

Sector Briefing Note

February 2008

Indexation to the Non-Government Sector

BACKGROUND

The payment of indexation to the non-government human services sector is a core part of the Government's funding and contract of services policy. The intention of indexation is to assist NGOs to keep pace with increasing costs driven by the inflation over time of wages and operational costs. The level of indexation paid each year is calculated by a combination of the Wage Price Index (WPI) and the Consumer Price Index (CPI) according to the following formula: Indexation rate = 80% (WPI) + 20% (CPI). The percentage is paid on top of the recurrent payments each year, and hence cumulated over each year of a service funding contract.

WACOSS, on behalf of the sector, has been drawing the attention of government to the inconsistencies of calculating indexation, which has resulted in the sector being under-paid each year since the inception of indexation payments. This problem has had a cumulative impact. Each year that the sector has been underpaid, means that the base is lower than it ought to have been for subsequent years. In May 2007, WACOSS published a table detailing the history of indexation payments, which demonstrated that the government has used different figures in calculating the indexation rate each year for the past three years.

Following the release of the Budget in 2007, the Treasurer announced that he would undertake a review of indexation, and committed to making a retrospective adjustment payment to the sector.

INDEXATION REVIEW

During the indexation review process, WACOSS brought together peak agencies from the sector, together with the consultant, Price Waterhouse Coopers, to outline the sector's issues with indexation. We also prepared detailed analysis in partnership with Acil Tasman. WACOSS called for an official review of the policy and implementation of indexation, using the Mid Year Review of CPI and WPI as the source for calculating the indexation rate. The Mid Year Review is the source of figures that typically represent the closest resemblance to the Actual inflation rates. This source had never been used by Government and the sector has never been paid an indexation rate, or adjusted rate that actually met the increased WPI and CPI.

On 27 December 2007, the Treasurer announced the results of the review, that "\$6.3million would be offered as a one-off back payment" and "under the new procedure, the indexation rate would be calculated annually as part of the mid-year financial review in December." This announcement was only in relation to agencies funded by the Department for Child Protection and the Disability Services Commission. Treasury is still in the process of calculating adjustment payments for all other agencies, which we understand will be announced as part of the May State budget.

DSC have informed their funded agencies of the indexation rate they will be paid as an adjustment. Based on WACOSS' analysis of the figures used to inform the \$6.3 million dollar backpayment, agencies funded by DCP can expect to receive the following back-payment depending on when the contract began, yet the Department is yet to confirm this;

Year Contract Commenced	Expected Backpayment %
2006/07	1.05
2005/06	2.01
2004/05	2.99

WACOSS is delighted that the Government have now committed to calculating indexation based on the Mid Year Review, and to an annual adjustment to reflect the new forecast rates for the coming year, at each Mid Year Review. This new approach will be written into a new policy so that it can be distributed to the sector.

While we remain concerned that this alone will not solve the problems being experienced by the sector in relation to inflationary and demand pressures, this is a very clear process for calculating indexation, and a significant, welcome improvement on past and current practice. We are, however, still calling for the Government to commit to delivering an indexation rate based on the actual inflation.

The Government have also proposed to pay a revised indexation figure of 5% for the current year 2007/2008, up from the 3.3% rate announced in the State Budget in May 2007. WACOSS argues that this figure of 5% should be paid on the total of an agency's funding contract, inclusive of all the cumulative indexation payments, including those announced as a one-off retrospective payment.

WACOSS is continuing to work with Treasury on matters relating to indexation, including consistency in the approach of different departments, and the implementation of the new policy. For further information, please contact Irina Cattalini, Director of Social Policy at WACOSS.