

Additional Estimates 2007–08

Introduction

1.1 On 13 February 2008, the Senate referred to the Finance and Public Administration Committee (the committee) for examination and report the following documents:

- Particulars of proposed additional expenditure in respect of the year ending on 30 June 2008;
- Particulars of certain proposed additional expenditure in respect of the year ending on 30 June 2008;
- Final Budget Outcome 2006–07; and
- Issues from the Advance to the Finance Minister as a Final Charge for the year ended on 30 June 2007.¹

Portfolio coverage

1.2 The committee has responsibility for examining the expenditure and outcomes of the:

- Parliamentary departments;²
- Prime Minister and Cabinet portfolio;
- Finance and Administration portfolio; and
- Human Services portfolio.

Appendix 1 lists the departments and agencies under the portfolios mentioned above.

Restructure of portfolios

1.3 The committee notes that two portfolios under its purview have undergone structural reorganisation since the committee last reported on estimates.

Prime Minister and Cabinet

1.4 The *Administrative Arrangements Order* of 3 December 2007 make a number of changes to the Prime Minister and Cabinet (PM&C) portfolio structure including the:

1 *Journals of the Senate*, 13 February 2008, p. 111.

2 As a matter of comity between the Houses, it is traditional that neither House inquires into the operations of the other House. For this reason, neither the annual report of, nor the proposed expenditure for, the Department of the House of Representatives is referred to a Senate committee for review.

- transfer of the Australian Institute of Family Studies to the portfolio from the Families, Housing, Community Services and Indigenous Affairs portfolio;
- transfer of the Office of the Privacy Commissioner to the portfolio from the Attorney-General's portfolio;
- creation of an Office of National Security within the department;
- creation of an Office of Work and Family within the department, incorporating some functions formerly undertaken by the Department of Families, Housing, Community Services and Indigenous Affairs;
- establishment of the Australian Social Inclusion Board and, within the department, a Social Inclusion Unit;
- transfer of functions relating to freedom of information and privacy policy from the Attorney-General's Department; and
- transfer of the central advertising function from PM&C to the Finance and Deregulation portfolio.³

1.5 The revised output structure of the PM&C department is reflected in the table below.⁴

Table 1.1: Changes to the PM&C outcome/output structure

Outcome/Output	Previous Wording	Revised Wording / Changes
Output 2.2	N/A	Office of Work and Family
Output 4.3	Government Communications	Deleted

Department of Climate Change

1.6 In addition to these changes, the Department of Climate Change was established by the *Administrative Arrangements Order* of 3 December 2007 as a separate department of state situated within the PM&C portfolio. Oversight responsibility for the Office of the Renewable Energy Regulator (ORER) has also been transferred to the Department of Climate Change from the former Environment and Water Resources Portfolio.

1.7 The climate change elements of the former Environment and Water Resources Portfolio's outcome/output structure have been transferred unchanged to the Department of Climate Change. ORER's outcome/output structure also remains unchanged. The structure is reproduced in Appendix 2.

3 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, February 2008, pp 3–4.

4 The full output structure is provided in Appendix 2.

Finance and Deregulation

1.8 Under the *Administrative Arrangements Order* of 3 December 2007, the then Department of Finance and Administration was renamed the Department of Finance and Deregulation (Finance).

1.9 Changes to the Finance portfolio structure include transfer to the portfolio of:

- the National Archives of Australia from the former Communications, Information Technology and the Arts portfolio;
- AUSPIC and the central advertising system from the PM&C Department;
- the Office of Best Practice Regulation from the Productivity Commission;
- regulatory reform policy from the Department of the Treasury.

1.10 A further *Administrative Arrangements Order* was issued on 25 January 2008, under which the following changes were made:

- the Commonwealth Grants Commission was transferred from Finance to the Treasury portfolio.⁵

1.11 Changes to existing Finance outputs are presented in a table below.⁶

Table 1.2: Changes to the Finance outcome/output structure

Outcome/Output	Previous Wording	Revised Wording / Changes
Output 1.2.1	Budgetary & Financial Framework	Financial Framework
Output 1.2.5	N/A	Deregulation and Regulatory Reform ⁷
Output Group 2.3	N/A	Procurement Management
Output 2.3.1	N/A	Procurement Framework ⁸

5 Department of Finance and Deregulation, *Portfolio Additional Estimates Statements 2007–08*, February 2008, p. 3.

6 The full output structure is provided in Appendix 2.

7 This new output includes the regulatory reform policy transferred from the Treasury, and the Office of Best Practice Regulation transferred from the Productivity Commission. Output 1.2.5 exists under Output Group 1.2–Financial Management. Department of Finance and Deregulation, *Portfolio Additional Estimates Statements 2007–08*, February 2008, p. 29.

