



Financial Performance & Revenue Trends

Total Revenue Growth → \$52.3 million in 2022, \$55.7 million in 2024

Overall **INCREASE OF 6.6%**

Revenue Growth Rate → 5.7% in 2022-23, 0.8% in 2023-24

Reflecting **SLOWING GROWTH**

Government Funding Dependency → 73% total revenue in 2022 peaking at 78% in 2023, returning to 73% in 2024

Revenue Diversity (HHI Measure) → Increased from 0.59 in 2022 to 0.635 in 2023

Signalling **HIGHER FUNDING CONCENTRATION RISK**

Cost Pressures & Expenditure Trends

Total Staffing Costs \$27 million in 2022, \$29.7 million in 2024

Accounting for **~72% OF TOTAL EXPENSES**

Compliance Costs \$379,500 in 2022, \$655,000 in 2023, \$597,000 in 2024

Reflecting **GROWING REGULATORY BURDEN**

Motor Vehicle Running Costs Increased by 147% in 2022-24

Driven by **REGIONAL SERVICE DELIVERY**

Workers' Compensation Insurance Grew by 25% from 2022 to 2024

IT and Cybersecurity Investment \$207,000 in 2022, \$987,000 in 2024

Reflecting the **NEED FOR DIGITAL INFRASTRUCTURE**

Financial Sustainability & Investment Constraints

Operating Surplus Ratio Improved from 0.26% in 2022, 3.3% in 2024 but remains **VULNERABLE TO FUNDING SHORTFALLS**

Administrative Expense Ratio 25% in 2022, 19% in 2023, 21% in 2024

Reflecting **ATTEMPTS TO CONTAIN COSTS**

Indexation Shortfalls Commonwealth indexation ranged from 0.97% in 2022 to 3.3% in 2024, failing to keep pace with a 11% increase in total costs in 2022-23 where indexation was 5.7% from the Commonwealth and 2.8% from state indexation.



