



Western Australia's 2024 Sustainable Funding Survey

Report



Survey Undertaken by:
Western Australian Council of Social Service

Analysis and Report Prepared by:
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May 2024



Peak Body Support

This project and report were made possible with the support of the following peak bodies:





Publication Information

This study was part-funded by the Western Australian Council of Social Service (WACOSS) and the Centre for Public Value at the UWA Business School. WACOSS prepared the survey instrument and collected data from self-selecting member organisations. The Centre for Public Value analysed the data collected and developed this report. The Centre for Public Value is a multi-disciplinary academic group focusing on developing research outcomes that are intended to support, enhance and reform Australia's human services system. Our focus is intended to inform all parts of these systems including Not-for-profit and charitable organisations, policy makers, governments, and scholarly research. Such research outcomes are intended to be industry-ready—that is, they are tools and commentary that are based on high quality research while being focused on implementation and the identification of practical supports.

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Citation Information:

Gilchrist, D. J. & Feenan, C., (2024), Western Australia's 2024 Sustainable Funding Survey Report, a report developed by the Centre for Public Value at the University of Western Australia for the Western Australian Council of Social Service, Perth, Australia.

ISBN: 978-0-6459919-1-8

Statement of Interests:

Professor David Gilchrist is Director of the Centre for Public Value at the University of Western Australia. He has received funding from governments, peak bodies and individual organisations for various research projects and consulting support predominantly related to the Not-for-profit human services industry, Not-for-profit financial and performance reporting, sustainability and outcomes reporting, and policy and practice related to those areas. He has been a director and chair of a number of human services and policy organisations over past years and is currently chair of two policy-focused Not-for-profits operating nationally in the education sector.

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Key Findings

Presented here are the results of the Western Australian Council of Social Service (WACOSS) Sustainable Funding Survey for 2024. It is the second iteration of the survey which is intended to identify and better understand underlying issues negatively impacting the sustainability of the Western Australian social services sector.

The survey, conducted in January and February of 2024, received responses from 58% of WACOSS' social service organisation members.

Key insights from the survey responses include:

1. Since the last survey, there remains a consistent and almost universal failure in government funding to meet the comprehensive cost of service delivery. Historical ongoing underfunding exacerbates this effect. The service mix is almost certainly being negatively impacted.
2. Underfunding is the primary reported challenge to sustainability for social service organisations impacting negatively the ongoing provision of services to their clients leading to workforce failure, chronic under-investment and very real threats to organisational survival.
3. Regional organisations consistently reported more severe underfunding compared to that reported in the Perth metro area. This highlights the persistent inequity experienced by service users in regional areas, where funding inadequacies are more pronounced. Organisations have no choice but to respond to underfunding by reducing their service delivery capacity in the short-, medium-, and long-term.
4. Underfunding begins a cycle of increasing unsustainability, leading to service cutbacks, staff turnover, and reducing the organisations' ability to serve their communities effectively. The lack of long-term investment exacerbates these challenges.
5. 93% of organisations responded that they have not observed any material improvement to contracting arrangements since the implementation of the Western Australian State Commissioning Strategy.
6. The current indexation formula using CPI and WPI remains inappropriate. 74% of respondents were in favour of adopting the following formula:

$$(\text{SCHADS} \times 0.75 + \text{SUPER}) + (\text{NDI} \times 0.25)$$

Where: SCHADS = the annual percentage increase in SCHADS Award rates
 SUPER = any mandated superannuation guarantee increases in that year
 NDI = the annual percentage increase in the rate of Non-Discretionary Inflation (Australia)

7. The significant and enduring historical underfunding also needs rectifying via an appropriate base funding increase similar to that base-line funding provided by the WA government recently to housing providers and calculated at an average uplift of 27%.



Summary of Recommendations

A full discussion of the recommendations is provided at the end of this report. However, we list the report's recommendations here:

Recommendation 1:

The industry peak bodies and the West Australian Government collaborate to develop and implement an appropriate indexation calculation model to ensure that the true comprehensive cost of services delivery is reflected in contract values for the life of the contract.

Recommendation 2:

Until such time as the index in recommendation 2 is developed, we recommend the Western Australian State Government to adopt the proposed indexation formula:

$$(\text{SCHADS} \times 0.75 + \text{SUPER}) + (\text{NDI} \times 0.25)$$

Where: **SCHADS** = the annual percentage increase in SCHADS Award rates
SUPER = any mandated superannuation guarantee increases in that year
NDI = the annual percentage increase in the rate of Non-Discretionary Inflation (Australia)

Recommendation 3:

The state government provide an appropriate uplift in funding for all existing contracts in order to reverse the impact of historical underfunding similar to that provided for homelessness service providers recently and which averaged a 26% uplift in funding for the organisations concerned.

Recommendation 4:

We recommend that the state government commission a review of regional social service gaps—demand and unmet need—to be used to underpin the design and implementation of a regional service network model and industry plan.

Recommendation 5:

We recommend that the state government address workforce retention challenges by:

- a. providing top-up funding to support the sustainability of service providers prior to the next re-contracting process per recommendation 3 above; and
- b. budgeting for Fair Work deliberations on gender wage equity across the human services industry.



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Introduction

Social services organizations in Western Australia face significant challenges in maintaining financial sustainability. These persistent challenges – which are broadly acknowledged and documented – have been exacerbated by recent economic challenges faced by all in Western Australia.¹ However, they are not solely caused by current economic conditions. Indeed, the current economic conditions serve to emphasise the impacts of historical underfunding and bring the issues to a head for many social service organisations.

Poor sector data sets which are accurate, timely, and representative remain unimproved since the last survey due to a lack of investment. Such datasets will likely enhance the capacity of policy makers, advocates and researchers to further identify underlying issues and trends for the sector as a whole in support of good policy outcomes.

Due to the sector's significant and enduring sustainability challenges, and the flow-on negative impacts on vulnerable individuals and communities, the Western Australian Council of Social Service (WACOSS) independently initiated a second annual survey among its member organisations. This effort aimed to increase our understanding of the issues being encountered and their implications for sustainability, both now and into the future.

As the second iteration of this survey and report, there will be several sections comparing results obtained in 2024 with those contained in the report released in 2023 relating to data collected in late 2022.² However, it is important to note that a change in respondents also brings a change in results. Comparisons are helpful to understand how the sector is tracking year-on-year, but readers should remember that the cohort for each survey is different. Likewise, the sector is large, complex, and heterogenous and hence this dataset affords us a view into the state of the sector but the results may not be extrapolatable across the entire sector. The results are, however, commensurate with previous research results and they are derived from 58% of the population and so are very likely to represent the sector position.

Altogether, 108 usable responses from participant organisations operating across Western Australia shared their time and experience generously in responding to the WACOSS survey.

While analysing the data, we took into account the risk indicators for service sustainability as identified previously.³ It is crucial to emphasise that our focus on sustainability relates not to the survival of an individual organisation but, rather, to the extent that the sector is capable of continuing to deliver services in the right quantity, quality, and timing. That is, the capacity to continue to deliver the service mix required to meet need. All this considered, it is essential to recognise that this report doesn't centre on organisations offering services but the effects of insufficient funding policies and

¹ See: Gilchrist, D. J. & Emery, T., (2020), Western Australia's Not-for-profit Landscape 2020: The Second Report on WA Charities, a report of the UWA Not-for-profits Research Team, Perth, Australia. Available at: <https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications>. See also: Gilchrist, D. J., 2021, "Green Paper 6: Cost Differentials, Cost Pressures & Labour Competition Impacting Disability Service Provision in Western Australia", A Report of Not-for-profits UWA, Perth, Australia. Available at: <https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications>

² See: Gilchrist, D. J. & Feenan, C., (2023), Western Australia's 2023 State Sustainable Funding Survey Report, a report developed by the UWA Centre for Public Value for the Western Australian Council of Social Service, Perth, Australia. Available at: <https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications>

³ See: Gilchrist, D. J., 2020, "Green Paper 3: Proxies for Risk – A First Line of Defence", A Report of Not-for-profits UWA, Perth, Australia. Available at: <https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications>



practices on vulnerable individuals and communities. At the end of the day, the service recipients are the ones bearing the risk and taking the consequences related to unsustainability.

