 Australian Electoral Commission, sub 42, p 3.

97 Mr Ian Campbell, transcript, 21 August 2008, p 67.

98 Mr Ian Campbell, transcript, 21 August 2008, p 61.

- 2.94 The AEC also noted that people can now lodge their tax return online but cannot enrol to vote online.⁹⁹ There are other prescriptions in the CEA that make it difficult for the AEC to reprioritise or find savings.¹⁰⁰

Divisional Offices

- 2.95 According to the AEC, it is particularly disadvantaged by the efficiency dividend as a result of its mandated organisational structure. The AEC has 134 sites, most of which are Divisional Offices with a maximum of three staff. The costs of maintaining these offices are significant and largely fixed.
- 2.96 Section 38 of the CEA states that Divisional Returning Officers must be located in their Division unless the Special Minister of State has given written permission otherwise. This means the AEC cannot reduce the number of Divisional Offices without ministerial approval. The AEC's ability to find efficiencies through staff reductions is limited.¹⁰¹

National Tally Room

- 2.97 According to the AEC, one of the difficulties raised by the efficiency dividend relates to the provision of the National Tally Room (NTR):

The NTR is not required in an operational sense. The counting of votes occurs in polling places and Divisional Offices and results are tallied by the AEC's computer systems. Results are available in near real time via the Virtual Tally Room (VTR) on the AEC's website. The VTR's figures are always more up to date than the Tally Board at the NTR.

The NTR costs approximately \$1 million to run...

In the lead up to the 2007 election the AEC raised doubts about its budgetary capacity to run the NTR. In its submission to the Joint Standing Committee on Electoral Matters Inquiry into the 2007 election, the AEC indicated it would require additional funding to run the NTR at the 2010 election. On both the occasions concerns were raised about the NTR, the AEC was the subject of intense stakeholder scrutiny and media attention.¹⁰²

99 Mr Ian Campbell, transcript, 21 August 2008, p 63.

100 Mr Ian Campbell, transcript, 21 August 2008, p 61.

101 Australian Electoral Commission, sub 42, pp 4, 9.

102 Australian Electoral Commission, sub 42, p 6.

- 2.98 Although the Electoral Commissioner admits the NTR is ‘great theatre’ and a great television backdrop, he says the NTR is not necessary.¹⁰³
- 2.99 According to the AEC, community expectations regarding the NTR have placed it in a difficult position:
- The AEC might well regard the NTR as a discretionary activity; however, some key stakeholders view it as an essential part of the electoral process. This tension sits uncomfortably with the concept of the efficiency dividend. At the end of the day, the AEC is left with fewer and fewer options to find efficiencies if stakeholders demand the NTR continue.
- The AEC’s circumstances are clearly different to other agencies that are not subject to such high levels of prescription and ‘political’ expectations, and have greater freedom to determine their organisational structures, the methods through which business will be transacted and their administrative arrangements. The efficiency dividend does not recognise these differences between agencies.¹⁰⁴
- 2.100 The Electoral Commissioner told the Committee that the constraint of having to provide the NTR along with the legal constraints in their legislation makes it ‘even harder for us to find efficiencies’.¹⁰⁵ The AEC faces the challenge of finding an efficiency dividend from a small budget. This challenge is made more difficult when the Government and the Parliament is prescriptive about its operations.

Conclusion

- 2.101 The AEC summarised its managerial dilemma as follows:
- The CEA’s mandatory nature and the prescription of its provisions are fundamentally at ‘odds’ with the application of the efficiency dividend. The prescription in the CEA inhibits contemporary and efficient ways of transacting with eligible enrollees, electors, political parties and associated entities.¹⁰⁶
- 2.102 In conducting elections and managing the day-to-day operations of the electoral system, trade-offs need to be made between efficiency and effectiveness. The Parliament and its Joint Standing Committee on

103 Mr Ian Campbell, transcript, 21 August 2008, p 62.

104 Australian Electoral Commission, sub 42, p 6.

105 Mr Ian Campbell, transcript, 21 August 2008, p 62.

106 Australian Electoral Commission, sub 42, p 5.

Electoral Matters have had significant input into these issues and these forums are the best places conducting these debates.

Cultural agencies

Introduction

- 3.1 As outlined in chapter 1, 'smaller agencies' are defined as those with an operational budget (i.e., departmental as distinct from administrative appropriations) of \$150 million per annum or less.
- 3.2 This threshold captures a variety of cultural agencies and the inquiry received submissions from the National Gallery of Australia, the National Library of Australia, the Australian War Memorial, the Australian Institute of Aboriginal and Torres Strait Islander Studies, and the Australian National Maritime Museum amongst others.
- 3.3 There are a number of features that distinguish cultural agencies from other agencies. Of particular note is that these agencies often hold a large number of valuable assets and have a high proportion of relatively fixed costs related to maintaining those collections and the buildings in which they are housed. Many of their discretionary functions, such as travelling exhibitions, serve to benefit large numbers of regional and rural communities. Importantly, collecting institutions are also often subject to a mandate to grow their collections.

The evidence

3.4 The inquiry received seven submissions from cultural agencies.¹ The Committee also took oral evidence from a number of individuals and organisations. This evidence is presented below.

Non-discretionary and fixed costs

3.5 The Committee notes that while there is some inconsistency about whether costs related to labour, utilities, maintenance costs and the like are non-discretionary and/or fixed, there was a clear consensus that depreciation is a non-discretionary and fixed cost. There was also agreement that the application of the efficiency dividend, calculated as a percentage of an agency's total appropriation, which includes depreciation, is perceived by these agencies as a disproportionate disadvantage.

3.6 Cultural agencies very often hold significant numbers of valuable assets that are subject to depreciation funding. The National Gallery of Australia (NGA), for example, holds assets including the national collection of artworks valued² at \$3.2 billion. The NGA's total appropriation funding of approximately \$41.8 million in 2008-09 includes approximately \$16.5 million in depreciation funding.³ Similarly, the Australian National Maritime Museum (ANMM) submit that of the \$23.6 million baseline appropriation funding it received in 2008-09, approximately \$9.6 million is appropriated for depreciation for asset replacement.⁴ The Australian War Memorial (AWM) also provided evidence that of its annual appropriation for 2008-09 of \$38.6 million, \$15.4 million is related to expenditure on depreciation.⁵

3.7 The Committee heard that as a result of these high proportions of depreciation costs, the efficiency dividend is in reality actually higher. This is because agencies with high non-discretionary costs such as those related to depreciation, must find the 3.25% from a smaller funding base. As Mr Froud of the National Gallery of Australia states:

1 This includes Questacon, which is featured in chapter 5.

2 As at June 2007.

3 National Gallery of Australia, sub 6, pp 1-2.

4 Australian National Maritime Museum, sub 15, p 1.

5 Australian War Memorial, sub 26, p 1.

[Depreciation] is the given and everything else changes around it. That is why, in our case, we are saying the 3.25 per cent efficiency dividend is actually a five per cent cut in our operating expenses because the depreciation expense cannot change.⁶

- 3.8 Similarly, the National Library of Australia makes the claim that the impact of the combined 3.25% efficiency dividend effectively represents a 4.6% reduction in the funds available for operating expenses.⁷
- 3.9 In addition to suffering a disproportionate impact because they hold a large number of assets, some cultural agencies also referred to the disadvantage they suffer as a result of the methodology used to adjust for inflation. Of particular concern is that while the efficiency dividend is applied to total net departmental appropriations (including depreciation)⁸, indexation adjustments are not applied to depreciation expenses. This naturally means, again, that agencies holding a large number of assets suffer an additional disadvantage.
- 3.10 It is clear to the Committee that the indexation arrangements around depreciation disadvantage agencies that hold a significant number of assets, particularly high value assets such as those held by cultural agencies. However, the Committee also notes that depreciation funding arrangements are currently being examined by the net cash funding working group in the context of the Department of Finance and Deregulation's *Operation Sunlight*⁹. The Committee keenly awaits the outcome of that review.

Rising costs

- 3.11 No agency, large or small, is immune from the rising costs of leasing property, water, electricity and the like. However, the Committee heard that an additional burden is placed on cultural agencies responsible for the management of high-value, high-maintenance assets. For example, as at 30 June 2008, the National Capital Authority (NCA) was responsible for more than \$670 million in administered assets. Over the past seven financial years, the value of assets managed by the NCA has doubled (from \$335 million in 2001-02 to \$672 million in 2007-08).¹⁰ However, since

6 Mr Alan Froud, transcript, 21 August 2008, p 38.

7 National Library of Australia, sub 41, p 2.

8 See Department of Finance and Administration, *Estimates Memorandum – 2007/42*, p 6.

9 Operation Sunlight is the Government's plan to improve Budget accountability and transparency – see The Hon Lindsay Tanner MP, *Appointment of Senator Murray to Advise on Improving Budget Transparency*, media release, 24 March 2008.

10 National Capital Authority, sub 47, p 3.

1999, the NCA has not received any additional funding to manage these cultural assets despite the fact there have been hefty rises in the cost of water and electricity.¹¹ The NCA also refer to other increases specific to agencies that manage cultural assets as follows:

...increase in the horticultural contracts costs, dam maintenance cost increases, construction costs, et cetera which are not only location specific but also driven by national and international price movements, such as the price of oil increases and the effect that that has on the price of bitumen for road maintenance and the like.¹²

3.12 At the hearings on 21 August, 8 September and 19 September 2008, representatives from the National Gallery of Australia, the National Archives of Australia, the Australian War Memorial, the Australian National Maritime Museum and the Office of the Official Secretary to the Governor-General gave evidence. All raised the imposition on their agencies of rising energy and water costs in addition to other factors such as international freight, petrol costs and lease price increases.

3.13 Dr Ron Radford of the National Gallery of Australia referred to the financial peculiarities around maintaining artwork appropriately as follows:

Our electricity bill went up \$500,000 this year with no appropriation to make up for that, so that is added on top of what the NCA might charge on top of the efficiency dividend. There is no way that we can reduce electricity charges, because it is the environmental control that looks after the \$3.3 billion collection and lights the collection when people come to visit. There are costs like that that you cannot reduce. You cannot show the collection in darkness and you cannot turn off the air conditioning to preserve this \$3.3 billion collection...Looking after the collection in environmental conditions and showing the collection is at our core.¹³

3.14 Mr Ross Gibbs, Director General of the National Archives of Australia, outlined the particular difficulties his organisation faces in light of rising costs and the imposition of the efficiency dividend:

11 National Capital Authority, sub 47, p 5.

12 Mr Christopher Doogan, transcript, 19 September 2008, p 67.

13 Dr Ron Radford, transcript, 21 August 2008, p 32.

One thing I want to stress is that the efficiency dividend is not the only impact on the Archives or the other cultural agencies. It is a combination of a range of things... I think you have got the message about rent and energy cost increases. We are paying 11 to 64 per cent but we have had heard figures even higher than that... Because of the contracts we are in we are actually sharing the same cost increases. They are massive cost increases. They have a unique effect on the Archives because we are all over the country. We have 13 buildings – from Darwin to Hobart, from Perth to Brisbane, as well as four in Canberra – so these increases have a real knock-on effect for us. The impact of that really began and hit us in 1996, when the former government sold off our buildings and we had to lease them back. So we are a captive of lease price increases as well as energy cost increases. In that sense, among the cultural institutions, we are uniquely affected.¹⁴

- 3.15 Major General Gower of the Australian War Memorial also referred to what he described as a ‘knock on effect’ as a result of the imposition of the efficiency dividend on the National Capital Authority:

[The National Capital Authority] have invited us to find a quarter of a million dollars per year for ground maintenance. We are challenging that but it seems to be a very nebulous argument at the moment. That is going to cause an extra impost of a quarter of a million dollars for looking after our grounds. People expect the Australian War Memorial to be maintained in an outstanding condition.¹⁵

- 3.16 Ms Williams of the Australian National Maritime Museum referred to the increasing cost of international freight as an issue for cultural institutions:

...one of the areas that a lot of museums face an increase in cost is through international freight. Before terrorism, it used to be a lot cheaper and freight companies were more generous.¹⁶

- 3.17 Mr Brien Hallett, Deputy Official Secretary to the Governor-General, also outlined the challenges his office faces in managing the rising utility costs associated with two heritage properties, two heritage gardens and effectively two function centres:¹⁷

14 Mr Ross Gibbs, transcript 21 August 2008, p 6.

15 Major General Steve Gower, transcript, 21 August 2008, p 4.

16 Ms Mary-Louise Williams, transcript, 8 September 2008, p 70.

17 Mr Brien Hallett, transcript, 19 September 2008, pp 55-56.

...if you look at supply costs...we believe that rates and utilities have increased 19 per cent in the last year. Most Commonwealth agencies lease their buildings, but we have to cover property and cleaning costs ourselves, and we believe that it will be about a 26 per cent increase.¹⁸

- 3.18 Mr Hallet also outlined some particular costs facing agencies responsible for managing heritage buildings:

...in July...the sea wall facing Sydney Harbour, which was a 19th century sandstone wall, collapsed. We had to get that fixed very quickly, both for the safety of people using the Harbour and the safety of guests, staff and the Governor-General at Admiralty House. That was \$80,000...Every time there is a storm in Canberra, we sometimes have problems with trees...If you lose three or four trees in one storm, we are talking \$20,000. That is not even in the budget, if you like. The other experience with old properties is that you tend to pull up a floorboard, so to speak, and find several other problems, whether it is dampness or whatever.¹⁹

- 3.19 Similarly, Mr Rake highlighted the particular difficulties of the National Capital Authority that is responsible for street and traffic lights:

...it is very difficult to try to find a way of saving electricity there, where we cannot turn the traffic lights off for half of the day.²⁰

Core functions

- 3.20 The Committee notes that, like 'fixed costs', 'core functions' are not easy to define. For the purposes of this inquiry the Committee assumes that maintaining and developing collections, and making those collections accessible to the Australian public is considered a core function of many of the national cultural institutions.
- 3.21 The Committee heard evidence to suggest that while cultural agencies overall have maintained their core functions, this has not universally been the case. It has neither been without difficulty nor is it sustainable. For example, the Australian National Maritime Museum (ANMM) submitted that, as a result of increasing costs, the ANMM would no longer be able to undertake one of its core functions to grow the national collection:

18 Mr Brien Hallett, transcript, 19 September 2008, p 58.

19 Mr Brien Hallett, transcript, 19 September 2008, p 59.

20 Mr Gary Rake, transcript, 19 September 2008, p 71.

Unfortunately, measures that impact on the museum's core functions must now be taken...for the 2008/09 financial year, the museum has cancelled a major exhibition and scaled back and deferred another exhibition.²¹

...

The ANMM, after 20 years of its application, no longer has the ability to pay the dividend without compromising its core functions.²²

- 3.22 Similarly, Mr Larkin of The Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) outlined the particular difficulties his organisation is facing in terms of maintaining a repository of cultural heritage materials:

The efficiency dividend erodes our capacity to care for our collections and, equally importantly, to provide Aboriginal and Torres Strait Islander people with access to their own cultural heritage materials. The potential for expanding the collections under current financial restrictions is now minimal. We are currently racing against time to digitise the most vulnerable parts of our collections before analogue technologies become completely obsolete. If we fail, these items will be lost forever. Yet we have had to reduce our staffing in this program by eight positions to comply with the requirements of the dividend.²³

- 3.23 The National Library of Australia (NLA) stated that it has made significant reductions to its functions (these functions are set out in Section 6 of the *National Library Act 1960*). These reductions are set out in the NLA's submission as follows:

- Withdrawal of the Library's A-based officer from Jakarta, effective from late 2009. This officer manages the acquisition of Indonesian publications, and selectively collects from the wider region, for the Library and for six other Australian libraries. This will mean an inevitable decline in the quality of the Library's world-class Indonesian collection.
- A reduction in the number of staff providing services in reading rooms, and in the number of staff undertaking collection processing. While these reductions have been carefully targeted to minimise the impact on readers, there will be

21 Australian National Maritime Museum, sub 15, p 4.

22 Australian National Maritime Museum, sub 15, p 6.

23 Mr Steven Larkin, transcript, 21 August, 2008, p 3.

inevitable reductions in the level of access to the Library's collections.

- A reduction in outreach programs.
- A moratorium on loans for exhibitions for all borrowers except other Commonwealth institutions and state libraries.
- A reduction in the Library's national and international leadership and collaborative activities, including a reduction in the assistance which the Library provides to other libraries in the Asia/Pacific region.
- A reduction in the Library's investment in new technology.²⁴

3.24 A supporting view was expressed in the submission of the National & State Libraries Australia (NSLA), an organisation that represents National, State and Territory Libraries of Australia and New Zealand. It made the following specific points about what it called the NLA's core functions:

The efficiency dividend is affecting the core functions of the National Library by:

- Forcing cuts to services provided in reading rooms;
- Reducing opening hours;
- Cutting core collecting activities, particularly for the Asia/Pacific region where the staff presence based in Indonesia has had to be withdrawn;
- Reducing capacity to assist other national libraries in the region and participate in international forums; and
- Falling behind other national libraries in digital collecting and preservation responsibilities.²⁵

3.25 The Australian Library and Information Association also submitted that the core functions of the NLA would be compromised by the ongoing efficiency dividend:

ALIA is concerned that the National Library's capacity to perform the core function of collecting the nation's recorded knowledge, information, and creative works is severely diminished by the effects of the efficiency dividend.²⁶

3.26 The reason some agencies have been able to maintain their core functions is because they have sought new sources of funding. For example, the Australian War Memorial sought non-government sources of funding to maintain its core functions:

24 National Library of Australia, sub 41, p 4.

25 National & State Libraries Australia, sub 39, p 3.

26 Australian Library and Information Association, sub 53, p 2.

...we, for this coming financial year, budgeted for \$7 million from non-government sources. That is quite important because it enables us to do much more on our core functions of ceremonies, interpretation, events and things like that which are essential for a very active museum and cultural institution. Without that money, we would be very lessened in what we can achieve and contribute as an institution.²⁷

- 3.27 As outlined above, while cultural agencies appear to have been able to 'keep their head above water' in terms of providing core functions to date, many of them argue that the application of the efficiency dividend in its current form is not sustainable over the long term particularly when these institutions are governed by a mandate to 'grow' their collections. For example, Section 6 of the *National Library Act 1960* states:

The functions of the Library are, on behalf of the Commonwealth:

(a) to maintain and develop a national collection of library material, including a comprehensive collection of library material relating to Australia and the Australian people...

- 3.28 The Collections Council of Australia Ltd also notes:

A core function of collecting institutions is to develop their collections.²⁸

- 3.29 Dr Cathro from the NLA argues that it is this mandate to grow that makes the imposition of the current funding arrangements on small cultural agencies inappropriate:

The collecting institutions are impacted not only because we are small but because we are required by statute to collect and that means we are required by statute to grow. Each year, obviously, our collections are larger than the year before. With that growth comes additional cost in collection management, storage and housing preservation of the collections. So what we really need, ideally, is a funding formula that takes account of the growth that our statutes require us to make; instead, we have a funding formula that does the opposite.²⁹

- 3.30 In a supplementary submission to the inquiry, the Academy of the Humanities states:

27 Major General Steve Gower, transcript, 21 August 2008, p 3.

28 Collections Council of Australia Ltd, sub 55, p 4.

29 Dr Warwick Cathro, transcript 21 August 2008, p 5.

Our core point is that the efficiency dividend is the wrong instrument to employ if the objective is to keep mission-directed agencies delivering services as their charters require. These organisations have been charged with a task by government, with the consent and support of the public at large, but they are increasingly hampered in their ability to deliver on their responsibilities due to the tightening strictures of the efficiency dividend. Their service charters, organisational structures and missions make them entirely unlike the departments, yet they are subject to a measure that was designed for application to the departments (and with which the departments are able to find ways to live).³⁰

- 3.31 Ms Meredith Hinchliffe, a private individual who describes herself as a 'stakeholder in Australia's collecting institutions'³¹ succinctly makes the point that a number of witnesses had expressed to the Committee in the following statement:

There appears to be a contradiction in the imposed decrease in operational funding for collecting institutions and their acknowledgement, acceptance and expectations of their roles to develop and grow national collections with associated public access and storage requirements. I think that is a real issue.³²

- 3.32 The Committee is mindful of the potential risks of cultural agencies not being able to meet the expectations of this mandate. Particularly in light of the findings of a 1981 Joint Committee of Public Accounts inquiry into the conservation and curatorial function of the Australian War Memorial³³ which arose as a result of unfavourable findings of the Auditor-General.³⁴

- 3.33 Ms Meredith Hinchliffe also makes a similar point when she said:

I think we could look back to reports from perhaps 25 years ago when the War Memorial was in quite a deal of trouble because it was not looking after its collection and the Australian National Audit Office produced quite a scathing report on the condition of the collections. While I am not suggesting for a second that that is

30 Academy of the Humanities, sub 11.1, pp 1-2.

31 Ms Meredith Hinchliffe, sub 19, p 1.

32 Ms Meredith Hinchliffe, transcript, 21 August 2008, p 43.

33 Joint Committee of Public Accounts, *Report 196 Australian War Memorial – Curatorial and Conservation Functions*, 1982.

34 *Auditor-General's Report*, March 1981.

the case now, I think there is a risk that could become a problem in the future.³⁵

- 3.34 The National Capital Authority also referred to a reduction in promotional activity, one of the NCA's core outputs, as a result of a reduction in staff funding to support volunteer contributions. This translates into fewer tours:

We do a reduced number of tours. Over at the National Capital Exhibition, we have produced a teacher information pack so that teachers accompanying school groups basically self-guide through the exhibition rather than having an interpretive guide to go with them.³⁶

- 3.35 In its submission to the inquiry, the National Capital Authority also outlined how funding just one staff position to coordinate the activities of volunteers, and paying the costs of uniforms, training and insurance had resulted in gaining over one hundred volunteers. However, as a result of the ongoing efficiency dividend and recent budget savings initiatives the NCA was no longer able to fund that position. Mr Rake described the impact of cutting the position that coordinated volunteers in the following way:

It is an activity where we leverage the greatest benefit. For an investment of \$60,000 or \$90,000, an employee might produce a couple of hundred thousand worth of benefit. In assessing that value for money context, we were aware that it was not a particularly efficient way to cut but we ran out of other discretionary options.³⁷

- 3.36 The Committee notes the comments of Mr Stephen Jones, National Secretary of the CPSU:

When we are talking about cultural institutions, let us not forget these museums, galleries and centres of excellence are not elaborate wardrobes for storing cultural artefacts. They are a core part of this nation's attempt to instil cultural diversity, to celebrate our cultural past and, hopefully, to set beacons for where we would like to go as a nation.³⁸

35 Ms Meredith Hinchliffe, transcript, 21 August 2008, p 43.

36 Mr Gary Rake, transcript, 19 September 2008, p 69.

37 Mr Gary Rake, transcript, 19 September 2008, pp 76-77.

38 Mr Stephen Jones, transcript, 20 August 2008, p 37.

Discretionary activities

- 3.37 As alluded to above, there is not necessarily a clear distinction between 'core' and 'discretionary' functions. However, on the basis of the evidence it received, the Committee believes that cultural agencies are making significant cuts to what appears to fall within their discretionary spending. Of particular note were travelling exhibitions and cooperative ventures.