8 This output incorporates the procurement policy framework which was a previous component of Output Group 1.2–Financial Management. Department of Finance and Deregulation, *Portfolio Additional Estimates Statements 2007–08*, February 2008, p. 29.

Output 2.3.2	N/A	Centralised Contracting ⁹
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Hearings

1.12 The committee held public hearings on Monday 18, Tuesday 19 and Friday 22 February 2008. Copies of the committee's transcript of evidence are tabled in three volumes of *Hansard*. Copies of *Hansard* are available on the internet at the following address: www.aph.gov.au/hansard.¹⁰

1.13 In accordance with Standing Order 26, the committee is required to set a date for the lodgement of written answers and additional information. The committee resolved that written answers and additional information be submitted by Friday, 4 April 2008.

1.14 Further written explanations furnished by departments and agencies will be tabled, as received, in the Senate. That information is also available on the committee's internet page: www.aph.gov.au/Senate/committee/fapa_ctte/estimates/index.htm. As a matter of Parliamentary Privilege, all information is 'tabled' on receipt.

1.15 Over the course of the three days' hearings—totalling over 29 hours—the committee took evidence from the President of the Senate, Senator Alan Ferguson; Minister for Immigration and Citizenship, Senator Chris Evans, representing the Prime Minister; Cabinet Secretary and Special Minister of State, Senator John Faulkner, representing the Prime Minister; Minister for Superannuation and Corporate Law, Senator Nick Sherry, representing the Finance Minister; Parliamentary Secretary for Social Inclusion and the Voluntary Sector, Senator Ursula Stephens, representing the Finance Minister; Minister for Human Services, Senator Joe Ludwig; Minister for Climate Change and Water, Senator Penny Wong, together with officers of the departments and agencies concerned.

1.16 The following agencies were released from the hearings without examination: Office of National Assessments; Office of the Official Secretary to the Governor-General;¹¹ National Archives of Australia; Office of the Privacy Commissioner; Office of the Commonwealth Ombudsman; Office of the Inspector-General of Intelligence and Security; Australian Hearing; and Health Services Australia.

9 Output 2.3.2 encompasses the central advertising system transferred from PM&C. Department of Finance and Deregulation, *Portfolio Additional Estimates Statements 2007–08*, February 2008, p. 29.

10 Appendix 3 provides an index to the Hansard transcripts.

11 Officials from the Office of the Official Secretary to the Governor-General did appear briefly before the committee but no questions were put.

General issues

1.17 The Committee also availed itself of the Friday 'spill over day' to allow time to examine the Future Fund Management Agency and the Department of Climate Change, and to complete the examination of the Human Services portfolio. Some of the more significant issues discussed with departments and agencies are detailed in the following chapters.

1.18 The sections of the report that follow list various issues considered by the committee and discuss some of these in detail. The order is not based on hierarchy but rather the order in which those issues arose during the hearings.

Efficiency dividend

1.19 A common theme that ran throughout the hearings was the requirement for an additional efficiency dividend saving of two per cent annually between 2007–08 to 2010–11.¹² The efficiency dividend applies broadly to all agencies, across all portfolios.¹³

1.20 The Secretary of Finance summarised the efficiency dividend in the following terms:

Remember, there are three components to the efficiency dividend...[t]here is the existing dividend, which was already in our base, as it is for all agencies, of one per cent going forward for 2008-09 and beyond, there is the additional quarter of a percentage point that was announced by the previous government, which starts in 2008-09; and then there is the additional one-off dividend of two per cent announced by the then opposition and then phased in in 2007-08.¹⁴

1.21 The committee heard evidence that some agencies' outcomes and core services will be impacted by the efficiency dividend. One issue that the committee believes warrants further investigation, is the lack of any substantive analysis concerning the long term implication of efficiency dividends on agency budgets.

Australian National Audit Office

1.22 The Australian National Audit Office (ANAO) presented evidence to the committee that there maybe some difficulty for the agency in achieving its outcomes due to the efficiency dividend. Officials stated that the agency stands to lose up to \$1 420 000 in the forthcoming 2008–09 financial year. Complicating this matter, is the fact that the agency is attempting to deliver an audit of the top 20 defence

12 This is referred to in the budget papers as the 'Election Commitment Savings: 2 per cent Efficiency Dividend'.

13 An exception is operational Defence activities.

14 Dr Ian Watt, Secretary, Department of Finance and Deregulation, *Estimates Hansard*, 19 February, p. 80.

acquisition projects at a cost of \$1 500 000. The ANAO is also expecting to receive the funding for these audits in the forthcoming budget.¹⁵

