

Joint Committee of Public Accounts and Audit (JCPAA)

Inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies

SUBMISSION BY THE NATIONAL LIBRARY OF AUSTRALIA

Executive Summary

The impact of the efficiency dividend on the National Library of Australia is particularly severe due to:

- the application of the dividend to some costs (depreciation expenses) which the Library is unable to reduce;
- the continual growth of the Library's collections as required by the National Library Act 1960, a growth which brings increases in costs;
- the additional demands placed on the Library by the need to collect and preserve a very rapidly expanding body of digital collection content;
- its negative impact on the Library's ability to innovate; and
- its negative impact on the Library's ability to compete for skilled staff.

The Library has undertaken a number of measures to deal with the impact of the additional efficiency dividend in 2008-09. These measures represent a reduction in the levels at which the Library exercises its core functions.

The Library proposes that consideration be given to exempting national collecting institutions from the efficiency dividend in recognition of the inevitable, increasing cost of developing and maintaining growing collections, and that a new funding model, taking account of their specific statutory responsibilities, be developed.

A. General comments

The National Library of Australia is a statutory authority in the Environment, Water, Heritage and the Arts portfolio.

The impact of the combined 3.25% efficiency dividend on the Library for 2008-09 represents a reduction of \$1.856m in government appropriation funding.

The Library and other collecting institutions suffer particular disadvantage due to their significant asset holdings and the methodology used to calculate the efficiency dividend. The efficiency dividend is calculated as a percentage of total appropriations, which in the Library's case includes depreciation funding of \$19.019m, or 33% of the total appropriation funding of \$57.680m in 2008-09.

Depreciation is a non-discretionary expense and the funding is used for capital purposes. As a consequence a much higher reduction than 3.25% is required from the Library's operating

budget. Effectively, the impact of the efficiency dividend in 2008-09 represents 4.6% reduction in the funds available for the operating expenses for the Library.

The Library receives an annual indexation adjustment to its government appropriation funding. However:

- this adjustment is not applied to the depreciation expenses (even though the efficiency dividend is applied to those expenses);
- in 2008-09, this adjustment was approximately 2.2%, which is significantly lower than current average annual rate of increase in Commonwealth public sector wages (over 4% per annum); and
- the 2008-09 adjustment was also significantly lower than the current annual CPI which was 4.2% through the year to the March quarter 2008.

The impact on the Library's ability to fund a sufficient number of skilled staff is particularly severe. The Library's cost per employee will increase by 4% in 2008-09. By contrast, the funds available to the Library for employee expenses will be effectively reduced in net terms by 2.5% (which is the combined effect of a 2.2% indexation and the 4.6% effective reduction in operating expenses noted above).

The Library needs to compete in the labour market for the services of skilled staff. Smaller agencies like the Library are not consistently able to offer salaries at the levels available from larger government agencies. Assuming that wages continue to increase at the rates experienced in recent years, the Library will experience even greater difficulties in attracting skilled staff in an increasingly competitive labour market.

The Library is required by its Act to build a national collection of library material which is comprehensive with respect to Australia and the Australian people. This means that the Library's collection will continue to grow indefinitely. The services that the Library provides to the Australian community in turn depend on the size and richness of that collection.

The Library's capacity to fulfil these core functions is severely threatened by the continued application of the efficiency dividend. The required levels of collecting and service cannot be maintained into the future with funding that is continuously eroded in real terms by the model used to calculate the efficiency dividend and the indexation adjustments.

B. Comments against the terms of reference

Since 1987-88, an annual "efficiency dividend" has been applied to the operational appropriation of Commonwealth public sector agencies. The annual rate of the dividend currently stands at 1.25%, with the Government imposing an additional one-off 2% additional efficiency dividend for 2005-09 appropriation (with a pro-rata reduction in 2007-08 appropriation). The Joint Committee of Public Accounts and Audit has advised that it will inquire into and report on the effects of the ongoing efficiency dividend on smaller public sector agencies including:

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;*

As a smaller agency, the Library experiences a disadvantage compared to larger agencies in its ability to achieve economies of scale and to obtain funding for new policy proposals.

The Library has received no new policy funding for its operations in the 20 years since the efficiency dividend has been applied – though it has received funding for two capital building projects.

As was mentioned above, the Library, like other collecting institutions, suffers a relative disadvantage from the methodology used to calculate the quantum of the efficiency dividend. The efficiency dividend is applied to depreciation and other fixed costs despite there being no opportunity to reduce such costs. As a result, a greater saving (4.6% in 2008-09 in the case of the Library) is required from other operating expenses. The Library experiences a greater relative disadvantage due to the size of its depreciation expense, which reflects the high value (\$1.5 billion) of its collection of library material.

As a small agency, the Library cannot achieve the same economies of scale in the procurement of goods and services as can be achieved by larger agencies. The Library is also more severely impacted by major unanticipated price increases. For example, the Library's electricity costs increased by over 70% in 2007-08 while the efficiency dividend continued to be applied to this expense. The Library's ability to make savings in this area was constrained by the need to provide appropriate environmental controls in order to protect the collection, whilst also ensuring the comfort of over half a million visitors annually.

As a small agency, the Library must devote a higher proportion of its budget to compliance costs. The Library is required to comply fully with all Government policy and regulatory requirements (e.g. corporate governance, financial reporting, certificate of compliance, statutory reporting and other compliance reporting requirements). Meeting these requirements in an environment of decreasing resources and increasing costs places significant pressure on the Library's core business.

