



DPS ref: 08/1420

15 October 2008

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

Dear Mr Chafer

**Follow up submission to the JCPAA inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies**

1 On 14 July 2008, the Department of Parliamentary Services (**DPS**) provided a major submission to the Joint Committee of Public Accounts and Audit (JCPAA) about the efficiency dividend issue. This was followed by a meeting with JCPAA on 20 August 2008 to amplify various aspects of our submission.

2 Over the past two months DPS has been reviewing its plans for service delivery to the Parliament for the rest of the 42<sup>nd</sup> Parliament. The key consideration in this process is the likely needs of the Parliament, including the associated needs of Committees.

3 It is now becoming clearer that the level of business for both Chambers, and for the Committees for the 42<sup>nd</sup> Parliament will be much higher than for the 41<sup>st</sup> Parliament, and will probably be similar to that in the 38<sup>th</sup> Parliament (the first Howard Government). This reality has major implications for the costs of services delivered by DPS, and hence for the level of service we will be able to deliver to the Parliament within foreseeable budgets.

4 DPS has therefore developed a proposed approach to funding for its operations which takes into consideration the varying levels of Parliamentary activity. The outline proposal is contained in the attached submission.

5 I apologise for this relatively late submission, but we believe that the proposed approach is highly credible, and will be a much better way to support the needs of Parliament. I would be happy to provide further verbal briefings to Committee members.

Yours sincerely

Alan Thompson  
Secretary



## **Follow up submission to the Joint Committee of Public Accounts and Audit (JCPAA) inquiry into the effects of the efficiency dividend on smaller public sector agencies**

### **Introduction**

1 This submission proposes a budget model for the Department of Parliamentary Services (DPS) which takes into consideration the fluctuating levels of Parliamentary activity, including Chamber business and Committee business.

2 We have developed this proposal partly in response to the recent challenge of the additional 2% efficiency dividend imposed by the 2008/09 budget process, but more importantly, we consider that the recent escalation in the level of Parliamentary activity requires a careful reconsideration of how parliamentary agencies are funded. If this issue is not addressed at an early date, it will be increasingly difficult to service the needs of a busy Parliament.

3 DPS believes that the budget model proposed below will provide a high level of financial accountability to the Parliament and also to central agencies of Government, such as the Department of Finance and Deregulation. DPS acknowledges that the proposed approach is not applicable to non-Parliamentary agencies.

### **Background**

4 On 14 July 2008 DPS provided a comprehensive initial submission on our overall financial situation including:

- (a) the relatively constant level of funding since the year 2000, notwithstanding that CPI has increased by more than 30% over this period;
- (b) the range of actions already undertaken by DPS to manage within its available funds; and
- (c) the challenging cost outlook for the next few years.

5 A key issue which DPS did not address specifically in its initial submission was the significant consequences of a rapidly increasing level of Parliamentary activity, including Parliamentary Committees.

### **The Parliamentary business challenge**

6 Over the last two months it has become clear that the level of business activity for the 42<sup>nd</sup> Parliament is much higher than for the 41<sup>st</sup> Parliament. Indeed, it appears that the level of chamber activity and committee activity will be similar or higher to that of the 38<sup>th</sup> Parliament (the first Howard Government). This activity is summarised in Fig. 1 and Fig. 2 (attached). This heightened activity level has major implications for the costs of the services delivered by

DPS and hence for the level of service we would be able to provide within foreseeable budgets.

7 If we assume that the 42<sup>nd</sup> Parliament is the same as the 38<sup>th</sup> Parliament, then the comparison with the last three years (ie, 41<sup>st</sup> Parliament) will be as follows:

- (a) **Chamber** activity will be:
  - (i) *50% higher than 2007/08 (as a single year); and*
  - (ii) *12% higher than the average level over 2005/06, 2006/07, and 2007/08.*
- (b) **Committee** activity will be:
  - (i) *105% higher than 2007/08 (as a single year); and*
  - (ii) *32% higher than average level over 2005/06, 2006/07, and 2007/08.*

8 DPS is well aware of the memorable episode of *Yes Minister* relating to the empty hospital, but it is a reality that Chamber sitting days and Committee sittings (in Canberra and elsewhere) do incur substantial costs.

