



Western Australia's
Cost Indexation
for Government Purchasing of
Human Services



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Statement of Interests:

Professor David Gilchrist is Director of the Centre for Public Value at the University of Western Australia. He has received funding from governments, peak bodies and individual organisations for various research projects and consulting support predominantly related to the Not-for-profit human services industry, Not-for-profit financial and performance reporting, sustainability and outcomes reporting, and policy and practice related to those areas. He has been a director and chair of a number of human services and policy organisations over past years and is currently chair of two policy-focused Not-for-profits operating nationally in the education sector.

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Key Findings

- The current indexation model is inappropriate → We estimate that, to close the cumulative indexation gap built up between 2019 to 2022, a one-off payment of 11.44% is required. In order to maintain sustainability moving forward, we estimate the indexation rate for 2022/23 should be 9.57%.
- This reduces sustainability → While indexation constitutes one element of sustainability for social service organisations (SSOs), a failure to index the prices paid properly reduces sustainability significantly.
- Causing high risk to vulnerable people → The risk inherent in unsustainable social service organisations is borne by people who rely on those services and supports to live their lives.
- Reductions in profitability of the industry over many years confirms the findings here → The significant reduction in profitability of ACNC registered charities between 2019 and 2021 (↓53% and ↓28% respectively year-on-year) confirms the extent of financial pressure that organisations are under in Western Australia given the lack of profitability experienced leading up to this period—it is likely an embedded issue that was emphasised by COVID rather than caused by COVID.
- Evidence gathered demonstrates current indexation levels are likely significantly under providing for cost increases → The table below shows the significant shortfall between the indexation provision for the 2020 and 2021 financial years and the median SSO's change in expenditure as well as other indices, including WPI and CPI.

	2019 - 20	2020 - 21
Western Australian Government Indexation	1.47%	1.67%
Aggregate Change in Expenditure SSOs	18.2%	6.2%
Median SSO Change in Expenditure	3.16%	4.0%
Consumer Price Index-Perth ⁱ	1.3%	3.2%
Wage Price Index-Western Australia ⁱⁱ	1.4%	1.9%
Wage Price Index-Health Care and Social Assistance-Australia ⁱⁱⁱ	2.2%	2.2%
Median SSO Labour Cost Increase (Adjusted for Activity Change)	3.3%	4.8%
Employee Expenses Increase Median ACNC Data	7.0%	-
Total Expenses Increase Median ACNC Data	3.4%	-
Consumer Price Index - Health - Perth ^{iv}	0.7%	3.4%
Producer Price Index – Other Allied Health Services - Australia ^v	2.2%	3.2%



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Reading this report

Prior to reviewing the findings contained in this report and considering the recommendations, we believe readers should consider this section in order to understand the extent to which the findings are likely reflective of the industry experience.

This report has been developed using two data sources:

- 1) Data collected from Western Australian social service organisations between July and October 2022. The data was collected from self-selecting organisations that were also members of Western Australian Council of Social Service (WACOSS) and/or Community Employers Western Australia (CEWA). This data was collected for the financial years ending in 2019, 2020 and 2021 and comprised financial, activity and human resources components collected via a template MS Excel spreadsheet; and
- 2) The Australian Charities and Not-for-profits Commission data cube populated by registered charities with head offices domiciled in Western Australia and collected from Annual Information Statements. The data used was for the 2019 and 2020 financial years and comprised financial data only.

This document is a part of a set of three documents examining indexation in Western Australia. As such, readers should also consider the wider discussion contained in the following two documents created by the Centre for Public Value and designed to provide a more extensive description of the indexation models discussed herein and the problems associated with the current indexation method applied in Western Australia. The publications should be read together. They are:

Gilchrist, D. J. & Feenan, C., (2023), Challenging the Framework for Price Indexation in Western Australia's Human Services, developed by the Centre for Public Value, UWA Business School, Perth, Australia.^{vi}

Gilchrist, D. J. & Feenan, C., (2023), Human Services and Cost Indexation Methodologies in Australia, a report developed by the Centre for Public Value, UWA Business School, Perth, Australia.^{vii}

We have also considered commonly applied indexation formulae and readers interested in a deeper analysis and understanding of this aspect of the study should review the second publication cited above particularly where we examine the processes, calculation, and challenges of indexation more thoroughly.

Suffice to say here, the research team considered two indexes commonly used to calculate indexed change:

- **Chain Weighted Fisher Index** (Fisher Index): this is statistically the best formula for calculating changes in costs for the social service industry. However, it is a more complex formula and difficult to collect sufficient appropriate data for.
- **Laspeyres Index Formula** (Laspeyres Index): this formula is a less complex method of calculating changes in expenses. It has the added advantage that the Australian Bureau of Statistics (ABS) uses this method.



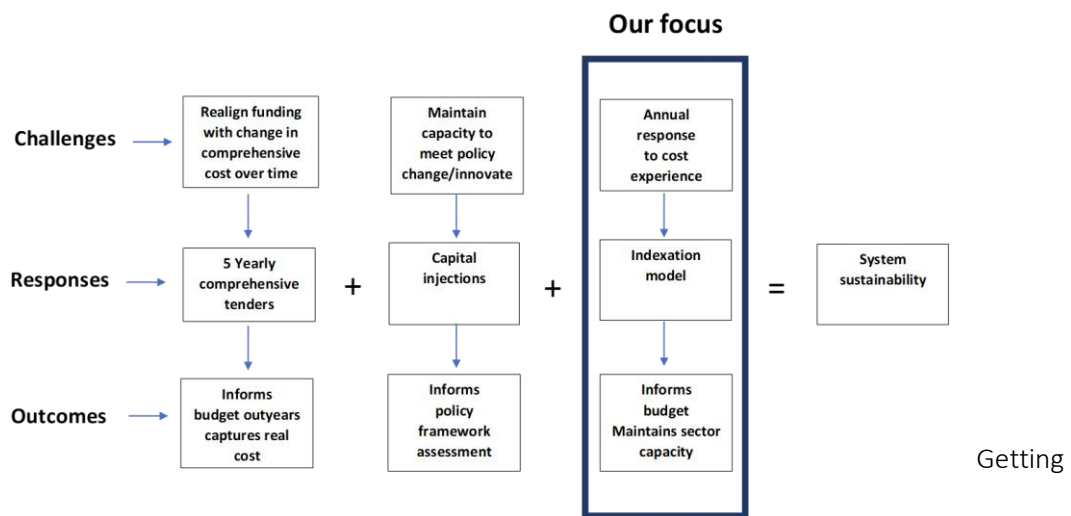
Commentary on the nature of the data used is provided at appendix 1.