Overall, the survey responses reaffirm that service sustainability is at risk, putting service providers in situations leading them to adopt defensive measures to uphold the quality and sustainability of the services they offer. The lack of useable data sets means we are not able to assess the full impact in terms of service discontinuation. However, it is extremely likely that the service mix has been impacted negatively by the economic pressure being felt. Indeed, respondents have indicated that they are scaling back service quantity and quality due to insufficient funding, exacerbating the challenges to ongoing service sustainability as financial resources dwindle.

Throughout this report, there are some additions of commentary provided by open answer responses from organisations which may enhance readers' insight into the sentiment of respondents. Key to this report findings, one participant put it succinctly:

'Things need to be made fairer to help with the increasing costs.'

The Respondents

The survey instrument used in this analysis was developed by WACOSS and distributed to its members and those of the supporting peaks in January and February 2024. Commencement of the survey was initiated by respondents from 185 organisations, with a total of 108 respondents completing all questions. This report is based on those 108 completed surveys. For those with an interest in the underlying data, we have published a comprehensive data supplement providing a review of the data and participating organisations on our website.⁴ Readers with any queries or comments relating to methodology should contact the authors.

To define the principal location of participant organisations, respondents were asked to select up to three geographic areas for the location of their main work. When comparing these responses to the 2022 report, we see that the respondents are not operating in the same regions or balance of regions as previously reported. Figure 1 below shows the extent to which these respondent organisations operated in one or more regions (i.e. single region or top 3) and Figure 2 reports on the data collected in 2022.

⁴ See: <https://www.uwa.edu.au/schools/research/centre-for-public-value/publications>



Figure 1. Regional spread of organisations 2024

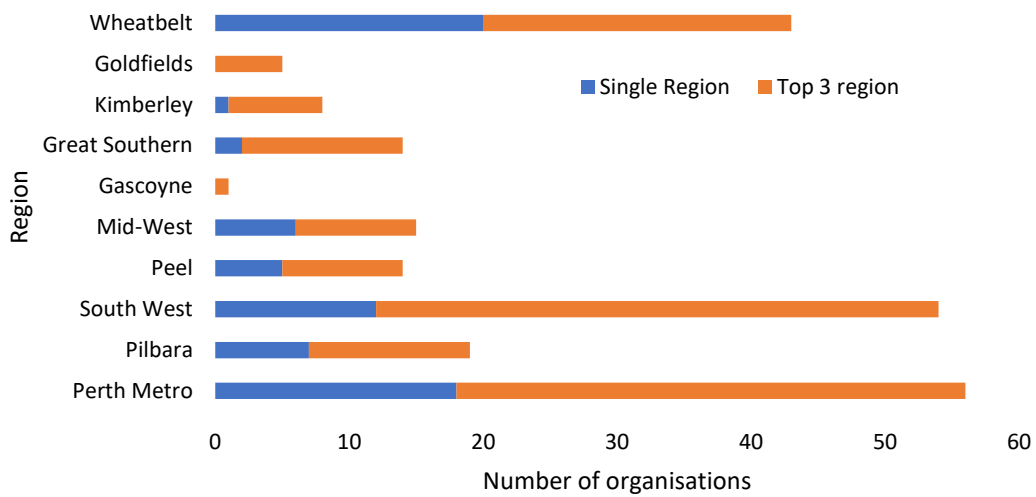
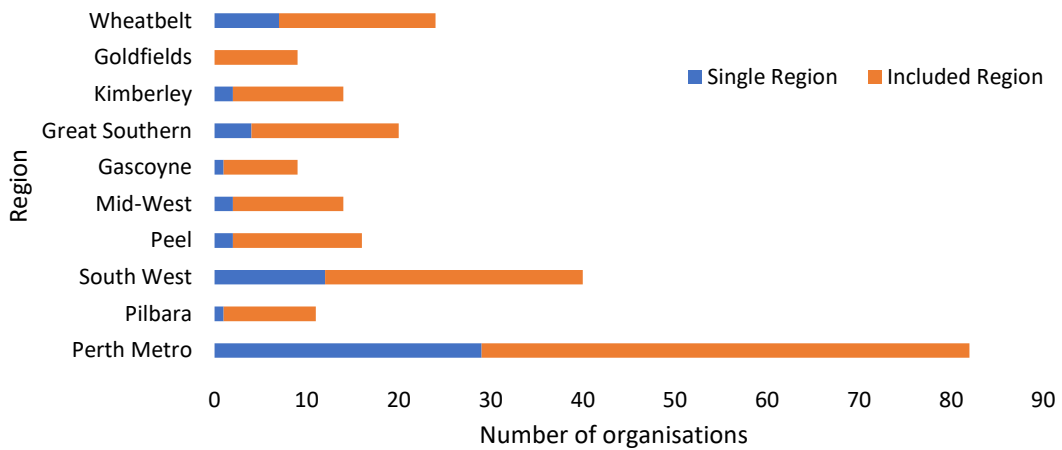


Figure 2. Regional spread of organisations responding in 2022



The size of respondent organisations was determined by the number of paid staff. Figure 3 and 4 below shows comparisons of the 2022 and 2024 data by the breakdown of respondents by size:



Figure 3 Spread of organisation size 2024

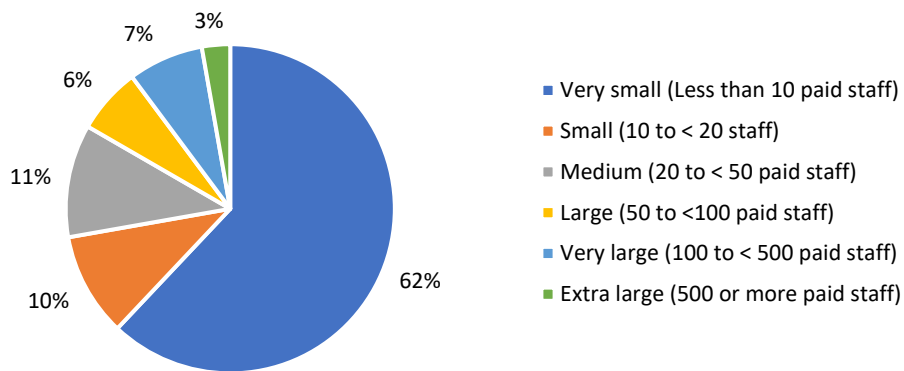
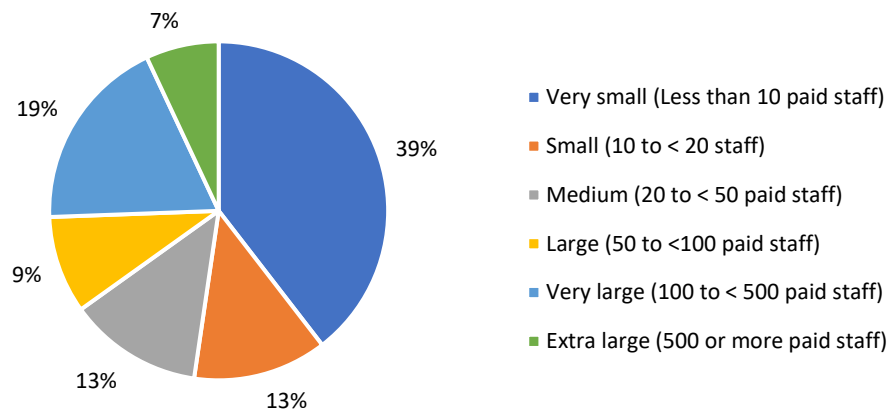


