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Via - minister.wyatt@dpc.wa.gov.au

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Dear Treasurer,

RE: Sustainability of essential community services and the ERO

We are writing to you to seek your support in addressing significant concerns across the Western Australian Community Services sector about the ongoing sustainability of services. The concerns stem primarily from the financial burden the 2012 Equal Remuneration Order (ERO) is placing on services, with the high likelihood of support for the vulnerable and disadvantaged being materially reduced in the short to medium term.

In times of increasing economic hardship such as those we now face, many of the most vulnerable within our community rely on the support provided by community organisations to meet their basic needs.

Although the figures vary considerably across the community services sector, approximately half of the money that WA organisations spend on providing those services comes from the State Government. Without proper indexation of Government contracts to take account of the ERO and other wage pressures, services are at risk. This is further exacerbated by the reduction in charitable and philanthropic support as a consequence of the current economic downturn. The challenge the sector faces is that most of the cost of service delivery is in wages, and as a result of the ERO and other wage increases, wage costs continue to rise much faster than the indexation currently being provided by the State.

The evidence from WA and other States

WACOSS and Community Employers WA recently commissioned a research report to assess the impact of one of the key drivers of wage increases: the 2012 Equal Remuneration Order. The ERO requires community organisations to pay substantial increases of between 23% and 41% over eight years, through to December 2020.

The report, by the Curtin Not-for-profit Initiative found that 65% of programs run by organisations surveyed have been negatively impacted by 10% or more, with consequent threats to services and organisational sustainability. Eleven of the 19 organisations surveyed are under financial stress, with respondents reporting that they were *“likely to reduce output, reduce quality, reduce quantity, stop providing services, and/or fund the extra expense from limited existing assets.”*

None of the annual ERO increases have been factored into the indexation formula set by the WA State Government. This is in contrast to the approach taken in other States. For example, the recent Queensland State Budget allocated compensation specifically for the ERO of \$137.7 million over four years, with an ongoing commitment of an additional \$52 million a year. Victoria introduced full funding for the ERO in their 2015 Budget. The Australian Government has subsidised the wage cost associated with the ERO since its inception in 2012.

The impact of the ERO wage increases is compounded by the recent Federal and State Minimum Wage decisions (3.3% and 2.8% respectively). These also have been left out of the State’s indexation formula which is now based on CPI and has limited the increases to 0.83%. Again this is in contrast to other States where, most recently, the South Australian Government has allocated ‘full indexation’ at the rate of 2% for 2017-18 and 2018-19, and 2.5% for 2019-20 and 2020-21.

Since the release of the research report, WACOSS and CEWA have been provided with a number of case studies of individual services currently under threat. This includes a regional organisation where the CEO has reduced her paid hours to 22 per week (while continuing to work full time), in order to avoid immediate cuts to services. Other staff are going without overtime payments and are also cutting paid hours.

Some service providers have relinquished contracts altogether in order to concentrate on providing services that are properly funded. Such coping strategies are likely to be implemented more frequently in the next year if the wage-driven funding shortfalls are not addressed.

Recommendations / Next steps

WACOSS and CEWA agree that the WA State Budget needs to allocate funds to compensate contracted service providers for the ERO and Minimum Wage increases. At a minimum, this needs to include a revised figure for the indexation of existing contracts, that factors in wage inflation resulting from the ERO and Minimum Wage decision. This is the only way we can ensure there will not be significant cuts to services and adverse effects on the most vulnerable and disadvantaged West Australians.

It has not been possible for us to determine from the Curtin research report the level of funding required to fully compensate for the ERO wage increases. As such we propose that:

- an interim allocation be made in the September budget, and
- Treasury work with WACOSS and CEWA to arrive at a true cost figure to be included in forward estimates in the next budget.

This is similar to the approach taken in Queensland where the robust costings were undertaken over the past year in the lead-up to their recent budget. The Australian Government has a supplement schedule that provides a useful guide that the State Government could follow to arrive at the figures for WA. This can be found at <https://www.dss.gov.au/our-responsibilities/communities-and-vulnerable-people/fair-pay-for-social-and-community-services-workers/percentages-used-to-calculate-supplementation>

The Curtin ERO report, *[‘The 2012 Equal Remuneration Order: Sustainability Impacts on Human Services Delivery in Western Australia’](#)* is available on the WACOSS website. We encourage you to read the Report and seek advice from Treasury as to how best to arrive at a level of compensation that will address the issues identified and preserve existing levels of much needed services.

We would also like to meet to discuss both an interim response and the longer-term approach to dealing with the issues in the forward estimates of future budgets. We will contact your office later this week to set up a meeting.

Thank you for your consideration of this matter.

Yours sincerely,



Louise Giolitto
CEO
WACOSS



John Bouffler
Executive Director
CEWA