

Leaving no one behind: the economic imperative to invest in WA's community sector and its workforce

Nous Group

12 February 2024



Nous Group acknowledges Aboriginal and Torres Strait Islander peoples as the First Australians and the Traditional Custodians of country throughout Australia. We pay our respect to Elders past, present and emerging, who maintain their culture, country and spiritual connection to the land, sea and community.

This artwork was developed by Marcus Lee Design to reflect Nous Group's Reconciliation Action Plan and our aspirations for respectful and productive engagement with Aboriginal and Torres Strait Islander peoples and communities.

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Executive summary

The community services sector is a significant contributor and employer in Western Australia's (WA) economy, providing services to the most vulnerable people

This paper explores the current state of the community services sector in WA for the purpose of building common understanding between the sector and WA Government (Government) about the social and economic value of the community sector, the challenging realities of the current operating environment, the impact of current WA Government policies, and the opportunities for change through partnership.

It was developed by Nous Group (Nous) in partnership with Community Employers WA (CEWA), through consultation with the Chief Executive Officers of some of WA's most significant not-for-profit community service providers, analysis of survey data provided by the Australian Council of Social Service (ACOSS), and economic analysis from a range of public sources.

We present four policy solutions that the WA Government could explore to provide stability and certainty to the sector and its workers, and to direct funding to where it will have the biggest impact in terms of supporting the community and delivering a return on investment. These policy options are informed by the sector's contribution to WA's society and economy, the savings it can generate for WA Government, and the impact of WA Government policies on the long-term viability of service providers and their employees.

The sector is a partner in delivering WA Government's social policy, as it supports the community, contributes to the economy, and creates savings for government

WA's community services sector is made up of thousands of not-for-profit organisations who improve the health, safety, equity, wellbeing and prosperity of our community. It reaches across all regions and demographics of society, especially for marginalised and underrepresented groups. The sector is critical to the ability of WA Government to provide essential services to its constituents, but also fills gaps in services and contributes to the enrichment of society.

Community service providers often have a range of funding sources, but the most important contributors are the WA and Australian Governments. The sector delivered \$7.4 bn of services in 2021,¹ but due to undervaluing of these services the true contribution to Gross State Product (GSP) will be higher. Due to their operating models and not-for-profit status, almost all community sector revenue stays within and supports local economies.

The sector is a significant employer with 72,000 people making up 5.1 per cent of WA's workforce.² This is comparable to the manufacturing, mining, and retail industries; however community services employ a much higher proportion of women, 78 per cent or over 55,000 people. The sector also attracts 111,000 volunteers each year,³ increasing the productivity of the workforce by an estimated \$489 mn, based on total hours of volunteering.⁴ Inclusive of volunteers, the sector is the States largest employer of Western Australians.

Community service providers also create significant savings for WA Government and the wider economy through early intervention and prevention initiatives that reduce costs in the long term. These programs are often far less costly to implement than the downstream WA Government services which people would otherwise require, such as in the healthcare or justice system. With sufficient data and capability, the impact of programs can be estimated through a Social Return on Investment (SROI) evaluation. While there are examples of this for WA programs, most community service providers lack the resources to undertake a SROI and so cannot demonstrate the impacts and cost savings of their programs.

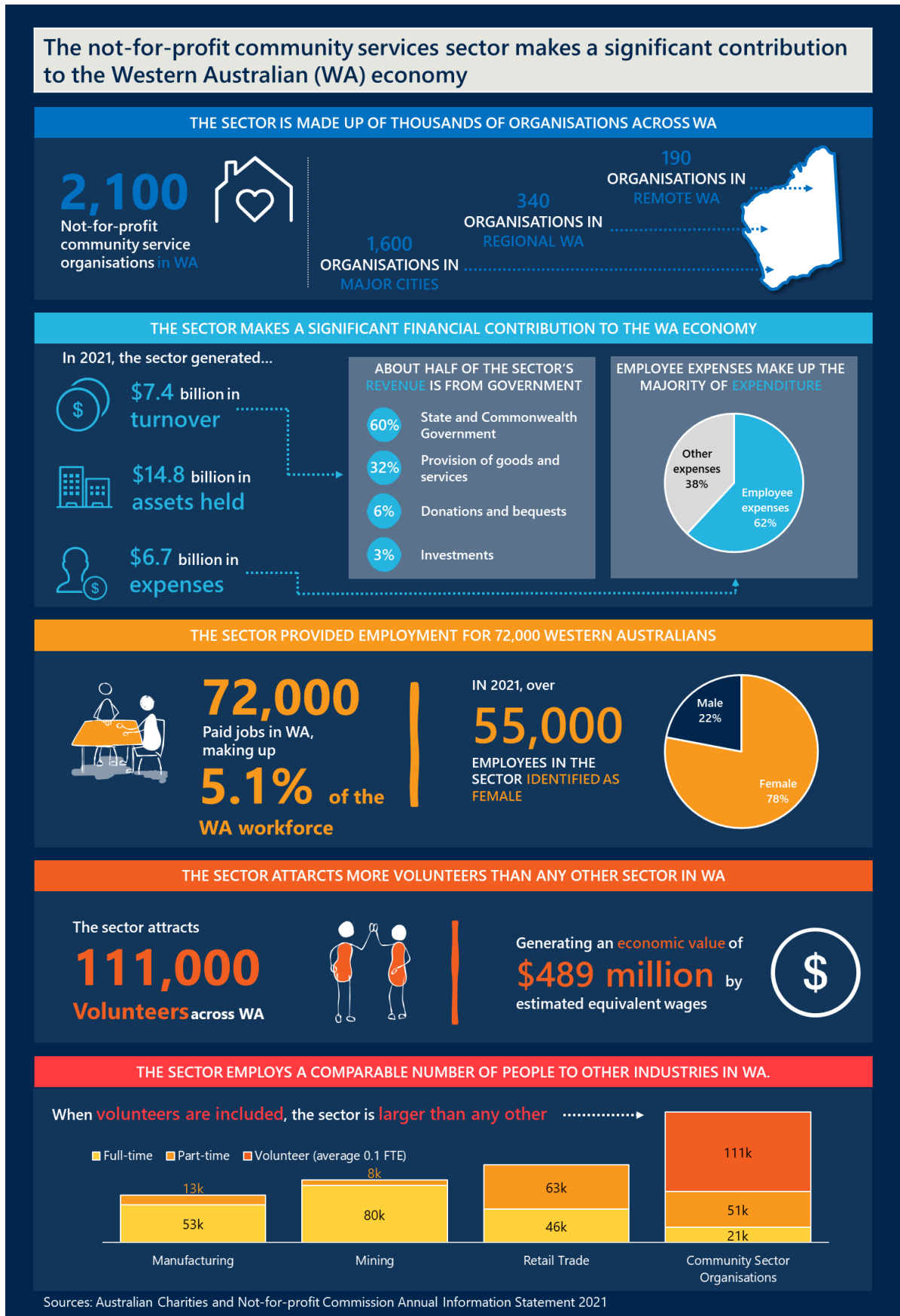
¹ Australian Charities and Not-for-profit Commission, *Annual Information Statement 2021*.

