



# Social Services Funding Indexation Project Brief Overview of Project Rationale For Western Australian Council of Social Service 2022

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## 1. Introduction

The provision of funding by governments to non-profit and charitable social services providers is an important issue for the sector—appropriate indexation levels can help to ensure the ongoing sustainability of service providers thus reducing the risk of service failure; a risk borne by service recipients. Additionally, the social services sector is under increasing financial pressure as economic circumstances (e.g., cost increases and workforce pressures), funding rationing methods (e.g., invoicing in arrears rather than block funding in advance) and increasing service demand negatively impact sustainability. This pressure is exacerbated by consecutive years of inadequate indexation based on inappropriate indexation calculation models.

This document provides an overview of the rationale, key issues and drivers associated with this project as well as further information that helps to explain the nature of indexes themselves and to identify broader financial pressures that are impacting the sector.

As such, this document is intended to be a resource for WACOSS to assist it in building capacity and advocating in this critical area. The document also includes an appendix in which the titles and links to other reports we have developed that are relevant to this area are included.

## 2. General - Cost Index Definition and Components

Considered an economic indicator, a cost index provides information about the economy and may assist in economic decision making. It can be used to represent inflation as it impacts an industry and be a tool for forecasting cost trends.<sup>2</sup> If a price index clause is used in a contract, a cost index may also provide a basis for the adjustment of prices. They can be calculated for different purposes and used to analyse changes in costs and their influence, wages, policy, interest rates, funding and so on. For instance, the Australian Bureau of Statistics (ABS) acknowledges that the various price indexes it publishes are used in indexation clauses in contracts for supply of goods and services.

A cost index is a proportionate number representing changes in the price of costs. The change measured is relative from a base time period (usually a base year) to a current year. Typically costs factors accounted for are accumulated through gathering data from firms (in our case, social service providers) in three fundamental groupings:

- labour inputs
- capital inputs
- purchases of various products and services.

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<sup>2</sup> Nassereddine, H., Whited, G. and Hanna, A., 2016. Developing a Chained Fisher Construction Cost Index for a State Highway Agency. *Transportation Research Record: Journal of the Transportation Research Board*, 2573(1), pp.149-156.

The basis of a cost index is what is called a basket of goods or market basket. That is, the key elements that are purchased (labour, capital and products and services) in order for social services to be delivered. Thus, we refer to prices for each of those elements when we are talking about indexes—we purchase labour and goods and services for instance at a set price at that time. There are two primary components of a market basket, the cost and quantity of each item. They must be representative of the industry or sector of interest. Index numbers cannot be compared across unrelated areas. They are simply a measure of proportionate change in two or more time periods.

The well-known Consumer Price Index (CPI) is often used as an indicator of inflation. The CPI estimates the percentage change in the price of a basket of goods and services typically consumed by households. However, like all indexes, it is not perfect, and the CPI has been criticized for having both an upward bias (overstating inflation) and a downward bias (understating inflation) depending on the bias.

The Wages Price Index (WPI) estimates change over time in wages and salaries for employee jobs. Importantly, it is unaffected by changes in the quality or quantity of work performed. It is used to measure changes in the price of labour in the Australian labour market. The primary limitation of the WPI is that the broadness of the market basket of wages and salaries fails to accurately reflect increases/decreases of labour cost in human services—more on this below.

### 3. Key Issues

The principle social services are purchased by governments in Australia. These governments establish the funding and business rules, including as to how funding is indexed each year which is intended to allow the largely non-profit social services sector to meet cost increased thus ensuring sustainability of services. Currently, most Australian governments either establish an indexation rate based on their estimate/affordability (anecdotally there is some concern that governments do not make their indexation calculations transparent) without reference to costs or they use a combination of CPI and WPI as a proxy for estimating the increases in costs experienced by service providers (usually weighted toward the WPI). They do this because:

- They do not collect cost information to assist in the development of a real understanding of the comprehensive cost of service delivery;
- They do not consider the likely greater relevance of alternative indexes already created by the ABS (such as Health CPI); and
- There is a cost to collecting data and analysing it to create a specific purpose index which needs to be taken into consideration. These costs are borne by procuring governments and the sector which provides the data.

However, the current methods of determining cost increases without data and applying nonrelevant indexes, such as CPI and WPI, have also meant that significant historical underfunding is built into the current funding levels and that governments are not pricing their procurement appropriately. We are seeing the impact of this in the increasing financial vulnerability of the social services sector in Australia.

#### 4. CPI & Relevance to Human Services

As the CPI is a representation of cost of living increases it does not represent the costs of operations for social service delivery. The CPI measures changes in the quantity and price of items consumed by households and, although usually used to estimate the overall inflation in prices of goods and services, both the basket and use of items is not proportional or relevant here.

The calculation of CPI can also be criticised as biased, compounding the lack of relevance. Biases arise and represent the difference between the calculated CPI and true cost of living increases. These biases are well documented as including:

- Substitution bias - individual preference moves to a similar item, usually after a rise in price (i.e., a rise in lamb prices makes beef more desirable)
- Outlet substitution bias - purchase of the same goods from a different outlet (i.e., the rise of ALDI misrepresents the market basket, also leaves more purchasing power)
- Quality change bias – an item changes in value and therefore it's buying desirability by the consumer (i.e., petrol price increase may reduce desire to drive)
- New product bias - purchase of new products not yet represented by the market basket (i.e., new technology such as Working from Home equipment)
- Inseparable property of item bias – having to purchase more than desired for the intended use (i.e., minimum price of an internet package increases with data increase, but the improvement is not required)

The nature of organisations in the human services sector is that they do not act as a standard household nor is there a market for their services—that is why government funds them—so that the concepts of market economics, such as price impact, are not relevant. For instance, demand for services does not fall away with increases in pricing, nor does income or output represent the success of the organisation and if it should stay in business. Discretionary spending or investment is minimal in a non-profit organisation, and non-discretionary spending is often completely inelastic (that is, the price does not impact consumption). This is partly because the price is set by government and partly because of the importance of the services to those who need them—services users are not making run of the mill consumption decisions; they need the services. If social service organisations cannot afford to deliver services, the service user absorbs the impact.<sup>3</sup>

The ABS<sup>4</sup> considers non-discretionary spending as goods or services which are purchased because they meet a basic need (food, shelter, healthcare), are required to maintain current living arrangements (car maintenance, school fees), or are a legal obligation (compulsory insurance, stamp duty). Spending on these goods or services may be less responsive when there are changes in household wealth and incomes, or changes in the relative prices of goods or services. Discretionary goods or services are those which could be considered 'optional' purchases, such as take away meals, alcohol and holidays. Spending on these goods and services may be more elastic and responsive to changes in household wealth or relative prices.

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<sup>3</sup> The NDIS is a good example of this economic phenomenon. Please see our "Green Paper No. 4: Demand, Supply & the NDIS: A Matter of Words?". Available at: <https://www.uwa.edu.au/schools/Research/Not-for-Profits-UWA/Publications>

<sup>4</sup> Australian Bureau of Statistics. 2020. *Non-Discretionary and Discretionary Inflation*. [online] Available at: <https://www.abs.gov.au/statistics/research/non-discretionary-and-discretionary-inflation#:~:text=Over%20the%20period%202012%20to,inflation%20of%206.4%20per%20cent>

Known in economic theory as Engel’s Law; as spending capacity decreases, the share of expenditure on basics increases<sup>5</sup>. That is if there is a reduction in buying power or real income, the share of expenditure on necessities, basic, non-discretionary goods and services increases. While if there is an increase in income the opposite is the case. An increase in income or buying power shows a reduction in the share of total spending on non-discretionary goods and services with a rise in discretionary. In an underfunded organisation or low income household, expenditure share on non-discretionary goods increases over the years, while non-discretionary inflation also increases reducing buying power even more.

Figure 1 below illustrates how the weight of discretionary and non-discretionary inflation impacts CPI with non-discretionary inflation exceeding CPI by 0.8% between 2012-2019. However, Figure 2 identifies that the difference at December 2020 is 4.9%.<sup>6</sup> This shows how the rising costs of necessary spending is not appropriately represented in the CPI.

Figure1: Cumulative inflation between 2012-2019

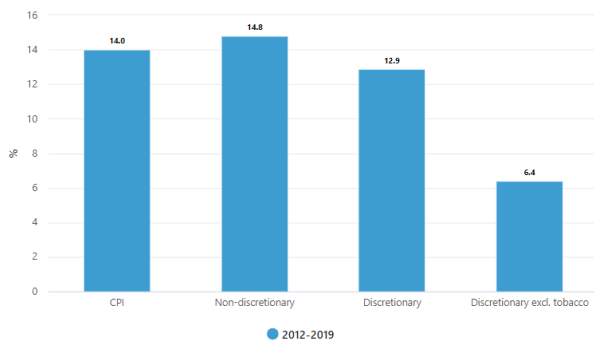
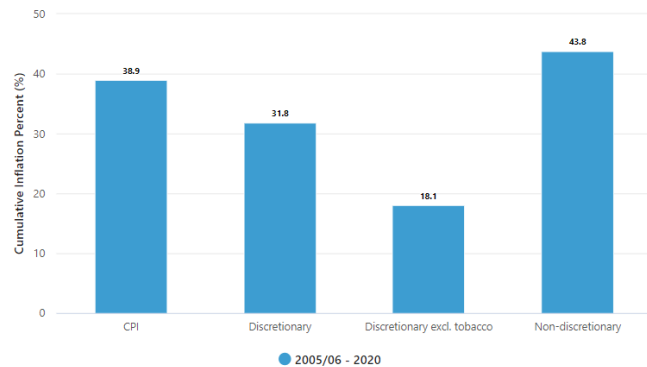


Figure 2: Cumulative inflation 2005/06 to December 2020 Quarter

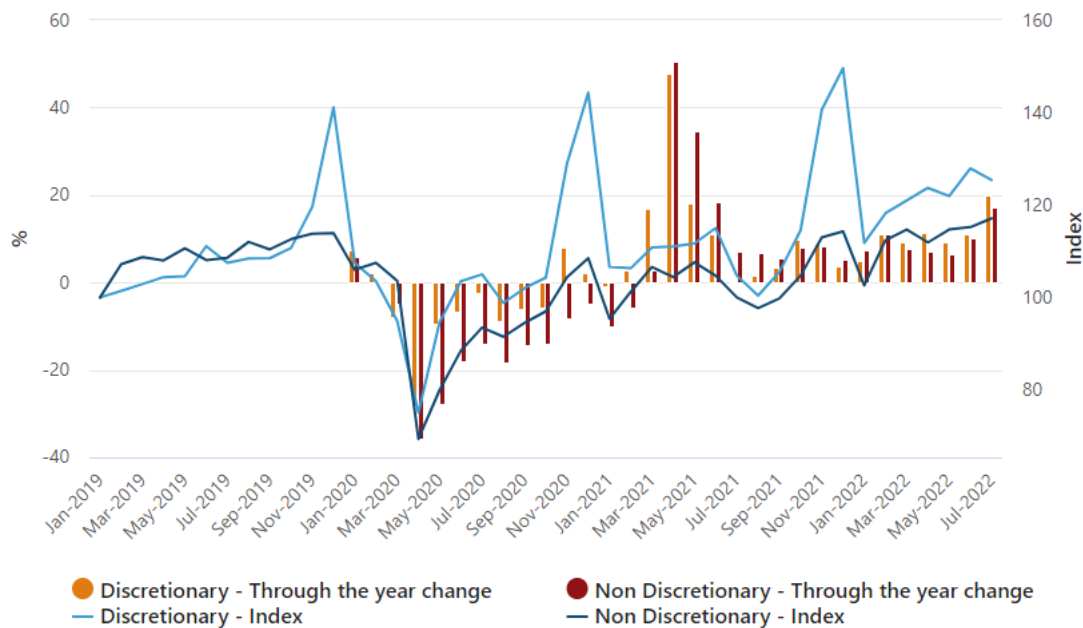


Likewise Figure 3 below tracks discretionary and non-discretionary inflation in recent years. Besides an impact on early 2020 with obvious impacts from COVID-19 lockdowns and economic uncertainty, the non-discretionary index continues to outgrow discretionary indexation. This translates to increases in the cost of basics and necessities outgrowing the increasing cost of optional or comfort goods and services. The CPI then misrepresents individuals who can’t afford the extras and instead have tighter and tighter budgets. Likewise, a sector such as human services consumes almost entirely non-discretionary goods, which have a higher index than discretionary goods, which evidently shows that the CPI is a poor index indicator for the sector. An increase in costs would also impact communities and individuals driving need for human services which are themselves underfunded.

