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4 December 2008

CHAIR'S STATEMENT

JCPAA REPORT ON THE EFFICIENCY DIVIDEND & SMALL AGENCIES

Ms GRIERSON (Newcastle) (10.24 a.m.)—On behalf of the Joint Committee of Public Accounts and Audit I present the committee's report entitled *Report 413: The efficiency dividend and small agencies: Size does matter*.

The efficiency dividend was introduced in 1987-88 to encourage productivity improvements in the public sector. Each year since, the public funding component of agencies' budgets has usually been trimmed by 1.25 per cent. For the 2008-09 year only the efficiency dividend was increased by an extra two per cent. In June the committee initiated an inquiry into the effects of the efficiency dividend on small agencies. We were concerned that after 20 years the dividend may be leading to reductions in services rather than genuine efficiencies in the case of many smaller agencies.

The evidence to us proved that these concerns are well founded. It is clear that, relative to large agencies, smaller agencies have difficulty in attracting funding for new policy proposals. We also heard repeated instances of small agencies being forced to reduce services or delay initiatives as a result of the dividend. Reducing functions in regional areas and a diminished capacity for innovation were two of the consequences of squeezing more and more out of agencies that are already suffering. While we accept that some sort of efficiency incentive is warranted, we are concerned about the unintended consequences for smaller agencies that have come about as a result of the ongoing efficiency dividend.

To address these concerns we have made several recommendations. Firstly, we recommend additional safeguards in the budget process to reinforce the independence of the Auditor-General, the courts and the parliamentary departments from the executive. In the case of the Auditor-General, the committee has repeatedly expressed the view that the modest budget of the Australian National Audit Office is a cost-effective mechanism for identifying areas for better administration on behalf of the parliament and the people of Australia. The Audit Office is the frontline in ensuring government accountability and integrity, and the parliament is not served well by any reduction in its work program. The committee therefore recommends that, in addition to being adequately funded for other assurance activities, the Audit Office be funded to conduct a number of performance audits that are determined by the Auditor-General

and endorsed by the committee. The actual number would be determined by the Auditor-General, but the committee notes that 50 performance audits per annum have been considered appropriate in recent years.

In relation to the parliamentary departments, we recommend that a parliamentary commission, co-chaired by the Speaker and the President and comprising elected representatives, be established to recommend funding levels for the parliamentary departments in each budget. We note that this would be consistent with practices in other jurisdictions, including Canada, the United Kingdom and New Zealand. We would like to see an advocate for our parliamentary departments. In relation to the courts, we propose that the Attorney-General establish an independent body to recommend funding levels for the Commonwealth courts. The courts should be treated as a separate portfolio under the Attorney-General in the budget process and in the budget papers.

We found that many of Australia's major cultural institutions, including the Australian War Memorial, the National Gallery and the National Library, are being compromised in their capacity to grow their collections and to maximise public access, including through touring exhibitions and initiatives such as digitisation. There are a number of features that distinguish cultural agencies from other agencies. These agencies often hold a large number of valuable assets and have a high proportion of relatively fixed costs related to maintaining those collections and the buildings in which they are housed. Many of the cultural agencies' discretionary functions, such as travelling exhibitions, serve to benefit large numbers of regional and rural communities. Importantly, collecting institutions are also often subject to a mandate to grow those collections. We recommend that a new funding model be developed for cultural agencies. This model should recognise the importance of funding the mandate for growth and development of collections and the high proportion of their expenses apportioned to depreciation.

Finally, we recommend that the first \$50 million of all agencies' appropriations, excluding departments of state, should be exempt from the efficiency dividend and that this amount should be indexed. This would obviously provide proportionately higher relief for smaller agencies. For the sake of administrative simplicity, our preference is that there not be a threshold in an agency's budget to access this partial exemption. However, if the government wishes to impose a threshold, we suggest that departmental expenses of \$150 million or less would be an appropriate figure. Again, this amount should be indexed. We believe these recommendations, if adopted, will provide some relief for smaller agencies at modest additional cost to the budget.

I thank my colleagues on the committee for their diligence during the inquiry and particularly the secretariat staff for their dedicated and professional service. I also thank those organisations and individuals who gave valuable evidence and I commend the report to the House.