

Funding and Contracting Services Bulletin

SPECIAL EDITION

ISSUE 52

DECEMBER
2015

IN THIS ISSUE

- [Changes to the Indexation Policy](#)
- [Indexation Policy Fact Sheet](#)
- [Indexation Policy FAQs](#)
- [Western Australia Government Indexation Policy for the Non-Government Human Services Sector](#)

Changes to the Indexation Policy

The Western Australian Government Indexation Policy for the Non-Government Human Services Sector (Indexation Policy) has recently been revised. The revisions simplify the Indexation Policy, improve the consistency of application of indexation across government agencies, and provide greater certainty for service providers. The revised Indexation Policy applies to all eligible new and existing service agreements for community services between government agencies and Not-for-profit organisations from **1 July 2016**.

The main changes to the Indexation Policy are:

- Prescribing 1 July each year as the application date of indexation to service agreements;
- Use of the latest actual price indices published by the Australian Bureau of Statistics, available at 1 July each year;
- Progressive changes to the current indexation formula using a combination of the Perth Wage Price Index and the Perth Consumer Price Index, from 1 July 2016 to solely reflect the Perth Consumer Price Index from 1 July 2018; and
- Incorporating definitions within the Delivering Community Services in Partnership (DCSP) Policy to the Indexation Policy.

From July 2016, government agencies will no longer apply an estimated or forecast indexation rate to eligible service agreements. Instead, the latest actual price indices published by the Australian Bureau of Statistics will be used to calculate the applicable indexation payment. Service providers will receive indexation payments based on an actual indexation rate that requires no adjustment. This change to the Indexation Policy ensures that the calculation and payment of indexation to service providers is consistent across all government agencies.

Indexation will be applied to the service agreement price on 1 July each year.

The Indexation Policy does not apply to other funding arrangements including grants under the DCSP Policy; or to contractual arrangements that are not for community services as defined by the DCSP Policy.

A Fact Sheet, Frequently Asked Questions and the revised Indexation Policy, are attached to this Bulletin.

If you would like further information on the Indexation Policy and how it will affect your service agreements, please [contact FaCS](#) or your Contract Manager.

Western Australian Government Indexation Policy for the Non-Government Human Services Sector Fact Sheet

The Western Australian Government has released a revised version of the Western Australian Government Indexation Policy for the Non-Government Human Services Sector 2008 (Indexation Policy), which is the policy applicable to service agreements for community services undertaken in accordance with the Delivering Community Services in Partnership (DCSP) Policy. The revised version of the Indexation Policy includes changes to how annual indexation payments are calculated and the timing of these payments.

Indexation for service agreements will no longer be based on a calculation of 80% of the annual increase of the Perth Wage Price Index (WPI) and 20% of the annual increase of the Perth Consumer Price Index (CPI). Instead, indexation will transition to 100% CPI by the 2018-19 financial year. Implementation of the new rate will commence on 1 July 2016 for all existing and new service agreements, and the new rate will be phased in as follows:

Financial Year	CPI	WPI
2016-17	0.47	0.53
2017-18	0.73	0.27
2018-19 and subsequent years	1.00	0.00

Indexation will be applied to the service agreement price annually on 1 July. The price indices used will be the latest published actual data available on 1 July as published by the Australian Bureau of Statistics.

Service agreement variations are not required for the revised Indexation Policy to take effect. However, it is expected that State Government agencies and service providers will communicate openly regarding the changes to the Indexation Policy and how these changes will be implemented.

The Indexation Policy applies to service agreements between State Government Public Authorities and Not-for-profit service providers for the purchase of community services. Where service agreements are part-funded by the Commonwealth Government, the Indexation Policy applies to the State Government funded component of these service agreements. Where service agreements have pricing frameworks designed to facilitate individualised funding agreements, the Indexation Policy applies to the unit prices or similar pricing mechanism.

The Indexation Policy does not apply to grant agreements or other funding arrangements, or contractual arrangements not for community services as defined by the DCSP Policy.

Western Australian Government Indexation Policy for the Non-Government Human Services Sector Frequently Asked Questions

Where can I find a copy of the revised Western Australian Government Indexation Policy for the Non-Government Human Services Sector (Indexation Policy)?

The Indexation Policy is attached to these Frequently Asked Questions and can be found on the Department of Finance website.

What types of agreements does the Indexation Policy apply to?

The Indexation Policy applies to all new and existing service agreements for community services between State Government Public Authorities and Not-for-profit service providers. Where service agreements are part-funded by the Commonwealth Government, the Indexation Policy applies to the State Government funded component of these service agreements.

The Indexation Policy does not apply to grant agreements or other funding arrangements, or contractual arrangements not for community services as defined by the Delivering Community Services in Partnership Policy.

When does the revised Indexation Policy apply from?

Implementation of the revised Indexation Policy commences on 1 July 2016. Indexation applied to eligible service agreements from 1 July 2016 will be calculated based on a revised formula.

How is indexation calculated under the revised Indexation Policy?

Under the previous version of the Indexation Policy, the indexation formula was calculated as 20% of the Perth Consumer Price Index (CPI) and 80% of the Perth Wage Price Index (WPI). From 1 July 2016 indexation will transition to 100% CPI by 2018-19.