<sup>5</sup> [https://www.jstor.org/stable/1402900#metadata\\_info\\_tab\\_contents](https://www.jstor.org/stable/1402900#metadata_info_tab_contents)

<sup>6</sup> Australian Bureau of Statistics. 2021. *Measuring Non-discretionary and Discretionary Inflation*. [online] Available at: <<https://www.abs.gov.au/articles/measuring-non-discretionary-and-discretionary-inflation>>

Figure 3: Household discretionary and non-discretionary spending, current price, calendar adjusted <sup>7</sup>



(ABS, June 2022)

## 5. Wage Price Index & Relevance to Social Services

The Wage Price Index (WPI) is usually the second element included in a compound index by Australian governments. Typically, social services are labour intensive and as such the indexation is weighted as high as 80% in some states. Generally, we would expect labour costs to represent about 70% to 75% of total costs in this sector. As such, the weighting appears logical at first blush. However, the WPI is not an adequate representation of cost increases for social services because:

- WPI is a broad measure of the change in wages only
- WPI does not include all key cost drivers of labour (see below)
- female dominated industry is misrepresented in the composition of WPI
- low or minimum wage industries can be misrepresented in the aggregate

The WPI as calculated by the ABS is designed to measure changes in the price employers pay for labour that arise from market factors. Specifically, the changes in the price of wages and salaries. This does not appropriately represent industries that deviate from this composition. As quoted by ABS "... index number levels cannot be compared across sectors or industries. The usefulness of index numbers stems from the fact that index numbers for any two periods can be used to directly calculate the change or movement in the price of labour between the two periods."<sup>8</sup>

<sup>7</sup> <https://www.abs.gov.au/statistics/economy/finance/monthly-household-spending-indicator/latest-release#discretionary-and-non-discretionary-spending>

<sup>8</sup>Australian Bureau of Statistics. 2019 *Wage Price Index* [online] Available at: <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6345.0Explanatory%20Notes1Jun%202019?OpenDocument>>

The calculations of WPI do not include wage-related costs such as:

- superannuation
- leave coverage costs
- recruitment and retention costs
- penalty rates
- workers' compensation costs
- Supervision
- Payroll costs
- or PD and training.

The social services sector is traditionally a female dominated industry. The Workplace and Gender Equality Agency (WGEA) lists Health Care and Social Assistance as the top female dominated industry.<sup>9</sup> This indicates that there are likely more part-time employees and primary care givers in this sector signifying that parental leave is likely disproportionate in terms of costs compared to what is represented in the WPI. The ABS reports that in 2016–17 women took 95% of the primary parental leave used by non-public sector employees and men took 95% of secondary parental leave.<sup>10</sup> There is government funded Parental Leave Pay based on the national minimum wage. However, employers can provide paid parental leave in enterprise or other registered agreements, employment contracts and workplace policies.<sup>11</sup> The amount of leave and pay entitlements depends on the relevant agreement, contract or policy and any employer funded maternity or parental leave would likely be overrepresented in this industry from the WPI calculation. Consistent with other female worker dominated industries, the additional cost of recruitment and training to fill leave positions is not represented in WPI.

The median weekly earnings of social services are low, if not minimum wage, as represented in Figure 4 below. This figure depicts health care and social assistance as one of the lower paying sectors. As this graph includes health care workers, it represents a higher median wage than the total social sector as health care sector also includes trained medical professionals such as doctors, nurses, and technicians.

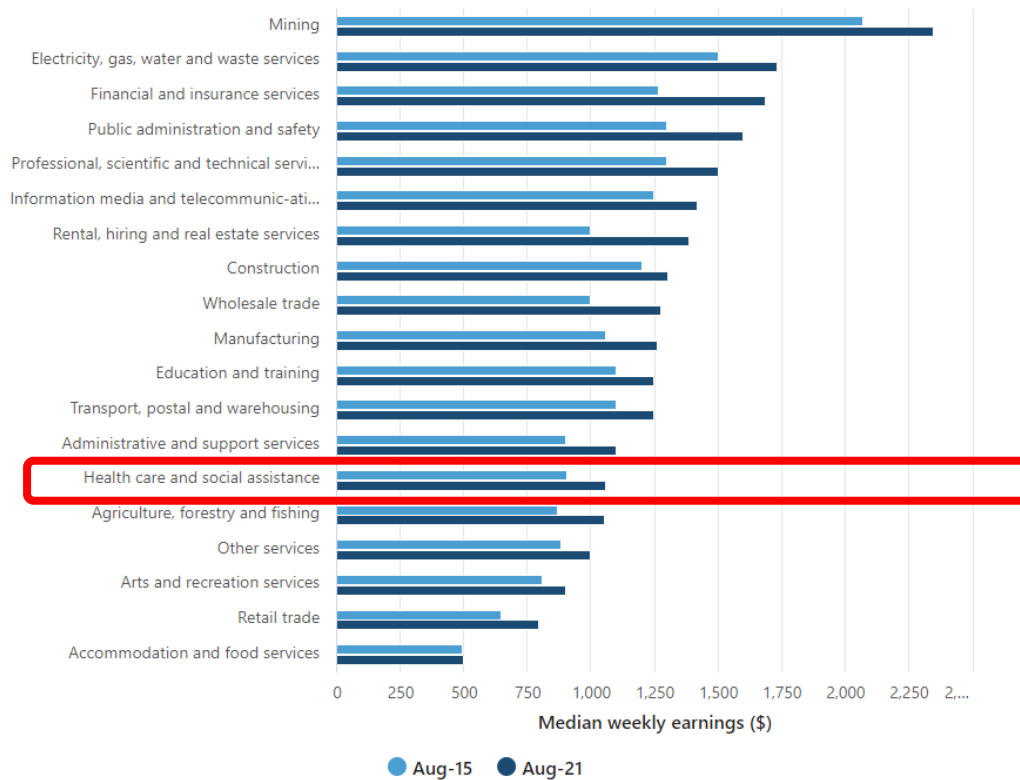
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<sup>9</sup> Workplace Gender Equality Agency. 2019. *Gender segregation in Australia's workforce*. [online] Available at: <<https://www.wgea.gov.au/publications/gender-segregation-in-australias-workforce>>

<sup>10</sup> Australian Bureau of Statistics. 2018. *Gender Indicators, Australia, Sep 2018*. [online] Available at: <<https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4125.0~Sep%202018~Main%20Features~Work%20and%20Family%20Balance~7>>

<sup>11</sup> Fair Work Ombudsman. 2022. *Paid parental leave*. [online] Available at: <<https://www.fairwork.gov.au/leave/maternity-and-parental-leave/paid-parental-leave#employer-funded-ppl>>

Figure 4: Median Weekly earnings by industry<sup>12</sup>



Industry by gender is shown in Figure 5, that although healthcare and social assistance is female dominated, average weekly cash earnings within the industry is still below average and superseded by male earnings. Figure 6 shows community and personal service workers as a separate category and is again one of the lowest paid for weekly earnings at 35% less than the total average income represented. Impacts as such not only show that the dynamics within the industry are less desirable for employees, but the greater aspects of job quality and gender equality are far from optimal both within the sector and the broader community.

<sup>12</sup> Australian Bureau of Statistics. 2021. *Employee earnings, August 2021*. [online] Available at: <<https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings/latest-release>>

Figure 5: Full-time non-managerial employees paid at the adult rate, average weekly total cash earnings -industry by sex<sup>13</sup>

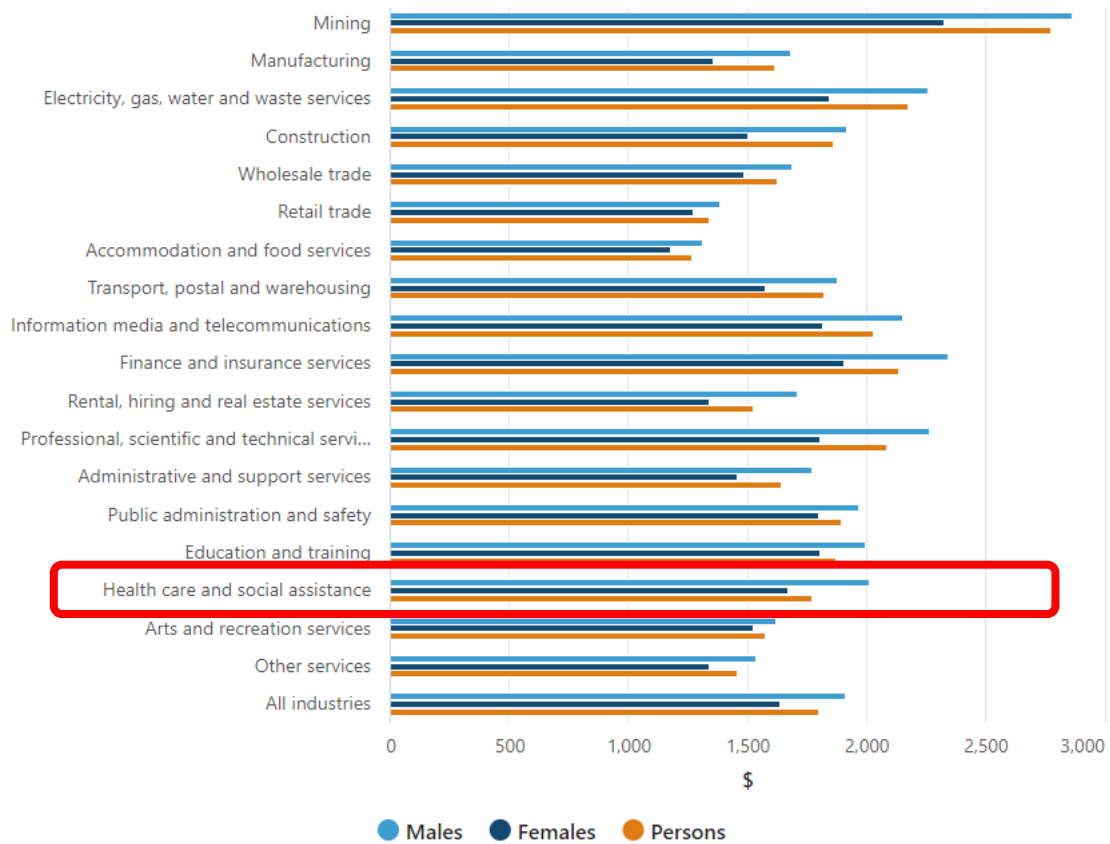


Figure 6: All employees, number of employees, average weekly total cash earning-occupation<sup>14</sup>

Occupation	Number of employees ('000)	Average weekly total cash earnings (\$)
Managers	816.4	2,596.40
Professionals	2,831.5	1,892.00
Technicians and trades workers	1,368.8	1,482.40
Community and personal service workers	1,593.5	907.20
Clerical and administrative workers	1,877.5	1,167.70
Sales workers	1,227.9	760.50
Machinery operators and drivers	680.7	1,457.60
Labourers	1,182.4	906.70
All occupations	11,578.6	1,394.10

Australian Bureau of Statistics. 2022. *Employee Earnings and Hours, Australia, May 2021*. [online] Available at: <<https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings-and-hours-australia/may-2021#occupation>>>

<sup>14</sup> Australian Bureau of Statistics. 2022. *Employee Earnings and Hours, Australia, May 2021*. [online] Available at: <<https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings-and-hours-australia/latest-release>>



The Fair Work Commission's announcements of a 5.2% raise of the minimum wage also had a disproportionate impact on the social services sector<sup>15</sup> as it comes after the realignment of pay rises from the Equal Remuneration Order (ERO). As many employees are already on minimum wage in social services, a 5.2% increase will mean many organisations will be impacted by increased expenditure on labour costs. Superannuation is also not represented in the WPI which will be increasing over coming years. The compulsory superannuation guarantee contribution increased from 10% to 10.5% from July 1, 2022 and to 12% by 2025<sup>16</sup> also adding to increasing weight of labour costs in organisations.

Thus, there is an obvious issue with regard to utilising indexes of any sort to ensure sustainability of social service delivery—indexes are retrospective not prospective and so cost increases are felt before adjustments to the funding levels are made thus reducing sustainability regardless of the extent to which the index used is appropriate.

## 6. Job Quality

Underfunding in operations naturally flows through to impacts on job quality and wages. Organisations may rely—sometimes heavily—on volunteers in their workforce, while wages and salaries are kept modest in order to stretch funding as far as possible.<sup>17</sup>

Inability to compete for staff impacts a social service organisation's capacity to deliver services and, thus, to invoice funders reducing capacity to meet overhead costs. It also impacts the ability of organisations to ensure they employ people with the right skills and experience, thus potentially impacting service quality to the detriment of service recipients.

The concept of job quality is significant when people consider career choices or moves. Using the Aspen Institute's defining characteristics<sup>18</sup>, job quality in an underfunded work environment is likely to remain consistently poor. Four main points for job quality are;

- wages (sufficient and stable to meet living expenses, and opportunities to build wealth)
- working conditions (supportive, welcoming to change, and safe from discrimination and harassment)
- stable/predictable work hours (flexibility if required)
- benefits that facilitate a healthy and stable life (paid sick, personal and annual leave, adequate superannuation plan, insurance).

Furthering the challenges of a female dominated industry. A lack of additional or negotiable benefits such as paid parental leave or holidays would either deter suitable candidates or put further pressure on employees who would benefit from such schemes. Low wages then also represent low super contributions as well exacerbating a perennial problem of underfunded superannuation held by women workers.

