Revenue, Costs & Inflation

Total Revenue Change → 20% increase from $29 million in FY2022 to $34 million in FY2024

Total Cost Change → 20% increase reflecting a 13% increase in FY2023 and 11% in FY2024

Profit Margin → Declined from 5.8% in FY2022 to 3% in FY2024

Inflation Rate → 6% in FY2022, 6% in FY2023, 3.8% in FY2024

Under-Indexation Relative to Cost Increases → Indexation ranging from 1.3% to 5.1% over the period did not outpace total cost increase (13% in FY2023, 11% in FY2024), even when factoring in demand increases

Inflation Outpaced Profit Margins → Inflation (6.1% in FY2022, 6% in FY2023) outpaced the profit margin, which dropped from 5.8% in FY2022 to 3.1% in FY2024, showing real-term financial pressure over period

Introduction

Case seven examines a not-for-profit organisation operating in Wollongong, New South Wales, delivering services across the Illawarra, Shoalhaven, Macarthur, and Southern Highlands regions. The organisation provides family and relationship counselling, homelessness support, aged care and disability services, mental health programs, and emergency relief to people experiencing social and economic hardship.

> **"WE OPERATE AGED CARE, DISABILITY, CHILDCARE, COUNSELLING — EACH WITH ITS OWN REGULATOR, EACH CHANGING ITS RULES. IT'S BECOMING IMPOSSIBLE TO TELL IF WE'RE VIABLE."**

In recent years, it has navigated intensifying financial and administrative pressures as government reforms in aged care and disability have expanded compliance requirements without equivalent funding. Rising housing stress, growing client complexity, and post-COVID demand surges have stretched workforce and operational capacity.

Despite these challenges, the organisation has adapted through careful coordination, community partnerships, and strategic diversification, balancing its social mission with the need to remain financially sustainable within a shifting policy environment.

Key Implications for Policy and System Design

The Wollongong case highlights how administrative complexity and chronic underfunding are reshaping what it means to operate as a community service organisation. The organisation's experience illustrates a system that rewards compliance more than care, forcing service leaders to continually balance mission against survival.

Administrative intensity is eroding service value

The proliferation of reporting frameworks across aged care, disability, and family services has created an environment where compliance activity increasingly competes with direct service delivery. Each new audit or performance metric may appear justifiable in isolation, but together they form an administrative load that diverts staff time, reduces responsiveness, and heightens burnout. Reform efforts must focus not on removing accountability but on consolidating it, creating integrated, outcome-based reporting systems that measure impact rather than volume.

Funding models no longer fit the complexity of care

The current unit-pricing approach assumes stable, predictable workloads that no longer exist. Program costs fluctuate with demand complexity, workforce mobility, and community need, while indexation remains static. The organisation's experience shows that funding shortfalls cannot be absorbed indefinitely through cross-subsidisation or staff reductions. Contract design needs to incorporate variability; recognising that real-world service costs rise with complexity, not just inflation.

Gendered workforce patterns require structural recognition

The predominance of part-time, female workers has created unique cost and compliance burdens that current funding and workforce policies fail to accommodate. Payroll, rostering, and supervision costs double when multiple part-time roles replace one full-time equivalent. These hidden costs compound with new industrial obligations such as casual conversion and redundancy liabilities. Future funding models should explicitly recognise and price for the workforce profile of the care economy rather than assuming standardised, full-time productivity.

Demand triage has become a structural necessity, not a choice

Growing demand and longer waiting times have forced the organisation to turn intake systems into permanent triage mechanisms. This shift marks a quiet but profound policy failure—where prevention and early intervention have been replaced by rationing. Governments should view rising waitlists not as operational inefficiencies but as evidence of unmet social investment.

Transitioning from mission-led resilience to strategic adaptation

The organisation's story reflects a broader shift from mission-driven endurance to strategic adaptation. Leaders are cautiously developing fee-for-service arms and digital tools to reduce dependence on government contracts, but these innovations require upfront capital and risk tolerance rarely supported through traditional grants. Policy frameworks that genuinely encourage innovation, through matched funding or capability investment, would allow organisations to pursue self-sufficiency without compromising their social purpose.