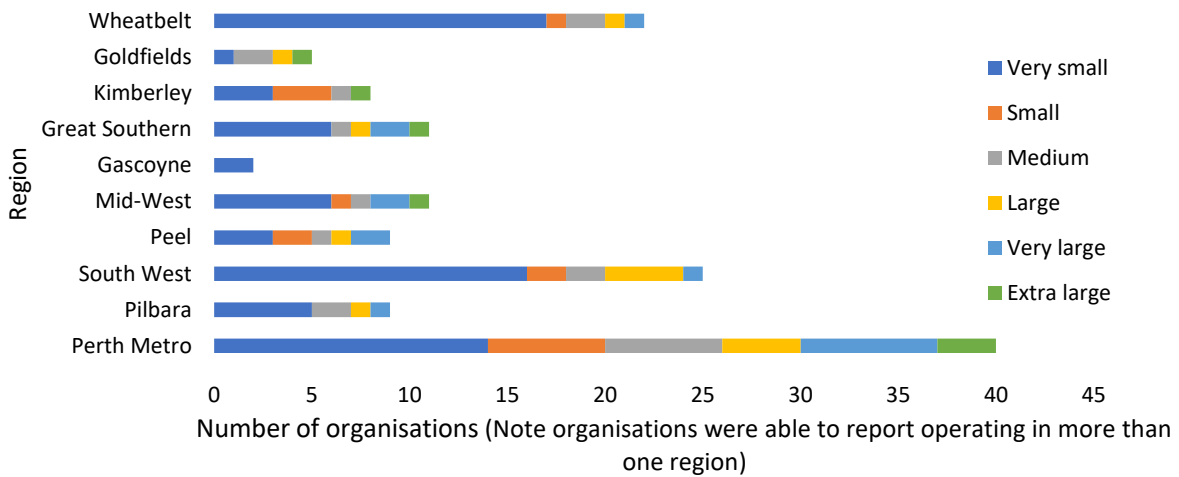
Figure 4. Spread of organisation size 2022



Understanding the distribution of respondents based on organisation size across the regions is important in order to gain a more nuanced insight into the extent of unsustainability. For instance, in a location where there are few service providers, individual provider failure will be more impactful as it would be less likely for other organisations to fill the gap. This issue is exacerbated if those surviving organisations are under increasing sustainability pressure themselves. Figure 5 below provides a graphical representation of the location and size of respondents.



Figure 5 Regional spread and organisation size



Although the organisations which responded to this survey did so on a voluntary basis, we believe the findings can be somewhat extrapolated across WACOSS’ full membership body as the survey has captured 58% of all WACOSS member social service organisations.⁵ Therefore, we believe that the insights shared in this report are invaluable to further developing our knowledge base on social services in Western Australia and its sustainability.

Underfunding

At its core, the risk to sustainability for social service organisations and their clients stems from present and long-term underfunding (exacerbated by its year-on-year effect) by government agencies when they procure services from the sector in pursuit of their policy objectives. Underfunding occurs when it does not cover the comprehensive cost of service delivery effectively forcing the provider to cannibalise its resources until such time as it is no longer able to provide services. Underfunding can affect an organisation’s ability to provide services reliably in terms of timing, quantity, and quality. These funding gaps can lead to reduced capacity in the short-, medium-, and long-term, making it harder for service providers to stay financially stable and keep offering services over time. This, in turn, results in a diminished service mix impacting vulnerable people and communities. It is this point that many in the sector have reached in recent years and in response to which they report reducing their service delivery.

Collapsing Sustainability

As outlined above, the concept of sustainability in this context pertains to the continued capacity of the social services sector to deliver services in the required quantity, quality, and at the right time to meet the needs of the community. Inadequate funding doesn’t just pose short-term financial challenges, it also hampers the sectors’ ability to recruit and retain staff, invest in operational improvements and innovations, meet policy changes, and cope with ever-increasing service needs. To ensure ongoing sustainability, several critical factors must be addressed:

⁵ See: WACOSS 2023 Annual Report for organisation member numbers. Available at: <https://www.wacoss.org.au/wp-content/uploads/2023/10/WACOSS-Annual-Report-2022-2023.pdf>



- Financial stability - adequate funding is essential to meet ongoing financial obligations and adjust to rising costs in the comprehensive cost of service delivery
- Financial recovery – an adequate immediate increase in funding to meet historical shortfalls similar in nature to that recently provided by the Western Australian government to homelessness service providers
- Workplace quality - offering competitive salaries, job security, and favourable working conditions is crucial to attract and retain skilled staff—especially in a mining state like Western Australia⁶
- Service delivery continuity - many funding contracts require services to be provided before payment is received increasing the risk and financing costs of organisations
- Capacity maintenance - investing in training, technology upgrades, and organisational development is vital to sustain service delivery capacity over the long term, including in relation to the need for innovation and service growth

Underfunding sets off a cycle of unsustainability, starting with service cutbacks, followed by staff turnover, and ultimately reducing the organisations' ability to serve its community. When extrapolated across the sector, these impacts serve to diminish and constrain the service mix leading to reduced service quantity and quality. Furthermore, the lack of long-term investment exacerbates these challenges, undermining organisational capacity and effectiveness.

Previous research has shown that Western Australia's social service sector is particularly vulnerable to job quality competition from the mining industry for skilled workers, including in relation to uncertainty surrounding ongoing employment in the social services sector, leading to a decrease in the capacity to deliver services and increasing recruitment costs significantly.⁷

As shared by one of the respondents:

'We are constantly struggling to identify alternative sources of income just to keep afloat, to subsidise the cost of the provision of services that our DPIRD funding requires. Their response is to cut our opening hours, which would reduce our employee's hours from full time to part time, impacting their access to finance, wage security etc.'

Average Overall Response to Questions of Funding Adequacy by Region

The average overall response relating to funding adequacy by region of operations, for both single region organisations and those that operate across multiple regions, is shown below in Figure 5. For the organisations operating across multiple regions, there is difference of less than 1.5 units across them. However, those organisations operating in the Wheatbelt report the lowest amount of funding adequacy while the highest is reported by organisations which include the Goldfields in their areas of service delivery.

For single region organisations, only Pilbara and Perth Metro were reported on with half a unit difference between them. However, the single region Perth Metro organisations reported similar

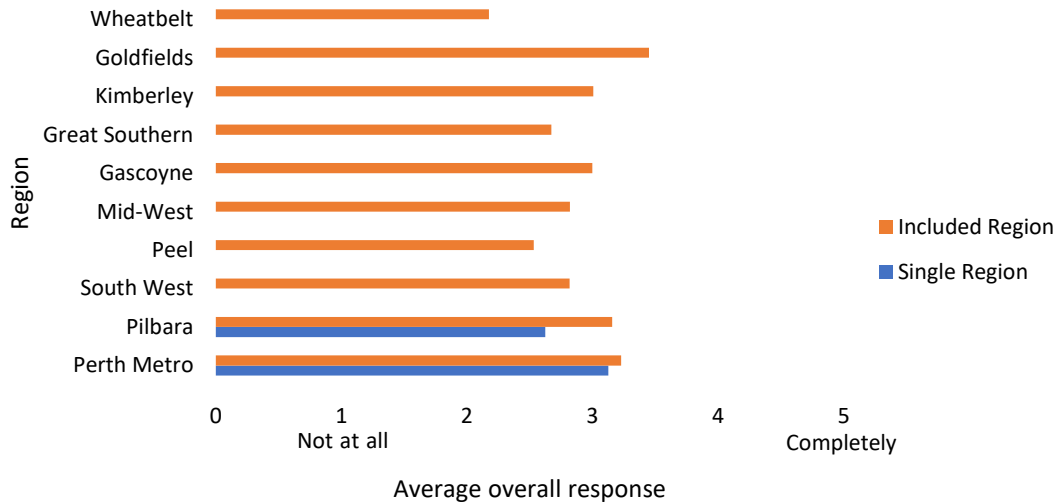
⁶ See: Gilchrist, David, J., and Clare T. Feenan. 2023. 'Economic Paper 4: Job Quality Threats to Human Services Sustainability'. Working Paper Series on the Economics of Human Services, Centre for Public Value, UWA Business School, Perth, Australia. Available at: <https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications>

