



The State Government acknowledges the importance of the community services sector in delivering services to vulnerable individuals, families and communities.

To build the evidence base to support a request from the community services sector for additional funding, Minister McGurk requested the commissioning of research to better understand the impact of the Fair Work Commission's Equal Remuneration Order (ERO).

As was advocated by the sector and peak organisations, a focus of the research was the sustainability of services that operate around the clock seven days a week to support people experiencing homelessness including those impacted by family and domestic violence and young people at risk.

Several peak organisations have requested the release of the report to the community services sector and as such I am pleased to present the key findings of this research and the attached final report.

Key conclusions include:

- During the ERO implementation period from 2012 to 2020, there was a crossover point for the NHA services in December 2016, when State Government funding for indexation and supplementation fell behind the wage increase requirements.
- The impact on service providers varies depending on employment cost factors. NHA services that operate active shifts 24/7 who have the highest employment costs and limited opportunity to vary service models, have been the most impacted.
- Service providers have an obligation to submit sustainable prices that include ERO forecasts and comply with all industrial relations requirements when tendering for new contracts. Modifications to rolling contracts relating to service design, service delivery volume and funding levels should be discussed and negotiated at the time of contract variation.
- The low proportion of contracts used in the analysis (35 per cent) impacts the validity and applicability of findings to be universally relevant to all service providers.

The Government has responded to these research findings in 2019-20 through the provision of supplementation for services that are accessible to existing service users and new/potential service users 24 hours a day, seven days a week.

It is acknowledged that further evidence is needed to quantify the potential impact of the ERO more broadly for other services groups. Should your organisation have concerns about ongoing sustainability of service provision, I encourage you to contact your Contract Manager to discuss these matters in keeping with the options available within the Delivering Community Services in Partnership Policy.

Services that are delivered for the community are important and valued, and I look forward to continuing to work with you to support vulnerable Western Australians.

Brad Jolly
Acting Assistant Director General
Commissioning and Sector Engagement
26 June 2019



Leadership, innovation and strategy in remuneration and human resources.

Impact of the equal remuneration order on NAHA funded social housing services

Commissioned by the Department of Communities
Revised, March 2019



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Executive summary

This is a review of the impact of the social and community services Equal Remuneration Order (ERO) on employment costs for National Affordable Housing Agreement (NAHA) funded services. The study group comprised 65 not-for-profit organisations, operating a total of 98 services in three funding streams – homelessness, family and domestic violence (FDV) and youth. 23 service providers completed the survey, a response rate of 35%.

The ERO is difficult to understand and difficult to explain. It is the first and only equal remuneration order approved by the Fair Work Commission. It applies to one national industrial award and two state awards covering not-for-profit organisations. It involves twice yearly pay rises, every year from December 2012 to December 2020, at rates well above national or state indexation rates. The purpose of the ERO is to increase pay rates in the female-dominated community services workforce to comparable rates in state government and local government. Serious contraventions of an equal remuneration order can lead to court orders up to \$630,000 per contravention for companies.

Industry representatives Community Employers WA (CEWA) and WA Council of Social Service (WACOSS) claim that WA government funding indexation is insufficient to comply with the cumulative wage increases under the ERO. A key issue is whether WA Government funding supplementation that commenced in 2011/12 (Component I) and 2013/14 (Component II) has been adequate to cover ERO increases. Component I provided a 15% recurrent funding increase to all services in 2010/11. Component II provided an average 10% increase to some services in 2013/14 and 2014/15. NAHA services did not receive Component II funding.

Chapter 2 provides background and context for review. (1) The ERO decision and formula; (2) ERO occupational coverage; (3) Government funding and indexation; (4) Responses by other jurisdictions; (5) Previous reports and sector advocacy; and (6) Employment cost factors.

The ERO provides for annual wage increases in December each year from 2012 to 2020 to lift the pay rate from 23% (Level 2) to 45% (Level 8) above the underlying Award rate. SalaryOne postulates that over the 8-year ERO implementation period there is a crossover point when WA government funding indexation and supplementation fell behind the increases in Award/ERO rates. For NAHA services the crossover point is estimated to be December 2016. If not addressed, the gap between mandated wage increases and funding indexation will continue to grow each December and July until July 2021.

WA Government funding indexation rate has been 0.83% in 2017/18 and 2018/19. This is well below the Annual Wage Review (AWR) indexation of 3.3% in 2017/18 and 3.50% in 2018/19. This compounds the ERO gap between wage increases and WA Government indexation.

The impact on service providers will vary due to eight employment cost factors: Jurisdiction, employment instruments, ERO coverage, employment status, salary classification levels, ordinary and shift work rates of pay, roster design and employee turnover.



Executive summary

The survey group was a representative sample of NAHA funded services, with a range of organisation size, geographical coverage and award coverage. The service providers are heavily reliant on WA government funding, which on average makes up 65% of total income per service provider.

SalaryOne compared 2016/17 financial results of NAHA providers with a wider sample of WA not-for-profit organisations. The results show that not-for-profit organisations operate on slim operating surpluses that could be easily eroded. The percentage of providers that recorded a financial loss in 2016/17 was 24% for survey respondents and 40% for non-survey respondents, compared to 22% for all WA NFP's.

18 of the 23 organisations in the survey were fully compliant with the Award/ERO pay rates as at June 2018. Three had discrepancies and may be paying above-Award. Two had discrepancies and may be paying below-Award. There is a risk that some other NAHA service providers may not be fully compliant with their Award/ERO obligations. Particularly if they are not members of an employee relations advisory service that publish pay guides for members.

Analysis of the three program types. Youth services had the highest median employment costs at \$90,572 per full time equivalent (FTE). They had more 7-day active night shifts than other NAHA services. FDV services had the highest staffing levels with a median of 9.5 FTE staff per program and highest employment cost ratio at 80.6%. Homeless accommodation and support had the lowest median employment costs at \$86,533 per FTE.

The use of position titles and salary levels varies across services. Support workers are paid from Level 1 to 4 in homeless services, Level 2 to 6 in FDV services and from Level 3 to 6 in youth services. Some positions may be 'overclassified'.

The four shift types for NAHA services are: 24/7 active night shift; 24/7 inactive night shift; 7-day a week, with on-call arrangement overnight; and 5-day a week, Monday to Friday, with day shifts only. Penalty rates in the SCHCDS Award are higher than in some other Awards, with 100% loading (double time) applying on Sundays. SalaryOne checked the service providers rosters and found that all rosters were designed effectively to avoid unnecessary shift work costs.

24/7 services with an active night shift are the most expensive to run. The median employment cost was \$95,462 per full time equivalent employee. Services with Monday to Friday day shifts had a median employment cost of \$83,477 per FTE. Across the WA not-for-profit sector, the median employment costs ratio was 65% in 2016/17 and 2015/16. The NAHA services in this survey recorded higher employment costs with a median of 69% in 2017/18. Eight (8) programs out of 34 had employment costs in excess of 80% - 4 out of 8 FDV, 2 out of 17 homelessness and 2 out of 9 youth services.

The funding gap for NAHA services to cover Award/ERO employment costs for the 3-year period is forecast to be between \$7,365,888 (all 5-day rosters) and \$10,201,834 (all 7-day rosters). Some service providers, operating on higher than average cost base, may also need to make difficult management decisions to restructure services and reclassify positions to contain employment costs.



Executive summary

Sensitivity analysis in the range +1.0% to -1.0% was applied to the forecast Annual Wage Review and WA Government indexation rates for 2019/20, 2020/21 and 2021/22. The funding gap ranges from \$7.45 to \$12.95 million for all 7-day rosters, and from \$4.96 to \$9.77 million for all 5-day rosters.

Some service providers may not have reported true financial results to the Department of Communities (Communities). There is a fear amongst service providers that funders will presume an organisation is not efficient or sustainable and is expensive thus impacting on future opportunities.

Service providers have an obligation to submit sustainable prices (including ERO forecasts) for new contracts and to comply with all industrial relations requirements. Requests relating to service design, service delivery volume and funding levels should be discussed at the time of contract variation. Reasons why this may not have happened include: (1) Service providers not having full knowledge of the ERO impact; (2) Service providers were concerned about acting alone in submitting higher pricing, when others may submit lower prices without ERO provisions; (3) Annual wage review indexation has been higher than expected in 2017 and 2018; (4) NAHA Homeless and Youth services have been rolled over for the past five years on an indexation only basis.

Response considerations for the WA Government:

1. Conduct full contract reviews for NAHA services before June 2019 to allow service providers to submit ERO compliant budgets for 2019/20 to 2021/22.
2. Undertake active service agreement management to closely monitor existing contracts and work with service providers at risk to manage the impact of the ERO by modifying and negotiating any design parameters to ensure sustainable services.
3. Design flexible pricing responses in tender documentation that allows scope for price escalations throughout the term on the contract and addresses ERO increases. This is also to ensure that service providers are not knowingly or unwittingly underbidding for contracts by not including ERO compliance costs.
4. Support service providers' efforts to review and improve workforce practices. Strategies may include to review salary classifications, review Award coverage, renegotiate enterprise agreements, update employment contracts and human resource policies, and other relevant workforce management strategies.
5. Collaborate with service providers to design future services that allow for improved sustainability.

In conclusion, the full impact of the ERO on NAHA service providers is still yet to occur. This is due to early funding increases (Component I and Commonwealth funding supplementation) and mitigation strategies by service providers. The financial pressures are building with four more rounds of pay rises to occur in July 2019, December 2019, July 2020 and December 2020. Working on already slim margins, without intervention and further mitigation strategies, it is inevitable that some NAHA service providers will reduce service volumes, seek to withdraw from service contracts and/or become insolvent.



1.1 Project scope

Objective

The objective of the project was to assess the impact of the social and community services Equal Remuneration Order (ERO) on employment costs for National Affordable Housing Agreement (NAHA) ¹ funded services in Western Australia for the period July 2018 to June 2021.

The project was commissioned by the Department of Communities (Communities) and conducted by SalaryOne between May and December 2018.

Study Group

The study group comprised 65 not-for-profit organisations, operating a total of 98 NAHA services. The services are funded by Communities through the Commonwealth/State NAHA program to give people at risk of, or experiencing homelessness, the opportunity to move beyond the immediate crisis and into long term sustainable housing. There are three funding streams – family and domestic violence accommodation, homelessness accommodation and support, and youth accommodation and support services.

Acknowledgments

Thank you to the 23 service providers that participated in the study.

Thank you to Robyn King, Project Manager, Department of Communities and the following people who participated in the project:

- Department of Communities (Communities) - Penny Kennedy, Jacqui Herring, Brad Jolly, Yvette Chee, Katrina Vernon, Emma Colombera and Scott Hollingworth.
- Community Employers WA (CEWA) – John Bouffler.
- WA Council of Social Service (WACOSS) – Louise Giolitto and Jennie Gray.
- Department of Social Services – Virginia Brown.

¹ NAHA replaced by the National Housing and Homelessness Agreement (NHHA) from 2018/19



1.2 Methodology

Confidentiality

At the start of the project, industry representatives Community Employers WA (CEWA) and WA Council of Social Service (WACOSS) requested a high level of confidentiality for participating service providers due to the sensitive nature of financial and payroll data. SalaryOne offered to sign confidentiality agreements with service providers and several took up the offer. The identity of participating service providers is not disclosed in this report, or in any communication with Communities, CEWA or WACOSS.

Survey

SalaryOne designed a survey, in Excel format, to collect financial and payroll data at an organisation and program level. Communities, CEWA and WACOSS were consulted on the survey design. The survey and user guide were emailed to service providers on 17 July 2018. The initial survey closing date was 17 August 2018, subsequently extended to 14 September 2018. 23 of the 65 eligible service providers completed the survey, a response rate of 35.4%.

Consultations

The 23 participating organisations were then asked to respond to 14 targeted questions canvassing funding, indexation, contracting and employment costs. They were also invited to submit strategies and solutions to address the impact of the ERO. Eight (8) organisations submitted written responses by 28 September 2018. SalaryOne also held three on-site consultation meetings with WACOSS/CEWA and two of the service providers. A summary of the comments is listed in Chapter 4.

Project meetings were held with Communities' representatives on 26 September, 19 October and 4 December 2018 and an inter-departmental meeting hosted by the Communities on 23 October 2018.

Author

The author of the report is Julian Keys, Executive Director, SalaryOne Pty Ltd. The views expressed in the report are solely by the author as an independent consultant. The author assumes no responsibility or liability for any errors or omissions in the content of the report. The information contained in the report is provided in good faith with no guarantees of completeness or accuracy.



2. Setting the scene

Industry representatives (CEWA and WACOSS) claim that WA government funding indexation is insufficient to comply with the cumulative wage increases under the social and community services equal remuneration order. The Department of Communities (Communities) acknowledge that they don't have a full understanding of the impact of the equal remuneration order (ERO) and want to understand this better. A key issue is whether WA Government funding supplementation that commenced in 2011/12 (Component I) and 2013/14 (Component II) has been adequate to cover ERO increases.

In this chapter, several topics are explained to provide background and context for review on the ERO impact on social housing services.

- The social and community services equal remuneration order and ERO coverage
- Government funding and indexation
- Responses in other jurisdictions
- Previous reports and sector advocacy
- Service contracts
- Employment cost factors

Industrial relations systems and constitutional corporations

There are two separate industrial relations systems operating in Western Australia – the state system managed by the [WA Industrial Relations Commission](#) (WAIRC) and the national system managed by the [Fair Work Commission \(FWC\)](#). All other Australian states have ceded most of their power to legislate on industrial relations to the Commonwealth. Awards outline the minimum pay and conditions of employment for different industries or occupations.

Organisations categorised as 'constitutional corporations' are covered by national awards. Organisations that are not 'constitutional corporations' are covered by state awards. The distinction is often not clear. Fair Work provides some guidance on the question.²

In this study, service providers were asked - what employment instrument do you use for employment contracts for these contracted services? 19 selected a national award and are assumed to be constitutional corporations. 4 chose a state award and are assumed to be non-constitutional corporations. In this report, modelling is based on the national award – Social, Community, Home Care and Disability Services Award 2010.

