

# AUSTRALIAN NATIONAL MARITIME MUSEUM

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## A SUBMISSION TO THE:

### THE JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

#### Inquiry into the Effects of the Ongoing Efficiency Dividend on Smaller Public Sector Agencies

<b>GENERAL</b>
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The efficiency dividend is calculated as a percentage of the Australian National Maritime Museum's ANMM total appropriation funding.

The ANMM's baseline appropriation funding for the 2008/09 financial year was \$23.60 million of which \$9.61 million is appropriated for depreciation of non collection assets.

The payment of the 3.25% efficiency dividend reduces the funds available to the museum by \$767,000 for the subject year

The \$9.61 million appropriated for depreciation is for asset replacement and is a non-discretionary expense. Of the remaining \$13.6 million available to fund the museum's operations a further \$3.0 million is non-discretionary in that it is required to pay for long term contractual commitments for security, front of house and cleaning services, offsite storage and for the supply of energy.

A further \$3.6 million is required to pay for essential services, eg, maintenance of the fire alarm and control systems, the maintenance of primary business systems, and, uniquely for the ANMM, to maintain and operate its in water fleet of heritage vessels.

The net result is that the ANMM's discretionary appropriation funding, from which the efficiency dividend can be deducted and paid, is only \$7.0 million.

A \$767,000 reduction from this amount equates to an effective 11% reduction in the museum's discretionary appropriation funding, ie, the funding the museum receives from the government to develop, research and conserve the National Maritime Collection, and to provide programs and services, including online access to the collection and exhibitions, for the public.

It is acknowledged that the museum, by means of the annual indexation adjustment, receives a cumulative increase in its appropriation each year. However, the amount received is based on the museum's funding excluding depreciation, and for the 2008/09 financial year totalled only \$138,000.

The museum's increase in salaries for the 2008/09 financial year, in accordance with its collective agreement, totals \$322,000, to which must be added increases in the costs of essential services and supplies. Electricity supply costs alone have increased by \$180,000.

Accordingly, from its discretionary funding the museum is required to save a further net \$364,000 to pay for salary increases and for the increase in electricity supply charges effective from the 1<sup>st</sup> July 2008.

It is noted that apart from depreciation the museum's primary expense is salaries. The museum employs 110 APS staff with a total expenditure on salaries for the 2008/09 financial year forecast to be \$8.245 million. A reduction of 10 staff will result in savings of the order of \$750,000, which is almost sufficient to cover the efficiency dividend payment for the 2008/09.

Therefore, after 20 years of absorbing a cumulative annual reduction in its appropriation funding due to the efficiency dividend, and ever rising costs, the museum has reached a stage whereby further reductions in funding, and future cost increases, can only be met by reducing the museums core programs and services and by cuts to staff numbers.

## SPECIFIC

*Since 1987-88 an annual "efficiency dividend" has been applied to the operational appropriations of Commonwealth public sector agencies. The annual rate of the dividend currently stands at 1.25 per cent, with the Government imposing an additional one-off 2 per cent additional efficiency dividend for 2008-09 appropriations (with a pro-rata reduction in 2007-08 appropriations). The Joint Committee of Public Accounts and Audit has advised that it 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;*

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As a small agency, the ANMM experiences significant disadvantage compared to larger agencies.

With just over 100 employees economies of scale are not achievable, noting that many business critical functions are covered by one or two members of staff. Reducing the number of staff performing a function may in fact mean that the function cannot be performed.

Further, despite being a small agency the ANMM is still required to comply with all regulatory and government policy requirements (eg, corporate governance, financial reporting, external budgeting, compliance certificate, statutory reporting and other compliance requirements), ie, it is not an option not to perform these functions.

In respect to new policy proposals the museum has clearly defined functions and there are limited opportunities to expand or redefine these functions in a way that would attract additional or increased funding by the means of a new policy proposal.

The museum's new policy proposals are usually associated with facilities improvement or upgrades.

As for other commonwealth collecting agencies a significant proportion of the funds appropriated to the ANMM by government are tied to the maintenance of its asset base. Of the \$23.6 million appropriated almost half is so tied.

In addition, a significant proportion of the remaining funds are required for non discretionary expenditure on the services required to operate a national museum, open to the public on every day of the year except for Christmas day.