Regional impact

- 3.38 Although it was acknowledged that the impact of these reductions was hard to measure,³⁹ it seemed clear that rural and regional areas would be disadvantaged by any reduction in travelling exhibitions. It may also be that the full impact of such a reduction is yet to be felt:

It is also true to say that most of the national institutions have maintained these outreach programs to date...It is really in the latest iteration of that process that they have expressed, and we have observed them expressing, that concern about their ability to do so...Given that many institutions develop these programs up to two or four years in advance, it will take some time for that impact to be felt on the ground.⁴⁰

- 3.39 The National Archives of Australia (NAA) submitted that it had reduced its travelling exhibitions and they were now undertaken only when the Archives could secure third-party sponsorship to fund the venture.⁴¹ The NAA claimed that the impact of this change was to:

...significantly decrease the reach of public access to the records of the Commonwealth, to people outside capital cities.⁴²

- 3.40 The National Gallery of Australia also advised that the number of travelling exhibitions displayed in Australia and abroad had reduced from fourteen to nine this financial year compared to last. Only one new exhibition will be released this year compared to an average of four in previous years.⁴³

The cut back in new releases will have an impact particularly in rural and regional communities in coming years.⁴⁴

39 Mr Ross Gibbs, transcript, 21 August 2008, p 30.

40 Ms Judy Kean, transcript, 17 September 2008, p 3.

41 National Archives of Australia, sub 27, p 3.

42 National Archives of Australia, sub 27, p 3.

43 National Gallery of Australia, sub 6, p 3.

44 National Gallery of Australia, sub 6, p 3.

- 3.41 At the hearing on 8 September 2008, Ms Williams advised that the Australian National Maritime Museum had cancelled a major exhibition program being conducted in conjunction with a museum in Paris and had scaled down another project, making it less challenging and adventurous.⁴⁵ The Committee also notes the impact of these arrangements on the reputation of the Museum.⁴⁶
- 3.42 The Committee heard that one of the consequences of scaling back touring exhibitions is that regional and rural staff lose opportunities for professional development through the influx of staff from major cultural institutions.⁴⁷ This is particularly important in a context where highly-skilled staff (e.g., curators, conservators and archivists) are difficult to find.⁴⁸
- 3.43 Some further intangible losses from scaling down travelling exhibitions and the like can be inferred from Ms Hinchliffe's description of the advantages to be gained by engaging in outreach activities:

It is an amazing thing to reach out to those communities – and they will be in rural and regional communities on the whole – to bring all the things...: that leadership role, that confirmation of involvement in their own communities, that celebration of what is in their communities. It also gives people the courage to actually see what is around in their communities, work with it, do something with it and celebrate it.⁴⁹

- 3.44 A similar sentiment was expressed in Museums Australia's submission:

In comparison with the remit of their state and local colleagues, the role of the national institutions is to develop programs that seek to reach out in all directions simultaneously, and to all Australians, no matter how far-distant from the national capital they may be. It is the outward-directed institutional orientation, the orbital communication drive, access provision and services delivery by the national institutions that play a hugely important role – often quiet and insufficiently championed – in support of a *shared national identity*.⁵⁰

45 Ms Mary-Louise Williams, transcript, 8 September 2008, p 69.

46 See transcript, 8 September 2008, p 69.

47 Ms Meredith Hinchliffe, transcript, 21 August 2008, p 46.

48 See transcript 21 August 2008, p 21.

49 Ms Meredith Hinchliffe, transcript, 21 August 2008, p 58.

50 Museums Australia, sub 46, p 3.

- 3.45 The Committee is deeply concerned about the impact this reduction in discretionary spending would have on rural and regional areas. The Committee agrees with the following comments from the Community and Public Sector Union (CPSU) about the reduction in NGA's touring exhibitions:

The gallery may be saving money and balancing their budget, but at what cost?⁵¹

Cooperative projects

- 3.46 In addition to scaling back their travelling exhibitions, the Committee heard that agencies were also reducing the number of cooperative projects they are engaged in. This was of particular note in relation to the work of the NLA. The following concern, expressed by the Australian Dictionary of Biography, was echoed by others:

The on-going efficiency dividend's impact on the National Library of Australia (NLA) is adversely affecting not only individual researchers but also cultural organizations, such as the Australian Dictionary of Biography (ADB), that rely on the many innovative, online bibliographic services developed by the NLA.⁵²

- 3.47 The Victorian Public Library and Information Network (Viclink) also made the following comment:

The NLA is heavily relied upon both locally and nationally in terms of digital preservation and access to cultural collections. As part of the service, the Inter-Library loans and document delivery transactions have substantially increased public accessibility to library collections across Victoria and Australia. The NLA is also an essential part of Australia's national information infrastructure enabling libraries to operate efficiently by supporting resource sharing, cooperative collection development, cataloguing and reference.⁵³

- 3.48 A number of organisations, such as the Australian Map Circle,⁵⁴ and individuals who rely heavily of the NLA for research purposes also provided submissions outlining their concern about the impact of the

51 Community and Public Sector Union, sub 58.1, p 4.

52 Australian Dictionary of Biography, sub 45, p 1.

53 Viclink, sub 33, p 1.

54 Australian Map Circle, sub 44, p 1.

ongoing efficiency dividend on the NLA's capacity to facilitate research and learning.⁵⁵

- 3.49 The submission of the Libraries Australia Advisory Committee referred to the Libraries Australia service which is used by 1,400 libraries in the management of their collections and is an avenue for cooperation between libraries nationally and internationally. Libraries Australia provides advice to staff on how to use the services effectively and it holds an annual forum for librarians to maintain their currency and share professional knowledge. The Libraries Australia Advisory Committee further suggests that these key activities are 'jeopardised by the continuance of the efficiency dividend'.⁵⁶
- 3.50 It is worth noting that the inquiry also received a number of submissions regarding the scaling back of the NLA's Indonesian Acquisitions Project. Again, whether this forms a core or a discretionary part of the NLA's activities is not clear cut. What is certain, however, is that this action has elicited a great deal of concern amongst individuals⁵⁷ and academics.⁵⁸ The concerns centred on the importance of maintaining high-quality research resources in areas that are strategically important to Australia and on the concern that Australia is becoming less appealing to overseas students.
- 3.51 Mr Larkin, Principal of AIATSIS, also outlined a key project that could not be pursued as a result of meeting the obligations imposed by the efficiency dividend. Return of Materials to the Indigenous Communities program (ROMTIC) was a project in partnership with a number of main communities where artefacts, which had been accumulated in the past, sometimes without the consent of Indigenous people, were to be returned to them.
- 3.52 The loss of projects such as this, which would also have incorporated a number of traineeships for Indigenous people, is significant in the current context:

The tragedy of it has been that, in the wake of the national apology and the efforts to close the gap – and with the importance of

55 See submissions 5, 20, 30.

56 Libraries Australia Advisory Committee, sub 4, pp 1-2.

57 Mr Andrew Gosling, sub 32.

58 See in particular submissions from Mr Tom Campbell (sub 20), Associate Professor John Butcher (sub 36), Professor David Hill (sub 37), Dr Jemma Purdey (sub 43), Associate Professor Charles Coppel (sub 48), Professor CC MacKnight (sub 49) and Asian Studies Association of Australia (sub 51).

cultural heritage and the transmission of culture as building blocks of people's social identity and self-esteem – we have had to compromise that program at the point where we were starting to see runs on the board.⁵⁹

- 3.53 The Committee also notes the role the National Capital Authority plays in maintaining the grounds of other cultural institutions. Where in the past the NCA undertook maintenance of the grounds for the War Memorial, the National Gallery and the High Court, this arrangement is no longer viable for the organisation:

Unfortunately our budget has reached a point where we are unable to continue those arrangements any longer, and we have recently had to contact those agencies and withdraw from the [memoranda of understanding].⁶⁰

- 3.54 The Committee also notes that the NCA's withdrawal from memoranda of understanding with institutions such as the AWM, NGA and the High Court could result in a 'false economy'. That is, rather than the one contractor maintaining the grounds of these three institutions under direction from the NCA, the same contractor may now be doing the same work in accordance with three separate contracts.⁶¹

Innovation/digitisation

- 3.55 One key aspect of the work of the cultural institutions relates to their capacity for innovation. As outlined in the following quotes, there are rising public expectations that these agencies be innovative and forward-thinking:

The cultural agencies are, without any doubt, currently struggling to fulfil core functions, let alone respond to public and government expectations to continue innovating, expanding and finding new ways to serve their various constituencies.⁶²

Business processes in an agency gradually change due, for example, to new technologies and the overall expectations by government and the community for the agency. For instance, if

59 Mr Steven Larkin, transcript, 21 August 2008, p 28.

60 Mr Gary Rake, transcript, 19 September 2008, p 72.

61 See transcript 19 September 2008, p 74.

62 Australian Academy of the Humanities, sub 11, p 3.

cultural agencies have objects in their collections it is now expected by most these should be able to be viewed on-line.⁶³

- 3.56 The point was made by AIATSIS, however, that innovation tended to be restricted in the following manner:

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.⁶⁴

- 3.57 Of particular note is the capacity of agencies to digitise their collections in a context of a rapidly shrinking budget:

...in the last 10 or 15 years – many of the collecting institutions have been doing their best to deal with an almost overwhelming challenge which we call the ‘digital deluge’ – that is, we have to respond to the fact that large and growing portions of our cultural heritage are now created in digital form.⁶⁵

- 3.58 At the hearing on 21 August 2008, Mr Gibbs of the National Archives of Australia indicated that while they are currently ‘up to speed’ in the digital arena, they are fearful that they will not be in a position to build on their current knowledge in this area:

We have done the clever bit, the bit that is relatively cheap, but, for the bigger bit – that is, to build a digital archive – we do not have the resources and cannot find them within our current budget with the pressures we have.⁶⁶

- 3.59 A similar story was expressed by Dr Cathro of the National Library:

...I think we are rating up there in terms of the approaches, the degree of innovation and the work we have done with others in harvesting web resources and also in things like digitising newspapers. We are struggling in terms of the volumes and quantities...⁶⁷

- 3.60 Overall, it can be said that many of the major cultural agencies are struggling to meet the challenges posed by digitisation as evidenced in the following quotes from representatives of the NLA, NAA, and the NGA:

63 Australian Society of Archivists, sub 7, p 2.

64 Australian Institute of Aboriginal and Torres Strait Islander Studies, sub 57 (B), p 5.

65 Dr Warwick Cathro, transcript, 21 August 2008, p 5.

66 Mr Ross Gibbs, transcript, 21 August 2008, p 7.

67 Dr Warwick Cathro, transcript, 21 August 2008, p 16.

We are doing our best to respond to this challenge but, in order to meet this digital deluge challenge, we really need more resources not less.⁶⁸

Eighty-three per cent of our use is now online. To get stuff online you have to scan it. We are doing that from all parts of our budget. We have our state officers doing it in their spare time. But increasingly we are not able to do that, and it is one of the areas in which our budget is suffering because of these efficiency dividends.⁶⁹

We have digitised 20 per cent of our collection, and we had aspirations to digitise 10 per cent a year. We have been unable to do that because of staffing restrictions.⁷⁰

- 3.61 The submission from the Hume Libraries made reference to the importance of the National Library's role as a leader in the digitisation and the consequences of its diminishing funding:

...the NLA is a leader in the use of digital preservation and access to cultural collections. It's PictureAustralia, MusicAustralia, Pandora, Australia Dancing, and Australian Research Online services facilitate collection, preservation and access to the cultural history of our nation...Without funding these services will lose their dynamic appeal and become merely static archives.⁷¹

- 3.62 The relevance of digitisation to Indigenous communities was highlighted by the Academy of the Humanities:

The digitised forms – the electronic mode – are absolutely critical. So you can palpably feel it when it is there. If that is not to keep on growing, you just sort of wonder what happens to those kinds of communities. Will they ever really be integrated in the best sense of a diverse society?⁷²

- 3.63 Mr Larkin from AIATSIS identified a number of challenges around digitising its collection to make it more accessible. This includes the race to complete the process prior to analogue technology becoming obsolete in 10 to 15 years:

68 Dr Warwick Cathro, transcript, 21 August 2008, p 5.

69 Mr Ross Gibbs, transcript, 21 August 2008, p 7.

70 Dr Ron Radford, transcript, 21 August 2008, p 14.

71 Hume Libraries, sub 9, p 1.

72 Professor Deryck Schreuder, 21 August 2008, p 58.

There is not a large proportion digitised; there is a large proportion to digitise...that will be compromised by the speed that we can digitise to get those materials on that archive, otherwise people will have to physically come to Canberra to view and access them.⁷³

- 3.64 The one agency that appears to have less difficulty in meeting the digitisation demand is the Australian War Memorial, however, this is because they have chosen to use funding for their digitisation program from elsewhere:

We have a major digitisation program at the Australian War Memorial. It is not affected, as you would appreciate, because we have chosen to take the hit in depreciation funding.⁷⁴

- 3.65 While the Committee heard that there has been some attempts by cultural agencies to collectively put in proposals for funding to digitise their collections, the Committee was also told that a 'one-size fits all' approach to digitisation may not be appropriate for agencies that have mixed collections (such as the Australian War Memorial).⁷⁵

- 3.66 All agencies are in agreement about the importance of keeping up to date with the latest technological advances. However, there is a great deal of concern that the growth will not be able to continue in the current climate:

I think that at a time when we ought to be having a dialogue about growth and development what we are having is one about trying to tread water and keep our heads above it.⁷⁶

I think what we are all saying is that we have modest programs running that barely meet our requirements. What we need and what we look to in other jurisdictions, particularly overseas, are some serious, large programs which could ensure that this material is preserved forever and is also available online throughout Australia. We have not had the resources to do the big projects that are required.⁷⁷

73 Mr Steve Larkin, transcript, 21 August 2008, p 11.

74 Major General Steve Gower, transcript, 21 August 2008, p 12. It should be noted that in its evidence to the inquiry the Department of Finance Deregulation stated that it was acceptable for agencies to apply depreciation funding to other uses, provided these amounts were later replaced: Dr Ian Watt, transcript 19 September 2008, p 14.

75 See transcript, 21 August 2008, p 13-14.

76 Mr Steve Larkin, transcript, 21 August 2008, p 39.

77 Mr Ross Gibbs, transcript, 21 August 2008, p 13.

Economic and community benefits

- 3.67 Although difficult to quantify, the Committee was interested to hear evidence about the importance of these cultural institutions to the Australian community both in economic and non-economic terms.
- 3.68 For example, the Committee heard that the recently held *Turner to Monet* exhibition was visited by 180,000 people⁷⁸ and added nearly \$30 million to the Canberra economy.⁷⁹ Similarly, the *National Treasures from Australia's Great Libraries* exhibition went to all capital cities and was seen by 420,000 people.
- 3.69 The National Gallery of Australia had half a million visitors over the last year and 564,000 visitors to travelling exhibitions that went to 88 venues around the country.⁸⁰
- 3.70 Ms Mary- Louise Williams of the Australian National Maritime Museum provided the Committee with insight into the importance of the ANMM's assets to the community as follows:
- ...we have a submarine and a destroyer out in the water near a very busy area— And we have Endeavour, of which we are hugely proud... We have the Welcome Wall as well, and we have nearly 20,000 names on that wall, which is a celebration of migration to Australia by sea. And we now have inadvertently, I have to confess, a fantastically valuable folk database of migration history in Australia because of the Welcome Wall... We have 5,000 people twice a year who come to celebrate the Welcome Wall. It is phenomenal.⁸¹
- 3.71 Ms Williams further demonstrated the commitment of all the cultural agencies in the following comment:
- We face the community; we do not put our backs to the community and we work very hard with them. We had Peruvian Day there a few weeks ago and we had, on Sunday, nearly 8,000 people and three llamas at the museum, and it was just fantastic. That is not a traditional museum-going community. So we do try to extend beyond what is imagined to be the museum community.⁸²

78 Ms Meredith Hinchliffe, transcript, 21 August 2008, p 55.

79 Dr Ron Radford, transcript, 21 August 2008, p 5.

80 Ms Meredith Hinchliffe, transcript, 21 August 2008, p 55.

81 Ms Mary-Louise Williams, transcript, 8 September 2008, p 78.

82 Ms Mary-Louise Williams, transcript, 8 September 2008, p 78.

3.72 At the hearing on 21 August 2008, Dr Cathro of the NLA also made the following points about the importance of cultural institutions to the community:

I think the economic benefit of what we provide is very hard to quantify. Basically, we provide information that supports research, lifelong learning, education and so on for a wide range of different users. As Ross Gibbs commented earlier, we did have an Access Economics cost-benefit analysis of the development of our digital collections which indicated a sixfold benefit, depending on how you model this in terms of user access model and the value of user access. But some of these benefits in education, lifelong learning and research support are very hard to quantify.⁸³

3.73 In its submission to the inquiry, the Australian Federation of Friends of Museums described the loss of benefits to the community as a 'trickle-down effect'.⁸⁴ More particularly they reiterate the loss to communities when access to cultural experiences and educational programs is restricted by reducing travelling exhibitions. They also argue that as museums and Friends groups feel powerless and neglected, they will have less to offer volunteers which will translate into a loss of membership and subsequent funds and subscriptions.⁸⁵

Conclusion

3.74 The Committee was impressed by the commitment and dedication exhibited by all the cultural agencies that provided evidence to the inquiry. This is particularly so in light of the financial difficulties these agencies have had to face since the imposition of the efficiency dividend.

3.75 The Committee notes the significant role the Australian War Memorial plays in the Australian community and is concerned about any matters that may erode or diminish that role. Similarly, the Committee notes the pivotal role of the National Library of Australia in supporting a range of individuals and other knowledge-based organisations. The Committee is also keenly aware of the particular benefit of organisations such as AIATSIS to the ongoing development of Indigenous communities.

83 Dr Warwick Cathro, transcript, 21 August 2008, p 25.

84 Australian Federation of Friends of Museums, sub 67, p 1.

85 Australian Federation of Friends of Museums, sub 67, p 1.

- 3.76 Having considered the evidence, the Committee is of the view that it is inappropriate that smaller public sector agencies holding significant numbers of assets and whose appropriation funding centres on depreciation of those assets should be subject to the same financial constraints as those applied to agencies who do not hold such assets.
- 3.77 Moreover, the Committee finds that while there is some operational diversity across these cultural agencies, there are a number of common features that make the imposition of the efficiency dividend in its current form inappropriate. Of most significance is the incongruity between the legislated mandate of these agencies to grow and develop their collections at the same time as needing to find productivity improvements beyond those in the general economy and delivering a wider range of services due to technological change.
- 3.78 On the basis of the evidence it received and the diversity evident across these organisations, the Committee is not in a position to make a prescriptive recommendation about the type of funding model that might be appropriate for all these cultural agencies. The Committee believes that determining the details of such funding models is best left to these agencies in consultation with Finance and the Australian Public Service Commissioner.

Recommendation 3

- 3.79 **The Department of Finance and Deregulation, the Australian Public Service Commissioner and each cultural agency jointly develop a new funding model for cultural agencies. This model should recognise the importance of funding the mandate for growth and development of collections and the proportion of their expenses apportioned to depreciation. The Committee notes that recommendation 8 will also apply to these agencies.**

The courts

Introduction

- 4.1 During the inquiry, the Committee received submissions from the main Commonwealth courts: the High Court of Australia, the Federal Court of Australia, the Family Court of Australia and the Federal Magistrates Court of Australia. The Committee also received submissions from the Administrative Appeals Tribunal (AAT) and the Family Court of Western Australia (FCWA). Although the latter court is administered by the Western Australian Government, it is funded by the Commonwealth.
- 4.2 One matter that concerned the Committee is that all these organisations are in financial difficulties. For example, in 2007-08, expenditure for the FCWA totalled \$16.9 million, against funding of \$15.7 million.¹ The following table gives the financial performance (surplus/deficit) of these bodies.²

Table 4.1 Financial performance of selected Commonwealth courts (\$ 000)

Court	2003-04	2007-08
Administrative Appeals Tribunal	52	-132
Family Court of Australia	207	1,438
Federal Court of Australia	1,717	-3,351
Federal Magistrates Court of Australia	908	-1,849
High Court of Australia	440	-913

Source Courts' annual reports for the respective years.

¹ Family Court of Western Australia, sub 34, p 2. The Court is a division of the Department of the Attorney-General and does not have separate financial statements.

² A reference to courts also refers to tribunals, apart from the section, 'constitutional issues'.

- 4.3 The table shows that all of these organisations shifted from delivering financial surpluses to deficits over the period in question. The only exception was the Family Court, which ran a surplus in 2007-08. In evidence, the Family Court stated that it ran deficits in 2005-06 and 2006-07. It expected to incur losses from 2009-10 and that they would increase over time.³ The AAT noted that its budgetary position was also expected to significantly deteriorate:

We have a \$600,000 approved deficit this year, that is, 2008-09. I estimate that will blow out to probably about \$1.5 million the year after and then start escalating into the never-never thereafter. The only way that we can continue to operate will be to quite savagely reduce the number of hearings that we hold.⁴

- 4.4 In this climate, it is not surprising that two of the courts (the High Court and the FCWA) are pursuing reviews of their baseline funding.⁵
- 4.5 Given the deterioration in the courts' financial performance and their special role in our system of government, the Committee wished to investigate the effect of the dividend on their performance in greater detail.

The effect of budget pressures

- 4.6 Similar to most other agencies, the courts noted the difference between the indexation measures that the Department of Finance and Deregulation (Finance) used to adjust for inflation, and the price increases in the products and services that they purchased. In relation to the indices (often referred to as wage cost indices - WCIs), the High Court stated:

WCIs are based on changes to values of a basket of salary and related costs as they relate to 'safety net amounts' for employee remuneration in a defined group of industries. It is neither a calculation of actual, average changes in employee remuneration generally nor an indicator of employee cost movements in the public sector. It is also not based on actual movements in supplier costs. However, WCIs are applied across both employee and non-employee costs in the Commonwealth, to produced basal increases

³ Mr Richard Foster, transcript, 20 August 2008, pp 56-57.

⁴ Mr Douglas Humphreys, transcript, 8 September 2008, p 37.

⁵ High Court of Australia, sub 14, pp 2-3; Mr Andrew Phelan, transcript, 20 August 2008, p 60; Family Court of Western Australia, sub 34, p 5.

in appropriations, before the application of the efficiency dividend to the result.

For several years the average national wage increase has been much higher than has been reflected in WCIs, even before the application of the efficiency dividend. Similar disparities have prevailed between funding and actuality for supplier costs. The WCI is a poor surrogate measure of supplier cost increases, especially in 'heated' areas like rent, other accommodation costs and ICT [information and communications technology].⁶

4.7 The AAT made a similar point, stating that, 'the annual inflator is considerably less than annual cost increases'. It reported that its wage and accommodation costs have been increasing by at least 4% annually.⁷

4.8 Similar to other agencies, the courts also stated that they had a significant proportion of fixed costs and needed to find the savings to meet the efficiency dividend and the indexation gap from the remainder of their budget. They argued that this results in the efficiency dividend having a disproportionate impact. For instance, judges are appointed by the Government and their salaries are set by the Remuneration Tribunal. Further, the courts rent specialised premises from the Commonwealth and pay market-based rates set by Finance.⁸

4.9 The Federal Court noted:

Thus in total 53% of the Court's 2008-09 budgeted expenditure is of a 'fixed' nature and the Court's ability to reduce these costs is extremely limited. This means that the efficiency dividend can, in effect, only be applied to the remaining 47% of the Court's costs, effectively doubling the dividend that has to be applied to these costs.⁹

4.10 For example, assume that a court must find efficiencies of 3.25% across all its budget,¹⁰ but cannot control its judicial salaries nor its accommodation costs, and that these comprise 50% of its budget. Then that court must find efficiencies of 7.5% across its other activities, such as its registries, its information technology (IT) spending, its corporate services, its pay scales for administrative staff and training and development.

⁶ High Court of Australia, sub 14, p 3.

⁷ Administrative Appeals Tribunal, sub 17, p 3.

⁸ Federal Court of Australia, sub 65, p 2.

⁹ Ibid.

¹⁰ This comprises a 1.25% efficiency dividend and an indexation gap of 2%.

- 4.11 The Family Court and the Federal Magistrates Court made a similar point in their submissions.¹¹
- 4.12 This chapter will now consider how these budget pressures have affected the courts' operations.

Information technology

- 4.13 Several of the courts gave evidence that their IT resources were considerably below benchmark levels. Taking into account agency size, perhaps the AAT has been in the most difficult position. It stated in evidence:

Our case management system was over 10 years old when the depreciation funding was introduced. The department of finance in their wisdom said that, because it was an asset that was fully utilised, there was no need to provide depreciation funding for it. We soldiered on for another eight years with the system. It was a mainframe with lovely blue and white screens – a beautiful piece of technology from the 1960s! It did the job. When we came to replace that piece of technology we put in an NPP [new policy proposal]. It was rejected ...

We had to fund that out of reserves ...

... having gone out to tender, bought a new system and put it in, we do not have the money to bring it up to the levels we would like to in terms of e-filing and all those sorts of things. All we have done is replaced the base. I have to try and find some money to do other things with it ...¹²

We had the Oakton consulting group come in and do a review of our IT system recently. They indicated that we were significantly underspending on IT. They said that, to bring us up to industry benchmark levels – and this does not include the capital costs of going and buying other modules – we would need a capital injection of \$840,000 and we needed \$905,000 per annum thereafter for ongoing costs to bring us up to acceptable industry standards. Basically, they said I needed to employ another six IT staff.¹³

¹¹ Family Court of Australia, sub 2-2, p 2; Federal Magistrates Court of Australia, sub 18, p 3.

¹² Mr Douglas Humphreys, transcript, 8 September 2008, pp 40-41.

¹³ Ibid, p 50.

- 4.14 Apart from the Federal Magistrates Court (which receives IT services from the Family Court), the other Commonwealth courts all noted they had significant shortfalls in IT resources. The High Court stated in evidence that it did not have any IT staff.¹⁴ The Federal Court reported that it did not expect it would be able to provide the new sort of e-services that the Court's clients would come to expect in the near future.¹⁵
- 4.15 The Family Court, which provides IT services to some of the other courts, also stated that it had difficulty in meeting new demands and was considerably short staffed in IT:
- We also got Oakton to perform an IT benchmarking report ... In the Federal Magistrates Court specifically, there has been enormous growth over the last three or four years which we have been managing within our existing resources. We are servicing something like 200 additional users just in that court alone and within our existing resources. Oakton basically recommended that we should increase our IT resources by up to 16 FTE in an attempt to provide a higher level of service, but at the bottom end they said it was absolutely essential that we increase our FTE resources by something like four to six FTE just to maintain existing services. We have not acted on those recommendations, and we are still managing through people just working harder and smarter to continue to provide the services.¹⁶
- 4.16 The Federal Court reported that the courts and tribunals have attempted to secure funding for IT enhancements through new policy proposals, but have generally been unsuccessful.¹⁷
- 4.17 A major component of the work of the courts and tribunals is receiving and processing applications from parties who wish to use their services. Not only are IT services integral to running these operations, but they are also likely to be a key source of innovation and efficiency. The Committee is concerned about the status of these bodies' IT arrangements. However, the Committee also appreciates that the courts and tribunals are balancing the competing demands of infrastructure and service delivery as best they can under current circumstances.

¹⁴ Mr Andrew Phelan, transcript, 20 August 2008, p 63.

¹⁵ Mr Warwick Soden, transcript, 8 September 2008, p 37.

¹⁶ Mr Richard Foster, transcript, 20 August 2008, p 58.

¹⁷ Mr Gordon Foster, transcript, 8 September 2008, p 44.

New policy proposals

- 4.18 Similar to most other agencies that made submissions to the inquiry, the courts expressed dissatisfaction about the process for new policy proposals. The High Court stated that, because the courts were small organisations, their proposals tended to be for small amounts and they were often asked to absorb them.¹⁸
- 4.19 In evidence, the AAT gave the example of submitting a new policy proposal to be compliant with the Australian Government Information Technology Security Manual (ACSI 33). The request was approved but not funded.¹⁹ In other words, the AAT was requested to upgrade its IT security from existing resources.
- 4.20 The Family Court gave its own example:
- ... the costs associated with the development of the business case and scoping study for the proposed Commonwealth Law Courts in Newcastle are being met from within the court's operating budget, and we have had to contribute \$750,000 to that process, as has the Federal Magistrates Court. We put up an NPP to get funding for a process and it ended up costing us \$750,000 for the process to commence. That is one of the issues we have with NPPs.²⁰
- 4.21 In this case, the Family Court received a one-off sum of \$200,000 for the project in the 2007-08 Budget.²¹ The Court has had to meet the bulk of the total costs from its own resources.
- 4.22 At the same time, however, the Family Court acknowledged that it had received some funding from new policy proposals and that its chances of success were influenced by government policy:
- We have been successful in the sense that the government provided something like \$9.4 million to us for court security, and there was another \$5 million for the other courts for court security. We got some extra funding for piloting a new method to do with child responsive models for looking after children in the breakdown of family relationships. So it is not really fair to say we have not been successful.

¹⁸ Mr Andrew Phelan, transcript, 20 August 2008, p 59.

¹⁹ Mr Douglas Humphreys, transcript, 8 September 2008, p 47.

²⁰ Mr Richard Foster, transcript, 20 August 2008, p 57.

²¹ Australian Government, Budget 2007-08, Budget Paper No 2, viewed at <http://www.budget.gov.au/2007-08/bp2/html/expense-04.htm> on 30 October 2008.