⁷ See: Gilchrist, D. J., 2021, "Green Paper 6: Cost Differentials, Cost Pressures & Labour Competition Impacting Disability Service Provision in Western Australia", A Report of Not-for-profits UWA, Perth, Australia. Available at: <https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications>



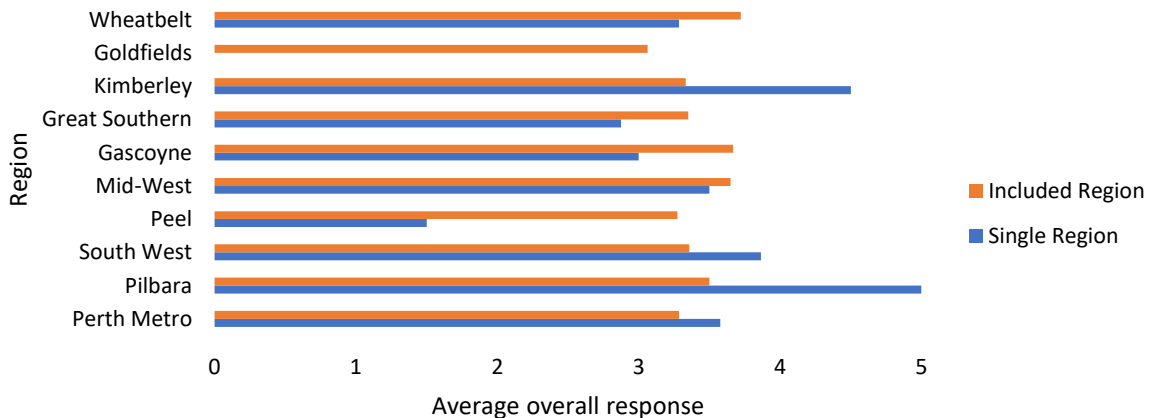
results to the organisations who rated Perth Metro as a top 3, the organisations who operate solely out of the Pilbara reported almost half a unit point less than organisations which included the Pilbara in their top 3 areas of service.

Figure 6. Average organisations’ response to the extent that state government contracts cover cost (funding adequacy) (scale 1-5, 1 not at all, 5 completely). Cumulative bar graph by single region or multiple region operations



For context and comparison, Figure 7 below is from 2022 and has been included for deeper understanding of funding adequacy. However, it must be understood that these may not be the same organisations reporting year-to-year and that multiple factors may impact changes in adequacy, and areas of service delivery.

Figure 7. Average organisations’ response to the extent that state government contracts cover cost (funding adequacy) (scale 1-5, 1 not at all, 5 completely). Cumulative bar graph by single region or multiple region operations from 2022



Also excluded from this dataset and analysis is further detail relating to contractual funding levels as well as differences in funding to costs of organisations. However, respondents clearly indicate that state government payments for service provision in communities have been inadequate, both in metropolitan and regional areas throughout Western Australia. Across all government departments, service areas, and regions, there is a consistent failure to meet the appropriate expenditure costs required by service providers to meet community needs.



Profits or Losses

For any organisation operating in a market economy, sustainability requires that a profit must be made. Human services organisations are no different. This profit allows for the organisation to reinvest, innovate and meet their resourcing needs on an ongoing basis.

In this survey, data was collected on organisations' profit/loss from the last completed financial year. For these questions, 89 respondents shared information relating to either the last financial year, multiple recent years or commentary on their latest financial result.

Participants reported a mean average result of \$514,930 profit per annum, with a median profit of \$2,500. That is, on average organisations were in profit, and 50% of organisations were above or below \$2,500 for the year. At a glance, this seems relatively sustainable. However, 42 of the 89 organisations reported a loss ranging from (\$190) to (\$1,949,630). Those organisations that reported a profit ranged from \$1,446 to \$32,700,000. But the detail is what tells the story. Because it is sound governance for organisations to make a profit, a number of organisations that reported making a profit also reported having to reduce their workforce and services offered in order to do so.

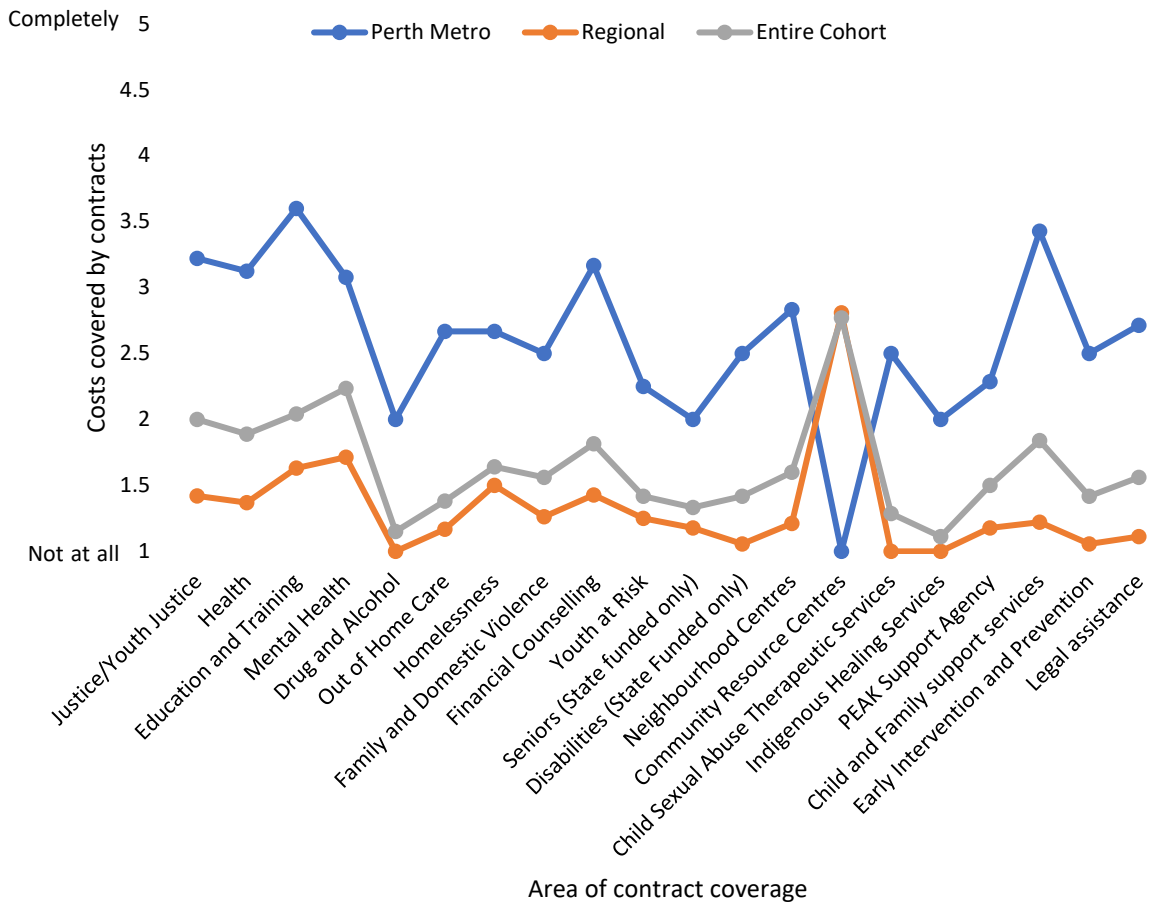
Further, while appropriate pricing for future contracts and more appropriate indexation are important reforms needed in order to increase sustainability, there remains a considerable funding gap resultant from year-on-year under funding. As such, the provision of an immediate funding increase of the order recently provided by the state government to homelessness service providers is necessary for the entire sector.