9 When we compare **Chamber** sitting days with non-sitting days:

- (a) The building:
  - (i) uses 40% more energy;
  - (ii) uses twice as much water for internal purposes; and
  - (iii) produces three times as much solid waste.
- (b) Our chamber staff (Hansard and Broadcast) direct costs per day increase by approximately 45%. Costs also increase hugely for long sitting days such as the sitting week commencing 2 June in 2008 when the House of Representatives and Main Committee sat for an additional 18.5 hours. These additional hours increased our costs by around \$20,000 per day.
- (c) Our security staff costs per day increase by \$7,000 per day.
- (d) Our IT help desk has 50% more calls.
- (e) Library central enquiry point costs also increase, by more than 30% and research requests also increase.
- (f) Our printing costs are significantly higher.

Taking these factors into consideration, in total we estimate that a 50% increase in Chamber sitting day activity will cost some \$2.4 million more per annum to service the needs of Parliament (without reduction in service levels).

10 When we consider **Committee** work, this utilises many of the same staff who service the two chambers, but a 105% increase in committee activity requires a major increase in overtime, use of sessional staff and contractors, as

well as travel and accommodation costs. These extra costs amount to some \$4 million per annum.

11 In total, (if the 38<sup>th</sup> Parliament business levels are replicated) costs will increase by around \$6.4 million per annum (when compared with 2007/08). This increase in costs will be driven by the needs of the Parliament, and is not controllable by DPS.

12 Given the history of DPS funding since the year 2000 (including the recent 2% additional cut), the extra costs outlined at paragraphs 9 and 10 mean that DPS and the Parliament will be faced with some very stark choices. As a consequence, DPS has developed a proposed new funding model, as set out below.

### **Proposed new funding model**

13 DPS has reviewed practice across Australian public sector agencies for activities where the agency has little or no direct "control" over a major component of its activity.

14 Three useful examples are Centrelink, emergency response agencies, particularly those with bushfire responsibilities, and finally hospital funding. The approach to funding these agencies is outlined in **Attachment A**.

15 DPS now proposes a future funding model with two components.

16 **Component 1— Base Funding**—*would fund the full range of DPS services, assuming a level of Parliamentary activity at the 2007/08 level. This component would be the major part of DPS funding.*

17 **Component 2—Additional Chamber and Committee Funding**—*would fund DPS activities to support Chamber and Committee work above the 2007/08 level, including:*

- (a) *increased utilities costs (energy, water, waste);*
- (b) *extra direct Chamber/Committee staff costs; and*
- (c) *extra security, IT help desk and library costs.*

18 Base funding would be set at the 2007/08 level, adjusted by the normal annual CPI adjustment.

19 "Additional Chamber and Committee" funding would typically be a triennial pool of funds set in the first post-election budget. For each year, sitting period statistics and costs would be assessed at the end of (say) December and June as the basis for any additional funding to DPS. Oversight of this pool could be undertaken by either the Department of Finance and Deregulation or the Australian National Audit Office.

20 In addition:

- (a) DPS would continue to utilise the pool of "administered" funds used to maintain and renew the building and its internal systems;

- (b) DPS would still require ongoing asset replacement funding to maintain its departmental assets at the level required to support the operations of the Parliament; and
- (c) DPS would also need to be able to bid for funding under the New Policy Proposal (NPP) system for various major improvement initiatives for the Parliament.

21 In relation to the NPP issue, I also note that DPS has previously had little success with this process for the good reason that our projects and programs are to service the needs of the Parliament, and hence do not often align directly with the policy agenda of the Government of the day.

22 DPS would be grateful for any support from the Committee in relation to proposed upcoming funding bids such as that to digitise broadcasting materials and Hansard back to 1901.

### **Alternative new funding models (less preferred)**

23 DPS has also considered a **“modified 2 component”** model under which:

- (a) Component One Funding is utilised only for “non-Parliamentary” work (such as building maintenance, gardening, external events management etc); and
- (b) Component Two Funding would be utilised for ALL Chamber sitting weeks and all Committee costs.

