REAL COSTS, REAL IMPACTS: A PATH TO SOCIAL SERVICES SUSTAINABILITY

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Statement of interests

Professor David Gilchrist is Foundation Director of the Centre for Public Value at the University of Western Australia's Business School and is a professor of accounting at that institution. He has received funding from governments, peak bodies and individual organisations for various research projects predominantly related to the Not-for-profit human services sector, Not-for-profit accounting and financial reporting, financial sustainability and outcomes reporting, and policy and practice related to these areas. He has been a director and chair of a number of human services organisations over past years and is currently a director of a policy-focused charity in the education area.

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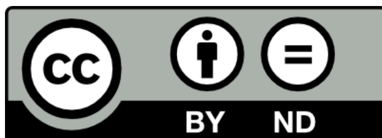

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Industry Response

On behalf of Catholic Social Services Australia (CSSA) and our compassionate and dedicated members, I am very pleased to support the creation of this important report.

Our network of member organisations, spanning the length and breadth of the country, works tirelessly to uplift individuals, strengthen families, and build resilient communities.

However, the path to creating lasting positive change is fraught with challenges. Chief among these is the growing disparity between the resources allocated to social services and the actual costs of delivering high-quality, impactful support. This report serves as a clarion call to policymakers, funders, and stakeholders across the social services sector. It provides irrefutable evidence of the financial pressures faced by service providers and the potential consequences of continued underfunding.

The data and analysis presented in these pages are more than just numbers on a spreadsheet. They represent real lives, real struggles, and real opportunities for transformation. Each statistic tells a story of an organisation striving to do more with less, of dedicated staff and volunteers going above and beyond, and of vulnerable Australians whose futures hang in the balance.

As we navigate the complex landscape of social service provision in the 21st century, this report offers a roadmap for sustainable, effective, and just allocation of resources. It challenges us to rethink our approach to funding models, to prioritise long-term outcomes over short-term savings, and to recognise the invaluable contribution of the social services sector to the wellbeing of our nation.

I express my thanks to the member organisations that contributed their time and data to this project. I know all our members are extremely busy and the decision to divert time and resource toward this as a priority was not lightly taken. It is a contribution that will serve all members of CSSA, the wider sector and, most importantly, the Australian community.

I look forward to seeing the sound recommendations presented here implemented by wise policy makers who share our vision for a more inclusive Australian society that reflects and supports the dignity, equality, and participation of all people.

Yours sincerely,

Dr Jerry Nockles
Executive Director

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Recommendations

This study has identified that current Australian governments do not provide adequate funding for services procurement; nor do they provide adequate indexation for ongoing contracts and service delivery or adequate capital inputs to meet policy and regulatory change.

The comprehensive cost of service delivery incurred by nonprofit social services providers is increasing significantly and the lack of sustainability impacts the reliability of social services delivery to the detriment of the most vulnerable people in Australia who are the shock absorbers for the system.

In order to achieve the sustainable, ongoing delivery of social services in Australia, Australian governments need to develop:

1. a comprehensive contracting process that is demonstrably based on empirical evidence of cost and Service Mix requirements;

2. an indexation process that ensures the timely and full allocation of funding to cover the cost increase experience of the contracted providers at least once per annum;

3. a mature impact-based response to policy changes, economic and social shifts and shocks by injecting appropriate levels of capital into the funded sector to ensure the comprehensive costs of service delivery are fully met in a timely and effective manner; and

4. a comprehensive data asset development process that will ensure transparency over the extent to which a Service Mix Gap exists in Australian communities.

To achieve real and effective change in sustainability of the social services sector, the Commonwealth government should also ensure the appropriate infrastructure, capital investment and ongoing funding needed to fully implement the national Not-for-profit Sector Development Blueprint.

Introduction

- Not-for-profit Social Services have been under severe financial pressure for too long
- The impacts on service users of poor funding and indexation policy are not transparent
- It is time to change the system by investing and setting appropriate funding and indexation policy

The financial sustainability of nonprofit social service providers in Australia has been challenged for over two decades now with contractions reported in service offerings in a number of studies undertaken by the Centre for Public Value recently.[1,2]

Further, the lack of real data resources and limited applied analytical capacity mean that we do not really understand the impact that this contraction is having on those people who rely on social services to live their lives—some of the most vulnerable people and communities in Australia.

It is discussed further below, however, in this report we consider the impact of funding and indexation policy outcomes on services users through the lens of the Service Mix. That is, we analyse financial sustainability risk in the context of the likely impacts on the number of services types and the service delivery iterations able to be provided by a sector that is under significant financial sustainability pressure.

The issues related to a lack of sector financial sustainability have been reflected in the recent publication of the national *Not-for-profit Sector Development Blueprint*[3], wherein recommendations for appropriate data collection and analysis, appropriate funding and appropriate indexation methods were all established as priorities and conveyed to the Commonwealth government.[4] However, this study examines more deeply the funding and cost experience of social services providers.

Indeed, notwithstanding the work done to understand this phenomonon by many organisations, including the Centre for Public Value, limited evaluation has been undertaken to examine in close detail the real costs associated with operating a social service organisation in Australia in the context of the service delivery impacts that accompany financial sustainability risk. Those studies that have been undertaken are focused on the population of service providers while this study takes a deep dive into the impact of poor funding and indexation policy on the service

[1] Research reports relevant to this study are provided in the bibliography together with links directly to the reports themselves. Footnotes are used to connect those reports to the commentary in this report.
[2] For instance, see: Gilchrist and Emery (2020), Gilchrist and Feenan (2024) and Gilchrist and Perks (2024).
[3] Available here.
[4] Available here.

capacity of Australian noprofit social service organisations. Importantly, though, the findings herein reinforce and confirm the population-level studies' findings undertaken previously.

With Catholic Social Services Australia's (CSSA) generous and targeted support, we have now been able to close a considerable portion of that knowledge gap. To that end, we present this report, which highlights the key findings of our examination of governments' funding policy impacts on financial sustainability by analysing the costs change experience of seven case study organisations over the three financial years 2021/22, 2022/23 and 2023/24.

In this report we do not consider the results in the aggregate due to the statistical inappropriateness of such an action but we do compare outcomes where we think that to be valid and useful. The organisations participating are discussed more deeply below. However, they operate in differing locations around Australia, provide differing social services within their communities and are structured in different ways. Notwithstanding these variations, the results of the study indicate that these organisations all had very similar experiences of resource deficiency caused by improper funding policies and practices, including in relation to inappropriate indexation arrangements, and changes/increases in the cost base not recognised in funding arrangements.

These cost challenges reflect the economic context within which the case organisations operate. They are also a result of changes in business structures due to new ways of doing business (e.g. subscriptions for software rather than capital purchases), technology impacts and workforce challenges.

Frustratingly, none of these challenges to financial sustainability were unknown or unrecognised anecdotally before this study, and governments' policies and funding practices have failed to respond effectively. A lack of real transparency over the effectiveness of funding and indexation policy combined with the lack of comprehensive analysis of the government-side impacts of poor funding policy—of which a lack of real efficiency and cost transfers are obvious examples—mean that governments have not been inclined to adequately investigate and rectify the situation to taxpayers' and service users' detriment.

What is new and important as a result of this study is the detailed impact of poor funding and indexation policy now being understood at the grass roots service delivery level. This results from the research team taking an organisation-level view of the real impacts.

