



Sustainable Investment in an Essential Industry: Implementing an indexation model for Tasmania's community services industry

2023/24

TASCOS BUDGET PRIORITIES
STATEMENT, SUPPORTED BY
THE NETWORK OF PEAKS



AN ESSENTIAL INDUSTRY

The Tasmanian community services industry is critical to both Tasmania's society and economy.

At some point in our lives, each and every Tasmanian will have contact with or be supported by the community services industry. Our well-trained and experienced workers provide support for newborns and their parents, help young people engage in education, training and employment, provide housing and homelessness services, offer family support and counselling, deliver mental health and trauma support, work to reduce alcohol and other drug related harm, as well as aged, disability and palliative care. And that's only a fraction of the crucial work we do.

The scope of this work provides significant economic returns to Tasmania. It is part of one of the largest and fastest-growing industries in the state, employing just over 15% of Tasmania's total workforce and contributing 13.1% of Tasmania's Gross State Product (GSP) in 2021.¹

But our ability to continue the important work of supporting Tasmanians to participate in the educational, economic, social and cultural life of our state is under threat as demand for services increases. Years of underinvestment has seen financial reserves depleted, while current indexation rates do not allow organisations to keep up with the current cost of living increases.

The COVID-19 pandemic forced a step change in costs across the economy and increased the sustainability risk of our industry. While the issue of COVID-19 is receding in the national consciousness, the step change has not receded.

The impact has been twofold: a reduction or change in the services offered by individual organisations; and a reduction in the overall mix of services offered by our industry. This not only risks our industry's sustainability, it also poses a significant risk to Tasmania.

The preventative, early intervention and crisis support we provide to Tasmanians of all ages not only supports their contributions to their communities and it also means they are less likely to turn to state-funded services, such as hospital Emergency Departments (EDs), or come into contact with the criminal justice system.

Far from being a burden, the community services industry is a large contributor to Tasmania's economy and saves the government money over the longer-term. Conversely, the less we invest now the longer the cost burden and budget impact to government in the future.

The Network of Peaks commissioned *Tasmania's Cost Indexation for Government Purchasing of Community Services Report 2022* (Cost Indexation Report) to identify an investment approach in our industry that ensures Tasmania has a sustainable community services industry that delivers high quality, cost-effective and sustainable services to Tasmanians into the future.

The Economic Contribution of Tasmania's Community Services Industry

- Community services is a significant part of the Health Care and Social Assistance sector, the largest employer in Tasmania.
- In 2021, the Health Care and Social Assistance Sector contributed 13.1% of Tasmania's GSP.

Historic Underinvestment and Increasing Demand for Services

Over the last two decades in particular, community services funding has fallen behind the real cost to community service organisations of doing their vital work — this places people and government efficiency at risk.

Many Tasmanian organisations have seen their indexation increase by between 0% and 2.25% per annum for the last 20 years, while the Consumer Price Index (CPI) during that time has risen by an average of 3.45%. Indeed, CPI for Hobart is now the highest of the nation's capitals hitting 8.6% for the third quarter of 2022, while wages have increased 5.2% for some, not including 0.5% superannuation increases.² In real terms, this translates to funding cuts.

At the same time, many organisations are seeing an increase in demand for their services. In particular, housing and homelessness services, mental health support, support for women and their children escaping family violence, providers of alcohol and other drug treatment and support, and emergency food relief providers are all struggling to provide timely, quality services to meet demand.

Again, if these services are not provided, the cost is borne by the taxpayer when this unmet need results in far more expensive interventions, including ED presentations.

A Snapshot of Increasing Demand for Community Services

- The Tasmanian social housing waitlist for priority applicants in October 2022 was 4,534, and priority applicants are currently waiting 105.6 weeks on average for a home.³ For comparison, 10 years ago those figures were 2,310 and 16.2 weeks.⁴
- Demand for food relief services is increasing with current levels of demand higher than during the COVID-19 pandemic.⁵
- Thousands of Tasmanians who want alcohol and other drug treatment and support cannot access it.⁶

Appropriate Indexation for a Sustainable Industry

Inadequate indexation is partly due to not understanding the cost drivers specific to community service organisations.