This pressure is exacerbated in states where mining demand for labour is easily outbidding social service organisations.<sup>19</sup>

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<sup>15</sup> Fair Work Ombudsman. 2022. *Minimum wages increase from 1 July 2022*. [online] Available at: <<https://www.fairwork.gov.au/newsroom/news/get-set-for-a-minimum-wage-increase>>

<sup>16</sup> Australian Tax Office. 2022. *Get ready for super changes from 1 July*. [online] Available at: <<https://www.ato.gov.au/Business/Business-bulletins-newsroom/Employer-information/Get-ready-for-super-changes-from-1-July/>>

<sup>17</sup> See our report: "Green Paper No. 6: Cost Differentials in Western Australian Disability Services Delivery" at <https://www.uwa.edu.au/schools/Research/Not-for-Profits-UWA/Publications> and

<sup>18</sup> The Aspen Institute. 2017. *The Importance of Job Quality: A Statement of Purpose*. [online] Available at: <<https://www.aspeninstitute.org/blog-posts/job-quality-statement-of-purpose/>>

<sup>19</sup> Please see our reports on this subject here: <https://www.uwa.edu.au/schools/Research/Not-for-Profits-UWA/Publications>

## 7. Additional Notes: Impact of Funding Rationing Model Changes

There has been a transition away from block funding in advance preferencing individual funding models. Block funding is when the government provides funding to contracted providers to deliver community service programs. This funding would be cash flowed at regular intervals as long as the provider was able to meet service delivery expectations based on the contract agreement. Individualised funding or 'fee-for-service funding' is typified by the scenario where a provider receives a fee after providing the service to the client. It is designed to give the client more freedom and choice, but also creates instability for the provider.

While many Child & Family Community Services programs are funded through block funding, there is a shift to individual funding models in Disability Support Services and Ageing Support Services.<sup>20</sup> This is exemplified by the introduction of the National Disability Insurance Scheme (NDIS) and individualised funding plans for clients. The removal of block funding for unit funding models have had major impacts on how and what services can be delivered. For the client, individual funding means they can pay the services they use which in turn creates a quasi-market.

The transition from block funding to individual funding completely changes the structure of funding for the provider. Not only was the transition a challenging one for already resource-stricken organisations as they receive funds after service provision rather than before, but so is the instability of uncertain income.

Since this transition, the funding model and in particular the NDIS structure has been researched and critiqued. Providers now need knowledge about the demand for supports in different areas of Australia in order to plan and invest.<sup>21</sup> Individualised funding packages did not automatically result in more choice and greater opportunities for recipients of the NDIS.<sup>22</sup> Extensive changes within the sector created an administrative burden for service providers that was perceived to impact on provision of best practice services as well as continued lack of trust in the integrity of market-style approaches.<sup>23</sup> There is also the argument for some block funding in the NDIS where markets would otherwise not support key services<sup>24</sup>. Although there is the argument that neither system supports best practice, and the transition is swapping the virtues and vices of one system for the virtues and vices of another<sup>25</sup>.

For further context, since 2012 Public Hospitals nationally moved to mainly use a combination of both block funding and activity funding. The Council of Australian Governments (COAG) agreed to the introduction and phased implementation of Activity Based Funding (ABF) as part of the 2011

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<sup>20</sup> The Benevolent Society. 2022. *Government subsidised programs*. [online] Available at: <<https://www.benevolent.org.au/funding-options/government-subsidised-programs>>.

<sup>21</sup> National Disability Services. 2016. *Human Services: Identifying Sectors for Reform*. [online] Available at: <[https://www.pc.gov.au/\\_\\_data/assets/pdf\\_file/0013/205123/sub262-human-services-identifying-reform.pdf](https://www.pc.gov.au/__data/assets/pdf_file/0013/205123/sub262-human-services-identifying-reform.pdf)>

<sup>22</sup> Laragy, C., Fisher, K., Purcal, C. and Jenkinson, S., 2015. Australia's Individualised Disability Funding Packages: When Do They Provide Greater Choice and Opportunity? *Asian Social Work and Policy Review*, 9(3), pp.282-292.

<sup>23</sup> Foley, K., Attrill, S., McAllister, S., & Brebner, C. (2021) Impact of transition to an individualised funding model on allied health support of participation opportunities, *Disability and Rehabilitation*, 43:21, 3021-3030, DOI: [10.1080/09638288.2020.1725157](https://doi.org/10.1080/09638288.2020.1725157)

<sup>24</sup> National Disability Services. 2014. *The Case for Some Block Funding in The NDIS* National Disability Services Policy Paper. [online] Available at: <[https://www.nds.org.au/images/Policy/Nat\\_Block\\_Funding\\_Report\\_2014.pdf](https://www.nds.org.au/images/Policy/Nat_Block_Funding_Report_2014.pdf)>

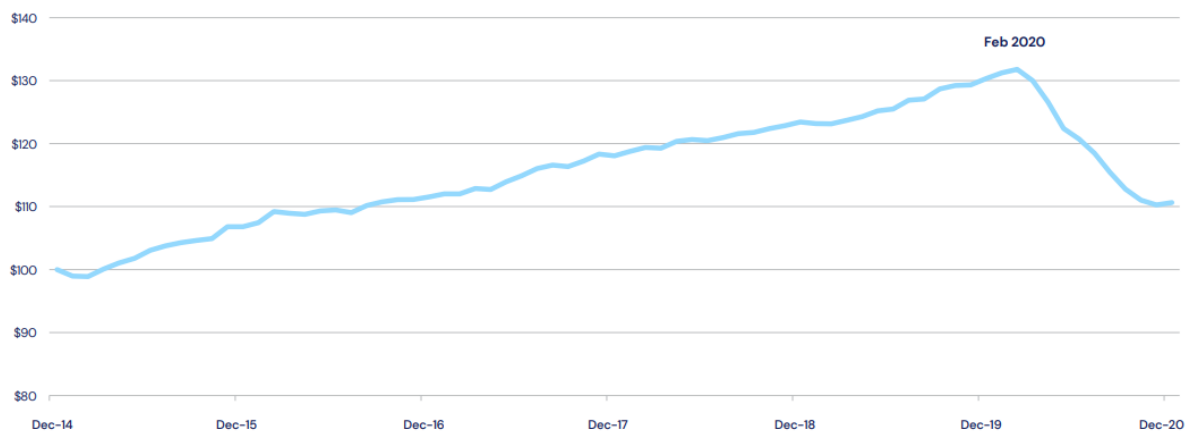
<sup>25</sup> Moore, T.G. (2016). From block funding to individual purchasing in early childhood intervention services: Understanding the implications for service delivery and best practice. Keynote presentation at 12th Biennial National Conference of Early Childhood Intervention Australia, Melbourne, 8th September. <https://doi.org/10.25374/MCRI.7685945>

National Health Reform Agreement (NHRA).<sup>26,27</sup> Block funding supports teaching, training and research in public hospital and public health programs. In some instances, for hospitals block funding is more appropriate such as smaller rural and regional hospitals. ABF is similar to individual funding and the preferred funding model for public hospital services in Australia. ABF is based on the number of weighted services provided and the prices to be paid for delivering those services. This method involves national classifications for service types, price weights, the National Efficient Price that is independently determined by the Independent Hospital Pricing Authority, and level of activity as represented by the National Weighted Activity Unit. That is, the National Efficient Price, is the price per National Weighted Activity Unit<sup>28</sup>.

## 8. COVID Impacts on Donations

Published research so far has found COVID impacts on non-profits have been significant in a number of ways. JBWere NAB Charitable Giving Index July 2021<sup>29</sup> found non-profits were impacted by; service disruption; rising demand for services; falling revenue; higher costs; and decrease in volunteers. Below are a number of graphs from the JBWere NAB reports and 2022 recovery which show behaviours in donations heavily impacted by COVID and the challenging margin of income and expenses for Social Services<sup>30</sup>.

Chart 1 – Total donations Dec 2014–Dec 2020 12 month moving average



Source – NAB Charitable Giving Index, JBWere Philanthropic Services

<sup>26</sup> Department of Health. 2014. *The Move to a Nationally Activity Based Funding Model* State Government Victoria [online] Available at: <<https://www.health.vic.gov.au/sites/default/files/migrated/files/collections/research-and-reports/t/the-move-to-a-nationally-activity-based-funding-model-march-2012---pdf.pdf>>

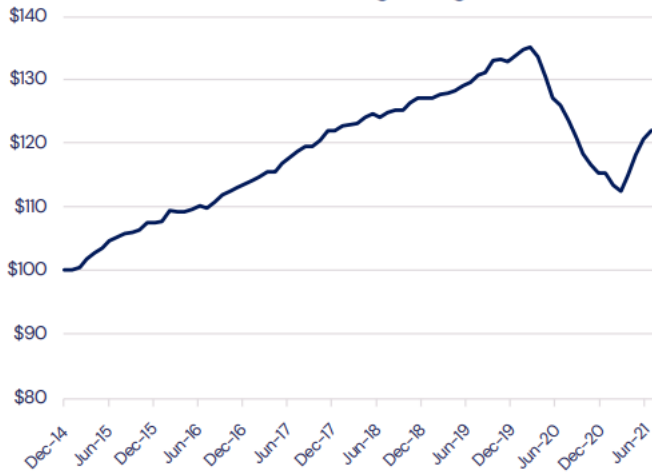
<sup>27</sup> Department of health. 2021. *Activity Based Funding*. Victoria State Government [online] Available at: <<https://www.health.vic.gov.au/funding-performance-accountability/activity-based-funding>>

<sup>28</sup> National Health Funding Body. 2022. *Funding Types*. Administrator National Health Funding Pool [online] Available at: <<https://www.publichospitalfunding.gov.au/public-hospital-funding/funding-types>>

<sup>29</sup> McLeod, J., and McDonald, B., 2021. *JBWere NAB Charitable Giving Index July 2021*. NAB

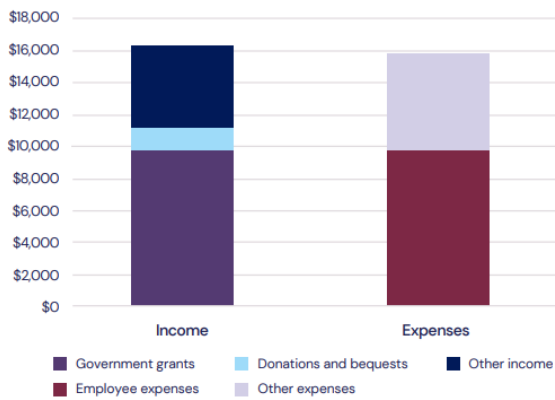
<sup>30</sup> McLeod, J., and McDonald, B., 2022. *JBWere NAB Charitable Giving Index January 2022*. NAB [online] Available at: <<https://news.nab.com.au/wp-content/uploads/2022/01/24.01.22-JBWere-NAB-Charitable-Giving-Index-.pdf>>

Total donations Dec 2014 - July 2021  
12 month moving average

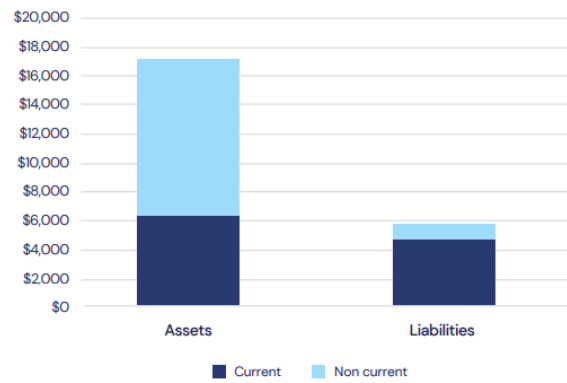


Source – NAB Charitable Giving Index, JBWere Philanthropic Services

Profit and loss – Social Services (\$m)

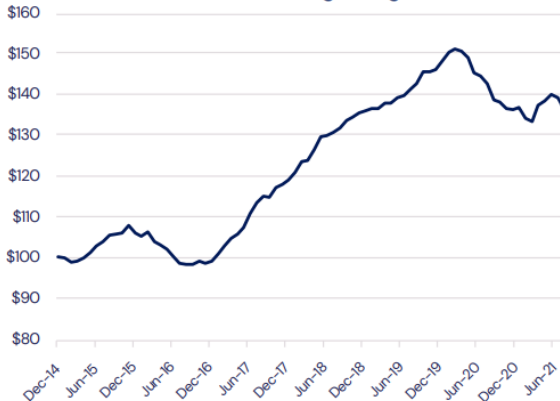


Balance sheet – Social Services (\$m)



Source – ACNC 2019 Annual Information Statements

Social Services donations Dec 2014 - July 2021  
12 month moving average



Source – NAB Charitable Giving Index, JBWere Philanthropic Services

Social Services number of donations Dec 2014 - July 2021  
12 month moving average



Source – NAB Charitable Giving Index, JBWere Philanthropic Services

## 9. Current Market and Cost of Living Impacts

Numerous variables have impacted rising costs in Australia in 2022. We are not yet able to measure the full extent of these impacts, but they must be discussed and considered for the practicality of funding and indexation discussions. If future funding is based off current findings from this research without taking into account these recent impacts, the funding will remain insufficient for service delivery and the cycle will continue.

The property market, interest rates, war in Ukraine, global coal prices, and floods in parts of Australia have increased cost of living across the country. Although we look for funding through a prospective lens, retrospective data is available for review in these instances. The ABS informs us of quarterly and annual changes and news articles can inform us of current and expected price changes.