² <https://www.fwc.gov.au/anti-bullying-benchbook/who-covered-workplace-bullying-laws/what-is-a-constitutional-corporation>



2.1 Equal remuneration order

In June 2012, the Fair Work Commission (FWC) passed an equal remuneration order (ERO) to gradually increase wages for the Social, Community, Home Care, Disability Services (SCHCDS) Award over an eight-year period from December 2012 to December 2020. The Commission concluded that:

*For employees in the SACS industry there is not equal remuneration for men and women workers for work of equal or comparable value by comparison with workers in state and local government employment. We consider gender has been important in creating the gap between pay in the SACS industry and pay in comparable state and local government employment.*³

Following the FWC decision, the WA Industrial Relations Commission (WAIRC) passed a similar ERO for two State Awards – Social and Community Services (WA) Interim Award 2011 (SACS) and Crisis Assistance Supported Housing Industry WA Interim Award 2011 (CASH).

Pay rates in the three Awards are adjusted twice a year. First, an Annual Wage Review (AWR) or State Wage Case (minimum wage increase) applying from the start of the first pay period in July. Second, an ERO instalment, applying from the start of the first pay period in December.

In December 2020, Level 2 pay rates will be 23% above the underlying Award rate (including annual minimum wage increases from 2013 to 2020). Level 8 rates will be 45% above the underlying Award rate.

In this study, modelling is based on an average pay rate of Level 4.1. This is the pay rate used in the ERO model applied by the Department of Social Services. The actual average pay rate for NAHA services is higher but some positions may be overclassified.

The salary progression for Level 4.1 over the ERO implementation period is shown in Table 2. The weekly full-time rate is forecast to increase by two-thirds over an 8-year period. Assumption - annual wage review increase of 3.0% in July 2019 and 3.0% in July 2020.

Table 1: Final ERO Rate above the underlying Award rate, by level.

Salary Level	Above Award
2	23%
3	26%
4	32%
5	37%
6	40%
7	42%
8	45%

Table 2: Weekly pay rate SCHCDS Level 4.1 (full-time), July 2012 to Dec 2020

July 2012	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
\$848	\$878	\$932	\$992	\$1,049	\$1,108	\$1,179	\$1,256	\$1,331	\$1409

³ <https://www.fwc.gov.au/documents/decisionssigned/html/2012fwafb5184.htm>



2.1 Equal remuneration order

This chart compares the progression of wage rates, using the default salary level 4 as an example. Starting from an index of 100 in July 2010, the underlying Award index is forecast to be 137.9 in Dec 2020. The ERO index is forecast to be 182.0, 32% above the Award rate. The difference between the AWR (blue line) and the ERO (orange line) is referred to as the 'ERO gap'.

The implications of the ERO gap for funding of NAHA services is discussed in Chapter 5.

Chart 1: Progressive ERO instalments, Dec 2012 to Dec 2020





2.2 ERO coverage

The equal remuneration order (ERO) for the Social, Community Home Care and Disability Services (SCHCDS) Award covers employees who are social and community services employees and crisis accommodation employees. The ERO for the Crisis Assistance Supported Housing (CASH) Industry WA Interim Award covers employees who are community service workers. Both award classifications include some administrative and management roles.

On the Australian Services Union [website](#) there is a list of the unions' occupational coverage for social and community services. The list is not exhaustive.

For smaller, program specific, social housing organisations the Awards and the ERO may cover all, or most, of their employees.

For larger not-for-profit organisations operating across different human service sectors, the ERO may not apply to staff in certain corporate service (e.g. Accountants, business analysts, HR, marketing, property management) and professional roles (e.g. Allied health).

The ERO does not apply to organisations and employees covered by other Awards, including:

- Aboriginal Community Controlled Health Services Award
- Aged Care Award
- Children's Services Award
- Health Professionals and Support Services Award
- Local Government Award
- Nurses Award

Serious contraventions of an ERO can lead to court orders up to \$630,000 per contravention for companies and \$126,000 for individuals.⁴

Table 3: ASU occupational coverage

<ul style="list-style-type: none"> • Advocate • Alternate Care Worker • Case manager • Caseworker • Clerical & Administrative Worker • Community Development Worker • Community educator • Counsellor • Development Support Worker • Disability Support Worker • Employment consultant • Family Support Worker • Family Therapist • Financial Counsellor • Group Worker • Indigenous Child Protection Worker • Indigenous Housing Worker • Job Support Worker 	<ul style="list-style-type: none"> • Mediator • Operations Manager • Policy analyst • Professional Social Worker • Program manager • Project Worker/Officer • Recreation Worker • Referral and Liaison Officer • Refuge Worker • Resource Worker • Respite Care Coordinator • Service manager • Shared care Coordinator • Social educator • Social Planner • Solicitor • Vocational educator • Welfare Worker • Youth Worker
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⁴ <https://www.fairwork.gov.au/about-us/our-role/enforcing-the-legislation/litigation>



2.3 Government funding and indexation

This section provides a brief overview of the history of government funding increases for NAHA services.

Delivering community services in partnership

There have been three policy statements on funding and purchasing relationships between the WA government and not-for-profit organisations since 2002:

- Funding and purchasing community services: A policy statement on a fresh approach to funding and purchasing relationships with the not-for-profit sector, October 2002 ⁵
- Delivering community services in partnership policy: A policy to achieve better outcomes for Western Australians through the funding and contracting of community services, July 2011
- Delivering community services in partnership policy: A policy to achieve better outcomes for Western Australians through the procurement of community services, October 2018 ⁶

A Partnership Forum was formed in 2010 to “strengthen the relationship between the government, public sector and community sector towards a genuine and collaborative partnership in the delivery of human services to the WA community”. In the communique from the inaugural meeting in July 2010 the members acknowledged “the historic funding shortfall for community sector delivery of State-funded community services as a critical issue to be addressed”. ⁷

Component I and II sustainable funding

The ‘funding shortfall’ was addressed in the WA Government 2011/12 budget and become known as Component I and Component II.

“Additional funding of more than \$600 million over five years has been allocated to ensure a sustainable not-for-profit sector and address a shortfall in the amount paid to NFP organisations for the services they provide. This money will fund an upfront, across the board, 15% price adjustment for human services contracts from 1 July 2011; and a second increase averaging 10% to apply from 1 July 2013 as human service contracts are reviewed, linked to the roll out of contracting reforms. It is expected that most of the funding will be used to increase the salaries of the many thousands of workers in NFP organisations.” ⁸

⁵ <https://www.dcp.wa.gov.au/servicescommunity/information/Documents/Service%20Excellence/Funding%20and%20Purchasing%20Community%20Services%20Policy.pdf>

⁶ https://www.finance.wa.gov.au/cms/uploadedFiles/Government_Procurement/Policies/dcspp.pdf?

⁷ <http://www.wacoss.org.au/wp-content/uploads/2017/05/Communique-16th-July-2010.pdf>

⁸ https://www.ourstatebudget.wa.gov.au/2011-12/budget-papers/2011-12_fact%20sheets_complete_budget_fact_sheets_set.pdf



2.3 Government funding and indexation

For Component II, Government agencies were required to prepare, in consultation with the not-for-profit sector, an agency specific implementation plan. One of the objectives was to “enable organisations to submit a sustainable service model and price as part of contract reviews”.⁹ Most agencies focused on regional and remote services. Component II was not paid to NAHA services.

Funding indexation: The 2008 Non-Government Human Services Sector Indexation (NGHSS) indexation policy, comprised of 80 per cent wage price index (WPI) and 20 per cent consumer price index (CPI), to enable non-government organisations to keep pace with cost increases in the delivery of agreed outputs. In 2015, the State Government changed the NGHSS indexation policy to 100 per cent CPI, which was progressively implemented from 2016-17 to 2018-19. Indexation is not intended to meet growth in service due to demand pressures.

From 2011/12 to 2015/16, Department of Communities applied the weighted average of Commonwealth and State indexation rates. Since 2016/17 the WA Government has paid at the NGHSS rate, and the Commonwealth has not paid annual indexation.

NPAP – National partnership agreement on pay equity: The Commonwealth and State governments signed national partnership agreements in for 2013–2016 and 2016-2019 to manage the payment of the Commonwealth’s share of the wage increases arising from the ERO¹⁰. The NPAP agreements do not mention how State governments will contribute to their share of the wage increases.

The NPAP 2016-19 provides Commonwealth funding of approximately \$115 million over three years to community service organisations delivering Commonwealth-State programs. Commonwealth funds were transferred to the State Government in November 2017 and eligible disability agencies and supported accommodation services received NPAP funding in December 2017 and January 2018 respectively. Services funded through Department of Health received funds in early February 2018.

Commonwealth ERO Supplementation: The Australian Government model for ERO supplementation can be viewed on the Department of Social Services [website](#). Commonwealth ERO supplementation was paid in arrears (up to 2 years late) from 2014/15. The payments are now up-to-date. In the new National Housing and Homelessness Agreement (NHHA), ERO supplementation will be built into the base funding¹¹.

In Chapter 5 there is modelling of government funding indexation, Component I and NPAP payments.

⁹ https://www.finance.wa.gov.au/cms/uploadedFiles/Government_Procurement/Not_for_profit/fact_sheet_partnership_forum_-_component_2.pdf?n=4152

¹⁰ http://www.federalfinancialrelations.gov.au/content/npa/community_services/national-partnership/pay_equity_NP.pdf

¹¹ https://www.budget.gov.au/2017-18/content/glossies/factsheets/html/HA_17.htm



2.4 Responses by other jurisdictions

The Commonwealth Government and some other State governments have made funding provisions to meet Award and ERO wage increases.

Federal Financial Relations - The Commonwealth's commitment to "funding its share of the wage increases arising from" the ERO is outlined in the National Partnership Agreements on Pay Equity (NPAPPE) in 2013-2016 and 2016-2019¹².

The Parliament of Australia enacted the Social and Community Services Pay Equity Special Account Act 2012 on 8 November 2012. The Act establishes a special account to "meet the costs of payments required to be made as a result of certain pay equity orders".¹³ Nationally, \$491.1 million is budgeted for 2019/20 and \$554.5 million for 2020/21. There is no mention of how ERO wage levels will be funded after 30 June 2020, when the ERO rates become embedded in the Award rates.

Department of Social Services – The DSS website explains how supplementation is calculated for different jurisdictions, the SACS supplementation formula and frequently asked questions. The formula is the *program funding amount x % SACS wage component x SACS ERO increase*. Average SACS wage component is 66.0% for housing assistance and homelessness prevention.

WA jurisdictions have the highest overall supplementation percentages of all the States - 36.48% for the SCHCDS Award (Fair Work) and 31.00% for the CASH Award (WA IRC) in the final year of the ERO in 2020/21. In comparison, NSW has the lowest overall increase at 11.54%.¹⁴ This shows that WA Awards had the largest catch-up in employment costs over the 8-year ERO period to reach the final ERO rates.

Victorian Government – In May 2015, the Government announced \$935 million in extra funding over four years from 2015/16. In June 2018 the Government announced \$14 million extra to cover for the Annual Wage Review gap for 2017/18. This annual top-up is to continue until 2022.

Queensland Government – Committed \$137.7 million over four years from 2017-18 for a community services industry wages supplementation funding package. Calculated on 75% labour and 25% non-labour cost base. Departments prioritise funding to critical services and not all service providers receive ERO supplementation. Some existing funds will be reprioritized through the distribution of unspent funds that service providers have accumulated over time.¹⁵

In consultations for this review, WA government representatives pointed out the contractual arrangements in WA are different to other States. Strategies implemented in other States may not be applicable in WA.

¹² [NPAPPE 2013](#) and [NPAPPE 2016](#)

¹³ [Social and Community Services Pay Equity Special Account Act 2012](#)

¹⁴ [DSS ERO supplementation table](#) and [FAQ](#)

¹⁵ [ERO supplementation funding package](#)



2.5 Previous reports and sector advocacy

Community Employers WA (CEWA) and WA Council of Social Service (WACOSS) commissioned research into the impact of the equal remuneration order (ERO) in 2016 and 2017. This section provides an overview of the findings of those reports and action taken by CEWA and WACOSS

ERO Case Study, August 2016

SalaryOne conducted a case study for CEWA and WACOSS of 12 community employers to forecast the impact of the ERO from 2016 to 2021¹⁶.

Starting with the 2014/15 total salary costs (i.e. salary and superannuation), SalaryOne extrapolated total salary costs through to 2020/21 based on three main assumptions. Firstly, that Fair Work Annual Wage Review (AWR) increases would be 2.4% per year for the four-year period 2017/18 to 2019/20. Secondly, that WA Government indexation would be 1.5% per year for the four-year period. Thirdly, that organisations would have a constant workforce profile (salary levels and full-time equivalent staffing) throughout the period.

The study used basic modelling and did not consider the range of employment cost factors (see section 2.6 below). It found that the 12 organisations faced employment cost increases of between 16.3% and 32.5% over the four-year period. The variance is explained by whether organisations were paying above-Award or at the Award rate in June 2016.

Following the report, “CEWA made detailed presentations to the Partnership Forum and the Funding and Contracting Working Group. The Chair of The Partnership Forum agreed to adopt it as a substantive issue. Meetings were also held with various politicians in the lead up to the March 2017 State election, sharing the findings from the initial research, and seeking support to ensure the sustainability of services”¹⁷.

The 2012 ERO: Sustainability Impacts on Human Services Delivery in WA, June 2017

The Curtin University Not-for-profit Initiative investigated the impact of the ERO on 19 human service organisations in 2017 in a study funded by Lotterywest and commissioned by WACOSS.¹⁸ Authors David Gilchrist and Penny Knight reported that 11 of the organisations were facing financial stress due to the impact of the ERO. They indicated that they were likely to reduce output, reduce quality, reduce quantity, stop providing services and/or fund the extra expense from existing assets.