Research Objective - Sustainability & Indexation

The purchasing of human services by governments is a challenging policy area. All parties—governments, the human services industry, and the community—want governments to be efficient in the use of public funds and there is no advantage to anyone if governments are not so. However, in order to be efficient, the purchase price paid by governments for human services must support the sustainability of the industry.

To be sustainable, there are three components of resourcing that are important to maintain. These are: (1) the regular realignment of multi-year contracts with the real cost of delivering services; (2) the capitalisation of the service industry to allow responses to economic, social and policy changes; and (3) the establishment of a sound indexation calculation process that allows the industry to respond to iterative changes in the cost of production over the life of a multi-year contract (i.e. in between resetting the base through the re-contracting process). Figure 1 below demonstrates this sustainability model schematically.

Figure 1: Sustainability Model



indexation right is critical to maintaining industry sustainability and reducing as far as possible the risk to people relying on these services. The identification of the correct indexation is difficult, and it costs time and money to get right—impacting both the human services industry and the governments that purchase human services from that industry.

If indexation is calculated appropriately, it can:



- Insulate against unexpected service failure;
- Maintain the service mix; and
- Inform governments' budgets and outyears.

However, indexation is always retrospective and based on historical experience. It cannot meet cumulative inaccurate/inadequate indexation gaps, meet significant cost increases in real time, mitigate capital shortfalls resulting from government policy change or support human services providers to respond to changes in need.

Therefore, getting indexation as right as possible is a critical element in the maintenance of the sustainability of human service delivery but it cannot resolve everything. Likewise, getting it wrong increases the threat to sustainability on a cumulative basis as iterative indexation calculations are effectively carried forward until the next opportunity to reset contracts.

Importantly, the increasing financial stress faced by the human services industry as reported anecdotally has raised concerns for many years as to the veracity of the current Western Australian government's indexation policy and calculation methodology, using a combination of the Cost Price Index and the Wages Price Index. This program of research is examining this issue with the intention of identifying a more relevant, efficient, and effective indexation methodology.

Methodology

The intent of this research is to provide a response to the challenge of developing an appropriate indexation methodology using the following steps:

- Collect representative data from a selected panel of social service organisations that are members of WACOSS and/or CEWA. These are Social Service Organisations (SSOs)
- Use that data to:
 - Understand the drivers of cost changes experienced over the relevant time
 - Proxy activity increases by reference to the change in net service income in order to estimate the likely cost increase net of activity changes
 - Populate an existing statistically relevant indexation model to compare the outcome with the indexation outcome derived by the Western Australian government's model (per above, we considered the Chain Weighted Fisher Index [Fisher] and Laspeyres Index)
 - Compare the results of the aggregate cost increases and the outcome arising from step two above to determine whether there is a proxy for a social services industry indexation available in the current suite of calculations regularly undertaken by the ABS
 - Develop appropriate recommendations if possible

In undertaking this analysis, the research team:





- Examined the data collected from SSOs and represented the cost changes experience by calculating the aggregate cost change in proportion to the income generated. We then analysed the change in costs experienced by cost category by reference to the median organisation
- Examined the data from the 951 ACNC registered entities and compared the cost change experienced by these organisations with that experienced by the SSOs
- Attempted to populate the Fischer Index model using the SSO data

We were unable to populate the Fisher Index or the Laspeyres Index due to the poor quality of the data received from SSOs. There were insufficient organisations providing data and incomplete data sets provided. We also determined to analyse and report on the median organisation's data as we were unable to effectively manage outliers with so few SSOs contributing their data. Therefore, we focused our attention on the aggregate cost change experienced by the median SSO and the ACNC registered entities for comparison with the Western Australian government indexation calculations.

Findings

We reported in previous publications that the Western Australian government's current indexation model is based on a combination of CPI and WPI is inappropriate for this industry.^{viii} The reasons are outlined comprehensively in that report. As such, we will not deal with this issue in this report— suffice to say that the formula for both of these indexes is not representative of the human services industry and this research reinforces this finding as described below. Disappointingly, and as reported above, we were unable to identify a suitable existing proxy for the industry calculated by the ABS. All identified likely candidates for being a proxy result in a materially different indexation value as compared to the median cost changes reported herein and that of the ACNC registered entities. Table 2 below provides a comparison of key data headline results.

Table 2: Headline results – SSO median data adjusted for activity growth

	2019 - 20	2020 - 21
Western Australian Government Indexation	1.47%	1.67%
Aggregate Change in Expenditure SSOs	18.2%	6.2%
Change in Expenditure Median SSO	3.31%	4.8%
Consumer Price Index-Perth ^x	1.3%	3.2%
Wage Price Index-Western Australia*	1.4%	1.9%
Wage Price Index-Health Care and Social Assistance-Australia ^{xi}	2.2%	2.2%
Median SSO Labour Cost Increase (Adjusted for Activity Change)	3.4%	4.2%
Employee Expenses Increase Median ACNC Data	7.0%	-
Total Expenses Increase Median ACNC Data	3.4%	-
Consumer Price Index - Health - Perth ^{xii}	0.7%	3.4%
Producer Price Index – Other Allied Health Services - Australia ^{xiii}	2.2%	3.2%

Table 2 shows that the Western Australian government's indexation calculation for the relevant years is less than half the experienced cost increase reported by the median SSO and considerably less than half of the aggregate change in experienced costs reported by all SSOs.

After adjusting reported activity-sensitive costs for the median SSO using a proxy for activity change (increase in net service income year-on-year), it can be seen that median labour and labour-related



costs have all been reported as increasing year-on-year significantly in excess of the indexation value applied by the state government.