I do not think we have been as successful as we would have liked, but I think it is primarily because the whole focus has been on trying to shift, and the resources have gone into the front end of the system. You do not establish 65 family relationship centres without having some impact on the back end of the system, where we probably are. So I think at a moment in time that could be the reason why perhaps we have not been as successful as we might have wished.²²

4.23 In order to explore this issue further, the Committee examined all the new policy proposals that had been approved for these bodies for the last five years that related to departmental expenses. The table below lists them.

Table 4.2 New policy proposals for courts and tribunals for departmental expenses since 2003-04

Year	Topic	Agency	Amount (\$m)	
2008-09	Nil			
2007-08	Helping separated parents and children	Family Court	1.8	
		Magistrates Court	2.7	
	Newcastle courts – strategic assessment	Family Court	* 0.2	
	Indigenous liaison pilot program	FCWA	0.2	
2006-07	<i>Anti-Terrorism Act (No 2) 2005</i>	AAT	0.1	
		Federal Court	0.2	
	Child support reforms – external review	Magistrates Court	0.8	
	Criminal cartel enforcement	Federal Court	0.6	
	Additional resources	AAT	1.7	
	Additional resources for new responsibilities	Magistrates Court	3.4	
	2005-06	Workplace relations – jurisdiction changes	Magistrates Court	3.5
			Federal Court	2.9
	2005-06	Court security	Family Court	2.0
			FCWA	0.3
AAT			0.1	
		High Court	0.1	
Increased family law capacity		Magistrates Court	1.2	
2004-05	Records management etc	High Court	1.2	
		AAT	0.4	
2003-04	Additional resources	FCWA	1.1	
	Additional resources	Magistrates Court	1.1	

Source *Budget Paper No 2, 2003-04 to 2008-09, Mid Year Economic and Fiscal Outlook, 2003-04 to 2007-08 and related portfolio budget statements. All amounts cover at least three years and are averaged over the years in which funding is allocated. The exception is the starred amount, which was only for one year. Transfers of funds between courts not included. Appropriations to make up for unrealised savings from failed tribunal*

²² Mr Richard Foster, transcript, 20 August 2008, p 65.

mergers not included. Capital measures not included. The proposed Health and Social Services Access Card was subsequently withdrawn (as were the AAT's funds).

- 4.24 Perusing the table, it appears that the Family Court's comments are a reasonable reflection on the extent to which these organisations received funding for new policy proposals, at least up until 2007-08. From 2003-04 to 2007-08, they received a total of \$25.4 million in ongoing new policy funds.²³ This equates to \$5.1 million per annum. During this period, their average annual total expenses would have been approximately \$325 million per annum. Therefore, they were experiencing revenue growth of approximately 1.6% through new policy proposals in this period.
- 4.25 Assuming that the indexation gap was 2% during this time, with the efficiency dividend at 1.25%, the courts were looking to meet a real funding shortfall of 3.25%. If new policy funds were 1.6%, then the courts would be looking to meet the remainder (1.65%), through productivity gains. This analysis assumes that the courts' workload was static during this period. The Committee examines the courts' workload later in the chapter.
- 4.26 In 2008-09, these courts received no new policy funds, as well as having to meet the additional 2% efficiency dividend. Therefore, they were looking to meet a funding shortfall of 5.25%, which has been a significant management challenge for them.

Regional services

- 4.27 A theme throughout the inquiry has been that cutting back on regional services and regional presence is a common way for many agencies to trim their budgets. Often, the courts stated that they had a significant commitment to their regional work, but that they are making cuts in this area. For example, the FCWA stated that it had already made cuts and that regional locations had a lower level of service than metropolitan areas, especially in child-related matters.²⁴
- 4.28 The AAT reported in evidence that the budget reductions would affect the number of hearings it would hold and the amount of travel it would be able to do. It also noted that fewer regional hearings would not be consistent with client expectations:

²³ This is the sum of the amounts in the right hand column, excluding the starred amount.

²⁴ Family Court of Western Australia, sub 34, p 5.

That slowdown will be exponential as we wind back our capacity to hold hearings and, indeed, do regional work up in Townsville, Cairns and over to Darwin – travel and things like that. We just cannot do it. We can use, as best we can, technology but there is a limit to what you can do. I think there is a reasonable expectation, certainly amongst the members of the public, that they will get to see somebody face to face rather than through a telephone hearing or videoconferencing to have their matter finally determined.²⁵

4.29 The High Court stated that it has considered stopping its travel as a way of cutting costs, but its public role means it has a duty to be seen around the country:

... a body like the High Court, which is a national constitutional body with a seat in Canberra, also has a responsibility to be seen by all of the Australian people and therefore chooses and wishes to continue to circuit to places where, in raw terms, our workload is hardly as efficient as it would be by bringing everybody into Canberra and not visiting Adelaide, not visiting Perth, not visiting Brisbane et cetera.²⁶

4.30 The Committee is strongly of the view that the courts' regional work is integral to their role and function. The Committee also agrees with the AAT that judicial and tribunal proceedings are more likely to be effective if parties attend them in person. Further, requiring parties to travel an excessive distance to a court is a form of cost shifting onto the community. In addition, requiring multiple parties and their legal representatives to travel is likely to be more costly than arranging for the court itself to travel.

Security

4.31 A further area in which some courts were making cuts was in security. The Federal Court and AAT stated in evidence that they only partly complied with the Protective Security Manual and the Australian Government Information Technology Security Manual. The AAT estimated that the cost for it to comply with these requirements was \$1.8 million.²⁷

²⁵ Mr Douglas Humphreys, transcript, 8 September 2008, pp 37-38.

²⁶ Ibid.

²⁷ Mr Gordon Foster, transcript, 8 September 2008, p 53 and Mr Douglas Humphreys, transcript, 8 September 2008, pp 48 & 53.

- 4.32 Security is an important risk for the courts to manage, both in terms of operations and reputation. In May this year, a woman threatened self-harm with a knife and a pair of scissors during a Federal Court hearing in William Street in Sydney. The Court was using standard commercial premises while its main complex was being renovated. The temporary court rooms did not have metal detectors or x-ray equipment.²⁸
- 4.33 Although the judge was participating through a video link from Adelaide, the incident demonstrated that security is an increased risk for the courts. The Federal Court stated in evidence that prohibited items (not necessarily weapons) are regularly identified at court entrances. It also stated that it cannot implement the blanket security measures it would like. Rather, it uses a risk management approach to minimise the chances of an incident.²⁹ The AAT uses a similar system and explained it in detail:
- It is important to note that we are only in Commonwealth law court buildings in two locations: Brisbane and Hobart. In the other locations we are in commercial tenancy buildings ... We do not have airport type security in those locations, and the figure I quoted to you [\$1.8 million] does not include the installation of that. In fact, it would be physically impossible to install that in a commercial building because of the way the access and egress are structured. What it means is that if we have a matter that we identify as being of potential concern we will go to a Federal Court building or, if we go out to Parramatta, we have been very grateful that we can get access to the Family Court, where we will then hold the proceedings. But that does not alleviate the possibility of the unexpected, and we just have to risk manage that.³⁰
- 4.34 The Federal Court noted in evidence that expectations about security standards in courts have increased.³¹ Once again, the Committee appreciates that the court administrators are balancing their competing priorities as best they can within their budgets. The Committee is confident that the courts give security a high priority in planning decisions. As the Federal Court said in evidence:

²⁸ *The Australian*, 'Woman takes knife into court', viewed on 5 November 2008 at <http://www.theaustralian.news.com.au/story/0,25197,23779344-5006784,00.html>.

²⁹ Mr Warwick Soden and Mr Gordon Foster, transcript, 8 September 2008, pp 53-54.

³⁰ Mr Douglas Humphreys, transcript, 8 September 2008, p 55.

³¹ Mr Warwick Soden, transcript, 8 September 2008, p 54.

The security issue is always one that is under review with our areas, also in terms of the security we partially do not comply with. It is, again, something that we are very conscious of.³²

Cuts versus efficiencies

- 4.35 During the inquiry, the courts advised the Committee about the various measures they were taking to meet their budgetary demands. Overall, most of their actions would be categorised as cuts, rather than efficiencies or innovations that would provide long-term benefit to their organisations.
- 4.36 For example, the FCWA stated it stopped being able to meet the dividend two years ago.³³ Although it had been able to innovate to some extent by introducing digital recording equipment to replace the production of transcripts (saving \$30,000 annually),³⁴ it had made cuts to its regional services. Regional Western Australia receives fewer counselling services, fewer court circuits and does not use the new case management model for child-related proceedings. It appears that the Court's main options in future are to either run a deficit or cut more services.
- 4.37 The court that provided the most evidence about improvements to its managerial practices was the Family Court. For example, the Court stated that it had instigated quarterly budget reviews to help it meet its financial targets.³⁵ It has also cut the number of managerial layers in the organisation and introduced electronic filing for a number of its processes. Further, it had established a call centre to handle inquiries from the public:

One of the reasons that I think we could effectively reduce our client service staff around the country by 30 was through the establishment of a national inquiry centre, which is located in our Parramatta registry. There are about 30 staff in that national inquiry centre. What that effectively meant when it was established within our existing resources was that every telephone inquiry which was previously going to a registry went to that central location. It meant that there was great efficiency provided in the registries, where people could actually attend to people at the counter rather than spending a lot of time on the telephone. Our inquiries, by their very nature, are lengthy. Someone rings up

³² Mr Gordon Foster, transcript, 8 September 2008, p 53.

³³ Mr Liam Carren, transcript, 22 October 2008.

³⁴ Mr Gavan Jones, transcript, 22 October 2008.

³⁵ Family Court of Australia, sub 2-2, p 4.

and says, 'I have just separated. What do I do next? How do I get a divorce?' It takes a long time to deal with them. That workload has been shifted out of the registry. It has been streamlined. There is better training and technology to support them, and that has been a significant saving.³⁶

- 4.38 However, the Family Court did note that its scope for further process improvements was limited because it had very little spare funding for discretionary projects. Between 2005-06 and 2008-09, project funding had decreased 80% to less than \$0.5 million.³⁷ It has also implemented a number of cost-cutting measures such as requiring all staff to travel economy between various destinations and reducing its full time equivalent staff by 26 through discontinuing contract personnel.³⁸
- 4.39 The AAT is probably at the other end of the spectrum. In evidence, it stated that it was expecting to meet its financial requirements largely through cutting regional hearings and its use of part time Members.³⁹ It had purchased a new core IT system with which it was very satisfied, but it had no spare resources to add the various modules that would help it innovate.⁴⁰ The AAT had also implemented cost-cutting measures such as travelling economy class, reimbursing actual expenses rather than issuing travel allowance and driving between Sydney and Canberra. It noted that, by travelling economy, its Members were not receiving the travel entitlements to which they were entitled under the Remuneration Tribunal's determinations.⁴¹
- 4.40 The Federal Magistrates Court and the Federal Court both stated in evidence that, while they had recently invested in electronic services, they did not expect such discretionary funds to be available in future.⁴²
- 4.41 A significant form of disinvestment occurred at the FCWA in 2007-08. The court had maintained a building trust account to pay for lifecycle works. In order to cover its operating deficit of \$1.2 million in that year, the FCWA closed the trust account, releasing \$1.3 million. Although this court

³⁶ Mr Richard Foster, transcript, 20 August 2008, pp 61-62.

³⁷ Family Court of Australia, sub 2-2, p 3.

³⁸ Mr Richard Foster, transcript, 20 August 2008, p 58.

³⁹ Mr Douglas Humphreys, transcript, 8 September 2008, p 37.

⁴⁰ Ibid, pp 41-42.

⁴¹ Ibid, p 53.

⁴² Mr John Mathieson, transcript, 8 September 2008, p 46 and Mr Warwick Soden, transcript, 8 September 2008, p 37.

has been able to provide services for the present, it has reduced its ability to maintain its assets in the future.

Performance information

4.42 Given that all these courts are in financial difficulty or soon expect to be, the Committee examined the performance information of some of them to determine whether this might be driven by workload. The High Court presented the most informative documentation on this to the Committee.

High Court of Australia

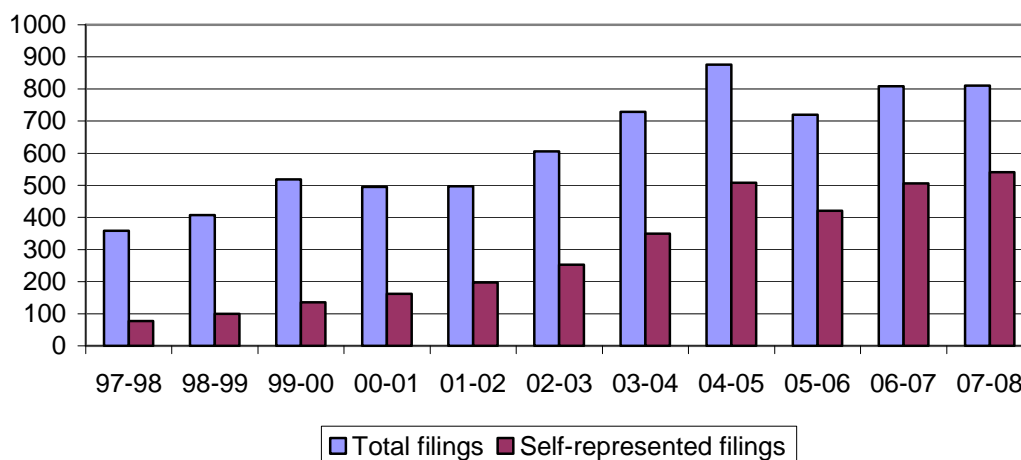
4.43 The Court contrasted the increasing number of applications for special leave to appeal against its largely steady resources. The High Court is unique in Australia because it does not have to hear all appeals that come to it. Rather, it has an initial filter whereby litigants request the Court's leave (special leave) to have their matter heard.⁴³ The criteria for this decision are largely up to the Court, but it must at least consider whether there is a question of law involved of public importance and whether there is a difference of opinion between courts that needs to be resolved.⁴⁴

4.44 Therefore, the Court has some measure of control over the number of full hearings that it holds and the amount of judicial time occupied on this activity. However, it cannot control the number of special leave applications that it must consider. An increase in applications for special leave has a significant effect on the time of both judges and registry staff. Figure 4.1 demonstrates the growth in special leave applications.

⁴³ Section 21 of the *Judiciary Act 1903*.

⁴⁴ Section 35A of the *Judiciary Act 1903*.

Figure 4.1 Applications for special leave to appeal, High Court of Australia

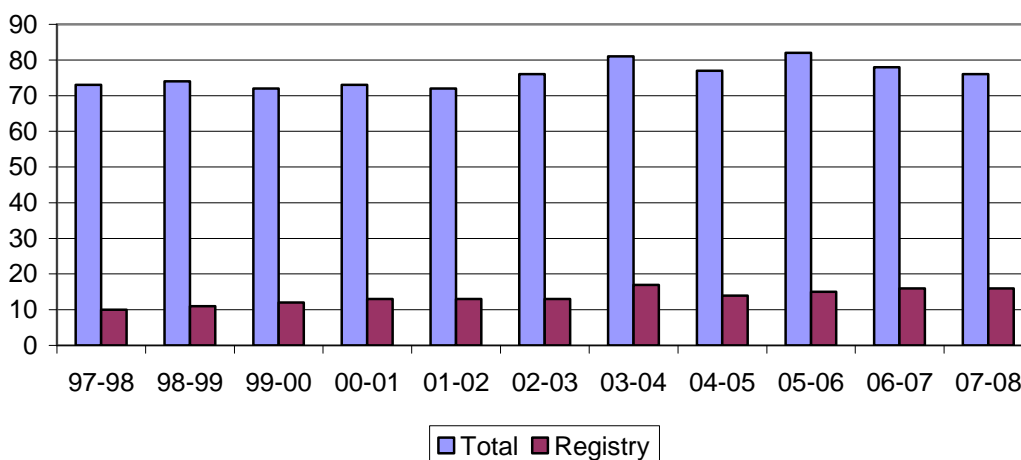


Source *High Court of Australia, sub 14-2, p 1.*

4.45 Also presented in the graph is the increase in the proportion of special leave applications made by self-represented litigants. These parties often make additional demands on court staff. Their level of knowledge about the law and court processes is less comprehensive, meaning that court staff may need to give them additional assistance.

4.46 There are two ways, in particular, that the High Court could respond to this increase in special leave applications. The first would be to shift staff internally to its registry. Figure 4.2 shows that this has occurred.

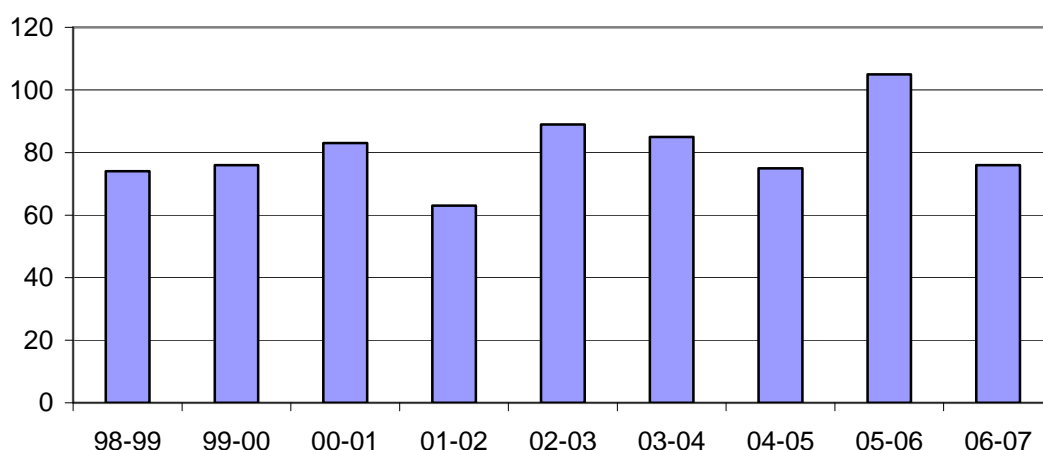
Figure 4.2 Staff numbers at the High Court of Australia



Source *High Court of Australia, sub 14-2, p 2.*

- 4.47 Total staff at the High Court has stayed relatively static over the period in question. However, registry staff as a share of total staff has increased from 13.7% (10 out of 73) to 21.1% (16 out of 76). It appears that the Court has been able to process the increased number of special leave applications by internally diverting resources to its registry. The Court has most likely either cut services or found efficiencies in its other areas of operation to make this adaptation.
- 4.48 The other area in which the Court could handle this increase in special leave applications would be to reduce the number of cases it decided. Figure 4.3 shows how this statistic has changed over time.

Figure 4.3 Full Court decisions (other than special leave applications), High Court of Australia



Source *High Court of Australia, Annual Report 2006-07, p 10.*

- 4.49 Over the past 10 years, there does not appear to have been an overall downwards trend, which would be expected if the Justices of the High Court had to allocate more of their time to special leave applications at the expense of Full Court work. Rather, what may be occurring is that the Court is changing the proportion of cases to which it grants special leave to appeal in order to maintain a constant Full Court workload.
- 4.50 To a considerable extent, however, it appears that the Court is still considering special leave applications on their merits. Figure 4.1 shows there was a spike in special leave applications in 2004-05. Because these applications take some time to be decided and then proceed to the Full Court, it would be expected that the cases that proceed to a hearing would not be decided until the following year. Consistent with this, figure 4.3 shows a spike in cases decided in 2005-06.

- 4.51 If one were to view the High Court as an organisation that has two parts to its business – special leave applications and Full Court decisions – then the Court has demonstrated that its workload has increased. It has coped with increased special leave applications while broadly maintaining its Full Court work.

Family, Federal and Federal Magistrates Courts

- 4.52 Overall, the Committee decided that it could not make any conclusions about these courts because the Family and Federal Courts provide services to the Federal Magistrates Court. The Family Court also assists the FCWA.
- 4.53 This means that comparisons over time for the Family Court and Federal Court are difficult to make, even after taking into account changes in the individual courts' workload. This is because they must also respond to the increased workload of the Federal Magistrates Court (and the FCWA, in the case of the Family Court). The Family Court in evidence stated that its IT team needed to keep up with growth in the Federal Magistrates Court.⁴⁵
- 4.54 The Committee notes that the courts are aware of the effects of this cross-provision of services on their performance. For example, the Family Court has discussed this effect in its annual reports.⁴⁶
- 4.55 As one of the Parliament's main accountability committees, this Committee saw value in investigating further the close relationship between these courts.
- 4.56 The Committee noted that there is a high degree of cooperation between these courts. However, one disadvantage of the combined model is that the lines of accountability between them can become blurred. An example occurred in relation to the Family Court and the FCWA. The Family Court stated that the FCWA owed it \$1.5 million for IT services.⁴⁷ The FCWA responded:

The IT service for our operational base is called Casetrack. Up until three years ago we had never made a contribution towards that. We are thankful that the Family Court of Australia have supported us over the years. In the last three financial years we have made a small contribution at their request. It is still nowhere near the actual cost of running Casetrack and the licensing of

⁴⁵ Mr Richard Foster, transcript, 20 August 2008, p 58.

⁴⁶ Family Court of Australia, *Annual Report 2003-04*, p 19, *Annual Report 2006-07*, p 38.

⁴⁷ Mr Richard Foster, transcript, 20 August 2008, p 58.

Casetrack. We are hopeful that, as part of our funding review, we will be able to come up with a formal agreement with the Family Court of Australia for the provision of IT services.⁴⁸

- 4.57 It appears that as the Family Court's financial circumstances have changed over time, it has decided to charge for a service that it previously provided free of charge. However, due to mixed accountability, it is unable to withhold the service until it secures payment.
- 4.58 Given the rapid growth in the Federal Magistrates Court and the financial difficulties that these courts are facing, there has been an increased risk of these blurred accountabilities impairing these courts' performance.⁴⁹
- 4.59 The Committee notes that the Government has released a review of the federal family law courts by public sector management consultant Des Semple for consultation. Submissions have been invited by February 2009. The review recommends combining the Family Court and Federal Magistrates determining family law matters into a single family law court, with two Divisions - one comprising existing Family Court judges to handle appeals and complex cases, and one to which these Federal Magistrates would be offered appointment (the general Division). It also suggests offering appointment to a lower Division in the Federal court to Federal Magistrates exercising general federal law jurisdiction.⁵⁰
- 4.60 The Committee does not see any need to make a recommendation in advance of the response to the Semple review. If for some reason these issues remain, then the Committee believes that the courts should give clearer performance and financial information in their annual reports about how services are shared and funded between them.

Committee comment

- 4.61 A common theme in submissions from the courts was that they had a significant proportion of fixed costs, often around 50%. A substantial proportion of these fixed costs were judicial salaries and related expenses. The argument was that the courts had no control over the appointment of these office holders and no control over their salaries. The courts'

⁴⁸ Mr Gavan Jones, transcript, 22 October 2008, p 5.

⁴⁹ Between 2003-04 and 2007-08, the Federal Magistrates Courts' expenses rose from \$32.3 million to \$77.8 million, an increase of 140.9%. Source: the Court's annual reports for these years, p 72 and p 84 respectively.

⁵⁰ Attorney-General's Department, *Future Governance Options for Federal Family Law Courts in Australia* (2008), pp 8-10. Alex Boxsell, 'Courts merger starts with management', *Australian Financial Review*, 28 November 2008, p 50.

conclusion was that this aspect of their work should be exempt from the efficiency dividend. The courts argued that they faced an additional hardship because they had to find additional efficiencies outside judicial salaries in order to make up for the efficiencies they could not find in these fixed costs.⁵¹

- 4.62 However, the Committee is not convinced by this line of reasoning. Firstly, the Government appoints judges and tribunal members. In general, the Committee would assume that all such appointments would be in line with the courts' workload. No evidence was given that this was not the case. Further, the Budget papers include adjustments to the courts' estimates when they gain or lose judges.⁵²
- 4.63 Secondly, although the Remuneration Tribunal externally sets judicial salaries, no evidence was given that the rates of increase have been unreasonable. Rather, recent salary increases for judges have been a little over 4% annually.⁵³ This is in line with increases for other staff employed in the courts who have been delivering efficiencies for their organisations.⁵⁴ The Additional Estimates supplement the courts' funding when the Tribunal increases judicial salaries.⁵⁵
- 4.64 What the courts were effectively requesting through the 'fixed cost argument' was that the work of judges should be exempt from the efficiency dividend. In the view of the Committee, insufficient evidence was tendered during the inquiry with which to make a considered recommendation on this point. However, the Committee notes that judges do comment on the efficiency of court proceedings and the attitudes that counsel and parties take in relation to using a court's time.⁵⁶ They also

⁵¹ Family Court of Australia, sub 2, pp 2-3, Mr Liam Carren, Department of the Attorney General of Western Australia, transcript, 22 October 2008, p 8, Federal Magistrates Court of Australia, sub 18, pp 2-3, Federal Court of Australia, sub 65, p 2.

⁵² For example, Australian Government, *Budget Measures 2007-08*, Budget Paper No 2, p 87.

⁵³ Increases in judicial salaries for 2006, 2007 and 2008 have all been between 4% and 4.5% under the Remuneration Tribunal's determinations, *Judicial and Related Offices – Remuneration and Allowances*.

⁵⁴ For example, between 2003-04 and 2007-08, the bottom pay point of Executive Level 1 salaries rose in compound annual terms by 4.1% at the AAT, 4.8% in the Family Court, 4.2% in the Federal Court and 5.4% in the Federal Magistrates Court. This last court probably had higher increases because its salaries were lower in absolute terms. There may have been some 'catch-up' in its increases. Source: the courts' annual reports for these years.

⁵⁵ For example, see Australian Government, *Portfolio Additional Estimates Statements 2007-08*, *Attorney-General's Portfolio*, pp 54, 144, 162, and 174.

⁵⁶ Marsha Jacobs, 'Two judges would have been better: Owen', *Australian Financial Review*, 31 October 2008, p 46. Mason P in *Cockburn & Ors v GIO Finance Limited* [2001] NSWCA 155 stated that counsel appeared to take court listings as seriously as a fixture at a golf club.

comment on possible innovations to court processes to improve case management.⁵⁷

- 4.65 Given this judicial support for operational efficiency, a blanket exemption for their work from an efficiency incentive does not appear warranted.
- 4.66 Overall, the Committee does not believe there is sufficient evidence to conclude that there are operational or financial reasons to treat the courts as a special case in relation to the efficiency dividend and the indexation gap. However, in presenting workload and other performance information to the Committee, the High Court did demonstrate an increasing workload that it appears to have managed within current resources so far.
- 4.67 As is the case with all government bodies, the courts should request supplementary funding from the Government and Parliament if they genuinely believe their effectiveness is being compromised by insufficient resources. The High Court⁵⁸ and the FCWA⁵⁹ have both taken this approach and the Committee supports their requests in principle.

