



*Human Rights and Equal
Opportunity Commission*
humanrights.gov.au

Submission of the

**HUMAN RIGHTS AND EQUAL OPPORTUNITY
COMMISSION (HREOC)**

to the

**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND
AUDIT INQUIRY**

on the

**EFFECTS OF THE ONGOING EFFICIENCY
DIVIDEND ON SMALLER PUBLIC SECTOR
AGENCIES**

29 July 2008

**Human Rights and Equal Opportunity Commission
Level 8, 133 Castlereagh St
GPO Box 5218
Sydney NSW 2001
Ph. (02) 9284 9600**

Table of Contents

Introduction.....	3
Summary	3
HREOC’s appropriation revenue.....	4
Growth in service delivery demands	5
Growth in HREOC complaint handling outputs	6
Operating expenses	7
Other sources of funds and cost-saving measures...	9
Conclusion.....	10

Introduction

1. The Human Rights and Equal Opportunity Commission ('HREOC') makes this submission to the Joint Committee of Public Accounts and Audit Inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies ('the Inquiry').
2. HREOC is Australia's national human rights institution.¹

Summary

3. HREOC is experiencing a long term price/cost squeeze. The price the government pays HREOC for the services it provides to the community continues to be gradually reduced in real terms by more rapidly rising service-driven costs. The ongoing efficiency dividend adds to the impact of this squeeze.
4. HREOC achieves high levels of efficiency in its service delivery, as demonstrated by its complaint handling. Current resources do not, however, appear to have sufficient capacity to match the increased growth rate in the demand for these services from both the government and the public. In these circumstances, the imposition of an 'efficiency dividend' is potentially counter-productive.
5. HREOC notes that:
 - HREOC's expenses, particularly employee expenses, are generally low relative to other areas of government. The consequence of low relative salary levels and non participation in performance payment schemes is, however, that staff retention is a major issue for HREOC.

¹ HREOC is established by the *Human Rights and Equal Opportunity Commission Act 1986* ('HREOC Act'). Sections 11 and 31 of the HREOC Act set out HREOC's functions relating to human rights and equal opportunity in employment respectively. HREOC also has functions under the Commonwealth *Sex Discrimination Act 1984*, *Racial Discrimination Act 1975*, *Disability Discrimination Act 1992* and *Age Discrimination Act 2004*.

- HREOC seeks to supplement its appropriation from government through other sources of funding. Such funding is, however, not recurrent and is often project specific. This results in added uncertainty for staff, some of whom are hired on a contract or casual basis because of the limited nature of the funding. HREOC is concerned that these alternate sources of funding now comprise a significant proportion (20%) of its total revenue.
- The application of a uniform efficiency dividend does not take account of individual differences between agencies, the relative ability of each agency to achieve further efficiencies and the particular challenges experienced by small agencies.

HREOC's appropriation revenue

6. In 2008-09 HREOC will receive appropriation revenue of \$13.55 million.
7. Over the last 8 budget years (2001-2008), HREOC's net increases in appropriation have averaged 3.61% per annum. The increase is net of all adjustments for:
 - indexation growth;
 - efficiency dividend reductions; and
 - additional revenue from new policy proposals (NPPs).
8. NPP funds have provided approximately 7% of HREOC's total appropriated revenue over the period. In particular HREOC has received funding for four new policy initiatives related to age discrimination, anti-extremism education and additional funding for growth in the complaints handling activities. The growth funding for complaint handling was, however, subsequently reversed in 2008.
9. As a small agency, HREOC does not compete on an equal footing with large agencies for additional funding from government. This is because its project proposals always fall below \$10 million or less per year and, under Budget guidelines, are required to be fully offset within the portfolio.

10. Growth in government appropriated funding can be compared to the demand-driven growth in services provided by HREOC and the increases in its operating expenses.