A case study report will be published in coming months for each case organisation and so this current report focuses on major findings and essential policy responses. It does not intend to provide a comprehensive overview of all issues and opportunities raised by the study and these elements will be dealt with in each organisation-specific case study report. As such, the individual case studies will also contribute significantly to our understanding of the financial sustainability of the sector.

Social services are differently named in different sub-sectors, locations and communities across Australia. Such names include "community services", "human services" and "support

services" amongst many others. We include in this group of activities all activities that fall outside of primary healthcare, but which support people to be able to live their lives. Examples of these service types include family services, aged care, disability services, child protection, mental health services and supports as well as homelessness supports and accommodation services. There are many others as well. In this report we shall consider the services provided by the case organisations in the context of our analysis and description of the findings. However, as a descriptor for the entire service offerings and for the general area of activity, we shall use the term "social services" in order to simplify the report discussion and maintain commonality.

We also note that many people refer to the not-for-profit sector in many ways, including as the "charities sector", the "charitable sector", the "for-purpose sector", the "third sector", "the community sector" and the "nonprofit sector". Again, for simplification and standardisation, we will refer to the sector as a whole as the "nonprofit sector", to social service providers as "service providers" and to individual case organisations by their individual case number or as "cases". We hope that our choice of nomenclature does not cause concern to any readers.

It is also the case that different governments in Australia fund different social services programs. This situation can result in differing organisations having different combinations of contracts where multiple departments within a government provide funding and where different governments provide funding. We will refer to all governments generally unless we specifically say otherwise.

Methodology

This report provides an overview of seven case studies undertaken between October 2024 and February 2025. The case study organisations volunteered and provided information via an MS Excel spreadsheet data collection model and responded to questions and comments relating to their experience of financial sustainability over the financial years 2021/22, 2022/23 and 2023/24.

The analysis allowed the research team to assess the major changes in cost types and impacts of cost changes over that period together which then allowed us to consider the prospective impacts in terms of the Service Mix of each case organisation.

We analysed the costs in the context of activity changes over the three years and identified changes in the types of costs as well as changes in the quantum of costs impacting each case. We did not aggregate findings as this would not be statistically appropriate. However, we also asked key questions relating to issues such as indexation, funding sources, experienced cost changes and other sources of income.

If readers have queries or comments relating to any aspect of the data, methodology or commentary, they should contact the authors directly.

Case Selection & Profiles

- In total, the case organisations turned over $359.814m & self-generated $24.295m (or 6.75% of turnover)
- They employed 3,113.79 FTE
- They deployed 506 volunteers

In selecting cases, we had access to the organisational membership list of CSSA which contains 40 organisations. We sought to identify organisations that showed diversity in terms of:

- Their location of operation
- Their programs
- Whether they provided services to CALD and/or Indigenous people
- Whether they provided services in cities, regional centres, rural areas, and/or remotely
- Whether they were able to respond within the study timeframe

Importantly, we did not examine any aspect of their financial position or financial performance until they were accepted into the study as a result of agreeing and providing their consent forms in accordance with our ethics obligations under the Human Research Ethics Committee's stipulation at the University of Western Australia. As such, we did not select/shop around for case organisations that were likely to present a particular position or to achieve a particular

outcome. Therefore, while the results are not extrapolable across the sector, they are not selected based on their financial performance and position.

As can be seen in figure 1 below, all of the organisations selected and agreeing to be involved are large organisations in the context of the ACNC regulations.[5] While we would have preferred to have a spread of sizes included in the study, we found that large organisations were the only ones that were able to allocate time and resources to this project and the spread of size is actually quite significant notwithstanding their ACNC categorisation.

Additionally, the case organisations are significant economic entities. They employed 3,113.79 FTE in 2024 and deployed 506 volunteers. Their combined turnover for that financial year was $359.814m of which a total of $24.295m (or 6.7%) was generated by undertaking commercial activities, fundraising and via bequests. It is also noteworthy that the total turnover includes capital grants from lotteries authorities and government.

Figure 1: General Profile of Case Organisations (Source: Annual Information Statement for 2024 Financial Year)

Case	ACNC Size	Total Programs Delivered	Staffing				Volunteers	Turnover FY 2024	Non Grant Income	Operate Rural/ Remote & Metro
			F/T	P/T	Cas.	FTE				
1	Large	2	168	37	108	185	10	$34.614m	$0.872m	Yes
2	Large	10	160	250	12	289.4	96	$55.496m	$9.051m	Yes
3	Large	10	18	31	4	36.9	102	$5.257m	$0.373m	Yes
4	Large	5	613	1,340	1,268	1,862	194	$151.321m	$6.844m	Yes
5	Large	10	58	59	26	128.77	4	$16.543m	$1.604	Yes
6	Large	9	169	256	122	385	90	$62.001m	$4.924m	Metro Only
7	Large	9	99	186	74	226.72	10	$34.582m	$0.627m	Yes

In terms of programs of services and supports delivered, it can be seen that these entities contribute significantly to their communities. In total, the case organisations delivered 55 programs in the years evaluated, though we do not specify the nature of these programs by organisation in this report with a view to maintaining anonymity. The diversity of service and supports delivery is significant.

The case organisations provide programs including family services, aged care services, disability services, mental health services, childcare services, homelessness services, emergency support services, and financial advisory services amongst others. Included in the people they served were Aboriginal people, Torres Strait Islands People, CALD groups, the aged, people with disability, children, homeless people and those in poverty. So, the services

[5] The ACNC delineations between sizes are: small with a maximum turnover of $500,000, medium with a turnover of $500,000 to $3m and large with a turnover of over $3m.

provided, and the service users identified, were very diverse indicating the findings here to be relevant to a very wide array of programs and funders.

The cases are not related save that the case organisations themselves are all CSSA members and provide social services in their communities. The analysis was undertaken with the intent of identifying the key challenges to financial sustainability experienced by these organisations at a grass roots level.

Therefore, the organisations represented are socially and economically significant and their continuing financial sustainability is valuable to those who rely on the services and supports the case organisations supply and to the communities in which they operate for employment and the economic value add inherently generated by their financial operations.

Data Collection & Usage

- The study analysed 21 data years' information (7 cases x 3 years)
- Cases are geographically spread across most States and both the ACT and NT
- Cases were selected for their location and service types

Each case organisation has been treated as a separate case study and anonymity has been maintained throughout the process in order not to compromise the organisations themselves or the findings. In some ways the maintenance of anonymity has restricted the capacity to report some aspects of the study's findings. However, the research team does not consider this to be a significant or material issue.

Each case was considered in relation to the real cost changes they experienced over the relevant period—financial years 2021/22, 2022/23 & 2023/24—and, while comparisons have been made and similarities identified, the results for each case stand alone. With seven case organisations reporting data related to three years' operations, we have 21 years of data observations to consider.

Further, while the results of the analysis do reinforce findings made in other population level studies made by the Centre for Public Value[6], the results are not able to be extrapolated across the population of CSSA member organisations nor across the population of Australian social services providers.

[6] Research reports relevant to this study are provided in the bibliography together with links directly to the reports themselves. Footnotes are used to connect the reports to the commentary in this report but the reports themselves are accessible via the bibliography.

Having said that, the commonality between findings associated with each case and the findings made in other studies confirm the veracity of the findings here and the importance of continuing to assess the financial sustainability risk being faced by the sector as a whole. This risk is significant and continues to negatively impact the lives of very many of the most vulnerable Australians if it has not already done so.