Constitutional issues

Separation of powers

- 4.68 In countries where English is an official language, the judiciary is generally recognised as a separate branch of government, independent from the executive and the legislature.⁶⁰ At the Commonwealth level in Australia, judicial power is vested in the courts alone by section 71 of the Constitution.
- 4.69 During the inquiry, the High Court questioned the extent to which its appropriation should be subject to control by the executive and the legislature. It raised the point that its new policy proposals were grouped with the rest of those in the Attorney-General's portfolio.

⁵⁷ James Eyers 'More power to manage: Sackville', *Australian Financial Review*, 8 August 2008, p 54.

⁵⁸ Mr Andrew Phelan, transcript, 20 August 2008, p 55.

⁵⁹ Family Court of Western Australia, sub 34, p 5.

⁶⁰ Chapter 2 in Martin Shapiro, *Courts: A comparative and political analysis* (2001). In this section, a reference to courts excludes tribunals due to the constitutional nature of the discussion.

One of the things we are suggesting ... is a separate appropriation for the High Court, being separate from the executive appropriations in which it currently resides. Parliament has its own appropriations. We are lumped in with the executive. I think that raises some fairly significant separation of powers issues for us particularly when it comes to seeking funding and offsets, as I have already referred to ...

When we come to new policy proposals we are confronted with the issue that Mr Foster has also raised, and that is the thresholds for new policies and the need for anything that is minor to be largely offset within the portfolio. That is where we come right up against the separation of powers issue, where the court believes it is manifestly inappropriate for increases in funding through NPPs for the High Court to be offset by reductions in the executive branch of government ... ⁶¹

- 4.70 The High Court's point is that, under the budget rules, ministers are encouraged to present offsets when they make a new policy proposal. These offsets usually come from the agency involved, but can also come from other agencies within the minister's portfolio. The Attorney-General has the courts in his/her portfolio, as well as executive-style agencies. Therefore, the chance of a court getting new funding can depend on what the Attorney wishes to do with the funding of executive bodies and vice versa.
- 4.71 The High Court did not want to be totally separated from the Attorney-General. The Court acknowledged that there was value in the Attorney-General continuing to represent the courts within Cabinet in resolving political issues.⁶²
- 4.72 In evidence, the other courts generally did not comment on this matter. The only other court to express an opinion was the Family Court, which accepted that it worked within the Attorney-General's portfolio. In relation to the observation that its new policy proposals must be prioritised by the Attorney-General's Department within the portfolio, the Court stated:

In answering that question, I would say that the Attorney-General's Department is very supportive of what we do and what we propose. As a matter of principle, I do not have any issue in

⁶¹ Mr Andrew Phelan, transcript, 20 August 2008, pp 56, 59.

⁶² Mr Andrew Phelan, transcript, 20 August 2008, p 61.

terms of NPPs – for example, the Attorney-General considering those and putting them in some sort of order of priority in relation to his or her portfolio. In the broader picture I do not think we have any real exception to the fact that we will work through the Attorney- General’s Department for NPPs.⁶³

- 4.73 In examining separation of powers in the budget context, the Committee considered the practice in other countries where English is an official language and found that they vary widely.⁶⁴ At one end of the spectrum are the United Kingdom, Ireland and New Zealand. In these countries, court administration is controlled by the executive.⁶⁵
- 4.74 At the other end of the spectrum is the United States. There, Congress passed legislation to create the Judicial Conference, a representative body of federal judges. The Conference is supported by an independent body, the Administrative Office of the United States Courts. One of the Conference’s regular duties is to develop a budget for the federal courts and propose it to Congress. The Chair of the Judicial Conference Committee on the Budget, who is a judge, testifies before the relevant Congressional Committee.⁶⁶ Under this model, the judiciary takes more of a political role and is directly accountable to the legislature.
- 4.75 The country representing the middle ground is Canada. The Courts Administration Service has been created as a separate agency to support the courts. Section 7 of the *Courts Administration Service Act 2002* vests the powers and roles of this body in the Chief Administrator. This official also prepares budget submissions for the courts after consulting with the judicial heads of each court. Under section 8, these judicial heads can direct the Chief Administrator in his/her role.

⁶³ Mr Richard Foster, transcript, 20 August 2008, p 60.

⁶⁴ The United States, the United Kingdom, New Zealand, Canada and Ireland.

⁶⁵ For example, the Courts Service in Ireland is accountable to the Minister for Justice, Equality and Law Reform (Courts Service, ‘About Us – Frequently Asked Questions about the Courts Service’, viewed on 4 November 2008 at <http://www.courts.ie/courts.ie/library3.nsf/WebPageCurrentWeb/39EE41AE3259894B80256DA90036F8BD?OpenDocument&l=en>). In New Zealand, the Ministry of Justice provides court administration services. In the United Kingdom, Her Majesty’s Courts Services administers the courts. It is an executive agency within the Ministry of Justice, which means it is subject to ministerial direction: Her Majesty’s Court Service, ‘Her Majesty’s Court Service,’ viewed on 28 November 2008 at <http://www.hmcourts-service.gov.uk/>.

⁶⁶ For example, see the Statement of Honourable Julia S. Gibbons, Chair Committee on the Budget of the Judicial Conference of the United States Before the Subcommittee on Transportation, Treasury, Housing and Urban Development, the Judiciary, District of Columbia and Independent Agencies of the Committee on Appropriations of the United States House of Representatives, 12 April 2005, viewed on 4 November 2008 at http://www.uscourts.gov/Press_Releases/judgegibbons041505.pdf.

- 4.76 Of these three models, Australia is closest to the Canadian example. Court administrations in Australia are legally separate from the executive. For example, the Chief Justice of the Federal Court is responsible for the administrative affairs of the Court and is assisted in them by the Court's chief executive officer.⁶⁷ Similar provisions apply for other courts.⁶⁸
- 4.77 The Committee would not like to see the judiciary being involved in negotiating its appropriation directly with the Parliament. The judiciary's high standing in the community is predicated on its independence, which in turn is based on its exclusion from political matters. However, the Committee would very much like to increase the public recognition of the courts' needs in setting their budgets.
- 4.78 The best solution to this problem would be to establish an independent commission to assess the courts' roles, their needs and the quality of their management and systems. Such a commission could recommend funding for the courts, but ultimate responsibility for the Budget would rest with the executive. This is consistent with constitutional principles. Section 56 of the Constitution requires the Governor-General to endorse appropriation bills.

Recommendation 4

- 4.79 **The Attorney-General establish an independent body to recommend funding levels for the Commonwealth courts. The courts should be treated as a separate 'portfolio' under the Attorney-General in the Budget process and in the Budget papers.**
- 4.80 On a related issue, the Committee notes that the appropriation bills for the ordinary annual services of the Government include the appropriations for the courts but not the Parliament. The Parliamentary departments have their own appropriation bills. The Committee is not aware if there is a court decision on whether the courts constitute the ordinary annual services of the Government. But since judicial power is exclusively vested in the courts, the Committee believes that the Government should at least investigate this matter.

⁶⁷ Sections 18A and 18B of the *Federal Court of Australia Act 1976*.

⁶⁸ For example, sections 38A and 38D of the *Family Law Act 1975* and sections 17 and 19 of the *High Court of Australia Act 1979*.

Recommendation 5

4.81 **The Government investigate whether the courts' appropriations should be included in the appropriation bills for the ordinary annual services of the Government.**

Family Court of Western Australia

4.82 Due to the prevailing circumstances when the Family Court was established, the State of Western Australia was not included in the Court's jurisdiction. Instead, the Government of Western Australia created its own family court, the FCWA, which was funded by the Commonwealth. The two governments signed an agreement in May 1976 governing the establishment, funding and operation of the FCWA.⁶⁹

4.83 The main funding provisions in the agreement state:

- when requested by the Commonwealth, the State must provide estimates of expenditure and must update the estimates when it expects they will change (clause 9);
- the State and Commonwealth must agree on matters to be funded and the amounts to be spent on them (clause 10);
- the Commonwealth shall pay these amounts in advance for a period between one and three months (clause 12); and
- if the State has incurred a greater cost than expected, it shall notify the Commonwealth, which will reimburse this amount (clause 14).⁷⁰

4.84 As the FCWA noted, there is no mention of the efficiency dividend in the agreement.⁷¹

4.85 During the inquiry, the Committee considered whether there was a significant inconsistency between the agreement and the Commonwealth's practice of imposing the efficiency dividend and its wage cost indices on the FCWA's budget.

4.86 The terms of the agreement are broad. It merely states that the State and the Commonwealth are to agree on the matters to be funded and the amounts to be spent on them. If the Commonwealth wishes to use the

⁶⁹ The Commonwealth of Australia and the State of Western Australia, *Agreement Pursuant to Section 41(1) of the Family Law Act 1975* (1976).

⁷⁰ *Ibid*, pp 5-7.

⁷¹ Family Court of Western Australia, sub 34, p 3.

dividend and wage cost indices as the basis for its negotiations, then that is a matter for the Commonwealth. It is up to the State of Western Australia as to how it responds and conducts the negotiations from its perspective.

- 4.87 As noted earlier, the FCWA has requested a review of its baseline funding. This also appears to be within the broad terms of the agreement and is a reasonable management response to that Court's financial difficulties. Therefore, the Committee does not wish to make a recommendation specific to the FCWA.

Scientific agencies

Introduction

- 5.1 A number of agencies with specific scientific and/or technical functions fell under the parameters set down in this inquiry. The inquiry received submissions from the National Blood Authority, Food Standards Australia New Zealand, the Australian Institute of Health and Welfare (AIHW), the Australian Sports Anti-Doping Authority (ASADA), the National Measurement Institute (NMI), the Australian Research Council (ARC), and Questacon¹. Representatives from a number of these agencies also provided oral evidence to the Committee.
- 5.2 Although not a small agency according to the inquiry's terms of reference, the Commonwealth Science and Industrial Research Organisation (CSIRO) provided a submission and gave evidence to the inquiry on the following basis:
- ...there are unique, functional aspects of being a science agency that mean the impact of the efficiency dividend on the [CSIRO] has the potential to be greater than that of the effect of the same dividend on other Government agencies.²
- 5.3 The Committee notes that until recently the efficiency dividend had been applied to only 30% of the CSIRO's funding. This was on the basis that

¹ The Committee notes that Questacon falls into the category of a scientific, and a cultural institution.

² CSIRO, sub 57 (attachment A), p 1.

the remaining 70% funds the direct scientific research components and should therefore be exempt.³

5.4 The Australian Nuclear Science and Technology Organisation (ANSTO) also provided a submission and gave evidence to the inquiry on the basis of its unique status as an 'asset-intensive' agency.⁴

5.5 The Committee notes that until the 2008-09 Budget, ANSTO was exempt from the efficiency dividend, however, the efficiency dividend is now applied to its total appropriation.⁵

5.6 As with other small agencies, the scientific and/or technical agencies report a number of challenges as a result of the impact of the ongoing efficiency dividend. Of particular note were difficulties around what are perceived to be fixed costs related to staff salaries. More specifically, engaging and retaining retain staff with the appropriate expertise. Reports of a diminished capacity for useful research and innovation in a context where the demand for such work is greater and the costs of science are rising was also of concern to these agencies. This chapter reports on these issues.

The evidence

Non-discretionary and fixed costs

5.7 Like the cultural agencies described in chapter 3, the challenge of finding efficiencies when non-discretionary and/or fixed costs⁶ form a high proportion of appropriation funding was raised by a number of scientific agencies. However, it was not depreciation funding that created the primary difficulties (although depreciation was specifically raised by Questacon⁷, NMI⁸ and ANSTO⁹). For scientific agencies the challenges centred more on other non-discretionary costs related to running their operations, in particular, staff salaries.

³ Commonwealth Science and Industrial Research Organisation, sub 57 (attachment A), p 1.

⁴ ANSTO, sub 57 (attachment F), p 1.

⁵ Dr Ron Cameron, transcript, 22 October 2008, p 11.

⁶ The Committee again notes the difficulty in imposing a clear line between non-discretionary/fixed and discretionary costs.

⁷ Professor Graham Durant, transcript, 19 September 2008, p 79.

⁸ National Measurement Institute, sub 57 (attachment D), p 2.

⁹ Mr Douglas Cubbin, transcript, 22 October 2008, p 13.

5.8 Many of the scientific agencies consider salary costs as fixed. This is because these agencies rely heavily on the expertise and experience of highly-skilled staff to perform their mandated functions. For example, Food Standards Australia New Zealand (FSANZ) states that the bulk of its expenditure (70%) is tied up in staffing.¹⁰ Similarly, ANSTO said that around 50% of its costs are labour costs.¹¹ As the NMI claim:

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.¹²

5.9 The Committee notes that one of the reasons agencies such as these see labour costs as fixed is because of the competitive recruitment context that exists for scientists and technically skilled staff. For example, the NMI argues that the agency's mandate can only be delivered by employing experienced measurement scientists. Scientists with this level of expertise are in short supply world wide and thus:

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...

5.10 Mr Gaukroger, Chief Finance Officer of the CSIRO makes a similar comment:

There is certainly pressure on our scientists, with an increasing scarcity of scientists and the costs associated with recruiting them.¹³

5.11 Moreover:

...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.¹⁴

5.12 One consequence of meeting the efficiency dividend has been agencies having to cut back on staff numbers. This was particularly notable at ANSTO:

¹⁰ Food Standards Australia New Zealand, sub 28, p 2.

¹¹ Mr Douglas Cubbin, transcript, 22 October 2008, p 13.

¹² National Measurement Institute, sub 57 (attachment D), p 4.

¹³ Mr Allan Gaukroger, transcript, 19 September 2008, p 83.

¹⁴ CSIRO, sub 57 (attachment A), p 2.

We have worked very hard at efficiencies, and our operational costs have gone down over that period of time even though our activities have expanded. But this year we had to accept that we could not cover all of the deficit, so we have just completed a restructuring. We have had to let go 80 people from the organisation.¹⁵

- 5.13 The committee is also concerned about the secondary impact on regional centres given that closing regional facilities seems to be a way of reducing staffing costs. For example, to target further reductions in fixed costs the CSIRO made the decision to close four regional research facilities:

In order to mitigate the impact on our staffing, we took the decision to look at where we could reduce fixed costs. It was looking at a number of those regional centres where we could make some savings in those fixed costs and, where possible, redeploy the scientists that we had in those areas to other operations. It was a very difficult decision for us to make, but in the circumstances, one that we felt we needed to.¹⁶

- 5.14 The Committee notes that along with the closure of regional facilities comes the loss of skills that workers employed in these fields would otherwise have brought to the local community. Reducing the skills base of regional Australia diminishes the capacity for these areas to develop viable industries and limits job opportunities.

- 5.15 For some agencies the decision to cut staff is not a viable option. For example, as the NMI state:

NMI cannot dispense with staff and then rehire...many of the staff have expertise in acute shortage world wide and will not be available again.¹⁷

- 5.16 The NMI argue that reducing staff to save money is a false economy:

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.¹⁸

- 5.17 More broadly, they state:

¹⁵ Dr Ron Cameron, transcript, 22 October 2008, p 14.

¹⁶ Mr Allan Gaukroger, transcript, 19 September 2008, p 84.

¹⁷ National Measurement Institute, sub 57 (attachment D), p 4.

¹⁸ National Measurement Institute, sub 57 (attachment D), p 4.

Cost reductions that undermine the effectiveness of an agency to deliver its responsibilities, either now or in the longer term, are false economies.¹⁹

5.18 The rising cost of utilities, in particular electricity, is another issue that is of particular concern to the scientific agencies. For example, both the NMI and ANSTO consider electricity costs as non-discretionary and fixed. This is illustrated in the following quotes:

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.²⁰

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).²¹

5.19 Costs associated with safety are also perceived as non-discretionary. As ANSTO submitted:

...applying safety, security and regulation are our top priorities...we would not in any respect seek to reduce those. They remain absolutely important to us and we will ensure that we maintain the highest standards of safety in the operation of our plant.²²

5.20 ANSTO were not the only agency that referred to the potential compromise of safety as a result of the efficiency dividend. For example, the Australian Meteorological and Oceanographic Society (AMOS) claims that the Bureau of Meteorology has reduced the number of daily radiosonde observations (used for forecast accuracy and monitoring climate change) it makes, and has been unable to properly maintain automatic weather stations in remote locations to a high standard. Therefore:

...the continuing imposition of efficiency dividends over many years has hindered improvements in the capacity of the

¹⁹ National Measurement Institute, sub 57 (attachment D), p 5.

²⁰ National Measurement Institute, sub 57 (attachment D), p 4.

²¹ Australian Nuclear Science and Technology Organisation, sub 57 (attachment F), p 1.

²² Dr Ron Cameron, transcript, 22 October 2008, p 12.

organisation to provide the warnings and services required to protect Australian lives and property.²³

5.21 Less directly, but no less significantly, the NMI expressed safety concerns:

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.²⁴

5.22 The Australian Institute of Marine Science also state:

Research agencies must maintain a core capability in administrative and research support functions to provide safe and efficient research programs.²⁵

5.23 The Committee was keen to learn from agencies when the impact of the efficiency dividend had become the most noticeable. While most scientific agencies agreed that ten years prior was a reasonable estimate of when the dividend had really begun to bite²⁶, Mr Gaukroger echoed the sentiments of many agencies when he said:

There are only so many years that you continue salami slicing when something starts to give...²⁷

Increasing expectations

5.24 The Committee heard a great deal of evidence suggesting that community expectations about what science has to offer are on the rise. This was particularly so in the case of climate change. For example, AMOS submitted:

...efficiency dividends do not recognize the major demand for wider and more relevant climate change information that has occurred in recent years and is continuing.²⁸

5.25 More specifically:

Examples of the range and type of service upgrades requested by the community include severe weather warning services delivered

²³ Australian Meteorological and Oceanographic Society, sub 8, p 2.

²⁴ National Measurement Institute, sub 57 (attachment D), p 3.

²⁵ Australian Institute of Marine Science, sub 57 (attachment G), p 1.

²⁶ See transcript, 20 August 2008, p 73 and transcript, 19 September 2008, p 84.

²⁷ Mr Allan Gaukroger, transcript, 19 September 2008, p 85.

²⁸ Australian Meteorological and Oceanographic Society, sub 8, p 2.

using improved high-speed communications, radar images available over the Internet, improved water services particularly in times of drought, more targeted seasonal climate forecasts and regional climate change information.²⁹

- 5.26 Expectations for new (e.g., nanotechnology) and improved (e.g., more accurate) technologies are also high. The following quote from the NMI details some areas of particular interest:

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.

- 5.27 The NMI also referred to newer areas of chemical and biological measurement as follows:

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.³⁰

- 5.28 The Committee is reminded of the evidence it heard from a number of cultural agencies (see chapter 3) about the rising expectations of both the community and governments for digital records and the lack of capacity for agencies to meet that demand in the current funding climate.

- 5.29 The AIHW argue that it is improved technology itself that is driving an increasing demand:

Far from reducing costs, we are finding that further improvements in technology are generating increased demand rather than simplifying existing processes.³¹

²⁹ Australian Meteorological and Oceanographic Society, sub 8, p 1.

³⁰ National Measurement Institute, sub 57 (attachment D), p 3.

³¹ Australian Institute of Health and Welfare, sub 40, p 4.

5.30 Increasing expectations of science are not just limited to the community. The evidence suggests that in many areas, government expectations of what agencies can offer are also on the rise. As AMOS submit:

...there has been an enormous increase in demands from all levels of government...for wider, more accurate, more timely information products and forecasts and a huge new demand for information on and detailed monitoring of climate change.³²

5.31 The National Blood Authority also alludes to a reduced capacity to meet Government expectations in the following quote:

Governments have largely required the NBA to drive the research and analysis that will inform new policy proposals. Ongoing reductions in funding will impact on our capacity to develop new proposals or support other policy deliberations of governments...³³

5.32 Similarly, Food Standards Australia New Zealand submit:

...there is an increasing imperative for the development of our food regulatory measures to be based on evidence.³⁴

5.33 The outlook is the same for the AIHW:

Our business gets far more complex, the reporting on the health system gets more and more complex, and what... policymakers and politicians, want to know about the health system gets increasingly complex and increasingly detailed.³⁵

5.34 Although not restricted to small or even scientific agencies, the AIHW also refers to its increasing difficulty in simply meeting the ongoing routine Government requirements:

Our appropriation must be used to fund a wide range of Government accountability and reporting requirements such as:

- Annual reporting requirements
- Portfolio Budget Statements
- Answering parliamentary questions on notice
- Detailed centralised monthly financial reporting
- Requests from Ministers' offices.

³² Australian Meteorological and Oceanographic Society, sub 8, p 2.

³³ National Blood Authority, sub 22, p 2.

³⁴ Food Standards Australia New Zealand, sub 28, p 2.

³⁵ Dr Penny Allbon, transcript, 20 August 2008, p 69.

There has been no reduction in the time taken to complete these activities, and in some cases the volume of work required has increased.³⁶

Rising costs of science

- 5.35 The Committee notes that like many of the other agencies, a number of the scientific/technical agencies were concerned about the difference between parameter adjustments for inflation and increases in the 'costs of science'. For example, according to the CSIRO:

The cost of scientific equipment and infrastructure increases at a rate greater than what we would get under indexation.³⁷

- 5.36 The CSIRO further submit:

CSIRO has in the past estimated the underlying impact of the costs pressures to be between 4% and 6% p.a. The underlying drivers related to technological developments...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...The breadth of science is also increasing...³⁸

- 5.37 Dr Cameron, outlined this disadvantage to ANSTO as follows:

The calculation of the parameter adjustment for inflation is also a matter of considerable importance to us. For example, ANSTO's operational costs in the 2008-09 year are increasing by between six and eight per cent, while at the same time our parameter adjustment was 2.2 per cent. This is not a novel event.³⁹

- 5.38 Dr Allbon alluded to the fact that knowledge-based organisations were similarly affected by this difference:

We are a knowledge based organisation, and I think it is an absolute fallacy to say that, as the ongoing efficiency dividend implies, our business get simpler and cheaper over time. It does not...It does not become cheaper...⁴⁰

³⁶ Australian Institute of Health and Welfare, sub 40, p 4.

³⁷ Mr Allan Gaukroger, transcript, 19 September, p 83.

³⁸ CSIRO, sub 57 (attachment A), p 2.

³⁹ Dr Ron Cameron, transcript, 22 October 2008, p 11.

⁴⁰ Dr Penny Allbon, transcript, 20 August 2008, p 69.

External sources of revenue

5.39 The Committee notes that one feature of the scientific agencies is that many of them are able to raise funding from external sources. For example, the CSIRO stated that 37% of its total funding comes from external revenue sources⁴¹, ANSTO's capacity to irradiate isotopes for nuclear medicines results in a \$20 million business⁴², and in 2007-08m the NMI received approximately \$30 million in revenue from services delivered.⁴³

5.40 The ARC outlined that while limited, it also has some opportunities to benefit from external revenue sources:

...from time to time other departments and agencies come to us because of our expertise in grant administration to either assist them or run programs.⁴⁴

5.41 And, although not without its challenges, Questacon gains revenue from shop sales and is able to raise funds from a number of industry partners to support the cost of outreach programs and government agencies to conduct joint education initiatives.⁴⁵

5.42 The AIHW also has in place a range of fee-for-service arrangements primarily with government agencies. The AIHW does not usually seek opportunities for new revenue streams from private industry as this would compromise what it perceives to be its core function:

We are pretty much focused on the role that we play in terms of government, program policy and the community, so to go out and be a gun for hire with private sector organisations we do not see as core business.⁴⁶

5.43 The Committee notes that while helpful, the capacity to raise external revenue does not always offset the impost of the efficiency dividend. As Mr Gaukroger from the CSIRO states:

Over the past three years, there has been a slight gain in [external revenue sources] year on year, but certainly nothing of the

⁴¹ Mr Allan Gaukroger, transcript, 19 September 2008, p 91.

⁴² Dr Ron Cameron, transcript, 22 October 2008, p 13.

⁴³ National Measurement Institute, sub 57 (attachment D), p 1.

⁴⁴ Mr Len Marsden, transcript, 19 September 2008, p 91.

⁴⁵ Professor Graham Durant, transcript, 19 September 2008, p 91.

⁴⁶ Dr Penny Allbon, transcript, 20 August 2008, p 74.

magnitude that would help offset the cost pressures that we are experiencing elsewhere in the organisation.⁴⁷

- 5.44 The Committee also notes that external funding does not necessarily result in making a profit for the agency. For example, in ANSTO's case, assisting in the production of nuclear medicines is undertaken on a cost recovery minus basis in the national interest.⁴⁸ Moreover, as Dr Cameron states:

If you looked at it as a straight commercial case you would not do it. For instance, there is quite a need for iodine 123 for treatment of certain diseases in children. We only produce a few hundred doses but they are a very important few hundred doses. We do not make any money on that. We probably make a loss in each dose but, nevertheless, we think it is part of what the government funds us to do.⁴⁹

- 5.45 That said, the Committee notes that ANSTO are in a position to conduct contract research with the minerals industry and this contract research remains unaffected by the imposition of the efficiency dividend.⁵⁰

- 5.46 Attaining external funding sources is not always a straightforward proposition. Dr Besley from the NMI outlined some of the limitations his agency faces as a result of its public sector status:

We are restricted to some extent because we are subject to competitive neutrality provisions in those areas where we are competing with the private sector for the delivery of those services. In areas which are governed by regulation, which also cover part of our activities, our earning capacity again is limited by the provisions that apply to the services in that area which are sometimes specified in regulations of acts of parliament, et cetera.⁵¹

- 5.47 The Committee also notes that a potential 'knock-on effect' of the efficiency dividend is that it may well impact on the degree to which public sector agencies are willing to engage these agencies on a fee-for-service basis. As Dr Besley from NMI states:

This year we can expect that, because of the efficiency dividend situation, these other agencies will be forced to reduce their

⁴⁷ Mr Allan Gaukroger, transcript, 19 September 2008, p 91.

⁴⁸ Dr Ron Cameron, transcript, 22 October 2008, p 13.