Funding and Specific Programs

The above observations can be further supported by Figure 8 below which illustrates how respondents perceived funding adequacy for maintaining sustainability by area of service. The illustration shows comparisons of Perth metro, Regional, and the entire cohort reports. This helps us to gain an insight into how organisations in various regions of Western Australia perceive the adequacy of state government funding.



Figure 8. Average organisations’ response to the extent that state government contract covers cost (scale 1-5, 1 not at all, 5 completely)



Generally, regional organisations report underfunding more frequently and more severely compared to those in the Perth Metro Area. Despite receiving more responses from regional organisations, both the quantity and percentage of responses suggest that funding for these organisations in regional areas doesn’t adequately cover the comprehensive cost of service provision.

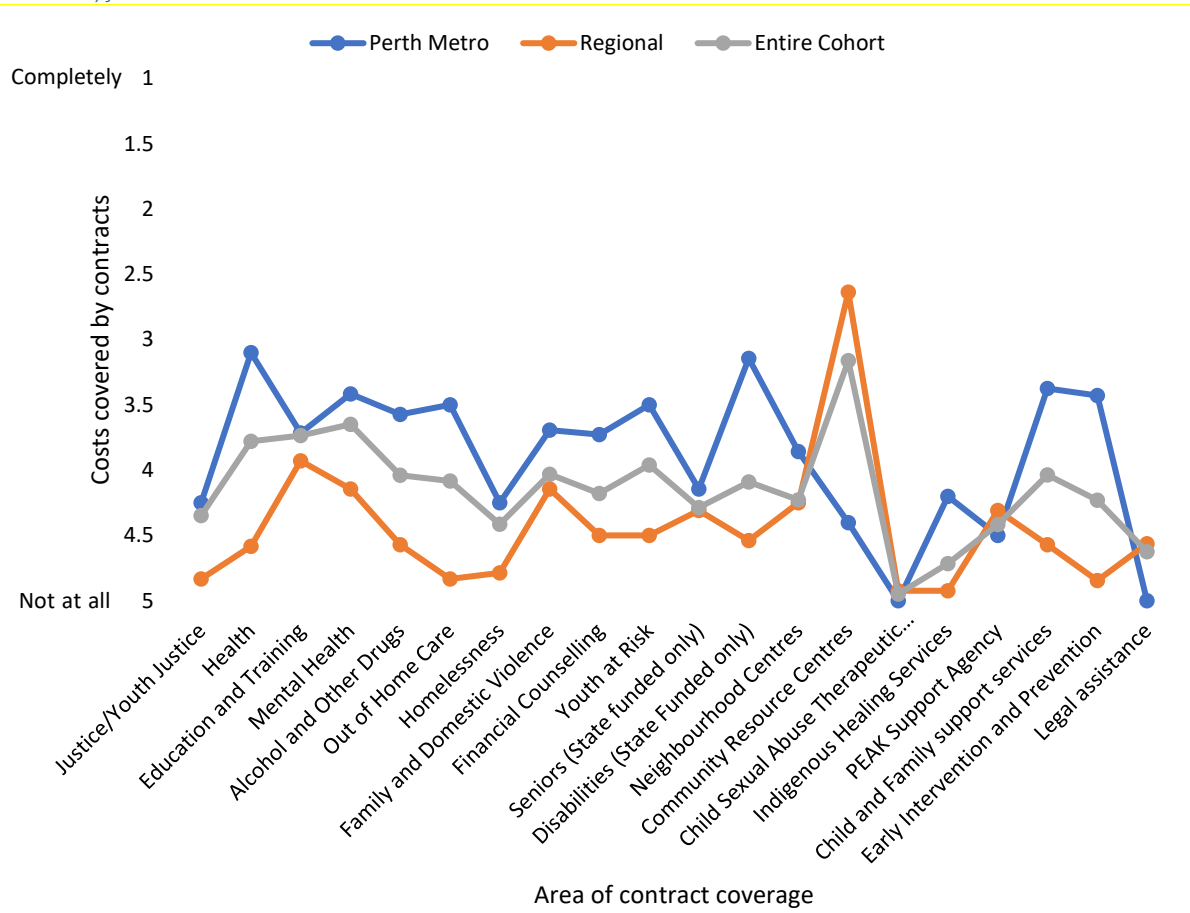
Overall, regionally based services consistently reported the most inadequate funding across all services. The most poorly funded services for the regions and overall are Drug and Alcohol, Child Sexual Abuse Therapeutic Services, and Indigenous Healing Services.

Naturally, demand levels and cost dynamics vary across regions, so it is expected that we would see differences in reported underfunding. However, the degree to which regional organisations express greater concern in these areas is material.

When comparing these findings with reports from the 2022 dataset, we can use Figure 9 below as a visual. There appears to be a broader gap between Perth-based service organisations and regional organisations in funding adequacies overall. Other notable changes year-on-year include the types of services which have reported higher or lower inadequacies. This may be due to reporting changes by the respondents and the design of the dataset. We can see differences in the graphs including movement in Perth organisations reporting mostly for Justice/ Youth Justice, Health, Education and Training, Homelessness, Child Sexual Abuse Therapies, and Legal Assistance.



Figure 9. Average organisations' response to the extent that state government contract covers cost (scale 1-5, 1 completely, 5 not at all) for 2022



Commentary from organisations helps paint the picture the above graphs outline:

'Many organisations are filling the gap for the Government and vulnerable people are being let down. All the evidence is there in terms of the stats, how to address the issues, and the value and return for investment in prevention and early intervention, but the safety and wellbeing of children and vulnerable adults is not given the priority and investment needed.'

'We have had to reduce operating hours to reduce our costs due to no increase in funding.'

'Our regional communities struggle to receive adequate services, over the past 10 or so years our populations have declined and services leave. Therefore, the community that remains are left with the added expense of travelling outside for the region to access health and education.'



State Government Agencies and Contracts

Data on the contracts was also collected regarding the agencies that procured services from the respondent organisations and the number of contracts issued. Information requested from respondents included that concerning contract extensions, appropriate costings, and durations of contracts since July 1st, 2016.

We've previously discussed the ongoing challenge of sustainability, which is influenced by many factors including financial and human resources. The number and duration of contracts serve as crucial indicators of administrative burden and funding stability, affecting job quality and predictive of organisational defensive decision-making. Defensive decision making occurs when an organisation must prioritise its sustainability over mission in order to prevent financial collapse. Such a position is accompanied by commensurate negative impacts of service delivery of course.

Organisations face less certainty with shorter contract periods, leading to more defensive decisions and a greater negative impact on service sustainability. Short-term defensive measures can also harm long-term sustainability, exacerbating future challenges. Moreover, contract durations and renewals affect job quality, as staff seek income certainty, leading to turnover and a reduction in experienced service delivery staff.⁸

Contract Period

The number of contract renewals for an organisation impacts administrative burden on both social service organisations and the government, and informs perceptions of income certainty. More renewals add to workload, and less renewals of longer-term contracts or timely extensions increase certainty and reduce administrative overhead. Respondents reported that contract periods and extensions varied considerably, ranging from 6 months to 7 years. Most commonly was a 5-year extension reported by 30 organisations. Many organisations also noted 12-month extensions, or 'rolling' extensions, or regular 2-year extensions to the contracts.