Financial Performance 2022-2024

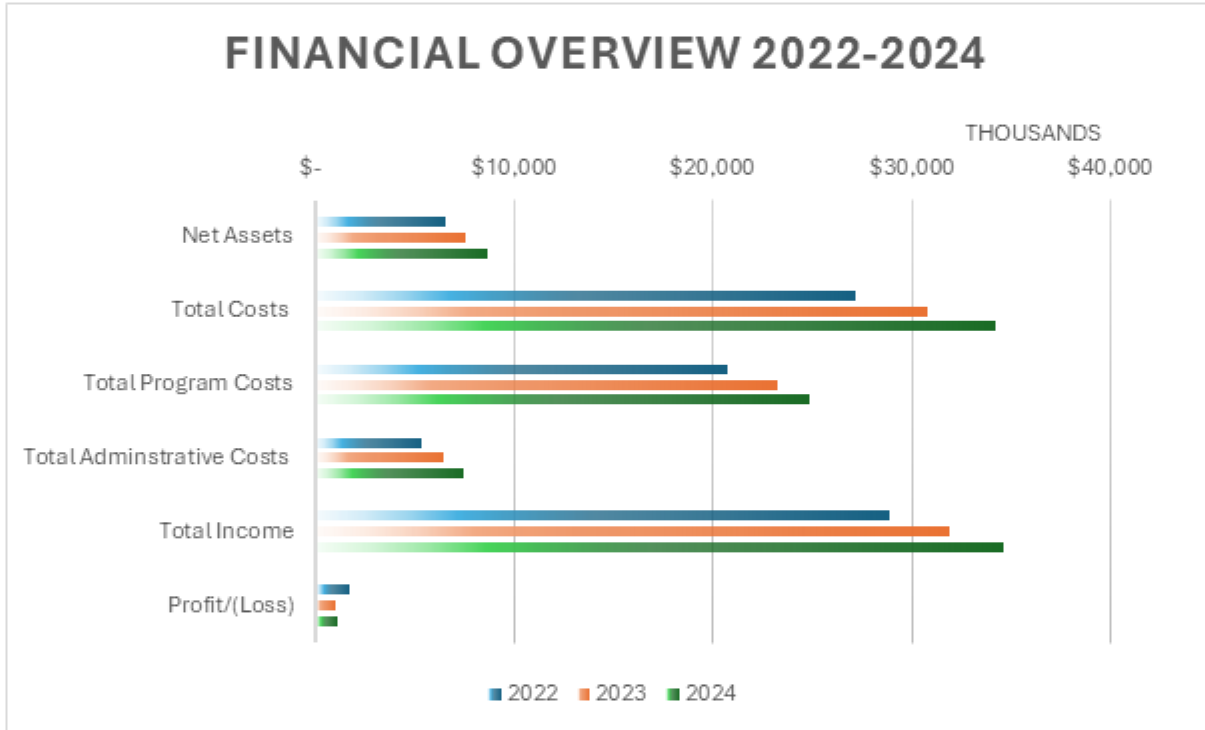
The organisation's total income has demonstrated steady growth, increasing from $29 million in FY2022 to $32 million in FY2023 and $35 million in FY2024. This equates to a 10% increase from FY2022 to FY2023 and a 9% increase from FY2023 to FY2024. Revenue growth has been driven primarily by increases in funding streams, investment income, and donations.

Despite revenue growth, profitability has fluctuated. The profit margin declined from 6% in FY2022 to 3.1% in FY2023 and remained at 3.1% in FY2024. The absolute profit fell by 42% in FY2023, from $1.7 million to $971,700, before recovering slightly in FY2024 with a 9% increase to $1.1 million. This decline reflects increased operating costs outpacing revenue growth from realised demand.

Net assets have strengthened over the period, rising from $6.5 million in FY2022 to $7.5 million in FY2023 and $8.6 million in FY2024, marking 15% and 14% year-on-year growth, respectively. This suggests some financial resilience despite expenditure pressures. However, given the size of the organisation, the present financial is insufficient.