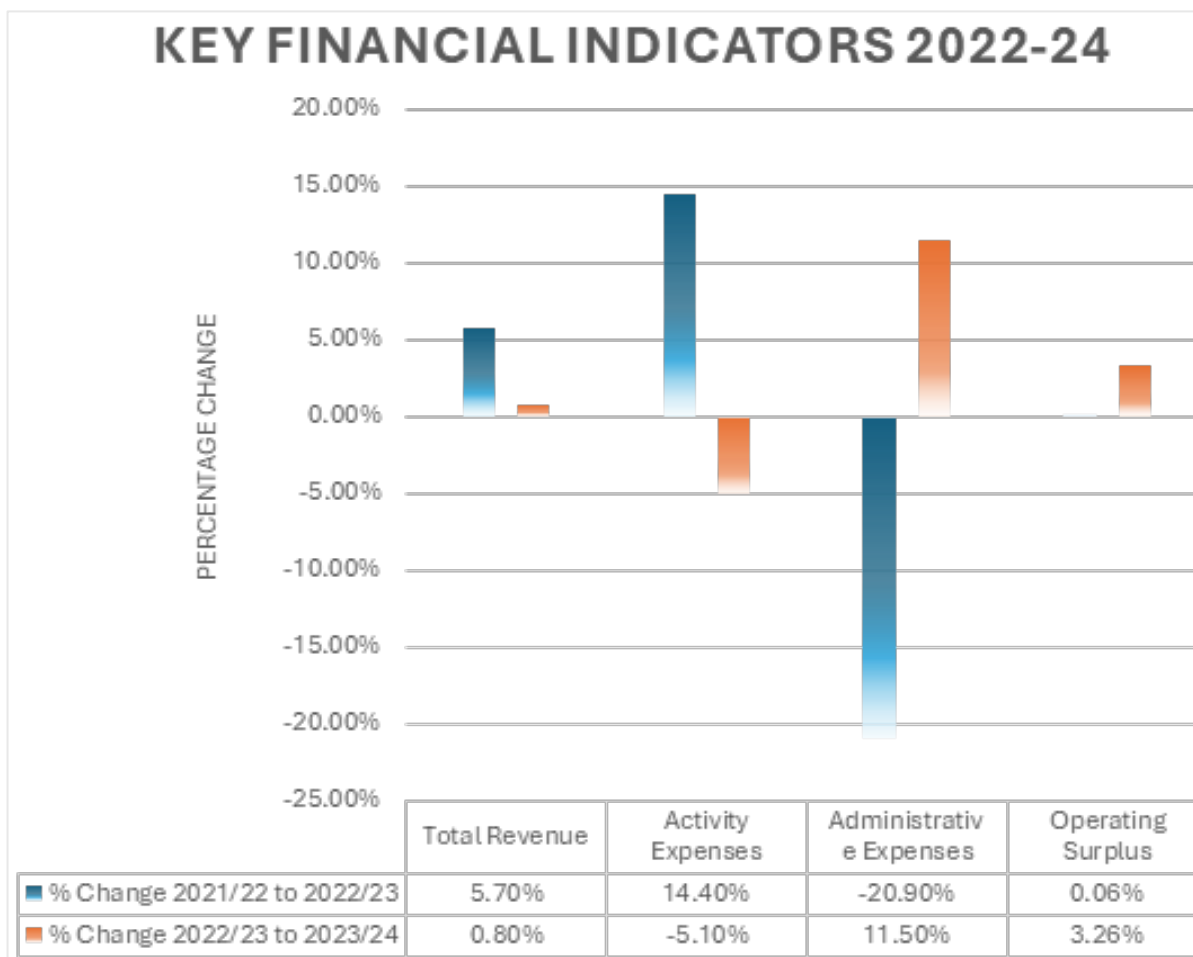
Introduction

Case two is a large human services organisation delivering services across metropolitan, regional, rural, and remote Victoria. Its diverse programs span long-term housing, crisis support, family and youth services, education support, and mental health programs, reflecting a broad and integrated social mission. Over recent years, the organisation has undertaken strategic consolidation to strengthen mission alignment, achieve economies of scale, and focus growth in areas of greatest community need.

Operating within an increasingly complex environment, the organisation faces rising costs, growing demand, and expanding compliance requirements that have outpaced indexation and funding growth. Leaders describe the current context as the most challenging period in decades, marked by unpredictable government funding cycles, workforce instability, and the erosion of historical church-based financial support.

“IT’S THE WORST I’VE SEEN IT IN THE SECTOR ACROSS SERVICES.”

Despite these pressures, the organisation continues to adapt, investing cautiously in digital capability, reshaping partnerships, and refining service models to remain responsive to community needs while sustaining financial stability in a high-cost, high-compliance operating landscape.





Key Implications for Policy and System Design

The Victorian case highlights a mature service system under strain from administrative saturation, workforce fatigue, and chronic underinvestment in capability. While the organisation has demonstrated disciplined financial management and operational adaptability, incremental reforms have failed to keep pace with the structural demands of modern human services delivery.

Funding for Capacity, Not Just Cost

Funding models must evolve from short-term cost containment to sustainable capacity-building. Current indexation and contracting arrangements exclude the overheads that underpin quality, such as compliance, digital systems, and workforce training. Full-cost and capacity-based contracting would ensure that government pricing reflects both the direct cost of services, and the infrastructure required to sustain them.

Predictable and Aligned Funding Cycles

Frequent retendering and inconsistent indexation across Commonwealth and state programs create significant inefficiencies. A commissioning model that offers multi-year certainty, transparent funding trajectories, and cross-government alignment would enable organisations to retain skilled staff, plan investments, and improve service quality rather than divert resources to short-term contract management.

Building Workforce Stability and Flexibility

The human services workforce remains fragmented, casualised, and stretched. Policies that support long-term workforce development, through funded training, portable entitlements, leadership programs, and recognition of part-time workforce patterns, would help stabilise staffing and reduce turnover. Funding mechanisms should account for the “hidden costs” of a predominantly female, part-time workforce rather than applying blunt headcount or productivity measures.

Investing in Digital Infrastructure and Sector Productivity

Digital and data capabilities are now essential to both compliance and efficiency, yet investment remains piecemeal. A coordinated, co-funded approach to digital infrastructure, including shared analytics platforms, data standards, and cybersecurity support, would improve accountability, reduce duplication, and enable providers to redirect resources toward frontline delivery.