² Ibid; Australian Bureau of Statistics, *Census 2021*.

³ Volunteering Australia, *Volunteering in Australia 2022*.

⁴ Fairwork Ombudsman, *Social, Community, Home Care and Disability Services Industry Award*, Social and community services employee Level 1. Estimated using the minimum hourly award rate for employees in the sector. This is likely an underestimate as most the award rate for different employees are often significantly above the employee Level 1 minimum award rate.

Figure 1 | Summary of the not-for-profit community services sector



Underinvestment and WA Government contracting creates challenges for the sector, threatening the long-term viability of service providers and creating risk

The majority of WA community service providers are dependent on WA Government funding over any other source and expect it to stay that way.⁵ However despite the WA Government's reliance on the sector to deliver critical services, contracts tend to focus only on the costs of front-line delivery and do not factor in other normal costs of operating such as overheads and wage growth. Further, the indexation applied to multi-year contracts does not keep pace with rising costs of delivery, exacerbating cost pressures. Other jurisdictions have reacted quickly to changing conditions, increasing indexation rates in response to high inflation and the June 2023 Fair Work decision to increase awards, but WA has not.

This under-funding threatens the long-term viability of service providers, and as the sector is highly labour-intensive the consequences are borne by passionate staff as there are few alternatives to reduce costs. Frontline and other staff choose to work unpaid hours (as much as 15 per cent) rather than leaving vulnerable people unsupported, creating high rates of burnout. This compounds with poor salaries, as employees in the sector are paid 10 per cent - 17 per cent less than public sector counterparts, and 38 per cent are paid full-time equivalent salaries of less than \$60,000 per year.⁶ Frontline workers are struggling.

The other key issue is slow implementation of the WA Government's new approach to procurement, which emphasises collaboration and partnership as important aspects of commissioning. Agency buy-in is mixed, and relationships with community sector stakeholders and contract management practices can be improved.⁷ WA Government contracts are short, and often rolled over on one-year extensions creating significant uncertainty for service providers.

There are policy solutions which will support the sustainability of the sector and deliver benefits for the WA Government, economy, and community

This paper finds that a strong community sector is interdependent with the long-term wellbeing of the WA community and economy. There are four policy solutions the WA Government could undertake to address these challenges and support the community services sector in WA to thrive, delivering benefits to all Western Australians. Implementing these recommendations may contribute to the realisation of key benefits to the WA community, Government and economy.

1 **Address the issue of insufficient indexation of WA Government contracts for community services** to alleviate cost pressures in the sector, improve long-term viability, and achieve better outcomes for community workers and the individuals and communities they serve.

2 **Commit to and deliver a more predictable and reliable cycle of commissioning multi-year services** to allow service providers to plan for the future, improve conditions for their people, and enable the public service to build capacity and capability.

3 **Create an early intervention and prevention investment framework underpinned with data** to increase the investment and returns of impactful programs which can otherwise be difficult to fund and capitalise on the development of the PeopleWA dataset.

4 **Strengthen the partnership between WA Government and service providers** to enhance and enable the other recommendations, improve ways of working, and develop new opportunities for cross-sector collaboration and system integration.

⁵ Cortis, N. and Blaxland, M., *Data from the 2022 Australian Community Sector Survey*, Social Policy Research Centre, UNSW Sydney and ACOSS, 2022.

⁶ SalaryOne, *Not-for-profit remuneration survey report 2022-23*, March 2023.

⁷ WA Public Sector Commission, *Agency Capability: Department of Communities*, October 2023.

1 Community services deliver essential benefits to the Western Australian Government and society

WA's community services sector benefits all corners of WA society and Government – they are a linchpin to societal wellbeing

WA's community services sector is made up of thousands of not-for-profit organisations who aim to improve the lives of people and strength of society across WA.⁸ The community services sector includes a diversity of organisations that provide healthcare, mental healthcare, alcohol and other drug, child protection, family support, women's safety, justice, homelessness and other supports to the most vulnerable in our society. The services they provide improve the health, safety, equity, wellbeing and prosperity of our community.

The WA community sector has a broad reach, impacting all facets of the community. These organisations operate in all regions of the State, including regional and remote areas, and are connected to all demographic elements of society, including marginalised and underrepresented groups. Through over 2,100 organisations, the sector has a pervasive reach. It directly and indirectly benefits all ages, all genders, all classes, and all cultures.

The sector fulfils a critical role in the functioning of our society and government. In addition to their role in community development, civil society, representation and advocacy and social cohesion, community services are critical to the ability of WA Government to provide essential services to its constituents. The sector often fills gaps in services that may not be adequately addressed by government agencies. Further, they partner with government, helping to implement policies and programs effectively at the grassroots level.

As independent organisations, community service providers often have a range of funding sources, such as public giving, and fee for service and philanthropy. However, State and Australian Governments are the single most important contributor to the sector as a whole, through the provision of contracts and grants.⁹ Many WA Government departments procure these services; including the Department of Communities, Department of Justice, Department of Education, and healthcare commissioners.¹⁰

Community organisations can be better than government at responding to need in the community and building scalable services

Community service organisations can be more reactive than government to emerging areas of need. As frontline organisations, community service providers are in constant contact with their clients. They have the expertise and opportunity to identify emerging need and design effective programs, coupled with the flexibility to respond and redirect effort when funding allows.

Government is limited in this capacity as it does not always provide services directly, meaning it has less engagement with clients. It is also often constrained to budget cycles, reducing the ability to act quickly – although exceptions to this have been seen recently, for example the Lotterywest COVID-19 Relief Fund. Cross-sector partnerships can capitalise on the different strengths of each sector, as government can selectively invest in new services developed by community service providers and provide the critical mass of funding needed to achieve scale. 50 Lives 50 Homes, created by Ruah, is an example of a small program started by a community service provider which demonstrated success, and grew to be a central aspect of the WA Government's strategy to end homelessness in WA (see callout box overleaf).

⁸ The community services sector overlaps with the not-for-profit sector. In WA, all community service providers are not-for-profit organisations but not all not-for-profit organisations are community service providers.

⁹ Both State and Commonwealth Governments deliver services in this way. The Commonwealth generally funds areas within its realm of responsibility, such as aged care and National Disability Insurance Scheme (NDIS) services.

¹⁰ Including the Mental Health Commission and Health Service Providers.