The data collected came from the following sources:

1) Each case organisation provided an Excel spreadsheet with financial data related to their organisation for the 2021/22, 2022/23 and 2023/24 financial years. This data was collected after the finalisation of audit processes for the 2023/24 financial year.
2) Each case organisation also provided answers to specific questions and were available for follow up discussions as needed.
3) Australian Charities and Not-for-profits Commission Lodged Documents Dataset for each case organisation.[7] (e.g. Annual Information Statements; Programs and Beneficiaries data).
4) Australian Charities and Not-for-profits Commission data set.[8]
5) Australian Bureau of Statistics.
6) Previous data gathered by the Centre for Public Value.

It is important to note that, while each case organisation has an annual audit for each year of data collected, the research team has not assured or confirmed any data provided. No analytical outcomes suggested to us that any data submitted misrepresented the performance, position or impact of costs for case organisations.

Service Mix as an Analytical Frame

- It is not about social service providers but about social service users
- Service users need reliability, predictability, timeliness and quality in the services they require to live their lives
- Only a properly funded social services system can deliver the right Service Mix at in the right quantity, at the right time and in the right quality
- If the Service Mix is not met it reflects governments' spending priorities

It is important for readers to understand the framing of this study and the analytical work undertaken to arrive at findings. Specifically, we need to share our perspective on how we judge financial sustainability within the context of social services provision, what data we used and the lens through which we consider financial sustainability.

[7] Available here.
[8] Available here.

Importantly, that lens is not simply focused on the ongoing survivability of the nonprofit service providers but the ongoing capacity of the sector to deliver the required Service Mix.

This report is not about service providers *per se*. The analytical frame through which we have carried out our study relates to the impact on the Service Mix as a result of varying resource capacity impacts arising from changes in costs and in real funding levels. These changes can be positive and negative—that is, real funding levels can increase or decrease; costs can increase or decrease.

In this study, funding is assessed by considering its impact on the prospective types of service activities undertaken, the number of those activities and the cost of delivering those activities from year-to-year. Therefore, Service Mix is not only an important starting point in a study such as this, it represents the purpose of the work of the sector as a whole and the rationale for operating the case organisations.

While we find that governments' funding and indexation policies are inappropriate, importantly, the changing costs structures and the quantum of costs is not the fault of funders. There are myriad causes driving this change. Additionally, it is important to note that funding and indexation—even if the policies pertaining to these elements were well structured—will not prevent funding gaps arising. However, the system needs to respond in a timely and efficient manner to rectify gaps impacting service delivery. Therefore, for the system to work, the key questions are:

1) What need is there in the community for community services?
2) Is this need being met?
3) What are the gaps in meeting this need?
4) Why do those gaps exist?

The Service Mix is an appropriate framework to base a sound systemic response on, noting that changes in financial capacity and risk to financial capacity impact the Service Mix negatively but differently in the short-, medium- and longer-terms.

Without this purpose, the discussion would revolve around whether organisations might shift their capacity to other industries and undertake different work—the way For-profit entities do when there is insufficient profit in a particular industry—rather than around whether the policy and practice impacts of funding arrangements support or inhibit the capacity of those who rely on social services to be able to live their lives. As such, the focus here is not on the financial sustainability of social services organisations for the organisations' sake but, rather, the sustainability of social services themselves.

"Service Mix" is used as shorthand to describe the response of service providers to the type, quantity, quality and timing of services needed by a community. For instance, if a community

needs 20 bed days of high-level care in an aged care facility for 20 people, then an aged care provider's provision of those beds can be described as part of the Service Mix it offers. All of the services and supports need by a community are the aggregate Service Mix.

Simply put, the Service Mix is evaluated in terms of:

- the number of services types provided in the community;
- the timing of the delivery of those services; and
- the quality of those services

as compared to the number and types of services actually needed within that community. The Service Mix should respond to the identified need in the community and, where it does not, we say a Service Mix Gap exists.

If funders do not provide sufficient funding to meet the Service Mix required or allow financial risk to become pervasive such that social service providers reduce their service output (contraction), people simply do not receive the services and supports they need. Importantly, Service Mix is not the same as the funded demand—the number of services and supports purchased by government does not represent the need in the community it represents that government's spending priorities.

Further, when service providers experience increasing financial sustainability challenges and associated difficulties, such as workforce recruitment and retention issues, the Service Mix can be altered by providers needing to opt out of service delivery either in part or in full. Often, this service contraction is not identified and responded to, to the detriment of service users.

This also actually increases cost to governments. For instance, costs can be transferred as primary healthcare services have to pick up where lower cost social service providers make service reductions. The Australian community deserves transparency over these costs incurred due to contraction in the social services Service Mix. However, such data is very difficult to access suggesting either governments do not know that they are incurring increased costs as a result of Service Mix contraction or that they are not managing this element effectively.

Further, because the required Service Mix is often not known and the impact of cost-driven service contraction not understood, these costs are often not recognised and the changes in Service Mix not noted so that no strategic response is considered. This is even more pronounced in a federation like Australia where some services and supports are funded by the Commonwealth but the primary healthcare services are funded by state and territory governments so that cost shifting occurs when services and supports are no longer available. Inter-departmental cost shifting can also occur within jurisdictions.

Overall, better datasets, timely full reporting and effective funding would likely save the taxpayer significantly, make more primary services available and meet the needed Service Mix.

There are significant issues to consider here:

1. Service providers are contracted to provide a certain number of services (usually of a particular quality and timing) in a period. However, this number of services generally relates to the funding budget governments have to deploy rather than the actual need identified in the community for the particular service—hence: service shortfalls, waiting lists, provider-of-last-resort and cost shifting issues amongst others are reflective of governments' spending priorities; further,

2. the level of actual need in the community is unknown—there is insufficient data to allow us to understand the real need in the community for services delivery and so the Service Mix Gap cannot be identified with accuracy though service provider experience at the coalface demonstrates anecdotally the gap exists and is significant;

3. inappropriate funding and indexation policy impacts the Service Mix negatively thus reducing services offered notwithstanding need. This further expands the Service Mix Gap; and,

4. because the gaps existing in service types, timing, location, quality and quantity are also unknown there is no capacity to understand the real impact of poor funding and indexation policy on service users.

So, we need to have transparency over the Service Mix needed within the community, the actual Service Mix provided to the community, the Service Mix Gap existing within the community and an understanding of the impact of funding and indexation policy on that Service Mix gap.

Importantly, we reaffirm the need for adequate data assets to be created in order to understand the true nature of the services and supports Service Mix that should be deployed within Australian communities as well as the extent to which the current Service Mix meets community requirements. This will also allow the funding governments, philanthropists, the sector and the community to understand the extent to which the current funding and indexation policies are positively or negatively impacting the Service Mix outcomes.

What is Financial Sustainability in the Context of Social Services?