Resourcing Collaboration as a Core Function

Partnerships are vital for integrated service delivery but remain administratively fragile and underfunded. Establishing dedicated funding streams or longer-term partnership agreements would allow organisations to share data, governance, and risk effectively, turning collaboration from an unfunded aspiration into a functional component of system design.

Adaptive Rationalisation and Strategic Repositioning

Over recent years, the organisation has undergone deliberate consolidation—rationalising programs, aligning activities more closely with mission, and seeking economies of scale where feasible. This process was described as both a financial necessity and a strategic pivot. Leaders emphasised that



“you can’t cut your way to growth,” underscoring that sustained efficiency gains have already been exhausted. The organisation’s focus has shifted toward stabilising existing programs, strengthening regional presence, and selectively expanding into growth corridors where need and policy alignment coincide.

“EFFICIENCY HAS BEEN OUR NORM FOR A DECADE, BUT NOW THERE’S NOTHING LEFT TO TRIM. YOU CAN’T CUT YOUR WAY TO GROWTH.”

While the consolidation has improved internal focus, it has also limited the organisation’s flexibility to respond to new funding rounds or emerging needs. Delays in government tenders, particularly following state elections, have further compounded uncertainty, leaving staff and programs in limbo and creating industrial relations risks linked to temporary contracts.

Technology investment was identified as both a burden and a strategic opportunity. The organisation has made major strides in digital transformation, having internally funded data capability development since 2016, including Tableau and Power BI implementation. However, these investments were possible only through redirecting internal surpluses, not through targeted government funding.

“INVESTMENT LEAD TIME IS EVERYTHING—WE STARTED BUILDING DATA CAPABILITY IN 2016 AND HAD TO FUND IT INTERNALLY. IT TOOK YEARS BEFORE IT PAID OFF.”

“DATA AND TECHNOLOGY ARE POWERFUL, BUT INVESTMENT TAKES FORESIGHT. YOU CAN’T INNOVATE ON GOODWILL ALONE.”

The leadership team highlighted a lack of coordinated sector-wide infrastructure or shared investment, noting that other organisations have “wasted money on tech without investing in the people to use it.” The productivity potential of digital tools remains constrained by risk aversion in government contracting, including directives not to deploy AI-based tools in service delivery or analysis. This has slowed innovation and limited the capacity to test new models for efficiency or data-driven decision-making.

“WE’VE BEEN TOLD NOT TO USE AI BY GOVERNMENT, BUT TECHNOLOGY COULD TRANSFORM THE BACK OFFICE, GOVERNANCE, AND SERVICE PRODUCTIVITY.”

Collaboration, Partnerships, and System Fatigue

Collaboration has evolved from co-existence to strategic necessity, though not without challenge. Earlier consortium models had collapsed under the weight of governance and resource requirements, illustrating the fragility of partnership structures when resourcing is thin. Leaders expressed that large organisations are better positioned to sustain partnerships, possessing both financial capacity and dedicated staff for joint initiatives.



“WE’VE MOVED FROM CO-EXISTING TO COLLABORATING, PARTNERSHIPS THAT SHARE INFORMATION AND RESOURCES, NOT JUST A SLICE OF THE PIE.”

Smaller providers lack these foundations, despite often being closer to communities and more attuned to need. The interview revealed a growing sentiment of “system fatigue”, where collaboration is seen as desirable but chronically underfunded and administratively burdensome.

Revenue Composition and Trends

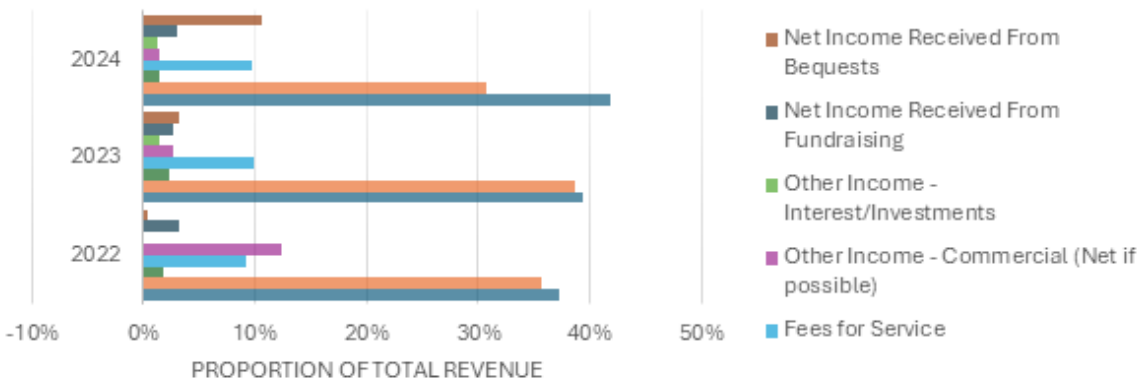
Over the two financial years captured, the organisation demonstrated steady revenue growth, albeit with challenges related to funding diversity and dependency. The Herfindahl-Hirschman Index (HHI) for revenue diversity and the dependency ratio on government grants reveal a moderately concentrated funding base, which poses risks to long-term sustainability.