1.23 The Auditor-General stated that if the additional funding of \$1 500 000 is provided, then the majority of the funding will have to be returned, leaving only \$80 000 of the original funding in place.¹⁶ In regards to the overall outcomes and services that the ANAO provides, the Auditor-General stated that 'there will be a potential reduction in the work that we do'.¹⁷

1.24 On the question of the long term impact of continual efficiency dividends Senator Ray noted the irony that if the efficiency dividends remain ongoing, and are continually implemented by successive governments, then eventually agencies will run out of money, and would technically have to '[pay the Parliament] to exist'.¹⁸

1.25 Senator Ray also questioned the gap in analysis on the effect of the efficiency dividends on 'big service departments, advice departments and [statutory authorities]'. In response, the Auditor-General stated that he was not aware of any studies.¹⁹

Finance

1.26 Notwithstanding evidence from the Finance Department that the usefulness and viability of such dividends had not been reviewed, the committee heard that they had become a normal and recurrent feature of public administration.²⁰

1.27 In response to questioning about the effect of the efficiency dividend on the outcomes and core services of Finance, the Secretary stated:

...In 2008-09 we will be looking for an additional 2.25 per cent reduction in the resources which we use to deliver our outcomes, and that will result in some things that will not be delivered.²¹

1.28 The Secretary of Finance went on to say that he was not aware of any studies into the effect of efficiency dividends on different sized government agencies.²²

15 Mr Ian McPhee, Auditor-General, Australian National Audit Office, *Estimates Hansard*, 19 February 2008, p. 12.

16 Mr Ian McPhee, Auditor-General, Australian National Audit Office, *Estimates Hansard*, 19 February 2008, p. 12.

17 Mr Ian McPhee, Auditor-General, Australian National Audit Office, *Estimates Hansard*, 19 February 2008, p. 12.

18 Senator Ray, *Estimates Hansard*, 19 February 2008, p. 13.

19 *Estimates Hansard*, 19 February 2008, p. 13.

20 *Estimates Hansard*, 19 February 2008, pp 80–81.

21 *Estimates Hansard*, 19 February 2008, p. 80. The 2.25 per cent efficiency dividend is composed in two parts, 0.25 per cent as directed by the former government starting in 2008–09 and 2 per cent as directed by the current government starting in 2007–08.

Centrelink

1.29 Centrelink officials informed the committee that it is their expectation that staffing numbers will need to be reduced, partly as a result of the additional savings required by the additional efficiency dividend. While officials stated the reduction in staff numbers is also due to a reduction in the number of people seeking assistance of the services provided by Centrelink,²³ the CEO of Centrelink stated:

...My best estimate for next financial year [2008-09] is that we will have a reduction of between \$150 million and \$300 million...We will have to pull down our staff significantly. My best estimate at the moment is—and this can swing, significantly—some 2,000 staff.²⁴

Conclusion

1.30 The committee notes the comments made by agencies about the effect of the efficiency dividend on their outcomes and services. The committee is concerned that with the continuing pattern and use by governments of efficiency dividends, that there have been no studies to examine their effect on the outcomes and services on different types of government agencies. The committee is of the view that future efficiency dividends should be introduced with a clearer picture of the potential impacts to government services and programs.

Recommendation 1

1.31 The committee recommends that the Department of Finance and Deregulation report to the government and the Parliament on: the long term effect of efficiency dividends on the outcomes and services provided by different types of government agencies. This report should be completed by the last Parliamentary sitting fortnight of 2008.

Improving the transparency of Portfolio Additional Estimates Statements

1.32 A key component of the Estimates process is the examination of Portfolio Budget Statements (PBS) and Portfolio Additional Estimates Statements (PAES). The relationship between Appropriation Bills and PBS or PAES is an essential aspect of the committee's examination of the expenditure and performance of departments and agencies.

1.33 The primary function of the PAES is to assist members of parliament in the scrutiny of changes to proposed expenditure. This is clearly outlined at the beginning of each PAES:

22 *Estimates Hansard*, 19 February 2008, pp 80–81.

23 Mr Jeff Whalan, Chief Executive Officer, Centrelink, *Estimates Hansard*, 22 February 2008, p. 69.

24 Mr Jeff Whalan, Chief Executive Officer, Centrelink, *Estimates Hansard*, 22 February 2008, p. 68.

The purpose of the Portfolio Additional Estimates Statements (PAES), like that of the Portfolio Budget Statements, is to inform Senators and Members of Parliament of the proposed allocation of resources to government outcomes by agencies within the portfolio...The PAES include new measures, and summarise the changes by Appropriation Bill, and, where relevant, by Special Appropriation and Special Account.