Table 3: Key cost changes experienced by SSO median entity adjusted for activity growth

	2019 - 20		2020 - 21	
	Change based on Activity	Portion of Expenditure	Change based on Activity	Portion of Expenditure
Labour	↑ 3.4%	72.0%	↑ 4.2%	67.7%
Labour On-Costs	↑ 5.3%	12.9%	↑ 2.1%	12.5%
Agency Staff Costs	↓ -15.4%	1.8%	↑ 134.4%	2.0%
Training Staff Costs	↓ -0.5%	0.4%	↑ 54.4%	0.5%
Supervision	↑ 20.6%	11.5%	↓ -30.9%	11.0%
Clinical Supervision	↓ -2.1%	0.5%	↑ 14.8%	0.4%
Quality Control/Compliance Staff Costs	↑ 8.1%	0.3%	↑ 6.0%	0.3%
Employee Recruitment Costs	↓ -34.4%	0.3%	↑ 105.7%	0.1%
Clerical Support Costs	↑ 23.3%	1.2%	↓ -4.1%	1.4%
Quality Compliance Staff Costs	↑ 0.1%	0.3%	↑ 6.0%	0.2%
OH&S Compliance Costs - Labour Costs	↑ 5.9%	0.1%	↑ 16.3%	0.1%

These results are reported in table 3. Importantly, the increase reported was almost 2.5 times the Wage Price Index for 2019/20 and 2.4 times the Wage Price Index for 2020/21. WPI for 2019/20 and 2020/21 were 1.4% and 1.9% respectively compared to SSO aggregate labour only increases of 11% and 7% (table 2) respectively, an increase of 3.4% and 4.2% respectively for the median SSO (table 3). An increase for 2019/20 of 7% was also reported for the ACNC median.

There are reported a number of cost elements that moved according to expectations. For instance, employee recruitment costs and quality compliance costs have all increased commensurate with anecdotal evidence year-on-year. Importantly, OH&S costs have also increased by a material amount during this period (5.9% and 16.3% year-on-year).

Labour cost drivers extend beyond service delivery with many of the large expenditure increases being labour related. Increases in Training, Supervision, HR Staff, and Clerical Support Costs show increases flowing on from wage expenditure increases including the ERO and wage decisions.

Additionally, changes in operational arrangements (for instance, increases in quality assurance processes applied by government policy) also drove costs up as additional staff were required to meet obligations. Of course, superannuation increases represent a significant cost burden not represented in the CPI/WPI Western Australian indexation model.

Overall, clerical support costs and clinical supervision costs were also reported as rising over the period. Interestingly, supervision costs have rebalanced over the two-year period but remained 11% of the total costs incurred by the median SSO.

Table 4: Key operational cost changes experienced by the median SSO



	2019 - 20		2020 - 21	
	Change from previous Year	Portion of Expenditure	Change from previous Year	Portion of Expenditure
Quality Control/Compliance	↑ 85.9%	0.0%	↑ 38.3%	0.0%
Marketing	↓ -14.3%	0.9%	↓ -1.5%	0.6%
HR Staff Costs	↑ 7.0%	1.3%	↓ -15.8%	1.1%
OH&S Compliance Costs - Exclude Labour	↑ 56.4%	0.1%	↑ 113.9%	0.1%
Volunteer Recruitment & Management	↑ 27.1%	0.1%	↓ -37.0%	0.1%
Volunteer Management Staff Costs	↓ -2.8%	0.1%	↑ 14.7%	0.1%
Audit	↑ 14.5%	0.4%	↓ -17.0%	0.4%
External Accounting / Bookkeeping Costs	↑ 21.2%	0.1%	↑ 4.3%	0.1%
Legal Costs	↑ 6.1%	0.3%	↑ 54.4%	0.2%
Consultant Costs	↑ 29.2%	0.9%	↑ 9.5%	1.0%
Bank Fees & Charges	↑ 21.9%	0.0%	↑ 24.0%	0.0%
Interest Costs	↑ 341.5%	0.0%	↑ 60.7%	0.2%
Facilities	↑ 1.8%	6.6%	↑ 2.9%	5.7%
Motor Vehicles	↓ -6.3%	1.7%	↑ 0.4%	1.4%
Intra-State Travel Costs	↓ -12.3%	0.4%	↓ -33.1%	0.3%
Inter-State Travel Costs	↓ -59.3%	0.1%	↓ -95.8%	0.0%
General Insurance Costs	↓ -1.7%	1.1%	↑ 28.1%	0.9%
All Other Costs	↑ 90.4%	11.3%	↑ 4.4%	18.3%
Depreciation Charged	↑ 3.3%	3.0%	↓ -4.2%	2.6%
Amortisation Charged	↓ -14.5%	0.1%	↑ 35.1%	0.1%

Table 4 provides evidence of cost increases incurred by the median SSO for non-labour operational costs. It can be seen that strategic expenditure and administration costs have also increased over time. For instance, Consultant costs, Legal costs, External Bookkeeping/Accounting costs as well as OH&S Compliance and Quality Control have all increased in the periods recorded above the measured CPI.

Of course, there may also be impacts arising from the COVID shock. For instance, Inter-State Travel, and Intra-State travel for instance were significantly reduced in both periods. Additionally, a sharp increase in All Other Costs was reported.

We have shown that the current indexation models do not characterise the costs and impacts for the industry. The flow on effects from these differences impact organisations operations and decisions. As shown in Table 5, the expenditure as a portion of income for the ACNC median organisation has slightly decreased over the reported time, however, there has been significant reductions in the aggregate net surplus reported by ACNC registered entities with head offices in Western Australia— viz: ↓53% and ↓28% between 2019/20 and 2020/21 respectively. Financial stress is not new to this industry and the issue has been reported in relation to Western Australian charities previously.^{xiv} We note that the cause of financial distress is cumulative inadequate pricing while COVID has emphasised the financial pressure rather than being a root cause.