The organisation’s revenue grew from \$52.3 million in 2022 to \$55.7 million in 2024, with a growth rate of 5.7% between 2022 and 2023, slowing to 0.8% between 2023 and 2024. This decline in growth reflects constraints on traditional funding sources, particularly state government grants and other income streams.

Revenue Diversity and Dependency

The HHI measure of revenue diversity highlights a highly concentrated funding base with an index of .2914 in 2022 and increasing to .3159 in 2023. A higher HHI score in 2023 reflects a modest increase in government grant reliance in a relatively diverse revenue portfolio. Federal and state government grants combined contributed 73% of total revenue in 2022, peaking at 78% in 2023, and decreasing to 73% in 2024. While federal grants increased consistently, state funding dropped by 20% in 2024, highlighting the volatility in government support and the organisation’s reliance on these sources.

REVENUE COMPOSITION 2022-2024





- 1) Government Funding Volatility:** While federal funding has grown consistently, state grants have become increasingly unpredictable, with a 20% decline in 2024 significantly impacting the organisation's revenue base.
- 2) Other Revenue Streams:** Commercial income fell by 78% in 2023 and another 42% in 2024, signalling reduced opportunities for self-generated income. Similarly, other grants declined by 33% in 2024.
- 3) Bequests as a Buffer:** Income from bequests surged from \$223,500 in 2022 to \$5.8 million in 2024, providing critical financial relief. However, reliance on one-time sources like bequests highlights the need for more stable funding mechanisms.
- 4) Fee for Service:** This income type constitutes 10% of revenue at an average of \$5.2 million from 2022 to 2024. This suggests that the organisation has a sizable unrestricted income component to

The organisation's funding profile reveals both strengths and vulnerabilities. While revenue growth and government support have provided stability, the high dependency ratio and concentrated funding base pose risks to financial resilience.

Funding Volatility and Structural Cost Misalignment

The financial data confirm leadership observations of intensifying cost pressures. Rent, utilities, and supply costs have risen markedly post-COVID, while indexation has consistently failed to cover the true cost of service delivery. Government funding, accounting for roughly 80% of total income, is split between Commonwealth and state sources, with both levels demonstrating volatility. Federal funding has grown incrementally, while state grants have declined sharply, resulting in unpredictable budget planning cycles. Leadership described the funding environment as "the worst I've seen it," particularly for organisations without significant reserves.

“BEING LEAN HAS BEEN STANDARD FOR THE SECTOR, BUT THERE’S NOTHING LEFT TO TRIM. ORGANISATIONS WITHOUT RESERVES WON’T SURVIVE ANOTHER SHOCK.”

“MAJOR SHOCKS ARE A REAL CONCERN FOR ORGANISATIONS WITHOUT RESERVES. LARGER ONES CAN CLOSE PARTS AND SURVIVE; SMALLER ONES SIMPLY CAN’T.”

Larger providers can close programs or absorb losses across portfolios, but mid-sized organisations like this one face a binary choice between running deficits or withdrawing services. The erosion of church-based financial support, which once underpinned infrastructure and administrative overheads, has further tightened margins.