CASE STUDY

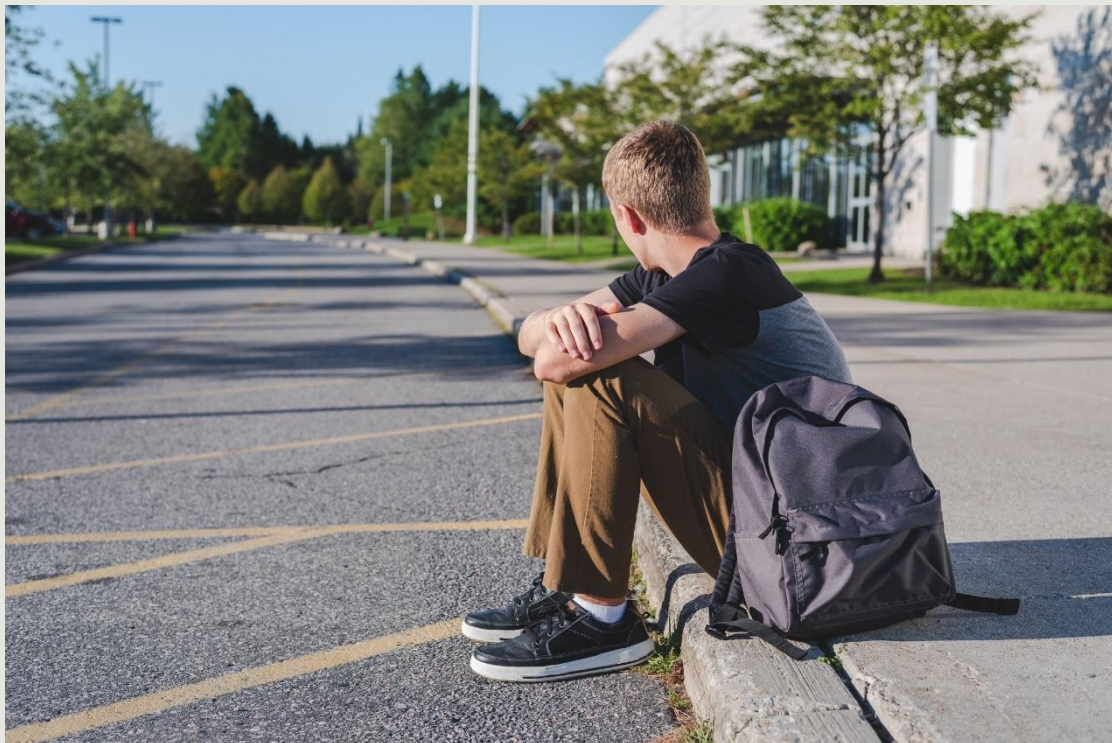
A HOMELESSNESS SERVICE WITH 50 CLIENTS GROWS TO BECOME A KEY PART OF GOVERNMENT'S STRATEGY TO END HOMELESSNESS

Zero Project started in 2015 as the small-scale 50 Lives 50 Homes program delivered by Ruah. 50 Lives was the first housing first program in WA, aiming to house and support 50 of the most vulnerable chronic rough sleepers in Perth. This approach was based on the understanding that homelessness is deeply entrenched and complex, and that people experiencing homelessness frequently need wrap-around support that will help them address multiple challenges.

Ruah had the flexibility and networks to bring together the various support services needed to support people experiencing homelessness in a holistic way. 50 Lives 50 Homes was a collaboration between over 50 services from 30 organisations across the homelessness, healthcare, and justice sectors in WA. It had achieved its original goal of housing 50 people by 2017, and by 2020 had supported 427 people – 65 per cent of whom were still housed in 2022.¹¹

Following the success and growth of 50 Lives, its approach was recognised by the WA Government as a model of a best practice homelessness service and the program was highlighted in *All Paths Lead to a Home: Western Australia's 10-year Strategy on Homelessness 2020 – 2030* and the *Homelessness Action Plan 2020 – 2025*, as well as receiving national recognition.¹²

In 2020, 50 Lives transitioned to Project Zero and became a key program of the WA Alliance to End Homelessness, a partnership between community service organisations and government.¹³ As a larger not-for-profit and with support from Lotterywest, Ruah was able to undertake extensive evaluations on 50 Lives to demonstrate its effectiveness and return on investment making the program more attractive to government and enabling growth. This is not feasible for all community service programs, especially for smaller organisations as a rigorous evaluation is expensive to undertake.



¹¹ Centre for Social Impact UWA Business School; Institute for Health Research University of Notre Dame, [Findings from the 50 Lives 50 Homes Program: Final Evaluation Report 2022](#).

¹² WA Government, [All Paths Lead to a Home: Western Australia's 10-year Strategy on Homelessness 2020 – 2030](#).

¹³ WA Alliance to End Homelessness, [Advance to Zero](#).

2 The community services sector is a pillar of our economy, and contributes to the economic wellbeing of WA

The community services sector is made up of thousands of organisations across all regions of WA

The community sector is not only an important part of the WA healthcare, human services, and justice sectors; it is a critical pillar of the WA economy. There are over 2,100 not-for-profit community service organisations spread across WA. Although there is a large concentration of organisations in major cities (1,600 organisations), there are a significant number based in regional WA (340 organisations) and remote WA (190 organisations).

- 1,600 organisations in major cities with a combined revenue of \$6.5 billion
- 340 organisations in regional WA with a combined revenue of \$396 million
- 190 organisations in remote WA with a combined revenue of \$523 million

The sector includes 320 large organisations which account for 90 per cent of revenue. Many small organisations have no employees and receive little revenue from government, relying on volunteers and other sources of income. Collectively, they are amongst the biggest segments of the State economy and largest employers of Western Australians.

Community service providers deliver \$7.4 billion of services to WA residents each year, making it one of WA's largest industries

The community services sector forms a critical part of the WA economy. The sector turned over \$7.4 bn in 2021, in comparison to other industries in WA such as State Government (\$38.3 bn in 2021-2022), construction (\$21.0 bn), manufacturing (\$18.8 bn), and retail trade (\$10.0 bn). The sector generates revenue from a diverse range of sources including; government contracts and grants; fees for goods and services; donations and bequests; and revenue from investments. Revenue from Government (State and Commonwealth) makes up more than half of total revenue.

Community service providers leverage assets to deliver programs that have a positive impact on people in WA. Organisations in the sector collectively held \$14.8 bn worth of assets in 2021, a large portion of which is made up by critical infrastructure. This includes housing stock for affordable housing and facilities for service delivery. Many organisations in the sector have a long history of operating in WA, and have built up assets over time through donations, bequests, and retained profits.

The sector spends almost \$7 bn per year in the WA economy. Most expenditure is on the salaries of people who work in WA. The community services sector paid its 72,000 employees over \$4.2 bn in employee benefits in 2021, making up 62 per cent of total expenses. This includes wages paid to permanent, casual and temporary staff, leave expenses, and superannuation. As a comparison, the construction industry has labour expenses of only 20 per cent of total costs (Australia-wide).¹⁴

Due to their operating models and not-for-profit status, almost all community sector revenue stays within and supports local economies. Employees live, work and spend in WA, lending to a significant proportion of revenue that stays within the State. Further, the sector typically prioritises local procurement and rarely

¹⁴ Australian Bureau of Statistics, *Australian Industry*, 2021

outsources to other jurisdictions or nations. Money spent in a local community tends to circulate within that community, creating a ripple effect of economic activity.

