

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.