When assessing indexation against cost increases, the organisation faced Commonwealth indexation rates of 1.3% in FY2022, 3.5% in FY2023, and 2.9% in FY2024, while state indexation rates were 2.4%, 3.5%, and 5% in the same periods. However, total costs rose by 13% in FY2023 and 11% in FY2024, exceeding both Commonwealth and state indexation in each year. Cost rises, when factoring activity increases, further indicate that service delivery expansion has contributed to expenditure growth beyond indexation adjustments. Without further efficiencies or increased funding, maintaining service levels under rising costs may become increasingly challenging.

The organisation experienced a significant decline in its profit margin, from 5.8% in FY2022 to 3.1% in both FY2023 and FY2024. Inflation, which was 6.1% in FY2022, 6% in FY2023, and dropped to 3.8% in FY2024, consistently outpaced profitability. This mismatch between inflation and profit growth has real-term implications, as the increasing cost of goods and services due to inflation erodes the organisation's purchasing power, making it harder to maintain service levels and financial stability despite marginal profit recovery in FY2024.



The organisation's financial health was also assessed through key ratios. The program ratio, which measures the proportion of total costs allocated to direct service delivery, stands at 73% in FY2024, indicating that a significant majority of spending is directed towards frontline services. The administrative ratio, at 22%, reflects the portion of costs dedicated to organisational support and overheads. Meanwhile, the asset ratio, calculated as net assets relative to total costs, is 25%, suggesting a strong financial position with sufficient reserves to support ongoing operations.

A scenario analysis was conducted to assess financial resilience under 5%, 10%, and 15% increases in total costs. A 5% increase would narrow the surplus but maintain financial sustainability. A 10% rise would further reduce the margin, leaving minimal buffer for unforeseen

expenses. A 15% increase would push the organisation into a deficit, requiring adjustments such as cost containment or revenue diversification to sustain operations. In terms of operating viability, the organisation's net assets currently provide approximately 12 months of operational coverage at the current cost base.

Revenue Growth and Diversity

The organisation's total income has grown consistently, increasing by 10% from FY2022 to FY2023 and 9% from FY2023 to FY2024, reaching $34.6 million. This growth has been primarily driven by government funding, which remains the dominant revenue source, increasing from $28.6 million in FY2022 to $34 million in FY2024. Investment income has also expanded significantly, rising by 177% in FY2023 and 167% in FY2024, while donations have contributed marginally, showing a 46% increase in FY2024 but remaining a small percentage of total revenue.

Despite revenue growth, diversity remains limited, with over 98% of total income derived from government funding. Other revenue streams, such as investment returns, fundraising, and bequests, remain relatively small, centring the organisational risk around changes in government grant and indexing policy, as well as growing funding competition. While a high government reliance does provide fiscal security, the absence of significant alternative income stream may limit investment and development potential in the medium to long-term. That said, loan balance percentage decreases from year to year suggest that the organisation has the capacity to borrow, when necessary, with having it effect operating balances over time.

"THERE'S AN INHERENT CONFLICT WHEN THE PURCHASER ALSO SETS THE PRICE. YOU FALL BEHIND AFTER THE FIRST YEAR, AND IT COMPOUNDS."

This high dependency on government funding has key contextual implications. While government grants provide stability, indexation rates (ranging from 1.3% to 5%) have not kept pace with cost increases (13% in FY2023 and 11% in FY2024), resulting in financial pressures despite revenue growth. This creates long-term sustainability risks, especially as rising costs, increased service demand, and evolving funding conditions could reduce surpluses.

Top 5 Cost Drivers 2022-2024

The organisation's five largest cost drivers in FY2024 are direct labour, total administrative costs, direct labour superannuation, program delivery costs, and corporate labour costs, collectively accounting for a significant portion of total expenditure. These costs have been shaped by policy settings, regulatory obligations, and external economic pressures, influencing service delivery and operational sustainability.