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

The functions of the Library are set out in Section 6 of the National Library Act 1960. These are, on behalf of the Commonwealth:

- (a) to maintain and develop a national collection of library material, including a comprehensive collection of library material relating to Australia and the Australian people;
- (b) to make library material in the national collection available to such persons and institutions, and in such manner and subject to such conditions, as the Council

determines with a view to the most advantageous use of that collection in the national interest;

(c) to make available such other services in relation to library matters and library material (including bibliographical services) as the Council thinks fit, and, in particular, services for the purposes of:

- (i) the library of the Parliament;
- (ii) the authorities of the Commonwealth; and
- (iii) the Territories; and
- (iv) the Agencies (within the meaning of the *Public Service Act 1999*)

(d) to co-operate in library matters (including the advancement of library science) with authorities or persons, whether in Australia or elsewhere, concerned with library matters.

A description of the Library is given at Attachment A.

The efficiency dividend is now seriously affecting the Library's capacity to perform these core functions.

Since the efficiency dividend was introduced in 1987, the Library has rigorously pursued efficiency improvements and has used innovative technology to maintain its core business. In recent years, the strength of the Australian dollar and the interest earned on the Library's bank accounts has to some extent mitigated the impact of the efficiency dividend. However, the continued application of the efficiency dividend (and particularly the one-off dividend in 2008-09) has forced the Library to make significant reductions in functions. These measures have included:

- Withdrawal of the Library's A-based officer from Jakarta, effective from late 2009. This officer manages the acquisition of Indonesian publications, and selectively collects from the wider region, for the Library and for six other Australian libraries. This will mean an inevitable decline in the quality of the Library's world-class Indonesian collection.
- A reduction in the number of staff providing services in reading rooms, and in the number of staff undertaking collection processing. While these reductions have been carefully targeted to minimise the impact on readers, there will be inevitable reductions in the level of access to the Library's collections.
- A reduction in outreach programs.
- A moratorium on loans for exhibitions for all borrowers except other Commonwealth institutions and state libraries.
- A reduction in the Library's national and international leadership and collaborative activities, including a reduction in the assistance which the Library provides to other libraries in the Asia/Pacific region.
- A reduction in the Library's investment in new technology.

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

The Library's response to the efficiency dividend cuts in 2008-09 is described above. With the exception of the Jakarta position, the Library is yet to make decisions about measures to be taken beyond June 2009. The Library's forward projections indicate that, if the 1.25% efficiency dividend continues for another three years, the number of staff in 2011-12 will decrease by a further 10%, meaning a reduction of 45 staff compared to this year. The Library will not be a viable institution with staff numbers at that level.

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;*

The Library is subject to the *Commonwealth Authorities and Companies Act 1997* and is not subject to Section 31 agreements. The Library actively seeks to gain support and funding from outside government, through donations, sponsorships and grants. Off-budget funding is often used to support activities such as exhibitions, digitisation projects, collection development and the Treasures Gallery building project. For instance in 2007-08 the Library received over \$500,000 worth of collection items through the Cultural Gifts Program, and a total of \$1.748m in sponsorships, donations and bequests.

The Library has limited capacity to increase its revenue through charging for services. The Library's core services are regarded as public good activities. The Library does levy charges for some value-added services, and charges libraries for the services that we provide in support of their cataloguing and interlibrary lending activities.

5. *How application of the efficiency dividend is affected by factors such as the nature of the agencies work (for example cultural, scrutiny, or regulatory functions) or the degree of dissection in the function performed by smaller agencies.*

The nature of the work of the Library means that it experiences a greater disadvantage from the efficiency dividend than institutions that are not required to collect comprehensively. Building a collection of library material, comprehensive in relation to Australia and Australians, is labour intensive. Each year the Library acquires approximately 250,000 unique physical collection items. Every item requires staff effort, intellectual and physical, to acquire it, catalogue it, and incorporate it into the collection.

The collection grows indefinitely, and that growth brings increases in the cost of:

- Conserving and preserving the collection;
- Managing and housing the collection; and
- Retrieval and re-shelving of collection material.

The Library has attempted to protect collecting, and services based on the collection, at the expense of other desirable activities. Our capacity to continue even these core activities is now compromised by ever reducing staff numbers. This is compounded by our inability to invest sufficiently in innovative technology to achieve improved efficiencies in our operations.

Over the past 15 years, Australia's knowledge has increasingly been created and distributed in digital form. Retaining a record of the knowledge of the nation in all forms is clearly a responsibility of the Library. With constantly declining resources, the Library's capabilities to capture, preserve and make digital knowledge available into the future are severely compromised. Consequently, the nation faces significant loss of knowledge, history and culture. The relevance of the Library to information seekers will gradually diminish as we fail to meet our statutory obligations to collect.

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 and functions.*

When the efficiency dividend was introduced over 20 years ago, it was done in association with a number of significant reforms designed to assist agencies in making productivity gains. These included the running costs arrangements, the establishment of the Efficiency Scrutiny Unit and changes to redundancy arrangements (designed to make it easier to deal with inefficient staff).

The notion that all agencies should be able to make savings through such processes was understandable then, but after more than 20 years of ongoing application of the efficiency dividend (and the additional 2% dividends in the 1996-97 and 2008-09 Budgets) and the need to find other productivity improvements, such as those needed to fund wage increases, it is clear that the efficiency dividend model needs to be reviewed on an agency-by-agency basis. It is no longer possible to make the kinds of savings that were envisaged in 1987.

Consideration should be given to exempting national collecting institutions from the efficiency dividend in recognition of the inevitable, increasing cost of developing and maintaining growing collections.

The development of a new funding model for collection agencies, taking account of their specific statutory responsibilities, would be desirable.