⁴⁹ Dr Ron Cameron, transcript, 22 October 2008, p 14.

⁵⁰ Dr Ron Cameron, transcript, 22 October 2008, p 17.

⁵¹ Dr Laurence Besley, transcript 19 September 2008, p 91.

reliance on our services, and that the revenue we will get from these sources will be under severe pressure.⁵²

- 5.48 The CSIRO also claim that the efficiency dividend is impacting on the degree to which the agency is able to attract external funding:

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 high 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.⁵³

- 5.49 Additionally, the Committee is reminded of the uncertain nature of external revenue. For example, Questacon relies on non-appropriation funding for 43% of its annual revenue yet fees for programs, travelling exhibitions and services as well as retail and sponsorships are 'significantly variable from year to year'.⁵⁴

Discretionary activities/innovation

- 5.50 Like other small agencies, the scientific/technical agencies reported finding it difficult to attract new funding through the new policy proposal (NPP) process. The Committee notes however, that this did vary from agency to agency. For example, while the AIHW reported that it has received no new funding through NPPs since before 1996,⁵⁵ the NMI indicated that they had been 'quite successful in recent years'.⁵⁶ The ARC had experienced mixed success with its NPP applications⁵⁷ and Questacon's last successful bid was in 2005-06. The CSIRO reported that there has been 'very little if anything by the way of NPPs over the years'.⁵⁸
- 5.51 As reported in chapter 6, smaller agencies, including those with a scientific and/or technical focus perceive that they are at a disadvantage when applying for new policy funding. The quotes below suggest that this

⁵² Dr Laurence Besley, transcript, 19 September 2008, p 82.

⁵³ CSIRO, sub 57 (attachment A), p 2.

⁵⁴ Questacon, sub 57 (attachment C), p 1.

⁵⁵ Australian Institute of Health and Welfare, sub 40, p 2.

⁵⁶ Dr Laurence Besley, transcript, 19 September 2008, p 81.

⁵⁷ See transcript, 19 September 2008, p 90.

⁵⁸ Mr Allan Gaukroger, 19 September 2008, p 90.

disadvantage is driven by the fact that the functions of some agencies are perceived as a low priority:

Our experience has been that it is not very easy to get new policy funding when, like us, you are not a very sexy organisation.⁵⁹

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).⁶⁰

5.52 The submission from the Australian Institute of Marine Science also draws attention to how the size of an agency impacts on its ability to gain additional funding via the NPP path:

...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.⁶¹

5.53 Despite reporting relative success with NPPs in recent years, the Committee notes that ANSTO were also recently required to absorb the cost of a successful NPP for which funding had been withdrawn:

We had a couple of new policy proposals put in. One was to have a graduate program. The second was for some nuclear collaboration research with universities. As a result of the change of government the new policy proposal for the graduate program was withdrawn, as was the nuclear collaboration fund. The latter was about \$12½ million and the former was about \$6 million. We are committed to the graduate program so we will fund it anyway.⁶²

5.54 To offset the negative impact of the recent imposition, as well as the cumulative effect, of the efficiency dividend, many of these agencies have substantially reduced their discretionary activities. One type of saving that appeared to be common amongst these agencies was a significant

⁵⁹ Dr Penny Allbon, transcript, 20 August 2008, p 69.

⁶⁰ Questacon, transcript 19 September 2008, p 1.

⁶¹ Australian Institute of Marine Science, sub 57 (attachment G), p 1.

⁶² Dr Ron Cameron, transcript, 22 October 2008, p 21.

reduction in the extent to which staff travel domestically and internationally as well as the type of travel undertaken (i.e., economy rather than business-class).⁶³

- 5.55 The Committee also notes the reduction in these agencies' research capabilities. In particular, the reduced funding for research that may have a significant positive impact. For example, ANSTO has reduced its research capabilities in programs related to atmospheric modelling (e.g., understanding past climate change) and radiopharmaceuticals. The latter have the potential to provide 'useful information'.⁶⁴ As Dr Cameron states:

We have been looking at some programs to understand better the diseases of ageing, in particular whether we can get diagnostic compounds that will help us to slow the progression of Parkinson's and Alzheimer's in patients.⁶⁵

- 5.56 Professor Durant of Questacon also reminded the Committee of the potentially disproportionate impact on rural, regional and remote Australia as a result of the efficiency dividend:

...50,000 fewer students in rural, regional and remote Australia will experience a Questacon Smart Moves program this year, and other programs have been affected.⁶⁶

- 5.57 The CSIRO also draws attention to the increasing scale of issues that may remain inadequately addressed in the following quote:

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.⁶⁷

Conclusion

- 5.58 The Committee appreciates that the scientific and technical agencies that provided submissions to the inquiry are suffering from the impost of the

⁶³ See Dr Penny Allbon, transcript, 20 August 2008, p 69; Dr Laurence Besley, transcript, 19 September 2008, p 81.

⁶⁴ Dr Ron Cameron, transcript, 22 October 2008, p 15.

⁶⁵ Dr Ron Cameron, transcript, 22 October 2008, p 15.

⁶⁶ Professor Graham Durant, transcript, 19 September 2008, p 79.

⁶⁷ CSIRO, sub 57 (attachment A), p 2.

ongoing, and the recently imposed 'one-off', efficiency dividend. It is clear to the Committee, for example, that the challenges posed by the skills shortage evident in other areas of the public sector is exacerbated in the context of scientific recruitments. The Committee also notes that the cost of utilities and in particular, electricity is having a significant impact on the budgets of agencies such as ANSTO and the NMI.

- 5.59 Overall, however, the Committee is of the view that the science agencies are not so obviously different from other smaller public sector agencies that they warrant special consideration. Indeed, on balance it could be argued that the science agencies, who are often in a favourable position to raise external revenue, are potentially more advantaged than some of the other agencies for whom no such external revenue is possible.
- 5.60 The Committee does not propose to make any specific recommendation in relation to the scientific/technical agencies. The general recommendations proposed in chapter 6 apply.
- 5.61 The Committee did note the special case of the CSIRO. Previously, 70% of its appropriation was exempt because this proportion of its funding was for research and considered to be similar in nature to a grants program. However, the efficiency dividend was applied to all of its funding in 2008-09.⁶⁸
- 5.62 This represented a significant additional burden on the organisation, one that resulted in the closure of regional facilities. The committee would hope that such seemingly arbitrary and unfair decisions will not be imposed in the future. Furthermore, should any further 'one-off' efficiency dividend or an increase to the existing 1.25% efficiency dividend be imposed in the next financial year, we consider that special consideration should be given to CSIRO.

⁶⁸ CSIRO, sub 57 (attachment A), p 1.

Conclusions

Introduction

Support for an efficiency incentive

- 6.1 During the inquiry, there was widespread support for the concept of agencies seeking to be as efficient as they could. After all, agencies are spending taxpayers' funds and they have a responsibility to be as efficient and effective as they can be.¹
- 6.2 However, the details of this support differed from group to group. For example, the Community and Public Sector Union (CPSU) argued that the dividend should be abolished and efficiencies should be delivered through workplace bargaining:

The CPSU maintains that good faith bargaining around productivity at the workplace level has been severely undermined by the 'top-down' imposition of measures such as the efficiency dividend... One practical alternative to the efficiency dividend is already operating within the public sector. Workplace bargaining is only one example of a consultative, negotiated approach to achieving workplace efficiencies. APS employees are willing to engage with the government to find efficiencies that suit local circumstances if the government is willing to engage with them.²

1 Australian Public Service Commission, sub 54, p 2.

2 Community and Public Sector Union, sub 58, p 13.

- 6.3 Some agencies supported the operation of the dividend, but requested that it be applied to only a proportion of their funding. For example, the Federal Court of Australia stated:

From our perspective we understand the logic of the application in a universal way of the efficiency dividend as a mechanism to promote efficiency.³

The inability of the Court to apply the efficiency dividend to a majority of its costs indicates that the Court should have a lower efficiency dividend applied to it or alternatively the efficiency dividend should not be applied to that portion of its appropriation that is used to fund its fixed expenditure such as judicial remuneration, its purpose built property operating costs, and items such as depreciation.⁴

- 6.4 There was also a reasonable range of agencies that recognised that the dividend gave them an incentive to find efficiencies. They supported the principle of the dividend albeit with the proviso that it should apply to them in a modified way. Examples were the Department of the House of Representatives,⁵ the National Archives of Australia⁶ and the Office of the Official Secretary to the Governor-General.⁷

- 6.5 On balance, the Committee decided that there is value in retaining a 'top-down' efficiency incentive for agencies. Not only did agencies report that they have found efficiencies over time, but it is likely that, under an efficiency incentive like the dividend, they will continue to find efficiencies in future. The Australian Public Service Commission (the Commission) stated:

Productivity is not something that is ever totally exhausted: there are always new technologies and new skills and knowledge that allow greater efficiency, effectiveness and higher quality, some of which can be manifested as cost savings. The efficiency dividend has played an important role in driving reform and also maintaining budgetary and resource management rigour.⁸

- 6.6 The Department of Finance and Deregulation (Finance) also took this view:

3 Mr Warwick Soden, transcript, 8 September 2008, p 36.

4 Federal Court of Australia, sub 65, p 3.

5 Department of the House of Representatives, sub 10, p 1.

6 Mr Ross Gibbs, transcript, 21 August 2008, p 7.

7 Office of the Official Secretary to the Governor-General, sub 59, p 8.

8 Australian Public Service Commission, sub 54, p 2.

... too many people think of the efficiency dividend as aimed at static efficiency; if you like ... cutting existing fat, cutting fat that has always been there. Of course, existing fat must ultimately be exhausted. But that is not really what the efficiency dividend is about. The reality is that technological and organisational change constantly throws up new ways of doing things and of improving productivity, the concept of dynamic ones, not static ones, and of exploiting those dynamic efficiencies is exactly what the efficiency dividend requires and expects CEOs to do. Agencies have long argued in various ways that possible efficiencies are exhausted or close to exhausted or running out, yet they have managed to keep finding ways that are apparently acceptable to government to meet the ongoing requirements of the efficiency dividend. They do it partly by taking advantage of new ways of doing things.⁹

- 6.7 The Committee accepts these observations in favour of dynamic efficiency and supports some type of efficiency incentive for all agencies.

Small technical agencies

- 6.8 As noted throughout the report, small agencies' efficiency incentive depends on a number of factors, including:
- the gap between indexation rates (increasing by 2%) and inflation in the cost of agencies' inputs (generally 4% for skilled staff, rent and office supplies);¹⁰
 - the efficiency dividend itself; and
 - the effect of new policy funding.
- 6.9 The key point to this inquiry is whether there is a particular group of agencies that find it difficult to comply with the efficiency incentives as they currently stand and, if so, whether the current mechanisms are adequate to address this.
- 6.10 In establishing the inquiry, the Committee was concerned about the situation of small agencies and initially defined them as having annual departmental expenses of less than \$150 million. The reason was that small agencies have poorer economies of scale.
- 6.11 In evidence, Finance challenged this. Firstly, it stated that only micro-agencies (20 staff) could make a case that they were disadvantaged due to

⁹ Dr Ian Watt, transcript, 19 September 2008, p 1.

¹⁰ Australian Public Service Commission, sub 54, p 3.

their size.¹¹ However, a number of larger agencies (for example, with 100 or more staff) stated that their size affected how they could find efficiencies.¹²

6.12 Secondly, Finance argued that agencies should be exploring more operational innovations such as shared leases in regional areas, coordinated purchasing and combined back office functions.¹³ The Committee's response is that it would be better if these innovations were driven by Finance because it can:

- use its position as a central agency to coordinate these arrangements;
- develop the expertise to ensure they are effective; and
- build up considerable purchasing power to deliver additional efficiencies.

6.13 Unfortunately, Finance appears to have adopted the practice that it will harvest the gains from such coordination and leave agencies with no benefit.¹⁴ In the view of the Committee, what is most efficient for the public sector generally (Finance managing coordinated procurement) should also make financial sense to the agencies. The Committee supports Finance in generating these efficiencies but believes that the agencies involved should also receive a proportion of the benefit.

6.14 The recent Gershon review of IT procurement came to a similar conclusion. This review recommended that there should be greater central coordination of agencies' IT purchasing, which would generate significant savings. Peter Gershon then recommended that 50% of the savings generated by his suggestions should be placed in a central fund for additional IT procurement especially targeted at improving efficiency and effectiveness.¹⁵

6.15 The Committee agrees with the thrust of this idea and believes that it can be extended to where Finance coordinates procurement more generally.

11 Ibid, p 10.

12 For example: High Court of Australia, sub 14, p 6; Australian National Maritime Museum, sub 15, p 2; Australian National Audit Office, sub 60, p 2.

13 Dr Ian Watt, transcript, 19 September 2008, p 2.

14 This is occurring with the coordinated procurement initiative: Family Court of Australia, sub 2, p 3.

15 Sir Peter Gershon, *Review of the Australian Government's use of Information and Communication Technology* (2008), pp 68-69.

Recommendation 6

6.16 **Where Finance generates savings through coordinated procurement, 50% of the savings should be made available to the agencies for investment in projects designed to lift their efficiency and effectiveness.**

6.17 Given the strength of the evidence from agencies, who are speaking from their own experience, the Committee is satisfied that size is an important factor for agencies when delivering efficiencies.

6.18 Finance has also made the point that agency function can be an important factor.¹⁶ There was considerable support for this view throughout the inquiry. In particular, the Committee noted that many of the agencies that reported financial hardship had precisely defined technical functions. This means they have less scope to reprioritise activities because any decrease in a long-standing activity will quickly be identified as a drop in a core function by their stakeholders. The Commission stated:

Small agencies are often established to provide a focussed approach to a specific function or purpose, or to provide a degree of required independence. As such, the scope of the small agency's outcome is tightly defined, and may limit the capacity to reprioritise and/or make functional changes or to seek new funds for expanded activities. In addition, if such agencies are required to absorb new functions, the costs of doing so may appear small, especially when compared to larger agency proposals, but can represent a large proportion of the total agency budget.¹⁷

6.19 Further, agencies with tightly defined functions are less likely to be able to put convincing cases for new policy funds during the Budget. Continued success with new policy proposals (NPPs) gives agencies greater mass, more functions and makes it easier for them to balance competing priorities. Insolvency and Trustee Service Australia stated:

Smaller agencies, particularly those with well-established operational responsibilities, can have limited scope for new policy initiatives (NPPs) and, hence, less scope for generating a broader funding base. Major NPPs (greater than \$10m) ordinarily will not be possible when total revenue is only 3.8 times that amount, and when there is a general policy that portfolio departments or

16 Senate Standing Committee on Finance and Public Administration, Additional Budget Estimates, 19 February 2008, Dr Ian Watt, transcript, p 114.

17 Australian Public Service Commission, sub 54, p 5.

agencies will absorb minor NPPs or relatively small program changes.¹⁸

- 6.20 In fact, difficulties with obtaining new policy funding were an almost universal complaint from the agencies during the inquiry. Broadly, small technical agencies found they could rarely get NPPs approved. If they could get them approved, they often had to offer savings and in some cases had to completely absorb the proposal. At other times they have been required to absorb new proposals originated by government.¹⁹
- 6.21 As the Commission observed above, while the amounts involved appear small in the context of a multi-billion dollar Budget, these costs are significant to a small agency.
- 6.22 What small technical agencies tend to face is an accumulation of many small functions and adaptations without a matching funding process. Each individual task may not be significant, but the cumulative effect is substantial. The Institute of Public Administration Australia (IPAA) made this point,²⁰ as did the Australian Society of Archivists:
- Over time demands are made on the agency, which are additional to the original functions... Such demands usually occur on a creeping basis and cover not only specific functions of an agency but represent requirements general to all agencies as, for example, with additional requirements for occupational health and safety. Equally significantly, the business processes in an agency gradually change due, for example, to new technologies and the overall expectations by government and the community for the agency. For instance, if cultural agencies have objects in their collections it is now expected by most these should be able to be viewed on-line. But changing or improving the operating model is not cheap to do and rarely these changes are directly funded. Twenty years of efficiency dividends and technological and environmental change mean that agencies can no longer meet the set-down functions in their legislation – let alone new expectations of users or the community generally.²¹
- 6.23 Therefore, the Committee concludes that there is a definable group of agencies that are being placed in financial difficulty by the combined effect of the efficiency dividend, the indexation measures and the NPP process.

18 Insolvency and Trustee Service Australia, sub 13, p 5.

19 See the discussion of the Newcastle courts in chapter 4; Australian Communications and Media Authority, sub 56, p 2; Australian National Audit Office, sub 60, p 3.

20 Mr Andrew Podger, transcript, 19 September 2008, p 39.

21 Australian Society of Archivists, sub 7, p 2.

This group is defined by their smaller size and their technical, well-defined roles.

Finance's perspective

- 6.24 Before considering the unintended effects of the efficiency dividend and the other efficiency incentives, it is worth noting what Finance and government gain from it.
- 6.25 Firstly, as previously discussed, it gives managers an incentive to look for efficiencies. Secondly, it allows government to redirect the savings to higher priorities. Finance stated in evidence that new policy money tends to be lower in jurisdictions that do not have an efficiency incentive.²² The Committee accepts these arguments. They imply that there should be an efficiency incentive, but they do not determine where that incentive should be set.
- 6.26 Finance's third argument is that the efficiency incentives are less arbitrary than government requesting Finance to find and excise fat from individual agencies.²³ In the view of the Committee, a set of efficiency incentives that go beyond what is being achieved in the wider economy is at least as arbitrary as a Finance raid. As IPAA noted in evidence, 'current arrangements lack any clear policy coherence'.²⁴
- 6.27 There is also the question of whether Finance would find efficiencies that agencies could not themselves find. IPAA doubted this would be the case and suggested that Finance would instead find lower priority functions that agencies could drop:
- ... I do not think Finance will be able to go into agencies and find lots and lots of efficiency gains that the agency cannot find. I think what they could well do is find functions which they do not think are high priority... I think there is an element of arrogance in Finance saying: if you do not do it this way, we will have to come in and we could find efficiencies. I do not think they could find much efficiency. They would find functions and priorities that they think the government ought to drop.²⁵
- 6.28 Finance's fourth argument is that the efficiency arrangements reduce the amount of work required in budget setting:

22 Dr Ian Watt, transcript, 19 September 2008, p 3.

23 Ibid, p 2.

24 Mr Andrew Podger, transcript, 19 September 2008, p 38.

25 Mr Andrew Podger, transcript, 19 September 2008, p 35.

What I agree is this: first, yes, it is a difficult task master for an agency, and it is a broad based, indeed blunt, instrument. But there is nothing in this area that is not. You will not set different efficiency dividends for this group, that group and the other thing. You will be driven mad. There are not enough public servants to regularly review everyone's funding; there just is not. So, as I said, yes, it is broad all right, but it does actually force people to reconsider priorities. Secondly, if you do feel genuinely that you have a problem with the efficiency dividend, go to your minister. That is the first thing you have to do: talk to your minister and say, 'Look, Minister, you have to bring a new policy proposal; here is the case.' The minister will sometimes say, 'Yes,' and he will sometimes say, 'It does not stack up to me.'²⁶

- 6.29 In other words, it appears that Finance is prepared to set an aggressive efficiency incentive for agencies (more than 1% higher than the private sector achieves). This is an effective way of managing the risk that excess resources might build up in an agency. The other risk is that agencies might be under resourced from the cumulative effects of the dividend. It appears that Finance's preferred method of managing this is that agencies ask their Minister to approach his or her colleagues to make the case for extra funds.
- 6.30 One difficulty the Committee has with this approach is that it does not manage the risk of disinvestment. The Australian Society of Archivists summarised this process:

For an agency, the usual strategy when faced with an Efficiency Dividend or other budget cut is to try and protect what it sees as its core functions – i.e. those functions which it was established to administer. In this situation agency savings are often found by making cuts in the common service areas such as in staff training, purchasing operations, and the like. These types of activities may not be cut directly but rather are 'delayed' or 'postponed' such as through a failure to fill vacancies when they occur. Direct consequences of such cuts to an agency include line staff being burdened with tasks which more efficiently are performed by specialist areas. For example, as is the situation with the purchase of goods and services. More problematic than just inefficiency are

26 Dr Ian Watt, transcript, 19 September 2008, p 9.

the consequences of staff not knowing what is legally required when undertaking these types of tasks...²⁷

- 6.31 The longer these processes continue, the less effective an agency will be in future and the more expensive it will be to rebuild the agency. For example, the National Measurement Institute reported that it is almost impossible to recruit measurement scientists in mid-career due to their scarcity. If it laid-off scientists and later recruited to replace them, they would have to recruit graduates and train them from scratch.²⁸
- 6.32 The Commission observed that agencies are reluctant to report financial difficulties because they are concerned it would appear that poor management was to blame.²⁹
- 6.33 Finance supports agencies approaching their Minister to argue the case for additional funding. Finance said the low incidence of ministers making these requests suggested that the efficiency incentive was not a significant issue:
- They always have the opportunity to talk to their minister and the minister to bring a case to government. The fact that we have not seen very many of those suggests that perhaps they are not as much of a priority as the agency head thinks.³⁰
- 6.34 The Commission referred to such requests for extra funding as a 'safety valve'.³¹ In the view of the Committee, this safety valve is not working. If it were functioning effectively, then either the Committee would not have started the inquiry or it would have received fewer submissions. However, this inquiry has generated a considerable number of submissions and attracted media interest.³² The inquiry has itself become the safety valve for small agency funding.
- 6.35 In summary, the Committee agrees with an efficiency incentive in principle, but does not believe that Finance has made a clear case that the current settings should remain. Rather, it appears that current arrangements place the highest premium on ensuring that agencies do not build up fat and other risks are secondary. This raises the question

27 Australian Society of Archivists, sub 7, p 2. See National Measurement Institute, sub 57 (attachment D), p 4 for an observation that skilled scientists are diverted from research due to budget cuts.

28 National Measurement Institute, sub 57 (attachment D), p 3.

29 Ms Lynelle Briggs, transcript, 19 September 2008, p 46.

30 Dr Ian Watt, transcript, 19 September 2008, p 6 and to similar effect on p 22.

31 Australian Public Service Commission, sub 54, p 9.

32 For example, Verona Burgess, 'Finance stands firm on efficiency slug', *Australian Financial Review*, 3 October 2008, p 56.

whether Finance is placing a higher priority on agencies' efficiency at the expense of their effectiveness. What the Committee would prefer to see is a greater balance achieved between efficiency and effectiveness in the Budget process. Both are required for agencies to be performing at a high standard.

Unintended consequences of the dividend

- 6.36 In making the case for a change in the way small technical agencies are funded, the Committee presents below a list of examples of unintended consequences of the Budget process.

Regional impacts

- 6.37 The Committee noted that a common response by agencies when attempting to balance their budget was to scale down regional activities. For example, chapter 3 noted how cultural agencies were cutting back their touring exhibitions. The National Archives of Australia stated:

So, while we have had five shows on the road, two things are happening: firstly, they are looking very tired, and, secondly, they are coming off. As they come off, we will go from being a major touring exhibition program equal to the other institutions, or similar, to being a very bit player with perhaps just one exhibition on the road, and it will become apparent to users what the impact has been...

With the other area of outreach, as I said earlier, we uniquely have an office in each state and territory capital... What is happening in a small but annoying way is that we are unable to participate in taking the state offices out into the country. Queensland is a big state... We used to run very good collaborative programs with the state library and with the state archives and go out to distant sites. We do it in a very minimal way now... our impact in Queensland is being diminished all the time because it is one of the areas where we are doing those attrition savings behind the scenes.³³

- 6.38 In chapter 4, the Administrative Appeals Tribunal stated that its most likely method of meeting its budget in future would be to scale down hearings, especially in regional areas. The Tribunal noted that dealing with parties face to face was an important part of the justice process and

33 Mr Ross Gibbs, transcript, 21 August 2008, p 30.

that the chances of it meeting the public's expectations would be reduced in future.³⁴ On the other hand, the Federal Court of Australia was able to take a different approach. It spread the reduction in its registry budgets equally across all locations.³⁵

6.39 In chapter 5, the CSIRO explained to the Committee how it recently closed four regional research centres to stay within budget. The CSIRO regretted the decision, but felt that under the circumstances it needed to make these cuts.³⁶

6.40 The Australian Communications and Media Authority (ACMA) stated that it had been closing its regional operations for some time:

Over the past few years, ACMA, and before it the Australian Communications Authority (ACA), has been significantly streamlining its approach to field operations. This has resulted in considerable savings from the downsizing and closure of regional operations' centres, and the centralisation and rationalisation of a number of functions... ACMA's direct regional presence is disappearing.³⁷

6.41 The Committee accepts that management, when faced with budgetary pressures, must examine all expenditure areas and that this sometimes includes regional offices. However, the Committee is concerned that the various efficiency incentives have combined to become a hidden rationalisation policy. If it becomes government policy to close regional offices to generate savings, then it could be subject to debate. But current arrangements appear to be driving the same result without any public consideration of whether this is necessary or useful.