As shown in Figure 7. below, the ABS reported Perth to have a quarterly CPI increase of 1.7% March to June 2022, although the highest annual CPI% increase in all capital cities at 7.4%. All capital cities had increases in owner occupied new dwellings (+5.6%) driven by building supply and labour shortages and freight costs. Automotive fuel (+4.2%) as Russian oil is globally sanctioned and demand increases with Covid-19 restrictions easing. Perth's main drivers were consistent with that of the country with new dwelling purchase by owner occupiers (+4.8%) automotive fuel (+3.4%), furniture (+6.8%) and medical and hospital services (+1.9%) leading the charge.

Figure 7: All Groups CPI, All groups index numbers and percentage changes<sup>31</sup>

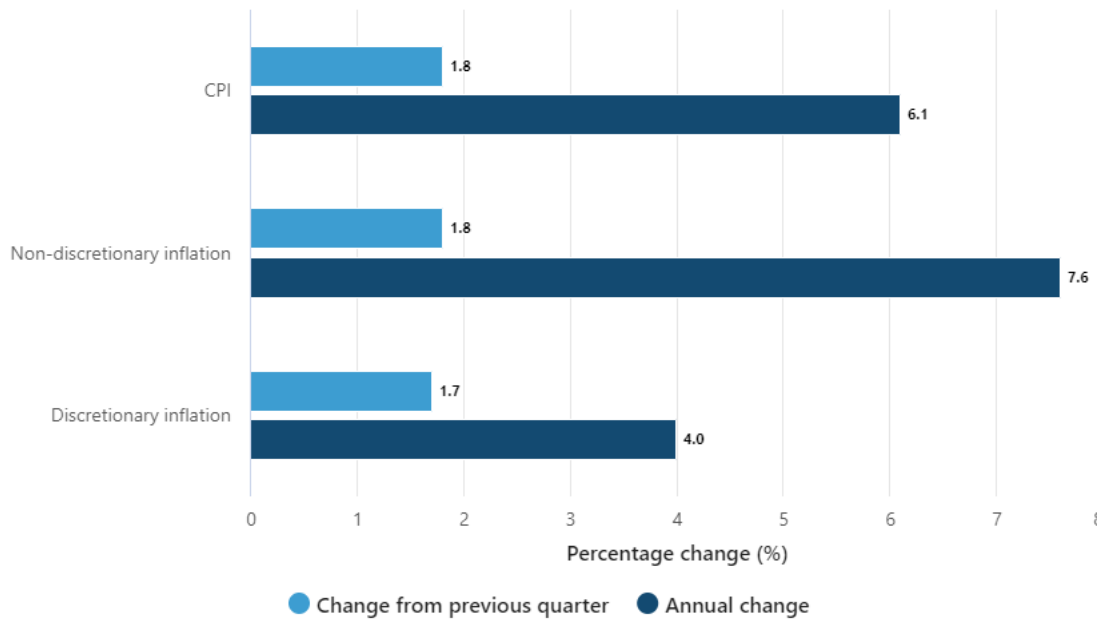
	Index number(a)	Percentage change (%)		
		Jun Qtr 2022	Mar Qtr 2022 to Jun Qtr 2022	Jun Qtr 2021 to Jun Qtr 2022
Sydney	125.7		1.6	5.3
Melbourne	126.4		1.8	6.1
Brisbane	127.9		2.1	7.3
Adelaide	125.3		2.1	6.4
<b>Perth</b>	<b>125.4</b>		<b>1.7</b>	<b>7.4</b>
Hobart	127.6		1.8	6.5
Darwin	123.2		2.1	6.6
Canberra	125.6		1.6	6.3
Weighted average of eight capital cities	126.1		1.8	6.1

(ABS, June 2022)

The CPI continues to hang in the balance between discretionary and non-discretionary inflation. As seen in Figure 8. below annual change in Australia's non-discretionary inflation far outweighs the discretionary inflation. Non-discretionary goods and services rose 1.8% through the quarter, and 7.6% through the year. Discretionary goods and services rose 1.7% through the quarter, and 4.0% through the year. Data was not currently available for Perth's CPI in discretionary and non-discretionary, however it would be expected that Perth's non-discretionary inflation was above the CPI and non-discretionary inflation as is consistent with the nature of the data.

<sup>31</sup> <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>

Figure 8: CPI, non-discretionary, discretionary, Australia, quarterly & annual movement (%) (ABS, June 2022)<sup>32</sup>



(ABS, June 2022)

Following the sharp increase in wholesale power prices, ABC News investigated the caps that state and territory regulators have set for electricity prices. The below may differ from individual energy suppliers but the impacts indicate significant increases. Below is a table based on reports from ABC News article dated 13/06/2022<sup>33</sup>.

State	Regulator	Regulator
ACT	1.25% Decrease	Independent Competition and Regulatory Commission
NSW	9.6% 11% or 18.3% depending on zone	Australian Energy Regulator
NT	Not yet available	Electricity Pricing Order, set by the territory's treasurer
QLD	9.2% or 12.6% increase depending on zone	Australian Energy Regulator Queensland Competition Authority
SA	9.5%	Australian Energy Regulator
TAS	Not yet available	Tasmanian Economic Regulator
VIC	5%	Essential Services Commission
WA	2.5%	West Australian Government

The ABC also reported that July 1 sees a \$3 to \$4 increase in Telstra mobile phone bills<sup>34</sup>. Telstra supplies mobile phone services to nearly half of the Australian market, according to the Australian Communications Media Authority.

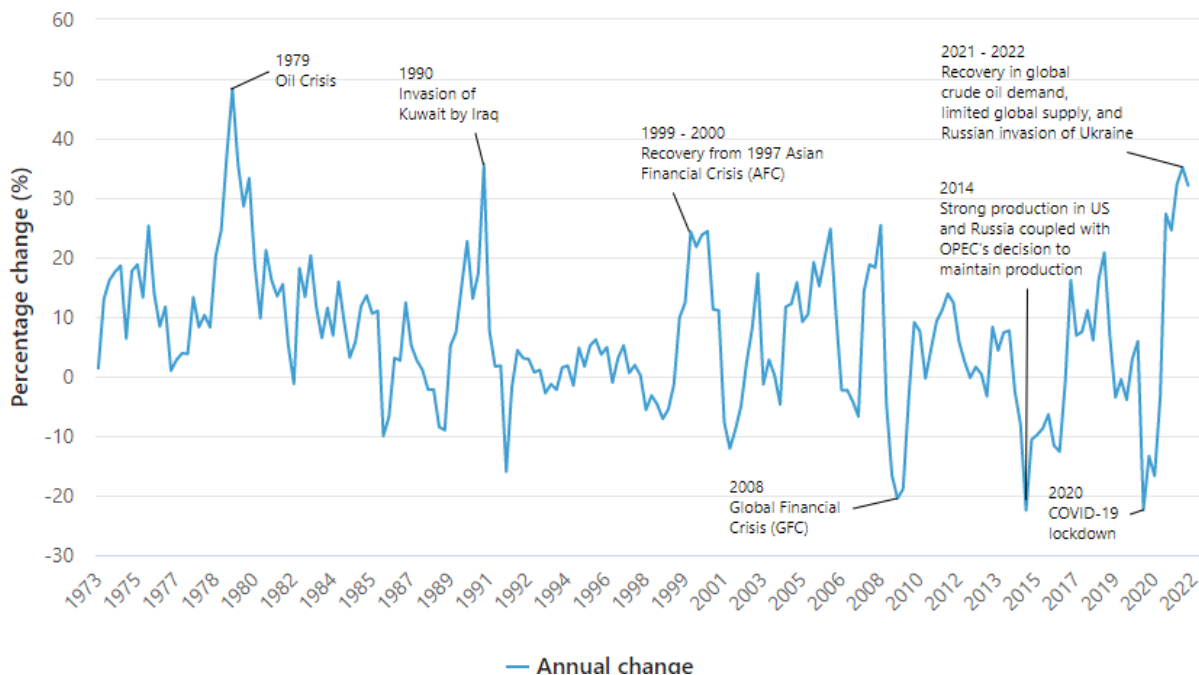
<sup>32</sup> <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>

<sup>33</sup> <https://www.abc.net.au/news/2022-06-13/australian-electricity-prices-cap-state-saving-power/101137582>

<sup>34</sup> <https://www.abc.net.au/news/2022-07-01/electricity-transport-and-mobile-phone-bills-to-rise-from-today/101195844>

Concerns of the rising costs of petrol have echoed across the country and filtered through rising costs across the board. The government’s fuel excise was halved between March to the end of September<sup>35</sup> in response to the highest increase in 14 years mostly due to Russia's war in Ukraine. Although prices are expected to gradually fall, they will remain high for as long as the war in Ukraine continues. Subsidy or not, the direct and indirect impacts of fuel increases impact the economy and ripple effects will be seen in economic calculations by consumers and businesses alike. Figure 9. shoes the changes in prices and historical events impact fuel in recent decades for cost comparison.

Figure 9:Automotive Fuel, annual movement (%) June, 2022<sup>36</sup>



(ABS, June 2022)

Flow on effects of high petrol, electricity, and gas prices are then reflected in shipping, logistics, and manufacturing. Food prices have been rising thanks to these increases alone in some markets as supply is also impacted in other markets. One WA food manufacturer reported a quote for a gas increase of 60%<sup>37</sup> which had to be passed down in price. The Industry Representative Body for vegetable and potato growers AusVeg told ABC that prices for fresh vegetables had risen by more than 7 per cent over the past two years, while production costs had risen by 35 to 45 per cent if not in a shorter period<sup>38</sup>. These costs then not only flow onto households, but also represents pressures other business and organisations which hold similar key cost drivers.

<sup>35</sup> <https://www.abc.net.au/news/2022-06-24/why-is-fuel-so-expensive-in-australia-when-will-petrol-go-down/101167378>

<sup>36</sup> <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>

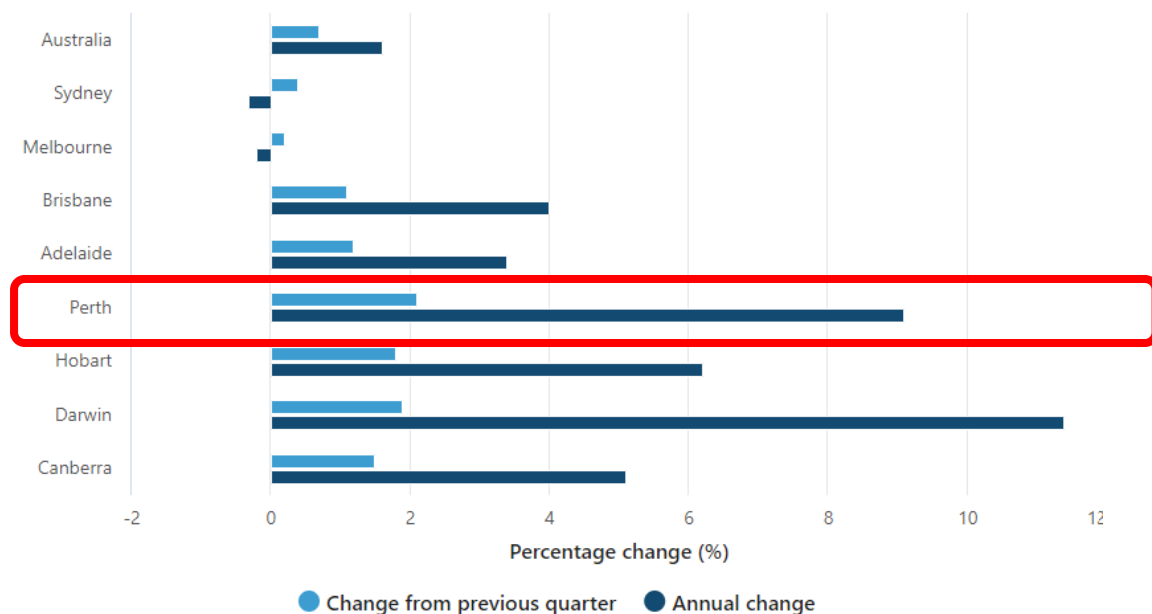
<sup>37</sup> <https://www.abc.net.au/news/2022-06-29/wa-chip-producer-price-increase-due-to-gas-prices/101168084>

<sup>38</sup> <https://www.abc.net.au/news/2022-06-26/potato-farmers-across-australia-calling-for-better-return/101179986>

Food suppliers' costs increased across the pandemic, and with recent increases in energy, labour, shipping, and logistics but suppliers need to negotiate with supermarkets before the price they receive for their products can change. ABS news quotes a spokesperson from Coles that the supermarket had received five times the usual number of pricing increase appeals from suppliers compared to the same time last year<sup>39</sup>. Food and Grocery Council chief executive Tanya Barden said between 2010 and 2020, the costs for food manufacturers went up 50 per cent, and until now output prices had only increased by 25 per cent.

Some parts of the country are deemed to suffer more than others, but effects will be felt throughout. Parts of Queensland and New South Wales have suffered extensive floods after two La Nina seasons and expectations for a third season of heavy rainfall will further impact food prices. The ABC reports that price of food hasn't been this high since the last time Australia had back-to-back La Niña weather systems a decade ago<sup>40</sup> and we look at a 50% chance of a third. The CEO of SPC food manufacturer told the Australian Financial review that the price of staples including baked beans, spaghetti and tomatoes would rise by 10 to 20 per cent to recover growing input costs<sup>41</sup>. Although geographically far from WA, these impacts flow into the national market.

