



Australian Government



NATIONAL
ARCHIVES
OF AUSTRALIA

INQUIRY INTO THE EFFECTS OF THE ONGOING EFFICIENCY DIVIDEND ON SMALL AGENCIES

Submission from the National Archives of Australia

Background:

The National Archives of Australia (the Archives) is an organisation established under sub-section 5(1) of the *Archives Act 1983* (Archives Act). Sub-section 5(2) and section 6 of the Archives Act prescribes the functions and powers, respectively, of the Archives (refer Appendix A).

The Archives became a prescribed agency under the *Financial Management and Accountability Act 1997* (FMA Act) from 1 July 2000 and an executive agency under the *Public Service Act 1999* (PS Act) from 28 February 2001. The Archives is a material¹ agency, under the Prime Minister and Cabinet portfolio and its responsible minister is Senator the Hon John Faulkner, Cabinet Secretary and Special Minister of State.

From 1993-94 to 2007, the Archives formed part of the then Department of Communications, Information Technology and the Arts (and its predecessors). Prior to 1993-94, the Archives formed part of the then Department of Administrative Services.

The Archives has two outcomes:

- Outcome 1: Commonwealth institutions have access to recordkeeping products and services that enable them to account for their actions and decisions through full, authentic and reliable records; and
- Outcome 2: Australians have access to a national archival collection that assists them to understand their heritage and democracy.

In 2008-09, the Archives will receive \$66.316m for appropriation of departmental outputs and s.31 agency receipts are estimated at \$1.725m. The Archives receives no administered or other funding. Average staffing levels for 2008-09 are estimated at 446.²

¹ 43 agencies are material entities. Material entities comprise 99% of revenues, expenses, assets and liabilities of the Commonwealth.

² *Portfolio Budget Statements 2008-09, Budget Related Paper No. 1.15A, Prime Minister and Cabinet Portfolio*, pp. 136-143.

As reported in the Archives 2007-08 Additional Estimates Statements³ the efficiency dividend impact on the Archives' budget is as follows:

Expense Measures	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000	2010-11 \$'000
Election Commitment Savings: 2 per cent Efficiency Dividend	(307)	(1,339)	(1,370)	(1,378)
Efficiency dividend - increase in the rate from 1 per cent to 1.25 per cent		(171)	(345)	(518)
Total of All Measures	(307)	(1,510)	(1,715)	(1,896)

Discussion Points:

The inquiry terms of reference cover the following six questions. The Archives specific comments follow each question.

1. *Does the efficiency dividend have 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?*

Since the Archives was established as a separate agency in 2000, it has not received appropriation funding for any new policy proposals. In this eight year period, the Archives has submitted several requests for new policy proposals through portfolio departmental processes.

In June 2006, the Archives was successful in obtaining agreement for a new policy proposal in relation to a National Archives Preservation Centre. However, the underpinning basis of this proposal was that the Archives would exit three of its thirteen properties and enter into a lease for one new property, allowing for expansion of its storage facilities to accommodate future intake of records from other Commonwealth agencies. This proposal was almost entirely self-funded, through operating lease savings of the existing three properties.

In addition to the efficiency dividend, all agencies need to continue to find productivity savings to meet ongoing payrises. The Archives needs to ensure its salaries remain comparable with other Commonwealth agencies in the current tight labour market. The Archives, due to the nature of its business, also has property operating expense increases such as rent and energy costs. Property operating expenses are further discussed under Question 5 below.

The triple impact of the efficiency dividend, productivity based payrises and large increases in property operating expenses is having a long-term effect on the Archives' operating capacity.

³ *Portfolio Additional Estimates Statements 2007-08, Finance and Deregulation Portfolio, p.72.*

The Archives does agree that it has significantly less ability to identify efficiencies than large agencies, due to economies of scale and without the injection of new funding into the Archives.

2. Is the efficiency dividend now affecting the capacity of smaller agencies to perform core functions or to innovate?

As mentioned above, the Archives' functions are defined under sub-section 5(1) of the Archives Act. These functions are diverse in nature and if the Archives is perceived to not be performing these core functions, it may be interpreted as breaching its own legislation. Therefore, from a legislative perspective, it is essential that the Archives continues to perform its core functions.

Through embedded business and budget planning processes, the Archives endeavours to identify opportunities for innovation or business process re-engineering, however at some future point this will no longer be possible without an injection of new funding.

3. What measures are small agencies taking to implement the efficiency dividend, and what is the effect on their functions, performance and staffing arrangements?

As part of its business and budget planning cycle, the Archives focuses on confirming its priority activities and core functions and identifying areas of non-discretionary expenditure. Where internal budget reductions are required, these are targeted at non-priority areas. This ensures that the Archives' legislative requirements continue to be met. Further discussion on non-discretionary expenditure is outlined below under Question 5.