¹⁶ [ERO Case Study, August 2016](#)

¹⁷ Comment by John Bouffler, Executive Director, Community Employers WA

¹⁸ [The 2012 ERO: Sustainability Impacts on Human Services Delivery in WA, June 2017](#)



2.5 Previous reports and sector advocacy

The report made six recommendations:

1. The WA Government develop a plan to identify organisations at risk and provide top-up funding, re-negotiation of service contracts, and assist organisations to merge or wind-up.
2. Adopt 'indicators of sustainability'.
3. Ask organisations under financial stress to make it known to government agencies.
4. Ask organisations to report annually on the 'indicators of sustainability'.
5. Advise organisations that ERO costs must be factored into new or extended contracts.
6. Government agencies seek their suppliers intended actions to address the 'indicators of sustainability'.

Following the report, "CEWA and WACOSS shared the findings with a wide cross section of politicians, including the Premier and several ministers, various Directors General, senior bureaucrats in Treasury, the Department of Finance and the Department of Communities. Many peak bodies have also been involved in the advocacy, including WACOSS, National Disability Services and Youth Affairs Council of WA. Pre-budget submissions have highlighted the impact of the ERO and requested the government to address it, and the issue has been discussed extensively in various forums, including in the recent revision of the Delivering Community Services in Partnership Policy"¹⁹.

¹⁹ Comment by John Bouffler, Executive Director, Community Employers WA



2.6 Employment cost factors

This study looked at the current and projected employment costs for NAHA services. Employers may be able to further mitigate some equal remuneration order (ERO) wage costs by managing the eight employment cost factors.

1. **Jurisdiction** – The organisations are either constitutional corporations, covered by the Fair Work national workplace relations system; or non-constitutional corporations covered by the WA Industrial Relations Commission (WAIRC). A not-for-profit organisation can be a constitutional corporation if it's trading activities are significant and sufficient to impact on the overall character of the organisation. ²⁰
2. **Employment instruments** – Social, Community, Home Care and Disability Services Award 2010 (SCHCDS – Fair Work), Crisis Assistance and Supported Housing Interim Award 2011 (CASH - WAIRC), or an enterprise agreement linked to one of the awards. The base pay rate in an enterprise agreement can't be less than the base pay rate in the linked award. ²¹
3. **ERO coverage** – Organisations covered by other Awards (e.g. local government or Aboriginal controlled health organisations) may not have to pay the ERO at all. Organisations that employ corporate managers or professionals, may not have to pay the ERO to some of those employees.
4. **Employment status** – Full-time, part-time or casual employees. Ongoing (permanent) or fixed term contracts. Casual employees are paid 25% loading on the SCHCDS Award and 20% loading on the CASH (WA) Award, with different provisions for shift work penalty rates.
5. **Salary classification levels** – Levels 1 to 8 in the SCHCDS Award or Levels 1 to 9 in the CASH (WA) Award.
6. **Ordinary and shift work rates of pay** – Some differences between the Awards. For example, Sunday rosters are paid double time (100% loading) on the SCHCDS Award, 75% loading on the SACS (WA) Award and 50% loading on the CASH (WA) Award.
7. **Roster design** – Employment cost factors include the length of roster (hours), handover time between shifts, paid or unpaid meal breaks.
8. **Employee turnover** – WA NFPs have average employee turnover of between 26% and 30% per annum. Some service providers have had 40% turnover for one or more years. ²² A healthy turnover rate is 15% to 18% per annum. Vacancies arising from staff turnover and recruitment delays may result in employment costs being below budgeted amounts, but it may also disrupt or compromise service delivery.

²⁰ <https://www.fwc.gov.au/anti-bullying-benchbook/who-covered-workplace-bullying-laws/what-is-a-constitutional-corporation>

²¹ <https://www.fairwork.gov.au/awards-and-agreements/agreements>

²² SalaryOne, NFP benchmarking surveys 2014 to 2018.



3. Survey results

SalaryOne conducted a survey of NAHA service providers between July and September 2018 to collect financial and payroll data at an organisation and program level. The purpose was to drill down to quantify and benchmark the employment cost factors – ERO coverage by industry and occupation, ERO compliance, salary classification levels, rates of pay, roster design and shift work penalties.

Data was collected on 34 services across the three funding programs - Homelessness accommodation and support (HAS) and Youth accommodation and support services (YAS), and Family and domestic violence accommodation and support services (FDV). HAS services were split into two categories, Homelessness accommodation (7-day rosters) and Housing support (5-day rosters).

23 of the 65 eligible service providers completed the survey, a response rate of 35.4%. Community Employers WA (CEWA) and WA Council of Social Service (WACOSS) actively promoted the survey to their members and this is reflected in the participation rates. The response rate for CEWA members was 64.0% and for WACOSS members was 46.3%.

The sections in this chapter are:

- Organisation profiles
- Financial health
- ERO compliance
- Positions and salary classification - Family and Domestic Violence
- Positions and salary classification – Homeless accommodation and support
- Positions and salary classification – Youth accommodation and support
- Rosters and penalty rates
- Employment costs per shift type

Table 4: Survey participation rate

Status	Organisations	Participated	Participation Rate
CEWA members	25	16	64.0%
WACOSS members	41	19	46.3%
Survey sample	65	23	35.4%



3.1 Organisation profiles

Chart 2: Annual revenue – In 2016/17, 7 organisations had revenue of \$10 million or higher. 4 had revenue of \$5M to \$10M. 5 had revenue of \$2M to \$5M. 7 had revenue under \$2 million.

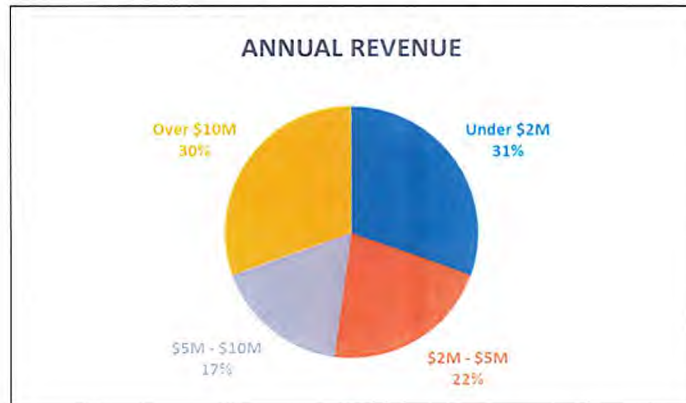
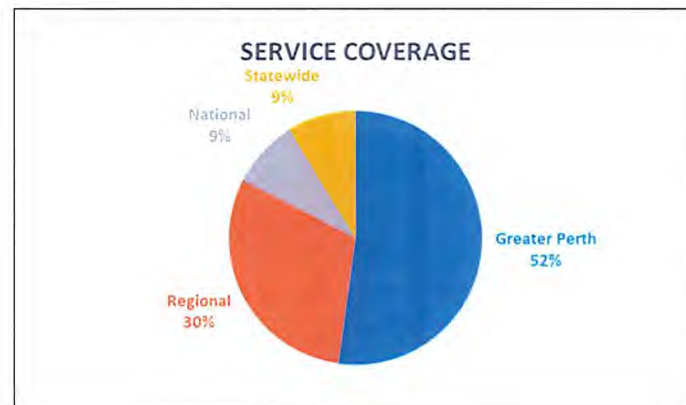
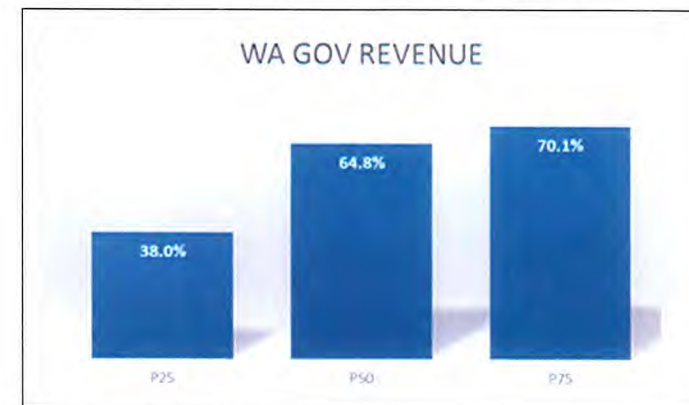


Chart 3: Geographic coverage – 12 organisations operate in the Greater Perth region, including Mandurah. 7 operate in regional areas of Western Australia. 2 provide services statewide. 2 provide services nationally.



Award coverage – 19 organisations are covered by the SCHCDS Award (Fair work). 8 of these also have an enterprise agreement. 4 organisations are covered by the CASH Award (WAIRC).

Chart 4: WA Government funding share - Half of the service providers in the survey rely on WA Government funding for 64.8% of their total revenue. Government funding indexation policy has a major impact on the service providers budgeting and sustainability.



The survey group was a representative sample of NAHA funded services, with a range of organisation size, geographical coverage, award coverage and level of WA Government funding.



3.2 Financial health

The financial data presented here compares 21 NAHA providers that completed the survey (2 national organisations are excluded); 30 NAHA providers that didn't participate in the survey; and analysis of financial results of 166 of the largest NFPs in WA across all sectors.

The data was sourced from the website of the [Australian Charities and Not-for-profits Commission](#) for 2016/17. 2017/18 financial statements were not fully available at the time of writing the report.

NAHA survey group: The NAHA survey group had median revenue of \$2.7M, median surplus of 2.2% of revenue. 5 of 21 organisations (23.8%) reported an operating loss/deficit in financial year 2016/17. Another 19% had a slim profit margin of under 1%.

Other NAHA services: When SalaryOne first presented the NAHA survey financial data to government representatives, there were questions as to whether other NAHA providers may have had better financial results. Analysis of 30 non-survey participants found that they had weaker financial results than the survey group. The median surplus was 0.9% of revenue. 40% recorded a deficit in 2016/17.

Wider NFP sector: SalaryOne analysis of the whole WA not-for-profit sector shows a median operating profit/surplus of 3.5% in 2016/17. 35% of organisations had a profit margin under 1%, compared to 43% for survey participants and 57% for other NAHA service providers.

Looking at a two-year timeframe, survey participants on average had a decline in surplus from 2015/16 to 2016/17, while the wider NFP sector on average had an increase in surplus.

Another observation is that 3 of 21 survey participants had operating losses in both 2015/16 and 2016/17.

Table 6: Operating surplus/deficit, 2015/16 and 2016/17

	Sample size	ACNC 2016/17	ACNC 2015/16
Operating loss/deficit	21	5	3
Survey median profit/surplus	21	2.2%	4.9%
WA NFP median profit/surplus	166/133	3.5%	2.7%

Profit and loss statements are a lag indicator for overall financial health. The results show that not-for-profit organisations operate on slim profit margins that could be eroded by increasing employment costs.

Table 5: Operating revenue, surplus and deficit 2016/17

2016/17 financials	No.	Median revenue	Median surplus	Deficit	Surplus 0%-1%
Survey group	21	\$2,771,613	2.2%	23.8%	19.0%
Other NAHA services	30	\$1,323,666	0.9%	40.0%	16.7%
WA NFP (>\$2M Rev)	166	\$11,135,777	3.5%	21.7%	13.2%



3.3 ERO compliance

SalaryOne reviewed the equal remuneration (ERO) compliance of the survey participants. This was done by comparing pay rates submitted by the survey participants and Award pay rates as at June 2018.

18 of 23 organisations were fully compliant with the Award/ERO pay.

Three had discrepancies and may be paying above-Award.

- Some positions on pay maintenance due to historical over-classification of salary levels.
- Pay casual staff at pre-2015 Award rates, which are higher than current Award rates.
- Some pay rates are different to and above-Award.

Two had discrepancies and may be paying below-Award.

- An enterprise agreement with penalty rates below the Award rates.
- Casual rates below-Award.

Overall, there was a very high compliance level. The organisations in the survey understand their Award/ERO obligations.

There is a risk that some other NAHA service providers may not be fully compliant with their Award/ERO obligations. Particularly if they are not members of Chamber of Commerce WA (CCIWA), Jobs Australia, WACOSS Employer Assist or another employee relations advisor.

Employee relations services provide their members with Award/ERO pay guides for July and December each year. They may also offer services to review salary classifications and employment contracts.



3.4 Family and DV accommodation and support

The list shows the position titles and salary classification levels used by NAHA service providers. Some of the position titles have been edited to hide the identity of organisations. CASH Award levels have been converted to SCHCDS Award levels.

The data table shows the 25th, 50th and 75th percentiles for staff full time equivalent, employee benefit costs as a percentage of budget and staffing costs per FTE.

There are 8 services in this data set.

FDV services employ support workers, advocates, team leaders, managers and other roles.

The classification of Support Workers ranges from Level 2 to Level 6. Advocates range from Level 2 to 4. Team Leaders range from Level 4 to 6.

The median arrangement is a service with 9.5 FTE, spending 80.6% of budget on employment costs, costing \$87,612 per FTE.

Table 8: FTE and employment costs - FDV

	P25	P50	P75
No. FTE	4.9	9.5	13.9
EB Costs	66.3%	80.6%	86.4%
Cost FTE	\$85,140	\$87,612	\$96,670

Table 7: Positions by level

FDV Accommodation and Support

Position	Level
Child Advocate	2
Child Advocate	2
FDV Advocate	2
Support Worker	2
Support Worker	2
Support Worker	2
Women's Advocate	2
Administration Officer	3
Refuge Support Worker	3
Senior Support Worker	3
Support Worker	3
Support Worker	3
Support Worker	3
Senior Program Coordinator	3
Coordinator	4
Early Intervention Worker	4
FDV Response Worker	4
Financial Counsellor	4
Project Officer - Property	4
Refuge Manager	4
Support Worker	4
Support Worker	4

Position	Level
Support Worker	4
Team Leader	4
Women's Advocate	4
Administration	5
Case Manager	5
Child Advocate	5
Counsellor	5
Finance Officer	5
Housing Support Worker	5
Project Officer	5
Support Worker	5
Team Leader	5
Counsellor	6
Support Worker	6
Team Leader	6
Team Leader	6
Women's Advocate	6
Assistant Refuge Manager	7
Service Manager	7
Manager Outreach/Counsellor	8
Refuge Manager	8
Service Delivery Manager	8



3.5 Homeless accommodation and support

There are 17 services in this data set.