Growth in service delivery demands

11. HREOC provides educational and complaint handling services nationally and also plays an important role in monitoring the human rights implications of laws and proposed laws. Demand for services provided by HREOC has increased substantially over recent years.
12. HREOC receives frequent requests from parliamentary committees, government departments conducting reviews, law reform bodies and international human rights bodies for submissions and/or briefings on relevant human rights issues. In the last financial year HREOC has provided over 26 submissions and a substantial number of briefings.
13. HREOC also conducts major reports into discrimination and human rights issues. Some recent examples of HREOC's reports include *Same-Sex: Same Entitlements*, National Inquiry into Discrimination against People in Same-Sex Relationships (2007); *It's About Time: Women, Men, Work and Family* (2007); *National Inquiry into Employment and Disability* (2006); and *Federal Discrimination Law* (2008).
14. HREOC also has statutory functions to prepare two reports annually to the federal Parliament and the Attorney-General on the level of enjoyment of human rights by Indigenous peoples. These are the *Social Justice Report* and the *Native Title Report*, and they are prepared by the Social Justice Commissioner on behalf of the Commission. The production of the reports each year is mandatory.
15. With the election of a new federal government, there has also been a significant increase in requests for contributions to policy and legislative review. For example, HREOC is involved in the development of the Government's National Mental Health and Disability Strategy (which was also the principal recommendation of HREOC's National Inquiry on Employment and Disability),

the National Disability Strategy which forms a key component of the Government's Social Inclusion Agenda, convening of the National Roundtable on People Trafficking, and a major submission to the Productivity Commissions Inquiry into Paid Maternity Leave, Paternity Leave and Parental Leave.

16. HREOC is required along with all other arms of government to report to government as business owners. Reporting demands continue to increase and the costs associated with external reporting are increasingly being passed back to agencies; these overheads have a disproportionate impact on small agencies.
17. Increasing growth in service demands can be quantified more accurately by examining the impact on HREOC's complaint handling load. In 2007-08 more than 2,000 complaints were lodged with HREOC.
18. Since 2001 the average number of complaints registered with HREOC has grown by more than 9% per annum and complaint enquiries by more than 14%. Growth rates in this area are increasing at an exponential rate. Since 2004, average annual growth rates in complaints have increased by nearly 17% and complaint enquires by more than 19%. There is no evidence to suggest this trend line is reducing.

Growth in HREOC complaint handling outputs

19. HREOC resolves more than 80% of all complaints received within 12 months. Over the period from 2001-2008 the average number of complaints resolved has increased by approximately 7% per annum. During the last 4 years the average growth in complaint resolution has increased by more than 12% per annum.
20. There has been some corresponding increase in HREOC's total staffing numbers during the period which partially accounts for the increased output. However approximately 50% of the increase can be attributed to increases in process efficiency.
21. Process efficiency can be identified when outputs increase without a corresponding increase in staffing resource inputs. Over the period since 2001, HREOC's average staffing numbers have increased by approximately 3% per

annum ranging from 94 to 116 ASL (Average Staffing Level). When outputs are indexed to control for changes in staffing resources, the adjusted rates of complaint resolution provide an estimate for the annual improvements in efficiency of the complaint management process. The indexed figures show that for the period from 2001-2008, the average efficiency improved by close to 3% per annum, increasing to just less than 6% when the comparison was confined to the last 4 years. These changing rates of improvement provide an estimate of the efficiency curve for HREOCs complaint handling process.

22. Overall this trend suggests HREOC has become increasingly more efficient in its complaint management processes. In the last four years, the same relative total staffing resources have resolved on average around 6% more complaints each year.
23. However, despite improved efficiencies, current resources do not appear to have sufficient capacity to match the increased growth rate in the demand for complaint handling services (growing at 17% per annum). The widening gap between demand and the deliverable capacity of complaint handling services (currently growing at 12% per annum) is being managed; however handling delays are forecast if additional resources are not allocated.
24. Following the removal by the Government of the additional funding for complaint handling resources in 2008 (\$450,000 half year effect in 2007-08 and \$1.8m 2008-09) overall staffing numbers within HREOC will be reduced. In order to maintain complaint handling resources near their prior year levels, HREOC intends to apply an across-the-board reduction of 14.5% to all program and service areas in 2008-09. However, without continued growth in resources for complaint handling it is expected that the growth rate in complaint resolution will tend to fall back towards the estimated efficiency curve rate of 6% per annum.

Operating expenses

25. Another measure of the relative efficiency of HREOC is provided by a comparative examination of the cost of inputs giving rise to service outputs.