Number of Contracts

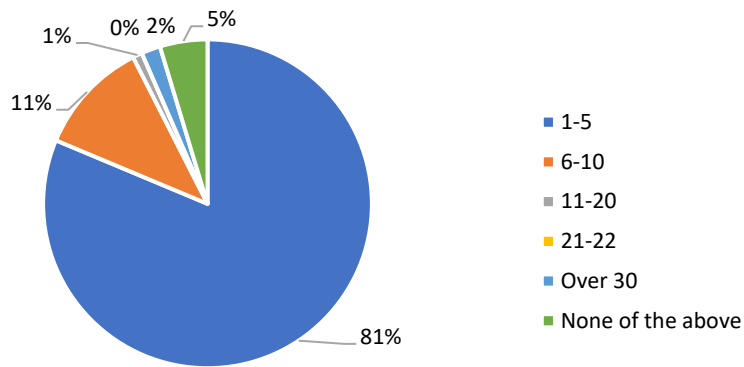
The number of contracts held per organisation also contributes to the administrative workload of both the social service sector and the government. Renewing contracts consumes time, as does the administrative task of overseeing and reporting on individual contracts. However, the desire to offer more options and autonomy to service recipients requires a larger number of contracts to fulfil those demands. As a result, adequate funding must incorporate the expenses associated with managing multiple contracts.

The vast majority of respondents (81%) have 1-5 contracts with the state government. Figure 10 below shows the spread of contracts from 1-5 to over 30 contracts.

⁸ For a fuller discussion pertaining to the impact of contracting iterations please see: Knight, P. A., and D. J. Gilchrist, (2015), 2014 Evaluation of the Sustainable Funding and Contracting with the Not-for-Profit Sector Initiatives and Associated Procurement Reforms, Government of Western Australia. Available here: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4201838



Figure 10. Number of contracts issued by the State Government



Below in figure 12 we see the geographic spread of contracts held regionally, in Perth metro, or multi regional service providers. The smaller number of contracts held by the regional respondents reflects the number of smaller organisations also operating in those locations.

As would be expected, regional organisations mostly reported 1-5 contracts, whereas organisations operating across multiple regions reported having the highest number of contracts with government.

These findings are consistent with reports from 2022 data.

Figure 11. Regional breakdown of the number of contracts purchasing services

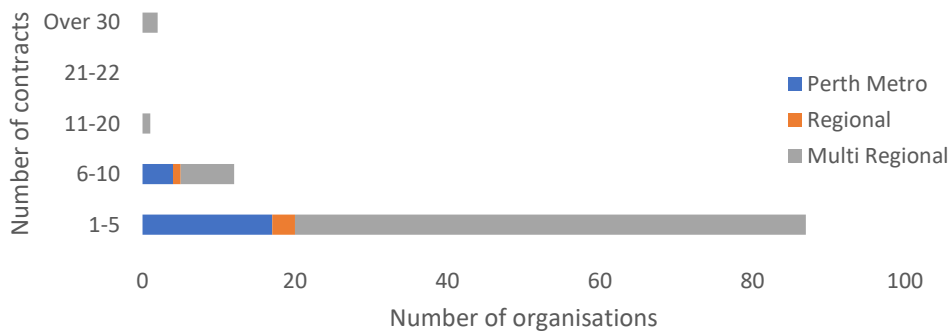
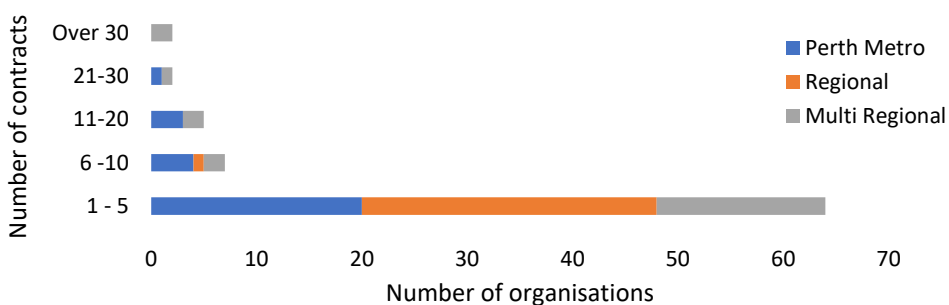


Figure 12. Regional breakdown of the number of contracts purchasing services 2022





Costings of Contracts

Appropriate costing of contracts is a vital step of the contracting process to ensure the comprehensive cost of service delivery is met. Appropriate costing can also be an opportunity to clarify the standards and expectations of service delivery by social service organisations. This survey also asked respondents when the above contracts were first awarded, and when last costed properly.

There were an array of anecdotal responses. The most common response for the latest proper costing was 2017 by 35 respondents. Seven respondents reported being awarded contracts over 20 years old and that were never properly costed. It was reported that 17 organisations have undertaken appropriate costings since 2020.

The information on the year contracts were first awarded and most recently costed must be considered along with the number of contracts most organisations receive. That is, some organisations may have multiple contracts which are costed regularly - one reported annually. Likewise, there is an organisation with contracts originally established in 1993 which have never been properly costed.

Reporting on appropriate costings may require further responses and analysis for which contracts and the level of funding cover. Many organisations responded with information on multiple contracts awarded at various times and properly costed at various times. There were 12 organisations that did not answer the question at all. Many were unsure in their responses, or it was before the individual's commencement of employment at the organisation.

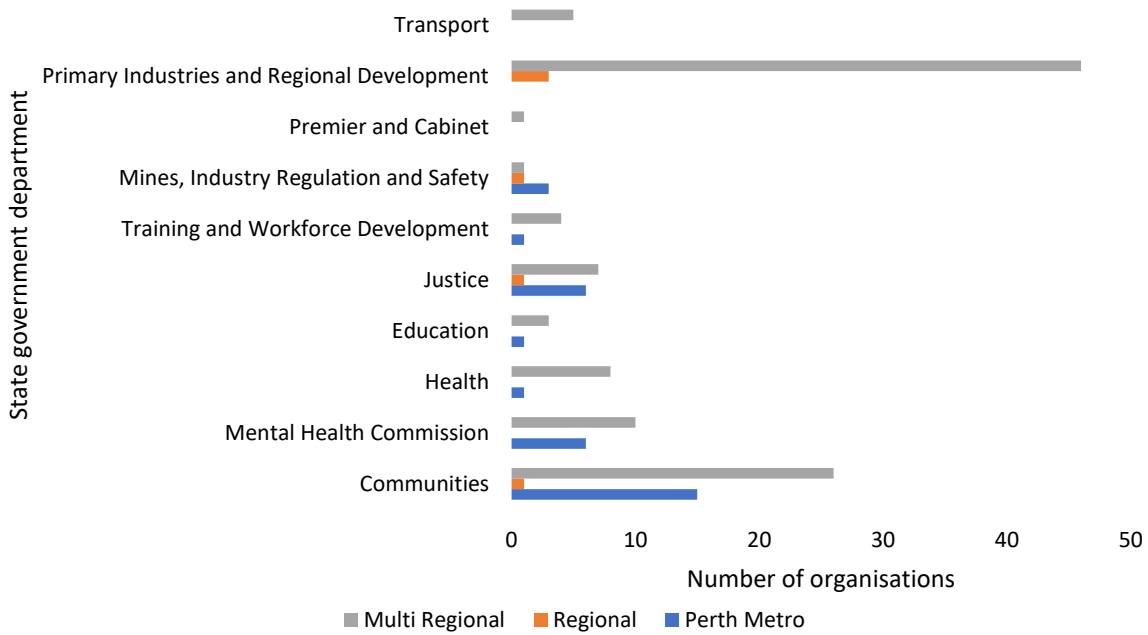
State Government Agencies Contracting with Social Services Organisations

Having more contracts could indicate a higher volume or complexity of service provision, especially for organisations operating statewide or offering multiple services. Additionally, organisations may have contracts with different government agencies. Figure 13 below illustrates a distribution of contracts with state government agencies among respondents based on their operating regions.