HAS services employ support workers, housing support workers, maintenance staff, case workers/managers, team leaders, coordinators and managers.

The classification of Support Workers ranges from Level 1 to Level 4. Housing Support Workers range from Level 4 to 5. There are senior workers on Level 6 and Coordinators on Level 7.

The median arrangement is a service with 3.0 FTE, spending 66.7% of budget on employment costs, costing \$86,533 per FTE.

Table 10: FTE and employment costs – Homeless

	P25	P50	P75
No. FTE	2.0	3.0	7.3
EB Costs	61.2%	66.7%	75.3%
Cost FTE	\$79,177	\$86,533	\$94,643

Table 9: Positions by level

Position	Level	Position	Level
Support Worker	1	Community Worker	5
Support Worker	2	Housing Support Worker	5
Activities Officer	3	Housing Support Worker	5
Community Integration Worker	3	Manager	5
Community Service Worker	3	Outreach Counsellor	5
Housing Officer	3	Project Officer	5
Housing Support Worker	3	Senior Support Worker	5
Maintenance	3	Street to Home Worker	5
Maintenance Worker	3	Team Leader	5
Project Assistant	3	Community Integration Worker	6
Senior Support Worker	3	Community Worker	6
Support Worker	3	Senior Assertive Outreach Worker	6
Administration Support	4	Senior Case Manager	6
Care Coordinator	4	Senior Case Worker	6
Caseworker	4	Senior Community Worker	6
Client Support	4	Team Leader	6
Community Worker	4	Team Leader	6
Housing Services Officer	4	Youth Support Development Worker	6
Housing Support Worker	4	Admin/Office Manager	7
Housing Support Worker	4	Community Support Worker	7
Maintenance Supervisor	4	Coordinator	7
Outreach Counsellor	4	Coordinator	7
Support Worker	4	Financial Counsellor	7
Support Worker	4	Consultant	8
Admin Support Officer	5	Manager	8
Case Manager	5	Manager	8
Case Worker	5		



3.6 Youth accommodation and support

There are 9 services in this data set.

Youth services employ support workers, youth workers, housing support workers, team leaders and managers.

The classification of Support Workers ranges from Level 3 to Level 6. Youth Workers ranges from Level 4 to 5. Managers are at Level 8.

The median arrangement is a service with 6.1 FTE, spending 68.1% of budget on employment costs, costing \$90,572 per FTE.

Youth services have more 7-day active night shifts than other NAHA services. This explains the higher median employment costs per FTE.

Table 11: Positions by level

Youth Accommodation and Support

Position	Level	Position	Level
Accommodation Support Worker	3	Housing Support Worker	5
Administration Officer	3	Intensive Engagement Worker	5
Housing Support Worker	3	Manager	5
Youth Accommodation Worker	3	Support Worker	5
Youth Support Worker	3	Youth Support Development Worker	5
Bookkeeper Case Manager	4	Youth Worker	5
Case Manager	4	Youth Worker Case Management	5
Housing Officer	4	Program Coordinator	6
Housing Support Worker	4	Senior Assertive Outreach Worker	6
Residential Youth Worker	4	Support Worker	6
Support Worker	4	Team Leader	6
Team Leader	4	Manager	8
Youth Worker	4	Manager	8
		Manager	8

Table 12: FTE and employment costs – Youth

	P25	P50	P75
No. FTE	3.8	6.1	7.0
EB Costs	65.5%	68.1%	78.4%
Cost FTE	\$83,932	\$90,572	\$95,462



3.7 Rosters and penalty rates

Some NAHA services operate 7-days a week. However, they are not all 24/7 services.

A 24/7 service is one with 'active' or 'inactive' shifts overnight. In an 'active' night shift the employee is awake and working throughout the night. In an 'inactive' night shift the employee is on the premises but is expected to sleep for 8 hours.

The four shift types for NAHA services are:

- 24/7 active night shift
- 24/7 inactive night shift
- 7 day a week, with on-call arrangement overnight
- 5 day a week, Monday to Friday, with day shifts only

6 out of 9 Youth services have 24/7 active night shifts.

FDV services have the most 24/7 inactive night shifts. Homeless accommodation services are unlikely to have 24/7 active night shifts. Housing support services operate Monday to Friday.

In the SCHCDS Award, the shift work penalty rates are:

- Afternoon (12.5% loading) – When the shift finishes after 8.00pm and before 12.00am.
- Night (15% loading) – When the shift finishes after 12.00am and commences before 6.00am.
- Saturday (50% loading) – time and a half and Sunday (100% loading) – double time.
- Public holidays (150% loading) – double time and a half.

Penalty rates apply to the whole shift period. If an employee starts work at 4.00 am on a Monday and works to 11.00am, 15% loading is paid on 7 hours work, less any unpaid meal breaks.

SalaryOne checked the service providers rosters and found that all rosters were designed effectively to avoid unnecessary shift work costs. Some providers have 30-minute handover periods between shifts. With the online tools available for communication, client records and data collection, shorter handover periods may be feasible.

Table 13: Roster type by program	24/7 active night shift	24/7 inactive night shift	7 day, no night shift	Mon-Fri, day shifts only	Total
FDV accommodation and support	2	4	1	1	8
Homeless accommodation	1		3	4	8
Housing support				9	9
Youth accommodation and support	6		1	2	9
Total	9	4	5	16	34



3.8 Employment costs by shift type

The tables on this page show employment costs by type of shift.

24/7 services with an active night shift are the most expensive to run. The median employment cost is \$95,462 per full time equivalent employee. 24/7 services with an inactive sleepshift have median employment costs of \$91,796 per FTE, followed by 7-day services with no night cover at \$85,356 per FTE. 5-day shifts have a median employment cost of \$83,477 per FTE.

Services with 5-day shifts had a median employment cost ratio of 66.7%. This is calculated by dividing 2017/18 employment costs by the 2017/18 program budgets. Services with 7-day shifts had a median employment cost ratio of 77.3%. Overall the median employment cost ratio was 69.3%.

Across the WA not-for-profit sector, the median employment costs ratio was 65% in 2016/17 and 2015/16 (source: annual reports on [ACNC website](#)). The NAHA services in this survey recorded higher employment costs with a median of 69% in 2017/18. The 3rd quartile (highest 25%) was 78% of income spent on employment costs.

Employment costs for NAHA services are significantly higher compared to the whole NFP sector. 8 services reported employment costs in excess of 80% - 4 out of 8 FDV services, 2 out of 17 homeless services and 2 out of 9 youth services.

Table 14: Employment cost per FTE

Median employment cost \$	Cases	Median
5 day - day shifts only	16	\$83,477
7 day - day and afternoon shifts	5	\$85,356
24/7 - inactive night shift	4	\$91,796
24/7 - active night shift	9	\$95,462

Table 15: Employment cost ratio

Median employment cost %	Cases	Median
5 day shifts	16	66.7%
7 days shifts	18	77.3%
All programs	34	69.3%

Table 16: Employment cost ratio, sector comparison

	NAHA 2018	ACNC 2017	ACNC 2016
P25	62.48%	54.35%	52.88%
P50	69.32%	65.64%	65.66%
P75	78.53%	72.22%	72.38%
N	33	165	132



4. Consultation comments

Detailed comments were received from 8 service providers. The responses have been edited and paraphrased for clarity.

1. Did organisations apply the full 15% Component I funding in 2011/12 to program staff employment costs?

- Some respondents confirmed that the full 15% Component 1 funding was applied to employment costs. Others were not sure as it preceded their time at the organisation.
- “As an organisation we isolated the additional funding in a sustainability fund to assist in meeting increase wage costs as a result of the ERO.”

2. Have funding indexation payments been delayed and/or paid in arrears? What is the impact on organisation cash flow?

- “Indexation payments have until recently been paid in arrears, often three quarters later.”
- “Indexation payments are usually paid in areas and in recent years do not even meet compulsory annual award increases let alone on-cost increases.”

3. In funding acquittals, are organisations reporting the true financial result for services operating at a loss?

- “Yes and no, depending on the level of deficit, if small yes, if large no. This is due to the fear that funders will presume an organisation is not efficient or sustainable and is expensive thus impacting on future opportunities.”
- “I have been using retained earnings to meet the ERO to date. Since the ERO I have not been able to retain any surplus.”

- “No, we reallocate expenditure items where we can to balance program bottom lines.”

4. Do you any suggestions for an ERO supplementation funding formula?

- “Possibly use previous years amount as a guide and make payments along with each quarter, and any final adjustment be made in the 4th quarter payment. This means the funded provider is not out of pocket for long periods and the funder can pay as you go.”
- “There should not be any supplementation, it should be incorporated into core funding and based on actual costs according to the award.”
- “Current formula is based on 70% of funding and based on L4. Employee costs are now closer to 75% of funding and average staff levels would be closer to L5/L6.”
- “The number of years staff have been employed can impact on service staffing costs. Most of our staff have been employed longer than 10 years. We have to pay them at the top increment and pay long service leave.”
- “Each service should demonstrate the level of funding that is required to meet the service agreement in terms of staffing levels.”
- “The sector agreed to the ERO on the basis that it would be fully funded. Any proposal will need to make an accurate assessment of the current arrangements to ensure that an equitable top up can be provided. This will require careful financial modelling across the sector.”



4. Consultation comments

5. **Are any social housing service providers in danger of becoming insolvent in the next 12 months?**
 - All respondents said no, or not aware of any.
6. **For 7 day a week services there are three roster types – active night shift, inactive night shift (sleepshift) and on-call only. Could services change rosters, from active to inactive or on-call, to reduce costs? What would be the impact on service outcomes?**
 - These comments are from youth services arguing for active night shifts to be retained.
 - “There should not be an active night shift for services catering to six or more non-related young people especially where the target age cohort is below 18 years of age.”
 - “Ethically we are opposed to inactive or sleep shifts for services working with vulnerable people particularly under 18’s. Anecdotally we know services with sleep/inactive night shifts have more issues and incidents.”
 - “I would recommend that all youth residential service have active shifts to ensure young people are safe. Even with an inactive roster we still run at a deficit”.
 - “The active night shift staff are paid to be on duty to meet the needs of complex clients and respond to young people who need attention during the night. The service Manager does most of the on call without adequate remuneration.”
 - “Rosters are based on the clients need level and the associated risk. Any decision to adjust the roster would need to consider this.”
7. **Can benchmarks be set for staffing numbers and salary levels per service type? For example, support workers at Level 3.**
 - “Possibly, yet we need to ensure its not a race to the bottom approach to win and secure service agreements.”
 - “Benchmarks could be set but there would be occasions where the benchmarks would not be adhered to depending on staff availability, client escalations etc.”
 - “We are servicing double the number of young people we are funded to support as we are in a regional setting and see clients who present with multiple and complex needs around trauma, drug use and family violence.”
 - “Yes, we have done this over a 5-year period.”
8. **Do organisations realise that the Award/ERO does not cover non-service delivery roles such as accounts, business development, finance, HR, IT, marketing, property and maintenance? Are organisations prepared to implement different salary scales for ERO and non-ERO covered positions?**
 - “We already do this through our enterprise agreement.”
 - “Totally disagree. If the majority of your staff are covered by an Award you can legally and are entitled to include all staff under that Award.”
 - “We have a Bookkeeper paid at Level 5 including the ERO. This is still cheaper that the current rate for contract Bookkeepers.”



4. Consultation comments

- “Our enterprise agreement obliges us to pay the ERO rate. Further, not all non-service delivery roles are necessarily exempt.”
- “The modern award coverage was assumed to include support roles like HR and IT. If it were possible to exclude these support roles it could be considered. The implications would be a greater degree of ‘them and us’ thinking due to differential rewards.”

9. What else can organisations do to manage/reduce employment costs to partly offset higher Award/ERO pay rates?

- “Reduced levels to be in line with the roles and responsibilities of the award. Change employment mix and occupational mix. Reduce volume of service.”
- “The point is we shouldn’t need to cut back on staffing.”
- “In an industry dominated by personal services delivered to people the majority of costs are human resource related which reduces opportunities to save in other areas.”
- “Review classification levels and other above award entitlements.”
- “Inevitably, the service is going to be in a position of having to reduce costs if the employment costs are not addressed by funding bodies.
- “A new structure is something the Board of Management has been looking at for the last 12 months.”

- “Volunteers from community providing some support, student placements, reduction in casual workforce, Reduction in overtime.”
- “Down scale options are to lessen hours in new employment contracts, employ lower skilled and experienced employees when there is staff turnover, lessen professional development, cease casuals in high demand periods, casualise employment, increase workloads/caseloads. None of these promote a sustainable, innovative flexible, quality team 100% focused on the presenting needs of service consumers.”

10. The 2008 WA Government Indexation Policy for the Non-Government Human Services Sector assumed that 80% of service costs are in wages and salaries and 20% in operating costs. This was based on 2002 WACOSS discussion paper – Adequate Indexation Arrangements for Community Service Organisations in Receipt of State Government Funding. Is the 80/20 formula still valid?

- “We forecast to have only 14% operating costs by the time ERO is completed if nothing had been done to reduce the employment cost.
- “Yes, the formula is still valid. If organisations are over 20% there is an issue. However, the way CPI is calculated is the issue.”
- “Closer to 75/25.”
- “I think 80/20 is a realistic figure, but for organisations like mine that have good staff retention its closer to 85/15.”