The impacts of unsustainable funding and income structures for non-profits have often been raised over time. While we can acknowledge these are realities for the industry, we can also see that the above the empirical evidence shows that current indexation arrangements are contributing to



unsustainable funding frameworks. This has been shown in our previous report, and with the above analyses, we can see the numerical impact for the years and organisations reported.^{xv}

Table 5: Cost drivers - Median ACNC Data and modified z-score

	2018 - 19		2019 - 20	
Employee Expenses	↑	6% (0.12) ^{xvi}	↑	7% (0.13)
Interest Expenses	↓	-7% (0.39)	↓	-7% (0.38)
All Other Expenses	↑	5% (0.24)	↓	-1% (0.27)

Estimating Indexation in the Short Term

As expected, and reported on elsewhere, the indexation formula used by the state government to arrive at the indexation rate does not reflect the real cost increases in material terms. We have estimated the accumulated indexation shortfall based on SSO expenditure and the results are provided in table 6 below. In that table it can be seen that the total shortfall is estimated at 5.12% over the two years, 2019 to 2021 using the median entity reported cost changes.

Table 6: SSO Cumulative Indexation Shortfall Year-on-Year

	2019 - 20	2020 - 21	2021 - 22	2022 - 23
State Government Indexation	1.47%	1.67%	1.30%	5.10%
<i>Cumulative</i>	-	3.16%	4.44%	9.54%
SSO Median Expenditure	3.31%	4.82%	-	-
<i>Cumulative</i>	-	8.29%	-	-
Cumulative Difference	1.84%	5.12%	-	-

Since the data collection period, the sector, economy, and government indexation has continued to evolve. The above research is factual and insightful; however, the sector and its advocates require further findings to lead real change.

The nature of indexation is that accurate estimates cannot be provided for time periods without relevant data. Hence, table 7 below has estimates which are derived by us using estimates derived from data collected and ABS reporting. Significant changes in inflation and labour costs have occurred since the time of the data collection from SSO's, which alters the trajectory of indexation.

Taking all these factors into account, we have produced conservative estimates for years 2021 and 2022 with a final cumulative indexation gap to be rectified of 14.00%. These figures are shown in table 7 with estimates and table 8 with considered impacts to 2022/23 indexation requirements. We have included mandatory super increase of 0.05% and modern award wage increase of 4.6% in this estimate.

We also use a proxy index consisting of current ABS indexes being the labour cost component moved from WA WPI to Health & Social Assistance – Private – Australia WPI. This move does not disregard



that the WPI excludes labour-on-costs but requires manual intervention to update for ongoing relevance.

A non-wage index suitable for the sector is not yet available. However, to create a figure reflective to the real data by SSOs we use CPI for Perth.

Table 7: Estimated Indexation Shortfall Year-on-Year

	2019 - 20	2020 - 21	2021 - 22	2022 - 23
SSO Median – Non-Labour Costs	10.78%	1.20%	-	-
Median SSO Non-Labour Cost Weight of Expenditure	28.4%	33.1%	-	-
<i>Estimated</i>	-	-	30%	30%
CPI – Perth	1.30%	3.20%	6.00%	-
CPI – Health – Perth	0.70%	3.40%	3.70%	-
Non-Discretionary CPI – Australia	-4.80%	2.90%	9.86%	-
SSO Median – Labour Costs	3.40%	4.20%	-	-
Median SSO Labour Cost Weight of Expenditure	72.0%	67.7%	-	-
<i>Estimated</i>	-	-	70%	70%
WPI – Western Australia	1.60%	1.40%	1.90%	-
Health & Social Assistance WPI – Private Sector – Australia	3.20%	2.30%	2.50%	-
Proxy CPI – Perth + 0.7 Health & Social Assistance WPI – Private Sector – Australia	3.54%	4.81%	7.75%	-
Difference from Proxy and SSO Median	0.23%	-0.01%	-	-
<i>Cumulative</i>	0.23%	0.11%	-	-
Difference between Proxy and State Government	2.07%	3.14%	6.45%	-

The CPI is compiled by discretionary and non-discretionary indexes with non-discretionary spending increasing greater than discretionary. It is expected that, in times of economic pressure, non-discretionary spending increases as a proportion of expenditure. Until there is an appropriate Perth Non-discretionary index for human services organisations, the use of Non-discretionary CPI – Australia appears to be an appropriate proxy. The proxy identified has small differences year on year from SSO median expenditure, and a cumulative difference of only 0.11% between our collected data reported using the median and the constructed proxy using ABS data.

Table 8 below shows there is the compilation of cumulative shortfalls of the government index. This includes the minimum amount of additional expected expenditure required for labour cost increases due to minimum mandatory labour cost increases.

The 5.12% from 2020/21 is derived from table 6 and is the difference shown from the median change in organisations, and 6.45% from 2021/22 is the difference between the ABS-based proxy to the indexation amount allocated by the state government.

Table 8 shows the mandatory changes in award rate and superannuation for labour costs only for 2022/23 as actual non-labour costs are not known for prospective indexation. Using 70% of total



index component of labour costs as seen above, the impact of an increase of 5.10% and combinations of CPI, including the state government 0.8* WPI and 0.2* Perth CPI are shown below.

The state government's raise to 5.10% indexation covers increases in wages only—it does not cover any other expenditure increases. Differing combinations of CPI and labour components used below highlights a shortfall in indexation of between 0.63% and 4.47% when compared to state government indexation mandated for 2022/23.

Estimating increases in non-labour costs using the proxy defined in table 7, an estimate of 9.57% is represented using 70% labour component and non-labour component as previously discussed. However, estimates of using indexes previously used by state government or other options are all higher than the mandated indexation of 5.10%. The table below uses this proxy difference with accumulated differences from previous years to compute a conservative cumulative indexation gap of 15.91% since 2019.

Table 8: Cumulative and Estimated Indexation Shortfall Year-on-Year

	2020 - 21	2021 - 22	2022 - 23
Mandatory Super Increase			0.50%
Award Wage Increase			4.60%
Total Labour Cost Increase			5.10%
a) 0.7 Total Labour Cost Increase + 0.3 Perth CPI			5.73%
b) 0.8 Total Labour Cost Increase + 0.2 Perth CPI			5.28%
c) 0.7 Total Labour Cost Increase + Perth CPI			9.57%
d) 0.7 Total Labour Cost Increase + 0.3 Australia Non-discretionary			6.54%
Difference from conservative index proxy a) and State Government			0.63%
Difference from proposed proxy c) and State Government			4.47%
Government Indexation Recommendation			
<i>Immediately Rectify</i>	5.12%	6.45%	4.47%
<i>Cumulative</i>	5.12%	11.44%	15.91%

Concluding Comments and Recommendations

The examination of the evidence gathered via SSOs and the ACNC data cube reinforce concerns over the appropriateness of the current indexation model applied by the Western Australian government. The ever-increasing financial pressure being experienced by SSOs will have a significant impact on their sustainability and, therefore, on the sustainability of service delivery with the people relying on the services and supports bearing the ultimate impact of service mix changes.