Disparities in pay rates

6.42 One of the CPSU's key themes is that the efficiency dividend has led to large gaps in pay rates between agencies and that small agencies, on average, tend to have lower rates of pay.³⁸

6.43 Combined with this is the CPSU's argument that these disparities do not reflect any underlying rationale, such as productivity. Rather, they only reflect ability to pay:

34 Mr Douglas Humphreys, transcript, 8 September 2008, pp 37-38.

35 Mr Warwick Soden, transcript, 21 August 2008, p 36.

36 Mr Allan Gaukroger, transcript, 19 September 2008, p 84.

37 Australian Communications and Media Authority, sub 56, p 9.

38 Mr Stephen Jones, transcript, 20 August 2008, p 37.

I think that it would strike the employees in the Australian Institute of Aboriginal and Torres Strait Islander Studies, the Federal Magistrates Court, the Human Rights and Equal Opportunity Commission [etc] and all of those small agencies as somewhat insulting to learn that they were somewhere between four and 10 per cent less productive than the average employee in the Australian Public Service. I would suggest that there is a different story to be told here. It is not about relative productivity; it is about the capacity of an agency to pay...³⁹

- 6.44 The Commission agreed with the CPSU's observation that small agencies tended to have lower rates of pay and that their size was a factor:

It is not surprising. If you have less money washing around in your system, then you have less to work with. You cannot access the sorts of efficiencies that a larger agency might be able to access. For example, a larger agency might be able to manage a cheap, in unit cost terms, IT acquisition; we cannot. A larger agency might be able to manage a cheaper unit rental cost because they might cover a whole building and a lessor may well take them in on that basis; we cannot. We operate in our regional offices at a portion of a floor in a building... and in Canberra, two floors in a building. Your opportunities to make those kinds of tradeoffs are far fewer in an agency such as ours, leaving far less room to remunerate new staff.⁴⁰

- 6.45 The Commission also suggested that function was relevant:

I suspect... when you look at the group of agencies in the lower paying area, a lot of them are like us: small statutory bodies with their functions pretty well set out in legislation. That is another constraint on their activity, if you like, or changing it. But there is a combination of factors, and it has been traversed in the evidence about the efficiency dividend, the supplementation, the function and the nature of the actual organisation and its funding base. Collectively, together, those forces have led to where you might sit in the paying scales.⁴¹

- 6.46 Lower pay rates in small agencies present a number of risks. The CPSU suggested that it increases the chances that small agencies may be churning staff, with the result that more of their resources are diverted to

39 Mr Stephen Jones, transcript, 20 August 2008, p 37.

40 Ms Lynelle Briggs, transcript, 19 September 2008, p 47.

41 Ms Lynne Tacy, transcript, 19 September 2008, p 48.

recruitment.⁴² The Commission's data, however, suggested that small agencies were not more likely to have unacceptable turnover rates than medium or small agencies.⁴³

- 6.47 The CPSU also argued that small agencies have proportionally smaller training budgets,⁴⁴ which is a form of remuneration for staff. The Commission agreed with this point, although it was unsure whether this difference was inherently due to the way small agencies operate.⁴⁵ In the view of the Committee, the expectation would be that small agencies would spend the same pro-rata amounts on training as large agencies.
- 6.48 Similar to the issue of regional cutbacks, this disparity in pay rates between agencies would be less of an issue if it were government policy and open to debate. But it has evolved over time from the interaction of various administrative and legislative factors, few of which were specifically aimed at pay rates.
- 6.49 The CPSU raised the related issue of female pay rates. It noted that small agencies with a large proportion of female employees were more likely to have lower wages.⁴⁶
- 6.50 The Commission noted this was a complex area. For example, women sit at the bottom of pay scales more than men because women tend to be promoted more quickly. Without controlling for length of time at a classification rate, this would increase the gender pay gap. The Commission acknowledged that lower paying agencies tend to have a higher female representation. It stated that this issue requires further investigation⁴⁷ and the Committee agrees.
- 6.51 The Committee recognises that another Parliamentary inquiry is under way that touches on this point. The House of Representatives Standing Committee on Employment and Workplace Relations is conducting an inquiry into gender pay equity more generally.⁴⁸ This Committee does not wish to pre-empt the findings or recommendations of that inquiry.

42 Mr Stephen Jones, transcript, 20 August 2008, p 43.

43 Australian Public Service Commission, sub 54, p 5.

44 Community and Public Sector Union, sub 58-1, p 6.

45 Australian Public Service Commission, sub 54, p 6.

46 Community and Public Sector Union, sub 58, p 4.

47 Ms Lynne Tacy, transcript, 19 September 2008, p 48.

48 The Commission presented the same evidence to the House Committee on this point: House of Representatives Standing Committee on Employment and Workplace Relations, Pay Equity and Increasing Female Participation in the Workforce, Ms Nicole Pietrucha, transcript, 16 October 2008, p 2.

- 6.52 However, this Committee believes that gender pay equity is an important issue for the Australian Public Service, especially in the context of agency size and function. In order to facilitate better management of the Service and a deeper understanding of how small agencies operate, the Committee would like to see the Government conduct further research in this area. Given the need to coordinate the various areas of expertise within Government for this work, the Committee believes that the Department of Prime Minister and Cabinet should be the lead agency on this project.

Recommendation 7

- 6.53 **The Department of Prime Minister and Cabinet convene a taskforce with membership from key agencies, including the Australian Public Service Commission, to conduct and publish further analysis on:**
- **the relationship between gender wage disparities and agency size and function;**
 - **the relationship between wage disparities generally and agency size and function; and**
 - **whether staff classifications continue to represent equivalent levels of skills, responsibility and experience across agencies.**

If collecting further data or enhancing databases is required, the agencies involved should receive supplementary funding.

Growth in receipts

- 6.54 One way in which agencies might be able to cushion themselves against the effect of the efficiency dividend is by increasing the receipts they receive that they are entitled to spend on their operations. For most agencies, this process is governed by section 31 of the *Financial Management and Accountability Act 1997*. Following the 1994 review into the efficiency dividend, *Stand and Deliver*, these receipts were exempt from the dividend, which increased their value to agencies. Recent changes to legislation and guidance have placed further caps on how agencies may

- use these receipts.⁴⁹ However, the Committee did not receive evidence that these receipts are now subject to the dividend.⁵⁰
- 6.55 The main requirement that an agency must meet to be able to spend its receipts is that the Minister for Finance and Deregulation must approve the spending of the receipt. This will be evidenced in the agreement between the Minister (often signed by a delegate within Finance) and the agency CEO.⁵¹ Without this approval, receipts must go directly to consolidated revenue.
- 6.56 Many agencies advised the Committee that section 31 receipts played only a marginal role in their cash flow. There were a range of reasons for this. For example, the fees that an agency receives may go directly to consolidated revenue,⁵² increasing the fees collected may be incompatible with their function (such as access to justice issues for a court),⁵³ or meeting their core functions may preclude fee collection (such as for the Australian Electoral Commission).⁵⁴
- 6.57 Some agencies, however, do collect significant amounts of receipts that they are entitled to spend. The most extreme case is the Australian Institute of Health and Welfare, whose revenue history is displayed in figure 6.1 on the next page.
- 6.58 Over 20 years, the Institute has evolved from being almost fully funded by appropriation to being approximately one third funded by appropriation. Much of these receipts come from Commonwealth Government agencies. Unfortunately, they are to fund new projects, rather than the Institute's core business of maintaining national datasets and producing its biennial reports.⁵⁵

49 Australian National Audit Office, sub 60, p 6.

50 Finance Circular 2006/04, *Net appropriation agreements (Section 31 Agreements)* included a template agreement that stated that receipts are not reduced by the efficiency dividend. This has been replaced by Finance Circular 2008/07, *Relevant Agency Receipts – FMA Regulations 15 and 16*, which does not include a template agreement and does not refer to the dividend.

51 Section 31 of the *Financial Management and Accountability Act 1997*.

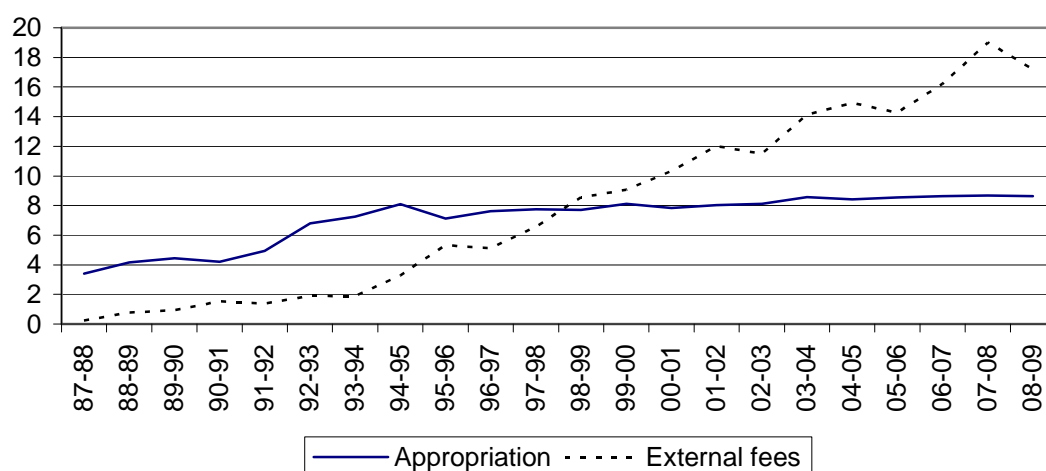
52 Administrative Appeals Tribunal, sub 17, p 5.

53 High Court of Australia, sub 14, p 7.

54 Australian Electoral Commission, sub 42, p 8.

55 Australian Institute of Health and Welfare, sub 40, p 2.

Figure 6.1 Australian Institute of Health and Welfare – Revenue history (\$m)



Source Australian Institute of Health and Welfare, sub 40, p 2.

6.59 This funding arrangement also restricts the Institute's ability to operate as an independent body, as mandated by its legislation:

Project specific income is not a substitute for appropriation income because it limits our ability to independently report on Australia's health and welfare... For example the AIHW has not had sufficient funding to fulfil its legislated function of undertaking health technology assessments or to undertake analysis around the mix of public and private health funding.⁵⁶

The board makes some tough decisions about what we can no longer do, but it has not for many years been in a position to say, 'We think this is a really high priority piece of work that the institute should be doing. Let's apply some resources to it.'⁵⁷

6.60 The Institute advised the Committee that it had started cutting services and functions approximately 10 years ago.⁵⁸

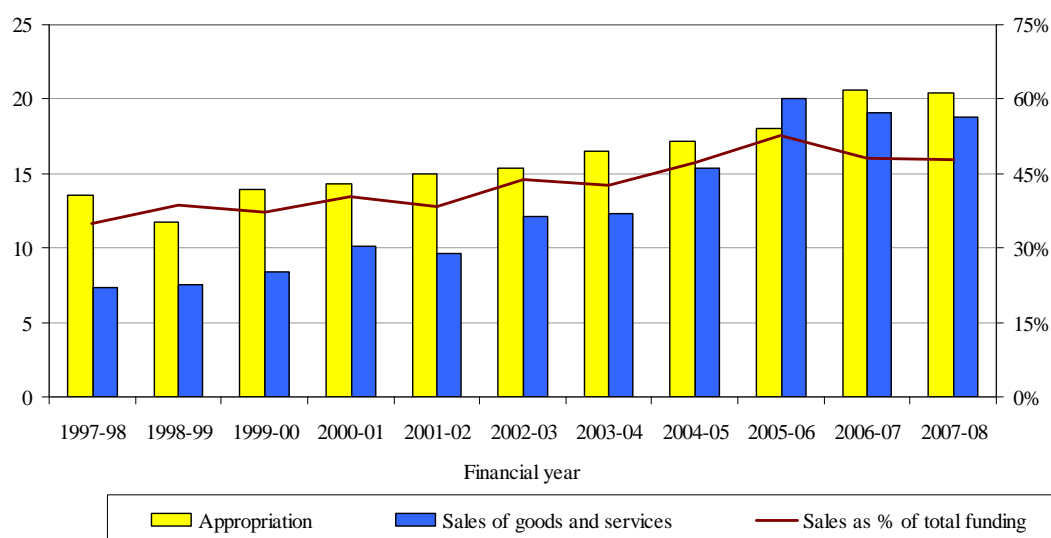
6.61 The Commission is in a similar, but less extreme position. Figure 6.2 shows how the Commission's budget had evolved over the past 10 years.

56 Ibid.

57 Dr Penny Allbon, transcript, 20 August 2008, p 71.

58 Ibid, p 73.

Figure 6.2 Australian Public Service Commission – Revenue history (\$m)



Source Australian Public Service Commission, sub 54, p 8.

6.62 Over the past 10 years, the proportion of the Commission's budget to come from fee-for-service work has grown from approximately 35% to approximately 50%. These receipts mainly come from other Commonwealth agencies purchasing training from the Commission. Increased revenue from fee-for-service work increases risk for the Commission. If there is a general drop in demand for training, this could compromise the Commission's statutory function to coordinate and support learning and career development in the Australian Public Service.⁵⁹

6.63 The Commission also stated that an increased reliance on receipts poses additional challenges for management in protecting their core services:

What I think you would find is that the agency heads of those agencies would try to protect their core services.

What you have to do is run this merry dance... where you try to balance your revenue raising activities, if they fluctuate year on year, and maintain appropriate flexibility with your staffing to deal with that and protect the core functions that should not be used for revenue raising purposes.⁶⁰

6.64 The Australian Institute of Criminology is another agency that is placing an increasing reliance on fee-for-service work. Its receipts have grown

⁵⁹ Australian Public Service Commission, sub 54, pp 8-9.

⁶⁰ Ms Lynelle Briggs, transcript, 19 September 2008, p 49.

from approximately \$1.4 million in 2001-02 to approximately \$2.5 million in 2007-08.⁶¹

- 6.65 As discussed previously, the Committee's concern with the growth in receipts in some agencies is that policy outcomes are being driven by funding arrangements. For example, the Australian Institute of Health and Welfare is becoming a consultancy for Commonwealth agencies, rather than serving its legislative functions. If a Minister had publicly stated in the past that it was now government policy that this was to occur, it could at least be subject to debate. But the intent of the legislation has been compromised due to budget rules and financial legislation that are well divorced from health policy.

Conflict with cultural agencies' mandate

- 6.66 Chapter 3 comprehensively covers this issue, but it is restated here for completeness. In the enabling legislation for the cultural agencies, they are generally required to grow and to disseminate their collections in the national interest. For example, section 6 of the *National Library Act 1960* states that the functions of the Library include:

- to maintain and develop a national collection of library material, including a comprehensive collection of library material relating to Australia and the Australian people; and
- to make library material in the national collection available to such persons and institutions, and in such manner and subject to such conditions, as the Council determines with a view to the most advantageous use of that collection in the national interest.

- 6.67 Section 6 of the *National Gallery Act 1975* states:

- The functions of the Gallery are:
 - ⇒ to develop and maintain a national collection of works of art; and
 - ⇒ to exhibit, or to make available for exhibition by others, works of art from the national collection or works of art that are otherwise in the possession of the Gallery.
- The Gallery shall use every endeavour to make the most advantageous use of the national collection in the national interest.

- 6.68 In the view of the Committee, using a collection in the national interest includes conducting regional tours. Chapter 3 notes how the cultural agencies are winding back their regional activities.

61 Australian Institute of Criminology, sub 23, p 4.

- 6.69 Apart from capital grants, these agencies have generally received very little in the way of new funding. Therefore, their budgetary regime has largely comprised indexation increases of approximately 2%, the efficiency dividend decrease of 1%, and increases in wages and supplier costs of 4%. These add up to a real funding decrease of 3%. In comparison, productivity in the general economy is increasing by approximately 2%.⁶² The Committee does not see how the cultural agencies can fulfil their growth mandate in these circumstances.

Innovation

- 6.70 A typical comment from agencies during the inquiry was that, as funding becomes tight, they have fewer resources available for innovation. The Federal Magistrates Court of Australia summarised this as follows:

My concern, as I look over the horizon – certainly for the Federal Magistrates Court’s situation and I suspect for the [Family Court and Federal Court] as well – is that there is going to be no capacity to invest in innovation. The discretionary funding will just not be there. We will be simply scratching to make ends meet ...⁶³

- 6.71 The problem with this development is that innovation is a key source of efficiencies. If agencies are not innovating, their capacity to find efficiencies is reduced.
- 6.72 The other benefit of innovation is that it creates new services. A key example of this in the inquiry was the cultural agencies digitising their collections. The advantage of digitisation is that it is no longer necessary to visit the institution or arrange a physical loan of a piece or document in order to view or enjoy it. Access is as close as the nearest computer and Internet connection.
- 6.73 The cultural agencies explained to the Committee that they have been able to plan and establish high quality digitisation programs, but they have not been able to implement them as they have wished. The National Library stated in evidence:

...I think we are rating up there in terms of the approaches, the degree of innovation and the work we have done with others in harvesting web resources and also in things like digitising

62 Australian Public Service Commission, sub 54, p 3.

63 Mr John Mathieson, transcript, 8 September 2008, p 46.

newspapers. We are struggling in terms of the volumes and quantities...⁶⁴

- 6.74 The restrictions on agencies' ability to innovate are raised throughout the report. The Committee's point here is to reinforce the fact that a substantial number of small agencies are foregoing opportunities to improve their effectiveness and efficiency due to the efficiency incentives.

False economy

- 6.75 If an agency is well funded, the Committee is confident that its management would be able to find efficiency improvements rather than take the option of cutting services. However, the Committee expects that most agencies would eventually examine cutting services if, over an extended period, they had received very little in new policy funding and needed to find annual efficiencies of 3% when the rest of the economy was finding efficiencies at the rate of 2%.

- 6.76 Once agencies are making cuts to meet their budgets, then the efficiency dividend and its associated budget rules become a false economy. At many stages throughout the inquiry, the Committee asked agencies when they thought that the efficiency dividend stopped being a process in finding efficiencies and became more about deciding which services to cut. Examples of responses are:

- the High Court stated that it started cutting services 10 years ago;⁶⁵
- the Australian Institute of Health and Welfare also moved to cuts 10 years ago;⁶⁶
- the Australian National Audit Office will reduce the number of performance audits by six and the number of better practice guides by one in 2008-09;⁶⁷
- the National Library of Australia stated that it started cutting services 10 years ago;⁶⁸ and
- the Department of the Attorney General in Western Australia stated that its Family Court started making cuts two years ago.⁶⁹

64 Dr Warwick Cathro, transcript, 21 August 2008, p 16.

65 Mr Andrew Phelan, transcript, 20 August 2008, p 73.

66 Dr Penny Allbon, transcript, 20 August 2008, p 73.

67 Australian National Audit Office, sub 60, p 5.

68 Dr Warwick Cathro, transcript, 21 August 2008, p 40.

69 Mr Liam Carren, transcript, 22 October 2008, p 6.

- 6.77 Signs of false economies have become more evident as agencies respond to meet the additional 2% efficiency dividend. This extra measure accelerated the process that agencies have been undergoing now for many years.⁷⁰
- 6.78 One example of these false economies is that some agencies are starting to shift costs. In other words, they are seeking to charge other agencies for services they previously provided for free or they are asking other agencies to do their work for them. Examples are:
- the National Capital Authority charging cultural institutions \$250,000 annually for upkeep of their grounds;⁷¹
 - the Family Court of Australia starting to charge the Family Court of Western Australia for computer services;⁷² and
 - other agencies using the National Archives of Australia to meet information requirements.⁷³
- 6.79 The Committee is not making an assessment of the correctness of any of these measures. Some may be supported by good process. The point is that, as budgets become tight, agencies question whether providing a certain service is part of their core functions and whether they should charge for it or not. But when the agencies involved are all funded from the same source, it is a zero sum game for them to start charging each other for various tasks.
- 6.80 Another sign of false economies is that agencies are changing recruitment practices to meet their budget, rather than their operational requirements. For example, the CPSU conducted a survey of its members and found that the most common management response to meeting the additional dividend has been natural attrition (92% of respondents). The other most common responses were cancelling or not renewing contracts (79%) and offering redundancies (65.3%). Less common responses were cancelling projects (under a half) and shortening projects (over a third).⁷⁴
- 6.81 This data suggests that agencies are cutting staff more than they are reducing workloads. This implies that staff will be working longer hours. The Commission has confirmed this is the case:

70 For example, Department of the House of Representatives, sub 10, p 12.

71 Australian War Memorial, sub 26, p 1.

72 Mr Gavan Jones, Western Australian Department of the Attorney General, transcript, 22 October 2008, p 5.

73 Community and Public Sector Union, sub 58, p 7.

74 Community and Public Sector Union, sub 58, p 9.

The impact of the efficiency dividend is reflected in staff working long hours in some agencies. I expect this is to pick up the slack when people leave, or when non-ongoing employees' contracts are not renewed. I hear many stories of increasing workloads and longer hours becoming the 'norm' in the workplace. Staff accept that vacant positions are not automatically filled - each position is being examined once it is vacated and on-going positions are not automatically advertised for permanent filling.⁷⁵

- 6.82 Further, the Commission notes that one of the attractions of working in the Australian Public Service is that staff are more likely to maintain a good work and life balance. Longer hours will erode this attractiveness and may present problems in the long term:

It is important in a time where there is increasing pressure on agencies to do more with less, that extra efficiency is not gained at the expense of impacting adversely on employees' ability to achieve a work-life balance. One of the advantages the APS has in a tight labour market is its reputation as an employer that enables people to balance their work and personal commitments. Given remuneration in the APS at most classification levels is not on par with that in the private sector, agencies need to manage excessive workloads in a strategic, yet practical, manner...⁷⁶

- 6.83 In the view of the Committee, one of the reasons why the additional 2% efficiency dividend has prompted agencies to react by cutting services or work is that the decrease in resources has happened too quickly for them to respond with efficiencies. The Australian Communications and Media Authority provided the following insight:

... to get the efficiencies... business analysis is the key. It is not so much building an IT system; it is actually thinking long and hard about your underlying business processes and whether they are structured in the right way to do that. That really does require quite intensive drilling down. We would like to do that in lots of our other areas. There is probably some scope for looking at things but when you are in a very constrained environment you have a reduced ability to devote the intellectual capacity to figure out ways of being more efficient. It is kind of ironic.⁷⁷

- 6.84 In other words, it takes an organisation's time and attention to find and implement efficiencies. Applying an additional one-off dividend of 2% did

75 Australian Public Service Commission, sub 54-2, p 6 and see also sub 54-5, p 3.

76 Australian Public Service Commission, sub 54-5, p 8.

77 Mr Chris Cheah, transcript, 8 September 2008, p 28.

not give organisations the time to find efficiencies. They instead responded with cuts, which is a false economy.

Summary

- 6.85 The theme in this discussion is that while the various budget and funding rules have encouraged agencies to look for efficiencies, it has also driven some other less desirable consequences. The Committee's difficulty with this is that these unintended consequences have not generally been subject to broad debate.
- 6.86 Rather, agencies' budgets have evolved from year to year and the agencies themselves have made decisions as best they can. This delegation away from ministers was opposed by IPAA⁷⁸ and the CPSU:
- ... we are seeing a continued trend for the delegation of what I would consider to be key government, parliamentary, if not executive decisions from those governmental bodies, from the parliament, from the executive – decisions about what services are delivered and how they are delivered – away from the parliament and down to the front-line operational level. That delegation is not occurring overtly...⁷⁹
- 6.87 While each Budget is approved by Cabinet, the Committee is less convinced that Cabinet or its committees assess the accumulated effect of the various budget and funding rules. For example, Finance stated that budgets concentrate on funding agencies at the margin.⁸⁰ This practice would foster budgetary evolution.
- 6.88 Given the lack of coherence about current arrangements and their unintended consequences, the Committee believes that some changes are desirable. As stated earlier, some efficiency incentive is warranted. The Committee's goal is to reduce its arbitrariness while still making it a useful financial tool, both in terms of protecting public funds and being easy for Finance to implement.

78 Mr Andrew Podger, transcript, 19 September 2008, p 37.

79 Mr Stephen Jones, transcript 20 August 2008, pp 35-36.

80 Dr Ian Watt, transcript, 19 September 2008, p 6.

Improvements to current processes

New policy proposals – the benefits to agencies

6.89 A considerable number of the agencies involved in the inquiry expressed concern about their ability to obtain funding through NPPs.⁸¹ Generally, the process for NPPs is that each department of state coordinates and prioritises the budget submissions for the agencies in its portfolio. Proposals for less than \$10 million will be referred to the Minister for Finance and Deregulation alone, whose decision will be ratified by the Expenditure Review Committee of Cabinet (ERC). Proposals above this amount are decided by ERC.⁸²

6.90 In an environment where agencies are required to find productivities of 3% when the wider economy is achieving 2%, agencies are likely to view NPPs as an attractive way of supplementing their budget and giving themselves greater financial mass. The Auditor-General stated in Senate Estimates:

The smaller agencies traditionally have less access to new policy opportunities than the bigger agencies. The bigger agencies with access to new policy often are able to utilise the resources gained to be able to manage ups and downs within the organisation. But, if you are a small organisation without the access to new policy, it means that the efficiency dividend is resulting in a reduction each year and it is more difficult to manage in those circumstances.⁸³

6.91 It even gives them a way of increasing the size of their agency relative to others, as some Australian academics have observed:

In other words, Cabinet would have had fewer resources to reallocate in the absence of the [efficiency dividend]. The [dividend] therefore represented an across-the-board form of 'offsets' on running costs, but one which also increased the scope for 'gaming' around NPPs. It encouraged agencies to invent ways to recover the amounts lost to the [dividend] through new policy

81 For example, Australian National Maritime Museum, sub 15, p 2; Australian Communications and Media Authority, sub 56, p 3; and Australian National Audit Office, sub 60, p 3.

82 Dr Ian Watt, Department of Finance and Deregulation, transcript, 19 September 2008, p 15. An NPP that exceeds \$10 million in one or more of the Budget and forward years is classified as major and goes to ERC: Department of Finance and Deregulation, sub 25-1, p 2.

83 Senate Standing Committee on Finance and Public Administration, Budget Estimates, 28 May 2008, Mr Ian McPhee, transcript, p 5.

measures or even capture a greater share of the pool of clawed-back resources.⁸⁴

- 6.92 As Finance noted, the potential difficulty with this argument is that new policy money is almost always given for a specific purpose that must be implemented, rather than as supplementation.⁸⁵ Further, Finance argued that its costings nowadays are generally accurate and do not have much padding,⁸⁶ a view supported by IPAA.⁸⁷
- 6.93 The way in which new policy money appears to assist agencies is that they are able to compromise to a certain extent on the new policy for which they are being funded and then divert some of these resources to established programs. IPAA stated in evidence:
- Just on the issue of prioritising, when you are under pressure, what are the things that are easiest to drop off? One of the easiest is the latest new thing, not to do quite as much with the new thing or as quickly as you were going to do. So, you have a little bit more flexibility to handle a pressure on you when you have a bit of extra money given for an extra thing...
- All I am saying is it may not be a formal padding; it may be that it has just given you another degree of freedom, if you like, in the management of it. Finance will do its best to limit that capacity, but no doubt when you have new policies, you have an extra bit of flexibility in the way you manage.⁸⁸
- 6.94 The Committee accepts that access to funding through NPPs assists agencies in meeting their financial obligations. The next question is whether small agencies are particularly disadvantaged by the process.