- It is not enough for social service providers to simply survive
- Financial sustainability is necessary in the short-, medium- and longer-term
- Profits and capital are required to meet cost changes, policy changes and changing business models impacting the sector

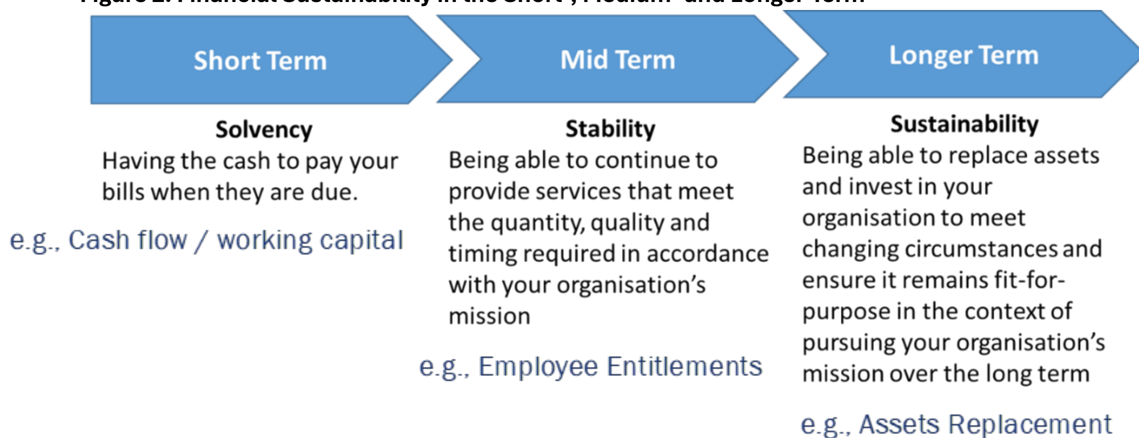
Before going any further, it is important that readers have an understanding of how the research perceived and judged financial sustainability. Specifically, a social service provider is sustainable if it can continue to deliver its contractual obligations with regard to:

- the right quantity of services;
- at the right quality level;
- in the right location; and
- at the right timing

In order to continue to provide reliable, efficient and effective supports to service users. That is, in the aggregate, the social services sector can maintain the contracted Service Mix only while maintaining financial sustainability.

To continue to do that, the funding allocated to service providers must be sufficient to meet short-, medium- and long-term finance needs. Figure 2 below schematically represents this idea.

Figure 2: Financial Sustainability in the Short-, Medium- and Longer-Term



To be able to achieve the financial sustainability requirements outlined in figure 2, a service provider must be funded such that all costs, including depreciation and amortisation, are covered AND a sufficient profit is achieved. Without achieving a profit in excess of the prospective rising costs and sufficient to cover stability and sustainability needs, a provider cannot achieve financial sustainability.

When financial sustainability is not being achieved, the Service Mix is impacted negatively because service providers must respond effectively to financial threats to their organisation. As a result, service users become the shock absorbers of the system as service types and quantity diminishes. That is, service users ultimately bear the impact of service shortfalls as they cannot receive the services and supports they need to live their lives.

Pressure on financial sustainability can be caused by direct elements—such as poor funding policy, inappropriate indexation and rising costs—and indirect elements such as work force

recruitment and retention challenges and skills shortages. Both direct and indirect causes are remedied by appropriate funding and indexation policies.

Therefore, in order to achieve the provision of a Service Mix that is reliable, sustainable and of appropriate quality and quantity in the right locations, we need to have data assets that can be used to assess the Service Mix required and the extent to which that Service Mix is being achieved. As described above, these issues were identified in the national *Not-for-profit Development Blueprint*.

Is It really just a government policy Issue?

- In One Year, Case One Showed a Government Reliance Index of 98.8%
- In one year, Case Six Showed a Government Reliability Index of 89.6%
- Case Five donations fell by 75% in one year
- Government funding policy is the difference between financial sustainability and financial risk

Commentary relating to specific costs is dealt with in the following section. In this section we are looking to identify the importance of the financial impact of government policy in terms of provider financial performance and then to add commentary relating to the prospective impact on financial sustainability and, thus, Service Mix.

We then develop commentary relating to the policy impacts and possible responses in order to sheet home the relevance of further research in this area. Before doing so, it is important to establish the relevance of focusing on government funding policy and confirming the origin of current financial sustainability challenges faced by the case organisations to the funding policies of Australian governments.

Specifically, in examining the financial data provided by the case organisations, we analysed the extent to which organisations were able to demonstrate revenue diversity on the basis that such diversity is recognised as an indicator of financial risk reduction—the more funders/sources of income, the less changes in one source will impact overall financial sustainability.[9]

In examining revenue diversity, the research team applied an index formula called the Herfindahl-Hirschman Index.[10] This formula showed that all case organisations had highly

[9]For instance, see: Zhai, L., J. Watson and D. J. Gilchrist (2017). "Nonprofit Vulnerability: An Exploratory Study." Financial Accountability and Management 33(4): 18.

[10] Details on this calculation proces scan be obtained from the authors. Please also see: Bondarenko, P.. "Herfindahl-Hirschman Index." *Encyclopedia Britannica*, March 21, 2023. https://www.britannica.com/money/Herfindahl-Hirschman-index.

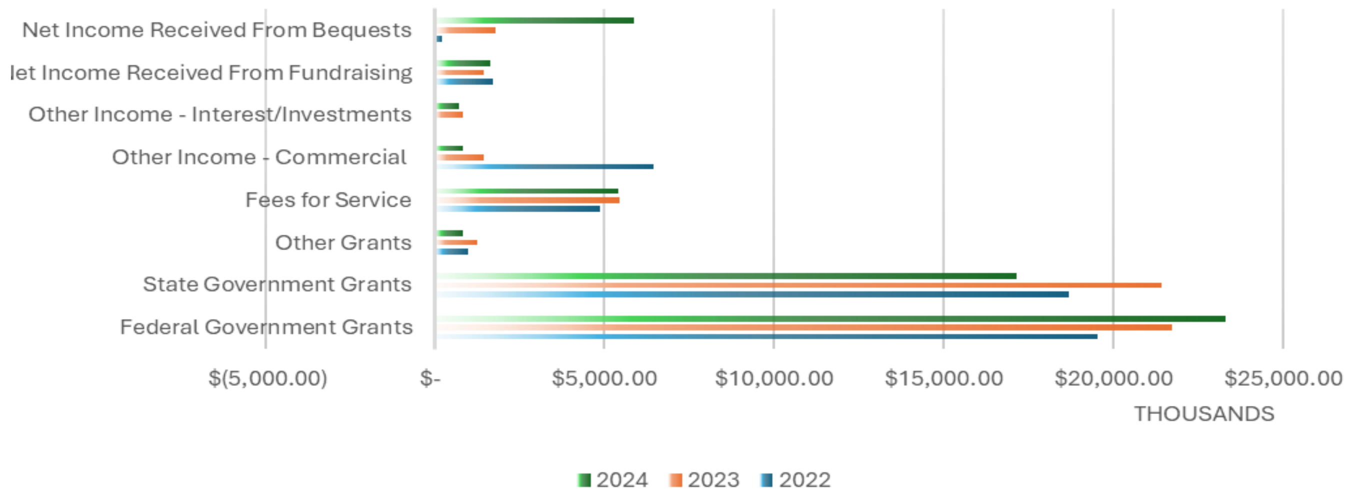
concentrated sources of revenue and are essentially relying on governments for financial security. We then triangulated these results by calculating the Government Reliance Index (i.e. the amount of funding derived from Australian governments as a proportion of total income) and these calculations confirmed the level of government-sourced income reliance.

By way of example, we found that Case One showed a reliance of 98.8% on government income by 2024 while Case Six showed a reliance of 89.5% - both extremely high though all other case organisations were calculated to be above 75%, thus all were exhibiting a very high reliance on government funding. Without doubt then, Australian governments' funding policies directly impact the extent to which the case organisations are able to maintain financial sustainability and, thereby, maintain their Service Mix.