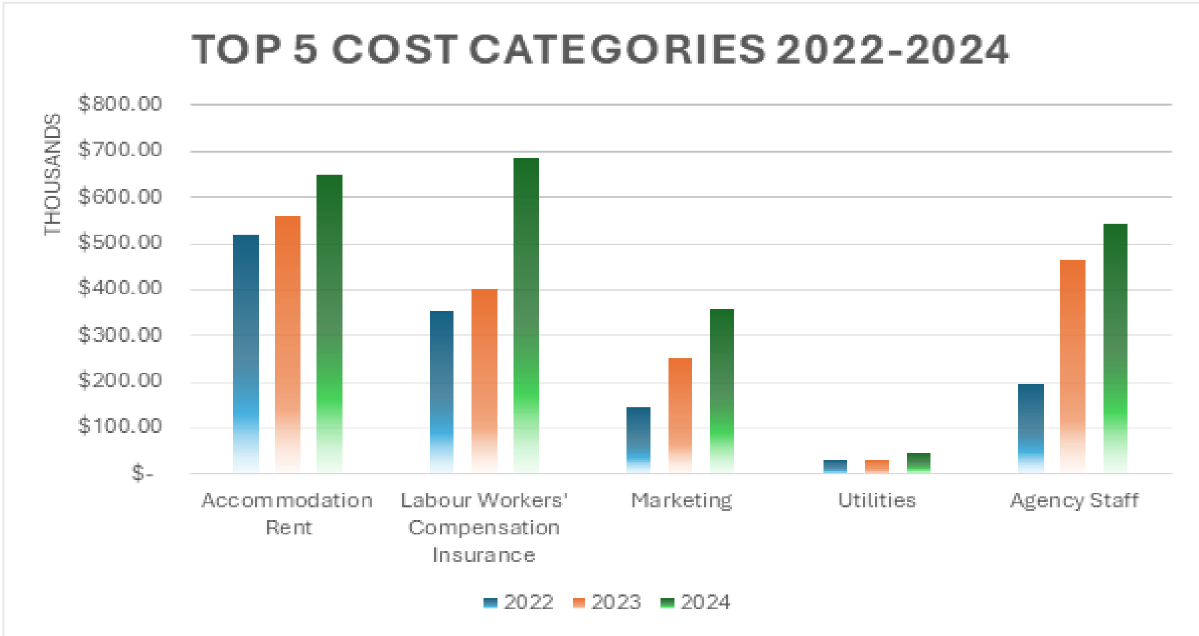
1) **Accommodation Rent:** Rent costs increased steadily (*7% from 2022 to 2023, and 17% from 2023 to 2024*), reflecting upward pressure in the Australian property market, particularly in regions like Wollongong, where rental prices for commercial and service delivery premises are rising. This trend is typical across the Australian charity sector, where property costs often represent a significant operational expense.

2) **Labour Workers' Compensation Insurance:** Insurance costs surged, particularly from 2023 to 2024 (*71%*), indicating increased premiums driven by sector-wide trends, including rising claims and higher risk profiles for community service providers. Australian charities, especially those providing social and family services, face increased risk exposure, contributing to higher premiums.

3) **Marketing:** Marketing costs rose significantly from 2022 to 2023 (*75%*) but moderated in growth from 2023 to 2024 (*43%*). This aligns with trends observed across Australian charities, where digital outreach and donor engagement campaigns intensified post-pandemic to maintain service visibility and donor support.

4) **Utilities:** Utility costs rose by *39% between 2023 and 2024*, consistent with increases in energy prices across Australia. Rising electricity costs have affected operational expenses for many charities, necessitating energy-efficiency initiatives.

5) **Agency Staff:** The sharp rise in agency staff costs (*137% from 2022 to 2023*) highlights staffing challenges in the sector, including difficulty recruiting and retaining permanent staff. The organisation's increased reliance on agency staff reflects workforce shortages prevalent in the Australian community services sector, exacerbated by high turnover rates.