The indexation determined for the 2021/22 financial year was 5.10%. This indexation only covers the mandator labour cost increases such as superannuation. It does not cover any other cost increases. We have estimated the cumulative indexation gap from 2019 to 2022 to be 15.91%. On these figures our estimates are that the following are required:



- One-off payment of 11.44% indexation to close the cumulative indexation gap from 2019 to 2022 only
- Indexation for the 2022/23 financial year be raised to 9.57% (5.1% + 4.47%) to ensure sustainability in the short-term

Directors and executives of SSOs have no choice but to respond to increasing pressures and reducing organisational sustainability by changing their service mix, including in relation to the quantity, quality, timing and location of service delivery. Such changes often occur with limited or any transparency and the impacts on the community can be devastating.

Finally, we confirm that there currently does not exist a suitable proxy indexation model calculated by the ABS that would be effective in replacing the current inappropriate model.

There are four major responses possible here in order to rectify the indexation arrangements and we would suggest pursuing them concurrently given the need for immediate rectification and the prospects for achieving savings into the future:

- 1) The estimated accumulated indexation gap of 11.44% needs to be provided in the short-term order to maintain sustainability.

AND

- 2) The estimated indexation requirement for 2022/23 is 9.57%.

AND

- 3) The ABS already calculates a Health Care and Social Assistance Industry Index. The combined index is not adequate for the purposes of indexation in Western Australia as it does not reflect the social service industry. As a priority, the Western Australian government and the industry peaks should collaborate to advocate for change in the approach taken by the ABS toward the development of a specific-purpose industry cost index. This would reduce the cost to the state government and the industry while also ensuring the ABS contribution is as relevant as possible.

OR

- 4) If point 3 above is not able to be pursued, adopt a suitable industry index and collect data needed to calculate at least annually. Statistically speaking, and as reported by us, the Laspeyres Index is the most efficient of the relevant indexes available to us.^{xvii} As reported above, the ABS uses this index in its industry indexation calculations and there is a real opportunity for the method to be applied in the Western Australian context. The industry peak bodies and the Western Australian government should collaborate to confirm the relevance of the Laspeyres model and undertake the indexation calculation using that model on an annual basis. This would require:
 - a. The identification and allocation of resources from government in order to support the implementation process and the on-going operation of the scheme, including in



relation to financial support to SSOs chosen as part of the panel to contribute their data

- b. The industry and state government to agree a panel of SSOs from which data will be collected with panel members being selected based on the need to represent the industry in Western Australia
- c. The industry and state government agree the data attributes required
- d. The establishment of a data collection process (preferably automatic and direct)
- e. The establishment of an analysis and reporting process, including the identification of a body to undertake these processes

Rectifying the indexation methodology will help ensure sustainability, efficiency and effectiveness in the delivery of social services in Western Australia into the future.



Appendix: Data & Analysis Limitations

The quality and quantity of data available for the analysis of the social services industry in Western Australia are, like that of other jurisdictions in the Commonwealth, limited. This impacts the extent to which the analysis can be said to be representative of the entire industry in the state. This is a well-known phenomenon and has been well documented.^{xviii}

The data used was limited to the financial years identified above due to the varying balance dates used by contributors and the availability of data from the ACNC. Collecting more retrospective data would have cost the SSOs considerably in time and money while the value of the data was unlikely to change the outcome of the research. Further, the following should be considered by readers:

- Data cleaning ensured that representative data from the ACNC records remained relevant to this research: Basic Religious Charities (BRCs), charities that did not receive any financial resources via government grants or government procurement, and any charities operating outside of the scope of social services were removed from the data set.
- In all, while we were able to identify relevant data from 1,259, 1,305 and 1,808 registered charities for the 2018, 2019 and 2020 financial years respectively, we were only able to use the data from 951 ACNC registered charities because they were the only organisations that fell into the pool of analysed charities with continuous registration for the three years relevant to the study. See table 1.

Table 1: Non-applicable charities removed from the ACNC Sample

	2018		2019		2020	
Total Charities registered to WA	4,064		4,075		4,158	
Basic Religious Charities	682	(16.8%)	643	(15.8%)	640	(15.4%)
Non-recipients of government funding	2,124	(52.3%)	2,127	(52.2%)	1,710	(41.1%)
Remainder of charities	1,259	(31.0%)	1,305	(32.0%)	1,808	(43.5%)

There may exist additional organisations relevant to this study. For instance, the ACNC withholds reporting on some charities for numerous reasons.^{xix} These charities are therefore not listed within the reporting of the AIS statements. Additionally, not all recipients of government financial resources for social services are considered charities nor registered as charities.

Cost indexes and formulas incorporate price and quantity of goods for comparison of cost across time periods. This creates difficulties in relation to data collection because SSOs do not usually maintain their data in a way that supports the requirements of an indexation calculation.

Further, outlier detection and removal from such formulas—a common method of data management and cleaning—may not be appropriate as the outliers may be relevant to the picture being presented. Again, this is why we are reporting on the median SSO only rather than the aggregate.

This is important to note as the diversity of the industry is reflected by the distribution of the data. Indexation would account for the entirety of the industry with each datapoint considered. To remove



outliers from such a varied distribution may reduce the appropriateness of the index. Even if this were to be statistically appropriate in considering the formula and if it were to fit the remaining data more suitably.

Self-reported data from SSOs was contributed by 18 organisations. This means many organisations were not able to contribute, and of those organisations who were able, some provided truncated data due to capacity constraints. Unfortunately, this impacted both the quantity of data received and the quality of that data.

Further, the social services industry in Western Australia is highly heterogenous and so the ability to compare like with like is also restricted.