4. Consultation comments

- “This would be good to have a review on with a cross section of service models and providers from metro, rural and remote.”
- 11. When tendering for service funding, should organisations be required to give an undertaking that they will comply with various employment obligations – e.g. Award pay and conditions, superannuation, gender pay equity, work health and safety, flexible work arrangements? This would be to avoid organisations under-bidding by not factoring in full employment costs and responsibilities.**
- “This is already included in all tender documents and service agreements where it states on multiple occasions that you will abide by relevant/applicable State/Commonwealth laws and regulations.”
 - “Yes, I think this is imperative. If the true costs are reflected in tenders the costs are equal across the board no matter how big or small your organization is. The problem small organisations experience when tendering against bigger organisations is that they already have infrastructure that they can tap into.”
- 12. Apart from increased funding for direct ERO costs, what financial or other assistance would the organisation/sector like to help facilitate employment, workforce and industrial relations changes?**
- “It would be good to have trusted skilled and knowledgeable professionals available to support organisations.”
 - “There simply needs to be an analysis (benchmark) of the real true cost of services including all the additional cost associated with complying with all the applicable State/Commonwealth regulations. I’m sure there are lots of shortcuts taken to reduce costs that technically are required by law.”
- “I’d like to see realistic increases of living factored into the funding levels not only to meet ERO payments but things like utilities and consumables that are a major component of offering supported accommodation.”
 - “The IR challenge extends to enterprise agreement negotiations. The solution is for Fair Work to be broader in its thinking and consider the flexibility needs of employers while maintaining safety nets for employees.”
 - “Benchmarking and sector trends around organisational structure, supervision levels, coordinator roles, technology (e.g. rostering tools).”
 - “Simplify the processes, the time taken to comply with contract requirements can mean that we lose potential employees.”
 - “Increased funding to upskill staff.”



4. Consultation comments

13. Funding contracts from 2010 to 2013 for Youth Accommodation Services and Homelessness Accommodation and Support Services have subsequently been rolled over on an annual basis. Are any organisations still operating on the staffing structure nominated in the 2010-2013 contracts, or has it been necessary to adapt the staffing structure over time?

- “The question of staffing arrangements pops up in service reviews, and there seems to be an implied expectation that they are still the same as what was promoted in a tender leading into the 2010 contracts.”
- “We have had to adapt our staffing structure over time due to changes in service needs as well as costs of salary.”
- “Fundamentally we are operating with the same core staffing structure over four contract periods due to available resources. Additional support is provided through other organisations and other internal services.”
- “Both, some are operating the same and some have been restructured.”

14. Other comments, examples, strategies and solutions?

- “I’m hoping that with this review the funding bodies will actually understand what we are facing. Look at funding services adequately without making organisations fight for every dollar.”
- “Using the same staffing structure and hours as we did in 2017/18, in 2018/19 we will make a significant loss. The challenge in future years will be to cut hours of service delivery or reduce quality by reducing wage levels.”
- “24/7 shift workers are often on the lowest base rate in an organisation but have more client responsibility than almost any other staff members. They are also often the lowest qualified due to the salary available. We would love to increase our accommodation workers to level 4 in the award, however the funds are not there.”
- “Due to the oversight by the previous management, staff were on a higher salary classification that did not correspond to the work/position that they were doing. With CCI’s advice, the decision was made for all staff to continue receiving their current remuneration. However, affected staff will not be receiving any salary increases until the correct award rate catches up with their current rate of pay.”



5. Modelling

In this chapter, there is modelling on three topics:

- Funding indexation calculation – Indexation method applied by the Department of Communities from 2010/11 to 2018/19.
- The 'ERO crossover point' – An estimation of when government funding indexation fell behind Award/ERO increases in employment costs.
- Funding supplementation model – A model to increase NAHA funding for 3 years, 2019/20 to 2021/22, to cover Award/ERO increases in employment costs.

The modelling is based on a number of specific assumptions which are explained in each section. The assumptions are based on information available at the time the report was written. The projections may change if the assumptions are varied.



5.1 Funding indexation

This table lists Award/ERO wage increases and WA Government funding increases over the period July 2010 to July 2021.

The Annual Wage Review (AWR) has ranged from 2.40% to 3.50% per year. The assumption for future increases is 3.00% per year. AWR applies to employment costs. The median rate of employment costs for NAHA services is 69.3% of revenue.

Government indexation (NGHSS) was higher than AWR from July 2011 to July 2013. Since July 2014 NGHSS has been lower than AWR and this is expected to continue for the next three years. The assumption for future increases is 1.50%, 2.00% and 2.5%.²³ NGHSS applies to total funding.

The cumulative ERO figures are calculated on SCHCDS Level 4. In Dec 2020, at the end of the ERO implementation period, the pay rate for Level 4 will be 32% above the underlying Award rate.

The 15% across-the-board Component 1 funding increase was paid in 2011/12 and then incorporated into recurrent funding. Component II, an average of 10% funding increase, was targeted to regional and remote services and was not paid to NAHA services.

Table 17: Award, ERO and WA Government indexation rates

	AWR	Gov Indexation	ERO Cumulative
July 2010			
July 2011	3.40%	4.00%	
July 2012	2.90%	4.25%	
Dec 2012			3.56%
July 2013	2.60%	3.50%	
Dec 2013			7.11%
July 2014	3.00%	2.65%	
Dec 2014			10.67%
July 2015	2.50%	1.90%	
Dec 2015			14.22%
July 2016	2.40%	1.60%	
Dec 2016			17.78%
July 2017	3.30%	0.83%	
Dec 2017			21.33%
July 2018	3.50%	0.83%	
Dec 2018			24.89%
July 2019	3.00%	1.50%	
Dec 2019			28.44%
July 2020	3.00%	2.00%	
Dec 2020			32.00%
July 2021	3.00%	2.50%	

²³ https://www.treasury.wa.gov.au/Treasury/Economic_Data/Economic_Forecasts/



5.1 Funding indexation

NAHA services are jointly funded by the Commonwealth and State Governments, with funding administered by DoC. The example on the next page shows the actual funding progression for one service from 2010/11 to 2018/19.

1. In 2010/11 the service was funded a total of \$406,700.
2. For the period 2011/12 to 2015/16, indexation was calculated at a weighted average of the Commonwealth and WA indexation rates. For example, in 2011/12 the WA indexation rate was 4.00%, the Commonwealth indexation rate was 1.70%, giving a weighted indexation rate of 2.85% on 100% of the funding. Annual funding level (AFL) - \$418,291.
3. The 15% funding increase in Component I in July 2011 was paid on the WA Government share (50% of total NAHA funding) including 2011/12 indexation. 15% of \$418,291.03 was \$31,371.83. Annual funding level - \$449,662.
4. In 2012/13, indexation was paid at the weighted average of 3.03%. Annual funding level - \$463,265. Note, this confirms that Component I funding was built into recurrent funding.
5. The weighted indexation method continued in 2013/14, 2014/15 and 2015/16. In 2015/16, \$62,660 was added to the service provider for additional services. Annual funding level - \$556,019.
6. In 2016/17 the indexation method changed to the WA indexation rate on the WA share of NAHA funding. For example, $(\$560,019 * 50%) * 1.6%$ WA indexation equaled \$4,448. Annual funding level \$560,468.
7. This continued with 0.83% indexation in 2017/18 and 0.83% indexation in 2018/19. Current annual funding level \$565,129.
8. In addition to the funding indexation, the Commonwealth Government contributed ERO supplementation on 50% of the annual funding level. The amounts paid to this service were \$3,138 for 2012/13 (paid in 2014/15); \$27,689 for 2013/14 and 2014/15 (paid in 2015/16); \$24,925 for 2015/16 (paid in 2016/17); \$46,991 for 2016/17 and 2017/18 (paid in 2017/18) and \$53,993 for 2018/19 (payment pending).²⁴ SalaryOne has not been able to reconcile these figures with the DSS supplementation formula.

²⁴ http://www.federalfinancialrelations.gov.au/content/npa/community_services/national-partnership/pay_equity_NP.pdf and http://federalfinancialrelations.gov.au/content/npa/community_services/national-partnership/SACS_NPA.pdf



5.1 Funding indexation

Table 18: Funding progression for one NAHA service, 2010/11 to 2018/19

Funding Progression (Actual Example)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Total NAHA funding		406,700.08	418,291.03	463,265.16	474,846.79	485,412.13	517,227.87	521,365.69	523,529.35
Component I funding			31,371.83				38,792.09	39,102.43	39,264.71
Services added						62,660.77			
Annual funding level (prior year)		406,700.08	449,662.86	463,265.16	474,846.79	548,072.90	556,019.96	560,468.12	562,794.06
Indexation							278,009.98	280,234.06	281,397.03
Commonwealth		1.70%	1.80%	1.50%	1.80%	1.00%			
State		4.00%	4.25%	3.50%	2.65%	1.90%	1.60%	0.83%	0.83%
Weighted average		2.85%	3.03%	2.50%	2.23%	1.45%			
Indexation amount		11,590.95	13,602.30	11,581.63	10,565.34	7,947.06	4,448.16	2,325.94	2,335.60
Component I		31,371.83							
Annual funding level		449,662.86	463,265.16	474,846.79	485,412.13	556,019.96	560,468.12	562,794.06	565,129.66
Funding Sources	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
NAHA - Commonwealth Funding	190,353.69	193,589.70	199,445.79	204,431.93	208,980.54				
NAHA - State Funding	216,346.39	256,073.15	263,819.36	270,414.84	276,431.57				
Component 1						38,792.09	39,102.43	39,264.71	39,427.66
NAHA Funding						517,227.85	521,365.67	523,529.34	525,701.99
Annual funding level	406,700.08	449,662.85	463,265.15	474,846.77	485,412.11	556,019.94	560,468.10	562,794.05	565,129.65
Commonwealth ERO Supplementation					3,138.19	27,689.12	24,925.51	46,991.07	53,993.68
Funding year payment relates to					2012/13	2013/14	2015/16	2016/17	Pending
						2014/15	2017/18	2017/18	

This model reconciles WA Government payments made for one NAHA program over the period 2010/11 to 2018/19. It shows changes in indexation methods, the payment of Component I as a recurring amount and Commonwealth ERO supplementation. In 2018/19, the service provider received \$2,335 WA Government indexation. Calculation: \$562,794.06 (including \$39,264.17 Component I) x 50% (WA Gov share) x 0.83% indexation = \$2,335.60. The Commonwealth paid no indexation but is paying \$53,993.68 in ERO supplementation.



5.2 ERO Crossover

This table shows the wages progression for a full-time position, Level 4.1 from July 2010 to July 2021.

1. The Award rate for Level 4.1 in July 2010 was \$797.21 per week. Annual Wage Review (AWR) indexation was 3.4% in July 2011 and 2.9% in July 2012.
2. The first ERO instalment was in Dec 2012. Formula: July 2012 award rate plus ERO cumulative percentage. Calculation: \$848.21 + 3.56% = \$878.41.
3. During the ERO period (Dec 2012 to Dec 2020), the AWR increases are calculated on the combined award/ERO rate. Formula: Dec 2012 award/ERO rate plus July 2013 AWR. Calculation: \$878.41 + 2.6% = \$901.25.
4. The July and Dec pay rises continue up to the current rate in Dec 2018 \$1,256.27 per week. There is a small rounding difference compared to the official Fair Work pay guide.²⁵
5. The forecast for future AWR increases is 3.0% in July 2019, July 2020 and July 2021.

In the modelling in Chapter 5.3, an average salary rate of Level 4.1 is used (32% final ERO rate). Employment costs will be higher if a higher pay point is used. For example, 4.2, 4.3, 4.4 or Level 5 (37% final ERO rate).

As shown in Chapters 3.4 to 3.6, NAHA providers employ a number of staff at Level 5 and above. Applying an average rate of Level 4.1 will require providers to engage most of their service delivery staff at Level 3.

Table 19:
Award and ERO wage increases for SCHCDS Award, Level 4.1

	Base Award	AWR	ERO cumulative %	Award/ERO rate
July 2010	797.21			797.21
July 2011	824.31	3.40%		824.31
July 2012	848.21	2.90%		848.21
Dec 2012			3.56%	878.41
July 2013	870.27	2.60%		901.25
Dec 2013			7.11%	932.14
July 2014	896.38	3.00%		960.11
Dec 2014			10.67%	992.02
July 2015	918.79	2.50%		1,016.82
Dec 2015			14.22%	1,049.44
July 2016	940.84	2.40%		1,074.62
Dec 2016			17.78%	1,108.12
July 2017	971.88	3.30%		1,144.69
Dec 2017			21.33%	1,179.19
July 2018	1,005.90	3.50%		1,220.46
Dec 2018			24.89%	1,256.27
July 2019	1,036.08	3.00%		1,293.96
Dec 2019			28.44%	1,330.74
July 2020	1,067.16	3.00%		1,370.66
Dec 2020			32.00%	1,408.65
July 2021	1,099.17	3.00%		1,450.91

²⁵ [Social and Community Services Western Australia Award 2002 \[AP815319\] Pay Guide](#)



5.2 ERO Crossover

In this chart, the blue line shows the Award and ERO wage increases for Level 4.1, applying the increases described on the previous page. The orange line shows the addition of Component I (15%) funding in 2011/12, and the grey line shows the addition of Component II (10%) funding in 2013/14. NAHA services did not receive Component II.

