3 July 2008

Mr Russell Chafer
Committee Secretary
Joint Committee of Public Accounts and Audit
PO Box 6021
Australian Parliament House ACT 2600

Dear Mr Chafer,

Please find attached the submission of the Australian Academy of the Humanities to the Committee's inquiry into the impact of the efficiency dividend on small agencies.

The Academy welcomes the opportunity to contribute its ideas to this inquiry. We would be very pleased to elaborate further for the benefit of the Committee on any of the recommendations or observations contained in this submission.

With kind regards,

Dr John Byron
Executive Director

# AUSTRALIAN ACADEMY OF THE HUMANITIES

**SUBMISSION TO THE INQUIRY**
OF THE
**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**
INTO THE
**IMPACT OF THE EFFICIENCY DIVIDEND ON SMALL AGENCIES**

## INTRODUCTION

The Australian Academy of the Humanities is one of the nation's four learned academies. It comprises the pre-eminent scholars and researchers in the humanities in Australia. The Academy aims to advance knowledge of, and the pursuit of excellence in, the humanities in Australia. Further information on the Academy may be obtained from its website, at www.humanities.org.au.

The Australian Academy of the Humanities has a dual interest in this inquiry. Our Charter obligations include a concern for the nation's research infrastructure and amenities, which – in the humanities – include the cultural institutions. We are also obliged by Royal Charter 'to assist and promote the development of libraries in Australia in the field of the Humanities.' Our general expertise – 'to act as a consultant and an advisory body in matters to do with the Humanities' – clearly embraces both the research and the cultural heritage roles.

Our submission, then, is aimed chiefly at the effect of the efficiency dividend upon the major national cultural agencies, which are the repositories and enablers of the nation's memory, identity, artistic and literary expression, and democratic spirit. There are many such agencies, including: the National Library of Australia; the Australian National Gallery; the National Portrait Gallery; Old Parliament House; the National Archives of Australia; the National Museum of Australia; the National Film and Sound Archive; and Screen Australia. This is not an exhaustive list.

## RESPONSE TO THE TERMS OF REFERENCE

1. *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.*

The Committee will no doubt be furnished with more expert advice than we can provide on this economic question: but it stands to reason that small, mission-directed agencies have few opportunities to open whole new areas of endeavour that are the focus of new government policy (and therefore new money).

Without opportunities to bring in new revenue, small agencies are faced with the grim inevitability of unrelieved regressive funding. Without checks to the cutbacks or replacement funds from other sources, their capacity to operate can only decline below mandated levels of service – even without factoring in escalating costs. The increases in operating expenses only accelerate the inevitable result of the unwise uniform application of the efficiency dividend model for cost controls, even to areas where it is poorly suited.

Similarly, without the economy of scale, small agencies find that reductions more quickly affect operational capability at the granularity of the individual staff-member, compared to large departments, with the result that cutbacks more readily begin to bite in tangible ways.

The small agencies are the canaries down the mine of appropriated spending, functioning as early warning systems that detect overly enthusiastic budgetary trimming.

2. *Whether the efficiency dividend is now affecting the capacity of smaller agencies to perform core functions or to innovate.*

The cultural agencies are, without any doubt, currently struggling to fulfil core functions, let alone to respond to public and government expectations to continue innovating, expanding and finding new ways to serve their various constituencies.

Feedback from humanities scholars over recent years has traced a steady and serious decline in service delivery even to quite mainstream core functions, that are compromising the agencies' ability to meet not only their obligations to scholars as the custodians of resources for research, but also their obligations to the public and the state as repositories of national cultural life and heritage.

The ability of agencies to develop new means of access, to digitise collections, and to provide scope for public engagement (such as expert mark-up commentary and cross-referencing with the latest international research) are all severely compromised.

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

The cultural agencies have responded to the efficiency dividend by cutting staff, reducing facilities, deferring replacement of old equipment and the acquisition of powerful new technologies, and (reluctantly) allowing plant and buildings to run down. These measures have led to much more than genteel decline: they have compromised the ability of small cultural agencies to service their public adequately.

Opening hours are being curtailed, especially of specialist areas within the agencies (such as those available for the use of bona fide researchers). Decades-old collecting policies are being skewed away from the national interest and from areas of national holdings strength, solely on the basis of efficiency cutbacks. The fantastic opportunities that new technologies bring – enabling centralised collections to be accessed by rural and regional citizens, for instance – are left undeveloped due to lack of resources. The tenacity of our international linkages and the goodwill of our global partners are being severely tested as we increasingly fail to bring resources to the table, provide mutual access to materials of interest, or keep up with international collaborative programmes of digitisation and strategic distributed collecting.

