Factsheet (updated 18 March 2021)

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.
- Indexation of 1.75% has been welcome, however ongoing indexation must be higher for our sector to operate effectively, pay staff adequately and meet both rising demand and cost of service delivery.
- The NSW Government must pass on indexation of at least 3% in the upcoming State Budget 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 first half of 2021 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.

- A 2020 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.
- In addition, the sector has been facing ongoing lack of growth funding, funding models that don’t reflect the real cost of service provision and having to stretch to meet rising demand as a result of the pandemic, bushfires, floods and drought impacting much of the NSW.
- For 2020-21, the Fair Work Commission has announced a 1.75% increase to the minimum wage. This means organisations needed to increase their wages from 1 July 2020.
- In response to advocacy from NCOSS and other stakeholders, the Department of Communities and Justice and NSW Health committed to providing 1.75% indexation to NGOs funded by these departments in response to the Fair Work Commission decision.

- However, the 1.75% cash injection for NGOs funded by the Department of Communities and Justice from 1 July 2020 originally only applied to the wage component of NGOs' funding (determined by the department to be 80% of total funding).
- After sustained advocacy from NCOSS, in March 2021 the Department of Communities and Justice then announced 1.75% indexation would apply to total funding for NGOs for the full 2020-21 financial year and would be backdated to 1 July 2020.
- The commitment of 1.75% by NSW Health applied to total funding for NGOs funded under the Ministerially Approved Grants Program for the full 2020-21 financial year.
- It is still important to call for at least 3% indexation to be provided in the upcoming 2021-22 State Budget. This will help the sector to cover the rising cost of service provision.