24 While this appears to be closer to the bushfire agency model discussed in Attachment A, it would be very complex and costly to administer because there is no clear demarcation between Parliamentary costs and non-Parliamentary costs. *This modified 2 component model is not preferred.*

25 A further possible funding model would be a **“Schedule of Rates”** model. Under this model DPS would provide a range of services in accordance with a very detailed Schedule of Rates. For example, there could be rates for each sitting day, a rate per hour for each Committee hearing in Canberra, a different rate for away Committees and so on.

26 This Schedule of Rates model would be somewhat similar to the Hospital model mentioned in Attachment A, but would undoubtedly be very complicated. *This approach is also not preferred.*

### **What will happen if additional funding is not provided?**

27 As indicated in the main submission of DPS, we are seeking to deliver a reasonable level of service for 2008/09, albeit on a very frugal basis. At a minimum, some maintenance issues and planned upgrades may need to be deferred (with consequences for the look of the building and the long term effectiveness of Parliament), our investment in staff development will be very limited, and we have no flexibility to assist with various improvements desired by members and senators. If however, the level of Committee work increases at the rate witnessed in September 2008 we may need to take further early action. This will be discussed with the Presiding Officers.

28 For 2009/10 and the years beyond, predicted cost increases will be substantial. Unless new funding becomes available much greater change will be required for DPS to keep within its budget. We are already actively looking at various productivity opportunities, and while these may allow us to accommodate a 1.25% dividend, we are having considerable difficulty in identifying opportunities to "cover" the extra 2% dividend and increased Parliamentary activity without seriously affecting service delivery AND/OR requiring major changes to the way in which Parliament House operates. We expect to discuss these issues with the Presiding Officers over the next few months.

29 However, our preferred approach at this stage is to move to the proposed new funding model outlined in this submission.

### **Conclusion**

30 In light of the levels of Parliamentary activities which are now emerging, the Department of Parliamentary Services believes that a new funding model is required for its services. The preferred model would include "Base" funding and "Chamber and Committee" funding. This model would still provide a high level of accountability to the Australian taxpayer, but would ensure that the needs of Parliament would be met even in a time when Parliamentary workloads are fluctuating.

## **Attachment A—Funding Models for Agencies which cannot control all of their costs**

### *Example 1— Funding for Centrelink*

The network component of the Centrelink Funding Model (CFM) is based on national Centrelink customer numbers and the associated workloads for each customer group.

The most labour intensive and numerically volatile group is the number of unemployed, and as such, this group has the greatest effect on Centrelink's overall network workload and revenue.

While other beneficiary types such as aged pension recipients are also a factor, they have much less influence on the funding outcome than the unemployment numbers.

Funding is provided to Centrelink based on updated projected customer numbers at the time of Federal Budget each year. At the end of each financial year the projected customer numbers, including the unemployed, are reconciled against actual customer numbers for that year. Depending on whether the actuals are lower or higher than projected, Centrelink repays money or receives additional funds.

We understand that funding for detention centre work through DIAC is on a similar basis.

### *Example 2— Funding for Emergency Response/Bushfire Fighting Agencies*

For these agencies, State Treasuries frequently provide funding in two separate components.

#### *Component 1*

“Normal funding” is provided to employ normal full-time staff, acquire and maintain equipment, undertake training and undertake prevention works. These are activities which are generally “controllable” by the agency.

#### *Component 2*

“Suppression funding”. This is a separate fund and is used by the agency to fund the direct costs associated with bushfire suppression. This suppression activity varies widely from year to year and is not “controllable” by the agency.

There is normally some form of audit/control function in place between the agency and the State Treasury to provide assurance that component 2 funding is being utilised for its intended purpose.

*Example 3—Funding for Hospitals*

Many Australian hospitals are now funded by State and Territory Governments on a “Case mix” basis which takes into consideration average costs for various activities and procedures for admitted patient treatment. In a sector experiencing increasing demand and high cost inflation, case mix-based funding is seen as an effective way to manage throughput and drive efficiencies. It does require a detailed schedule of “unit prices” and appropriate administrative infrastructure. The model was introduced in the early 1990s in Victoria and is now being adopted throughout Australia.