Therefore, readers should be aware of the following restrictions in interpreting the results conveyed herein:

- The data provided by self-selecting SSOs is not extrapolable across the industry
- The results published herein are specific to the median organisation and evidence the change in the cost of operation experienced by that organisation
- It is likely that the quantum of the cost of operation expressed herein is not representative of the industry. However, our assessment of the data provided suggests that the causes, magnitudes and impacts of these changes are likely reflective of the experience of Western Australian SSOs though the size of impact may be differently experienced by individual organisations
- Of course, using the median SSO as the analytical reference confirms that half of the SSOs submitting data performed more poorly and half performed better than the median organisation

Readers with any queries or comments relating to the data, the analysis or any other aspect of this report should contact the authors.

ⁱAustralian Bureau of Statistics "Consumer Price Index (CPI) 17th Series." Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?fs\[0\]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df\[ds\]=ECONOMY_TOPICS&df\[id\]=CPI&df\[ag\]=ABS&df\[vs\]=1.1.0&pd=2018-Q1%2C2020-Q4&dq=1%2B2%2B3.10001%2B20001%2B20002%2B20003%2B20004%2B20005%2B20006%2B115486%2B115488%2B115489%2B115493%2B126670%2B999901%2B999902%2B999903.10%2B20.5%2B50.Q&ly\[cl\]=REGION&ly\[rw\]=MEASURE%2CTIME_PERIOD&ly\[rs\]=TSEST%2CINDEX](https://explore.data.abs.gov.au/vis?fs[0]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df[ds]=ECONOMY_TOPICS&df[id]=CPI&df[ag]=ABS&df[vs]=1.1.0&pd=2018-Q1%2C2020-Q4&dq=1%2B2%2B3.10001%2B20001%2B20002%2B20003%2B20004%2B20005%2B20006%2B115486%2B115488%2B115489%2B115493%2B126670%2B999901%2B999902%2B999903.10%2B20.5%2B50.Q&ly[cl]=REGION&ly[rw]=MEASURE%2CTIME_PERIOD&ly[rs]=TSEST%2CINDEX)

ⁱⁱAustralian Bureau of Statistics "Wage Price Index" Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?fs\[0\]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df\[ds\]=ECONOMY_TOPICS&df\[id\]=WPI&df\[ag\]=ABS&df\[vs\]=1.0.0&pd=2017-Q1%2C&dq=.THRPEB..TOT..5.Q&ly\[cl\]=MEASURE&ly\[rw\]=TIME_PERIOD&ly\[rs\]=SECTOR](https://explore.data.abs.gov.au/vis?fs[0]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df[ds]=ECONOMY_TOPICS&df[id]=WPI&df[ag]=ABS&df[vs]=1.0.0&pd=2017-Q1%2C&dq=.THRPEB..TOT..5.Q&ly[cl]=MEASURE&ly[rw]=TIME_PERIOD&ly[rs]=SECTOR)

ⁱⁱⁱ Australian Bureau of Statistics "Wage Price Index" Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?fs\[0\]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df\[ds\]=ECONOMY_TOPICS&df\[id\]=WPI&df\[ag\]=ABS&df\[vs\]=1.0.0&pd=2017-Q1%2C&dq=.THRPEB..Q%2BTOT...Q&ly\[cl\]=MEASURE&ly\[rw\]=TIME_PERIOD&ly\[rs\]=SECTOR](https://explore.data.abs.gov.au/vis?fs[0]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df[ds]=ECONOMY_TOPICS&df[id]=WPI&df[ag]=ABS&df[vs]=1.0.0&pd=2017-Q1%2C&dq=.THRPEB..Q%2BTOT...Q&ly[cl]=MEASURE&ly[rw]=TIME_PERIOD&ly[rs]=SECTOR)