The organisation is facing rising workforce and compliance costs that are outpacing revenue growth, creating a structural funding gap. Labour remains the largest cost driver (50% of total costs), increasing 10–15% annually due to sector-wide wage pressures, superannuation increases, and growing reliance on agency staff. At the same time, administrative and corporate labour costs have risen by 15% and 14%, respectively, reflecting increased compliance, IT investment, and governance requirements. These costs are growing faster than inflation (3.8%) and revenue (9%), reducing the proportion of funding available for direct service delivery.

Despite increasing demand, program costs have declined by 14%, which has been linked to constrained funding contracts, cost-saving measures, and program restructuring to smooth rising overheads.

"GOVERNMENT MIGHT DEVELOP MODELS BASED ON THE SCHADS AWARD, BUT THAT'S NOT WHAT THE ACTUAL COMPETITIVE MARKET IS PAYING. WE'RE PAYING SIGNIFICANTLY ABOVE WHAT THE FUNDING ALLOWS JUST TO ATTRACT QUALIFIED STAFF."

With a widening gap between mandated cost increases and available funding, the organisation is becoming increasingly reliant on efficiency measures, cost containment, or alternative revenue sources to maintain financial sustainability. Without intervention—whether through higher indexation, funding diversification, or regulatory adjustments—strategic reductions of further service is looking likely.

Complexity, Costs, and Capacity

Interviews with the organisation's leadership highlighted three central and interlinked challenges shaping service delivery: increasing administrative and regulatory complexity, escalating workforce and compliance costs, and limited capacity to reinvest in efficiency or innovation. Together, these pressures reveal the structural fragility of current funding arrangements and their downstream effects on sustainability, quality, and community access.

Regulatory Complexity and Compliance Duplication

Leaders described a growing administrative burden driven by overlapping regulatory frameworks across multiple service systems, including aged care, disability, childcare, and family support. Each program area carries distinct reporting requirements, with constant shifts in government expectations following successive Royal Commissions. Although these reforms are seen as valuable for quality and safety, they have introduced an extensive layer of compliance activity that must be absorbed without corresponding funding increases.

"COMPLEXITY HAS BECOME A FULL-TIME JOB. WE REPORT THE SAME INFORMATION, JUST CUT AND DICED DIFFERENTLY FOR EVERY DEPARTMENT."

Duplication across acquittal processes was a consistent theme, with departments requesting similar information in different formats. This repetition consumes staff time and resources that would otherwise support direct service delivery. One manager described the situation as "report once, report ten times," noting the absence of any streamlined cross-agency process despite earlier government commitments to reduce red tape. Frequent, uncoordinated reporting changes, such as the move from annual to quarterly aged care reporting without notice exacerbate uncertainty and reduce operational efficiency.

Financial Pressure and the Cost of Complexity

Rising costs, particularly labour, insurance, and compliance, have consistently outpaced indexation. The interviewees underscored that government-set unit prices rarely cover the true cost of service delivery, especially in labour-intensive programs. They expressed concern that current contracting models treat grants as “contributions” rather than full-cost procurements, leaving providers to absorb systemic funding gaps.

This financial strain is compounded by volatility in individualised funding models like the NDIS and home care, where demand fluctuates but fixed costs remain constant. While block funding offers stability, the shift toward market-based approaches has introduced unpredictability that makes planning and workforce retention more difficult. Some programs have already been withdrawn from due to unviable margins. It appears the although the Commonwealth government is applying market principles, their setting of the prices is distorting the capacity for organisations to recover the true costs of service delivery.

“GRANTS ARE CALLED ‘CONTRIBUTIONS,’ BUT THE EXPECTATIONS ARE FOR FULL DELIVERY. THAT’S NOT PARTNERSHIP...THAT’S COST SHIFTING.”

“IN A BLOCK-FUNDED CONTEXT AT LEAST THERE’S PREDICTABILITY; IN FEE-FOR-SERVICE MODELS, THE VOLATILITY KEEPS YOU AWAKE AT NIGHT.”

Workforce, Gendered Burdens, and Productivity

Workforce pressures were described as both structural and systemic. Wage expectations in the open market exceed funding model assumptions, forcing organisations to pay above-award rates simply to attract qualified staff. The sector’s workforce remains overwhelmingly female and part-time, a pattern that has significant cost implications. The organisation estimated nearly two workers for every full-time equivalent position, doubling administrative and supervisory costs.