The sector represents a significant proportion of the paid WA labour force – with the volunteer workforce included it is larger than any other sector

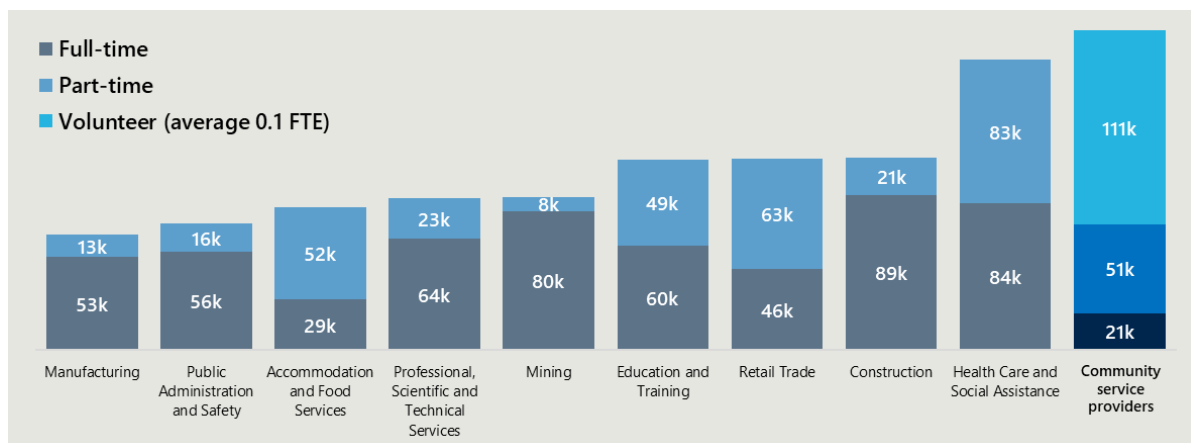
The community services sector provides paid jobs for 72,000 Western Australians. This includes over 21,000 full time employees, 34,000 part time employees, and 16,000 casual employees. Over 8,500 Western Australians in regional and remote areas are employed by the sector. The high proportion of part-time and casual employees relative to other industries may be due to reasons such as employee preferences or suitability of part-time hours, but this is also constrained by inadequate funding of the sector to sustain desired full-time positions. The sector makes up 5.1 per cent of the total paid labour force in WA and its scale is in line with other major industries such as accommodation and food services (81,000 employees), mining (88,000 employees), and education (109,000 employees).

The sector provides engagement for people on the edge of the labour market who might not otherwise have an opportunity to participate. It is an important employer of diverse communities, including those with lived experience who might otherwise struggle to find suitable occupations or workplaces. This includes women, Aboriginal and Torres Strait Islander people, people with a disability, people with lived experience of the justice system, people with lived experience of child protection system, and other marginalised groups.

In addition to the 72,000 paid employees, the sector attracts over 111,000 volunteers each year – mobilising an otherwise latent workforce within the economy

When volunteers are combined to the sector’s paid labour force, the sector has a total workforce that is greater than any other sector in WA. The community services sector attracts more volunteers than other sectors, making up 16 per cent of the volunteer workforce. Considering the relatively low remuneration of paid workforce (see Section 4) and the economic value of volunteer working hours (see overleaf), the total community sector workforce represents very high relative value.

Figure 2 | Number of employees for the largest 10 industries by employment in WA



Source: Australian Charities and Not-for-profits Commission, *Annual Information Statement 2021* and *Charities Register* (community service providers only); Australian Bureau of Statistics, *Census 2021* (all other industries).

Community sector volunteers deliver work equivalent to \$489 million of additional value to the WA economy

Volunteers worked at a diverse set of organisations, including small and medium charities (53 per cent of volunteers), and in regional and remote WA (11 per cent of volunteers). Volunteers create additional value to the economy by increasing the productivity of the labour force. In Australia, people who volunteer did

so for an average of 180 hours a year in 2022.¹⁵ Using the minimum hourly award rate for employees in the sector, it can be estimated that the economic value of the workforce is equivalent to over \$489 mn of worked hours.¹⁶

The sector employs more women than other industries traditionally bolstered by government spending, such as construction

The sector employs over 55,000 women, making up 78 per cent of staff in the sector. These staff are in frontline, administrative, management, executive and other roles. The proportion of women is comparative to education (72.6 per cent) and healthcare (77.7 per cent). This far exceeds other industries which often pay much higher salaries and are the beneficiaries of government investment: including, mining (17.8 per cent), construction (14.7 per cent) and agriculture (32.1 per cent).

Frontline workers are paid significantly less than the average wage and have complex and difficult jobs. Employees at community service providers earn an average of \$74,000.¹⁷ Frontline workers in the industry earn far less, averaging an income of \$66,000 per annum. This is much less than the average income in WA of \$74,000 and does not represent good value, making it hard to attract workers to the sector especially in light of recent cost of living increases.

Figure 3 | Employment of women in the community services sector



¹⁵ Volunteering Australia, *Volunteering in Australia 2022*.

¹⁶ Fairwork Ombudsman, *Social, Community, Home Care and Disability Services Industry Award*, Social and community services employee Level 1. This is likely an underestimate as most the award rate for different employees are often significantly above the employee Level 1 minimum award rate.

¹⁷ ABS, *Census 2021*.

3 The community services sector delivers significant savings to the WA Government

Early intervention and prevention provides significant and real savings to government and the wider economy

Investment in early intervention and prevention provides people with the support they need to live an optimal life, decreasing the likelihood people will need to access government services such as healthcare, welfare, or justice. Community service providers often deliver early intervention and prevention programs which reduce costs for government in the long term. Research has shown that savings from early intervention and prevention occur broadly, including in the areas of out-of-home care,¹⁸ early childhood intervention,¹⁹ and youth homelessness.²⁰

These programs provide savings because they are often far less costly to implement than the downstream costs which government would otherwise incur. The specific savings are often difficult to measure as they are long term, cross-agency, and come in the form of unrealised costs. They are therefore often not sufficiently funded by policymakers.

For example, supporting someone who is homeless reduces the likelihood that they will access healthcare services in the future. The costs of finding someone a home is often less than the costs of expensive medical treatment would have been. Although there was no direct saving, government avoided future costs which were higher than it cost to intervene early. Community service providers have been delivering these programs for a long time; it is impossible to estimate to cumulative impact of all services or the increased costs government would incur if service providers were no longer able to offer them.

Government has recognised the importance of this in flagship strategies including: *The WA Mental Health Promotion, Mental Illness, AOD Prevention Plan 2018-2025*; *All Paths Lead To Home: WA's 10-Year Strategy on Homelessness 2020-2030*; *The At Risk Youth Strategy 2022-2027*; and the *Path to Safety: WA's strategy to reduce FDV 2020-2030*. Although government has identified the need, investment remains modest. For example, less than 2.5 per cent of the Mental Health Commission's budget for 2023-2024 is allocated to prevention. The community sector can provide a pathway for government to realise future savings from additional investment.

Other jurisdictions have implemented investment funds focused on realising the benefits of early intervention and prevention. These use linked administrative data similar to the Department of the Premier and Cabinet's PeopleWA dataset to assess the long-term impacts of programs. The best example of this is Victoria's Early Intervention Investment Framework (EIIF) further detailed below, with New Zealand and New South Wales taking similar approaches.