In summary, unlike a large department or agency, a large proportion of the funding provided by government to a collecting agency is for non discretionary services and there is no effective means by which the efficiency of the delivery of these services can be improved to the extent that an efficiency dividend can be realised.

Therefore the application of the efficiency dividend to the total amount appropriated to a small agency has a disproportionate impact, ie, as noted above the 3.25% efficiency dividend reduces the discretionary component of its appropriation by 11%.

- *whether the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate;*
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The impact of the efficiency dividend (particularly the one-off increase for the 2008/09 financial year) has required the ANMM to reduce programs and services for the first time.

A major international exhibition on the French explorer, La Perouse, has been cancelled, and a medium sized exhibition entitled 'On the Waterfront' has been reduced in scope and deferred until 2010.

The affects will be more severe next financial year, assuming that the ANMM will be required to pay the efficiency dividend, (even at the rate of 1.25%), salary and other costs increase as expected, and there is no change to the method of calculating the annual indexation adjustment.

It is noted that the museum has sought, through comprehensive process of consultation and negotiation with its staff, at all levels, to identify and implement the productivity improvements necessary to offset the pay rises associated with the last three union collective agreements.

The relevant point is that the museum has engaged in a rigorous and exhausting process on three occasions over the last nine years to review all aspects of its operations to identify, develop and implement productivity improvements sufficient to offset pay rises for its staff necessary for them to maintain relativity and living standards.

There are no longer any easy, or obvious, productivity improvements to be made sufficient to offset the expected and required pay rises and also to fund the payment of an annual cumulative efficiency dividend to the government.

As noted above, after 20 years of absorbing a cumulative annual reduction in its appropriation funding due to the efficiency dividend, and ever rising costs, specifically salary increases, the museum has reached a stage whereby further reductions in funding, and future cost increases, can only be met by cost savings achieved by reducing the museum's core programs and services and by significant cuts to staff numbers.

A further general point is that one of the ANMM's core functions is to grow and develop the National Maritime Collection. There are significant additional costs associated with growing a national collection, including research and development, acquisition, conservation and preservation and storage.

There appears to be no consideration of this fact, ie, that costs are increasing as a direct consequence of the museum performing one of its core functions and yet no means of increasing the appropriation to cover these increased costs.

The net result will be that the museum will not be able to afford to undertake a core function or its discretionary funds will be further reduced if it continues to grow the collection.

Clearly a strategy of decreasing operational funding for a collecting institution is inconsistent with an acceptance and acknowledgement of its role to develop and grow a national collection with associated public access and storage requirements.

- *what measures small agencies are taking to implement the efficiency dividend, and the effect on their functions, performance and staffing arrangements;*
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In the past the museum has invested in computer based systems to improve its performance and reduce costs, eg, software for the management of the National Maritime Collection. It has also outsourced non core functions such as security, front of house, IT support and building maintenance services.

However, there are now only limited measures remaining that the museum can take to improve performance and reduce costs which do not impact adversely on its statutory functions, performance and staffing arrangements. These measures will not result in cost saving sufficient to cover the payment of the efficiency dividend.

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

For the following financial year it will further reduce its exhibition program, with the likelihood that its extensive travelling program, 'Sail Away', taking maritime themed exhibitions to regional Australian, will have to be scaled back dramatically.

A reduced exhibition program will necessitate a review of the organisation, and specifically staffing arrangements for the development, creation, display and promotion of exhibitions, with further cost savings likely from staff reductions in these areas.

The museum's heritage vessels, and in particular, its major vessels, being the destroyer HMAS *Vampire*, the submarine HMAS *Onslow*, and the replica HMB *Endeavour*, are costly to maintain, and in the case of *Endeavour*, to sail. It is noted that vessel maintenance costs increase with age.

Accordingly, in the context of its strategic plan, and with due consideration of the impact of the continued payment of the efficiency dividend, the future of these vessels at the museum will be reviewed.

The museum has invested in the development of its web site, and more specifically in the development of new online services, and sources of information, using Web 2.0 technologies. To further develop and maintain these services and information sources requires the establishment of in house resources capable of generating and uploading the required digital content.