Figure 10: Rents, quarterly and annual movement (%)<sup>42</sup>



(ABS, June 2022)

All these instances aside, the Reserve Bank of Australia attempts to control Australia's inflation by raising interest rates<sup>43</sup>. Any variable loan repayments are then increased and passed down to consumers of every type. Individuals with a mortgage, credit card and loan repayments, as well as rent increases for landlords subsidising the repayments.

<sup>39</sup> <https://www.abc.net.au/news/rural/2022-06-22/coles-conducts-pricing-review-in-face-of-urgent-supplier-request/101169916>

<sup>40</sup> <https://www.abc.net.au/news/2022-05-17/food-inflation-hits-decade-high-amid-war-weather-and-pandemic/101034790>

<sup>41</sup> <https://www.afr.com/policy/economy/baked-beans-spaghetti-up-10-20pc-as-inflation-bites-20220313-p5a47y>

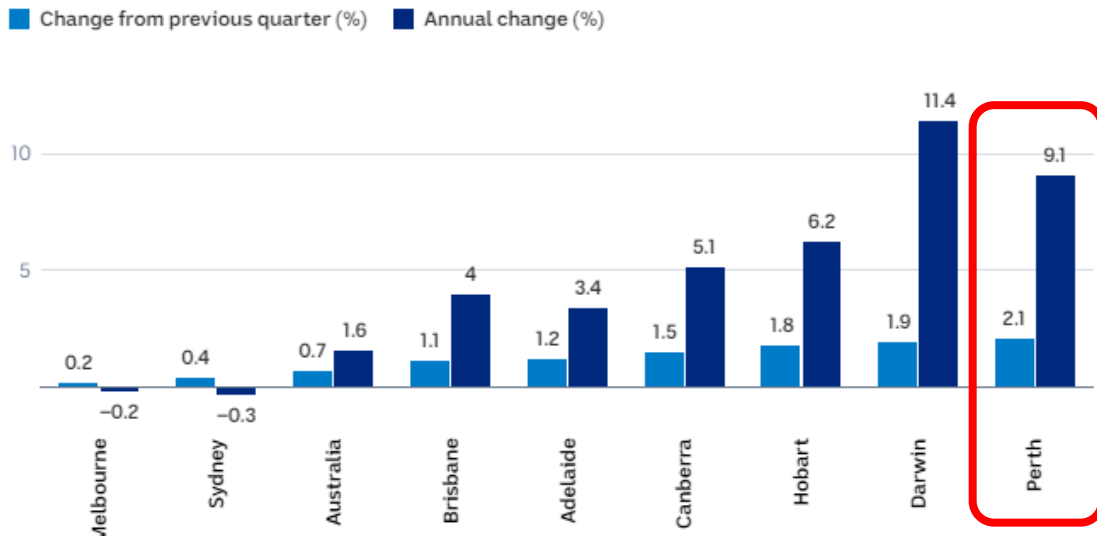
<sup>42</sup> <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>

<sup>43</sup> <https://www.abc.net.au/news/2022-09-06/reserve-bank-raises-interest-rates/101410504>



The housing market in Western Australia is no exception and rising costs are felt across the board, even more so in renters. Figure 11. below depicts rent increases across capital cities in Australia with Perth’s prices as the second highest in annual change over the last year. As depicted in the CPI drivers, housing and construction continues to rise in Perth, with demand outweighing supply.

Figure 11. Rents, quarterly and annual movement (%)<sup>44</sup>



Wages have not increased to meet inflation and raising interest rates, which reduces the real wage of individuals and therefore their purchasing power. In slowing spending in the economy, business and organisations then must make decisions on their most efficient and sustainable methods through these times. Often reducing employment-often those in insecure work and those at risk become more at risk.

The Australian economy continues to be directly and indirectly impacted by the above factors, and long-term effects will continue to evolve in the future. Readers need to be mindful of the potential impacts of these ongoing influences and the effects on the social services sector and the political, social, and economic environments surrounding it after the snapshot in time represented by the data retrospective data.

These are all significant to certain parts of community services as not only does it increase the costs for the organisations, but some organisations will have soaring demand for those associated with the cost of living.

### 10. Future Projections

The economy of Western Australia and Australia continue to stabilise after the numerous significant influences over the last few years. As we wait for the dust to settle, we can begin to see trends and identify celebrations and risks for the upcoming years of recovery and new equilibrium. Economic growth, employment growth, unemployment rates, interest rates and housing are among the top points of discussion when looking into Western Australia’s future economic climate. Forecasts allow us to predict and mitigate threats and their probability to individuals and the larger community.

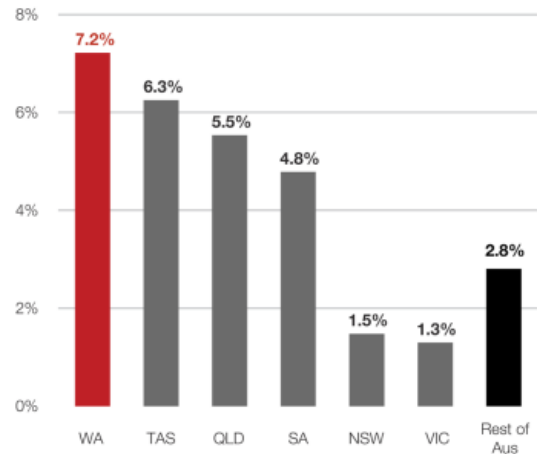
<sup>44</sup> <https://www.abc.net.au/news/2022-07-28/three-generations-one-roof-perth-inflation-cost-of-living-surge/101273780>

## 11. Domestic Economy

The latest results from treasury echo through industry as WA having one of the strongest economies in the world. A growth of 7.2% since the start of the pandemic, WA is the strongest of all of the Australian states and doubled the rest of the nation. WA's domestic economy is forecast to grow by a further 4% in 22-23 driven by household spending, business and government investment, and housing construction<sup>45</sup>. The current government plans to use budget surplus for long-term planning of the state including investment in health and mental health investment, supporting Western Australians with cost of living, climate action initiatives. Investment in tourism, infrastructure, and a range of measures as part of the Diversify WA strategy and WA Jobs Plan reducing reliance on individual sectors.

### Economic growth during COVID-19

State Final Demand - 2021 relative to 2019



The Western Australian Government's Treasury economic forecast estimates support steady and stable growth in each of the major economic aggregates up to 2026. Figure 12. And Figure 13. below are snapshots from treasury and the WA government allowing us to understand the state's changes in a glance. Increases in indexes of population and WPI are positive signs for workers, while the high CPI will continue to impact the cost of living. State final demand and Gross state product will stabilise and continue to grow, although at a reduced. This supports the plans of economic diversification for Western Australia by the state government.

Figure 12: Western Australia, Annual Growth %<sup>46</sup>

	2020-21 Actual	2021-22 Estimated Actual	2022-23 Budget Year	2023-24 Outyear	2024-25 Outyear	2025-26 Outyear
State Final Demand	4.4	5.25	4.0	3.0	2.25	2.5
Gross State Product <sup>(a)</sup>	2.6	3.75	2.0	1.0	1.5	1.5
Employment	1.8	5.0	2.0	1.25	1.25	1.25
Unemployment Rate <sup>(b)</sup>	6.1	4.0	3.75	3.75	3.75	3.75
Population	0.9	0.9	1.2	1.4	1.5	1.5
Consumer Price Index <sup>(c)</sup>	1.6	4.0	2.75	2.5	2.5	2.5
Wage Price Index	1.5	2.0	2.75	3.0	3.0	3.0

(a) Forecasts for ownership transfer costs, international trade in services and the balancing item are not separately reported.

(b) Data expressed as annual average during the financial year.

(c) The CPI growth rates for 2021-22 and 2022-23 are based on the total index excluding the electricity sub-index.

<sup>45</sup> <https://www.ourstatebudget.wa.gov.au/2022-23/fact-sheets/economy-jobs.pdf>

<sup>46</sup> <https://www.wa.gov.au/system/files/2022-05/economic-forecasts.pdf>

Figure 13: Highlights of the WA Economy as of 17/08/22<sup>47</sup>



## 12. Industry Growth

With the strongest domestic growth in a decade, the local economy is expected to continue to grow with industry specific forecasts to 2025<sup>48</sup>. Top growth industries are to be; health care and social assistance, mining, education and training, professional, scientific and technical services, and accommodation and food services.<sup>49</sup> Already with the lowest employment rate in the country at 3.4%, Perth's unemployment rate is expected to average 3.75% in 2022-23. Recent state budget papers expect employment growth to be significantly higher in the 2021-22 Estimated Actual than forecast in the 2021-22 Budget due to a sharper than expected rise in the demand for labour, with employment growth strongest in retail trade, mining, health care and transport<sup>50</sup>. Figure below shows sector specific employment growth across the country, while the health sector will require 249,000 workers over the five-year period and Greater Perth needing 25,500 of that amount.<sup>51</sup> Other sectors growing in Greater Perth are; the education and training industry (9,000 workers), accommodation and food services (7,500 workers) and the mining industry (13,500 workers).

<sup>47</sup> <https://www.wa.gov.au/government/announcements/highlights-of-the-wa-economy>

<sup>48</sup> <https://www.mediastatements.wa.gov.au/Pages/McGowan/2022/05/WAs-domestic-economy-powers-to-strongest-growth-in-a-decade.aspx>

<sup>49</sup> <https://www.committeeforperth.com.au/documents/factbase-bulletin-79-the-western-australian-and-greater-perth-workforce-past-trends-and-future-projections>

<sup>50</sup> <https://www.ourstatebudget.wa.gov.au/2022-23/budget-papers/bp2/2022-23-wa-state-budget-bp2-vol1.pdf>

<sup>51</sup> <https://www.businessnews.com.au/article/Future-Predictions-for-Industry-Growth>

Figure 14: Projected Employment Growth in Selected Industries, Australia, November 2020 to November 2025.<sup>52</sup>

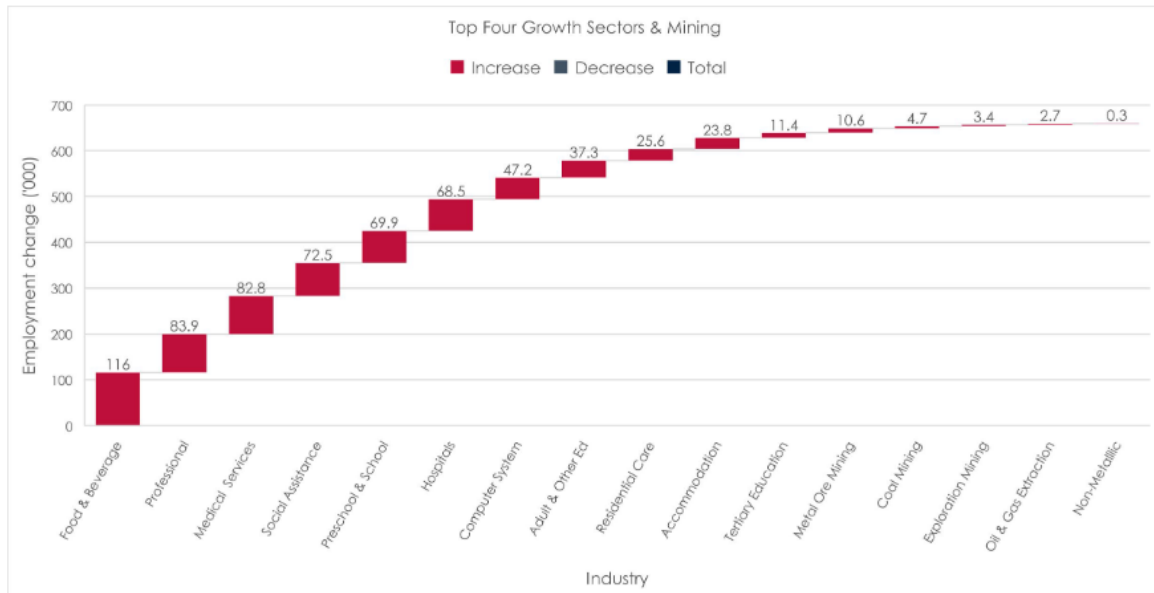
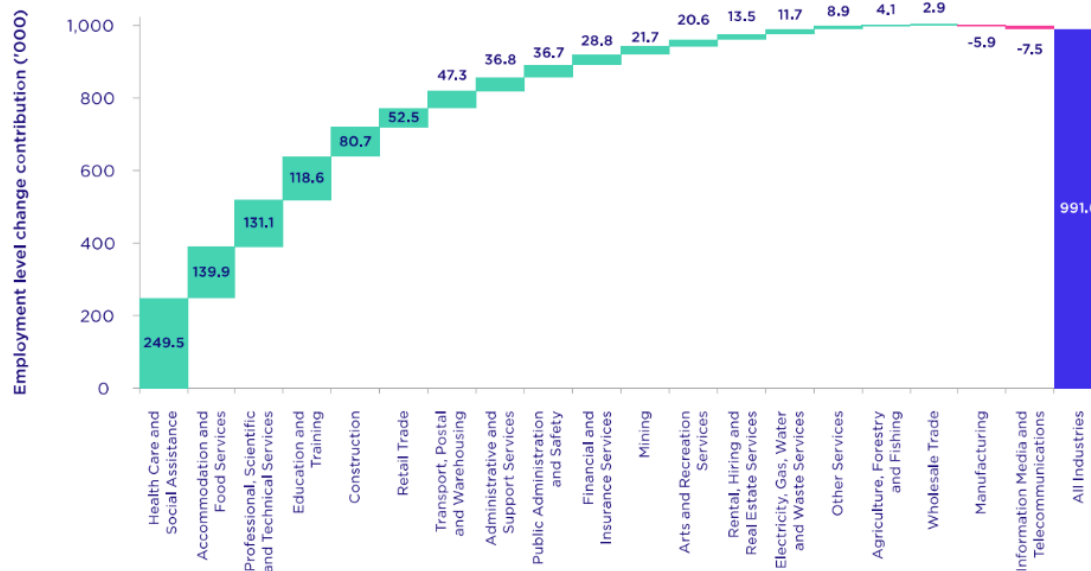