New policy proposals – the problems for small agencies

- 6.95 In evidence, Finance did not identify any particular structural problems with the NPP process. Rather, Finance noted that the Minister and ERC approve many small NPPs, which are listed in the Budget Papers.⁸⁹ Finance also stated that the \$10 million threshold on NPPs that was raised in submissions was only a classification issue. It only determined whether

84 John Wanna, Joanne Kelly and John Forster, *Managing Public Expenditure in Australia* (2000), pp 209-210.

85 Dr Ian Watt, transcript, 19 September 2008, p 3.

86 Ibid.

87 Mr Andrew Podger, transcript, 19 September 2008, p 36.

88 Ibid.

89 Dr Paul Grimes, transcript, 19 September 2008, p 16.

ERC considered a proposal or whether the Minister made a decision that was ratified by ERC. It did not affect the outcome.⁹⁰

- 6.96 However, most other parties participating in the inquiry believed that small agencies were disadvantaged by the process. The Australian Institute of Health and Welfare stated that the process for NPPs is geared towards larger agencies.⁹¹ The Australian Institute of Aboriginal and Torres Strait Islander Studies gave its perceptions on this:

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.⁹²

- 6.97 The Committee has a number of observations here. Firstly, the issue of small agencies having fewer economies of scale has already been acknowledged. It suggests that small agencies are less likely to be able to compete in the 'game' of securing new policy funds.
- 6.98 The second issue is the treatment of agencies by portfolio departments. The bulk of the evidence was not as clear on this point. The Commission stated that departmental secretaries usually have good knowledge about the finances of the agencies in their portfolio.⁹³ IPAA gave the example of the Department of Health and Ageing having good coordination processes in place. It also stated that, while secretaries are prepared to examine ways

90 Mr David Nicol, transcript, 19 September 2008, p 15.

91 Dr Penny Allbon, transcript, 20 August 2008, p 76.

92 Australian Institute of Aboriginal and Torres Strait Islander Studies, sub 57 (attachment B), pp 3-4.

93 Ms Lynelle Briggs, transcript, 19 September 2008, p 46.

to assist their smaller agencies, there was a risk that their smaller requirements may not capture a secretary's attention.⁹⁴

- 6.99 Finance argued that letting an agency within the portfolio suffer a significant financial shortfall could become problematic very quickly:

Perhaps I can reflect upon my own experience when I was secretary of the Department of Communications which in those days had a large number of small agencies attached to it. Some were bigger than the department as a whole, but nevertheless they were called small agencies. I would have found it very hard, frankly, given the political clout, to use a crude term, to use those small agencies as a way of offsetting my funding costs; I really would have. It was more likely the reverse: I was hoping to help them find their way out of trouble.⁹⁵

- 6.100 On this evidence, the Committee concludes that small agencies could 'fall between the cracks' within a portfolio department, although it is unlikely that this occurs systematically.

- 6.101 The Institute's third point is that governments are more likely to be able to achieve their policy goals through larger agencies, which means larger agencies are more likely to get new policy funds. This is consistent with Finance's observations that the process for NPPs was largely a political one:

... if an agency, big or small, does not get new policy funding, is the issue one of size or cabinet decision making processes or ministerial or government priorities? It is always difficult to have to tell an agency head that his or her agency is not or was not a priority for their minister and/or the government when push came to shove around the cabinet or ERC table. But in my experience, priorities do matter enormously, and rightly so in government decisions, particularly about existing or new funding, and they matter much more than the formal rules themselves.⁹⁶

- 6.102 Departments of state do the bulk of the policy work in each portfolio and would therefore be able to present a strong case at each Budget for NPPs.

- 6.103 IPAA agreed that agency size and a greater policy profile would assist agencies in securing funding and the amount granted. For instance, the sort of proposals that most small agencies would put forward would be

94 Mr Andrew Podger, transcript, 19 September 2008, pp 40, 41, 42.

95 Dr Ian Watt, transcript, 19 September 2008, p 16.

96 Dr Ian Watt, transcript, 19 September 2008, p 3.

under the threshold and go to the Minister. Finance usually takes a strict line with these:

I did hear Dr Watt talk about this \$10 million threshold, and he is quite right: there is no threshold of being able to put forward proposals, but with respect to proposals that come under the minors list, Finance is usually far firmer and requiring offsets for those than elsewhere.⁹⁷

- 6.104 Similar sentiments were expressed by the Equal Opportunity for Women in the Workplace Agency,⁹⁸ the Insolvency and Trustee Service Australia,⁹⁹ and the Australian Communications and Media Authority.¹⁰⁰
- 6.105 The Committee received a number of examples from small agencies of proposals that were not funded sufficiently or had to be absorbed entirely:
- the Family Court of Australia had to pay an extra \$500,000 for the total cost of conducting a strategic review of the Newcastle courts;¹⁰¹
 - the Human Rights and Equal Opportunity Commission had its \$1.8 million of funding withdrawn for handling complaints under Work Choices (the discontinued industrial relations policy), even though it is still receiving the extra complaints;¹⁰²
 - the Ombudsman has had higher than expected demand for its services from the Northern Territory intervention amounting to \$1 million;¹⁰³ and
 - the Australian National Audit Office absorbed government initiatives such as green power and information security requirements totalling \$1 million.¹⁰⁴
- 6.106 On a proportional basis, these are significant impositions on small agency budgets. On the other hand, IPAA argued that agencies making proposals with a political priority could put a much better case to ERC.

... for big ones, ERC may well still say: you have to find offsets, but ministers are more likely to be able to argue that this is an

97 Mr Andrew Podger, transcript, 19 September 2008, p 41.

98 Ms Anna McPhee, transcript, 8 September 2008, p 18,

99 Insolvency and Trustee Service Australia, sub 13, p 5.

100 Australian Communications and Media Authority, sub 56, p 2.

101 Mr Richard Foster, transcript, 20 August 2008, p 57.

102 Ms Susan Roberts, transcript, 8 September 2008, p 3.

103 Prof McMillan, transcript, 20 August 2008, p 17.

104 Australian National Audit Office, sub 60, p 3.

election priority or something of that sort, in which case I think the government would be willing to offer up some more money.¹⁰⁵

- 6.107 Assessing this evidence, the Committee concludes that there is probably a bias in favour of large agencies in the process for NPPs. The Committee accepts that Finance is accurate in stating that small proposals are funded. However, it appears that small technical agencies receive new funds less often and for proportionally smaller amounts than other agencies.¹⁰⁶
- 6.108 In order to test this finding, the Committee examined the Portfolio Budget Statements for 2007-08 and 2008-09 for all agencies. The aim was to compare the amount of funds large agencies and departments of state received compared with small technical agencies. This is an extension of the exercise conducted for the courts in chapter 4. Table 6.1 presents the results.
- 6.109 The table values NPPs in two ways. The 'Budget year' columns give the value of the NPP in the Budget year as a proportion of estimated expenses in the Budget year. The 'four year' columns give the value of the NPP, averaged over the Budget year and three forward years, as a proportion of estimated expenses in the Budget year.

Table 6.1 New policy funding as a proportion of total budget, all agencies (%)

Agency type	2007-08			2008-09		
	No.	Budget year	Four years	No.	Budget year	Four years
Departments	17	6.6	5.7	18	5.1	4.1
Large agencies	19	3.7	3.1	18	1.0	0.6
Small agencies	100	2.0	2.0	102	-0.4	-0.1

Source All Portfolio Budget Statements for 2007-08 and 2008-09. Large agencies are defined as having departmental expenses of over \$150 million and not being a department of state. Small agencies have departmental expenses of less than \$150 million and are not a department of state. Total budget is defined as the estimated expenses for the Budget year.

- 6.110 The table corroborates the oral evidence received by the Committee. Departments of state are the winners in the NPP process, receiving substantially more on a pro-rata basis than other agencies. Large agencies do better than small agencies in receiving NPP funding, as well as having better economies of scale with which to manage the efficiency incentives. The differences between the types of agency remain under both measurement methods.

¹⁰⁵ Mr Andrew Podger, transcript, 19 September 2008, p 41.

¹⁰⁶ See Australian Electoral Commission, sub 42, p 3.

New policy proposals – is change useful?

- 6.111 Agencies made a number of recommendations suggesting how small agencies might be able to better access new policy money, including:
- allowing agencies to submit for additional funding for items that are not necessarily NPPs but are more in the way of supplementation, for example to continue to pay competitive salaries;¹⁰⁷
 - allowing agencies to bundle proposals together to meet the \$10 million threshold;¹⁰⁸ and
 - reducing the \$10 million threshold for small agencies.¹⁰⁹
- 6.112 On balance, the Committee has decided against recommending changes to the NPP process. Firstly, features such as the \$10 million threshold are there for operational reasons to assist the production of each Budget. ERC is a major strategic committee of Cabinet. It makes sense for ERC to delegate the consideration of relatively small amounts to the Minister.
- 6.113 Secondly, the suggestion that agencies be able to make bids for supplementation is very similar to Finance's preferred approach of ministers requesting baseline reviews of funding for agencies in their portfolio. It is difficult to see how such a modification would work differently from current practice. Possibly, agencies are requesting a change in perceptions. That is, requesting a baseline review does not reflect management failure. This matter is dealt with later in the chapter.
- 6.114 The third and most important reason is that the process for NPPs is a political one. Governments are elected on their policies and a key aspect of implementing policies is funding them through the Budget. The Committee concurs with Finance that ERC should remain a political forum.
- 6.115 It appears to the Committee that the various Budget processes and rules work reasonably well for large agencies and departments of state. While they are subject to tight efficiency requirements through the dividend and the indexation rules, these are offset by a steady supply of NPPs. The extra funding through the NPPs gives them the added flexibility and mass with which to respond to the various efficiency incentives.
- 6.116 Given that billions of dollars are involved in these NPPs, designing the budget rules for larger, more policy-oriented agencies is appropriate. This

107 Department of the House of Representatives, sub 10, p 15.

108 Australian Communications and Media Authority, sub 56, p 9.

109 Administrative Appeals Tribunal, sub 17, p 7.

is the area of greatest financial risk. Finance has developed a set of administrative rules that continually extracts a small proportion of these policy funds and redirects them to the highest priority use. In other words, for these agencies the Budget rules are a way by which policy funds are kept up to date. Administrative rules are being used to support policy outcomes.

- 6.117 The other side of the Budget is the small technical agencies that are outside mainstream policy development. They do not receive a regular supply of new policy funds. The Committee believes that the Budget rules are applied to them inappropriately. They are not involved in a changing policy environment and so there is no need to ensure that their 'policy funds' are kept up to date because they do not have any, or very few at the most. Compared with departments of state, their roles are static. Almost all of the agencies that made submissions to the Committee fit into this category.
- 6.118 In the view of the Committee, it would not be beneficial to adapt a political process (NPPs) to ensure that administrative rules designed for large policy agencies do not strip resources from small technical agencies. However, the Committee does accept that these agencies are disadvantaged by funding processes. The Committee next examines whether the indexation rules should be adapted to meet the policy neutral character of small technical agencies.

Indexation

- 6.119 Agencies' appropriations are adjusted each year for inflation. Finance uses two indexes to represent agencies' main inputs: staff and other supplies (rent, utilities and so on). In order to adjust for wage costs, Finance uses the federal minimum wage. For other supplies, Finance uses the consumer price index (CPI). Finance averages these two indexes to develop a wage cost index (WCI) to apply to an agency's appropriation. This average is not strictly a 50/50 weighting between the two indexes. Instead, Finance has a handful of set weightings that it applies (a commonly used one is 60/40 in favour of staff), depending on the proportion of staff costs in an agency.
- 6.120 An issue commonly raised in submissions was that the indexes fall significantly short of the price movements faced by agencies.¹¹⁰ The Commission summarised the situation as follows:

¹¹⁰ For example, Australian Electoral Commission, sub 42, pp 3-4; High Court of Australia, sub 14, pp 3-4; National Capital Authority, sub 47, p 4.

In addition to the 1.25%, (3.25% for 2008-09) per annum efficiency dividend, the wage cost indexes applied to departmental funding incorporate an assumption of productivity gains by agencies to finance remuneration increases. This approach has resulted in funding for increases in wage costs of around 2% per annum over the last 10 years. Given that wage increases have averaged around 3.75% to 4% per annum over recent years, agencies have needed to find ongoing cost savings of around 1.75% to 2% per annum to help meet wage increases.

The efficiency dividend (1.25%) must also be managed, with that amount being even higher in the final quarter of 2007-08 and for 2008-09 (3.25%)...

Whilst a direct comparison between the level of cost savings in the APS and labour productivity growth in the rest of the Australian economy is not possible, productivity improvements in the APS do appear to compare favourably with annual labour productivity growth in the economy more broadly. Over the last decade average labour productivity has increased by 1.8% per annum in the Australian economy generally and by 2.2% per annum in the market sector.¹¹¹

6.121 In other words, labour productivity is improving by 2% per annum in the wider economy, whereas that expected of agencies is 3%. Compounding this are increases in office rents, which is a significant supply for small agencies. Figures quoted to the Committee during the inquiry for rent increases include:

- 8% annually for the Ombudsman;¹¹²
- 4% annually for the Australian Law Reform Commission;¹¹³ and
- over 10% annually for the National Archives of Australia.¹¹⁴

6.122 There were also instances of high increases for individual properties. For example, the Federal Court of Australia stated that the rent on its Perth premises was expected to increase by 200%.¹¹⁵ The National Measurement Institute reported that the rent on its Lindfield site was expected to increase by 16%.¹¹⁶

111 Australian Public Service Commission, sub 54, pp 3-4.

112 Mr Ron Brent, transcript, 20 August 2008, p 18.

113 Australian Law Reform Commission, sub 3, p 2.

114 Mr Ross Gibbs, transcript, 21 August 2008, p 6.

115 Mr Gordon Foster, transcript, 8 September 2008, p 42.

116 National Measurement Institute, sub 57 (attachment D), p 4.

6.123 The reason for this 'indexation gap' is that the indexes that Finance uses do not represent price movements in the types of supplies that agencies use. For example, the Management Advisory Committee in 2005 reviewed the type of work commonly performed in Commonwealth agencies and concluded:

All these types of work increasingly require employees with communications, problem solving and ICT skills commensurate with those of the average tertiary graduate.¹¹⁷

6.124 This appears to be particularly so in the case of the agencies involved in this inquiry because many of them were established for their technical expertise. Finance is using a benchmark for low skill labour (the minimum wage) for Commonwealth agencies that are becoming more reliant on high skill labour.

6.125 The CPI is an index designed for the use of consumers (that is, individuals). It gives greater weight to items such as food, clothing and the rent of houses, rather than renting office space. This mismatch between the indexes that Finance uses and the inputs purchased by agencies is an in-built productivity requirement. However, as the CPSU noted, it lacks transparency.¹¹⁸

Indexation – Finance's arguments

6.126 Finance did not so much argue in favour of the current arrangements as argue that there were no better alternatives. In particular, it stated that the indexing system needs to be broad in order to be workable:

... we try to compensate for a broad basket of goods and services rather than compensating for individual items. If you get into compensating for individual items, you get much more complex budgetary circumstances, so you have an index of rents for firms in Western Australia, for example; it does not work.¹¹⁹

6.127 Finance's most pertinent comment about agencies' cost increases was that it is important to examine costs across the whole range of supplies and not concentrate on one, such as rent. Finance noted that the costs of IT and telecommunications have been decreasing, which to some extent balances cost increases in areas such as rent.¹²⁰

117 Management Advisory Committee, *Managing and Sustaining the APS Workforce* (2005), p x.

118 Mr Stephen Jones, transcript, 20 August 2008, p 36.

119 Dr Ian Watt, transcript, 19 September 2008, p 14.

120 Dr Paul Grimes, transcript, 19 September 2008, p 14.

- 6.128 However, Finance's response to wage indexation was less convincing. It acknowledged that agencies have ambitious targets set for them but was not able to comment because it was following government policy:

I can agree that it is hard to meet those productivity targets. It is not easy and requires agencies to work very hard to do so. But it has long been government policy about the level of wage cost indexation, and that is very hard for me to comment on that...¹²¹

- 6.129 Finance's final comment was that it did not consider 1.25% annually to be sufficiently large to seriously compromise an agency's financial position. In relation to the six agencies that were subject to Finance health checks over the past five years, Finance stated:

Outsiders sometimes think that any financial difficulty is the fault of the efficiency dividend. In our experience, the efficiency dividend has not played a major role in these financial problems agencies have found themselves in. I cannot say it has played no role, but it has certainly not played a major role. Generally speaking, issues that have been much more important have been project and/or financial management, outdated or inadequate funding models, or over-promising to government and not having the resources to deliver on the promises.¹²²

- 6.130 The Committee's response to this point is that the agencies involved in the inquiry have not been subject to overwhelming financial distress. Rather, they are subject to the eroding effect of various funding rules that are designed for larger policy agencies. This erosion is affecting them in various ways, in particular disinvestment, service cuts and a reduced ability to take advantage of new opportunities.

- 6.131 In summary, the competing arguments are that the system lacks coherence against the need to maintain a workable system. In the view of the Committee, it is feasible to establish a system that is less arbitrary but still workable.

Indexation – reforms to applying the efficiency dividend

- 6.132 The first issue is the overall design of any new system. Probably the most common recommendation in submissions was that small agencies, or particular types of small agencies, should be exempt from the efficiency

121 Dr Ian Watt, transcript, 19 September 2008, p 12.

122 Dr Ian Watt, transcript, 19 September 2008, pp 3-4.

dividend.¹²³ The Commission and IPAA also believed that this approach was more workable than exempting certain categories of expenditure.¹²⁴

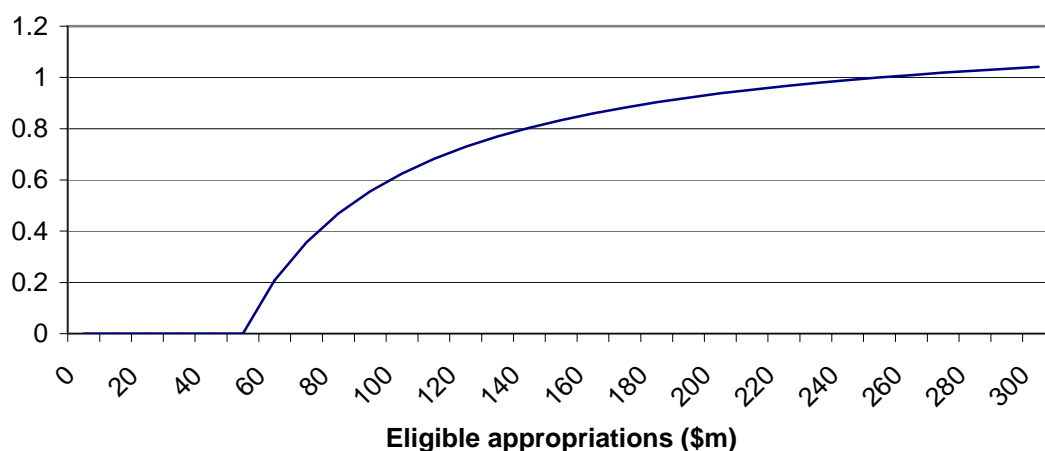
- 6.133 One option would be to exempt all small technical agencies from the efficiency dividend. Technical agencies would be those that have precise, narrowly defined functions (often legislated) and exercise technical expertise. Small agencies could be defined as having total expenses below a certain level, be it \$50 million, \$100 million or \$150 million. While this may give relief to a large number of agencies and would be workable, it would still be arbitrary to some extent. A modest increase in expenses for an agency just below the threshold would be enough to apply the whole 1.25% efficiency dividend to it.
- 6.134 A more nuanced approach would be to exempt a fixed amount of agencies' revenues from the dividend. For example, the first \$50 million of all agencies' appropriations for departmental expenses for the ordinary annual services of the Government ('eligible appropriations') could be exempt.¹²⁵ The 1.25% dividend would then apply to all of an agency's appropriations above this amount. The practical effect of this is an agency with eligible appropriations of less than \$50 million would have a zero efficiency dividend.
- 6.135 Agencies with eligible appropriations over \$50 million start to pay the efficiency dividend, but this is graduated over the size of the appropriation. For example, an agency with an eligible appropriation of \$100 million would pay nil dividend on the first \$50 million and 1.25% on the second \$50 million. This means that the practical efficiency dividend would be 0.625%.
- 6.136 An agency with eligible appropriations of \$250 million would pay 0% on the first \$50 million and 1.25% on the remaining \$200 million. The practical efficiency dividend for this agency would be 1%. A large agency such as the Australian Taxation Office would pay an efficiency dividend of 1.23%. In short, the larger the agency, the closer its efficiency dividend will be to 1.25%. Figure 6.3 illustrates the effect.

123 For example, Australian Academy of the Humanities, sub 11, p 5; Inspector-General of Intelligence and Security, sub 24, p 3; National Capital Authority, sub 47, p 5.

124 Ms Lynelle Briggs, transcript, 19 September 2008, p 49; Mr Andrew Podger, transcript, 19 September 2008, p 39.

125 The efficiency dividend is not applied to agencies expenses. It is applied to their departmental appropriations in Appropriation Bill Numbers 1, 3 and 5 (ordinary annual services of the Government). Agency funding provided through receipts, special appropriations or for NPPs is not officially subject to the dividend.

Figure 6.3 Agencies' efficiency dividend when first \$50 million of appropriations is exempt (%)



Source Australian Government, Budget Paper No. 4, 2008-09 and JCPAA analysis.

- 6.137 There are a number of observations to make about this proposal. Firstly, it is designed to give relief to agencies that have difficulty in obtaining NPPs. Table 6.1 shows that departments of state have the most success in gaining NPPs. Therefore, the Committee is of the view that departments of state should be subject to the full efficiency dividend.
- 6.138 Secondly, the Committee accepts that the \$50 million exemption is itself arbitrary. Despite this, the Committee supports this approach because it is less arbitrary than current practice. At the moment, small technical agencies are having their funding base eroded through a set of funding rules that are designed to extract funds out of agencies that receive regular top ups through NPPs. However, these small agencies receive a lower proportion of funding through NPPs because of the technical nature of their work. Rather than allowing disinvestment, service cuts and lost opportunities to trigger a baseline funding review, it makes sense to the Committee to fund them more generously, taking into account their reduced access to NPPs.
- 6.139 Thirdly, the Committee notes that large agencies will receive some benefit from the proposal. All agencies with eligible appropriations above \$50 million will receive a benefit of \$625,000 (1.25% of \$50 million). Some observers may not agree that large agencies should benefit as well.
- 6.140 However, this is the tradeoff for making the system simple. If large agencies were to be subject to the full dividend, then the system would need a cutoff point, such as \$150 million. This would increase the arbitrariness of the system in return for saving approximately \$10 million

per annum.¹²⁶ The Committee's preference is for a simple system as it would minimise distortions and perverse incentives on agencies. For example, an agency just below the \$150 million threshold may avoid seeking an NPP. But the Committee accepts that some may prefer a threshold and the Committee is prepared to make a threshold an alternative for consideration.

- 6.141 Finally, the Committee notes that some observers may prefer to set the threshold at a level different to \$50 million. The Committee accepts that a threshold lower or higher than this can still help small agencies. Once again, there is a tradeoff. A higher threshold will take more money out of the budget but give more protection to more small agencies. The reverse applies for a lower threshold. But given the scale of agencies' budgets and the evidence received, the Committee is of the view that setting the threshold at \$50 million is a good starting point.
- 6.142 In order to assess the cost to the Budget of these various policy settings, the Committee conducted its own preliminary costing of them based on the information in Appendix D. Table 6.2 gives the results.

Table 6.2 Costings of exempting the first amount of agencies' budgets from the dividend

Threshold (\$m)	Cost to the Budget (\$m)		Proportion of the dividend (%)	
	All agencies	Small agencies	All agencies	Small agencies
10	11.0	8.8	5.3	4.2
20	18.5	14.2	8.9	6.8
30	25.2	18.7	12.1	9.0
40	30.7	22.1	14.8	10.7
50	35.3	24.6	17.0	11.9
60	39.3	26.5	19.0	12.8
70	42.9	28.0	20.7	13.5

Source Calculations based on information in Budget Paper No. 2, 2008-09. 'Small agency' defined as having annual departmental expenses of less than \$150 million. Calculations exclude departments of state, which are assumed to be subject to the full 1.25% efficiency dividend.

- 6.143 The figures are based on 1.25% of agencies' eligible appropriations (for the ordinary annual services of the Government). The Committee is satisfied that this is a reasonable basis for a preliminary costing. The total eligible appropriations in the 2008-09 Budget were \$23 billion. Calculating 2% of this amount gives \$460 million. Although this is somewhat above the figure of \$411.9 million that the Government stated it saved from the one-off 2% dividend,¹²⁷ it suggests that the costings are conservative.

¹²⁶ See the fifth row of table 6.2.

¹²⁷ Australian Government, Budget Paper No. 2, p 348.

- 6.144 The table shows that the Committee's preferred option of exempting the first \$50 million of eligible appropriations will cost \$35.3 million, or 17% of the amount that the efficiency dividend returns to the Budget. Restricting the exemption to small agencies (those with departmental expenses of under \$150 million) reduces the cost to \$24.6 million, or 11.9% of the amount that the dividend returns to the budget. The Committee believes that these amounts are an affordable way of maintaining the sustainability of small agencies.

Recommendation 8

- 6.145 **The Government either:**

- **exempt the first \$50 million of all agencies' appropriations from the efficiency dividend, excluding departments of state (the preferred option); or**
- **exempt the first \$50 million of the appropriations of all agencies that have departmental expenses of less than \$150 million, excluding departments of state.**

These benchmarks to be indexed over time.

- 6.146 In its submission, Finance expressed concern that a recommendation of this nature would reduce the incentive for small agencies to find efficiencies:

The imperative for smaller agencies to make efficiency and productivity gains is as important as it is for larger agencies. Consequently, the efficiency dividend is applied equivalently to large and small agencies, as a percentage of their expenses.

This recognises that the capacity for smaller agencies to make efficiencies need not be any less than the capacity of larger agencies.¹²⁸

- 6.147 The Committee's response to this is twofold. Firstly, the recommendation still requires small technical agencies to make efficiency improvements because of the gap between indexation and the higher cost increases faced by agencies. Secondly, the recommendation is acknowledging that small technical agencies do not have the same access to NPP money as other, more policy-oriented agencies, rather than an inherent difference in finding efficiencies. The Committee has focussed on adjusting the

128 Department of Finance and Deregulation, sub 25, p 5.

efficiency dividend rather than NPPs because the latter has a significant political dimension. Trying to use a political process such as NPPs to achieve administrative ends is unlikely to succeed.