Figure 4 | Governments' approaches to early intervention and prevention investment funding²¹



¹⁸ SVA Consulting, *The economic case for early intervention in the child protection and out-of-home care system in Victoria*, 2019.

¹⁹ Social Policy Research Centre University of New South Wales, *Cost Effectiveness of Early Intervention Programs for Queensland*, 2007.

²⁰ The Centre for Education and Youth, *Assessing the cost benefit trade-off of preventing youth homelessness*.

²¹ Victorian Department of Treasury and Finance, *The Early Intervention and Investment Framework*, August 2022; New Zealand Treasury, *Living Standards Framework: Background and Future Work*, December 2018; NSW Government, *An Investment Plan for human services in New South Wales*, February 2023.

CASE STUDY

VICTORIA IS BUILDING EVIDENCE AND INVESTMENT FOR EARLY INTERVENTION INITIATIVES

Victoria's EIF funds initiatives that improve the lives of Victorians and reduce pressure on the government's service systems.²² It is intended to broaden the spectrum of available services and support fiscal sustainability by reducing the need for expensive acute services.

The EIF addresses the challenges that agencies face in capturing and analysing data to measure the impact of programs by encouraging collaboration with the Department of Treasury and Finance (DTF). The framework is embedded in Victoria's budget process, and DTF works with departments to estimate the impact of their initiatives in terms of the avoided cost to government over ten years. Departments must also set outcome measures and expectations to enable ongoing monitoring and evaluation.

The EIF is enabled by the Victorian Social Investment Integrated Data Resource (VSIIDR), which is similar to the PeopleWA resource being developed by the WA Department of the Premier and Cabinet. The VSIIDR links the government's administrative data, capturing how Victorians use healthcare, human services, education, and justice services. The dataset underpins the model developed by DTF to estimate the avoided costs to government, which informs decisions about which initiatives will be funded. This approach means that benefits are considered across the whole of government, rather than siloed by portfolio which can reduce the visibility of initiatives that have wide-reaching impacts.

In the 2022-23 Budget the Victorian Government funded 15 initiatives (including ten community services) through the EIF across the areas of education, child protection, homelessness, family services, justice, ambulance services, mental health, and transport.²³ Funding for each initiative ranged from \$1m to \$116m.

The community services sector has delivered several programs across Australia that have demonstrated a positive social return on investment

Delivery of early intervention and prevention programs has been pioneered by the WA community services sector. These programs are known to generate significant savings from avoided costs of downstream government services – for example, an alcohol and drug prevention program might reduce interactions with the healthcare and justice systems. However, a lack of investment in measuring long-term benefits and a political focus on short-term, highly visible impacts means that these programs are underfunded relative to acute services.

The best practice method to measure and report the economic impact of community service programs is through a Social Return on Investment (SROI) evaluation. SROI evaluations measure the benefits a program has for society including cost savings, social benefits, and non-financial benefits. While some evaluations have been conducted in WA, they are not commonplace. Organisations often operate with low margins and do not have the necessary funds, as evaluations are rarely reflected in government contracts.

Where not-for-profit organisations have been able to evaluate their programs, they demonstrate strong results. Examples spanning different types of services which may provide an indication of the broader value of the sector are summarised in Figure 5 below.

²² Victorian Department of Treasury and Finance, [The Early Intervention and Investment Framework](#), August 2022.

²³ Victorian Department of Treasury and Finance, [EIF initiatives funded in 2021-22 and 2022-23 Budgets](#).

Figure 5 | Examples of SROI evaluations for community sector projects



The sector attracts funding from the Commonwealth and philanthropy, extending the investment of the WA Government

WA Government spending on programs in the sector is often ‘topped up’ by other income as it does not cover the full cost of service; in effect, extending the investment of the State. Community sector initiatives which return a positive SROI can represent additional value for government when funding is shared between government and other sources. Almost 75 per cent of community sector organisations in WA reported government spending as less than half of their revenue, relying more on donations and other income streams. Almost 50 per cent of community sector organisations in WA did not receive any funding from government, relying totally on donations and other funding sources.²⁴

Community sector organisations generate revenue from multiples sources including the sale of goods and services, government contracts and grants, donations, and investments. Two-fifths (40 per cent) of the total revenue generated by the sector in 2021 was from income from operations, and donations (sources other than government). These include revenue from providing good or services (32 per cent), donations and bequest (6 per cent), and revenue from investments (3 per cent).

²⁴ Australian Charities and Not-for-profit Commission, *Annual Information Statement data*, 2021.

4 Insufficient WA Government investment is creating sustainability issues and economic risk

Government contracts often do not reflect the true cost of service, with years of low indexation compounding difficulty in offering competitive salaries and attracting and retaining staff

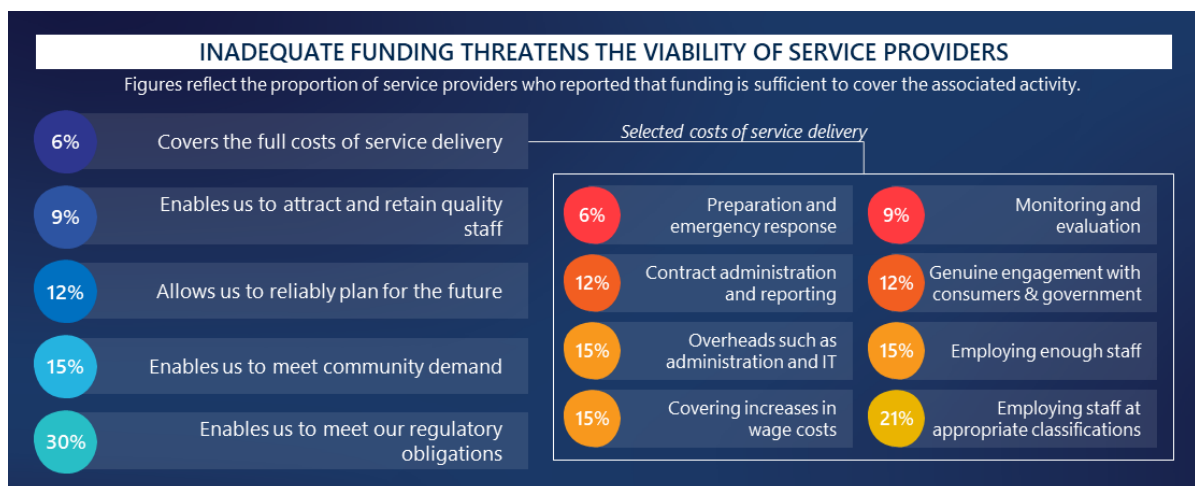
The WA Government is the single most important source of funding for WA community service providers, but does not adequately support their long-term viability

Community and social services form a small part of WA Government procurement when compared to the biggest categories such as financial services, construction, and healthcare services – estimated to be just over 2 per cent (\$1.7 bn) of all contracts between 2017-18 and 2021-22.²⁵ Procurement of these services is concentrated in the Department of Communities, which accounted for 80 per cent (\$1.4 bn) of spending over this period. Other major buyers of community and social services include the Department of Justice (\$187 mn), the Department of Education (\$60 mn) and the healthcare agencies and services (\$41 mn).