Figure 15: Projected Industry Employment Growth Australia<sup>53</sup>

Figure 51: Industry contribution to projected employment growth, five years to November 2025



Source: NSC, 2020 Employment Projections, five years to November 2025

<sup>52</sup> <https://www.businessnews.com.au/article/Future-Predictions-for-Industry-Growth>

<sup>53</sup> <https://www.nationalskillscommission.gov.au/reports/state-australias-skills-2021-now-and-future/chapter-6-labour-market-skills-needs/five-year-employment-projections>

Figure 16: Projected Industry Employment Growth Greater Perth<sup>54</sup>

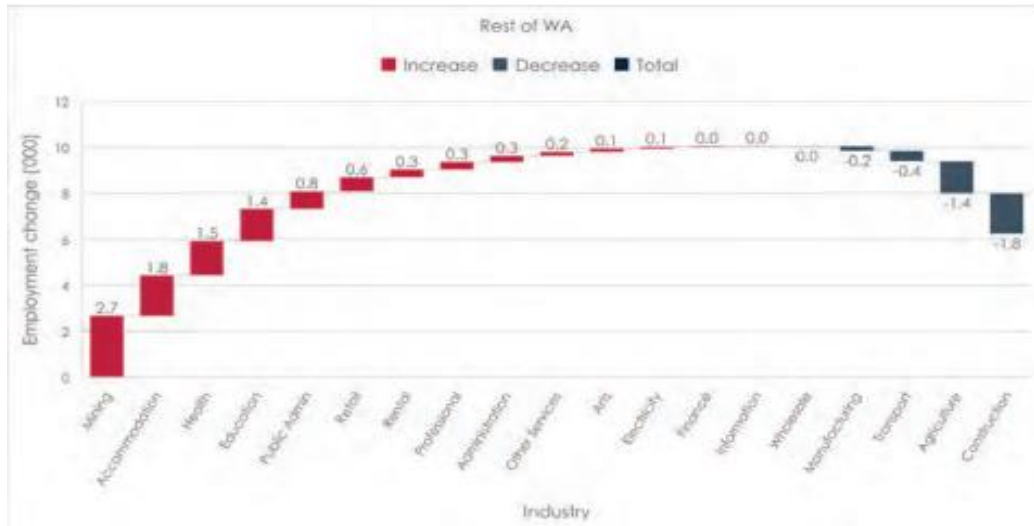
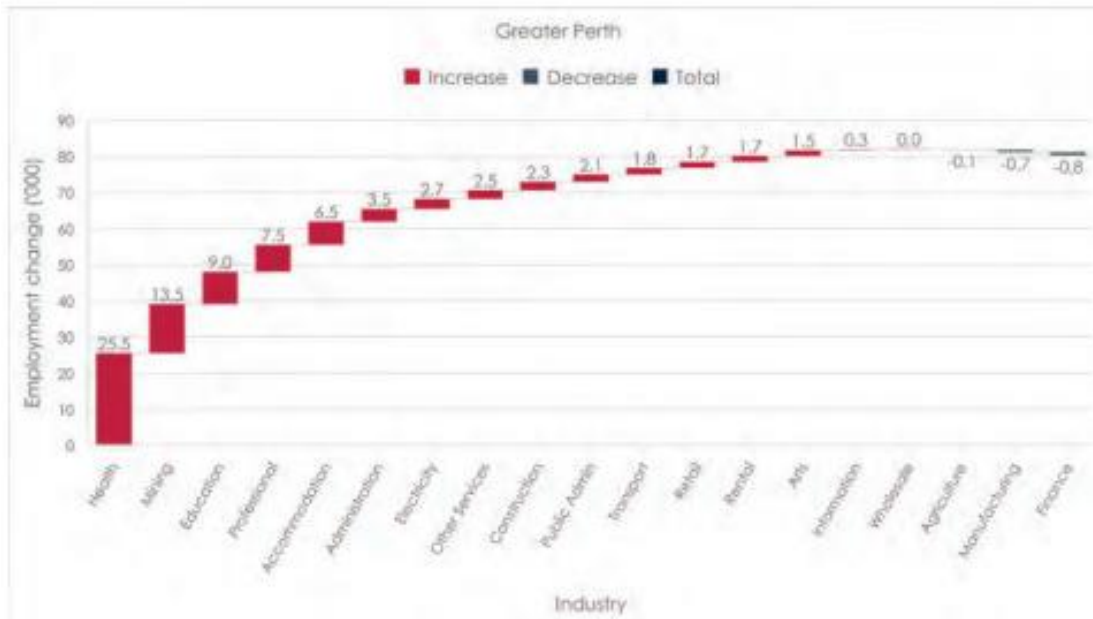


Figure 17: Projected Industry Employment Growth Eastern Australia<sup>55</sup>

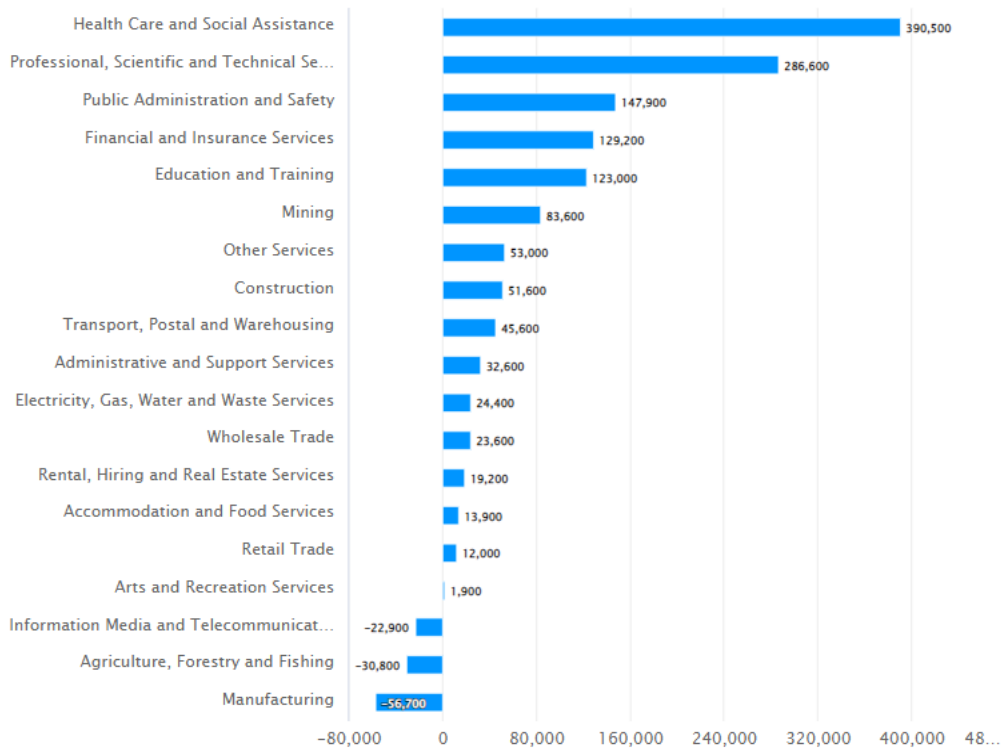


<sup>54</sup> Cited <https://s3.ap-southeast-2.amazonaws.com/cd-hosting-cfp-production/documents/FACTBase-Bulletin-79-The-Western-Australian-and-Greater-Perth-Workforce-Past-Trends-and-Future-Projections.PDF> from National Skills Commission. (2021b). 2020 Regional projections—five years to November 2025. Canberra: National Skills Commission. Retrieved from <https://lmip.gov.au/PortalFile.axd?FieldID=2787738&.xlsx>

<sup>55</sup> Cited <https://s3.ap-southeast-2.amazonaws.com/cd-hosting-cfp-production/documents/FACTBase-Bulletin-79-The-Western-Australian-and-Greater-Perth-Workforce-Past-Trends-and-Future-Projections.PDF> from National Skills Commission. (2021b). 2020 Regional projections—five years to November 2025. Canberra: National Skills Commission. Retrieved from <https://lmip.gov.au/PortalFile.axd?FieldID=2787738&.xlsx>

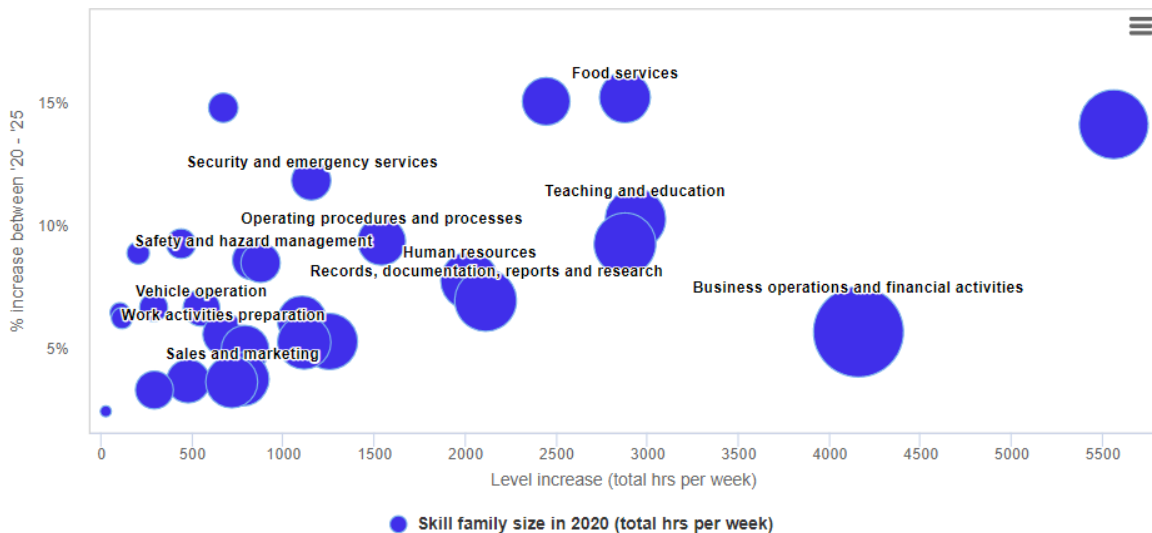
**Figure 18: Employment Growth by Industry – 5 Years to May 2022, Australia:**  
<https://labourmarketinsights.gov.au/regions/employment-regions/#industries>  
<https://www.nationalskillscommission.gov.au/insights/jobs-and-skills-in-the-years-ahead>

Employment Growth by Industry - 5 Years to May 2022, Australia



Source: ABS Labour Force, Detailed, May 2022, seasonally adjusted data.

**Figure: Projected skills growth between 2020 and 2025**



### 13. Labour Force

All this strong economic growth also translates to job growth. Reductions in unemployment are paired with skilled workers shortages and flow on effects. While this is excellent news for the labour force, staff and skills shortages hinder industries and economic growth, smaller businesses, and industries vulnerable from recent economic shocks could be pushed further into debt or ill circumstance. Likewise, any reliance on industries under such pressure. Labour market employment and unemployment trends for the last few decades can be seen in Figure 15. below.

Figure 15: Labour market Monthly Data<sup>56</sup>



The labour market data dashboard of Western Australia also provides meaningful data in understanding the trajectory of the employment market and using context of industry growth, this further indicates a worker and skills shortage in the future. Employment numbers for people in Western Australia when compared with the whole of Australia follow similar trends, with Western Australia's numbers slightly higher in 2022. (Figure 16., ABS Labour Force Survey June-22).

Chronic and short-term unemployment experiences can be seen in data reported in Figure 17. by Department of Education, Skills and Employment, (June 22) where caseload total refers to jobactive participants. This data is particularly interesting as the furthers column to the right depicts unemployment for over 24 months. The first data point is June 20, enrapturing unemployment from before COVID-19 impacts.