Baseline reviews

6.148 Finance's preferred solution to agency funding problems was for an agency's Minister to approach Finance's Minister and request a funding review. Finance noted that this was a relatively rare event. Finance has conducted approximately one such review per year over the past five years.¹²⁹

6.149 As stated earlier, the difficulty with this approach is that there is a perception that requesting such a review is an admission of failure by management. The Administrative Appeals Tribunal stated:

The current system of 'financial health checks' seems to predicate itself on the fact that in order to ask for a financial health check, managers of agencies must have failed.¹³⁰

6.150 The Commission confirmed this perception in evidence.¹³¹ This perception may account for Finance's observation that the agencies it has reviewed have been in the sort of difficulty that cannot be explained simply by the efficiency dividend. Finance stated:

Generally speaking, issues that have been much more important have been project and/or financial management, outdated or inadequate funding models, or over-promising to government and not having the resources to deliver on the promises.¹³²

6.151 If the management in agencies do not wish to take the risk of being labelled incompetent because they are requesting a funding review, then they are only likely to do so in extreme financial difficulty. The low level of requests that Finance is observing for funding reviews is a product of this reluctance, rather than an indication that the various funding rules are not creating problems.

6.152 The Commission's opinion is that requesting a funding review under the right circumstances is a sign of good management:

The performance of agencies is also fundamentally dependent on the sustainability of the funding base provided by government. A

129 Dr Ian Watt, transcript, 19 September 2008, pp 3, 6.

130 Administrative Appeals Tribunal, sub 17, p 7.

131 Ms Lynelle Briggs, transcript, 19 September 2008, p 46.

132 Dr Ian Watt, transcript, 19 September 2008, pp 3-4.

high-performing agency will put a strong emphasis on managing its operations in an efficient and cost-effective way, and in pursuing continuous improvements in productivity. Nevertheless, where funding for the agency is not sustainable, whether for front line policy development, regulation and service delivery, or for support services, such as information management, a high-performing agency will be proactive about raising such issues with central agencies and with government. This is not a sign of failure, but a sign of an agency that puts a high priority on maintaining its corporate health.¹³³

6.153 The Committee supports this statement.

6.154 During the inquiry, a number of agencies either requested a regular review of funding or noted that such a mechanism did not exist.¹³⁴ The Commission itself suggested such a mechanism on a five year basis:

A regular 5 yearly review of an agency's funding could be undertaken to ensure that it is viable and able to perform its core functions on an ongoing basis. The current system is designed so that a small agency with no new policy additions, not matter how efficient, will eventually be unable to meet normal increases in running costs and require assistance from the Government to continue to operate.¹³⁵

6.155 Although this suggestion has merit, the Committee was concerned that automating these reviews every five years would lead to a large number of unnecessary reviews. Ultimately, the Committee concurred with Finance's view that instigating a review of an agency's baseline is a matter best agreed at the ministerial level.

6.156 However, evidence tendered to the Committee showed that there are ways in which these reviews can be optimised from the perspectives of both Finance and the agencies. For example, the Commission stated that management's track record in seeking efficiency improvements should be taken into account.¹³⁶ The House of Representatives Standing Committee on Banking, Finance and Public Administration also made this point in its 1994 report.¹³⁷ In the view of the Committee, it would be better practice for

133 Australian Public Service Commission, sub 54, p 10.

134 For example, Administrative Appeals Tribunal, sub 17, p 7; National Measurement Institute, sub 57 (attachment D), p 5; Australian Communications and Media Authority, sub 56, p 9.

135 Australian Public Service Commission, sub 54-3, p 1.

136 Australian Public Service Commission, sub 54, p 9.

137 House of Representatives Standing Committee on Banking, Finance and Public Administration, *Stand and Deliver: Inquiry into the Efficiency Dividend Arrangements* (1994), p 19.

agencies wishing to have their funding reviewed to demonstrate proper systems in reviewing their own expenditure. Any such systems would depend on the agency's size and functions.

- 6.157 In relation to how agencies review their expenditure, the CPSU made the observation that agencies do not make enough use of their own workforce. Staff often have useful ideas about finding efficiencies across the whole range of agency operations. Their expertise is not limited to back office functions:

We would like to propose to government that there be some bottom-up approaches to the way efficiencies and productivities are gained within agencies. I guarantee that, if you put a group of Centrelink workers into an office, perhaps here in Canberra, for a day or two and talked about not only the administrative costs but the program costs of running a number of the government services, they could come up with pages and pages of ways that greater efficiencies could be made...

Rarely are there forums that enable us to get to the heart of the matter. To the extent that they exist, they generally focus on administrative arrangements. They really focus on the paperclip end of the office as opposed to the big picture. Our members are keen to get into talking about the big picture and not about how we more efficiently purchase paperclips and photocopying paper.¹³⁸

- 6.158 The Committee believes that staff involvement is a potentially valuable method of finding efficiencies and that agencies' expenditure review systems should include staff liaison.
- 6.159 As discussed earlier in the chapter, one of the unintended consequences of the various funding rules is that agencies often look to their regional presence and regional services as a source of efficiencies. The Committee does not regard this as acceptable and believes that reduced regional activity needs to be subject to serious analysis.
- 6.160 The final point is that these reviews should take into account an agency's history in receiving NPPs. This chapter has discussed how new policy funds give agencies additional economies of scale and more capacity to prioritise their work. The corollary of this is that an extended period of not receiving any NPPs can erode an agency's funding base. The Committee notes that any such argument would need to be supported by performance and costing information. An agency could also argue that an

138 Mr Stephen Jones, transcript, 20 August 2008, p 44.

NPP was insufficient if the projected workload under-estimated actual workload. This occurred with the Ombudsman's work for the Northern Territory emergency responses.¹³⁹

6.161 In summary, the Committee believes that Finance should take the following into account when small technical agencies request a review of their baseline:

- requesting such a review is appropriate when supported by good quality performance data and evidence of systematic expenditure review within the agency;
- systematic expenditure review can include staff involvement;
- the efficiency dividend, without top-ups from new policy proposals, can erode an agency's funding base; and
- downgrading regional services and regional presence needs to be subject to cost-benefit analysis, rather than regarded as a source of convenient efficiencies.

Sharon Grierson MP
Committee Chair
December 2008

139 Professor John McMillan, transcript, 20 August 2008, p 17.



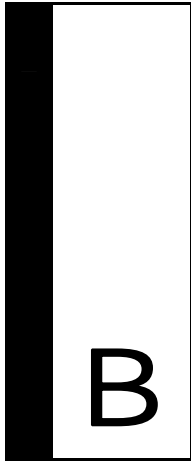
Appendix A – List of submissions

- 1 Australian Senate
- 2 Family Court of Australia
- 2-2 Family Court of Australia SUPPLEMENTARY (to Submission No. 2)
- 3 Australian Law Reform Commission
- 4 Libraries Australia Advisory Committee
- 5 Professor Alan Robson AM
- 6 National Gallery of Australia
- 7 Australian Society of Archivists
- 8 Australian Meteorological and Oceanographic Society
- 9 Hume Libraries
- 10 House of Representatives
- 11 Australian Academy of the Humanities
- 11-1 Australian Academy of the Humanities SUPPLEMENTARY (to Submission No. 11)
- 12 Equal Opportunity for Women in the Workplace Agency
- 13 Insolvency and Trustee Service Australia
- 14 High Court of Australia

- 14-1 High Court of Australia SUPPLEMENTARY (to Submission No. 14)
- 15 The Australian National Maritime Museum
- 16 Commonwealth Ombudsman
- 17 Administrative Appeals Tribunal
- 18 Federal Magistrates Court of Australia
- 19 Ms Meredith Hinchliffe
- 19-1 Ms Meredith Hinchliffe SUPPLEMENTARY (to Submission No. 19)
- 20 Mr Tom Campbell
- 21 Australia Council for the Arts
- 22 National Blood Authority
- 23 Australian Institute of Criminology
- 24 Inspector-General of Intelligence and Security
- 25 Department of Finance and Deregulation
- 25-1 Department of Finance and Deregulation SUPPLEMENTARY (to Submission No. 25)
- 26 Australian War Memorial
- 27 National Archives of Australia
- 28 Food Standards Australia New Zealand
- 29 Department of Parliamentary Services
- 29-1 Department of Parliamentary Services SUPPLEMENTARY (to Submission No. 29)
- 29-2 Department of Parliamentary Services SUPPLEMENTARY (to Submission No. 29)
- 30 Mr Rupert Gerrtisen
- 31 Federation of Australian Historical Societies
- 32 Mr Andrew Gosling
- 33 Viclink
- 34 Family Court of Western Australia

-
- 34-1 Family Court of Western Australia SUPPLEMENTARY (to Submission No. 34)
- 35 Joint Standing Committee on the Parliamentary Library
- 36 Associate Professor John Butcher
- 37 Professor David Hill
- 38 AusHeritage Ltd
- 39 National and State Libraries Australiasia
- 40 Australian Institute of Health and Welfare
- 41 National Library of Australia Council
- 42 Australian Electoral Commission
- 43 Dr Jemma Purdey
- 44 Australian Map Circle
- 45 Professor Melanie Nolan
- 46 Museums Australia
- 47 National Capital Authority
- 48 Associate Professor Charles Coppel
- 49 Professor CC Macknight
- 50 Indigenous Business Australia
- 51 Asian Studies Association of Australia
- 52 Australian Sports Anti-Doping Authority
- 53 Australian Library and Information Association
- 54 Australian Public Service Commission
- 54-1 Australian Public Service Commission SUPPLEMENTARY (to Submission No. 54)
- 54-2 Australian Public Service Commission SUPPLEMENTARY (to Submission No. 54)
- 54-3 Australian Public Service Commission SUPPLEMENTARY (to Submission No. 54)
- 54-4 Australian Public Service Commission SUPPLEMENTARY (to Submission No. 54)

- 54-5 Australian Public Service Commission SUPPLEMENTARY (to Submission No. 54)
- 55 Collections Council of Australia Ltd
- 56 Australian Communications and Media Authority
- 57 Department of Innovation, Industry, Science and Research
- 58 Community and Public Sector Union
- 58-1 Community and Public Sector Union SUPPLEMENTARY (to Submission No. 58)
- 59 Office of the Official Secretary to the Governor-General
- 59-1 Office of the Official Secretary to the Governor-General SUPPLEMENTARY (to Submission No. 59)
- 59-2 Office of the Official Secretary to the Governor-General SUPPLEMENTARY (to Submission No. 59)
- 59-3 Office of the Official Secretary to the Governor-General SUPPLEMENTARY (to Submission No. 59)
- 60 Australian National Audit Office
- 60-1 Australian National Audit Office SUPPLEMENTARY (to Submission No. 60)
- 60-2 Australian National Audit Office SUPPLEMENTARY (to Submission No. 60)
- 61 Dr Helen James
- 62 Human Rights and Equal Opportunity Commission
- 63 Walter Burley Griffin Society Inc.
- 64 CONFIDENTIAL
- 65 Federal Court of Australia
- 66 Institute of Public Administration
- 67 Australian Federation of Friends of Museums
- 68 Australian Institute of Family Studies



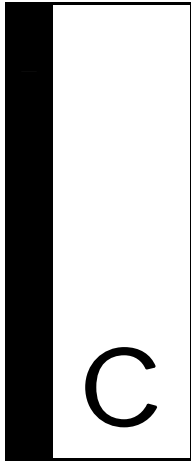
Appendix B – List of exhibits

- 1 Community and Public Sector Union
Far from equal: An analysis of pay arrangements in the Australian Public Sector

(Related to Submission No. 58)

- 2 Family Court of Western Australia
Agreement pursuant to Section 41 (1) of the Family Law Act, 1975 (26 May 1976)

(Related to Submission No. 34)



Appendix C – List of public hearings

Wednesday, 20 August 2008 - Canberra

Australian Institute of Health & Welfare

Dr Penny Allbon, Director

Mr Andrew Kettle, Senior Executive, Business Group

Ms Julie Roediger, Deputy Director

Australian National Audit Office

Mr Ian McPhee, Auditor-General

Mr Steve Chapman, Deputy Auditor-General

Mrs Dianne Rimington, Group Executive Director

Commonwealth Ombudsman

Professor John McMillan, Commonwealth Ombudsman

Mr Ron Brent, Deputy Ombudsman

Ms Jill Jepson, Senior Assistant Ombudsman

Community & Public Sector Union

Mr Stephen Jones, National Secretary

Dr Tim Dymond, Research Officer

Department of Parliamentary Services

Mr Alan Thompson, Secretary
Mr David Kenny, Deputy Secretary
Ms Judy Konig, Chief Finance Officer

Department of the House of Representatives

Mr Ian Harris, Clerk
Mr Bernard Wright, Deputy Clerk
Mr David Elder, Serjeant-at-Arms
Mr Doug Pereira, Chief Finance Officer

Family Court of Australia

Mr Richard Foster, Chief Executive Officer
Mr Grahame Harriott, Executive Director, Corporate

High Court of Australia

Mr Andrew Phelan, Chief Executive & Principal Registrar

Insolvency & Trustee service Australia

Mr David Bergman, Acting Chief Exec & inspector Gen in Bankruptcy
Mr Peter Lowe, Executive Director
Mr Bob Morison, Chief Finance Officer

Intelligence & Security

Mr Ian Carnell, Inspector-General

Thursday, 21 August 2008 - Canberra

Individuals

Ms Meredith Hinchliffe

Australian Dictionary of Biography

Professor Melanie Nolan, Director, National Centre of Biography &
General Editor

Australian Electoral Commission

Mr Ian Campbell, Australian Electoral Commissioner

Mr Paul Dacey, Deputy Australian Electoral Commissioner

Mr Andrew Baker, Chief Financial Officer

Australian Institute of Aboriginal & Torres Strait Islanders Studies

Mr Steven Larkin, Principal

Australian War Memorial

Major General Steve Gower, Director

Ms Rhonda Adler, Assistant Director, Corporate Services

National Archives of Australia

Mr Ross Gibbs, Director General

Ms Cheryl Watson, Assistant Director General, Corporate Services

Ms Karen Sheppard, Chief Financial Officer

National Gallery of Australia

Dr Ron Radford, Director

Mr Alan Froud, Deputy Director

Mr Dermot Walsh, Chief financial Officer

National Library of Australia

Dr Warwick Cathro, Acting Director-General

Mr Gerry Linehan, Assistant Director-General, Corporate Services

The Australian Academy of the Humanities

Emeritus Professor Graeme Clarke, Honorary Secretary

Professor Deryck Schreuder, Fellow of the Academy

Monday, 8 September 2008 - Sydney**Administrative Appeals Tribunal**

Mr Douglas Humphreys, Principal registrar

Ms Megan Cassidy, Assistant Registrar

Mr Steve Wise, Chief Financial Officer

Australian Communications and Media Authority

Mr Chris Chapman, Chairman

Mr Chris Cheah, Acting Deputy Chair

Ms Dianne Carlos, General Manager, Corporate Services

Mr Derek Ambrose, Chief Financial Officer, Executive Manager
Finance and Facilities

Australian Law Reform Commission

Professor David Weisbrot, President

Ms Sabina Wynn, Executive Director

Australian National Maritime Museum

Ms Mary-Loiuse Williams, Director

Mr Peter Rout, Assistant Director, Corporate & Operations

Federal Court of Australia

Mr Warwick Soden, Registrar/Chief Executive

Mr Gordon Foster, Executive Director

Mr Peter Bowen, Chief Finance Officer

Federal Magistrates Court of Australia

Mr John Mathieson, Chief Executive Officer

Ms Anne Hicking, Executive Director, Corporate Services

Human Rights and Equal Opportunity Commission

Ms Susan Roberts, Executive Director

Mr Darrell Yesberg, Acting Finance Manager

The Equal Opportunity for Women in the Workplace Agency

Ms Anna McPhee, Director

Mrs Bharti Desai, Chief Financial Officer

Wednesday, 17 September 2008 - Canberra**Australian Federation of Friends of Museums**

Mrs Carolyn Forster, President

Ms Judy Kean, Committee Member

Friday, 19 September 2008 - Canberra**Australian Public Service Commission**

Ms Lynelle Briggs, Australian Public Service Commissioner

Ms Lynee Tacy, Deputy Public Service Commissioner

Ms Jacqui Curtis, Group Manager-Programmes

Ms Karin Fisher, Group Manager, Corporate Group

Mr Patrick Palmer, Group Manager-Regional Services

Ms Nicole Pietrucha, Group Manager- Evaluation

Mr David Mylan, Chief Finance Officer

Australian Research Council

Mr Len Marsden, Chief Operating Officer

Mr Andrew Cameron, Director Resources

CSIRO

Mr Allan Gaukroger, Chief Finance Officer

Department of Finance and Deregulation

Dr Ian Watt, Secretary

Dr Paul Grimes, General Manager

Mr David Nicol, A/g Division Manager

Department of Innovation, Industry, Science and Research

Ms Melissa McClusky, Head of Division

Institute of Public Administration Australia

Mr Andrew Podger, National President

Joint Standing Committee on the Parliamentary Library

Mr Dick Adams, Joint Chair

Senator Russell Trood, Joint Chair

Ms Roxanne Missingham, Secretary and Parliamentary Librarian

National Capital Authority

Mr Christopher Doogan, Interim Chief Executive

Mr Gary Rake, Managing Director, Finance and Estate

Mr Phillip Wales, Managing Director Governance

National Measurement Institute

Dr Laurence Besley, Chief Executive

Questacon

Prof Graham Durant, Director

The Office of the Official Secretary to the Governor-General

Mr Brien Hallett, Deputy Official Secretary to the Governor General

Mr Stephen Murtagh, Director Corporate Services

Wednesday, 22 October 2008 - Canberra

Family Court of Western Australia – Department of the Attorney-General

Mr Gavan Jones, Director, Higher Courts

Mr Liam Carren, Manager, Strategic Business Services

Mr Andrew Crossthwaite, Principal Financial and Resources Analyst

Australian Nuclear Science and Technology Organisation

Dr Ron Cameron, Acting Chief Executive Officer

Mr Douglas Cubbin, Acting Chief of Operations
and Chief Financial Officer

D

Appendix D – List of agencies

This table lists all agencies in the Portfolio Budget Statements in ascending order of size (measured by total departmental expenses). It also shows how much of their appropriations are subject to the efficiency dividend. The final column shows how much money is kept by the agency if the Committee's preferred option in chapter 6 is implemented. This option is to exempt the first \$50 million of all agencies' appropriations (excluding departments of state) that would normally be subject to the efficiency dividend.

Agency	Expenses	Appropriations	Costing
	(\$m)	(\$m)	(\$K)
Criminology Research Council	0.6	0.3	4
Corporations and Markets Advisory Committee	1.1	1.0	13
Export Wheat Commission	1.6	0.0	0
Private Health Insurance Ombudsman	2.0	2.0	25
Inspector-General of Int. and Security	2.0	1.9	24
Inspector-General of Taxation	2.2	2.2	27
Australian Commission for Law Enforcement Integ.	2.8	2.8	35
National Competition Council	2.8	2.8	35
Australian Law Reform Commission	3.5	3.4	42
Cancer Australia	3.7	3.7	46
Private Health Insurance Administration Council	4.8	0.0	0
Office of the Renewable Energy Regulator	4.9	4.9	61
Teaching Australia	4.9	0.0	0
Professional Services Review	5.9	5.8	73
Privacy Commissioner	7.3	6.4	81
Australian Fair Pay Commission	7.5	7.5	93
Commonwealth Grants Commission	7.8	7.8	98

Agency	Expenses	Appropriations	Costing
	(\$m)	(\$m)	(\$K)
National Water Commission	8.5	8.4	105
Sydney Harbour Federation Trust	8.9	0.0	0
Australian Institute of Criminology	9.1	7.2	90
Australian Office of Financial Management	9.3	8.5	106
National Blood Authority	9.4	4.9	61
Office of Parliamentary Counsel	9.5	9.4	117
Cotton Research and Development Corporation	9.7	0.0	0
Sugar Research and Development Corporation	11.3	0.0	0
Australian Institute of Family Studies	11.6	4.0	50
Office of the Off'l Secretary to the Governor-General	11.8	11.7	146
National Offshore Petroleum Safety Authority	12.2	0.0	0
Australian Sports Anti-Doping Authority	14.5	12.7	159
National Capital Authority	15.4	13.7	171
High Court of Australia	15.5	15.2	190
Australian Institute of ATSI Studies	15.5	11.9	149
Australian Research Council	15.9	15.9	198
Australian Wine and Brandy Corporation	16.0	0.0	0
Human Rights and Equal Opportunity Commission	17.1	13.6	169
Australian Reward Investment Alliance	17.7	0.0	0
Commonwealth Ombudsman	19.5	17.7	222
Future Fund Management Agency	20.3	0.0	0
Food Standards Australia New Zealand	20.4	17.2	215
Biosecurity Australia	20.9	20.8	261
Rural Industries R&D Corporation	22.8	0.0	0
Australian Film Television and Radio School	23.9	23.3	291
Australian Pesticides and Vet. Med. Authority	24.3	0.6	8
Department of the Senate	24.5	20.3	253
Australian Radiation Prot. and Nuc Saf. Authority	24.8	15.6	195
Land and Water Resources	24.9	0.0	0
National Film and Sound Archive	25.2	25.2	315
Grape and Wine R&D Corporation	25.8	0.0	0
Department of the House of Representatives	26.0	21.9	274
Australian Institute of Health and Welfare	26.9	8.6	108
Fisheries Research and Development Corporation	27.1	0.0	0
Carrick Institute	29.5	0.0	0
Australian National Maritime Museum	29.8	23.1	288
Productivity Commission	31.1	30.8	384
Office of National Assessments	32.0	32.0	400
Native Title Tribunal	32.4	32.2	402
Australian Building and Construction Commission	32.8	32.8	410
Administrative Appeals Tribunal	33.9	31.8	398

Agency	Expenses	Appropriations	Costing
	(\$m)	(\$m)	(\$K)
Aged Care Standards Accreditation Agency	37.5	0.0	0
Insolvency and Trustee Service Australia	38.0	36.3	454
National Health and Medical Research Council	38.9	35.6	445
Migration and Refugee Review Tribunals	39.9	39.8	497
Australian Public Service Commission	41.3	21.7	271
Great Barrier Reef Marine Park Authority	42.0	20.5	256
CrimTrac	45.1	6.1	77
National Museum of Australia	45.6	40.3	503
Australian War Memorial	46.6	38.6	482
Aboriginal Hostels Ltd	48.3	34.3	429
Australian Institute of Marine Science	48.9	27.7	346
National Gallery of Australia	49.7	41.8	522
Torres Strait Regional Authority	53.5	51.9	625
AUSTRAC	54.4	54.1	625
Indigenous Business Australia	55.3	37.9	473
Department of Climate Change	55.5	55.5	0
Australian Industrial Relations Commission	56.3	0.0	0
Royal Australian Mint	56.5	0.0	0
Australian Fisheries Management Authority	59.9	0.0	0
Director of National Parks	59.9	0.0	0
Australian National Audit Office	64.4	62.1	625
Australian Centre for International Ag'l Research	65.7	52.3	625
National Archives of Australia	69.6	66.3	625
Workplace Ombudsman	70.8	70.7	625
National Library of Australia	71.0	57.7	625
Federal Magistrates Court	72.7	55.8	625
Department of Resources, Energy and Tourism	76.0	69.2	0
General Practice Education and Training	82.3	0.0	0
Comsuper	84.6	7.1	88
Australian Communications and Media Authority	94.5	93.0	625
Department of Prime Minister and Cabinet	94.8	93.0	0
Australian Prudential Regulation Authority	98.6	5.0	63
Federal Court of Australia	102.1	77.5	625
Department of Broadband, Communications etc.	105.4	103.7	0
Indigenous Land Corporation	107.5	0.0	0
Australian Crime Commission	109.0	96.7	625
Director of Public Prosecutions	109.9	107.4	625
Screen Australia	110.8	31.4	392
Workplace Authority	113.1	113.1	625
Australian Electoral Commission	113.3	91.3	625
Australian Maritime Safety Authority	120.4	49.4	617

Agency	Expenses	Appropriations	Costing
	(\$m)	(\$m)	(\$K)
Grains Research and Development Corporation	121.0	0.0	0
Department of Parliamentary Services	123.2	116.9	625
AusAID	129.7	129.4	625
IP Australia	132.9	6.0	74
Family Court	137.0	126.6	625
Australian Competition and Consumer Commission	139.8	139.2	625
Civil Aviation Safety Authority	149.1	45.9	574
Department of the Treasury	157.3	146.4	0
Tourism Australia	166.1	135.6	625
Geoscience Australia	173.4	138.6	625
Australia Council	179.5	160.6	625
Australian Security and Intelligence Service	182.5	164.7	625
Austrade	208.7	180.4	625
Australian Nuclear Science and Technology Org'n	225.2	173.1	625
Department of Infrastructure, Transport etc	238.5	230.0	0
Australian Sports Commission	241.7	219.8	625
Attorney-General's Department	254.4	230.1	0
Bureau of Meteorology	269.0	244.8	625
Australian Bureau of Statistics	300.7	282.8	625
Australian Securities and Investments Commission	310.5	299.0	625
Department of Veterans' Affairs	330.1	303.2	0
Department of Innovation, Industry, Science etc.	335.5	288.8	0
Australian Security and Intelligence Organisation	358.4	352.7	625
Comcare	370.6	5.8	72
Department of Finance and Deregulation	378.4	225.0	0
Department of the Environment, Water, Heritage etc.	585.6	469.9	0
Department of Agriculture, Fisheries and Forestry	609.4	334.9	0
Department of Health and Ageing	679.3	561.7	0
Department of Human Services	682.7	474.1	0
Medicare	691.1	608.4	625
Department of Foreign Affairs and Trade	833.9	821.9	0
CSIRO	1,046.1	668.1	625
Australian Federal Police	1,228.5	1,009.4	625
Department of Immigration and Citizenship	1,238.3	1,185.0	0
Australian Customs Service	1,303.2	1,011.2	625
Department of Families, Housing etc.	1,535.5	1,513.7	0
Department of Education, Employment etc.	1,957.3	1,883.7	0
Centrelink	2,772.6	607.2	625
Australian Taxation Office	2,924.1	2,861.1	625
Department of Defence	20,311.6	2,274.9	0
Totals	47,805.1	23,018	35,305

Source Australian Government, Agency Resourcing, Budget Paper No. 4, 2008-09, Portfolio Budget Statements for 2008-09 and JCPAA analysis. 11.2% of the Department of Defence's expenditure is subject to the efficiency dividend, hence the much lower figure in the appropriations column for this agency.