Five Main Categories Driving Cost Pressures

From 2022 to 2024, the organisation faced escalating financial pressures driven by rising costs, underfunding, and the complexities of delivering services in rural and remote regions. Despite these challenges, the organisation achieved modest improvements in its Operating Surplus Ratio, increasing from 0.26% in 2022 to 0.32% in 2023, and reaching 3.26% in 2024. Total revenue grew from \$52.3 million in 2022 to \$55.7 million in 2024. However, the slow revenue growth has struggled to keep pace with rising expenses, amplifying cost pressures and financial vulnerabilities.

Key Cost Categories

Cost Category	2021/2022	2022/2023	2023/2024	%Δ
Staffing On-costs	\$27,000,000	\$29,810,000	\$29,730,000	10.4%
Compliance costs	\$380,000	\$655,000	\$598,000	57.7%
Workers compensation insurance	\$293,000	\$833,399	\$1,500,000	400%
Motor vehicle running costs	\$277,500	\$388,100	\$685,500	150%
Telephone and IT subscriptions	\$406,800	\$635,000	\$1,570,000	290%

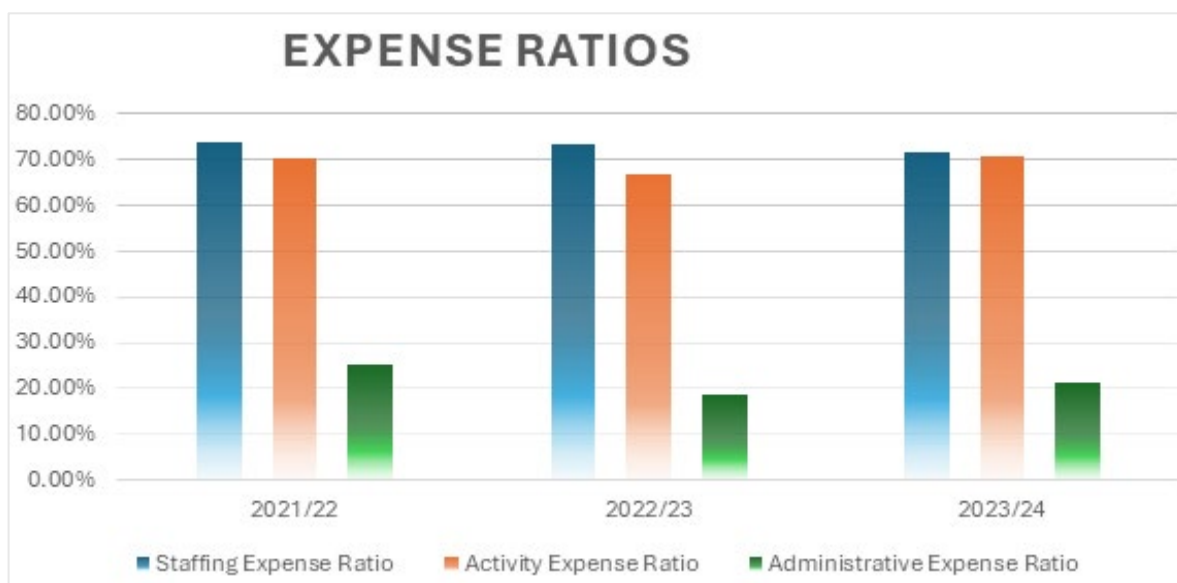
- 1) Staffing On-cost Expenses:** Staffing remains the largest cost driver, with total staffing expenses, including recruitment, training, and workers’ compensation insurance, growing from \$27 million in 2022 to \$30 million in 2023, and declining to \$29.7million in 2024. These costs accounted for 73.7% of total expenses in 2022, decreasing slightly to 71.8% in 2024. Recruitment difficulties and reliance on agency staff to fill vacancies continue to strain financial resources, particularly in rural areas.
- 2) Regulatory Compliance:** Compliance-related costs, including administrative requirements, governance, and reporting, nearly doubled from \$380,000 in 2022 to \$655,000 in 2023 before easing to \$597,500 in 2024. Combined with administrative expenses, compliance spending totalled \$13.5 million in 2022, \$11 million in 2023, and \$12.2 million in 2024. These costs highlight the growing administrative burden imposed by funders, which is inadequately covered by government funding, which often requires an organisation to divert resources from frontline services or capacity-building investment opportunities.

