Factsheet (updated 17 July 2020)

Funding for indexation for social services

Key messages

- Health, social and community services are essential services that have proved to play a key role in providing immediate, diverse, frontline support to impacted communities during the bushfires and COVID-19.
- With rising disadvantage leading to rising demand for our services, now is not the time to require our sector to do more with less.
- At a minimum, we need adequate indexation to be able to operate effectively, pay staff adequately and meet both rising demand and cost of service delivery.
- The NSW Government must immediately pass on indexation of at least 2% so that the sector can get on with the vital work of supporting the growing number of disadvantaged people in NSW.

Context

- During COVID-19, the sector has risen to the challenge and continued to provide essential services to the most vulnerable in the community e.g. they have worked hard to keep rough sleepers safe, provide support to women in unsafe relationships, stay connected to vulnerable families, assist people with disabilities to adjust, get food to households in financial distress, check in on those who are isolated, help people access telehealth and other online services, and ensure that disadvantaged young people don't disengage from education.
- The sector has worked cooperatively with government to rapidly find and roll-out solutions, and modify service operations and delivery accordingly. For the most part this has been done with no additional funding.
- Organisations in the sector are worried for the future and are already struggling to meet demand due to chronic underfunding.
- Many do not have reserves, as their funding agreements do not allow them to carry over underspends to help them build a financial buffer - which would be a sensible and common business practice in any other industry so that when crises such a COVID-19 occur, they are prepared and more financially resilient.
- The coming 'October cliff' will bring even more financial challenges for the sector:
    - the end of JobKeeper
    - the withdrawal of other crisis support (increased JobSeeker, deferred lease and loan payments coming due, etc)
    - a desire by governments to reduce expenditure in their budget places many organisations at risk.

- The latest report from Social Ventures Australia and the Centre for Social Impact indicates the precarious financial position that many organisations are in, particularly as the ability to fundraise and seek sponsorship from local businesses or philanthropic sources dries up (see box 1).

Box 1: June 2020 report from Social Ventures Australia & Centre for Social Impact: *Will Australian charities be COVID-19 casualties or partners in recovery? A financial health check*

- SVA modelled the potential impact of COVID-19 on the financial health of the 16,022 charities on the ACNC register with 1.22 million employees (many run purely by volunteers).
- They modelled a 20% fall in revenue for these charities and found:
    - 88% of charities would immediately be making an operating loss;
    - 17% would be at high risk of closing their doors within six months, even when taking their reserves into account; and
    - More than 200,000 jobs could be lost as a result of cost-cutting and organisational closures.
- Charities are losing revenue from multiple sources at the same time as they face increased demand for their services, and increased delivery costs.
- While their income has risen in the past year, their margins are falling significantly. Government grant processes which prioritise low prices over sector viability can erode margins further.
- Unlike for-profit companies, charities can't easily raise capital by taking on debt or issuing shares, so are more exposed in unexpected downturns.

Indexation

- The health, social and community services sector is chronically underfunded and funding is often not indexed adequately to reflect rising wages and operational costs.
- In 2019-20, funding indexation for the sector fell short of the 3% increase to the minimum wage mandated by the Fair Work Commission. This presented a real funding cut to the sector, as organisations needed to meet this wage increase by cutting costs elsewhere e.g. by cutting services or staff.
- For 2020-21, the Fair Work Commission has announced a 1.75% increase to the minimum wage. This means organisations will need to find the money to increase their wages from 1 July 2020.
- NCOSS and other peak bodies are calling on the NSW Government to not wait for the State Budget, delayed to late 2020, but instead to immediately provide adequate indexation of at least 2% to the NGOs that it contracts to provide essential services.
- In response to advocacy from NCOSS and other stakeholders, on 6 July 2020 the Daily Telegraph reported that the NSW Government had indicated it would give a 1.75% cash injection for government-funded organisations "in line with the Fair Work Commission increase to wages".

However, it is unclear how soon this will occur and whether this will cover all government-funded health, social and community services.

- In addition, the 1.75% cash injection is only an interim measure applying to wages until the State Budget is announced in late 2020, which will determine the indexation rate for the sector going forward.
- It is still important to call for 2% indexation. This will enable the sector to cover the rising cost of service provision, including the 1.75% wage increase mandated by the Fair Work Commission.
- This comes off the back of inadequate indexation last year that did not cover the mandated wage increase for 2019-20, ongoing lack of growth funding, funding models that don't reflect the real cost of service provision and the sector having to stretch to meet rising demand as a result of the bushfires, floods and drought impacting much of the NSW.
- The call for 2% indexation also comes at a time when it is unclear whether baseline funding for organisations will permanently increase to reflect the Fair Work Commission's equal pay decision in 2012 (see box 2).
- Now is not the time to be making what will in effect be a funding cut to the sector. Not passing on adequate indexation (and not providing guarantees about the future of ERO payments) in a timely manner takes us backwards and undermines the gains that have been made to recognise the important contribution that the sector makes in supporting the most vulnerable in the community.

Box 2: Ensuring equal pay for a predominantly female sector

- The health, social and community services sector is predominantly female, and has been recognised as under-valued and underpaid. That is why the Fair Work Commission brought the Equal Remuneration Order (ERO) in 2012, to achieve pay parity for work of equal value.
- At the time this order was made, the NSW Government chose to phase in equal pay for wages covered by the Social and Community Services (SACS) Award by providing organisations with supplementary payments over eight years.
- ERO supplementation will cease at the end of 2020-21, and there has been unclear and inconsistent commitment across NSW Government funding agencies with regard to rolling ERO supplementation into baseline funding to maintain funding levels beyond this point.
- The Federal Department of the Attorney General has committed to incorporate ERO into baseline funding through the National Partnership Agreement on Legal Assistance Services and this is a great precedent. The NSW Departments of Communities and Justice (DCJ) and Health have stated their intention to incorporate ERO supplementation into baseline funding, however, continuation of the supplement has not been expressly dealt with in recently concluded contracts.
- The potential loss of ERO will have a real impact on funding levels and organisations' capacity to deliver services across a range of areas. For example, losing ERO supplementation to the Tenants Advice and Advocacy Program would result in an 8% cut in staff across the program and 2,240 fewer tenants in NSW receiving valuable assistance and advice on maintaining their tenancies.