



DPS ref: 08/1420

14 July 2008

Mr Russell Chafer  
Committee Secretary  
Joint Committee of Public Accounts and Audit  
Department of the House of Representatives  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Dear Mr Chafer

**Submission to the Joint Committee on Public Accounts and Audit—  
Inquiry into the effects of the ongoing efficiency dividend on smaller  
public sector agencies**

1 Enclosed is a submission from the Department of Parliamentary Services (DPS) to the inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies. I understand that the Joint Standing Committee on the Parliamentary Library is also making a submission to this inquiry.

2 DPS is a parliamentary department with a 2008-09 departmental appropriation of \$116.852m. It therefore fits within the inquiry's definition of a small agency, that is, with an operational budget of less than \$150m.

Yours sincerely

Alan Thompson  
Secretary

# **DPS Submission to the Joint Committee on Public Accounts and Audit—Inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies**

## **Terms of reference**

1 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 small public sector agencies, including:

- (a) 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;
- (b) whether the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate;
- (c) what measures small agencies are taking to implement the efficiency dividend, and the effect on their functions, performance and staffing arrangements;
- (d) 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;
- (e) 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
- (f) 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.

2 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 per annum 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.

## Introduction

### Background

3 In April 2002, the then Presiding Officers commissioned the Parliamentary Service Commissioner, Mr Andrew Podger AO, to review aspects of the parliamentary administration. Mr Podger's report was tabled on 23 October 2002. It recommended, among other things, that a single department replace the then three existing joint service departments.

4 By resolution of both Houses of Parliament in August 2003, the Department of Parliamentary Services (**DPS**) was established with effect from 1 February 2004. The department replaced the former Joint House Department, Department of the Parliamentary Library and Department of the Parliamentary Reporting Staff.

### Functions

5 DPS provides the following services for the Parliament:

Library services	Actioning requests from Senators, Members and other individual clients for information and research services, and the production of general distribution briefs and publications.
	The provision of information services to the Library's clients including: <ul style="list-style-type: none"><li>• acquiring and providing access to information resources in the collection and the Library catalogue;</li><li>• selecting, processing and indexing material for library and media databases in ParlInfo; and</li><li>• publishing print and electronic works of DPS, including the web sites and the Library's catalogue.</li></ul>
Building and occupant services	The provision of security and emergency services to Senators, Members and other building occupants of, and visitors to, Parliament House.
	The provision of facilities management, health and wellbeing services and visitor services to occupants of, and visitors to, Parliament House.
Infrastructure services	The provision of building and security infrastructure, maintenance services and landscape services, and customer support for these services.
	The provision and maintenance of information technology, broadcasting and telecommunications infrastructure, and customer support for these services.
Parliamentary records services	The production of an audio-visual record of proceedings of Parliament (including committees) available for broadcasting and archiving.
	The provision of an accurate Hansard record of proceedings of Parliament (including committees).

## Funding history and challenges

6 Table 1 sets out the DPS departmental appropriation history from 2000-01 to 2008-09, noting the appropriation was provided to the three former joint departments until 1 February 2004. To allow for appropriate comparison, adjustments have been made to the actual appropriation to take account of, for example, the effect of the Capital Use Charge (applied until 2002-03) and the transfer of the security function. The adjusted appropriation for comparison purposes is shown in Column 4.

**Table 1—DPS appropriation**

Column 1	Column 2	Column 3	Column 4	Column 5
Year	Actual departmental appropriation	% Change in actual approp between years	Adjusted departmental appropriation	% Change in adjusted approp between years
	\$'000	%	\$'000	%
2000-01	101,018 <sup>1</sup>		<b>115,788<sup>2</sup></b>	
2001-02	104,545 <sup>1</sup>	3.49	<b>119,669<sup>2</sup></b>	3.35
2002-03	105,544 <sup>1</sup>	0.96	<b>121,003<sup>2</sup></b>	1.14
2003-04	98,997 <sup>3</sup>	-6.20	<b>120,665<sup>4</sup></b>	-0.30
2004-05	112,876 <sup>5</sup>	14.02	<b>112,876</b>	-6.46
2005-06	112,850	-0.02	<b>112,850</b>	-0.02
2006-07	114,860	1.78	<b>114,860</b>	1.78
2007-08	115,780	0.80	<b>116,786<sup>6</sup></b>	1.68
2008-09	116,852	0.93	<b>116,383<sup>7</sup></b>	-0.35
<b>% change from 2000-01 to 2008-09</b>				<b>0.51</b>