We then examined the stability and reliability of non-government funding as raised by the case organisations. While alternative funding sources do not mitigate the underlying financial sustainability risk, it is never-the-less an important component of some service providers' income streams—without it, things would be worse. This part of the study considered commercial, investment and fee-for-service income as well as philanthropic income derived from donations and bequests as reported in the data. We found that these sources were greatly impacted by economic conditions, the capacity of the case organisation to pursue alternative income sources (including in terms of capital capacity to deploy and management time taken away from service delivery) and caused significantly increased costs to the case organisations. Further, we found these income streams were volatile and unreliable.

For instance: Case Two reported a commercial income reduction of 72% in 2023 (see figure three below); Case Five saw a decline of 75% in its donations over the period of review; and Case Six reported an increase in marketing costs of 16.3%. Additionally, the increase in complexity associated with revenue diversity, particularly into new fields of activity, have the effect of increasing administrative costs while diverting strategic, governance and management capacity away from the central purpose of the organisation.

Figure 3: Case Two – Income Diversity



Therefore, given the instability of alternative income sources combined with their cost in time and money and the reality of the centrality of government funding in social services, governments must establish and implement funding and indexation policies that are designed to support the ongoing capacity of social service organisations to meet the Service Mix requirements of the communities they work in. Bad government funding and indexation policy, leads to poor financial outcomes for service providers, which has direct and avoidable impacts on Australia's most vulnerable people.

A Deep Dive into Social Services Costs

This section reviews the financial sustainability experience of the case organisations by analysing their reported costs and responses to key questions. Table 1 below provides a set of example findings related to each case organisation.

Table 1: Examples of findings for each case organisation

Case	Key Major Cost & Workforce Pressures
Case 1	Workforce vacancy rates of 47% in 2021/22 to 21% in 2023/24
Case 2	Workers' Compensation Insurance Expense grew 147% between 2022 and 2024 IT and Cyber Security Costs grew 376% between 2022 and 2024
Case 3	Revenue grew by 6% between 2021/22 and 2023/24 Costs grew by 22% between 2021/22 and 2023/24 Operating loss in 2023/24 (2.3%)
Case 4	Losses incurred in 2021/22 of (0.08%) and in 2023/24 of (5.08%) Agency staff costs increased by 125% in 2023/24 Redundancy provisions rose by 578% in 2023/24
Case 5	Accumulated losses incurred between 2021/22 and 2023/24 were ($1,816,136) Donations income declined by 74% in 2023/24
Case 6	NDIS Direct Support Worker Model did not cover the costs of service delivery
Case 7	20% overall cost increase 2021/22 – 2023/24 Indexation rates failed to meet rising operating costs Direct labour costs increased by 10% year-on-year

5 Major Causes of Financial Sustainability Risk:

- Governments' pricing not meeting comprehensive cost of service delivery
- Indexation not meeting cost increases
- Workforce competition reducing service output and capacity to generate funding
- Cost increases across the board
- Limited reserves & unstable philanthropic contributions

5 Major Impacts of Inappropriate Funding:

- Hidden service shrinkage impacting Australia's most vulnerable people
- Organisational capacity to invest for policy change, training and renewal almost non-existent
- Governments pay more as a result of cost shifting to more expensive services including primary health care services.
- Risk of service volatility
- Increased service capacity gap prospectively more expensive to close

The Cases & Analysis

- Of 21 financial reporting periods observed (7 cases x 3 years each), 9 case organisations reported losses and 9 reported small profits that were insufficient to allow them to retain sufficient cash to maintain purchasing power
- Case Five incurred accumulated losses of $1.816m though revenue increased by 31%
- Case Seven built a profit of 5.8% (FY2023) and 3.1% (FY2024) but still did not maintain purchasing capacity as their balance sheet capacity was not grown sufficiently.

This series of case studies is concerned with the impact of rising costs on social service provider financial sustainability in the context of existing government funding and indexation policies. These policies relate to a number of components including:

1) pricing of services procured;
2) contractual arrangements of the procurement (in terms of duration and contract contents);
3) the indexation rate applied to pricing during a contract's operation;
4) the costs impacting organisations when government policy changes occur in relation to pricing and/or other aspects of service delivery such as regulatory/quality compliance; and
5) the impact of social and economic conditions as they may be from time to time.

However, our study was specifically concerned to understand the nature of cost increases and the extent to which current funding policies, in terms of pricing and indexation particularly, met the needs of the seven case organisations and tried to consider the findings in the context of the possible impacts on Service Mix.

Funding Policy Impacts - Financial Performance

- Case Three reported profit generation to fall 77.23% to (2.3%) in FY2024
- Case Four reported Net Assets fell by $13.02m during the period
- Case Five accumulated Losses of $1.816m

The full examination of each case's financial performance will be discussed in each case study published. Figure 2 above highlights the importance of profitability in ensuring financial sustainability in the short-, medium- and longer-terms. This report will highlight the key findings

that demonstrate the negative impact of improper government funding policy on the Service Mix by examining the profitability impacts.

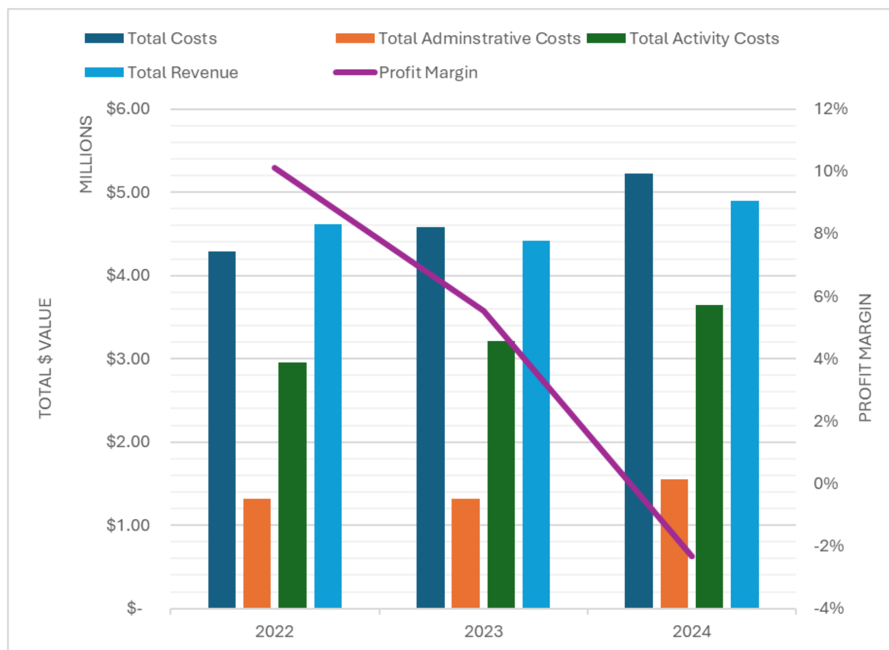
In this study, and due to the fact that no Producer Price Index[11] is calculated for the sector, we use CPI for a proxy of inflation effects impacting case organisations' purchasing capacity. It is a minimum impact perspective as it is highly likely that CPI will fall below the real cost changes impacting the sector.[12]

Of the 21 years' observations (seven case organisations and three years' observations each), losses were reported in 9 instances and profits were reported in the remaining 12 instances, though 9 of those reported profits were below CPI for the location which indicates that the organisation was not maintaining parity with the economy's movement.[13] This indicates that 18 of the 21 observations were expressive of financial sustainability risk.