“BACK-OFFICE FUNCTIONS, FINANCIAL MANAGEMENT, WORKFORCE DEVELOPMENT, ARE ESSENTIAL, BUT THEY’RE THE FIRST TO BE CUT BECAUSE THEY’RE NEVER FUNDED.”

- 3) Workers’ Compensation Insurance:** Rising workers’ compensation insurance costs increased by 400% over the period, from \$293,000 in 2022 to \$1.5 million in 2024. These increases reflect challenges of maintaining safety standards in dispersed and high-risk service environments, as well as among a high turnover staffing body.



- 4) **Motor Vehicle Running Costs:** Essential for service delivery in rural and remote areas, motor vehicle costs rose sharply from \$277,540 in 2022 to \$685,450 in 2024—a 147% increase. As in other industries, these costs are driven by higher fuel prices, maintenance expenses, and the logistical demands of operating across geographically dispersed locations. Regional and remote services must rely on most robust, and evidently more expensive, vehicles to ensure prolonged usage. These added costs are often overlooked in funding agreements and indexation settings.
- 5) **Telephone and IT subscriptions:** The combined costs for IT subscriptions and telephone & internet have increased by 287% from 2022 to 2024, from \$407,000 in 2022 to \$1,573,000 in 2024. This increase is driven by the essential nature of technology and communications, especially in rural service delivery, where reliable infrastructure is crucial. The growing costs reflect rising unit prices and the need for more extensive connectivity across geographically dispersed locations. Increasing to almost 3.5% of the total costs in 2024.



Financial Ratios and Cost Distribution

The organisation’s financial ratios highlight the impact of rising indirect costs and the underfunding of essential administrative functions as the organisation had to likely divert funds from administrative tasks and investment to support program activities in the short-term.

- **Total Cost Growth:** Total costs increased by 11% between 2022 and 2023 but declined by 4.7% in 2024, reflecting efforts to stabilise spending amid rising operational pressures.
- **Administrative Expense Ratio:** Administrative costs accounted for 25.2% of total expenses in 2022, 19% in 2023, and 21.5% in 2024. Administrative expenses fell by 20% from 2022 to 2023, despite growth in activity and program costs, suggesting a constricting to buffer overall cost increases from a high inflation environment.



- **Program Expense Ratio:** Program-related expenses, representing direct service delivery, made up 74.8% of total costs in 2022, peaking at 81.1% in 2023, before declining to 78.5% in 2024. The organisation’s focus on maintaining frontline services has stretched financial resources.

Revenue and Cost Growth

While revenue grew by 5.7% from 2022 to 2023 and 0.8% from 2023 to 2024, total costs outpaced this growth in earlier periods. The organisation’s ability to increase its Operating Surplus Ratio to 3.26% in 2024 reflects efforts to stabilise expenses, but maintaining this trend will be increasingly difficult without sufficient funding indexation to cover growing operational and compliance costs.

Challenges in Contracting

The financial constraints faced by the organisation are evident in its heavy reliance on government funding, which accounted for 73% of total revenue in 2024. While federal grants increased by 7% from 2023 to 2024, state government funding declined sharply by 20%, illustrating the volatility of funding streams. This funding instability, coupled with inadequate Commonwealth indexation of 0.97% in 2022, 5.74% in 2023 and 3.29% in 2024 leaves the organisation unable to meet the rising costs of service delivery. Important to note is that the Commonwealth indexation is not separated from the supplementation payment when provided to an organisation, meaning that despite the 10.7% increase in total costs, and modest activity growth, the real costs experienced by the organisation likely far exceed the indexed funding.

Compliance and quality assurance costs surged from \$380,000 in 2022 to \$655,000 in 2023, highlighting the increasing regulatory burden. Administrative expenses, which totalled \$12.1 million in 2024, reflect the ongoing pressure to manage reporting and quality assurance demands. The need to cross-subsidise underfunded programs or reduce staffing to match limited funding exacerbates financial strain. Total staffing costs, including recruitment, training, and insurance, reached \$29.7 million in 2024, reflecting the struggle to balance workforce needs with constrained budgets.

Workforce Constraints and the Hidden Costs of Flexibility

The workforce challenge is both operational and structural. Persistent turnover, increasing reliance on part-time and casual staff, and a sector dominated by women balancing care responsibilities have made workforce planning unpredictable. Leaders noted that while “headcount” may appear stable, the real measure (full-time equivalent staff) has declined, while associated costs such as subscriptions, work cover, and training are applied per head, not per FTE. This creates a “hidden cost” that directly reduces productive hours and increases administrative load.