<sup>56</sup> <https://www.ourstatebudget.wa.gov.au/2022-23/fact-sheets/economy-jobs.pdf>

The unemployed for over 24 months figure has slowly grown in recent years which may indicate geographic location or circumstances for these individuals. In this case, these numbers may remain irrelevant to other changes. The columns for unemployment for Under 12 months however indicate that in the 12 months before June 20 there was an influx of unemployment in WA, which then slowly reduced over the years as well. In June 21 there was a rise in unemployment for 12-23 months, likely passed on from the economic shock. Although June 22 numbers for unemployment for over 24 months doesn't seem impacted. This indicated that there was a large amount of short-term unemployment in the year leading up to June 20, with those individuals steadily gaining employment as the economy recovered.

Figure 16: Employed persons<sup>57</sup>

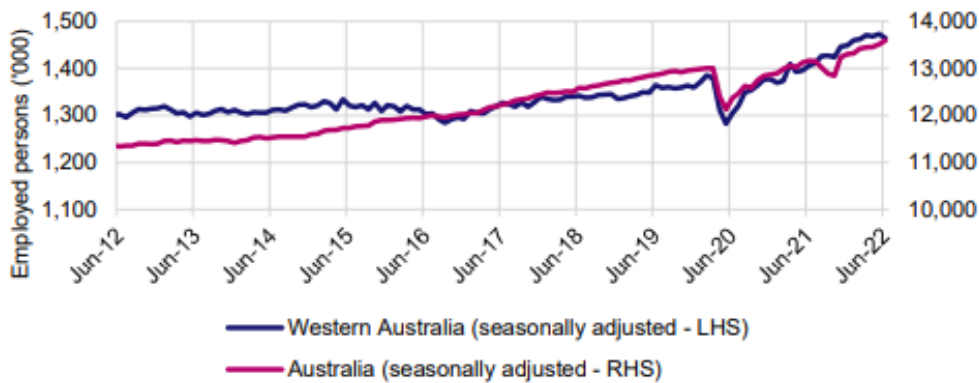
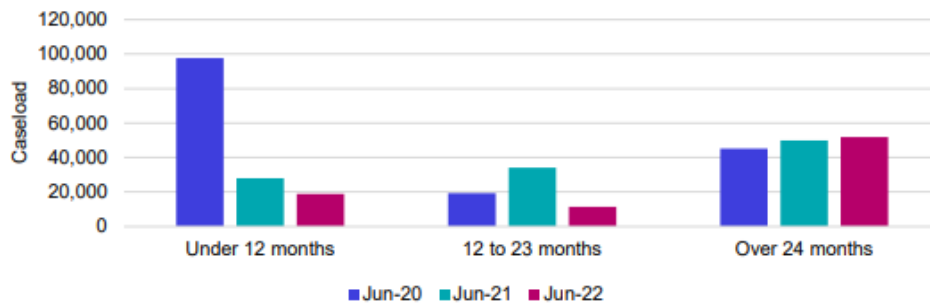


Figure 17: Caseload by duration of unemployment<sup>58</sup>



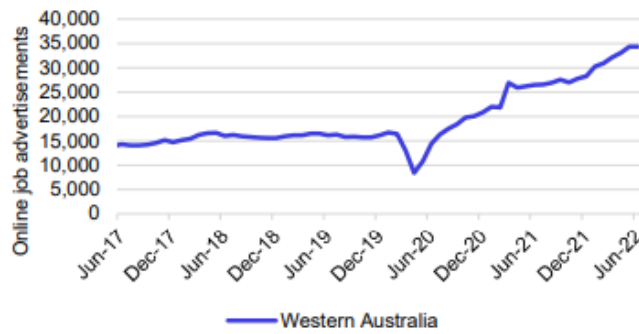
Job openings and lengths of advertisement can be an early indicator for skills and worker shortages. Data from National Skills Commission June 22 are compiled in Figure and Figure below reflecting the online job advertisements for Western Australia. We can see the number of jobs increasing over the years and the most in demand occupations. Those in bold in figure indicate that they are irregular to the top in-demand jobs of the rest of Australia.

<sup>57</sup> <https://labourmarketinsights.gov.au/media/ruehutku/labour-market-dashboard-western-australia.pdf>

<sup>58</sup> <https://labourmarketinsights.gov.au/media/ruehutku/labour-market-dashboard-western-australia.pdf>

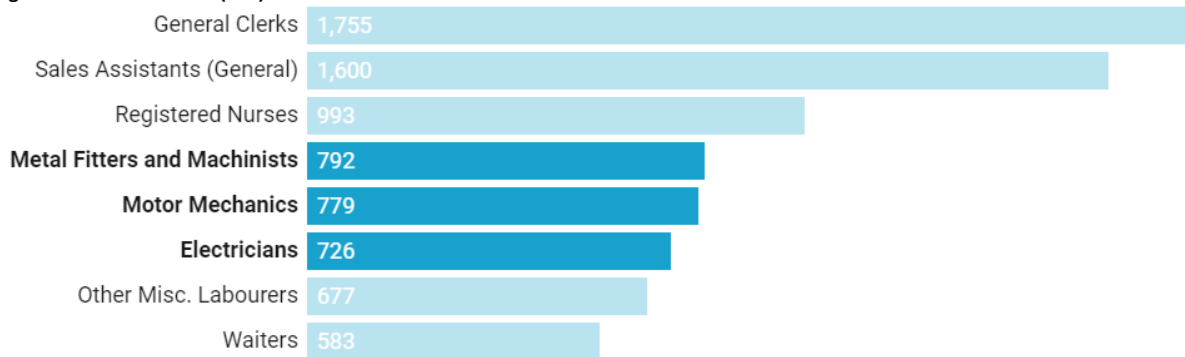


Figure 18: Online job advertisements<sup>59</sup>



**Number of job ads**  
**34,390**  
**Change over the month**  
**0.2%**  
 (or 70 job advertisements)  
**Change since March-20**  
**166.0%**  
 (or 21,460 job advertisements)

Figure 19: Online Job ads (WA)<sup>60</sup>

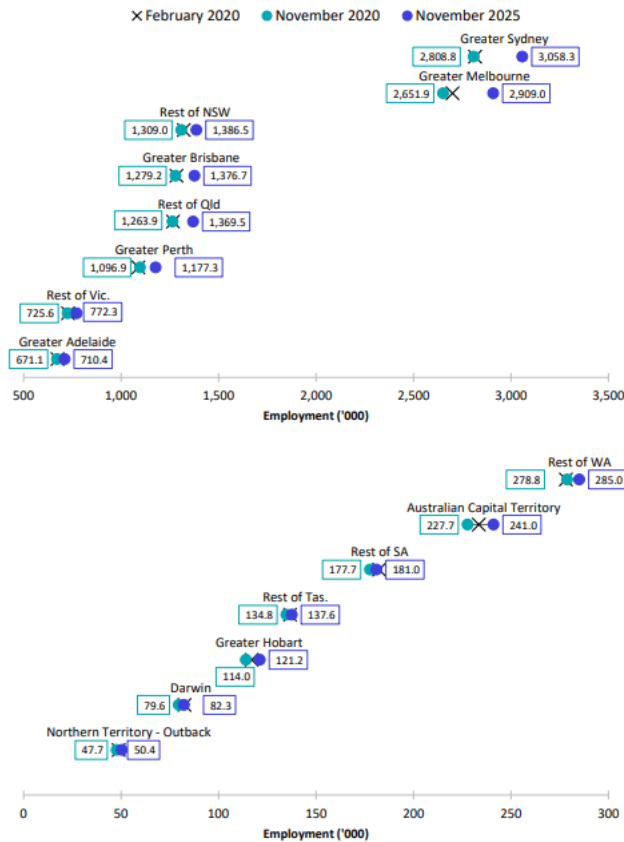


<sup>59</sup> <https://labourmarketinsights.gov.au/media/ruehutku/labour-market-dashboard-western-australia.pdf>

<sup>60</sup> <https://www.abc.net.au/news/2022-09-01/wa-s-labour-market-ahead-of-national-jobs-and-skills-summit/101389784>

Figure 20: Pre-COVID-19, projection base and projected employment levels for metro and regional areas<sup>61</sup>

Figure 6: Pre-COVID-19, projection base and projected employment levels for metro and regional areas



Source: National Skills Commission, 2020 Employment Projections, five years to November 2025 and ABS, Labour Force, Australia, Detailed, National Skills Commission seasonally adjusted

## 14. Skills and Workers Shortage

Reporting the second worst skills shortage in the world (according to OECD numbers), Australia also has Perth as most isolated city in the world also looking for workers<sup>62</sup>. Understandably, Western Australia may be higher challenges in filling vacancies June Business Confidence report from the Chamber of Commerce and Industry WA (CCIWA) reported more than four out of five businesses indicated they were struggling to find workers. This equates to 1.4 job vacancies for every unemployed person in WA. Industries expected to face shortages are; resources, retail and agriculture businesses and health and medical workers. Nationally, certain industries are expected to face ageing effects. Agriculture, forestry and fishing, education and training, and health care and social assistance industries may lose experienced older workers as the latter transition into retirement<sup>63</sup>.

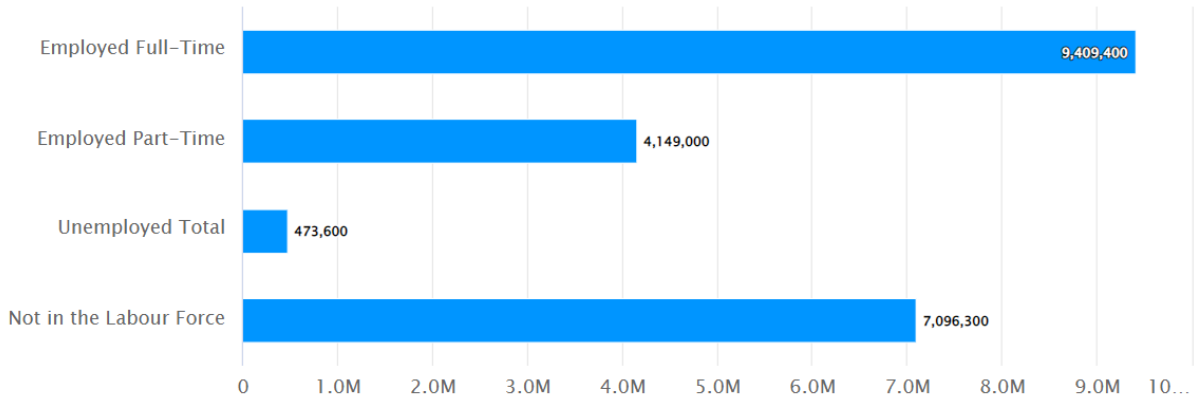
<https://labourmarketinsights.gov.au/regions/employment-regions/#labourMarket>

<sup>61</sup> <https://www.area.com.au/wp-content/uploads/2021/08/NSC.pdf>

<sup>62</sup> <https://www.abc.net.au/news/2022-09-01/wa-s-labour-market-ahead-of-national-jobs-and-skills-summit/101389784>

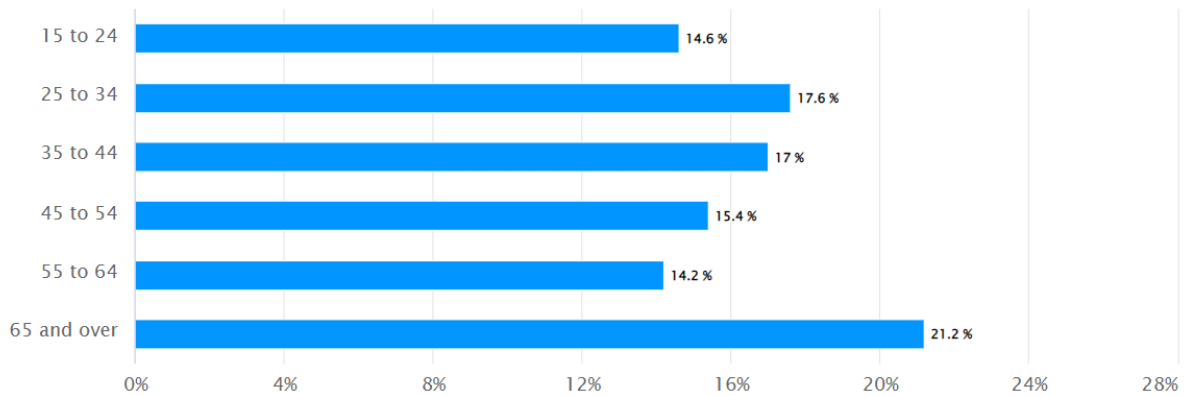
<sup>63</sup> <https://www.committeeforperth.com.au/documents/factbase-bulletin-79-the-western-australian-and-greater-perth-workforce-past-trends-and-future-projections>