This financial sustainability risk was demonstrated by Case Three which reported a profit in 2021/22 of 10.1%, in 2022/23 of 5.3% and a loss in 2023/24 of (2.3%)—in analysing the rising costs incurred by this organisation (7% year-on-year in FY22 to FY23; 13.9% year-on-year FY23 to FY24) we can see that profitability is on the wane and reserves will be needed to ensure medium-term financial sustainability if profitability does not improve. Case Seven also demonstrates this issue with Figure 4 showing the inter-relationship between financial performance and financial sustainability.

Figure 4: Case Three – Financial Trends and Profitability 2022 - 2024 Year-on-Year Performance Impacts

[11] A producer price index is a statistical calculation that uses a basket of goods and services relevant to an industry to assess the input cost increases associated with that industry. It is a measure of inflation from the point of view of producers. In our case, such an index could be used to assess the cost inputs associated with the delivery of social services rather than using CPI. CPI is not relevant as the basket of goods used to calculate it are those that an Australian household buys.
[12] See Gilchrist, David, J., and Clare T. Feenan. 2024. "Ecnomic Paper 2: Why CPI and WPI are not Appropriate Bases for Human Services Funding Indeation". Working Paper Series on the Economics of Human Services. Centre for Public Value. UWA Business School, Perth, Australia.
[13] While we argue that CPI (and WPI) is an inappropriate index for calculating the indexation increase year-on-year, we compare profits to CPI as it gives us an understanding as to the extent to which the entity is maintaining its purchasing power in the context of the broader economy. We would prefer to use a Producer Price Index here but must use the less appropriate CPI in its absence.



Increasing revenue via increasing activity is not necessarily the answer to the problem of financial sustainability risk. For instance, Case Five performed worst with accumulated losses over the three years of $1,816m. Even though revenue increased by 31% over the same time, costs increased by 27%. This phenomenon is not a new finding in research of this nature with previous studies identifying revenue increases being outweighed by cost increases—for instance, in a previous report it was identified that, in 2020, Tasmania's social services sector had paid $9m to deliver an additional $322m in services.[14]

The cost increases of relatively minor cost items can also have a major impact on financial sustainability as the margins are so small.   Therefore, while we often concentrate our attention on significant costs, such as workforce expenses, in reality, the financial sustainability risk is such that relatively minor cost increases associated with often less obvious cost items are sufficient to drive financial risk into unsustainability.

In lieu of an ABS-calculated Producer Price Index, we use CPI to assess whether the organisation is maintaining its purchasing power via profitability over time. As such, profits must also be generated at a rate higher than CPI to ensure the organisation is building its balance sheet for medium- and longer-term financial sustainability. If providersare not achievinga profit of at least CPI, they are not maintaining their balance sheet capacity with regard to purchasing power in the broad economy and so are at increased risk. Case Seven is a good example here where it achieved a profit of 5.8% (FY23) and 3.1% (FY24)—reasonable profits in the context of

[14] Gilchrist, D. and C. Feenan (2022). Tasmania's Community Services Industry: Sustainability and Market Failure Risk. Hobart, UWA Centre for Public Value: 58.

the sector—but did not achieve parity with CPI being reported as 6.1% and 6% for the same periods. This growth rate proxied by change in the CPI will reduce the financial capacity of the organisation over time.

However, this is complex. The more we want to aggregate, the more the specific organisational experience is important. For instance, the Case Six analysis showed:

- Changes in business rules and regulatory requirements have increased workforce and operational costs.
- Compliance staff remained at 2 FTE, payroll staff were reduced from 2 FTE to 1 FTE.
- Clinical supervision costs declined by 16.7% due to efficiency gains, but all compliance expenses continue to strain finances.
- Redundancy provisions stayed stable, reflecting minimal structural changes.
- Government funding indexation has not kept pace with macroeconomic conditions creating a financial gap that must be addressed through capacity reductions or alternative revenue streams.
- At the service level, policy settings, such as the NDIA Direct Support Worker cost model, fail to capture full-service delivery costs, adding further strain.
- While IT subscription expenses decreased by 22.2%, marketing costs rose by 16.3%, likely reflecting an increased focus on client engagement following strategic investment in technologies and professional services.

Whereas, Case Four had the largest turnover of the group being $151.3m. The organisation employed 1,862 FTE. It self-generated 4.5% (or $6.844m) of its income of which 1.2% comes from bequests and 0.89% from interest earned. Bequests are notoriously unreliable, and interest earnings are, of course, related to volatile interest rates.

Notwithstanding the turnover size, the entity failed to make a profit in FY 2024, regardless of the additional non-program income, and so is utilising its reserve capacity to maintain operations. This places the organisation in significant financial jeopardy.

Further, the employee vacancy rate for 2024 was 14%, representing an economic loss to the community in terms of employment opportunities and significant service delivery incapacity from a client's perspective. The funder arrangements also meant that this organisation could not invoice for services it was unable to deliver, thereby reducing its capacity to meet administrative overheads.

What costs are rising? Over the research period:

- Case Two reported paying $2.61m in IT Subscriptions while their QA cost increased by 57% and Motor Vehicle costs increased by 147%
- Case One reported Building Maintenance costs increased by 216%
- Case Five reported IT Subscription costs rose by 300%

The issue of cost analysis is the most vital to the purpose of this project. As indicated above, the research team asked case organisations to submit a completed spreadsheet with income, cost and activity data—amongst other things—which we then analysed to gain a greater understanding of costs drivers and their impact on financial sustainability in the short-, medium- and longer-terms. This section deals with this aspect of the study.

In reviewing costs, we sought to understanding three essential things related to the case organisations, viz:

1) What costs were rising?
2) Why were they rising?
3) What did this mean for financial sustainability?

These questions were asked in the context of all governments' funding policy and should be read understanding that the next section considers indexation.

In analysing the costs incurred over the three financial years for each case (i.e. 21 year observations), we were able to see change in the quantum of each cost and changes in the relevance of specific cost items. That is, we could see that a number of costs had increased but we also saw that there were differences as cost types were becoming more or less important.

This latter point is a difficult one to consider as, while smaller costs do not appear of importance, given the small margins and the financial sustainability risk endured by the case organisations, increases in even relatively small costs can mean the difference between a marginal profit and a loss. Further, what may seem small one year may have grow significantly in following years. This is especially the case when business models change and/or policy changes—we discussed the profitability of Case Six above when we said that profitability was 1.52% and 1.44% for FY23 and FY24 respectively. If that entity has a cost increase of only a few per cent in minor cost areas, it loses its profitability entirely.

Therefore, we have identified the five most impactful cost increases by ensuring we examine all costs submitted by each case organisation. After ranking these costs by their impact on individual case organisations and then by the frequency in which they occur across the cases, we identified the following top five expense categories ranked by frequency:

1) IT Subscriptions
2) Motor Vehicle Expenses
3) Employee Recruitment Costs (Human Resources Costs)
4) Regulatory compliance
5) Client Activities

Importantly, of those five most impactful costs, one relates to human resources costs and one relates to client activities with the remainder being largely administrative costs. Expanding the

ranking system, noting that there are 35 ranked items—five for each case organisation—we identify that 8 out of 35 costs identified were related to human resources, 5 out of 35 related to IT Subscriptions and 4 out of 35 related to Motor Vehicle Expenses.

IT Subscriptions signify the impact of an ongoing change in business models which the case organisations have no option but to accept. In the past, charities have been able to access lotteries systems, government capital grants and other philanthropic supports for capital to purchase software. Now software is no longer purchased as a capital item but, rather, paid for iteratively for access though funding regimes have not responded to this change.