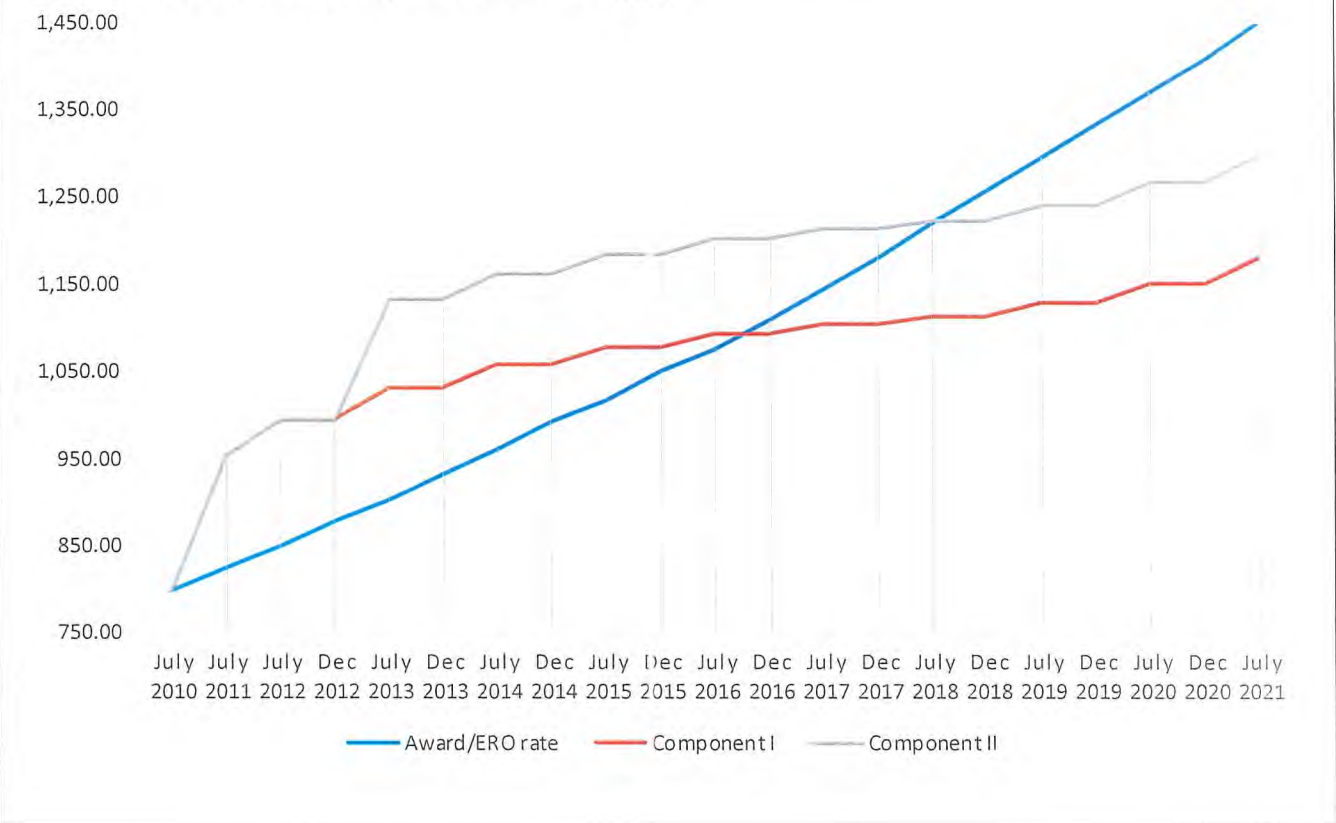
For NAHA services, it is estimated that WA Government funding may have been enough to cover the Award/ERO increases until December 2016.

For other WA Government funded community services that received the average 10% increase through Component II, the ERO crossover point is estimated to be July 2018.

Both are best case scenarios, where service providers set aside all the Component I or II funds to cover Award/ERO increases. However, as service providers had discretion in the application of the funds, some of the funds may have been spent on other staffing or operating costs.

Also, up until 2016 or 2017 service providers may not have been fully aware of their ERO obligations.

Chart 5: ERO crossover point, start of a funding gap





5.3 Supplementation model

The equal remuneration order (ERO funding supplementation model is shown on the next two pages. In the survey of NAHA services conducted by SalaryOne the median employment costs were 77.3% of total budget for 7-day a week services (Scenario 1); and 66.7% of total budget for 5-day a week rosters (Scenario 2).

The following explanation covers the Scenario 1 numbers, in Table 20 on the next page.

1. In 2010/11, the total funding for 65 service providers, operating 98 NAHA services was \$37,037,526. The WA Government share (50%) was \$18,518,763.
2. Opening amount for employment costs on the 50% share of NAHA funding. Formula: WA Government 50% share of NAHA funding multiplied by the employment costs ratio. Calculation: \$18,518,763 multiplied by 77.3% median employment costs, equals \$14,315,004.
3. Notional employment costs with AWR indexation added. The indexation section shows the WA Government indexation rate (4.0% in 2011/12), the Annual wage review rate (3.4%) and the gap between the two rates (0.6%). The notional AWR increase was \$14,315,004 multiplied by 3.4%, \$486,710. The new notional total employment cost was \$14,801,714.
4. Actual employment costs with WA Government indexation added. Formula: WA share of employment costs plus WA Government indexation. Calculation: \$14,315,004 plus 4.0% equals \$14,887,604.
5. Component I calculation. Formula: WA Government 50% share of 2010/11 NAHA funding plus 2011/12 WA Government indexation, multiplied by 15%. Calculation: $(\$18,518,763 + 4.0\%) * 15\%$ equals \$2,888,927.
6. ERO calculation 2012/13. Formula: Sub-total notional employment costs multiplied by the ERO cumulative rate. Calculation: \$15,230,964 multiplied by 2.08% equals \$316,296. Total notional employment costs \$15,547,260.



5.3 Supplementation model

Table 20: Scenario 1, Employment costs 77.3% of budget, 7-day rosters

Total NAHA	37,037,526											
WA Gov 50%	18,518,763	2010/11										
Emp Costs/Budget %	77.30%											
Calculation 1	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
Employment costs, WA share	14,315,004	14,801,714	15,230,964	15,626,969	16,095,778	16,498,172	16,894,128	17,451,635	18,062,442	18,604,315	19,162,445	
WA Gov indexation	4.00%	4.25%	3.50%	2.65%	1.90%	1.60%	0.83%	0.83%	1.50%	2.00%	2.50%	
AWR gap	0.60%	1.35%	0.90%	-0.35%	-0.60%	-0.80%	-2.47%	-2.67%	-1.50%	-1.00%	-0.50%	
AWR rate	3.40%	2.90%	2.60%	3.00%	2.50%	2.40%	3.30%	3.50%	3.00%	3.00%	3.00%	
AWR amount	486,710	429,250	396,005	468,809	402,394	395,956	557,506	610,807	541,873	558,129	574,873	
Sub-total notional employment costs	14,801,714	15,230,964	15,626,969	16,095,778	16,498,172	16,894,128	17,451,635	18,062,442	18,604,315	19,162,445	19,737,318	
Calculation 2												
ERO cumulative rate		2.08%	5.63%	9.19%	12.74%	16.30%	19.85%	23.41%	26.96%	30.52%	32.00%	
ERO amount		316,296	879,929	1,478,665	2,102,005	2,753,180	3,464,295	4,227,816	5,015,878	5,847,739	6,315,942	
Total notional employment costs	14,801,714	15,547,260	16,506,897	17,574,443	18,600,177	19,647,308	20,915,930	22,290,257	23,620,194	25,010,184	26,053,260	
Calculation 3												
WA Gov funding, employment costs	14,887,604	18,532,034	19,180,655	19,688,942	20,063,032	20,384,041	20,553,228	20,723,820	21,034,677	21,455,371	21,991,755	
Component I	2,888,927											
Net amount/gap	-2,974,817	-2,984,774	-2,673,757	-2,114,499	-1,462,855	-736,732	362,701	1,566,438	2,585,516	3,554,813	4,061,505	
									Funding increase 2019/20 to 2021/22		10,201,834	

Calculation 1 applies the same formula as the 'underlying Award rate' in the ERO decision. Calculation 2 applies the same formula as the 'ERO instalment rate' in the ERO decision. Calculation 3 applies Communities actual and forecast indexation over the same period. The difference between Calculation 2 and 3 is the estimated funding gap for NAHA services. The calculations are based on assumptions for (1) future Annual Wage Review increases; (2) future WA Government indexation; and (3) median employment costs ratios.

In this example, there is a total estimated funding gap for employment costs of \$10,201,834 over three years 2019/20 to 2021/22. The annual funding gap is the total notional employment costs minus WA Government funding for employment costs. Calculation for 2019/20: \$23,620,194 minus \$21,034,677, equals \$2,585,516.

Up until 2016/17, WA Government funding exceeded the notional employment costs. Service providers may have applied the extra funds during those years to over-Award wages, additional staff and/or other operating costs. The funds were not specifically tied to meeting ERO related expenses.



5.3 Supplementation model

Table 21: Scenario 2, Employment costs 66.7% of budget, 5-day rosters

Total NAHA	37,037,526											
WA Gov 50%	18,518,763	2010/11										
Emp Costs/Budget %	66.70%											
Calculation 1	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
Employment costs, WA share	12,352,015	12,771,984	13,142,371	13,484,073	13,888,595	14,235,810	14,577,469	15,058,526	15,585,574	16,053,141	16,534,736	
WA Gov indexation	4.00%	4.25%	3.50%	2.65%	1.90%	1.60%	0.83%	0.83%	1.50%	2.00%	2.50%	
AWR gap	0.60%	1.35%	0.90%	-0.35%	-0.60%	-0.80%	-2.47%	-2.67%	-1.50%	-1.00%	-0.50%	
AWR rate	3.40%	2.90%	2.60%	3.00%	2.50%	2.40%	3.30%	3.50%	3.00%	3.00%	3.00%	
AWR amount	419,969	370,388	341,702	404,522	347,215	341,659	481,056	527,048	467,567	481,594	496,042	
Sub-total notional employment costs	12,771,984	13,142,371	13,484,073	13,888,595	14,235,810	14,577,469	15,058,526	15,585,574	16,053,141	16,534,736	17,030,778	
Calculation 2												
ERO cumulative rate		2.08%	5.63%	9.19%	12.74%	16.30%	19.85%	23.41%	26.96%	30.52%	32.00%	
ERO amount		272,923	759,266	1,275,899	1,813,761	2,375,642	2,989,243	3,648,063	4,328,061	5,045,850	5,449,849	
Total notional employment costs	12,771,984	13,415,294	14,243,338	15,164,494	16,049,571	16,953,111	18,047,769	19,233,637	20,381,202	21,580,586	22,480,626	
Calculation 3												
WA Gov funding, employment costs	12,846,096	16,403,761	16,977,893	17,427,807	17,758,935	18,043,078	18,192,836	18,343,836	18,618,994	18,991,374	19,466,158	
Component I	2,888,927											
Net amount/gap	-2,963,039	-2,988,467	-2,734,554	-2,263,313	-1,709,365	-1,089,967	-145,067	889,801	1,762,208	2,589,212	3,014,468	
									Funding increase 2019/20 to 2021/22		7,365,888	

Calculation 1 applies the same formula as the 'underlying Award rate' in the ERO decision. Calculation 2 applies the same formula as the 'ERO instalment rate' in the ERO decision. Calculation 3 applies Communities actual and forecast indexation over the same period. The difference between Calculation 2 and 3 is the estimated funding gap for NAHA services. The calculations are based on assumptions for (1) future Annual Wage Review increases; (2) future WA Government indexation; and (3) median employment costs ratios.

In this example, there is a total funding gap for employment costs of \$7,365,888 over three years 2019/20 to 2021/22. The annual funding gap is the total notional employment costs minus WA Government funding for employment costs. Calculation for 2019/20: \$20,381,202 minus \$18,618,994, equals \$1,762,208.

The total supplementation funding required to meet Award/ERO wage increases is estimated to be between \$7.365M and \$10.201M over three years. This is based on 66.7% employment costs/budget for 5-day rosters and 77.3% employment costs/budget for 7-day rosters. Service providers with 80% or higher employment costs/budget may still have a gap to cover to comply with the ERO.



5.3 Supplementation model

The net amount/gap between the total notional employment costs and the WA Government funding for employment costs is shown in Table 22 for the two scenarios, 7-day rosters and 5-day rosters. This is then converted to a percentage figure to apply to funding for individual service providers.

The projected funding supplementation rate for 7-day services, which includes an Annual Wage Review top-up and ERO gap, is 12.29% in 2019/20, 16.57% in 2020/21 and 18.47% in 2021/22. The projected rate for 5-day services is 9.46% in 2019/20, 13.63% in 2021/21 and 15.49% in 2021/22. This is shown as cumulative percentages to apply to the base WA Government share of annual funding levels.

Table 22: AWR/ERO gap as a percentage of WA Government funding

Scenario 1 (7-day rosters)				Scenario 2 (5-day rosters)			
Total employment costs	2019/20	2020/21	2021/22	Total employment costs	2019/20	2020/21	2021/22
WA Gov funding	21,034,677	21,455,371	21,991,755	WA Gov funding	18,618,994	18,991,374	19,466,158
AWR/ERO gap (\$)	2,585,516	3,554,813	4,061,505	AWR/ERO gap (\$)	1,762,208	2,589,212	3,014,468
AWR/ERO gap (%)	12.29%	16.57%	18.47%	AWR/ERO gap (%)	9.46%	13.63%	15.49%

The ERO supplementation rates are applied to NAHA service providers current annual funding level. In this example, the same service provider as shown in Chapter 5.1. If the service provider has 5-day rosters, the supplementation funding will be \$18,105 in 2019/20, \$26,602 in 2020/21 and \$30,971 in 2021/22. If the service provider has 7-day rosters, the supplementation funding will be \$27,250 in 2019/20, \$37,466 in 2020/21 and \$42,806 in 2021/22.

