

# Sustainable Service Delivery for Families Requires a Better Approach to Indexation

## Annual Funding Cuts

The Federal Government funds more than a billion dollars worth of support services to families, children and young people every year. Yet it does not have a consistent or adequate approach to ensuring that funding keeps pace with the increasing cost of service delivery.

This means that each year community organisations that receive Federal Government funding to deliver services in their local communities face a shortfall in the amount of funding they get to deliver the essential services they operate.

This is effectively an annual funding cut that leaves community organisations in the difficult position of having to decide to either cut back service delivery or supplement government funding with income from other sources (e.g. fundraising) to cover the shortfall. Over time this can become unsustainable and put both the services and the organisation at risk.

Peak groups and national networks have repeatedly called on successive Federal Governments to address this problem. We need a more consistent and accurate approach to applying annual indexation to funding for services.

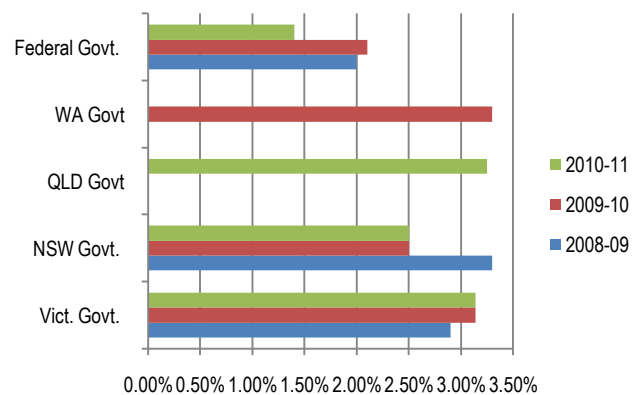
## Federal Government Lags behind State & Territories

According to the 2009 ACOSS Survey of Community Organisations, up to a quarter of organisations received no indexation on their Federal Government funding and the average indexation rate was 1.8% for 2008-09, while the major cost indices – Consumer Price Index and Wage Price Index were both over 4%.

Many of the State and Territory Government's across Australia have improved their approach to indexation for funded programs over recent years, largely in recognition of the impact that inadequate indexation was having on the community sector. As a result the indexation rates applied to State and Territory funding programs are often significantly higher than those applied by the Federal Government. The graph (above right) illustrates the significant differences in indexation rates applied to family programs across jurisdictions over recent years.



Indexation on Funding for Family Services 2008-11



Family Relationship Services Australia (FRSA) calls on the next Federal Government to:

- 1) Commit to funding the true cost of services provided by community organisations under the Federal Government's 'Family Support Program'.
- 2) Develop, in consultation with service providers, a fair and transparent mechanism for adjusting funding to keep pace with cost increases annually.
- 3) Provide certainty into the future by committing to a reliable approach to indexation.
- 4) Undertake an assessment of the impact of not having full indexation applied to current funding agreements – i.e. current shortfall in funding to maintain service capacity at original levels.

# Addressing Indexation

## 1) Commit to funding the true cost of services provided by community organisations under the Federal Government's 'Family Support Program'

The Federal Government's 'Family Support Program' (FSP) delivers a broad range of services that are part of the social safety net for vulnerable families. These services are delivered by community based organisations with funding agreements administered by the Department of Families, Housing, Community Services and Indigenous Affairs. Over time the cost of delivering services has changed substantially but funding levels remain static. The Federal Government last examined the cost of delivering Family Relationship Services, the largest service stream within the FSP when it commissioned a cost methodology project in 2006. This project identified the complexity of costing services delivered by a variety of organisations across the diversity of community settings and identified problems with the historic way in which funding had been allocated without adjustment over time. The report recommended a review of funding arrangements which is now long overdue. FRSA seeks a commitment to funding the true cost of service delivery in a way that is transparent and fair.

## 2) Develop, in consultation with service providers, a fair and transparent mechanism for adjusting funding to keep pace with cost increases annually

Costs associated with staff wages account for approximately 72% of all funding provided to Family and Relationship Services. Since 2005, annual wages increases have been in the order of 4%, consistent with the Labour Price Index for wage costs in the health and community services sector (ABS 6345.0). Yet the annual indexation rate applied to Federal Government funding for Family and Relationship Services has been 1.7% (2006-07), 2.1% (2007-08), 2.0% (2008-09) 2.2% (2009-10) and just 1.4% for the current financial year (2010-11). Effectively the indexation applied to funding agreements is less than half the rate of wage increases, resulting in an estimated shortfall of \$2.9M per annum in this program alone. FRSA is calling for the Federal Government to replace the current mechanisms for determining annual funding indexation with a fairer and more transparent approach based on an open review of cost pressures (in line with the principles of the National Compact and recommendations of the Productivity Commission's Review of the Contribution of the Not-for-profit Sector, 2009). Examples may be drawn from those State and Territory Governments that have recently developed more accurate methodology for estimating cost increases and applying indexation.

## 3) Provide certainty into the future by committing to a reliable approach to indexation

Currently, the Federal Government advises Family and Relationship Service Providers of the indexation rate that will apply to funding agreements carried over into the new financial year somewhere between the Federal Budget in May and the end of the financial year. It is not uncommon for this advice to be provided in late June. This makes it very difficult for organisations to develop accurate Annual Budgets for consideration by governance boards sufficiently in advance of the new financial year. It would be helpful to have this advice in the March quarter allowing time for budgets to be prepared and adjustments to be made to expenditure commitments during the final quarter of the financial year in preparation for implementation from 1 July.

## 4) Undertake an assessment of the impact of not having full indexation applied to current funding agreements

FRSA estimates that the current funding agreements for Family and Relationship Services have lost value by an estimated \$8.7M. Service provider organisations have either absorbed these costs or been forced to reduce service delivery from original levels. A one-off payment to providers to compensate for inadequate indexation over the term of current agreements would help to

ensure that the viability of provider organisations is not compromised as a result.

*“For all types of funding, a good relationship requires a clear understanding of the costs of the funded service or activity — so that government can undertake due diligence and NFPs can manage well and sustainably. It also informs dialogue between the two”.*

*Productivity Commission, Review of the Contribution of the Not-for-profit Sector (2009)*



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