The majority of WA community service providers are dependent on WA Government funding as opposed to Commonwealth funding, philanthropy, or service fees, and expect it to stay that way.²⁶ 91 per cent of providers report that they received some amount of funding from the WA Government, and 61 per cent stated that this is their most important funding source. Australia-wide, service providers report that it is becoming more difficult to attract donations, consumer fees and other commercial income. Overall, providers are pessimistic about the future financial situation, with only 36 per cent expecting it to improve.

Despite the government’s reliance on the sector to deliver critical services, contracts are not designed to reflect the full costs of operating, threatening the long-term viability of service providers. Contracts tend to focus on the costs of front-line delivery, and do not factor in other costs which are necessary for any business to function effectively or the administrative burden of complying with contractual reporting requirements. Some of the most commonly underfunded business functions include overheads (85 per cent) and covering increases in wage costs and superannuation (85 per cent) (see Figure 6 below).

Figure 6 | WA Community service providers’ agreement with statements about the adequacy of their most important stream of government funding and whether specific costs and functions are covered



Note: These survey questions do not distinguish between WA and Commonwealth Government funding streams.

²⁵ WA Department of Finance, *Who Buys What and How*, accessed October 2023. Data quality makes it difficult to estimate the true investment of the Government in the community services sector, and it may be lower than is indicated in these figures. See Appendix A for further detail.

²⁶ The data quoted in this section was provided by the Australian Council of Social Service, and comprises of responses to the Community Sector Survey 2022 from employees of WA community service organisations. See Appendix A for further detail. Cortis, N. and Blaxland, M, *Data from the 2022 Australian Community Sector Survey*, Social Policy Research Centre, UNSW Sydney and ACOSS, 2022.

Community service providers are left to make up the shortfall of insufficient government funding, which is only made possible through the dedication of staff

The sector is highly labour-intensive and the consequences of underfunding are borne by passionate staff as there are few alternatives to cutting costs in the face of rising service demands. Frontline and other staff choose to work unpaid hours to meet growing needs, rather than leaving vulnerable people unsupported. As much as 15 per cent of hours worked are unpaid due to workers contributing unpaid overtime to address need,²⁷ equating to an estimate of over \$624 mn of labour in WA.

As a result, community organisations report high rates of burnout, with 88 per cent reporting that it is becoming more difficult to attract and retain staff and 65 per cent reporting that turnover is too high. Concurrently, cost pressures are also forcing salaries down. 38 per cent of employees in the sector are paid full-time equivalent salaries below \$60,000 per year; given that most staff work part-time (72 per cent), actual earnings are far less.²⁸ As insufficient funding contributes to poor conditions, the sector and society loses capability.

This is also reflected in the pay gap between WA community service providers and comparable public sector roles of at least 10 per cent to 17 per cent of remuneration. The gap increases with experience, making it extremely difficult for not-for-profits to retain highly skilled staff.

Service providers have few levers to reduce costs as they are generally thinly spread compared to private sector businesses, spending significantly less on costs that are not directly related to specific programs or projects – 33 per cent of total costs, compared to 48 per cent for businesses.²⁹ Service providers are unable to invest in their workforce capability, and report having to resort to cost-cutting measures such as using less qualified staff (25 per cent) and reducing office support to maintain frontline capacity (31 per cent).³⁰ Other impacts of the shortfall in funding include limiting innovation, difficulty attracting and retaining staff, not being supported to undertake proper monitoring and reporting, and limiting collaboration including engagement with consumers. The underinvestment in services risks undercutting the value of WA's highly trained and highly skilled community services workforce.

WA Government has indicated a willingness to consider a review of the current Indexation Policy for the Non-government Human Services Sector, and will need to ensure a new formula captures all drivers of costs to alleviate these challenges

While indexation of contracts is only one part of the funding problem facing service providers it is critical for providing longer-term viability and certainty. This is especially important as government aims to move towards longer contract terms. Almost all WA service providers find that indexation is not adequate (91 per cent), and as a result a majority of these will need to reduce employee hours, decrease services, or both, due to indexation not covering costs (77 per cent). People who need these critical services will receive less support, and employees in the sector will face lower incomes and job insecurity.

The last significant adjustment the WA Government made to funding was in 2019 in the form up top-up payments in response to the Equal Remuneration Order (ERO) from Fair Work Australia which was handed down in 2012.³¹ While this alleviated cost pressures for service providers, it did not support their ability to meet wage increases and provide staff with certainty in the long-term. Similarly, the more recent superannuation guarantee has provided some certainty as described in Figure 7 below, but only addresses one contributor to rising wage costs and does not go far enough to ensure future viability.³²

²⁷ ACOSS, *Community Sector Survey 2022*. Reported Australia-wide.

²⁸ SalaryOne, *Not-for-profit remuneration survey report 2022-23*, March 2023.


²⁹ Social Ventures Australia and the Centre for Social Impact, *Paying what it takes: funding indirect cost to create long-term impact*, 2022.

³⁰ WACOSS and UWA, *Western Australia's 2022 State Sustainability Funding Survey Report*, March 2023.


³¹ WA Government, *Media statement: \$60 million funding boost to support community service providers*, December 2019.

³² WACOSS, *Amended indexation rate welcomed by community services sector*, September 2023.

Figure 7 | Statement on the impact of the indexation policy on Richmond Wellbeing

 Richmond Wellbeing has been providing mental health support services in Western Australia for almost 50 years, and our operating environment has never been harder than it is today. Some of our contracts have been unchanged in 15 years, and the compounding effect of under-indexation means that those services are 15-20% structurally underfunded for what we were originally asked to provide.

On top of this, the complexity and acuity of our clients has increased dramatically in that time, requiring us to increase our staffing. We've been getting squeezed by Government financially year on year and there's simply nowhere left to go apart from to cut our wages bill. This either means reducing the quality and safety of our services to a dangerous level which I'm not willing to do or reducing headcount.

Richmond staff mean everything to me but to survive I've been forced to make a number of redundancies in the last couple of years and I was in the midst of considering further actions to reduce our costs, when I got the email from CEWA letting me know that the WA Government had agreed to include superannuation guarantee increases for the next couple of years. We updated our budget accordingly and it made a tangible difference. We have greater certainty over our staffing now which is relieving, but it's unacceptable that we're in this situation to begin with. I really look forward to the day when our work is valued and funded properly so we can focus on what we're good at, looking after people's mental health and making our community better." 

- CEO, Richmond Wellbeing

While the top-up payments and superannuation guarantee were welcomed by the sector, a more holistic approach to indexation is needed to ensure the long-term viability of service providers. The Centre for Public Value UWA has proposed an indexation formula informed by benchmarking of WA community service organisations, which incorporates industrial awards, the superannuation guarantee, inflation, and an adjustment for regional and remote services which face higher costs.³³ This should be paired with baseline contract values that account for overheads and other normal costs of business such as contract compliance, employee recruitment, and appropriate engagement with consumers and Government. Other jurisdictions in Australia have recently increased indexation for community service contracts, as detailed below.