Table 23: ERO Supplementation funding model per NAHA service provider – Same example as Table 18, page 35

Per NAHA service provider	2019/20	2020/21	2021/22				
Annual funding level (prior year)	565,129.65						
WA Gov share (50%)	282,564.83	286,803.30	292,539.36				
WA Gov indexation (%)	1.50%	2.00%	2.50%				
WA Gov Indexation \$	4,238.47	5,736.07	7,313.48				
Sub-total, WA Gov funding	286,803.30	292,539.36	299,852.85				
Employment costs (7-day roster, 77.3%)	221,698.95	226,132.93	231,786.25	Employment costs (5-day roster, 66.7%)	191,297.80	195,123.76	200,001.85
ERO gap on employment costs (%)	12.29%	16.57%	18.47%	ERO gap on employment costs (%)	9.46%	13.63%	15.49%
AWR/ERO funding supplementation \$	27,250.54	37,466.62	42,806.99	ERO funding supplementation \$	18,105.52	26,602.43	30,971.66



5.4 Sensitivity Analysis

The modelling in this report is based on assumptions for future Annual Wage Review (AWR) increases and future WA Government indexation. The assumptions for AWR are 3.0% for 2019/20, 2020/21 and 2021/22. The assumptions for WA Government indexation are 1.5% for 2019/20, 2.0% for 2020/21 and 2.5% for 2021/22.

This sensitivity analysis models the impact of variations in Annual Wage Review (AWR) increases and future WA Government indexation on the estimated funding gaps. The employment cost variables do not change (77.3% of program funding for 7-day a week services or 66.7% for 5-day a week services). There are 25 possible scenarios for each employment cost rate, in increments of 0.5% or 1.0% above or below the base assumptions.

In Scenario 1 (all 7-day rosters) the funding gap may be between \$7,453,516 and \$12,952,775 million. In Scenario 2 (all 5-day rosters) the funding gap may be between \$4,965,822 and \$9,767,841 million.

Table 24: Sensitivity Analysis, detailed

Index/AWR variation	Employment costs (77.30%) rate				Total		Index/AWR	Employment costs (66.70%) rate			Total
	2019/20	2020/21	2021/22					2019/20	2020/21	2021/22	
1	1.0%/1.0%	2,607,600	3,619,003	4,174,540	10,401,143	26	1.0%/1.0%	1,776,645	2,635,155	3,097,447	7,509,247
2	1.0%/0.5%	2,492,939	3,374,418	3,789,577	9,656,934	27	1.0%/0.5%	1,677,708	2,424,109	2,765,273	6,867,090
3	1.0%/0.0%	2,378,278	3,131,011	3,408,316	8,917,605	28	1.0%/0.0%	1,578,770	2,214,080	2,436,294	6,229,144
4	1.0%/-0.5%	2,263,617	2,888,783	3,030,738	8,183,138	29	1.0%/-0.5%	1,479,832	2,005,069	2,110,492	5,595,393
5	1.0%/-1.0%	2,148,956	2,647,734	2,656,826	7,453,516	30	1.0%/-1.0%	1,380,894	1,797,074	1,787,854	4,965,822
6	0.5%/1.0%	2,711,219	3,831,422	4,502,727	11,045,368	31	0.5%/1.0%	1,868,365	2,823,179	3,387,944	8,079,488
7	0.5%/0.5%	2,596,558	3,586,837	4,117,765	10,301,160	32	0.5%/0.5%	1,769,427	2,612,134	3,055,771	7,437,332
8	0.5%/0.0%	2,481,897	3,343,430	3,736,503	9,561,830	33	0.5%/0.0%	1,670,489	2,402,105	2,726,791	6,799,385
9	0.5%/-0.5%	2,367,236	3,101,202	3,358,926	8,827,364	34	0.5%/-0.5%	1,571,551	2,193,093	2,400,990	6,165,634
10	0.5%/-1.0%	2,252,575	2,860,153	2,985,014	8,097,742	35	0.5%/-1.0%	1,472,613	1,985,098	2,078,352	5,536,063
11	0.0%/1.0%	2,814,839	4,042,805	4,827,729	11,685,373	36	0.0%/1.0%	1,960,084	3,010,287	3,675,621	8,645,992
12	0.0%/0.5%	2,700,177	3,798,220	4,442,766	10,941,163	37	0.0%/0.5%	1,861,146	2,799,241	3,343,448	8,003,835
13	0.0%/0.0%	2,585,516	3,554,813	4,061,505	10,201,834	38	0.0%/0.0%	1,762,208	2,589,212	3,014,458	7,365,878
14	0.0%/-0.5%	2,470,855	3,312,585	3,683,927	9,467,367	39	0.0%/-0.5%	1,663,270	2,380,200	2,688,667	6,732,137
15	0.0%/-1.0%	2,356,194	3,071,536	3,310,015	8,737,745	40	0.0%/-1.0%	1,564,332	2,172,206	2,366,029	6,102,567
16	(-0.5%/1.0%)	2,918,458	4,253,152	5,149,559	12,321,169	41	(-0.5%/1.0%)	2,051,803	3,196,477	3,960,492	9,208,772
17	(-0.5%/0.5%)	2,803,797	4,008,567	4,764,596	11,576,960	42	(-0.5%/0.5%)	1,952,865	2,985,431	3,628,319	8,566,615
18	(-0.5%/0.0%)	2,689,135	3,765,160	4,383,335	10,837,630	43	(-0.5%/0.0%)	1,853,927	2,775,402	3,299,339	7,928,668
19	(-0.5%/-0.5%)	2,574,474	3,522,932	4,005,758	10,103,164	44	(-0.5%/-0.5%)	1,754,989	2,566,390	2,973,538	7,294,917
20	(-0.5%/-1.0%)	2,459,813	3,281,883	3,631,846	9,373,542	45	(-0.5%/-1.0%)	1,656,052	2,358,396	2,650,900	6,665,348
21	(-1.0%/1.0%)	3,022,077	4,462,463	5,468,235	12,952,775	46	(-1.0%/1.0%)	2,143,522	3,381,749	4,242,570	9,767,841
22	(-1.0%/0.5%)	2,907,416	4,217,877	5,083,272	12,208,565	47	(-1.0%/0.5%)	2,044,584	3,170,703	3,910,396	9,125,683
23	(-1.0%/0.0%)	2,792,755	3,974,471	4,702,011	11,469,237	48	(-1.0%/0.0%)	1,945,646	2,960,675	3,581,417	8,487,738
24	(-1.0%/-0.5%)	2,678,093	3,732,243	4,324,433	10,734,769	49	(-1.0%/-0.5%)	1,846,709	2,751,663	3,255,616	7,853,988
25	(-1.0%/-1.0%)	2,563,432	3,491,193	3,950,521	10,005,146	50	(-1.0%/-1.0%)	1,747,771	2,543,668	2,932,978	7,224,417

Table 25: Sensitivity Analysis, summary

Sensitivity Analysis	EmpCosts%	Estimate	Highest	Index/AWR	Lowest	Index/AWR
Scenario 1	77.3%	10,201,834	12,952,775	(-1.0%/1.0%)	7,453,516	1.0%/-1.0%
Scenario 2	66.7%	7,365,888	9,767,841	(-1.0%/1.0%)	4,965,822	1.0%/-1.0%



6. Contracting

In this chapter, there is a brief overview of historical and future contracting arrangements and issues relating to NAHA services in this review.

There has been a focus on sustainable funding and contracting since the formation of the Partnership Forum in 2010. The WA Government published a revised Delivering Community Services in Partnership Policy in October 2018.

- Contracting and procurement – principles and practice
- List of NAHA services included in this study.

One of the key concerns of the sector, as expressed by WACOSS and CEWA, is that NAHA service providers have operated for several years on contracts with fixed funding levels and indexation and “could not negotiate the impact of the ERO”.²⁶ The funding contracts mostly date from 2009/10 for Homeless services, 2010/11 for Youth services and 2014/15 for FDV services (see tables on pages 46-51).

²⁶ WACOSS comment in response to December 2018 version of this report.



6.1 Contracting and procurement

Delivering Community Services in Partnership Policy

The 2011 WA Government Delivering Community Services in Partnership Policy²⁷ set principles to build a genuine partnership between the public and not-for-profit sector in planning and delivery of community services. A key principle was to support sustainable service delivery and ongoing organisational viability.

The recently revised policy defines sustainability as “the ability of an organisation to continue to provide services over a long-term period and depends on the ability of that organisation to secure funds to meet the full cost of service delivery, attract and retain human capital, and manage operational risk.”²⁸

There are six partnership behaviours:

1. Drive demonstrable improvements in outcomes for all Western Australians.
2. Engage service users in the ongoing planning, co-design and delivery of sustainable Community Services through direct and indirect methods of consultation and representation in the development of service delivery.
3. Consult on all significant issues and adopt a collaborative approach to decision-making, including the development of policy, planning and service co-design.
4. Conduct all planning, co-design and delivery of Community Services activities with transparency and open communication, including the sharing of appropriate data, information and the basis for decisions.
5. Build processes that support Public Authorities and Organisations to work together to ensure that budget levels are sufficient for sustainable Community Services.
6. Acknowledge the value of place-based Organisations with local knowledge and connections to people and place in regional and rural areas.

²⁷ Western Australian Government Delivering Community Services in Partnership Policy, July 2011

²⁸ [Delivering Community Services in Partnership Policy, Government of Western Australia, October 2018](#)



6.1 Contracting and procurement

Some contracts not reviewed for many years

Most homelessness accommodation and support services (see listing in Chapter 6.2) had 3-year contracts that commenced on 1 October 2009. Most youth accommodation and support services had 3-year contracts that commenced on 1 October 2010. After the initial 3 years, contracts were rolled over on an annual basis with indexation.

Most family and domestic violence (FDV) accommodation and support services are on contracts started on 1 October 2014 or 1 October 2015.

The 'homelessness' and 'youth' contracts pre-dated the ERO decision in June 2012. The 'FDV' contracts occurred after the ERO decision. There is an argument that FDV service providers should have factored in the full cost of the ERO in projected budgets.

Contracting for outcomes

From 2011 there was shift away from prescribing contract inputs and towards purchasing outcomes for service users and the community.

"Outcomes-based procurement arrangements designed around measurable benefits for the community and service users".²⁹

This approach was implemented for FDV contracts in 2014. Service providers were not required to submit a detailed budget and in some cases did not provide details of staffing arrangements and salary levels.

This makes it difficult for Communities to assess requests for extra funding for externally mandated increases in inputs, such as Award and ERO wage increases.

Program acquittal reports

The consultant viewed a sample of NAHA service provider acquittal reports in the Communities office for the 2016/17 financial year. Many of the reports showed a balanced or surplus budget result. This seems at odds with the view that providers are experiencing financial stress. There are three possible explanations. Firstly, this was around the time of the 'ERO crossover' in December 2016. Secondly, some service providers have been reporting balanced budgets to Communities and making up the shortfall by reducing management charges or applying other income or capital. Thirdly, some service providers may have had job vacancies due to high employee turnover and were not operating at full capacity.

²⁹ [Delivering Community Services in Partnership Policy, Government of Western Australia, October 2018](#)



6.2 List of NAHA Services

The list of NAHA service providers is sorted by program type and includes the contract start date. All contracts end on 30 June 2019. Excluded from the list are three (3) local government organisations and one Aboriginal community-controlled health service that are not covered by the ERO.

Family and Domestic Violence Accommodation and Support Services

Service provider	Service name	Start date
1. Anglicare WA Inc	Albany Women's Centre	1-Oct-14
2. Carnarvon Family Support Service Inc	Gascoyne Women's Refuge	1-Oct-14
3. Desert Blue Connect Inc	Chrysalis House Women's Refuge	1-Oct-14
4. Eastern Region Domestic Violence Services Network Inc	East Corridor - Koolkuna Women's Refuge	1-Oct-15
5. Esperance Crisis Accommodation Service Inc	Esperance Crisis Accommodation Service	1-Oct-14
6. Gawooleng Yawoodeng Aboriginal Corporation	Kununurra Crisis Accommodation Centre	1-Oct-14
7. Goldfields Women's Refuge Association Inc	Goldfields Women's Refuge - Finlayson House	1-Oct-14
8. Hedland Women's Refuge Inc	Hedland Women's Refuge	1-Oct-14
9. Marninwarntikura Fitzroy Women's Resource Centre Aboriginal Corporation	Safe House Model - Fitzroy Crossing	1-Mar-15
10. Marnja Jarndu Women's Refuge Inc	Marnja Jarndu Women's Domestic Violence Service	1-Oct-14
11. Mawarnkarra Health Service	Manga Tharndu Maya Safe House	1-Oct-14
12. Nardine Wimmin's Refuge	East Corridor - Nardine Wimmin's Refuge	1-Oct-15
13. Newman Women's Shelter Inc	Newman Women's Shelter	1-Oct-14
14. Ngaringga Ngurra Aboriginal Corporation	Ngaringga Ngurra Safe House	1-Oct-14
15. Ngnowar Aerwah Aboriginal Corporation	Ngnowar Aerwah Safe House	1-Apr-15
16. Orana House Inc	East Corridor - Orana Women's Refuge	1-Oct-15
17. Pat Thomas House Inc	South Corridor - Pat Thomas Memorial Community House	1-Oct-15
18. Patricia Giles Centre Inc	Lead Agency - North Corridor	1-Oct-15
19. Rise Network Inc	East Corridor - Kira House	1-Oct-15



6.2 List of NAHA Services

Family and Domestic Violence Accommodation and Support Services (continued)

Service provider	Service name	Start date
20. Ruah Community Services	North Corridor - Harmony Place	1-Oct-15
21. Ruah Community Services	North Corridor - Kambarang Place	1-Oct-15
22. Salvation Army (WA) Property Trust	Family and Domestic Violence Accommodation and Support Services - Karratha	1-Oct-15
23. Salvation Army (WA) Property Trust	North Corridor - Salvation Army Graceville Centre	1-Oct-15
24. Share & Care Community Services Group Incorporated	Narrogin Women's Refuge	1-Oct-14
25. Share & Care Community Services Group Incorporated	Wheatbelt Women's Refuge	1-Oct-14
26. South West Refuge Inc	South West Refuge	1-Oct-14
27. Starick Services Inc	Lead Agency - East Corridor	1-Oct-15
28. The Lucy Saw Centre Association Inc	South Corridor - Fremantle	1-Jan-18
29. The Lucy Saw Centre Association Inc	Lead Agency - South Corridor	1-Oct-15
30. UnitingCare West	South Corridor - Wyn Carr House	1-Oct-15
31. Waratah Support Centre (South West Region) Inc	Waratah Family Abuse Intervention Service	1-Oct-14
32. Women's Health Care Association Inc	Metropolitan Wide - Multicultural Women's Advocacy Service	1-Oct-15
33. Wungening Aboriginal Corporation	East Corridor - Wooree Miya Refuge	1-Oct-15
34. Zonta House Refuge Association Inc	South Corridor - Zonta House Refuge Association	1-Oct-15



