

SUBMISSION BY THE NATIONAL GALLERY OF AUSTRALIA

Joint Committee of Public Accounts and Audit (JCPAA): Inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies.

Introduction

The National Gallery of Australia (NGA) is a statutory authority in the Environment, Water, Heritage and the Arts portfolio.

The impact of the combined 3.25% efficiency dividend on the NGA for 2008-09 represents a reduction of \$1.295m in government appropriation funding.

The NGA and other collecting institutions suffer particular disadvantage from the methodology used to calculate the efficiency dividend. The efficiency dividend is calculated as a percentage of total operating funding, which in the NGA's case includes depreciation funding representing \$16.512m of the total appropriation funding of \$41.796 million in 2008/09.

Depreciation is a non-discretionary expense and expenditure of depreciation funding is required to be applied to capital outcomes. As a consequence a much higher reduction than 3.25% is required from the NGA's operating expenses excluding depreciation. Effectively, the impact of the efficiency dividend in 2008-09 represents a 5% reduction in the funds available for operating expenses for the NGA.

Further, while the efficiency dividend is calculated with the inclusion of depreciation funding, the annual indexation adjustment applied to the NGA's government appropriation excludes depreciation funding. The indexation factor applied to the NGA's appropriation funding in recent years has been slightly more than 2%, which is significantly lower than actual movement in costs. The current average annual Commonwealth public sector wage outcomes which are tracking at over 4% per annum and the current annual rate of inflation (CPI was 4.6% for the ACT in the year ended 31 March 2008).

The NGA's employee expenses are expected to increase by approximately 4% in 2008/09 while government funding covering employee expenses will be reduce by a net 1.5% (ie the combined impact of the indexation on our operating expenses excluding depreciation and the efficiency dividend on operating expenses including depreciation). The NGA must compete in the labour market for the services of highly skilled professional staff which are vital to the achievement of the highest standards of international museum practice. Smaller agencies like the NGA are not able to offer salaries at the levels available from larger government agencies and therefore are unable to be relatively competitive. Work of equal value does not necessarily attract equal pay as larger agencies are able to offer salaries beyond those able to be offered by the NGA. This relative disadvantage gap will continue to widen while wage outcomes based on a similar percentage of the existing levels continue.

As outlined above, the model used to calculate the efficiency dividend and indexation adjustments, as well as prevailing economic conditions have combined to significantly erode the NGA's government appropriation funding in real terms.

The NGA is particularly concerned that the ongoing efficiency dividend will have an adverse impact on its core functions, its operations and ambition, and its ability to attract and retain suitably qualified staff and Council members.

Comments against the terms of reference

Since 1987-88 an annual "efficiency dividend" has been applied to the operational appropriations of Commonwealth public sector agencies. The annual rate of the dividend currently stands at 1.25 per cent, with the Government imposing an additional one-off 2 per cent additional efficiency dividend for 2008-09 appropriations (with a pro-rata reduction in 2007-08 appropriations). 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;***

The NGA has not received new policy funding for operations other than modest provisions associated with capital projects like the building refurbishment and enhancement project currently in progress.

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

The NGA suffers a relative disadvantage from the methodology applied 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. In consequence a greater saving (5% in 2008/09) is required from other operating expenses. The NGA experiences a much greater relative disadvantage because of the size of the depreciation expense related to its assets which include the national collection of works of art valued at \$3.2 billion (June 2007).

As a smaller agency the NGA has smaller economies of scale which primarily impacts the procurement of goods and services including the ability to attract and retain appropriately qualified staff, as mentioned earlier in this submission.

Further, despite being a small agency the NGA still has a requirement to comply with regulatory and government policy requirements (eg corporate governance, audit, financial reporting, external budgeting, compliance certificate, statutory reporting and other compliance requirements). It is increasingly difficult for the NGA to meet these requirements while maintaining core functions in an environment of decreasing resources and increasing costs (eg electricity costs increased by approximately 50% per annum from July 2007, while the efficiency dividend continued to be applied to this expense).

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

The impact of the efficiency dividend has required the NGA like other agencies to contain activity and discretionary expenditure with operational impact across the organisation and in 2008/09 the impact will extend to the reduction of some core functions.

In 2007/08 fourteen NGA travelling exhibitions were displayed throughout Australia and abroad. In 2008/09 this number will reduce to nine. Only one new exhibition will be released compared to the average annual release of recent years of four new exhibitions. NGA exhibitions typically tour for approximately 18 months. The cut back in new releases will have an impact particularly in rural and regional communities in coming years. The NGA will also reduce expenditure on the exhibition program at the Gallery in Canberra by adjusting the scope and marketing of some exhibitions.

The NGA plays a leading role in attracting visitors to Canberra and reducing expenditure on public programs including exhibitions could adversely impact visitor numbers and the broader ACT economy. Our ability to attract people to the NGA from around the country is dependent on marketing the institution and its programs. Marketing expenditure is amongst the discretionary expenditure that has been reduced.

The NGA's much valued publications program will also be reduced. The reduction in the number and scope of publications will diminish access to the national collection.

The NGA's budget already restricts our capacity to invest in new initiatives and innovation. The ongoing efficiency dividend will compound this situation.

Further, the NGA's core function as provided in the *National Gallery Act 1975* is to develop a national visual arts collection. There are significant additional costs associated with administering a growing collection including:

- collection research and development costs;
- conservation and preservation costs; and
- collection management and storage costs.

The current funding model does not make provision for the increasing costs of developing, managing and maintaining the growing national visual arts collection.

The special case of national collecting institutions with their obligation to continually grow their asset base and the costs associated with such a mandate should be recognised. Clearly a strategy of decreasing operational funding is inconsistent with acceptance of a role to develop and grow national collections with associated public access and storage requirements.

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

As well as reducing core functions detailed above the NGA will need to reduce the size of its staff over time. The NGA's average staffing level for 2007/08 was approximately 250 full time equivalent while the forecast average staffing level for 2008/09 is 242 full time equivalent.

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

The NGA is subject to the *Commonwealth Authorities and Companies Act 1997* and is not subject to section 31 agreements.

The NGA has a very active program for seeking private sector support through sponsorship, grants and donations (in cash and in kind). The fundraising success is directly linked to the NGA's standing and reputation. The reduction in the NGA's programs and operating activities is likely to have an impact on its reputation which in turn will impact the NGA's ability to continue to attract significant private sector support.

The NGA has in the past been able to successfully leverage the Government's support for the institution through private sponsorship and benefaction. The reduction in funding is likely to diminish the NGA's ability to obtain this leverage in the future.

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; and*

This has been addressed throughout this submission.

The value of the NGA's assets including the national visual arts collection significantly impacts the calculation of the efficiency dividend.

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.

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

Another option would be to exclude fixed expenses from the efficiency dividend calculation methodology for smaller agencies. The fixed expenses could include:

- depreciation;
- general insurance;
- ICT infrastructure and support;
- Financial administration;
- Human Resource Management;
- Governance and Compliance;
- Records Management;
- Utility costs; and
- Building maintenance.

Conclusion

National collecting institutions should be exempt from the efficiency dividend in recognition of the increased in cost of developing and maintaining growing national collections and to address the other disadvantages detailed in the above submission.

10 July 2008