<sup>1</sup>Appropriation for 3 former joint departments

<sup>2</sup>Capital Use Charge deducted and an estimate of security costs added

<sup>3</sup>Appropriation for 3 former joint departments for 7 months and DPS for 5 months

<sup>4</sup> Cost of security added for comparison

<sup>5</sup>Security funds of \$21.998m transferred from the chamber departments and \$6m of required savings applied to the budget, offset by a one-off increase in funding of \$1.3m

<sup>6</sup>\$0.469m error to appropriation and \$0.537m pro rata efficiency dividend added back

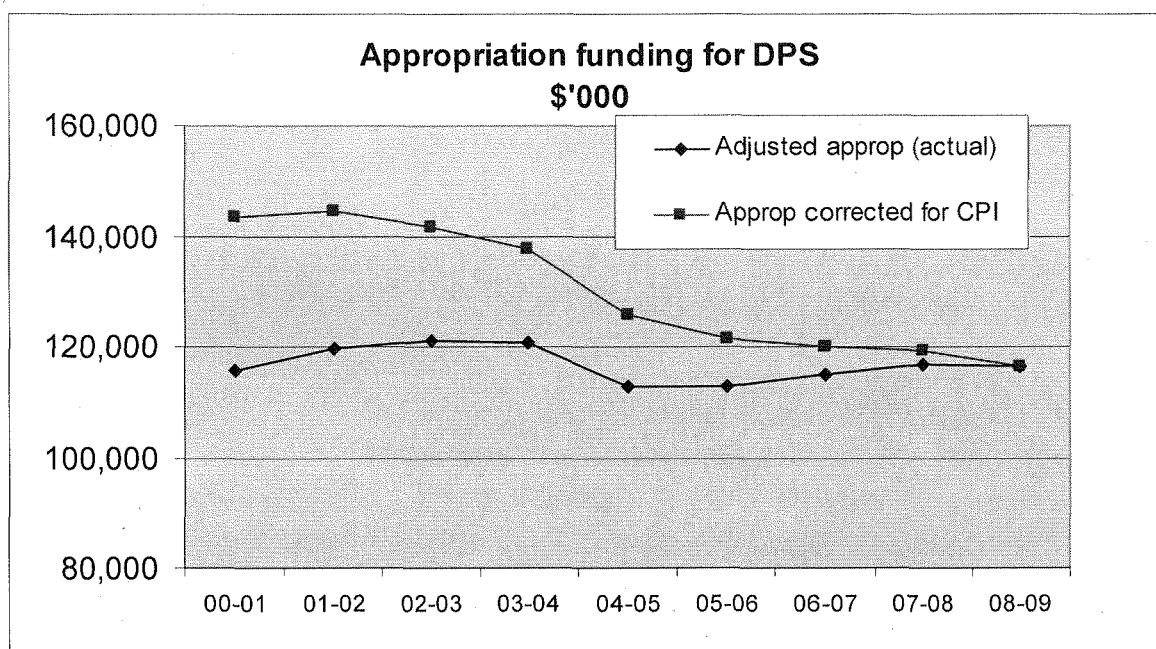
<sup>7</sup>\$0.469m returned from 2007-08 deducted

7 The figures in the adjusted departmental appropriation column demonstrate that the DPS appropriation grew by only 0.51% between 2000-01 and 2008-09. The Inquiry's preliminary statistics for small agencies budgets show an average growth of 27% between 2000-01 and 2008-09, noting the Consumer Price Index (**CPI**) increased by 30% over the same period.