An example of the impact of the efficiency dividend on the Archives is that, over the past three years, the Archives has reduced its travelling exhibitions activities. These exhibitions are now only undertaken when the Archives is successful in obtaining third-party sponsorship to fund the associated expenditure. The impact of this change was to significantly decrease the reach of public access to the records of the Commonwealth, to people outside capital cities.

A significant change with regard to the Archives' business is the effect of the digital age on recordkeeping and records management. Two imperatives are central to the mandate of the Archives. These are to maintain and develop a national collection, and to make that collection accessible. Increasingly, this collection material exists in digital form, yet there has been no decrease in the volume of material in traditional formats, for example, paper. The Archives is faced with a 'digital collecting challenge', that is, a need to have robust infrastructure to collect and store 'born digital' records, and longer-term to make these records accessible. In addition, Commonwealth agencies are increasingly seeking support and advice from the Archives, to assist them in managing their own digital records.

To date, the Archives has been attempting to manage this change within existing funding. This becomes more difficult to manage with a continual decline in appropriation as a result of the efficiency dividend. Without an injection of funds the Archives is at serious risk of not fulfilling its legislative mandate to preserve and provide access to the 'born digital' archival resources of the Commonwealth.

Another option to manage the impact of the efficiency dividend is through reduction in staffing. It is expected that a reduction in staffing levels will be required. This will be realised through not filling vacant positions and natural attrition.

4. *Is there any impact 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?*

Over the past three years, there has been an increased focus on identifying opportunities to increase non-appropriation receipts to retain through the Archives' s.31 agreement.

Whilst many opportunities have been identified, this approach has not been particularly successful for a number of reasons, including:

- The research and development costs for new initiatives may take several years to offset from the revenue generated;
- The requirements under the Cost Recovery Guidelines, restricting some revenue generating activities to the recovery of costs only; and
- Some saleable goods and services have predetermined charges under the Archives Regulations, which often do not cover their full cost.

5. *How is the application of the efficiency dividend 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?*

As mentioned above, the Archives focuses on identifying areas of non-discretionary expenditure in its internal budget processes.

Only a small proportion of the Archives' annual budget is considered discretionary. This is particularly due to the Archives' mandate to have custody of the archival records of the Commonwealth and to ensure that these records are conserved and preserved. These records amount to approximately 360 kilometres of shelf metres, stored in thirteen properties Australia-wide. Internal budget allocation for preservation funding is approximately \$8.5m in 2008-09 (12.5 per cent).

The Archives has leasing arrangements in all properties and therefore also has significant property related operating expenditure. Internal budget allocation for property operating expenditure is approximately \$12.9m in 2008-09 (18.9 per cent). Coupled with the efficiency dividend, the Archives also faces future budget

pressures in relation to regular market reviews on its properties that may result in rent increases well above the Consumer Price Index (for example, a recent market review on the Archives' property in Greenway, ACT resulted in a rent increase of 73 per cent).

As the Archives is mandated to obtain archival records of the Commonwealth, the requirement for environmentally controlled storage facilities will continue to increase.

A further significant area of non-discretionary expenditure is depreciation funding of approximately \$12.9m in 2008-09 (18.9 per cent). This funding is held solely for asset acquisition and replacement, not for operational requirements.

The budget information outlined above provides an insight into the level of inflexibility within the Archives activities, in addition to the regulatory requirements under the Archives Act, to continue to absorb the current level of the efficiency dividend.

6. If appropriate, are there 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 Archives agrees in principle with the concept of the efficiency dividend. It considers that it is appropriate for the Commonwealth to continue to identify ways to operate more efficiently and ensure that public monies are used in an efficient, effective and ethical manner.

The Archives has concerns with the current method of calculation and application of the efficiency dividend on its budget estimates. Specifically, the efficiency dividend is calculated on all expenditure, including employees, suppliers and depreciation. Generally, budget adjustments must be made against employee and supplier budget estimates only, not depreciation. As depreciation is based on the asset holdings of the agency, it may be difficult to realise immediate efficiencies through reducing assets.

There is also inconsistency in relation to the calculation of parameter (indexation) adjustments compared to the efficiency dividend. When parameter adjustments are calculated, appropriation for depreciation is not included. It would be considered more appropriate to calculate both parameter and efficiency dividend calculations on the same appropriation base amount.

From an administrative perspective, it would be ideal to have a 'one size fits all' approach, not unlike the current arrangement. However, in practice, this may be difficult for agencies to sustain. The Archives considers that an appropriate method

could be that the rate of the dividend would vary according to an agency's level of departmental appropriation funding.