The PAES facilitate understanding of the proposed appropriations in Appropriation Bills (Nos. 3 and 4) 2007–08. In this sense the PAES is declared by the Additional Estimates Bill to be a 'relevant document' to the interpretation of the Bills according to section 15AB of the *Acts Interpretation Act 1901*.²⁵

1.34 The relationship between the PAES, the PBS and relevant Budget Papers was discussed in detail in a previous report of the committee: *Transparency and accountability of Commonwealth public funding and expenditure*.²⁶ In relation to the level of information provided in these budget documents, the committee made the following recommendation:

The committee recommends that expenditure should be reported at the levels of programs in the budget documents, including in the schedules to the Appropriation Acts.²⁷

1.35 As part of the Estimates process, the committee seeks to determine whether funding for *newly established programs* has been correctly allocated in Appropriation Bill No. 4 (bill no. 4), and not in Appropriation Bill No. 3 (bill no. 3) which is for the ordinary annual services of government as specified in the Compact of 1965.²⁸ Disclosure of appropriations in the PAES is an important component of overall government transparency and disclosure to Parliament. For this reason, understanding the PAES is central to the Estimates process.

1.36 In scrutinising the most recent PAES of the three portfolios under the committee's purview, insufficient information appears to have been provided, making it unclear to which appropriation bill funding for new programs had been allocated.

25 For example Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, p. ix.

26 Senate Standing Committee on Finance and Public Administration, *Transparency and accountability of Commonwealth public funding and expenditure*, March 2007, pp 37–42.

27 Senate Standing Committee on Finance and Public Administration, *Transparency and accountability of Commonwealth public funding and expenditure*, March 2007, p. 75.

28 The Hon Harold Holt MP, Treasurer, *House of Representatives Hansard*, 13 May 1965, pp 1484–1485. There have been modifications to the Compact since 1965. For details of the modifications, and comments made by the Senate Appropriations and Staffing Committee see: Senate Appropriations and Staffing Committee *2005–06 Annual Report*, p. 4. www.aph.gov.au/Senate/committee/app_ctte/annual/2006/report.pdf (accessed 17 March 2008). See also Senate Appropriations and Staffing Committee, *2006–07 Annual Report*, pp 3–4. www.aph.gov.au/Senate/committee/app_ctte/annual/2007/report.pdf (accessed 17 March 2008).

There was little detail provided of appropriations in bill no. 4 across all portfolio areas. In many instances, such information was limited to equity injections. This may indicate that newly established programs (not considered to be ordinary annual services of government) had been inappropriately placed in bill no. 3.

1.37 Furthermore, the appropriation bills for each portfolio were highly aggregated, posing further difficulties for the committee in ascertaining whether funding had been correctly appropriated or not.

1.38 The committee has identified the following list of programs or projects that may have been inappropriately placed in bill no. 3. Because of the lack of information provided in PAES, the list below is somewhat uncertain and certainly incomplete.

Prime Minister and Cabinet

- Council of Australian Governments (COAG) Reform Council (\$3.57 million over four years to establish a Reform Council as part of new initiatives arising from the COAG);²⁹
- Community Cabinets (\$8.4 million over four years to conduct regular community cabinet meetings);³⁰
- Homeland and Border Security – review (\$114 000 over one year to conduct a review of homeland and border security arrangements in Australia);³¹
- Lobbyist Register – establishment (\$1 million over four years to establish and maintain a register of lobbyists);³²
- Office of National Security – establishment (\$3.8 million over four years to provide coordinated and integrated whole-of-government advice on national security policy and strategic implementation oversight);³³
- Office of Work and Family – establishment (\$6.3 million over four years to provide policy coordination and advice on work and family matters);³⁴

29 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, pp 6 and 15.

30 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, pp 6 and 15.

31 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, p. 15; The Hon. Kevin Rudd, MP, Prime Minister of Australia, 'Homeland and Border Security Review', Press Release, 22 February 2008, www.pm.gov.au/media/Release/2008/media_release_0084.cfm, (accessed 29 February 2008).

32 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, pp 6 and 15.

33 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, pp 3 and 15.

- Review of recognition for the battle of Long Tan (\$161 000 over one year to meet the costs of the Independent Review Panel into Recognition for the Battle of Long Tan);³⁵
- Social Inclusion Unit – establishment (\$6.7 million over four years to establish the unit within the department);³⁶ and
- Design of the Emissions Trading Scheme (\$6.3 million for the 2007–08 financial year).³⁷

34 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, pp 3 and 15.

35 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, pp 6 and 15.

36 Department of the Prime Minister and Cabinet, *Portfolio Additional Estimates Statements 2007–08*, pp 6 and 15.

37 Department of Climate Change (Prime Minister and Cabinet Portfolio), *Portfolio Additional Estimates Statements 2007–08*, p. 13.