8 Over the same period 2000-01 to 2008-09, we also note that central funded agencies of the government (Treasury and Finance) had increases of over 85% in their budgets.

9 The appropriation history of DPS is presented graphically at Figure 1. Allowing for CPI movements, there has been a clear reduction in real funding over the past eight years. Details of recent funding changes are provided at **Attachment A**.

**Figure 1—DPS Appropriation**



10 The current challenges relate to the need to maintain and improve services to the Parliament in an environment where:

- (a) we are experiencing significant cost increases above CPI for many of the services and products we purchase externally (including water, electricity, gas, external guarding and library publications);
- (b) we still have in place certain contracts where the costs are linked to CPI (notably cleaning and equipment maintenance); and
- (c) the savings from the amalgamation of the three predecessor departments have now been harvested through reduced appropriations (especially when measured in real terms).

11 The detailed financial challenges outlined paragraph 10(a) and 10(b) above are detailed in paragraphs 18(a) to 18(g) below. At the same time we are responding to these challenges, we are also attempting to attract and retain high quality staff; amongst other matters this requires DPS to offer competitive levels of remuneration.

12 The additional 2% efficiency dividend has clearly heightened the above challenges in 2008-09 and beyond.

### **Savings achieved**

13 DPS has focused on initiatives to make savings to offset increases in costs over recent years. Some examples include;

- (a) In 2007, DPS negotiated with the AFP to implement a different policing model which reduced total police hours by 16.2% and costs by \$1.78 million (this reduction has now been largely offset by the recent 13% increase to these charges).

- (b) In 2007, DPS relocated all staff from leased office accommodation in West Block saving \$762,000 per year.
- (c) In January 2008, DPS terminated a contract for warehousing services in Queanbeyan, and leased a much reduced space thus saving \$200,000 annually.
- (d) DPS has reduced water consumption by slightly over 40% since 2006.
- (e) In 2008, DPS negotiated a new contract for facilities management of telephone services, with expected savings of \$400,000 per year.
- (f) In 2008, DPS negotiated a new contract for internet access, with expected savings of \$600,000 per year.
- (g) In 2008, DPS negotiated a new enterprise IT license contract, reducing operating expense by \$673,000 per year.
- (h) In 2007, DPS negotiated a new contract for maintenance of IT network equipment, with savings of around \$200,000 per year.

14 DPS identified \$2m a year in savings directly attributable to the amalgamation (a figure acknowledged by the ANAO in its audit of the implementation of Podger review recommendations, conducted in 2006). As noted earlier, these savings have been effectively harvested through the reduction in the level of appropriation funding.

15 DPS has also implemented a Continuous Improvement Review (**CIR**) process in which all of DPS's operations and resources were reviewed over the three year period 2005-06 to 2007-08. DPS introduced CIRs to find efficiencies to meet rising costs, including salary increases (broadly in line with CPI movements). This process has also been effective in identifying a range of cost saving opportunities.

16 DPS full time equivalent (**FTE**) staff numbers have reduced by 105 or 12% from 890 at amalgamation to 785 as predicted for 2008-09. A net reduction of 22 FTEs can be directly associated with the amalgamation and the remaining 83 FTE reduction has been achieved from the restructure and CIR efficiency gains without a reduction in services to clients.

17 These reductions are in stark contrast to staffing changes for say Treasury and Finance, where staff numbers appear to have increased by at least 65% since the year 2000 (with proportional increases in SES numbers).