Should the current efficiency dividend model remain, the Archives suggests that changes are made to ensure there is consistency between the calculation of the efficiency dividend and the parameter adjustments, in particular that the efficiency dividend is not calculated on depreciation funding.

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Part II—Establishment, functions and powers of the National Archives of Australia

5 Establishment and functions of National Archives of Australia

- (1) There shall be, within the Department, an organization by the name of the National Archives of Australia.
- (2) The functions of the National Archives of Australia are, subject to this Act:
 - (a) to ensure the conservation and preservation of the existing and future archival resources of the Commonwealth;
 - (b) to encourage and foster the preservation of all other archival resources relating to Australia;
 - (c) to promote, by providing advice and other assistance to Commonwealth institutions, the keeping of current Commonwealth records in an efficient and economical manner and in a manner that will facilitate their use as part of the archival resources of the Commonwealth;
 - (d) to ascertain the material that constitutes the archival resources of the Commonwealth;
 - (e) to have the custody and management of Commonwealth records, other than current Commonwealth records, that:
 - (i) are part of the archival resources of the Commonwealth;
 - (ii) ought to be examined to ascertain whether they are part of those archival resources; or
 - (iii) although they are not part of those archival resources, are required to be permanently or temporarily preserved;
 - (f) to seek to obtain, and to have the custody and management of, material (including Commonwealth records) not in the custody of a Commonwealth institution, that forms part of the archival resources of the Commonwealth and, in the opinion of the Director-General, ought to be in the custody of the Archives;
 - (g) with the approval of the Minister, to accept and have the custody and management of material that, though not part of the archival resources of the Commonwealth, forms part of archival resources relating to Australia and, in the opinion of the Minister, ought to be in the custody of the Archives in order to ensure its preservation or for any other reason;
 - (h) to encourage, facilitate, publicise and sponsor the use of archival material;
 - (j) to make Commonwealth records available for public access in accordance with this Act and to take part in arrangements for other access to Commonwealth records;
 - (k) to conduct research, and provide advice, in relation to the management and preservation of records and other archival material;
 - (l) to develop and foster the co-ordination of activities relating to the preservation and use of the archival resources of the Commonwealth and other archival resources relating to Australia; and
 - (m) with the approval of the Minister, and in accordance with arrangements made with a person responsible for exempt material, to perform any of the foregoing functions in relation to that material as if that material formed part of the archival resources of the Commonwealth.

- (3) Nothing in this Part derogates from the powers and functions of the Public Service Board or any other Commonwealth institution in relation to the keeping of current Commonwealth records.

6 Powers of Archives

- (1) The Archives may do all things that are necessary or convenient to be done for or in connection with the performance of its functions and, in particular, without limiting the generality of the foregoing, may:
- (a) establish and control repositories or other facilities to house or exhibit material of the Archives and, in association with a State, the Australian Capital Territory, the Northern Territory or other person, control repositories or other facilities in which material of the Archives is housed or exhibited;
 - (b) undertake the survey, appraisal, accessioning, arrangement, description and indexing of Commonwealth records;
 - (c) make arrangements for the acquisition by the Commonwealth of, or of copyright in relation to, or arrangements relating to the custody of, material that forms part of the archival resources of the Commonwealth;
 - (d) chronicle and record matters relating to the structure and functioning of Commonwealth institutions or other matters of archival significance and make records for the purpose of adding to the archival resources of the Commonwealth;
 - (e) make copies, by microfilming or otherwise, of archival material, but not so as to infringe copyright (other than copyright owned by the Commonwealth) subsisting in the material;
 - (f) arrange for the publication of material forming part of the archival resources of the Commonwealth or works based on such material, but not so as to infringe copyright (other than copyright owned by the Commonwealth) subsisting in the material or works;
 - (g) publish indexes of, and other guides to, archival material;
 - (h) authorize the disposal or destruction of Commonwealth records;
 - (j) on request, assist Commonwealth institutions in the training of persons responsible for the keeping of current Commonwealth records;
 - (k) train, or assist in the training of, persons, other than persons responsible for the keeping of current Commonwealth records, for work in connection with records and other archival material;
 - (l) obtain and maintain equipment for use in retrieving, or otherwise obtaining, information from records; and
 - (m) provide information and facilities for persons using the material of the Archives.
- (2) Where, in the performance of its functions, the Archives enters into arrangements to accept the custody of records from a person other than a Commonwealth institution, those arrangements may provide for the extent (if any) to which the Archives or other persons are to have access to those records and any such arrangements have effect notwithstanding anything contained in Division 3 of Part V.
- (3) Where an arrangement entered into by the Archives to accept the custody of records from a person other than a Commonwealth institution relates to a Commonwealth record, then, to the extent that that arrangement, in so far as it relates to such a record, is inconsistent with a provision of Part V, that provision shall prevail.