



Budget

2016-17

Agency Resourcing
Budget Paper No. 4
2016-17

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Minister for Finance of the Commonwealth of Australia

For the information of honourable members
on the occasion of the Budget 2016-17

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ACRONYMS AND DEFINED TERMS

| | |
|------------------|--|
| AAO | Administrative Arrangements Order |
| Agency/Entity | has the same meaning as <i>corporate Commonwealth entity</i> and <i>non-corporate Commonwealth entity</i> within the <i>Public Governance, Performance and Accountability Act 2013</i> |
| ASL | average staffing level |
| CRF | Consolidated Revenue Fund |
| Finance Minister | Minister for Finance |
| GGS | general government sector |
| MoG | machinery of government |
| PGPA Act | <i>Public Governance, Performance and Accountability Act 2013</i> |

PREFACE

In 2016-17, Australian Government agencies will have responsibility for administering approximately \$450.6 billion in expenses.

Budget Paper No. 4 sets out the funding for agencies, their funding sources and the purposes of that funding under Outcome statements for each agency in the general government sector.¹

Additionally, information is provided on the staffing of agencies delivering services to the Australian community. Taken together, the information in Budget Paper No. 4 shows the full allocation of resources across government.

TRANSFORMING GOVERNMENT

The Australian Government is committed to modernising the business of government, while putting public expenditure on a more sustainable footing. In a tight fiscal environment and in an age of increasing demographic pressures, innovation is the key to maximising the impact of finite public resources.

By increasing the focus on innovation and the modernisation of public services and on efficiencies achieved by maximising the opportunities of a digital dividend wherever possible, the Government will be an exemplar in how it invests in and uses technology and data to better deliver quality services faster and at a lower cost.

Through innovation, the Australian Government is also positioning the public sector to respond to growing demands from citizens, including for more openness and for solutions to emerging complex problems challenges and opportunities.

The Government is methodically examining all of the activities of the Commonwealth public sector, from agency functions to how they operate and are structured. Reforms in the 2016-17 Budget recommended by these reviews are making a material contribution to the sustainability of the Budget.

A new approach to efficiency

The 2.5 per cent base efficiency dividend and one-off efficiency dividends applied between 2014-15 and 2016-17 have helped to reduce total Australian Government staffing back to 2006-07 levels. The efficiency dividend has also driven reform to inefficient programs and practices among Commonwealth Government agencies, following a period of historically strong public expenditure growth.

¹ Government departments and agencies that provide non-market public services and are funded mainly through taxes (2016-17 Budget, Budget Paper No. 1, Statement 9, Appendix A).

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A number of additional specific and targeted efficiency initiatives have complemented the general efficiency dividend over the past two years, with the savings impact of many of those reforms to keep building over time. These include reforms to Shared and Common Services; reduction of the number of Government bodies; Streamlined Government Grants Administration; outcomes from Functional and Efficiency Reviews of large agencies; and the Digital Transformation Agenda.

The 2016-17 Budget lays out the next phase of the Australian Government's efficiency strategy, designed to ensure that sensible further savings can be achieved, consistent with the overall priorities of the Government.

The Government will reduce the size of the efficiency dividend over the forward estimates and support ongoing public sector transformation through partial re-investment of relevant savings into reforms which increase productivity and innovation in the public sector.

The Government will maintain the efficiency dividend at 2.5 per cent in 2017-18, then reduce it to 2 per cent in 2018-19 and further reduce it to 1.5 per cent in 2019-20. This tapered reduction in the efficiency dividend reflects the diminishing scope for new efficiencies as Australian Government agencies become leaner. \$500 million of the efficiency dividend will be re-invested into measures to improve Commonwealth public sector productivity and innovation.

This new re-investment pool will support more transformational efficiency initiatives, such as automation of public services and business re-engineering.

Functional and efficiency reviews

The Government has expanded its rolling program of Functional and Efficiency Reviews of Commonwealth departments and other major agencies to ensure that government administration is as efficient, effective and responsive as possible.

The Functional and Efficiency Reviews provide independent advice to Government on opportunities to remove inefficiency or reduce lower priority expenditure, so that finite public resources are focused on the activities that matter most.

Over 2015-16, the Government has commissioned a number of new Functional and Efficiency Reviews of portfolio departments and agencies, to examine how their functions and activities align with the Government's policy priorities and how the efficiency and effectiveness of their operations can be further improved.

Functional and Efficiency Review outcomes announced to date have delivered administrative and program savings of about \$2.7 billion.

Table: Completed functional and efficiency reviews

| Department/Agency | Net savings to date (over forward estimates) \$m |
|---|--|
| Social Services (a) | \$2,295.5 |
| Education and Training | \$131.2 |
| Foreign Affairs and Trade | \$99.0 |
| Health | \$95.9 |
| Australian Taxation Office | \$21.8 |
| Agriculture and Water Resources | \$9.2 |
| Environment (b) | - |
| Attorney-General's (c) | na |
| Human Services (c) | na |
| Infrastructure and Regional Development (c) | na |
| Employment (c) | na |
| Industry, Innovation and Science (c) | na |

(a) As responsibility for aged care moved from Social Services to Health in 2015, a number of measures from the Functional and Efficiency Review of Social Services were progressed by the Department of Health.