### **Costs outlook**

18 The DPS budget is absorbing a number of unavoidable costs which are increasing at rates in excess of normal budget supplementation (CPI minus 1.25% efficiency dividend). For instance:

- (a) energy costs have increased by 11.3% since last financial year and significant increases are expected in future years (especially if emissions trading is implemented);

- (b) water costs have increased by 4.4% since last financial year, despite a substantial reduction in water use;
- (c) external security costs (under contract with the AFP) increased by around 13% this year, on an annual spend of over \$10 million (this has eroded most of the savings expected from the mobile policing model that took effect from 1 November 2007);
- (d) Library journals prices have been increasing in price at a level beyond CPI for some years eg Library journal study (published each April) finds the changes in 2006/07 were:
  - (i) 11% for journals published in Australia and New Zealand;
  - (ii) 9% for journals published in North America; and
  - (iii) 8% for journals published in Europe.
 The Library predicts a 9.8% increase in journal prices in 2008;
- (e) Library book prices have been increasing in price at a level beyond CPI for some years eg LISU, based at Loughborough University, published *Trends in Scholarly Journal Prices 2000-2006* in April 2007 which found median price increases ranging from 42% to 104% for biomedical titles, and 47% to 120% for social science titles;
- (f) the cost of mandatory superannuation contributions increased by 15% for 2008-09; and
- (g) several large contracts eg cleaning - around \$4.6m, equipment maintenance - around \$2.2m, painting - around \$765K and Hansard printing - around \$500K, provide for annual CPI increases.

19 It is the nature of the work of DPS that many of these costs are driven by client demand and are not under the direct control of DPS. Energy use, water use and security costs are directly related to the hours and days of sitting and DPS has little ability to negotiate a price for these services.

20 DPS meets the telecommunication costs for Parliament House and is required to record and transcribe all sittings of the chambers and all committees, including away committees which involve additional travel costs. DPS uses and maintains \$211m of departmental assets and maintains \$1,950m of administered assets on behalf of the Commonwealth. The administered assets include the building fabric, engineering systems and the landscape of Parliament House and its surrounds.

21 Many of these assets are maintained under contract and 23 of our larger contracts account for 81% of annual supplier costs. DPS has very little capacity for discretionary expenditure.

22 DPS is also required to meet client demand for other than "normal" use of Parliament House, for example the Apology to the Stolen Generation. These requests add incrementally to our cost base.

## The way ahead

23 Put simply, costs have been growing at a rate greater than revenues since the formation of 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.

24 Some further limited opportunities for savings have been identified as part of recent negotiations for a new certified agreement for staff of DPS. These opportunities are listed in **Attachment B**. At this stage DPS management considers that the most promising opportunities from Attachment B relate to:

- (a) reduced water consumption;
- (b) reduced energy consumption; and
- (c) use of sessional staff and changed PSS rosters.

However, each of these actions would take considerable time to implement.

25 Additionally, the Parliamentary Service Commissioner has raised the possibility of shared corporate services between the three parliamentary departments in a recent report. DPS is currently investigating comparable operations but we have yet to obtain the views of the Presiding Officers.

26 More dramatic re-engineering of building management and work practices offers possible further cost reductions, but there is no guarantee that these changes would be acceptable to the Parliament. In the meantime, against the background of the 2% further efficiency dividend, DPS will aim to manage its resources very frugally through 2008-09 and the out years. DPS may have to consider cuts in services, cost recovery for events held in Parliament House and cost recovery for services, but will put any such proposals to the Presiding Officers.

27 If on the other hand, some modest increases in funding were to be available for 2009-10 and beyond, (either through a New Policy Proposal or through a cancellation of the 2% dividend) then DPS would aim to initiate the following actions for the 2009-10 and out years:

- (a) purchase additional green energy;
- (b) increase the electronic information sources required by members of Parliament, including regional press (newspapers, radio and television) and reference sources (books and journals).
- (c) reduce the building maintenance backlog;
- (d) digitise Hansard paper records (1901-1980);
- (e) digitise Library's newspaper clippings and press releases;
- (f) transfer old Parliamentary broadcast tape files to digital format;



- (g) increase electronic access by the broader community to Australian parliamentary information;
- (h) improve our Webcast system to provide increased accessibility for:
  - (i) people using the less popular operating systems eg Mac;
  - (ii) more than the current maximum 700 concurrent users; and
  - (iii) the vision and hearing impaired;
- (i) improve disabled access to Parliament House, and
- (j) improve accessibility for visitors, stakeholders and community groups (this will include more pro-active visitor service programs for schools and other groups).