Recruitment and retention difficulties have been exacerbated by rising living costs and the complexity of casework. The organisation reported growing demand complexity, clients presenting with multiple, overlapping issues that require longer interventions and multidisciplinary coordination. Intake structures now function as demand management tools rather than entry pathways, with triage and referral replacing waitlists to ration limited capacity.



Investment Capacity is Strained as Compliance Costs Capture Increased Resourcing

The organisation's capacity for reinvestment is constrained by rising compliance and administrative costs. Compliance costs alone doubled between 2022 and 2023, reaching \$654,950, and consumed a significant portion of financial resources. This growth in compliance-related spending, alongside increasing costs for training and professional development (rising from \$148,650 in 2022 to \$380,500 in 2024), has curtailed the organisation's ability to invest in technology and infrastructure improvements.

Critical investment areas like IT subscriptions rose from \$207,500 in 2022 to \$987,000 in 2024, driven by the need to manage cyber security risks and maintain operational capacity. However, these investments are reactive rather than proactive, reflecting limited financial flexibility. Indicators of reinvestment in infrastructure, technology, and organisational capacity are failing to keep pace with the rising cost of service delivery, leaving the organisation exposed to long-term risks and inefficiencies.

“INNOVATION TESTING AND KNOWLEDGE SHARING AREN'T FUNDED. EVERYONE REINVENTS THE WHEEL BECAUSE THERE'S NO INVESTMENT IN COLLECTIVE LEARNING.”

Without adequate surplus for reinvestment, the organisation is forced to manage risks incrementally rather than achieving transformational improvements, further straining its ability to adapt to growing compliance demands and operational challenges.

Filling Resourcing Gaps in Regional and Remote Area Services

Service delivery in rural and remote areas continues to impose disproportionate cost burdens. Motor vehicle running costs, a critical expense for rural operations, rose by 147% from \$277,500 in 2022 to \$685,500 in 2024, reflecting the financial toll of maintaining service accessibility across dispersed locations. Recruitment costs, while reduced to \$46,500 in 2024 after peaking at \$168,000 in 2023, remain a major challenge. Persistent vacancy rates in remote programs lead to increased reliance on costly agency staff, further straining resources.

Compounding these challenges, the organisation notes that the state government recoupment policy currently targets organisations with unfilled program vacancies, obliging the organisation to negotiate aggressively to offset sunk costs, including advertising and interview expenses. Without adequate funding or indexation to account for these regional complexities, the organisation is compelled to subsidise gaps, diverting resources from other critical areas.

“BOARDS ARE LEARNING THAT SUSTAINABILITY ISN'T ABOUT PRESSURING THE EXECUTIVE TO HIT GOALS, IT'S ABOUT THE REALITY OF ERODED RESERVES.”



Conclusion

The organisation is operating in an increasingly complex financial and regulatory environment, facing challenges such as high dependency on government funding, rising compliance costs, and cost pressures associated with regional service delivery. While the organisation has demonstrated revenue growth and improved its operating surplus ratio, its financial sustainability remains at risk due to funding volatility, limited revenue diversification, and escalating operational expenses. Addressing these challenges requires strategic efforts to secure stable funding, diversify income streams, and enhance cost efficiency while maintaining service quality. Without adequate indexation and investment in long-term capacity, the organisation risks ongoing financial strain and reduced flexibility to adapt to future challenges.

The Centre for Public Value UWA and the UWA Public Policy Institute

The Centre for Public Value UWA (CPV) has recently merged with the UWA PPI as a research subsidiary, strengthening UWA's capacity to influence and inform public policy at state and national levels. As part of the UWA PPI, the CPV's research will now contribute directly to the Institute's broader mission of connecting academic insight with policymakers and communities to drive meaningful, evidence-informed change.

Citation Information

Perks, B., & Gilchrist, D. (2025). *Real Costs, Real Impacts: A Path to Social Services Sustainability – Case Study 2 Victoria*. Centre for Public Value UWA & UWA Public Policy Institute for Catholic Social Services Australia.