(b) Recommendations of the review overlapped with the 2015-16 MYEFO decision to cap the Green Army projects at 500 projects from 2016-17 with savings of \$320 million over the forward estimates.

(c) Recommendations to be considered in future Budget processes.

In 2016-17, a further eight Functional and Efficiency Reviews will be undertaken examining the following portfolio departments and major agencies:

- Department of the Prime Minister and Cabinet;
- Department of Finance;
- Department of the Treasury;
- Australian Bureau of Statistics;
- Department of Immigration and Border Protection;
- Australian Federal Police;
- Bureau of Meteorology; and
- Murray Darling Basin Authority and water-related functions within other Australian Government agencies.

Other key elements of the Transforming Government reforms

- **Public sector savings – shared services.** The Government is realising efficiencies within the 2016-17 Budget from reforms that directly target specific areas of inefficiency within the corporate areas of agencies. The Government will build upon the \$40.9 million in targeted savings delivered through the Shared and

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Common Services Program in the *2015-16 Mid-Year Economic and Fiscal Outlook* (MYEFO) by further consolidating the provision of common corporate services to a small number of shared service centres and thereby driving efficiencies through economies of scale. Opportunities to modernise business processes, including through the adoption of whole-of-government electronic invoicing, will be assessed as the Government is committed to putting an increased focus on leveraging economies of scale, standardisation and performance. Efficiencies should allow agencies to reallocate resources to functions better aligned with the policy priorities of the Government.

- **Reducing the size of the Commonwealth public service.** In 2016-17, total staffing in the general government sector (excluding military personnel) is expected to remain around, or below levels recorded in 2006-07. The 2015-16 Average Staffing Level (ASL) estimate in the current Budget is about 16,000 below the 2011-12 peak of 182,505. A key contributor to controlling growth in public sector staffing levels will be the decision by the government to reduce the number of permanent public service positions in the National Disability Insurance Agency from 10,595 in 2018-19 to a maximum of 3,000 and to use more efficient non-government models to achieve the same outcomes. ASL in future years may also reduce further due to Functional and Efficiency Reviews presently underway. Further information on the size of the public sector is covered in *Part 2: Staffing of Agencies*.
- **Public sector wage restraint.** The Australian Government Public Sector Workplace Bargaining Policy has provided a strong framework to ensure responsible and appropriate wage restraint in Enterprise Agreements (EAs), following a sustained period when Commonwealth public sector wages grew strongly. Wage rises in EAs have been offset by productivity gains, to ensure that they are affordable, sustainable and in line with community expectations.
- **Public data.** The data that is produced and held by the Australian Government is a national resource with the potential to help grow the economy, stimulate innovation, improve service delivery and enable more targeted policy outcomes. The Prime Minister's December 2015 Australian Government Public Data Policy Statement is an important step towards the better management of this national resource. It commits Australian Government agencies to optimise the use and reuse of public data; to release non-sensitive data as 'open' by default; and to collaborate with the private and research sectors to share valuable public data for the benefit of the Australian public. Requests for access to public data can be made via data.gov.au.
- **Opening government business activities to fair competition.** The Government will undertake market testing to explore options for greater private sector involvement in the delivery of the Inland Rail project by the Australian Rail Track Corporation. A competitive tender process is underway to explore the capacity of a private sector operator to upgrade the ageing IT systems of the Australian Securities and Investments Commission (ASIC) Registry and to operate the ASIC Registry. The final bid phase was announced by the Government on 29 April 2016.

- A more rational property portfolio.** The Government is divesting surplus properties to align its property holdings with current and anticipated needs. Since May 2014, 160 surplus properties with an asset value of approximately \$65 million have been placed on the divestment program. Continued rationalisation of the property portfolio over 2016-17 will return savings to the Budget through sales proceeds as well as the reduction of ongoing property management and maintenance costs.
- Operation Tetris – reducing vacant lease holdings.** The Government is delivering savings of almost \$200 million over the next 10 years by requiring agencies to fill vacant leased office space in the Australian Capital Territory (ACT), rather than to enter into new leases or to renew expiring leases. The Government’s new coordinated approach to surplus legacy leases has ensured that over 42,000 square metres of previously vacant leased office space in and around Canberra has been successfully filled. The Government is working to fill additional ACT office space which will become vacant in 2016 and will roll out the new approach nationally. About 55 per cent of Government leases are scheduled to end over the next three years.

| Agency taking up surplus space | Area filled | Total savings over the next ten years |
|---|----------------------------|---------------------------------------|
| Department of Veterans’ Affairs | 10,217m ² | |
| Shared Services Centre | 10,873m ² | |
| Australian Electoral Commission, Digital Transformation Office and Department of Education and Training | 10,104m ² | |
| Safe Work Australia | 1,885m ² | |
| Department of the Environment | 9,753m ² | |
| Total area filled | 42,832m² | \$197 million* |

* Based on an average rent of \$460 per m² across the tenancies.