The WA Government Indexation Policy for the Non-government Human Services Sector (Indexation Policy) has not been updated since 2019. Other jurisdictions in Australia are increasing indexation for community service contracts to levels significantly higher than WA's current rate of 4.51 per cent, in response to high inflation and the June 2023 Fair Work Commission decision to increase award wages by 5.75 per cent³⁴:

- The New South Wales Government raised indexation to 5.75 per cent.³⁵
- The Victorian Government raised indexation from 3.29 per cent to 5.45 per cent using a new formula which will continue to be applied.^{36,37}
- The Queensland Government raised indexation from 3.88 per cent to 5.63 per cent.³⁸
- The South Australian Government raised indexation from 2.5 per cent to 5.1 per cent for 2022-23, returning to 2.5 per cent from 2023-24 onwards.³⁹

³³ Centre for Public Value UWA, *Time to Get it Right: Indexation in Community Services*, November 2023.

³⁴ Fair Work Commission, *Annual Wage Review 2022-23 Decision*, June 2023.

³⁵ NSW Government, *Media release: Funding certainty for vulnerable groups in community*, June 2023.

³⁶ Premier of Victoria, *Media release: Promoting Fair Jobs for Vital Community Sector Workers*, September 2023.

³⁷ Victorian Healthcare Association, *VHA welcomes funding increase for community sector*, September 2023.

³⁸ Queensland Government, *Media statement: Boost for NGOs to support cost of living pressures*, June 2023.

³⁹ South Australian Government, *Media statement: \$55 million to help community organisations with rising costs*, May 2023.

Commitment to genuine partnership has been mixed both across and within agencies, and the community sector is reaching out to strengthen it

The WA Government has produced successive policies and strategies recognising the importance of procurement practices and its relationship with the sector, but the extent to which these have been implemented varies.^{40,41} Further, many organisations still report short-term contracts and one-year extensions five years after the *Delivering Community Services In Partnership Policy* was published with the intent to improve collaboration in contracting. Short contracts create risk for organisations, as they do not provide a reliable stream of revenue past the short-term. Only 12 per cent of WA providers agree that their main source of government funding allows them to reliably plan for the future.

The recent State Commissioning Strategy for Community Services⁴² has been supported by the Supporting Communities Forum, which includes community sector and senior government representatives. Agency buy-in is mixed, however – of the major purchasers of community services, the Directors General of Department of Communities and Department of Education have both attended every meeting while the Directors General of Department of Justice and Department of Health have each attended just two of the eight meetings since 2021.⁴³

The intent of increasing collaborative planning, engagement, and co-design has not fully filtered through to service design and procurement. The Public Sector Commission's Agency Review of the Department of Communities, which procures the bulk of community services, recommended that the agency strengthen its relationships with community sector stakeholders and develop its contract management practices.⁴⁴ As the Public Sector Commission states, engagement is inconsistent rather than non-existent – one example of the Department of Communities' collaboration with the sector is its work with Shelter WA and the WA Alliance to End Homelessness to strengthen the homelessness system through increased consultation and partnership in the spirit of commissioning.⁴⁵

⁴⁰ WA Economic Audit Committee, *Putting the Public First: Partnering with the Community and Business to Deliver Outcomes*, October 2009.

⁴¹ WA Government, *Delivering Community Services in Partnership Policy*, 2018.

⁴² WA Government, *State Commissioning Strategy for Community Services*, 2022.

⁴³ WA Government, [Supporting Communities Forum meeting notes September 2021 – May 2023](#), accessed November 2023.

⁴⁴ WA Public Sector Commission, *Agency Capability: Department of Communities*, October 2023.

⁴⁵ WA Government, [New homelessness reforms initiatives](#), November 2022.

5 There are policy solutions which will deliver benefits for the WA Government, economy, community and community sector

The community services sector is a significant contributor and employer in WA's economy, providing services to our most vulnerable people. However, the sector itself is vulnerable and in the position of needing to provide vital services with insufficient funding to cover basic costs. The long-term viability of organisations within the sector is under threat, as is their ability to continue providing services and employing workers.

As not-for-profit organisations, community service providers have limited options to increase revenue streams. It is imperative that fees do not become a barrier to individuals in need of accessing services; gifts and donations can be unreliable especially in the current cost of living crisis; and directing assets towards investments for the purpose of generating a return goes against the purpose of these organisations. Policy change is required to address this challenge.

Government contracts are the only significant lever through which the situation can be addressed. As the most significant purchaser of community services, the WA Government's policies and funding mechanisms are the largest drivers of success for the community services sector. There are four policy solutions the government could undertake to support the community services sector in WA to thrive, delivering benefits to all Western Australians:

1. **Address the issue of insufficient indexation of Government contracts for community services** to alleviate cost pressures in the sector, improve long-term viability, and achieve better outcomes for workers and those they serve.
2. **Commit to and deliver a more predictable and reliable cycle of commissioning multi-year services** to allow service providers to plan for the future, improve conditions for their people, and enable the public service to build capacity and capability.
3. **Create an early intervention and prevention investment framework underpinned with data** to increase the investment and returns of impactful programs which can otherwise be difficult to fund and capitalise on the development of the PeopleWA dataset.
4. **Strengthen the partnership between Government and service providers** to enhance and enable the other recommendations, improve ways of working, and develop new opportunities for cross-sector collaboration.

Each of these recommendations are discussed further overleaf, outlining specific opportunities for policy development for the consideration of the community sector and WA Government. Implementing these recommendations may contribute to the realisation of key benefits to the WA community, Government and economy. A strong community sector is interdependent with a the long-erm wellbeing of the WA community and economy.

1

Address the issue of insufficient indexation of Government contracts for community services

Applying an appropriate level of indexation in the future will help alleviate the cost pressures faced across the sector, leading to better outcomes for workers and the people for whom these services are critical. As most workers in the sector are women, this will contribute to the WA Government's work to decrease the gender pay gap and support the financial independence of over 60,000 women.

A secondary benefit to the government of improving indexation is that this additional expenditure will disproportionately flow back into the WA economy. Community services are labour-intensive and employees are relatively low-paid, meaning that the spending is more likely to flow through as wages which are spent on local goods and services in WA.

The WA Indexation Policy has not been updated since 2019. Other jurisdictions in Australia are increasing indexation for community service contracts to levels significantly higher than WA's current rate of 4.51 per cent, in response to high inflation and the June 2023 Fair Work decision to increase award wages by 5.75 per cent.

RECOMMENDATIONS

- 1.1 Change the methodology used for the Indexation Policy to reflect an appropriate level of indexation as soon as possible, using a methodology recommended by the sector.
- 1.2 Establish a mechanism to monitor the impact of indexation in real-time, through a mid-term review after two years and a full independent review after five years.
- 1.3 Wherever possible, account for regional and remote variance in operating costs and workforce challenges in community service contracts.

2

Provide a more predictable, reliable and coordinated cycle of commissioning multi-year services

A coordinated cycle of commissioning will give service providers a view of their activities in the medium and long term, allowing them to plan for the future. It will give workers and clients certainty that programs and services will be enduring, support employees to stay with a service provider for longer and give the public confidence about the Government's intent to continue providing services.