This situation has been confirmed by the University of Western Australia's Centre for Public Value and stated in their recent report examining Tasmania's indexation issues. Indeed, as their *Cost Indexation Report* shows, the standard methods to calculate indexation — the CPI and the Wage Price Index (WPI) — are inadequate proxies for indexation, and either separately or combined do not capture these cost drivers.⁷

Key Findings from the Cost Indexation Report

- The current indexation rates applied by the Tasmanian Government means funding does not keep pace with the increases in costs to community service organisations.
- A more accurate calculation is needed to capture key costs specific to community service organisations.

The Tasmanian Government applied an indexation rate of 2.25% for 2020 and 2021, but increases in expenditure for many organisations in that time ranged between 9% and 13%. The Cost Indexation Report suggests that, partly as a result of this gap, there was a reduction and/or change in

the service mix delivered by the industry likely causing a contraction in service provision. There was also a reduction in the profitability of organisations — representing a serious threat to their short-, medium- and longer-term sustainability as, without profits, these irreplaceable organisations cannot reinvest to meet the needs of the community.

The community services industry and taxpayers rightly expect governments to be efficient in the use of public funds. But in order to be efficient, the price paid by governments for the services they procure from community service organisations must also support the sustainability of the industry.

As well as supporting the wellbeing of Tasmanians, it makes economic sense to invest in our industry because of the economic growth it contributes and the savings to government over the longer-term.

Recommendations

1. The Tasmanian Government provides 9.5% indexation across government procured community services in 2023/24.
2. The Tasmanian Government joins with other Australian governments and the community services industry to call on the Australian Bureau of Statistics (ABS) to develop a specific, fit-for-purpose, sourcing of data which provides a true indication of the costs incurred in the provision of community services.

Should Recommendation 2 not be progressed, we propose the Tasmanian Government adopts the alternative, albeit more costly and resource-intensive option proposed in the Cost Indexation Report, which is to: Adopt the Laspeyres Index to calculate appropriate indexation to apply to community services contracts.

The Network of Peaks emphatically endorses the analysis and findings of the Cost Indexation Report.

We look forward to working with the Tasmanian Government to develop an approach to indexation that will support the community services industry to promote the wellbeing of Tasmanians and ensure the sustainable, efficient and effective delivery of community services in Tasmania into the future.

1. Department of Treasury and Finance 2022, Economic Data Releases for Tasmania; Australian Bureau of Statistics 2022, Labour Force, Australia.
2. Australian Bureau of Statistics 2022, Consumer Price Index (CPI) – 17th series.
3. Homes Tasmania 2022, Housing Dashboard, October.
4. Department of Health and Human Services 2016, Annual Report (2015-16), p. 35. The wait time refers to priority 1 applicants.
5. Foodbank Australia 2022, Foodbank Hunger Report.
6. Siggins Miller 2017, A single Tasmanian alcohol and other drugs (AOD) service system framework, Final Report, Department of Health, p. 5.
7. Gilchrist, DJ & Feenan, C 2022, Tasmania's Cost Indexation for Government Purchasing of Community Services, a report developed by the University of Western Australia's Centre for Public Value for the Tasmanian Council of Social Service, Hobart, Australia.

The Tasmanian Council of Social Service (TasCOSS) is the peak body for Tasmania's community services industry.

Our Mission is to challenge and change the systems, behaviours and attitudes that create poverty, inequality and exclusion and to ensure all Tasmanians have equal opportunity to live a good life.

Our Vision is of one Tasmania, free of poverty and inequality where everyone has the same opportunity.

This Budget Priorities Statement reflects the expertise of Tasmania's Network of Peaks, our members, community groups, lived experience advocates and consumers, as well as research and analysis of actions and initiatives in Australia and other jurisdictions.

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- Alcohol, Tobacco and other Drugs Council Tasmania
- Carers Tasmania
- Council on the Ageing Tasmania
- Health Consumers Tasmania
- Mental Health Council of Tasmania
- National Disability Services
- Neighbourhood Houses Tasmania
- Shelter Tasmania
- Volunteering Tasmania
- Youth Network of Tasmania

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