26. The expense profile of HREOC shows employee expenses make up about 50% of the agency's total costs, supplier costs equate to approximately 46% with around 4% of expenses arising from capital depreciation. The expense profile of HREOC is typical of an organisation which controls few physical assets and operating costs are largely driven by employee expenses.
27. Over the period since 2001, employee expenses have risen by an average of about 5% per annum. Supplier expenses have risen by an average of more than 8% per annum.
28. In terms of employee expenses HREOC has 4 statutory office holders. The remuneration levels for these positions are set by the Remuneration Tribunal. HREOC receives no additional funding for these increases.
29. Analysis of the employee expenses shows these are generally low relative to other areas of Government. In particular HREOC's average salary levels fall below the APS median and generally in the bottom quartiles. HREOC has no funds to offer additional remuneration in the form of performance based payments which is a limiting factor in both attraction and retention of employees, particularly relative to other larger public sector agencies.
30. The comparative disadvantage in remuneration levels is especially difficult in Sydney where the employment market is highly competitive and average salaries in all professional categories are amongst the highest in Australia. As a result staff retention is a major issue for HREOC especially as a large number of the staff are professionally qualified.
31. Overall the figures indicate that HREOC is experiencing a price/cost squeeze, where the price the government pays HREOC for the services it provides to the community is gradually being reducing in real terms by the more rapidly rising service driven costs.
32. In order to deal with the growing gap between appropriation revenue and operating expenses HREOC continues to pursue process efficiencies. However HREOC has also become increasingly reliant on other sources of funding to provide contributions to cost overheads.

Other sources of funds and cost-saving measures

33. The statutory functions performed by HREOC are largely provided free of charge to the community. In particular, no charges are levied for complaint handling services which are resource intensive activities.
34. Some minor revenue is derived from publication sales. This revenue is not, however, intended to cover the costs of the production, as materials are largely provided to inform the community of their rights under Australian legislation.
35. HREOC has sought to defray some of its increasing operating costs by establishing funding partnerships with other government entities, private sector agencies or business enterprises. These cost arrangements are based on compatible interests consistent with HREOC's role and, with the exception of NPP funded activity and as outlined below, is limited.
36. Total funding for joint activities carried out on behalf of other areas of government or in return for services provided to non-related entities now makes up approximately 20% of HREOCs total annual revenue. Two programs now provide around 90% of HREOC's total funding from third party sources. Those funds are deemed at risk because they are subject to annual renewal or may be terminated with less than 12 months notice. The quantum of funds provided from these sources and the fact that they are at risk is of particular concern to HREOC.
37. One of these arrangements is an MOU for corporate service support provided to the Office of the Privacy Commissioner which is co-located with HREOC. Under this arrangement HREOC shares the costs of corporate support for IT, Finance, Human Resources, Legal and Library between the two agencies. This arrangement defrays some of the corporate service overhead costs which would otherwise impact individually on each agency.

38. The other significant funding arrangement contributing to corporate overheads is provided through an MOU with AusAID for human rights technical cooperation programs between China and Vietnam. Under the arrangement, HREOC has supported the government's foreign policy objective of maintaining human rights dialogues with China and Vietnam by establishing programs of technical cooperation with those countries. In China, HREOC is the only human rights 'partner', while in Vietnam, it is the preferred partner for human rights related technical cooperation. Through HREOC, Australia's human rights work enhances relationships and contributes to achieving our foreign policy objectives. This program has also had significant benefits for HREOC in helping to maintain the professional capacity expertise of the organization beyond the limits of the funding currently provided direct from Government.
39. HREOC also partners with other related and unrelated entities to jointly fund cooperative activities. In this way HREOC and partners are able to pool resources to achieve outputs greater than would otherwise be funded individually by each individual partner. Funding arrangements of this nature have been developing over recent years as a mechanism to also share funding risk across multiple agencies.

Conclusion

40. The application of an efficiency dividend does not take account of individual differences between agencies and the relative ability of each agency to achieve further efficiencies.
41. In HREOC's case, there is a growing gap between revenue growth and both HREOC's expenses and the demands for its services. Despite quantifiable evidence of its ability to improve efficiency, the imposition of an 'efficiency dividend' simply increases this gap. The impact of this may prove to be counter-productive.
42. To ameliorate the effect of the price/cost squeeze on HREOC, it has become increasingly reliant on a small number of third party funding sources involving

non-ongoing annual programs. This reliance poses a funding risk to HREOC, but is unavoidable in the absence of an increase in appropriation funding.

29 July 2008

Human Rights and Equal Opportunity Commission