Queensland's Community Services Funding Indexation
An Estimate for the 2023-2024 Budget Year

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2023-24 Estimate: **5.82%**

Queensland's community services sector experiences underfunding in part due to a lack of adequate indexation of government pricing for services purchased. This problem accumulates year-on-year to increase in significance as time progresses. This was demonstrated in research conducted in 2022 by the UWA Centre for Public Value and commissioned by a number of peak bodies in Queensland.[2]

The creation of a sector specific index was recommended in this report; one that would appropriately reflect real community service organisations' operations and costs. As this is yet to be established, policy decision makers remain ill-equipped with regard to appropriate information that would support them in establishing an appropriate indexation calculation that reflects the real rising costs associated with the provision of human services to Queensland most vulnerable people and communities.

Consequently, indexation recommendations for financial year 2023-24 are estimated using the most up to date and available information we have to hand, combining our report findings and knowledge of ABS data. As such, we reinforce findings from our research concerning weightings for future indexation which is best reflected by calculating a cost mix made up of 60% labour related costs and 40% non-labour related costs as opposed to the current method of calculating indexation applied by the Queensland government which uses a mix of 75% labour costs and 25% non-labour related costs.

Representing inflation measures we refer to the Consumer Price Index (CPI) Non-Discretionary for Australia and the Wage Price Index (WPI) for Queensland's public sector as calculated by the Australian Bureau of Statistics (ABS). We acknowledge that until sector specific indexes are formulated, less than adequate proxies like sub-types of CPI and WPI must be used in lieu of appropriate data and acknowledge that the estimate generated from the use of these indices is likely to be conservative. Both indexes used are deviations from the previous policy used indexes for these calculations which were the CPI for Brisbane and WPI for Queensland.

Indeed, we remind readers that any estimate using the WPI and CPI is extremely conservative due to the types of purchases made by community services organisations which are likely non-discretionary expenditure items rather than discretionary expenditure items. For instance, the latest release for non-discretionary inflation (8.4%) and discretionary inflation (7.1%) for December quarter shows that, once again, CPI (Australian CPI running at 7.8% for December quarter) is likely lower than the inflationary impact of price changes for the non-discretionary expenditure items purchased by human services organisations.[3]

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[2] Report available here: https://www.uwa.edu.au/schools/Research/Centre-for-Public-Value/Publications
[3] Available at: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

Further, we have added the mandatory superannuation increases of 0.5% per year until 2025 to the WPI element in our calculation in order to represent the approximate increase in the labour component of operational costs. Although an appropriately reflective labour cost component would include superannuation, we know that the methodology of the WPI excludes such on-costs and hence it is added manually and in full.

Using a mix of 60% WPI and 40% CPI, based on our research findings, and adding the additional 0.5% for the increased superannuation costs, we estimate that indexation for the 2023-24 financial year needs to be at least 5.82%.

Workings

Weighting:
- 0.4 non-labour related costs
- 0.6 labour related costs

Source:
- ABS indexes from Q4 2022 (Australia Non-Discretionary CPI and QLD (Private) WPI)
- 0.5 mandatory superannuation increase

$$Indexation\ for\ 2023 = 0.4\ \times 8.4 + 0.6\ \times (3.6 + 0.5) = 5.82$$