- Digital innovation.** The Government’s Digital Transformation Office (DTO) leads the transformation of government services to deliver a better experience for Australians. Established in July 2015, the DTO is delivering a range of projects; including, the new front end of government GOV.AU and the Digital Marketplace initiative, which seeks to simplify digital procurement. These projects establish common user-friendly platforms that help make all of government more efficient and accessible. Alongside this work, the DTO has created delivery hubs in Sydney and Canberra that focus on building digital expertise and capabilities across the public sector. Through these hubs, the DTO is helping to deliver six exemplar projects that will help to create a world-class public service and world-leading digital economy.

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- **Streamlined and targeted program delivery.** The Government is eliminating wasteful fragmentation in service delivery and removing unnecessary complexity in program rules, which undermine policy effectiveness. The Streamlining Government Grants Administration Program will ensure a simpler, more consistent and efficient grants administration across Government, delivered through two grants administration hubs. Thirteen agencies are currently in scope for the program. The two hub agencies are streamlining their grants management processes, with a user experience focus, and the 11 other granting agencies will transition their programs to one of the grants administration hubs, beginning July 2016. This reform will result in a reduction in red tape for grant applicants and recipients, and administrative efficiencies for government.
- **Sensible risk management.** The Government is implementing a streamlined and risk-based approach to governance of the public sector through the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)*. The new rules require officials to manage risk sensibly, rather than over-invest in unrealistic efforts at risk elimination. This will be complemented by a shift away from regulatory frameworks which are excessively prescriptive, hinder organisational flexibility and agility, and impose compliance burdens that are disproportionate to their benefit.
- **Enhanced non-financial performance information.** From 2016-17, Australian Government agencies will be required to report on their performance against the purposes that they pursue, including government policy objectives. This information will be included in annual reports alongside financial information and will allow judgements to be made by taxpayers and the Parliament on public benefits generated by public expenditure.
- **Streamlining government bodies.** To date, the Smaller Government agenda has delivered an estimated \$1.5 billion in savings. The Government continues to manage closely the size and shape of government. The Commonwealth Governance Policy introduced by the Government on 14 December 2014 requires sunset or review dates to be set for new Commonwealth bodies. This will ensure bodies are periodically reviewed and adjusted to ensure they remain fit for purpose. The introduction of the Australian Government Organisations Register by this Government also ensures that the size and shape of government is transparent to the Australian public. Box A shows the number of government bodies as well as anticipated reductions as a result of decisions taken by the Government. Keeping the number of government bodies as small as possible helps to maintain clear lines of accountability and makes our public sector agencies better able to address changing pressures and Government priorities.

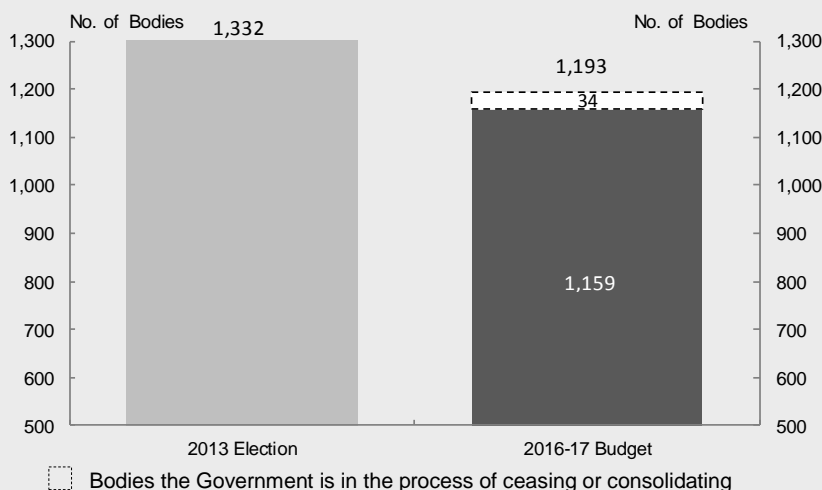
Box A: Australian Government Organisations Register

The Australian Government Organisations Register (AGOR) was developed as part of the Government’s package of Smaller Government reforms, and provides information on the function, composition, origins and other details of each Australian Government body. It makes the size of government more transparent to taxpayers than it has ever been before.

AGOR enables individuals, businesses and other stakeholders to:

- connect with government bodies and agencies that can assist them with different services or issues;
- identify available opportunities to collaborate with the public sector; or
- understand the shape and size of the public sector by providing a more accurate and current count of government bodies and agencies.

Chart 1: Number of Australian Government organisations



Source: Australian Government Organisations Register as of November 2015 and available at www.finance.gov.au/resource-management/governance/agor.

The number of bodies the Government is in the process of ceasing or consolidating has been updated to reflect decisions up to and including the 2016-17 Budget.

The Government will seek new opportunities to modernise and transform public services so that they are better prepared for the challenges ahead. In doing so, it will not lose sight of the need to keep the cost of administration affordable, including by managing the size of government.

Senator the Hon Mathias Cormann
Minister for Finance