- ^{iv} Australian Bureau of Statistics “Consumer Price Index (CPI) 17th Series.” Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?fs\[0\]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df\[ds\]=ECONOMY_TOPICS&df\[id\]=CPI&df\[ag\]=ABS&df\[vs\]=1.1.0&pd=2019-Q3%2C2021-Q3&dq=3.115486%2B999901%2B999902%2B999903.10%2B20.5%2B50.Q&ly\[cl\]=REGION&ly\[rw\]=TIME_PERIOD&ly\[rs\]=TSEST](https://explore.data.abs.gov.au/vis?fs[0]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df[ds]=ECONOMY_TOPICS&df[id]=CPI&df[ag]=ABS&df[vs]=1.1.0&pd=2019-Q3%2C2021-Q3&dq=3.115486%2B999901%2B999902%2B999903.10%2B20.5%2B50.Q&ly[cl]=REGION&ly[rw]=TIME_PERIOD&ly[rs]=TSEST)
- ^v Australian Bureau of Statistics “Producer Price Indexes by Industry.” Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?tm=producer%20price%20index&pg=0&hc\[dimensions\]=Index&df\[ds\]=ECONOMY_TOPICS&df\[id\]=PPI&df\[ag\]=ABS&df\[vs\]=1.0.0&pd=2018-Q3%2C2021-Q3&dq=1%2B4.8193755..Q&ly\[cl\]=TIME_PERIOD](https://explore.data.abs.gov.au/vis?tm=producer%20price%20index&pg=0&hc[dimensions]=Index&df[ds]=ECONOMY_TOPICS&df[id]=PPI&df[ag]=ABS&df[vs]=1.0.0&pd=2018-Q3%2C2021-Q3&dq=1%2B4.8193755..Q&ly[cl]=TIME_PERIOD)
- ^{vi} Available here: <https://www.uwa.edu.au/schools/-/media/not-for-profits-uwa/policy-and-economics/230428-final-challenging-indexation-framework.pdf>
- ^{vii} Available here: <https://www.uwa.edu.au/schools/-/media/centre-for-public-value/resources/human-services-and-cost-indexation-methodologies-in-australia.pdf>
- ^{viii} Gilchrist, D. J. & Feenan, C., (2022), Human Services and Cost Indexation Methodologies in Australia, a report developed by the Centre for Public Value, UWA Business School, Perth, Australia.
- ^{ix} Australian Bureau of Statistics “Consumer Price Index (CPI) 17th Series.” Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?fs\[0\]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df\[ds\]=ECONOMY_TOPICS&df\[id\]=CPI&df\[ag\]=ABS&df\[vs\]=1.1.0&pd=2018-Q1%2C2020-Q4&dq=1%2B2%2B3.10001%2B20001%2B20002%2B20003%2B20004%2B20005%2B20006%2B115486%2B115488%2B115489%2B115493%2B126670%2B999901%2B999902%2B999903.10%2B20.5%2B50.Q&ly\[cl\]=REGION&ly\[rw\]=MEASURE%2CTIME_PERIOD&ly\[rs\]=TSEST%2CINDEX](https://explore.data.abs.gov.au/vis?fs[0]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df[ds]=ECONOMY_TOPICS&df[id]=CPI&df[ag]=ABS&df[vs]=1.1.0&pd=2018-Q1%2C2020-Q4&dq=1%2B2%2B3.10001%2B20001%2B20002%2B20003%2B20004%2B20005%2B20006%2B115486%2B115488%2B115489%2B115493%2B126670%2B999901%2B999902%2B999903.10%2B20.5%2B50.Q&ly[cl]=REGION&ly[rw]=MEASURE%2CTIME_PERIOD&ly[rs]=TSEST%2CINDEX)
- ^x Australian Bureau of Statistics “Wage Price Index” Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?fs\[0\]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df\[ds\]=ECONOMY_TOPICS&df\[id\]=WPI&df\[ag\]=ABS&df\[vs\]=1.0.0&pd=2017-Q1%2C&dq=.THRPEB..TOT..5.Q&ly\[cl\]=MEASURE&ly\[rw\]=TIME_PERIOD&ly\[rs\]=SECTOR](https://explore.data.abs.gov.au/vis?fs[0]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df[ds]=ECONOMY_TOPICS&df[id]=WPI&df[ag]=ABS&df[vs]=1.0.0&pd=2017-Q1%2C&dq=.THRPEB..TOT..5.Q&ly[cl]=MEASURE&ly[rw]=TIME_PERIOD&ly[rs]=SECTOR)
- ^{xi} Australian Bureau of Statistics “Wage Price Index” Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?fs\[0\]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df\[ds\]=ECONOMY_TOPICS&df\[id\]=WPI&df\[ag\]=ABS&df\[vs\]=1.0.0&pd=2017-Q1%2C&dq=.THRPEB..Q%2BTOT...Q&ly\[cl\]=MEASURE&ly\[rw\]=TIME_PERIOD&ly\[rs\]=SECTOR](https://explore.data.abs.gov.au/vis?fs[0]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df[ds]=ECONOMY_TOPICS&df[id]=WPI&df[ag]=ABS&df[vs]=1.0.0&pd=2017-Q1%2C&dq=.THRPEB..Q%2BTOT...Q&ly[cl]=MEASURE&ly[rw]=TIME_PERIOD&ly[rs]=SECTOR)
- ^{xii} Australian Bureau of Statistics “Consumer Price Index (CPI) 17th Series.” Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?fs\[0\]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df\[ds\]=ECONOMY_TOPICS&df\[id\]=CPI&df\[ag\]=ABS&df\[vs\]=1.1.0&pd=2019-Q3%2C2021-Q3&dq=3.115486%2B999901%2B999902%2B999903.10%2B20.5%2B50.Q&ly\[cl\]=REGION&ly\[rw\]=TIME_PERIOD&ly\[rs\]=TSEST](https://explore.data.abs.gov.au/vis?fs[0]=Economy%2C0%7CPrice%20indexes%20and%20inflation%23PRICE_INDEX_INFLATION%23&pg=0&fc=Economy&df[ds]=ECONOMY_TOPICS&df[id]=CPI&df[ag]=ABS&df[vs]=1.1.0&pd=2019-Q3%2C2021-Q3&dq=3.115486%2B999901%2B999902%2B999903.10%2B20.5%2B50.Q&ly[cl]=REGION&ly[rw]=TIME_PERIOD&ly[rs]=TSEST)
- ^{xiii} Australian Bureau of Statistics “Producer Price Indexes by Industry.” Explore.data.abs.gov.au. Available at: [https://explore.data.abs.gov.au/vis?tm=producer%20price%20index&pg=0&hc\[dimensions\]=Index&df\[ds\]=ECONOMY_TOPICS&df\[id\]=PPI&df\[ag\]=ABS&df\[vs\]=1.0.0&pd=2018-Q3%2C2021-Q3&dq=1%2B4.8193755..Q&ly\[cl\]=TIME_PERIOD](https://explore.data.abs.gov.au/vis?tm=producer%20price%20index&pg=0&hc[dimensions]=Index&df[ds]=ECONOMY_TOPICS&df[id]=PPI&df[ag]=ABS&df[vs]=1.0.0&pd=2018-Q3%2C2021-Q3&dq=1%2B4.8193755..Q&ly[cl]=TIME_PERIOD)
- ^{xiv} For example, see: Gilchrist, D.J. & Emery, T., (2020), Western Australia’s Not-for-profit Landscape 2020: The Second Report on WA Charities, a report of the Not-for-profits UWA Research Team, Perth, Australia; and Gilchrist, D.J. and B. Perks, (2021), The 2021 NDIS Pricing Review: West Australian Costs Assessment – Drivers of Cost Increases, Working Paper Prepared by the Not-for-profits UWA Research Team, Perth, Australia. Both available here: <https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications>
- ^{xv} Gilchrist, D. J. & Feenan, C., (2022), Challenging the Framework for Funding Indexation in Western Australia’s Human Services, a report for the Western Australian Council of Social Service and Community Employers Western Australia developed by the UWA Centre for Public Value, Perth, Australia.
- ^{xvi} the modified Z-Score (in parentheses) represents the adjusted standard deviation highlighting the movement on either side of the presented score.
- ^{xvii} Gilchrist, D. J. & Feenan, C., (2022), Human Services and Cost Indexation Methodologies in Australia, a report developed by the Centre for Public Value, UWA Business School, Perth, Australia.
- ^{xviii} For instance, please see Gilchrist, D. J., P. A. Knight & T. Emery, 2020, “Green Paper 1: Data Assets, Efficiency and the NDIS”, A Report of Not-for-profits UWA, Perth, Australia available at: <https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications>
- ^{xix} Australian Charities and Non-Profits Commission, “Information on the Charity Register: Withheld Information”, Available at: <https://www.acnc.gov.au/charity/about-acnc-charity-register/information-charity-register/information-charity-register-withheld-information>