Effective commissioning requires a specialised skillset, which is not yet established across government. Establishing support and direction from central agencies including the Department of the Premier and Cabinet, Department of Finance, and Department of Treasury will help. Over time this will support the development of good commissioning practice and more effective and efficient processes.

More effective engagement with service providers and consumers can augment the development of the government's commissioning practice by providing a deeper understanding of on-the-ground service delivery. This is a key part of the Strategy due to its importance in creating a *'community and person-centred approach focused on outcomes'* and a *'well-led, supported and transparent system'*.

RECOMMENDATIONS

- 2.1 Adopt the State Commissioning Strategy for Community Services and oblige line agencies to adhere to and prioritise the Strategy.
- 2.2 Build agencies' commissioning capacity and capability, including appropriate authorising environments, with central agencies providing additional specialist support to line agencies.
- 2.3 Coordinate budget planning and share information about agencies' commissioning cycles to improve sequencing.
- 2.4 Commit to avoiding unnecessary rolling over with short-term contract extensions and instead push for minimum five-year contracts.
- 2.5 Establish budget and commissioning planning processes to link successful pilot programs with sustained funding.

3

Create an early intervention and prevention investment framework underpinned with data

Investing in prevention and early intervention will strengthen the wellbeing of the WA community and contribute to savings to the economy. These programs typically realise benefits across Government; for example, an alcohol and drug program may reduce justice system costs. However, the benefits of these programs take time to measure, making it difficult to gain the support of policymakers.

Investment frameworks underpinned with data are emerging as a way for governments to create investment in early intervention and prevention programs. Frameworks use linked datasets and data analytics to estimate the downstream impacts of programs and direct investment where it will have the greatest impact across the whole-of-government.

A collaborative approach will enable more programs to demonstrate benefit, as the capacity and expense needed for a robust assessment currently create barriers for government and the sector. While building a model will be a significant undertaking, WA has the capability to begin the process as demonstrated through the Department of Treasury's work on Target 120.

RECOMMENDATIONS

- 3.1 Establish a WA Wellbeing Investment Framework, through a rolling funding envelop which can be utilised by evidence-based community and public service strategies.
- 3.2 Set investment parameters and criteria for when funding is accessed, including if interventions are expected to create financial benefits within 15 years.
- 3.3 Adapt the PeopleWA linked dataset being developed by the Department of the Premier and Cabinet to streamline data analysis and impact measurement, including investing in building capability.
- 3.4 Create a process with periodic decisions through an Expenditure Review Committee sub-committee under Department of Treasury to ensure a whole-of-government approach.

4

Strengthen the partnership between Government and service providers

A stronger partnership with the community services sector will enable the other recommendations and could lead to identifying new future opportunities and better ways of working together, including leveraging other funding sources. This has been recognised in successive WA Government policies such as *Putting the Public First* (2009) and the *Delivering Community Services in Partnership Policy* (2018), however implementation of this has had mixed success, creating the need for renewal of responsibilities and accountabilities.

The partnership between government and the sector has been stronger in the past, attributed to the Premier taking a deep interest and setting expectations of Directors General and their agencies to be active participants. Without this channel, agencies may deprioritise partnership. Currently the engagement of Directors General varies, with some rarely attending Supporting Communities Forum meetings, for example.

With attention from the highest levels of government, the Forum can be a system leader setting strategy and defining priorities. It could be a mechanism to examine the impact of a new indexation policy on the sector and government finances, have input into the staging of the commissioning cycle, and advise on the parameters of an early intervention and prevention investment fund.

RECOMMENDATIONS

- 4.1 Commit to honouring the existing partnership policy, built on parity of power between the government and the community services sector.
- 4.2 Drive partnership through Department of the Premier and Cabinet (DPC) with Ministerial oversight and accountability and require DPC and agencies to regularly report to the Premier's Office on progress.
- 4.3 Establish a DPC led intra-governmental coordination mechanism for commissioning agencies as an enabler for the partnership of government and the community sector, and to support the leveraging of funding from the Commonwealth Government and philanthropic organisations.
- 4.4 Ensure that all relevant Directors General attend the Partnership Forum and that it focusses on strategic and systemic issues, rather than short-term programmatic issues.

Appendix A: Discussion of key data sources

Source	Notes
<p>Australian Charities and Not-for-profit Commission, <i>Annual Information Statement</i>, 2021</p> <p>Australian Charities and Not-for-profit Commission, <i>Charities Survey</i>, 2021</p>	<p>Clearly defining the community services sector is difficult due to data limitations. For the purposes of this report, the ACNC data was filtered to include only not-for-profits whose address is in WA and who nominated their purpose as one of the following: public benevolent institution; health promotion charity; advancing health; promoting or protecting human rights; purposes beneficial to the general public or analogous; promoting reconciliation mutual respect and tolerance; and advancing social or public welfare.</p> <p>Due to the way this data is categorised, organisations that would not be considered community services may be included, resulting in over-reporting. Two major organisations (St John of God Healthcare and Cooperative Bulk Handling) have been removed from the dataset, however it was not feasible to manually confirm each organisation. Organisations that use a non-WA address but still operate in WA are also not counted, which may contribute to under-reporting.</p>
<p>Australian Bureau of Statistics, <i>Census</i>, 2021</p> <p>Australian Bureau of Statistics, <i>Australian Industry</i>, 2021</p>	<p>Estimated salaries in the community services sector were calculated from the 2021 census, and included a weighted average income of different occupations in the community services sector. These included Welfare Centre Manager, Health and Welfare Services Managers, Health and Welfare Services Managers, Social Worker, Welfare Worker, Welfare, Recreation and Community Arts Workers, Welfare Support Workers, Community Worker, Disabilities Services Officer, Family Support Worker, Youth Worker, Residential Care Officer, Special Care Workers, Health and Welfare Support Workers, Community and Personal Service Workers, Social and Welfare Professionals.</p> <p>Australian industry statistics were used to compare the size of the community services sector with other large industries in WA.</p>
<p>ACOSS, <i>Australian Community Sector Survey</i>, 2022</p>	<p>ACOSS provided data from WA organisations for use in this report. The responses used in this report include only CEOs or Senior Managers, with a sample size of 34 (noting that some questions had 32 or 33 responses).</p> <p><i>Cortis, N. and Blaxland, M. (2022) Data from the 2022 Australian Community Sector Survey, Social Policy Research Centre, UNSW Sydney and ACOSS.</i></p>
<p>WA Department of Finance, <i>Who Buys What and How</i>, accessed October 2023</p>	<p>Contracts are categorised into United Nations Standard Products and Services Code (UNSPSC) by the commissioning agencies, and these categorisations may not always be suitable for identifying community services. For example, included in the 'community and social services' category are contracts such as 'Psychological services for WA Police force recruiting' (\$2.6 mn) and 'Provision of Subsidised South West Bus Services' (\$1.5 mn). Department of Finance figures may therefore overstate Government investment in the community services sector.</p>



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