In contrast to the 2022 report, Department of Primary Industries and Regional Development has issued contracts to more organisations across multiple regions. The Department of Communities was the next most involved department holding the highest number of contracts for Perth Metro in addition to the multi-regional organisations. For multi-regional organisations, the Mental Health Commission, Health and Justice all had notable numbers of contract agreements and were all higher than in Perth Metro.

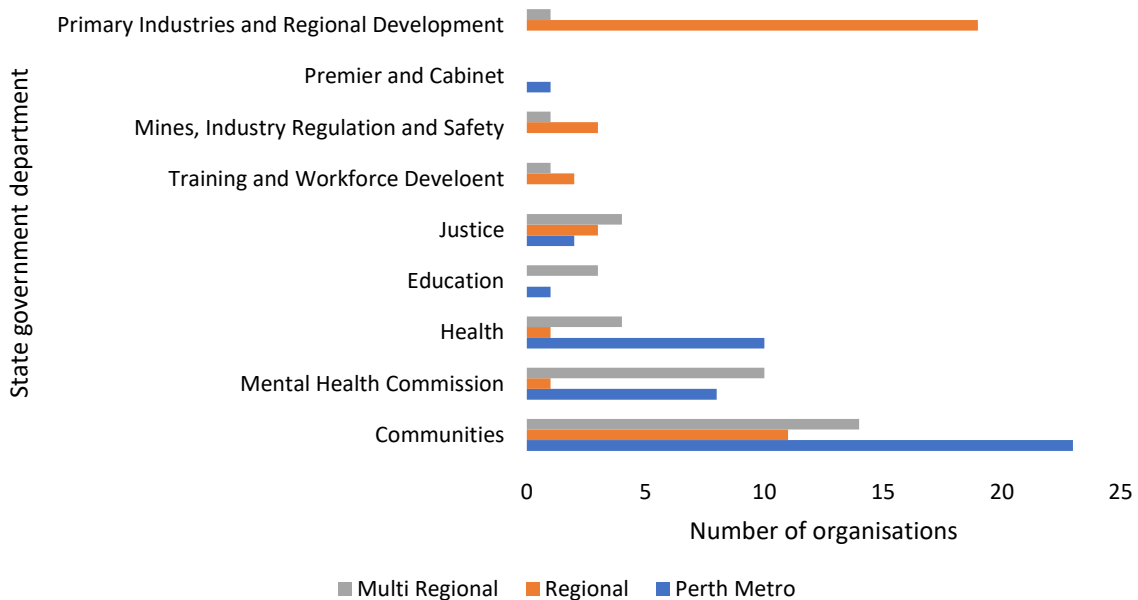


Figure 13 Region of recipient organisation by purchasing state government department



For context and comparison, below figure 14 offers the 2022 dataset. We can see some significant differences in the number and spread of contracts by department as well as the geographical regions reporting contracts.

Figure 14 Region of recipient organisation by purchasing state government department from 2022





Changes to Funding

The Western Australian State Commissioning Strategy

When discussing funding inadequacies, it is necessary to be aware of landmark change and acknowledge progressive action when possible. The Western Australian State Commissioning Strategy was introduced in 2022 with guiding principles for achieving sustainable community services through appropriate commissioning processes.⁹ This strategy included outlined priorities and an implementation plan which is being executed. Respondents were asked if they have observed any material improvement in contracting arrangements since the 2022 strategy was released.

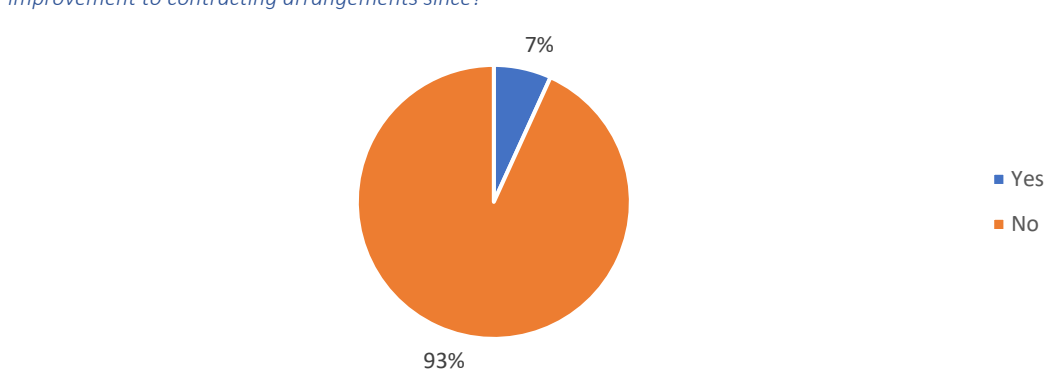
Figure 15 below shows respondents yes/no answers to the question, with the vast majority stating that there has been no material improvement to date. Qualitative data linked to this question identified that changes observed were minimal, if noticeable, and that costs had increased significantly more than funding increases.

Additional commentary from organisations highlighted the impacts:

‘The contracting environment the sector has had to operate in has been disheartening. Organisations have lost their professional development investment in their employees as a consequence of the many one-year funding extensions. Expectations are unrealistic for the funding provided and committed workers are being burnt out.’

‘With no increase in income on contracts, service will be affected as increased costs, means the staffing and service availability is what will be cut back.’

Figure 15 The Western Australian State Commissioning Strategy was introduced in 2022. Have you observed any material improvement to contracting arrangements since?



Further commentary on the above included that organisations believe the government had good intent but implementation did not reflect meaningful change:

‘I think there is an intent to deliver on the strategy, but the ducks are not all lined up. The decision and budget processes, together with the autonomy of ministers and cabinet, make a strategic and planned approach difficult to achieve in practice. At a department level I can see an attempt for increased communication and improved timeliness as well as increase in the amount of consultation with stakeholders.’

⁹ See: <https://www.wa.gov.au/system/files/2022-08/State-Commissioning-Strategy-for-Community-Services-2022.pdf>



‘How the indexation amount we received was calculated, was not explained, despite requests for clarity.’

‘The client group for the program our organisation delivers are being significantly neglected by Government. The funding levels and the available expertise in the workforce for understanding and responding is where the FDV response was 30 years ago and yet the number of children and adults impacted is at epidemic proportions.’

Indexation

Appropriate indexation of multiyear contracts is a key element in achieving funding sustainability.¹⁰ Appropriate indexation would ensure that purchasing power remains constant in response to year-on-year cost increases.¹¹

Calculating appropriate indexation requires data from which we are able to measure and monitor key costs impacting organisational delivery while taking service need into consideration. If contract funding is not appropriately indexed, the quantity, quality, and timing of service delivery is at risk—a risk borne by the service users.

Current state government policy applies an indexation formula based on a proxy for cost increases calculated using CPI and the Wage Pricing Index (WPI). For Western Australia’s State Government Departments, Human Services are indexed annually using the following formula:

$$\text{Index} = \text{CPI} \times 0.2 + \text{WPI} \times 0.8$$

This formula uses the CPI as calculated by the Australia Bureau of Statistics for Perth, and the WPI is calculated for the state of Western Australia. However, this proxy has been shown to be unsuitable in previous research, and alternative formulas have been put forward to replace this proxy.¹² Figure 16 below shows responses from organisations in favour or against a proposed revised indexation formula. Although a blanket response is unable to take into account nuance across organisations, it is clear that a formula which more accurately represents the movement in costs impacting the sector is required to ensure sustainability.

As part of the survey, WACOSS proposed a formula with the following elements and sought respondents’ views on whether the formula was acceptable or not. The formula proposed was:

$$(\text{SCHADS} \times 0.75 + \text{SUPER}) + (\text{NDI} \times 0.25)$$

Where: SCHADS = the annual percentage increase in SCHADS Award rates

SUPER = any mandated superannuation guarantee increases in that year

NDI = the annual percentage increase in the rate of Non-Discretionary Inflation (Aust.)