The transition is as follows:

Financial Year	CPI	WPI
2016-17	0.47	0.53
2017-18	0.73	0.27
2018-19 and subsequent years	1.00	0.00

In calculating indexation, government agencies will use the latest actual price indices (CPI and WPI in 2016-17 and 2017-18, CPI in 2018-19 onwards) published by the Australian Bureau of Statistics available at 1 July.

I have service agreements with a number of government agencies. How will the revised Indexation Policy affect me?

The revised Indexation Policy introduces a consistent methodology of calculating and applying indexation to service agreements. Government agencies will calculate indexation using a single, actual indexation rate. The new consistent methodology will provide service providers with greater certainty regarding cash flow from service agreement payments. This differs from previous years where government agencies could calculate and pay indexation based on a methodology of their choosing.

Will I receive a letter advising me of the revised indexation applicable to my service agreement?

Service agreement variations are not required for the revised Indexation Policy to take effect. However the government agencies with which you have service agreements are likely to correspond with you to advise you of the revised indexation arrangements.

If I have questions about how indexation will be applied to my service agreement, who can I contact?

The Funding and Contracting Services (FaCS) Directorate is available to assist you with any general enquiries regarding indexation. FaCS can be contacted by telephone 08 6551 1515 or by email at fundingandcontracting@finance.wa.gov.au

If you have specific questions about indexation and your service agreement, your government agency Contract Manager will be able to help you.



Government of **Western Australia**
Department of the Premier and Cabinet

Western Australian Government Indexation Policy for the Non-Government Human Services Sector

December 2015

POLICY STATEMENT

Policy Objectives

The *Western Australian Government Indexation Policy for the Non-Government Human Services Sector* (the *Indexation Policy*) provides for transparency and consistency in the level of indexation to be applied to prices in contracting arrangements under the *Delivering Community Services in Partnership Policy 2011* (the *DCSP Policy*).

The objectives of the *Indexation Policy* are to provide:

- increases to service agreement prices over the life of a service agreement to assist in addressing cost increases;
- transparency and consistency in the level of indexation across community services service agreements;
- administrative simplicity in the application of the *Policy*; and
- consistency of the rate of indexation with the public sector wages policy and commercial contracting practice.

Indexation is not intended to meet growth in services due to demand pressures. In addition, extraordinary situations will occasionally arise where one-off increases to specific costs make prices unsustainable within the life of a service agreement. Service agreements established under the *DCSP Policy* provide for a separate process for the variation of prices in extraordinary situations, which will be considered subject to adequate justification and the availability of funding, and approved at the absolute discretion of the Public Authority.

Similarly, the *Indexation Policy* does not cover changes to base service agreement prices that arise from renewal of service agreements at their expiry.

Implementation

This is a Government initiated revision of the *Western Australian Government Indexation Policy for the Non-Government Human Services Sector 2008* (*Indexation Policy*) and has been endorsed by Cabinet.

The *Indexation Policy* is subordinate to and should be read in conjunction with the *DCSP Policy*. Definitions in the *DCSP Policy* also apply to this *Indexation Policy*.

Implementation of the revised *Indexation Policy* is to commence on 1 July 2016 for all service agreements, whether existing, renewed or new.

The Department of the Premier and Cabinet will provide ongoing support and oversight for the *Indexation Policy* and report to the Partnership Forum on the *Indexation Policy's* implementation. All enquiries should be directed to the Department of Finance, Government Procurement.

Scope

The *Indexation Policy* applies to service agreements between Public Authorities and Organisations for the purchase of Community Services. The *Indexation Policy* applies to the State funded component of such service agreements.

The *Indexation Policy* also applies where pricing frameworks or other mechanisms are in place between Public Authorities and Organisations to facilitate individualised funding arrangements between Public Authorities and individuals for the purchase of Community Services from Organisations. In these instances, the indexation policy applies to the unit prices contained in the pricing framework or other arrangement.

The *Indexation Policy* does not apply to:

- All other funding arrangements (including grants) under the *DCSP Policy*; or
- Contractual arrangements that are not for Community Services as defined in the *DCSP Policy*.

INDEXATION RATES

Determination

The indexation rate applicable to eligible service agreements and individualised funding arrangements will be calculated according to the following formula:

$$\text{CPI} * X + \text{WPI} * Y$$

Where:

CPI is the annual percentage increase in the Perth Consumer Price Index as published by the Australian Bureau of Statistics

X is a weighting factor defined in table 1 below

WPI is the annual percentage increase in the Perth Wage Price Index as published by the Australian Bureau of Statistics

Y is a weighting factor defined in Table 1 below

Table 1 – Weighting factors

Financial year	X	Y
2016/17	0.47	0.53
2017/18	0.73	0.27
2018/19 and subsequent years	1.00	0.00

Application

Indexation will be applied to the service agreement price (or unit prices in a pricing framework or other mechanism to facilitate individualised funding arrangements) annually on 1 July of each year. The price indices used will be the latest published actual data available on 1 July as published by the Australian Bureau of Statistics.

Non-payment or underpayment of indexation is not an appropriate mechanism for driving efficiencies in the community services sector.

POLICY IMPLEMENTATION AND MONITORING

The Partnership Forum will provide advice to Government on monitoring and reviewing the *Indexation Policy*.