4. *Any impacts of the efficiency dividend on the use by smaller agencies of "section 31" agreements to secure non-appropriation receipts (e.g. through user charges and cost recovery) - noting that these receipts are not subject to the efficiency dividend.*

Direct user costs have increased, especially for specialist services of the kind often required by researchers. As research funds are, in Australia, significantly publicly funded, there can be a Kafkaesque circularity to this process, as research grant applications increasingly budget for escalating costs to access material and services that were previously provided free or at marginal cost. Particularly where non-appropriated receipts are used to cross-subsidies other activities (i.e. when they are priced above cost-recovery) there is a reasonable likelihood of a decline in patronage in deference to private suppliers or international sources, with a concomitant decline in user community goodwill.

5. *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.*

The missions of our small cultural agencies are fairly specific, and expectations of the service they provide are deeply embedded in Australian culture. To the extent possible, it would appear that traditional core functions are sometimes being preserved at the expense of other activities that are more technology-driven, innovative and subject to novel uses. This means that many of the new opportunities available to ordinary citizens elsewhere are not available to even the most well-resourced advanced scholar here. The absurdity of finding it simpler and cheaper to fly from Australia to the United States to use the fabulous resources of the New York Public Library than to stay at home and try to access materials through our own institutions – a situation that is, tragically and shockingly, literally the case for many scholars – should be of serious concern to the trustees of Australian cultural heritage.

6. *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.*

If an algorithmic solution to this problem is desired, the Academy would counsel against the development of an elegant, sliding-scale efficiency-dividend generator. The only formula-based measure that is going to solve this problem is to suspend the efficiency dividend altogether for the small cultural agencies in future years. And on no account should agencies be prioritised for role, with a rate scale developed that varies according to agency function:

this would doom some agencies to wither on the vine over one summer, while the others are permitted to starve gently over years and years. The problem is not primarily with the size of the dividend: it is that it is the wrong tool for the job when applied to these agencies. Regardless of the quantum of the cutback required, the measure is regressive and will lead to degradation of service sooner or later. We recognise that the taxpayers and the parliament will want assurances as to the necessity of expenditures, but we think an effective mechanism can be devised that actually weighs facts, needs and available resources, that could replace a blind equation that is causing so much harm from its indiscriminate application.

If this simple expedient is unpalatable for some reason, we would recommend the establishment of a modest revenue stream to provide corrective funding, subject to demonstrated need. The Expenditure Review Committee could appoint a small, informed but disinterested standing advisory panel to offer expert assessments in response to annual submissions from the agencies.

The Academy also calls on the Committee to recognise not only the need to rectify this problem for future years, but to acknowledge and commit to remedy the existing dire effects of the prolongation of this inappropriate instrument well beyond the time it started to have serious deleterious effects on the agencies' capacity to do the jobs expected of them by the public and the state. An assessment of outstanding urgent needs – in maintenance, collections management, staffing levels and service delivery – should be conducted immediately and money provided as soon as possible, to begin programmes of restoration to our cultural institutions.

Finally, the Academy would like to take this opportunity to propose a completely different approach to this problem of steady decay at the hands of a measure designed to control the calls on untagged consolidated revenue. We would urge the Government to establish an Australian Cultural Investment Fund, to be managed by the Future Fund to generate revenues that would be expended upon the national cultural institutions as a serious investment in our national cultural heritage capital. We believe that this would be a popular move in the electorate, as a nation of library users, museum-goers, art lovers, film-watchers, family historians, amateur political scientists – and parents and their children – would cherish the reinvestment of the nation's good fortune in its sense of itself and its place in the world.

## RECOMMENDATIONS

The Academy recommends:

1. that the Committee acknowledge that capacity of Australia's major national cultural institutions to discharge their obligations to the public, the state, the academic community and their international partners has been seriously eroded by the effects of the efficiency dividend;

2. that these small agencies should be exempt from the efficiency dividend in future years;

3. that suitable alternative reporting mechanisms should be put in place to ensure that taxpayer value for money continues to be delivered in the absence of the efficiency dividend measure;

4. that additional funding be provided in 2008-9 to restore the capacity of the national cultural institutions to levels permitting them to continue to deliver on their missions;

5. that, if the efficiency dividend is to stay in some form for small agencies, an alternative restorative funding stream should be instituted by the Expenditure Review Committee to ensure that the agencies remain capable of fulfilling their obligations;

6. that (in this event) a permanent cross-portfolio working group be convened, comprising informed but disinterested individuals, that is charged with monitoring the effects of funding levels and providing expert, impartial advice to the Expenditure Review Committee for this purpose; and

7. that the Commonwealth establish an Australian Cultural Investment Fund, to enable the national cultural institutions to make major capital investments in plant, technology and infrastructure, make significant strategic cultural and artistic acquisitions, to ensure their delivery of core functions to the high standard expected of them, to meet international obligations, to participate in the drive towards global access to cultural knowledge and resources, and to engage in genuine innovation in their areas of expertise. The proceeds of such an investment fund would more than offset the effects of the efficiency dividend.