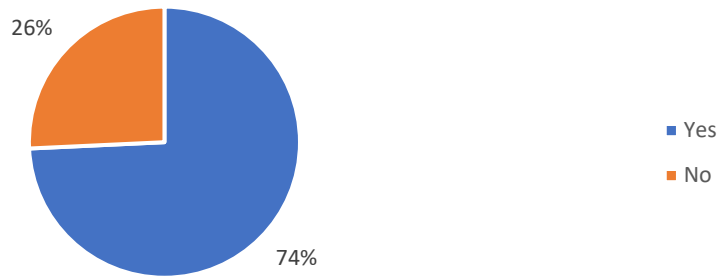
¹⁰ See: Gilchrist, D. J., and C. T. Feenan. 2023. “Economic Paper 1: What is Indexation?” Working Paper Series on the Economics of Human Services, Centre for Public Value, UWA Business School, Perth, Australia Available at: <https://www.uwa.edu.au/schools/-/media/centre-for-public-value/resources/eps/100224-ep-one-full-pdf.pdf>

¹¹ See: Gilchrist, David, J., and Clare T. Feenan. 2024. “Economic Paper 2: Why the CPI and WPI are not Appropriate Bases for Human Services Funding Indexation.” Working Paper Series on the Economics of Human Services, Centre for Public Value, UWA Business School, Perth, Australia. Available at: <https://www.uwa.edu.au/schools/-/media/centre-for-public-value/resources/eps/241303-cpi-and-wpi-ep-2.pdf>

¹² See: Gilchrist, David, J., and Clare T. Feenan. 2023. “Challenging the Framework for Funding Indexation in Australian Human Services: Achieving Sustainability”. A report developed by the Centre for Public Value, UWA Business School, Perth, Australia. <https://www.uwa.edu.au/schools/-/media/not-for-profits-uwa/policy-and-economics/230428-final-challenging-indexation-framework.pdf>



Figure 16 Would a proposed revised indexation formula of $(SCHADS \times 0.75 + SUPER) + (NDI \times 0.25)$ substantially address year-on-year cost variations for your contracts?¹³



Further commentary linked to this question shows an array of concern over the current indexation calculation method in light of the impacts of high inflation and inter-industry worker competition in recent years which has served to emphasise funding inadequacies. Overall, there is support for the use of the SCHADS award as a basis for the workforce costs component of the indexation method, although main areas of concern are the real cost inflation impacting the sector, the substantial funding gap that has been historically created and brought forward, and increased costs due to non-discretionary inflation (NDI), and the upcoming National Wage Case.

Commentary supported using SCHADS:

‘Wage increases are generally dictated by the SCHADS award and the National Wage Case, so provision for an increase that includes appropriate weighting for wages is important.’

‘Superannuation has increased substantially since the contract established in 2017 and will further increase over the next year. The SCHADS award rates have also greatly increased over 7 years.’

With support for the proposed formula change:

‘The formula above would assist but would not make a substantial and sustainable difference...Contracts need to be adequately funded to ensure that services are sustainable without diminishing the service delivery.’

‘This would go a lot further to closing the gap than the current standard indexation’.

While in relation to other pressures facing rising costs for organisations:

‘One of the main pinch points for our organisation is rental costs. We need somewhere to operate from. Commercial lease / rents are not affordable.’

‘As we are a small community there is little opportunity to generate additional income.’

¹³ Note: This formula has been proposed by WACOSS/CEWA (not State Government) based on modelling of cost increases over the past 9 years. We understand that an improved indexation formula will not address historical underfunding or underfunding due to demand-side changes for services, these issues are best addressed through commissioning exercises.



Recommendations

The current funding levels are not supporting the sustainability of the sector. Historical, long-term underfunding combines with inappropriate indexation calculations to increase the disparity between the funding received and the comprehensive cost of service delivery.

As such, the needs to be provided an uplift in funding of material value for all funded service providers in order to bring funding closer to the comprehensive service delivery cost. Such an increase would be exemplified in the recent funding uplift provided by the Western Australian government to homelessness service providers, which we understand averaged around 26%.¹⁴

Improving the methodology for indexation is also crucial for ensuring the sustainability, efficiency, and effectiveness of social service delivery in Western Australia. This measure will not only likely lead to cost savings for the government in the medium-term but also result in increased economic benefits stemming from continued employment opportunities for staff. Furthermore, it will maintain the much-needed certainty and sustainability of service delivery for the most vulnerable individuals and communities in Western Australia.

Based on findings in this research and previous analyses, it is recommended that the Western Australian government adopts a suitable industry indexation model and regularly collects the necessary data to enable the calculation of that figure at least annually.

Additionally, the long-term impact of inadequate indexation has also had detrimental effects on the social services workforce, leading to poor job quality in terms of pay rates, job security, and available work hours. These issues serve as further indicators of the consequences of inadequate indexation over an extended period.

As such, we provide the following recommendations the need for which is reinforced by the findings included in this report:

Recommendation 1:

The industry peak bodies and the West Australian Government collaborate to develop and implement an appropriate indexation calculation model to ensure that the true comprehensive cost of services delivery is reflected in contract values for the life of the contract.

Recommendation 2:

Until such time as the index in recommendation 2 is developed, we recommend the Western Australian State Government to adopt the proposed indexation formula:

$$(\text{SCHADS} \times 0.75 + \text{SUPER}) + (\text{NDI} \times 0.25)$$

Where: SCHADS = the annual percentage increase in SCHADS Award rates
 SUPER = any mandated superannuation guarantee increases in that year
 NDI = the annual percentage increase in the rate of Non-Discretionary Inflation (Australia)

¹⁴ See media release: [https://www.wa.gov.au/government/media-statements/Cook-Labor-Government/-Major-\\$92.2-million-boost-for-critical-homelessness-services-20240419](https://www.wa.gov.au/government/media-statements/Cook-Labor-Government/-Major-$92.2-million-boost-for-critical-homelessness-services-20240419)



Recommendation 3:

The state government provide an appropriate uplift in funding for all existing contracts in order to reverse the impact of historical underfunding similar to that provided for homelessness service providers recently and which averaged a 26% uplift in funding for the organisations concerned.

Recommendation 4:

We recommend that the state government commission a review of regional social service gaps—demand and unmet need—to be used to underpin the design and implementation of a regional service network model and industry plan.

Recommendation 5:

We recommend that the state government address workforce retention challenges by:

- c. providing top-up funding to support the sustainability of service providers prior to the next re-contracting process per recommendation 3 above; and
- d. budgeting for Fair Work deliberations on gender wage equity across the human services industry.



Concluding Remarks

Social service providers are facing significant financial challenges, primarily due to the ongoing inadequacy of funding and with poor indexation policies being a major contributor. This study highlights how inappropriate indexation policies year-on-year have accumulated negative sustainability impacts over time resulting in further strain on service providers. As demonstrated in this research, these challenges force social service organisations into a cycle of unsustainability, leading to staff reductions, decreased activity, and underinvestment ensuring a progressive downward cycle of increasingly poor sustainability.

Regionally based organisations operating outside of Perth exhibit lower sustainability compared to those operating solely in the capital city. This underscores the growing disparity in service access for users in non-metropolitan areas where communities may not be receiving the necessary mix of services.

Furthermore, the repercussions of service delivery cutbacks are borne by service users, particularly vulnerable individuals and communities in need of support. Unfortunately, reductions in service provision often lead to unmet needs going unnoticed as demand is driven by funded activity rather than identified need and because there is very limited transparency in terms of the quantum of needs being met. Inadequate funding outcomes are likely resulting in people and communities not receiving essential supports and services.

Overall, the findings of the 2024 WACOSS State Sustainable Funding Survey are deeply concerning and key risk indicators such as staffing issues and service reductions must be addressed urgently.