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JOINT COMMITTEE OF PUBLIC ACCOUNTS
AND AUDIT

GOVERNMENT RESPONSE TO REPORT 413

***‘THE EFFICIENCY DIVIDEND AND SMALL
AGENCIES: SIZE DOES MATTER’***

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

(JCPAA) REPORT NO. 413

'The efficiency dividend and small agencies: size does matter'

Recommendation No. 1

The Committee recommends that, 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.

Not agreed. In the 2009-10 Budget, the Government announced that it will provide an additional \$20.1 million over four years to increase the resource base of the Australian National Audit Office (ANAO). This will allow the ANAO to enhance its auditing activities, including performance audits, information technology audits and other specialist audit activities and increase technical support and quality assurance capability.

The Government considers it appropriate that decisions on the future funding for the ANAO continue to be subject to the usual budgetary processes in which proposals for additional funding are considered against other competing priorities.

Recommendation No. 2

The Committee recommends that 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.

Noted. The Government considers it appropriate that decisions on the future funding for the parliamentary departments continue to be subject to the usual budgetary processes in which proposals for additional funding are considered against other competing priorities.

The Speaker of the House of Representatives and the President of the Senate are, of course, still able to put forward funding proposals in accordance with the budgetary rules and processes in place at the time. It is open to the Speaker and President to make arrangements to increase the input by elected representatives into such proposals as they see fit.

Recommendation No. 3

The Committee recommends that 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.

Agreed in principle. The Minister for Finance and Deregulation announced on 9 December 2008, as part of Operation Sunlight, that the Government would phase out funding of depreciation and other non-cash items and introduce the appropriation of general government sector agencies on the basis of net cash requirements. The new arrangements have been introduced from the 2009-10 Budget for Collecting Institutions (such as the National Library of Australia, the Australian War Memorial, and the National Gallery of Australia) which have been provided with a Collection Development Acquisition Budget for Heritage and Cultural assets.

This revised funding model provides greater transparency of appropriations to agencies and their use in the acquisition, maintenance, replacement and disposal of assets.

The Government does not consider that the development of funding models for cultural agencies requires the direct involvement of the Australian Public Service Commissioner.

Recommendation No. 4

The Committee recommends that 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.

Not agreed. The Government considers it appropriate that decisions on the future funding for the courts continue to be subject to the usual budgetary processes in which proposals for additional funding are considered against other competing priorities and in light of prevailing budget constraints.

The Government notes that 'courts and tribunals' are one of fifteen matters listed under the mantle of 'law and justice' within the Attorney-General's Department (according to the Administrative Arrangements Order dated 25 January 2008). The Government does not consider there to be a case for the excision of this one function over the fourteen others for the purposes of the budget process. Such action could also set an undesirable precedent in relation to the functions of other Departments of State. Furthermore, as the courts are already appropriated on an individual basis within the Attorney-General's portfolio, the Government is unable to discern that any advantage would be achieved by treating the courts as a separate portfolio under the Attorney-General.

Recommendation No. 5

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

Noted. The Government considers that establishing separate appropriation bills for the courts would not, in itself, lead to increased efficiency or enhanced transparency nor provide any additional financial benefits to the courts. The courts would remain subject to the Government's normal budgetary processes and practices, including the new policy proposal process, the efficiency dividend, and parameter indexation arrangements.

This recommendation is being further considered by the Government in relation to the High Court.

Recommendation No. 6

The Committee recommends that, where Finance generates savings through coordinated procurement, 50 per cent of the savings should be made available to the agencies for investment in projects designed to lift their efficiency and effectiveness.

Noted. The Government realises savings through both agency and program specific measures, and through whole of government measures. It determines the allocation of all resources, including those savings generated by coordinated procurement in the context of its overall fiscal strategy and objectives.

For example, in January 2009, the Government established a Volume Sourcing Arrangement (VSA) with Microsoft, as the first of several initiatives to be completed under the Government's Coordinated Procurement Contracting Framework. The Microsoft VSA is expected to deliver annual savings of at least \$15 million, for four years commencing in July 2009. Under the VSA, agencies retain any savings made, less a small administration fee.

Similarly, the Government has developed Guidelines on Recruitment Advertising that will specify the maximum size and placement of recruitment advertisements. The use of these guidelines is expected to result in more efficient recruitment advertising expenditure across FMA Act agencies, delivering value for money for taxpayers. The Government has decided that any savings achieved by a department or agency from applying the Guidelines on Recruitment Advertising may be retained by the relevant department or agency.

Recommendation No. 7

The Committee recommends that the Department of the 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.

Agreed in part. A Working Group, comprising the Departments of: the Prime Minister and Cabinet; Education, Employment and Workplace Relations; Treasury, and Finance and Deregulation; and the Australian Public Service Commission will undertake further work in this area including an examination of the relationship between wage disparities and agency size and function and the adequacy of classification management arrangements (within and across agencies).

Consideration will be given to the publication of the Working Group's findings following completion of this work. Any need for supplementary funding for additional data collection by Australian Public Service agencies will be considered as part of the normal budget processes and subject to budget constraints.

Recommendation No. 8

The Committee recommends that 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.

Not agreed. While the Government appreciates the work of the Committee in the formulation of the above recommendations, it notes that the efficiency dividend framework has been an integral part of successive governments' efforts to introduce an effective mechanism to secure public service efficiencies, thus allowing the Australian taxpayer to share in these gains. It also reiterates that the efficiency dividend is intended to provide an ongoing incentive for agencies to operate efficiently and make further productivity gains, irrespective of their size.

The Government considers that it is reasonable to expect agencies to pursue efficiencies which enable the Government to consider priorities for reallocating resources. In response to the claim that efficiencies have generally been delivered by small agencies and that the impact of the efficiency dividend is now resulting in reductions in outputs, the Government considers that the pursuit of efficiencies is an ongoing process, and there is an imperative for both small and larger agencies to contribute.

The Government accepts that, from time to time, circumstances may arise in individual smaller agencies that magnify the impact of the efficiency dividend. The Government believes that, where this does occur, the situation should be addressed individually on its merits, rather than by a blanket exemption. To this end, in the 2009-10 Budget the Government provided an additional \$20.1 million over four years (including capital funding of \$0.9 million) to the Australian National Audit Office for enhanced professional capability.