This expense is increasing rapidly and significantly. For instance, Case Two paid $406,800 for IT Subscription costs in FY22, $635,000 in FY23 and $1,570,000 in FY24 – an increase of 285% over three years with no historical precedent to guide expectations and planning. It is likely that these costs will continue to grow as technology becomes increasingly important to operations and reporting of outcomes in the context of contractual obligations.

Motor Vehicle Expenses are also significant to the case organisations as 6 out of 7 of them include remote and/or rural operations, increasing the impact of these costs as travel is critical for service delivery. The cost increases, associated with fuel in particular but also including capital costs of the required more expensive vehicles, mean that governments' funding arrangements that simply add a percentage increase for all costs will not be sufficient as cost bases change and become more significant. It is much more appropriate that funders actually review key costs impacting rural and remote operators and apply funding accordingly with the opportunity to increase funding where sudden jumps in costs like Motor Vehicle Expenses are incurred. Such an arrangement would meet the needs of a sound funding model as described in the concluding section to this paper.

It is somewhat unexpected that employment costs did not make it into the top five ranked costs above as their relative proportion to all costs remained at around 75% - as costs increase generally, the HR costs also rise. However, these costs are very significant and certainly government funders' responses to cost increase in relation to workforce are critical to ensure ongoing financial sustainability. Having said that, the inclusion of Employee Recruitment Costs as the 3rd ranked cost item is also very telling.

Human Resources Costs

- Case Four experienced an Agency Costs increase of 125%
- Case Four also experienced a Redundancy Cost increase of 217%
- Case Two incurred a 61% increase in Recruitment Costs

All case organisations reported challenges with regard to recruiting staff for service delivery. This dramatically impacts the Service Mix and financial sustainability in the following ways:

(1) Fewer staff mean that fewer iterations of service can be deployed thus reducing the Service Mix;
(2) fewer staff and high recruitment costs mean that staff capacity in terms of qualifications, training and experience also impact the Service Mix and increase OH&S risk as well as risk to clients;
(3) generally, if fewer service iterations are provided, lower invoice values can be issued thus reducing financial sustainability as overheads are less likely to be recovered and profitability becomes less likely; and
(4) because government funders are usually not aware of need, under utilisation of services can lead to funding reductions in future funding rounds.

By way of example, Case 2 incurred a 61% increase in Recruitment Costs in 2024.

Additional human resource cost categories were also reported as having significant increases and impacts on financial sustainability as they were not properly funded by government procurers. These included:

- As a result of workforce challenges, Agency Costs are increasing. (e.g. Case Four reported Agency Costs rising by 125% in FY24.);
- Superannuation Guarantee Levy increases;
- Staff training and education costs – especially an impact arising from several Royal Commissions (change in policy without accompanying capital and income needed to meet change);
- Workers' Compensation Insurance – a difficult issue: if OH&S can be managed by organisations they can prospectively reduce their premium but they must have capital and recurrent income to meet the cost of successfully managing the area;
- Redundancy Expenses and Provisions—not funded but a very significant cost with changes in government employment policy. (e.g. Case Four incurred a rise of 217% in redundancy costs paying $1.74m in 2024 reportedly as a result of changes in government policy. Once again, this cost not recognised as a provision in previous funding nor as an expense requiring capital funding as a result of a change in government policy.); and
- Compliance Costs are also rising due to an increase in regulatory and QA staff, primarily as a result of changes in program quality assurance arrangements.

The example of Case Four demonstrates the negative impact of workforce instability. This organisation has faced significant volatility in labour-related costs, particularly expenses such as agency staffing, redundancy provisions, and recruitment costs, indicating persistent workforce retention issues.

Agency staffing costs surged by $5.61 million (+125%) in FY2024, following a $1.9M (+74%) increase in FY2023, highlighting growing reliance on temporary workers due to high turnover and ongoing workforce shortages.

Redundancy provisions rose sharply by $1.49 million (+578%) in FY2024, reversing a $292 thousand (-53%) reduction in FY2023, suggesting restructuring, workforce instability, or changes in service models.

Recruitment costs climbed by $48.98 thousand (+84%) in FY2024, after a $42.64 thousand (+267%) spike in FY2023, reinforcing the increasing financial burden of replacing staff.

These trends align with sector-wide workforce challenges, where low retention, wage stagnation (real wage decline), and limited career pathways have led to persistent staff shortages. System-level workforce development strategies remain inadequate, with limited long-term investment in training, retention initiatives, or structured career progression pathways.

As a result, the burden of workforce instability falls on individual organisations, leading to higher costs, reduced service continuity, and greater financial strain. Addressing such challenges will require stronger policy interventions, including sector-wide training incentives, improved retention structures, and enhanced workforce planning strategies.

Regulatory Compliance Costs

In one year,

- Case Four reported Administration costs rose by 23.95%
- Case Two reported Compliance costs increased by 57.43%
- Case Six reported Consultancy, Accounting and Audit costs increased by 69%

Regulatory Compliance Costs, including Quality Assurance Costs, are rising primarily as a result of changing government policy such as has been established out of the various Royal Commissions held recently. Compliance Costs include increased human resources costs associated with the staff required to manage such obligations (reported on above) and imposts on operational staff time and on the organisation's purpose. Funding shortfalls comprise both capital funding required to support system and policy change, infrastructure and training while operational funding increases are required to support the ongoing operation of the QA and compliance systems. For example, Case Two reported an increase in Quality Assurance and Compliance Costs of 57%, with costs rising from $379,541 in 2022 to $597,534 in 2024.

Other Cost Issues

Increases in Utilities Costs are indicators of the impact associated with general cost increases across the Australian economy while increases in facilities maintenance and repair costs may be indicators of situations where case organisations have not been able to meet general maintenance costs historically and now face more substantial rectification costs associated with buildings and other assets.

Increases in office accommodation costs, insurances and other costs that are minor in proportion to the total costs of operation incurred, are still significant and, in aggregate for organisations, impactful with respect to reducing financial sustainability.

Overall, more attention needs to be paid to the minutiae of increases in costs associated with changes in government policy and impacts of social and economic change. Solutions need to

be found in relation to the disconnect between government policy change and government funding policy—both are absolutely interrelated and reliant on each other. Poor funding and indexation policy negatively impacts service and quality assurance policy and vice versa.

Indexation

- No case organisation reported that indexation met or exceeded cost increases experienced
- Case Seven reported total cost increases of 13% in FY2023 and 11% in FY2024 against Indexation of 1.3% and 5.13% respectively
- Case Organisations reported a lack of consistency and reliability in Indexation payments as to timing and quantum

The issue of indexation is an important one for the achievement of financial sustainability. The purpose of indexation and the risks associated with getting it wrong have been rehearsed in previous publications of the Centre for Public Value.[15] Key challenges associated with this policy area include:

- Governments' use inappropriate indexation calculation models, usually including a combination of Consumer Price Index (CPI) and Wages Price Index (WPI) or being applied as a subjectively arrived at arbitrary value based on the budget allocation rather than on the real comprehensive cost of service delivery;
- the use of inappropriate indexation calculation methods results in the under-indexation of funding meaning that funding for services and supports purchased by governments are effectively reduced in real terms year-on-year;
- indexation is intended to be applied during a contract period so as to allow the funding provided for services procured to be re-weighted according to the actual cost of service delivery experienced—importantly, it is not a forecast of future costs at the start of the new financial year but, rather, a pricing adjustment that brings the funded service provider to the starting point for the new financial year;
- therefore, the service provider is always behind in terms of their capacity to meet expenses regardless of the indexation rate applied—they will still have to cashflow real cost increases during the course of the new financial year because indexation is not passed on until the next financial year. As such, even if the indexation formula is appropriate, the service provider will only be able to recover all costs incurred in the year commencing at the start of the following year, they will always have to meet the cashflow impacts of a funding shortfall; and
- current methodologies:
  - lack transparency of calculation
  - do not have a requirement for procuring government agencies to pass on the full indexation
  - require a method of reconciling the indexation paid to the actual cost of service delivery experienced; and

[15] For instance, see reports located here and in the bibliography.