Appendix: Raw Data Change

	2019			2020		
	Aggregate	Median	Mean	Aggregate	Median	Mean
Total Income	1.166	1.115	1.162	1.092	3.736	5.972
Income from Service Delivery	1.135	1.083	1.151	1.070	1.069	1.054
Income from Non-service Delivery Sales	0.733	0.990	1.106	1.175	0.923	0.993
Income from Philanthropy - Operational	1.850	0.941	1.378	2.264	2.349	2.902
Income from Philanthropy - Capital	0.230	0.230	0.230	0.000		
Income from Lotterywest	1.592	1.072	4.122	0.588	0.928	2.226
Income from Investments	0.548	0.609	0.673	0.790	0.453	0.522
Income from Fund Raising	0.663	0.796	4.879	0.927	0.650	2.902
Income from Job Keeper (COVID-related)				1.126	1.081	1.696
Profit on Sale of Assets	0.436	0.700	0.700	7.897	4.745	4.745
Any Other Income	0.722	0.921	1.033	2.213	1.136	0.690
Profit/Loss Reported (Published)	-4.013	0.450	1.693	2.006	1.287	-13.692
2) Costs						
Labour	1.112	1.071	1.107	1.072	1.082	1.107
Labour On-Costs	1.144	1.091	1.144	1.053	1.063	1.096
Agency Staff Costs	1.282	0.883	0.883	0.749	2.383	2.383
Mandatory PD/Training	0.640	1.262	1.186	0.418	0.205	0.299
Other PD/Training	0.756	0.532	1.608	1.211	1.207	1.593
Training Staff Costs	1.354	1.032	2.274	1.234	1.584	1.515
Supervision	1.122	1.243	1.271	0.936	0.731	0.748
Clinical Supervision	0.932	1.013	1.242	1.157	1.188	1.613
COVID Costs				1.152	1.124	4.294
Quality Control/Compliance	1.859	1.382	1.027	1.383	0.959	0.916
Quality Control/Compliance Staff Costs	1.103	1.118	1.077	1.218	1.100	1.274
Milage/Travel Costs - Paid to Staff	1.065	0.783	1.254	1.087	1.021	1.432
Marketing	0.857	0.975	1.141	0.985	1.065	9.016
HR Staff Costs	1.070	1.030	1.028	0.842	1.063	1.069
Employee Recruitment Costs	0.485	0.693	3.524	2.567	2.096	3.423
Equal Remuneration Order Increase Impact %	1.034	0.949	0.930	0.855	1.000	0.887
Clerical Support Staff (FTE)	1.151	1.014	1.162	0.958	1.000	0.936
Clerical Support Costs	1.356	1.270	1.323	1.034	0.999	1.011
Workers Compensation Insurance Rate	1.029	1.000	1.048	1.244	1.000	1.080



	2019			2020		
	Aggregate	Median	Mean	Aggregate	Median	Mean
Quality Compliance Staff (FTE)	0.877	1.000	0.924	1.353	1.167	1.200
Quality Compliance Staff Costs	1.066	1.038	1.068	1.480	1.100	1.190
OH&S Compliance Costs - Exclude Labour	1.564	1.052	1.099	2.139	1.540	2.530
OH&S Compliance Costs - Labour Costs	1.096	1.096	1.096	1.447	1.202	1.202
Payroll Staff - FTE	0.990	1.000	0.984	0.968	1.000	0.978
CALD-specific Costs	4.442	4.442	4.442	0.908	0.796	0.796
Number of Volunteers at Balance Date	0.932	1.000	0.957	1.042	1.000	1.153
Volunteer Recruitment & Management	1.271	2.912	4.874	0.630	0.523	0.907
Volunteer Management Staff - FTE	0.987	0.987	0.987	1.068	0.866	0.866
Volunteer Management Staff Costs	0.972	0.528	0.696	1.147	1.130	1.028
Volunteer Training Costs	1.000	1.000	1.000	1.000	1.000	1.000
Number of clients supported	1.049	1.043	0.999	1.368	1.064	1.101
Audit	1.145	1.044	1.109	0.830	1.002	1.090
External Accounting / Bookkeeping Costs	1.212	1.363	1.613	1.043	0.871	1.569
Legal Costs	1.061	0.796	0.994	1.544	1.481	9.911
Consultant Costs	1.292	1.808	2.156	1.095	1.296	1.130
Bank Fees & Charges	1.219	1.000	0.731	1.240	1.240	2.712
Interest Costs	4.415	4.295	4.295	1.607	1.207	1.207
Facilities	1.018	0.990	0.909	1.029	1.062	1.086
Motor Vehicles	0.937	0.971	1.246	1.004	1.007	0.987
Intra-State Travel Costs	0.877	0.668	1.299	0.669	0.729	1.091
Inter-State Travel Costs	0.407	0.572	0.760	0.042	0.043	0.043
General Insurance Costs	0.983	1.039	1.026	1.281	1.098	1.524
Bad Debts Costs	0.164	3.355	3.880	1.691	0.276	-0.138
Provision for Bad Debts at Balance Date	1.033	1.503	1.503	2.172	1.643	1.889
All Other Costs		0.981	1.068	1.044	1.063	1.110
Depreciation Charged	1.033	1.021	1.132	0.958	0.933	1.015
Amortisation Charged	0.855			1.351	1.000	1.556
Employee Entitlement Accrual	1.104	1.161	12.315	1.056	1.000	0.809
Reserves as at Year End	1.109	1.095	1.112	1.164	1.235	1.247



	2019			2020		
	Aggregate	Median	Mean	Aggregate	Median	Mean
Loss on Sale of Asset	0.638	0.502	2.189	0.361		
3) Specific Costs/Data of Interest:						
Span of Control		1.136	1.155		1.066	1.110
Hours of Service Provided	1.279	1.099	1.176	1.101	1.000	1.267
Plan/Funded Utilisation Rate	1.192	1.000	1.128	1.038	1.000	1.022
IT Subscriptions	1.917	1.175	1.463	0.958	0.969	0.961