6.2 List of NAHA Services

Homeless Accommodation and Support Services

Service provider	Service name	Start date
1. 55 Central Inc	55 Central	1-Oct-09
2. Agencies for South West Accommodation Inc trading as Accordwest	Bunbury Accommodation Service - BAS	1-Oct-09
3. Agencies for South West Accommodation Inc trading as Accordwest	Capes Accommodation Support and Advocacy Service - CASA	1-Oct-09
4. Anglicare WA Inc	Anglicare Family Housing	1-Oct-09
5. Anglicare WA Inc	Kalgoorlie Accommodation Support Service - KASS	1-Oct-09
6. Anglicare WA Inc	Supported Tenancy Anglicare Rockingham - STAR	1-Oct-09
7. Australian Red Cross Society (WA Division)	Red Cross Soup Patrol Service	1-Oct-09
8. Bloodwood Tree Association Incorporated	Hedland Homeless Support Service	1-Oct-10
9. Centrecare Inc	Centrecare Family Accommodation Service - CFAS	1-Oct-09
10. Centrecare Inc	Private Rental Advocacy and Support Service (PRASS)	1-Oct-09
11. Centrecare Inc	SKY	1-Oct-09
12. Communicare Inc	Safe at Home Perpetrator Response	1-Jul-10
13. Fremantle Multicultural Centre Inc	Crisis Accommodation for Refugees and Migrants	1-Oct-09
14. Fusion Australia Ltd	Cameliers Guesthouse	1-Oct-09
15. In Town Centre Incorporated	Shoe String Cafe	1-Oct-09
16. Indigo Junction Incorporated	Swan Emergency Accommodation and Support Services	1-Oct-09
17. Jewish Care WA (Inc)	Rae Lenny Shalom House	1-Oct-09
18. Katanning Regional Emergency Accommodation Centre	Katanning Regional Emergency Accommodation Service	1-Oct-09
19. Life Without Barriers	Warren Blackwood Emergency Accommodation Centre in Manjimup	1-Jul-11



6.2 List of NAHA Services

Homeless Accommodation and Support Services (continued)

Service provider	Service name	Start date
20. Mission Australia	Mission Australia Family Support and Accommodation Service	1-Oct-09
21. Moorditch Gurlongga Association Inc	Coolabaroo Housing Service	1-Oct-10
22. Multicultural Services Centre of Western Australia Inc	Multicultural Housing Services Program	1-Oct-09
23. Parkerville Children and Youth Care Incorporated	Support and Counselling Services - SACS	1-Oct-09
24. Perth Asian Community Centre Inc	Perth Asian Community Centre	1-Oct-09
25. Regional Alliance West Incorporated	Private Rental Accommodation Casework - PRAC	1-Oct-09
26. Ruah Community Services	Ruah Centre	1-Oct-09
27. Ruah Community Services	Ruah Tenancy Support	1-Oct-09
28. Salvation Army (WA) Property Trust	Balga Family Accommodation Service	1-Oct-09
29. Salvation Army (WA) Property Trust	Bunbury Family Crisis Centre	1-Oct-09
30. Salvation Army (WA) Property Trust	Geraldton Family Crisis Centre	1-Oct-09
31. Salvation Army (WA) Property Trust	Homelessness Services - The Beacon	1-Oct-09
32. Salvation Army (WA) Property Trust	Kalgoorlie Emergency Accommodation and Referral Service	1-Oct-09
33. Share & Care Community Services Group Inc	Share and Care Emergency Accommodation Service	1-Oct-09
34. Share & Care Community Services Group Inc	The Men's Lodge	1-Jul-10
35. St Bartholomew's House Inc	Barts Plus	1-Jul-10
36. St Bartholomew's House Inc	Homeless and Transitional Support Services	1-Oct-09
37. St Patrick's Community Support Centre Ltd	St Patricks Accommodation and Support Services	1-Oct-09
38. St Patrick's Community Support Centre Ltd	St Patrick's Meals and Day Centre	1-Oct-09
39. UnitingCare West	UnitingCare West Accommodation and Support Services	1-Oct-09
40. UnitingCare West	UnitingCare West Tranby Day Centre	1-Oct-09
41. Westaus Crisis and Welfare Service Inc	Westaus Accommodation Advocacy and Support Peel - WAASP	1-Oct-09



6.2 List of NAHA Services

Youth Accommodation and Support Services

Service provider	Service name	Start date
1. Agencies for South West Accommodation Inc trading as Accordwest	ASWA Youth Accommodation Support Service	1-Oct-10
2. Albany Youth Support Association Inc	Young House	1-Oct-10
3. Anglicare WA Inc	Yes! Housing and Yes! Housing Young Parents	1-Oct-07
4. Anglicare WA Inc	Y-SHAC Youth Supported Housing and Crisis Accommodation	1-Jan-11
5. Avon Youth Community and Family Services Incorporated	Wheatbelt Accommodation and Support Services for Young People	1-Oct-10
6. Broome Youth and Families Hub Incorporated	Youth Housing Support Worker - Broome	1-Apr-15
7. Calvary Youth Services Mandurah Inc	Calvary Youth Services Mandurah	1-Oct-10
8. Ebenezer Aboriginal Corporation	Ebenezer Home	1-Jan-11
9. Fusion Australia Ltd	Fusion Student Household Service	1-Jan-11
10. Indigo Junction Incorporated	Swan Emergency Accommodation - Youth	1-Oct-10
11. Mercy Community Services Incorporated	Mercy Community Services Youth Services	1-Oct-10
12. Mission Australia	Youth Accommodation and Support Service & Support Service for Young Parents in Specialist Homelessness Services for Young People	1-Oct-10
13. Parkerville Children and Youth Care Inc	Armadale Youth Accommodation Service	1-Oct-10
14. Parkerville Children and Youth Care Inc	Moving Out Moving On (Including Penny Jones House)	1-Oct-10
15. Peel Youth Services Incorporated	Peel Youth Programme	1-Oct-10
16. Perth Inner City Youth Service Inc	Household Network	1-Oct-10
17. Salvation Army (WA) Property Trust	Crossroads West Kalgoorlie Boulder Youth Accommodation Service	1-Oct-10
18. Salvation Army (WA) Property Trust	Karratha Youth Accommodation Service	1-Oct-10
19. Short Term Accommodation for Youth Inc	STAY	1-Oct-10



6.2 List of NAHA Services

Youth Accommodation and Support Services (continued)

Service provider	Service name	Start date
20. St Patrick's Community Support Centre Ltd	Youth Place	1-Oct-10
21. Victoria Park Youth Accommodation (Inc)	Victoria Park Youth Accommodation Service	1-Oct-10
22. Youth Futures WA (Inc)	Youth Futures	1-Oct-10
23. Youth Involvement Council Inc	Youth Accommodation Program	1-Jan-11



7. Summary and observations

The Social and Community Services Equal Remuneration Order (ERO) is difficult to understand and difficult to explain. It is the first and only (to date) equal remuneration order approved by the Fair Work Commission. It involves twice yearly pay rises, every year from December 2012 to December 2020, at rates well above national or State indexation rates.

The three stages of the ERO

Stage 1 (2013 to 2015) – Service providers were paying above-Award salaries and were able to absorb ERO increases. The WA Government Component I 15% funding supplementation made a major contribution.

Stage 2 (2016 to 2017) – WA Government funding indexation rates declined in line with economic indicators. Twice yearly Award/ERO pay rises started to impact. Service providers made changes to mitigate employment costs. They became increasingly concerned about their capacity to meet future employment costs.

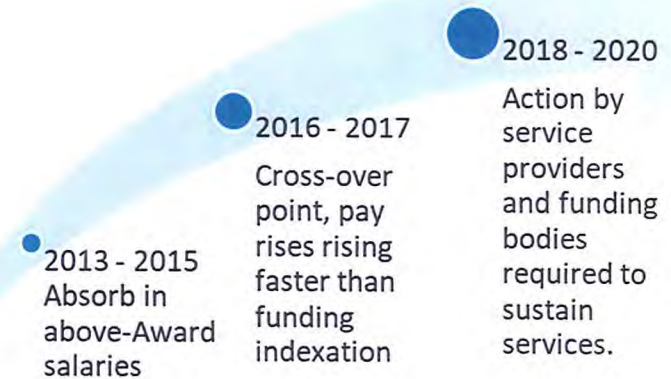
Stage 3 (2018 to 2020) – Unless the impact of the ERO on the sustainability of services is addressed, escalating employment costs will force some service providers to reduce or close services. They will need to adjust service volume, secure extra or alternative funding and make hard management decisions to sustain services. None of the respondents in the survey knew of any social housing service providers in danger of becoming insolvent in the next 12 months.

ERO impact

SalaryOne postulates that over the eight (8) year ERO implementation period there was a crossover point when WA government funding fell behind the increases in Award and ERO rates. For NAHA services the crossover point is estimated to be December 2016.

While service providers have been increasingly concerned about the potential ERO impact, they have largely absorbed or mitigated the extra costs up until now. This can be attributed to four factors. Firstly, the 15% Component I recurrent funding increase from 2010/11. Secondly, some service providers have topped up budgets from other sources. Thirdly, most service providers have taken steps to minimise employment costs. For example, reclassifying positions to correct levels or managing staff vacancies. Fourthly, service providers have received Commonwealth ERO funding supplementation on a 50% funding share (albeit sometimes after long delays).

Chart 6: Three stages of the ERO





7. Summary and observations

This review found that service providers are largely compliant with the ERO, paying at the correct Award rates. As at June 2018, employment costs for NAHA services were higher than not-for-profit benchmarks but not excessively so. This can be largely attributed to shift work costs for 7-day a week service delivery.

Modelling

SalaryOne developed a model to forecast funding requirements for NAHA service providers to comply with Award/ERO wage increases for the 3-year period 2019/20 to 2021/22. Key assumptions:

- Calculated on 50% of the NAHA annual funding level (WA government share). In 2010/11 the NAHA annual funding level was \$37,037,526.
- ERO increases calculated on salary level 4.1 using a cumulative rate from the start of the ERO period in December 2012.
- Employment costs standardised at 66.7% of program budgets for 5-day a week roster and 77.3% for 7-day a week roster.
- Annual wage review (AWR) increase forecast at 3.0% in July 2019, 2020 and 2021. WA Government indexation forecast at 1.50% 2019/20, 2.00% 2020/21 and 2.25% 2021/22.
- Sensitivity analysis at rates of +1.00%, +0.5%, -0.5% and -1.0% on the AWR and WA Government indexation forecast rates.

The funding gap for NAHA services to cover Award/ERO employment costs for the 3-year period is forecast to be between \$7,365,888 (all 5-day rosters) and \$10,201,834 (all 7-day rosters). Some service providers, operating on higher than average cost base, may also need to make difficult management decisions to restructure services and reclassify positions to contain employment costs.

Contracts and procurement

In submitting funding acquittals to the Department of Communities, some service providers may not have reported true financial results. Acquittals may have shown a balanced or surplus budget, with actual deficits covered by reducing management charges or drawing down on capital reserves. There is a fear amongst service providers that funders will presume an organisation is not efficient or sustainable and is expensive thus impacting on future opportunities.

Program financial results can also be impacted by staffing vacancies. If positions are vacant for extended periods, actual employment costs will be less than budgeted. This may be manageable for short periods but eventually could impact on service quality.

Service budgets and contract discussions should be based on full and true costings considering the eight employment cost factors discussed in Chapter 2.6 – Jurisdiction, employment instruments, ERO coverage, employment status, salary classification levels, ordinary and shift work rates of pay, roster design and employee turnover. This is complicated and may not be well understood by funders or the service providers.



7. Summary and observations

Service providers have an obligation to submit sustainable prices (including ERO forecasts) for new contracts and to comply with all industrial relations requirements. Requests relating to service design, service delivery volume and funding levels should be discussed at the time of contract variation.

Reasons why this may not have happened include: (1) Service providers and funders not having full knowledge of the ERO; (2) Service providers were concerned about acting alone in submitting higher pricing, when others may submit lower prices without ERO provisions; (3) Annual wage review indexation has been higher than expected in 2017 and 2018; (4) NAHA Homeless and Youth services have been rolled over for the past five years on an indexation only basis.

Response considerations for the WA Government

1. Conduct full contract reviews for NAHA services before June 2019 to allow service providers to submit ERO compliant budgets for 2019/20 to 2021/22.
2. Undertake active service agreement management to closely monitor existing contracts and work with service providers at risk to manage the impact of the ERO by modifying and negotiating any design parameters to ensure sustainable services.
3. Design flexible pricing responses in tender documentation that allows scope for price escalations throughout the term on the contract and addresses ERO increases. This is also to ensure that service providers are not knowingly or unwittingly underbidding for contracts by not including ERO compliance costs.
4. Support service providers' efforts to review and improve workforce practices. Strategies may include to review salary classifications, review Award coverage, renegotiate enterprise agreements, update employment contracts and human resource policies, and other relevant workforce management strategies.
5. Collaborate with service providers to design future services that allow for improved sustainability.

Conclusion

The full impact of the ERO on NAHA service providers is still yet to occur. This is due to early funding increases (Component I and Commonwealth funding supplementation) and mitigation strategies by service providers. The financial pressures are building with four more rounds of pay rises to occur in July 2019, December 2019, July 2020 and December 2020. Working on already slim margins, without intervention and further mitigation strategies, it is inevitable that some NAHA service providers will reduce service volumes, seek to withdraw from service contracts and/or become insolvent.