Further reductions in the museum's discretionary appropriation funding will prevent this from happening and may lead to the loss of the investment made to date in the creation of these services.

- *any impacts 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;*
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The ANMM is not covered by the FMA Act and therefore section 31 has no application. Be that as it may the ANMM has other well developed and secure sources of funds to supplement its annual appropriation from government and there are no direct adverse impacts of the efficiency dividend on these sources, or on the ANMM's ability to identify and develop new sources.

If, however, the ANMM is required to reduce its programs and services, as a consequence of the efficiency dividend, then it is likely that the amount of funds received from these alternative sources will be reduced.

For example, the ANMM charges the public to access its vessels but does not charge it to access its exhibitions. A reduction in the number, or quality, of its temporary exhibitions, and the marketing and promotion of these, will result in fewer visits to the museum and less people taking the opportunity to buy a ticket to visit the vessels.

It is noted that the ANMM also derives additional funds from hiring out its venue spaces, leasing office space and facilities to commercial entities, operating a museum shop, running special events and visitor programs, from sponsors and from its members program.

- *how application of the efficiency dividend is affected by factors such as the nature of an agency's work (eg, cultural, scrutiny, or regulatory functions) or the degree of discretion in the functions performed by smaller agencies; and*
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See comments above. The nature of the ANMM's 'work', ie, to collect, conserve, store and display the national maritime collection, means that it must provide and maintain significant physical assets (buildings, grounds and wharves) and is required to allow safe and secure access to these assets to the public on every day of the year except Christmas day.

The cost of providing these facilities, and access to them, is a cost that is unique to a collecting agency and is not discretionary. It is also now a cost which cannot be reduced by further improvements in efficiency, or increased productivity, as the options that were available have been identified, developed and implemented.

- *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 of function.*
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An across the board efficiency dividend is not considered an effective means of encouraging efficiency in the Commonwealth public sector. In its application there is no consideration of an agency's ability to pay, ie, its ability to improve performance and productivity to the extent that it can actually realise savings sufficient to pay the dividend.

For example, an agency that is efficient with tightly controlled costs, and funding to match, is treated exactly the same as an agency that is inefficient with appropriation funding well in excess of its true cost of operations. The former must cut programs and services to pay the dividend. The latter may not be required to change anything.

It is therefore the ANMM's view that the efficiency dividend is no longer an appropriate means of encouraging efficiency in the Commonwealth public sector, particularly for a small agency.

Any alternative must consider the performance of an agency and the funding it receives compared with its non discretionary and discretionary costs. It also must be based on objective measures of performance.

In addition, an alternative system must take into consideration the fact that the current annual indexation adjustment received by an agency falls well short of compensating an agency for the increase in costs, year on year, due the rise in the CPI, and in particular due to salary increases arising from negotiated collective agreements.

In respect to efficiency, the fact that pay rises for staff must be offset by quantifiable productivity improvements and funding from existing funds should also be considered when developing an alternative system.

## CONCLUSION

On the 24 March 1994, Mr Simmons, (Member for Calare), on behalf of the Standing Committee on Banking, Finance and Public Administration, presented to parliament the report entitled *Stand and deliver: inquiry into the efficiency dividend arrangements*.

He stated in his presentation:

*'Another issue which was of concern to the committee was the situation of small agencies. It is obvious that some small agencies do have particular difficulties with the efficiency dividend; however, there is no evidence that any are in dire peril.'*

He further stated:

*'The committee was of the view that the efficiency dividend can be characterised as a blunt but effective instrument. It is unfair and takes no account of ability to pay.'*

14 years later, in 2008, the 'situation' of small agencies is still of concern, and while dire peril may not be an appropriate description of the situation that the ANMM now finds itself in, it is reasonable to say that it will have to significantly reduce the level, and quality, of the programs and services it provides to the public.

This is a direct consequence of the real reduction in the funding it receives from government resulting from the application of a compounding efficiency dividend.

The efficiency dividend remains a blunt instrument. It is a macro measure that overlooks the potential for negative impacts at the micro level, impacts that increase year on year. Its continued application to a small cultural agency, with significant non discretionary costs, is unfair.

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

**Mary-Louise Williams**  
**Director**

4<sup>th</sup> July 2008