### Population by Labour Force Status, July 2022, Australia



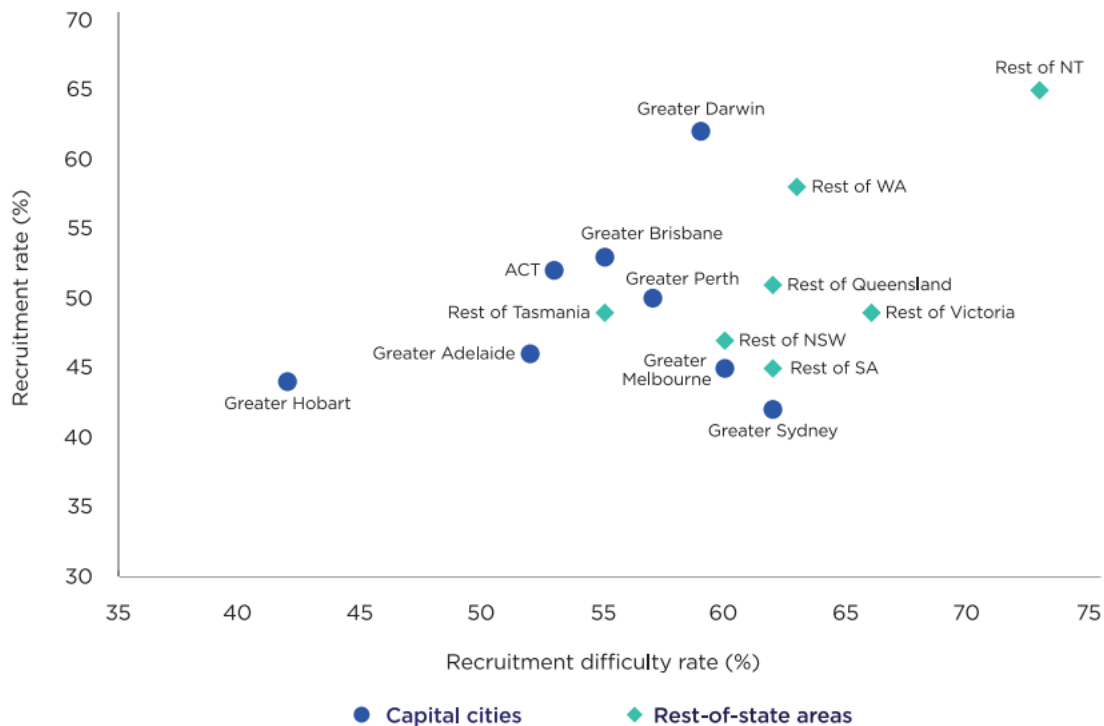
Source: ABS Labour Force, Australia, July 2022, seasonally adjusted data.

### Workforce Age Profile, July 2022, Australia



Source: ABS Labour Force, Detailed, July 2022, original data.

Figure 20: Rates of recruitment and recruit difficulty by region (12 month to June 2022)<sup>64</sup>



Future predictions for filling skills shortages is dependent on many things, most significantly: policies. Bringing skilled workers to WA is the fastest way of filling these gaps, although reducing barriers in place may also increase current challenges for Western Australians. Migration and housing policies could entice experienced skills workers, while education and upskilling could bring more skillsets to our current population.

In granting Temporary Resident (Skill) Visas, 3,000 people on short-term skilled and 3,500 on medium-term skilled visas in 2025. The pool of permanent skilled migrants arriving in WA is forecast to be around 4,800 persons in 2025<sup>65</sup>. This is a minor number in comparison to the amount of jobs requiring skilled workers. Luring Australians from the east coast increases pressures on the housing market. Overall, a booming economy with a skills shortage would soon face limitations on economic growth and efficiency.

Regional businesses reported through the WA Chamber of Commerce and Industry to already be declining profits and confidence. Lack of available skilled labour was reported as a barrier to business growth for the coming year by 81 per cent of regional businesses<sup>66</sup>. The next issue listed was rising operation costs by 79% of businesses. Increasing wages to retain staff and increases in supply costs leads to consumer price increases and of business’s bottom line.

<sup>64</sup> <https://www.nationalskillscommission.gov.au/sites/default/files/2022-08/NSC%20Labour%20Market%20Quarterly%20June%202022.pdf>

<sup>65</sup> <https://www.businessnews.com.au/article/Future-Predictions-for-Industry-Growth>

<sup>66</sup> <https://www.abc.net.au/news/2022-08-03/wa-chamber-commerce-business-declining-profits-confidence-/101293586>

The economy faces a mix of short term and long term challenges in skills shortages requiring both types of solutions. A new agency called Jobs and Skills Australia will be providing independent advice to government will support required initiatives. Outlined so far include plans for cheaper childcare, 465,000 fee-free TAFE places for students studying in skills-shortage areas and 20,000 extra university places in 2022 and 2023<sup>67</sup>.

Long term focuses include better wages for Australian workers, closing the gender pay gap, putting security back into work, making wage theft illegal and paying workers the same pay for the same jobs. Although short term solutions are also required to get through the immediate future to reap the long-term benefits. Skills shortages mean that cheaper childcare may not be possible without enough childcare centres and enough skilled workers. One of the biggest constraints for workers moving to regional areas are increasing rental prices and record low vacancy rates.

## 15. Housing and Cost of living

In the wake of Perth's skyrocketing CPI, cost-of-living pressures will continue to increase. Housing is a significant factor while balancing the import of skilled workers, the housing market will continue to drive prices up with increasing demand and capped supply. Skills shortages are also evident in a lack of tradespeople as workers to build the demand of new homes. Rental prices have increase in western Australia (9.1%) well above the national average (1.6%) over the last 12 months with the most vulnerable community members being pushed further to the edge. Although significant growth in the Western Australian economy, not every member of the community is a winner.

Anglicare WA CEO Mark Glasson said that more West Australians were turning to the organisation for help with food and finances, including an alarming number of people who had jobs but now found their pay was no longer sufficient<sup>68</sup>. He was quoted that June saw a 30 per cent increase in people who are in work but unable to afford essentials. One recipient was a rapid increase in aged pensioners who had previously sustained a budgeted standard of living, then faced price increases across the board.

Until inflation becomes manageable, it is expected that the Reserve Bank of Australia will continue to raise interest rates. Treasurer Jim Chalmers was quoted in July that inflation problem will get worse before it gets better and here won't be any real wage growth in the "near term"<sup>69</sup>. This reiterates that those who were already at risk before economic shocks, may remain or return to the poverty line for some time. Rises in interest rates impact any type of variable loan and repayments, with direct and indirect impacts by costs being passed down.

Although Western Australia remains at a growth for both metro and regional areas, Australia's house prices have begun to fall nationally as a result of interest rate increases. Since banks don't take geographic location into consideration for interest charges, we may expect Western Australia to follow this trend if demand were to fall or remain.

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<sup>67</sup> <https://www.abc.net.au/news/2022-06-10/worker-shortage-what-is-the-new-government-s-plan/101140186>

<sup>68</sup> <https://www.abc.net.au/news/2022-07-28/three-generations-one-roof-perth-inflation-cost-of-living-surge/101273780>

<sup>69</sup> <https://www.abc.net.au/news/2022-07-28/labor-economic-statement-inflation-cost-of-living-wage-rises/101275440>

Figure 21: Change in Dwelling Values<sup>70</sup>

	Month	Quarter	Annual	Total return	Median value
Sydney	-2.2%	-4.7%	1.6%	3.4%	\$1,087,376
Melbourne	-1.5%	-3.2%	0.3%	3.2%	\$791,999
Brisbane	-0.8%	0.1%	22.1%	26.4%	\$781,850
Adelaide	0.4%	3.6%	24.1%	28.3%	\$650,047
Perth	0.2%	1.2%	5.5%	10.0%	\$560,020
Hobart	-1.5%	-1.3%	10.1%	14.1%	\$723,066
Darwin	0.5%	1.9%	5.3%	11.9%	\$506,860
Canberra	-1.1%	-0.9%	12.1%	16.5%	\$925,973
Combined capitals	-1.4%	-2.6%	5.4%	8.0%	\$819,880
Combined regional	-0.8%	-0.2%	17.0%	21.1%	\$600,105
National	-1.3%	-2.0%	8.0%	10.8%	\$747,812

(31 July 2022)

For future home buyers this is a reassuring sign in affordable property prices. However, individuals who took out loans with high variable interest or low deposits, (or both) this could lead to negative equity and into “mortgage prison”<sup>71</sup>. Mortgage prison is a situation where the owner of a property can’t refinance—mostly due to equity below 20 per cent. Even above 20 per cent equity, refinance may be possible for some, with the cost of lenders’ mortgage insurance with significant additional payments. Payment defaults are likely either way.

Some analysts predict house value to decline by 20 percent over the next 18 months which could drop the value of properties below the outstanding mortgage balance and hence, negative equity. Although this appears theoretical and even hypothetical, data from banking regulator APRA in the six months to March 2022, the value of new loans written, with a deposit size of 20 per cent or less, was \$112 billion. RateCity estimates more than 176,000 mortgages, and then amount of people who can’t pass the banks serviceability tests, and that figure may be much higher.

As Western Australia and the rest of the world continue to analyse the current circumstances and forecast future of unknown conditions, the identified economic, political, and social factors remain on trend with recent years. That is, those successful are largely successful and will continue to be, those at high risk remain near or within the same boundaries which kept them there prior. The majority will remain in stable conditions, especially if they had been prior to the COVID-19. For many who took risks in loans and property purchases, Western Australia may stabilise before property prices fall and their risk has paid off. As a whole, in the face of inflation and rising interest rates, Western Australia may have growth capped by these restrictions including housing and skills.

<sup>70</sup> <https://www.abc.net.au/news/2022-08-01/house-prices-dive-july-corelogic-report/101286770>

<sup>71</sup> <https://www.abc.net.au/news/2022-09-05/borrowers-mortgage-prisoners-interest-rate-rise-rba-housing-loan/101395908>

## 16: Links to Relevant UWA Centre for Public Value Reports

<https://www.uwa.edu.au/schools/research/centre-for-public-value/publications>

Gilchrist, D. J., Perks, B., 2022, *The Challenge of Sustainability: Queensland's Not-for-profit Sector and the Impact of Growing Financial Pressure*, Not-for-profits UWA Research Team

Available from:

<https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/Policy-and-Economics/2022-FINAL-Queensland-NFPs-Cost-Increases.pdf>

Gilchrist, D. J., P. A. Knight and T. Emery, 2020, *Green Paper 1: Data Assets, Efficiency and the NDIS*. Not-for-profits UWA

Available from:

<https://www.research.uwa.edu.au/not-for-profits-uwa#six-years-and-counting-ndis-green-papers>

Gilchrist, D. J., 2020, *Green Paper 3: The Value of Quality Sector Analyses*, A Report of Not-for-profits UWA, Perth, Australia.

Available from: [https://www.research.uwa.edu.au/data/assets/pdf\\_file/0004/3640981/Green-Paper-3-Proxies-for-Risk-6-October-2020.pdf](https://www.research.uwa.edu.au/data/assets/pdf_file/0004/3640981/Green-Paper-3-Proxies-for-Risk-6-October-2020.pdf)

Gilchrist, D. J., Chand, S., and Emery, T., 2021, *NDIS Green Paper 4: Demand, Supply & the NDIS—A Matter of Words?* Not-for-profits UWA

Available from:

<https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/NDIS-and-Disability-Services/Green-Paper-4-NDIS-Economic-Model-11-March-2021.pdf>

Gilchrist, D. J., Emery, T., Perks, B., 2021, *NDIS Green Paper No. 5 NDIS Industry Literature Summary A Review of the Collection of Industry, Government and Academic Reports*, Not-for-profits UWA

Available at:

<https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/NDIS-and-Disability-Services/Green-Paper-5-Grey-Literature-Summary-18-March-2021.pdf>

Gilchrist, D., 2021, *NDIS Green Paper No. 6 Cost Differentials, Cost Pressures & Labour Competition Impacting Western Australian Disability Service Delivery*, Not-for-profits UWA

Available from:

<https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/NDIS-and-Disability-Services/GP6---WA-Cost-Differentials.pdf>

Gilchrist, D. J., & Perks, B., 2021, *The 2021 NDIS Pricing Review: Western Australian Costs Assessment – Drivers of Cost Increases*, Not-for-profits UWA

Available from:

<https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/NDIS-and-Disability-Services/Working-Paper---NDIS-Costs-Commentary.pdf>

Martinov-Bennie, N., Gilchrist, D., and Tweedie, D., *Board Performance and Governance in Small Not-for-Profits: Report for Participants*

Available at:

<https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/Regulation-and-Governance/Board-Performance-and-Governance-in-Small-Not-for-Profits---Report-for-Participants.pdf>

Chartered Accountants Australia and New Zealand, 2020, *Remunerating Not-for-profit Directors*. Available from:



[https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/External-Research-and-Resources-Contributed-To/2020---CAANZ-Remuneration-for-NFP-Directors\\_NFP-Insight-paper.pdf](https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/External-Research-and-Resources-Contributed-To/2020---CAANZ-Remuneration-for-NFP-Directors_NFP-Insight-paper.pdf)

Council of Regional Disability Organisations, 2022, NDIS Annual Price Review 2021-22.

Available from:

[https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/External-Research-and-Resources-Contributed-To/CORDS-Submission---Annual-Price-Review-2021-22-November-2021-\(002\).pdf](https://www.uwa.edu.au/schools/-/media/Not-for-profits-UWA/External-Research-and-Resources-Contributed-To/CORDS-Submission---Annual-Price-Review-2021-22-November-2021-(002).pdf)

2020 Commonwealth Bank Not-for-profit Balance Sheet Tool

Available at:

<https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances>

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