

Australian War Memorial Submission – Inquiry into the effect of the efficiency dividend on small agencies

Comments against the terms of reference are as follows:

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

The Memorial’s annual Appropriation for ongoing activities is \$38.6m (2008/09). This amount covers three major categories of expenditure: depreciation (\$15.4), employee costs (\$13.9m), and general operational expenses (\$9.3m).

The efficiency dividend (ED) is applied to all categories of funding, however parameter adjustments for cost increases are not applied to depreciation funds. The value of the 1.25% ED in 2008/09 is \$438,000 and the additional 2% ED is \$759,000. This is a total of \$1,197,000.

In accordance with government policy, funds for employee costs attract a total ED of 3.25%. In addition, the Memorial is required to deliver an annual pay increase in accordance with its Collective Agreement. In 2008/09 this is 4%. Therefore in this instance, the Memorial is required to identify productivity savings of 7.35% against its salary budget.

Funds for operational expenses not only reduce by the 3.25% but the Memorial has been required to meet the increased costs of non-discretionary activities, in particular insurance and energy expenses. A further impact of significant cost is a direct knock-on from the recent cuts to the National Capital Authority which has led to its support for the Memorial’s site ceasing from 30 June 2008. This will result in the Memorial having to absorb costs in the vicinity of \$250,000 p.a. for maintenance. Not only is the Memorial being affected in its operations by the ED, it is also being affected directly by the implications of other government cuts.

A snapshot of the Memorial’s non-discretionary expenditure activities is as follows:

	\$
Depreciation funding (these funds are tied and are essential for asset replacement)	15.4m
- Buildings \$2.8m	
- Plant & Equipment \$1.1m	
- Collection \$8.7m	
- Software \$0.5m	
- Exhibitions \$2.3m	
IT, hardware and lease	1.1m
Building maintenance and works	2.2m
Insurance	0.4m
Salary (supported by government funding)	13.9m
Overheads (gas, electricity, water and sewerage, phones, postage etc)	2.3m
Cleaning and security	1.4m
OH&S and Staff Development	0.8m
Governance (Council and audit)	0.3m
Core functions (Commemoration etc)	0.8m
Total (Government Appropriation 2008/09)	\$38.6m

From the above table, it is apparent that the 2% increase in the ED (\$759,000) almost totally erodes the small balance of Appropriation funding available for core activities in support of the Memorial's functions as defined in the *Australian War Memorial Act 1980*.

- ***whether the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate;***

The Memorial's ability to deliver core (non-salary) functions in support of some of its outputs such as:

- Commemorative Ceremonies;
- Exhibitions;
- Interpretative Services;
- Promotion and Community Services;
- Research, Information and Dissemination; and
- Visitor Services.

is primarily through NON-government sources of funding. This is generated through Shop and Online sales, catering services, interest revenue, public events, school programs, donations, sponsorships and resources received free of charge. In 2008/09 these sources of funds are projected to contribute \$7m (43% of ongoing non-salary operational expenses and 15% of total funding).

The ongoing application of an ED will increase the importance of NON-government funding sources to cover expenses relating to both non-discretionary and core functions.

- ***what measure small agencies are taking to implement the efficiency dividend, and the effect on their functions, performance and staffing arrangements;***

The Memorial has applied the 1.25% ED to each of the relevant categories of funding. However, for 2008/09, the additional 2% ED was applied, in total, to depreciation funding. This strategy was adopted so as not to impact on staffing and general activities in 2008/09 while a longer term strategy can be developed, such a strategy cannot yet be determined given present uncertainties with the future of depreciation funding. For 2008/09, there is no real impact on Memorial programs and services to the public and veterans but it does result in the Memorial having reduced capacity to accumulate reserves for investment/reinvestment in its capital assets which include the National Collection, Exhibition development, software, buildings and plant and equipment replacements. Council has accepted that this strategy is not sustainable moving forward. This means that the Memorial will probably have no option but to reduce staffing levels and other activities from 2009/10 onwards. The extent to which reductions will be needed is directly dependent of the level of NON-government support that can be secured: this will be no easy task given current economic circumstances. It is hoped that any staff reductions are achieved via natural attrition as the Memorial does not have any cash reserves available to support redundancies.

- ***any impact of the efficiency dividend on the use by small 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;***

The Memorial, being an agency that operates under the *Commonwealth Authorities and Companies Act 1997* (CAC) is not subject to S 31 agreements. Non-government funding sources as outlined above are a key source of funding and all endeavours to increase this source are pursued. These funds are not subject to any ED. Again, it is emphasised that the difficulty at the moment in seeking an increase in non-government funding is the prevailing adverse economic circumstances.

- ***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***

Clause 5 (1) of the *Australian War Memorial Act 1980*. states 'the functions of the Memorial are –

- (a) to maintain and develop the national memorial referred to in as a national memorial of Australians who have died –
 - (i) on or as a result of active service; or
 - (ii) as a result of any war or warlike operations in which Australians have been on active service;
- (b) to develop and maintain, as an integral part of the national memorial referred to in paragraph (a), a national collection of historical material

This function by its very nature means that the intent and purpose of the Memorial is to develop and grow. Practically, it means that the National Collection will continue to be enhanced through acquisitions, including those from the art and photography commissioning program, associated with Australia's ongoing defence deployments. To apply an ED to such activities could be considered as contrary to realising the Memorial's charter. There is also the matter of ongoing care and management of this nationally significant asset.

There is also increasing visitation to the Memorial (both physical and online). Attendance at major national ceremonies (ANZAC and Remembrance Day) is continuing to increase. The plaque dedication program still attracts high levels of inquiry and participation. Public requests for information about Australia's involvement in conflicts continue to increase. VIP visits have increased over recent years. Most of these have an important high level international relations component. Major anniversaries need to be appropriately commemorated, and there is an increasing demand for the public to be informed of Australia's involvement in recent and current conflicts.

- ***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.***

The Memorial submits that the application of an ED across the board does not take into consideration the unique nature of any agency and its functions. In the Memorial's case, it has a disproportionate effect.

There has long been ongoing pressure on agencies to operate more efficiently and identify productivity increases to meet the increasing costs associated with normal business operations. Meeting these (as outlined above) without the provision of additional funding has longed required the Memorial to continually improve its efficiency. The Memorial's demonstrated ability to deliver its responsibilities to the high standard and profile it achieves, noting that it receives the lowest level of Appropriation Budget among all cultural institutions, is testament to its ability to achieve value for money and a high level of productivity.

It is expected there will be some serious implications for Memorial operations in Financial Year 2009/10 when the ED will have to be applied to salary and general operations. Reference to this reduced funding as an 'efficiency' dividend is misleading – this will not be a case of doing the same with less; this will be about reducing services and programs.