Leaders linked this to broader gendered patterns of care, with women shouldering disproportionate family and community caring responsibilities, generating high requests for flexible arrangements. While essential to workforce participation, these dynamics impose complex rostering and payroll demands. Reforms to casual conversion and fixed-term contracts have also increased exposure to redundancy liabilities at the end of funding cycles — further eroding financial flexibility.

“FOR EVERY ONE FULL-TIME EQUIVALENT ROLE, WE’VE GOT TWO PEOPLE DOING IT. THAT’S THE GENDERED NATURE OF THIS SECTOR”

Demand Growth and Delayed Access

Demand for services is increasing across nearly all program areas, with growing complexity in client presentations, especially among young people and families experiencing mental health and financial stress. Counselling services report rising comorbidity, family conflict, and crisis

interventions. In aged care and disability, delayed access due to long waiting periods leads to higher long-term costs and deterioration in client wellbeing.

Leaders observed that cost-of-living pressures are now influencing help-seeking behaviour, with many people delaying contact until situations become acute. As one participant noted, "The need is there, but people are holding off until they can't anymore." This trend, they argued, pushes costs downstream into hospitals, crisis services, and justice systems, illustrating the compounding effect of unmet need.

Balancing Mission and Viability

While mission remains central, the organisation's capacity to cross-subsidise or absorb funding gaps has sharply diminished. The leadership emphasised that government contracts should "fund what they expect delivered" rather than relying on charities to fill shortfalls. Cross-subsidisation is now limited to small-scale, mission-critical initiatives, as sustained underfunding risks undermining organisational viability.

"WE MADE A DECISION NOT TO RELY ON CROSS-SUBSIDISING PROGRAMS. IT'S NOT SUSTAINABLE TO ROB PETER TO PAY PAUL."

Strategically, the organisation is moving toward a mixed model that balances government-funded programs with controlled expansion into fee-for-service areas. This shift aims to build financial self-determination without eroding social purpose. Yet leaders cautioned that such transitions require upfront investment, particularly in technology, governance, and workforce capability — areas rarely supported through current grants.

Emerging Challenges

Government-set unit prices do not cover corporate overheads, forcing the organisation to absorb rising compliance, IT, HR, and administrative costs, which increased 15% year-on-year. With labour costs growing 10–15% annually but indexation limited to 1.3–5.1%, this gap is widening. Meanwhile, competition from providers with lower overheads creates pricing pressure, disadvantaging organisations with stronger governance and risk management. The 14% rise in corporate labour costs reflects the growing regulatory burden, yet funding structures fail to account for these essential functions. Without adjustments, financial strain will continue, forcing resources away from direct service delivery, as seen in the 14% decline in program costs.

"TRANSITIONING INTO NDIS AND AGED CARE REFORMS REQUIRED DIPPING INTO RESERVES JUST TO STAY COMPLIANT. RESERVES ARE MEANT FOR RISK, NOT FOR GOVERNMENT UNDERFUNDING."

Rising interest rates further limit financial flexibility, particularly for capital investments in technology and infrastructure. While IT and compliance costs rose by 11%, funding constraints make it difficult to invest in efficiency-driven technologies that could offset long-term costs. With total costs rising 11–13% per year, any additional borrowing for digital transformation or operational improvements must be carefully managed to avoid short-term financial strain.

Without targeted funding or affordable financing, essential investments may remain out of reach, leaving the organisation struggling to balance cost pressures with service sustainability.

Conclusion

The organisation remains profitable and sufficiently capitalised, with net assets increasing 14–15% year-on-year and maintaining a stable profit margin of 3.1%. Despite rising labour, compliance, and operational costs outpacing indexation, financial reserves provide a buffer against funding shortfalls. If cost pressures persist, the organisation will prioritise reducing program costs or cross-subsidising from untied income before considering other financial adjustments. With a capital budget in place, investments in infrastructure and technology will be strategically managed to enhance efficiency while maintaining financial viability.

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

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