- some governments apply what they term an "efficiency dividend" or "productivity offset" to indexation rates thereby reducing them—really this is simply a funding reduction in real terms.

Improper indexation formulae build real funding reductions into the funding system and accumulate year-on-year to develop sizable funding gaps thus reducing financial sustainability. However, the case organisations also reported delays in governments' confirmation of funding indexation each year and, despite the rate being announced by central agencies (such as Treasuries) could not rely on the full indexation amount to be passed on.

This causes uncertainty which, as contracts come up for renewal, impacts the strategic response of the organisation. Decision making delays cause workforce issues such as: delayed staff contract renewals as funding is not confirmed; delayed investment decisions as short-term solvency issues occupy management and boards; and increase the cost of service delivery due to "pick-up-put-down" costs—the cost of delaying and losing staff then attracting, training and deploying new staff as the situation becomes clearer. Overall, this then increases costs to the taxpayer as government must essentially pay more for less output but also pay more in indirect costs due to the need to transfer costs via providing supports in the primary healthcare system in lieu of social services availability.

In terms of the experience of the case organisations, all demonstrated that indexation did not meet their cost increases in any one of the three years reviewed. For instance, Case Three demonstrated costs increases year-on-year against CPI in the context of its ongoing purchasing power as follows:

Year-on-Year	Cost Increase	CPI
FY22 – FY23	7.0%	4.9%
FY23 – FY24	13.9%	4.6%

It can easily be seen that the cost increases compare unfavourably to CPI above. Whether you accept that CPI is an inappropriate indexation factor (which, mathematically it is) or not, it is clear that indexation provided will not allow the organisation to meet its costs at the start of the new year much less provide capacity to meet FY25 cost increases while it awaits indexation to be established leading into FY26.

The national Blueprint for Not-for-profit Development included an initiative in support of the development of appropriate indexation calculation formulae and systems. Specifically, this related to the establishment of a Producer Price Index by the Australian Bureau of Statistics (ABS) so that the indexation formula is relevant to social service providers and the indexation rate is set by an arms-length disinterested agency rather than treasuries which have an interest in the rate of indexation set.

Concluding Remarks

Throughout this report, we have referred to the aim of the analysis as being to assess the extent to which social service organisations are able to respond to the need in their communities. We see sustainability not from a sector/nonprofit perspective but, rather, from the perspective of the service users. We see sustainability as the ongoing provision of demonstrably reliable, effective and appropriate quality services being provided to service users who need them and confirm that financial sustainability risk impacts that capacity significantly. A strong, high capacity and well-resourced sector is very necessary to the achievement of this outcome.

We also see a strong, financially sustainable social services sector as an essential component in an effective and efficient social services system. Strong and effective, knowledgeable and engaged governments are also necessary to that system. Appropriate funding, indexation and capitalisation are critical aspects of such a system and will result in better services to those who need them and more efficient outcomes from Australian governments' perspective.

The evaluation of the seven cases emphasises a number of issues that have both anecdotally and empirically been recognised for some time in the Australian social services sector. Fundamentally, the relationship between government—by far the most impactful agent in relation to achieving outcomes in the provision of social services—and the nonprofit social services sector is critical.
A sustainable social services funding system will provide certainty and reliability to service users, certainty of appropriate resourcing to service providers so they can plan, invest and build their capacity, and value-for-money for governments.

Recommendations:

As such, a systemically appropriate funding framework needs to be adopted by all governments that establishes and maintains the five fundamental elements needed to drive sustainability in the context of effective service delivery, the efficient use of public funds and in the interests of service users, viz:

(1) a comprehensive contracting process that is demonstrably based on empirical evidence of cost and Service Mix requirements;

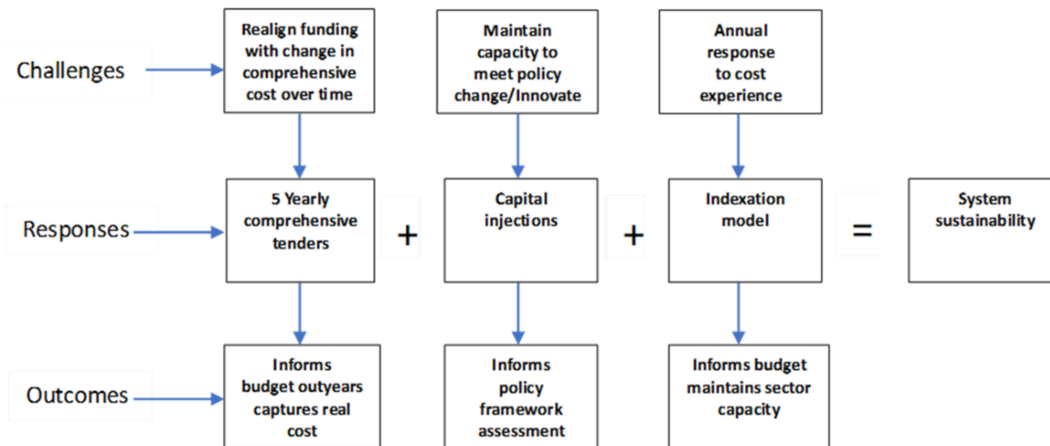
(2) an indexation process that ensures the timely and full allocation of funding to cover the cost increase experience of the contracted providers at least once per annum;

(3) a mature impact-based response to policy changes, economic and social shifts and shocks by injecting appropriate levels of capital into the funded sector to ensure the comprehensive costs of service delivery are fully met in a timely and effective manner;

(4) a comprehensive data asset development process that will ensure transparency over the extent to which a Service Mix Gap exists in Australian communities.

Figure 5 below, demonstrates schematically these elements in the context of system sustainability.

Figure 5: Components of System Financial Sustainability



We think that one part of the required structural change is the adoption of a set of data assets that can help to assess the extent of service needed—types, quantity, location and timing—in the community efficiently and effectively, position the ABS to calculate a Producer Price Index indicating the cost change impacting the sector at least annually, and allow governments and the sector to assess the extent to which the services delivered have met that need.

An added advantage of having the ABS calculate a producer price index is that the calculation is undertaken at arms-length from the parties interested in the outcome and it forces transparency related to indexation as governments will need to explain why they adopt an indexation rate that is different from that calculated independently by the ABS. Further, other aspects of indexation, such as efficiency dividends, would also need to be explained in this context so that the indexation rate is reconciled to the real costs increases experienced by service providers as would independent decisions of government agencies not to pass on indexation funding provided by appropriations.

This need was identified in the national Not-for-profit Development Blueprint framed by sector representatives and published by the Commonwealth Government. However, the first step is recognise the real impact of cost changes and of policy changes on the capacity of the sector to do its work. As such, the Commonwealth government should ensure the allocation of appropriate infrastructure, capital investment and ongoing funding needed to fully implement the national Not-for-profit Sector Development Blueprint.

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All of the items below are hot linked to the resources themselves and are available for free for readers' access. The Centre for Public Value's website is here and individual document access is available by clicking here or on the citation itself.

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