## **Conclusion**

28 Recognising that DPS has already returned 26.49% to the budget in real terms since 2000-01, there seems to be an argument for a case by case exemption from across the board increases in the efficiency dividend. 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.

## **Attachment A—Recent funding issues**

*Which departments have been responsible for security services at Parliament House?*

1 Prior to 1 July 2003, the chamber departments were responsible for the security function at Parliament House. From 1 July 2003, the former Joint House Department (**JHD**) provided those services to the chamber departments on a cost recovery basis. Operational staff of the Parliamentary Security Service (**PSS**) were transferred to JHD on 23 October 2003, following the transfer of management and administrative staff on 1 July the same year. On 1 February 2004, the PSS became part of DPS and on 1 July 2004, funding for the security function was transferred to DPS.

*Why was an additional \$6m provided to the chamber departments in the 2003-04 budget?*

2 In recognition of increased security concerns, the 2003-04 budget provided an additional \$6m to the chamber departments for increased security measures at Parliament House. This increase in funding was recovered, from the 2004-05 year on, by a cut of \$1.2m to each of the then five parliamentary departments, meaning DPS inherited a \$3.6m reduction.

3 However, associated with the transfer of responsibility for security services to DPS in 2004, the chamber departments also transferred their individual \$1.2m reductions, meaning the full \$6m reduction was applied to the DPS base budget. The full effect of this cut was not felt until 2005-06 as ERC provided for a one off increase in expense funding of \$1.3m in 2004-05.

*What were the likely savings from amalgamation of the three joint parliamentary departments and what happened to those savings?*

4 The Podger review estimated the amalgamation would generate cost savings in the order of \$5m to \$10m a year. The formula by which this estimate was calculated is not known, but it is accepted that savings by merging duplicated corporate functions formed a large part.

5 At the time of the amalgamation, and undoubtedly influenced by the estimates in the Podger review, the Department of Finance and Administration (**Finance**) recovered the funding provided for increased security measures by reducing the funding to the then five parliamentary departments by \$6m.

*How many departmental NPPs has DPS received funding for?*

6 It has long been recognised that New Policy Proposals (**NPPs**) provide agencies with increases in on-going funding over the actual new initiative requirements. DPS received departmental NPP funding on only one occasion since its creation, involving an \$18K increase to operating expenses in 2005-06.

## **Attachment B—Possible savings initiatives (as proposed for Certified Agreement discussions)**

- 1 Delivery of services will be negotiated for savings through value for money tendering and consideration of insourcing and outsourcing where appropriate, eg ducts and dampers maintenance, document movements systems maintenance, internet provider, pager maintenance and Hansard transcription outsourcing.
- 2 Greater efficiencies may be achieved through streamlined work practices following the introduction of the Electronic Document and Records Management System, digital archive system, the HRMIS enhancement project, Parlinfo and branch specific applications such as SARMS.
- 3 Taking an enterprise approach by replacing duplicate systems with single systems, eg time recording systems.
- 4 Investigation of existing contracts with the view to achieving greater efficiencies, eg cleaning and external guarding.
- 5 Savings from the use of sessional staff where appropriate and a review of the PSS roster.
- 6 Efficiencies from the introduction of on-line automated workflow or information systems, eg access to historical broadcasting records, management of the art collection, access to building condition information, ordering Parliament House Shop products, recruitment process, and the performance communication process.
- 7 Savings from market testing some areas in DPS and workflow reviews including using benchmarking data where available.
- 8 Reductions in use of resources through the implementation of the recommendations of the landscape review.
- 9 Savings in offsite storage costs from better design of onsite storage and the digitisation of broadcast archive.
- 10 Savings through the implementation of the water and energy strategic plan.
- 11 Reviews of charges for services to seek increases in revenue, eg broadcast services to non-parliamentary clients and rent charged to licence holders.
- 12 Consideration of other areas of service provision that could attract revenue.