

Catholic Social Services Australia

Submission to the Economic Reform Roundtable 2025

Catholic Social Services Australia (CSSA) represents 40 member agencies delivering essential services across 700+ sites to over 500,000 Australians annually. Our 10,000 staff and 3,000 volunteers strive for a just society where dignity is recognised and the vulnerable are supported.

For the Common Good

This submission addresses the Economic Reform Roundtable's focus on productivity, economic resilience, and budget sustainability by highlighting a critical but often overlooked dimension of economic reform: the financial sustainability of Australia's social services sector.

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The Case for Economic Reform

Based on the “*Real Costs, Real Impacts: A Path to Social Services Sustainability*”ⁱ research (attached), we demonstrate that current government funding and indexation policies are creating significant financial sustainability risks for social service providers. This is not merely a sectoral concern – it represents a systemic economic inefficiency that undermines Australia’s productivity, economic resilience, and fiscal sustainability.

CSSA has consistently advocated for economic policies that serve the common good, as evidenced in our previous policy work including our contributions to the Productivity Commission’s Inquiry into Human Services Reformⁱⁱ, our “Income to Live” analysisⁱⁱⁱ, and our engagement with the Australian Catholic Bishops Conference on economic justice issues^{iv}.

The study of seven case organisations over three financial years (2021/22 - 2023/24) reveals that:

1. **Economic inefficiency:** Current funding models create hidden cost-shifting from preventative social services to more expensive primary healthcare and crisis interventions
2. **Productivity barriers:** Inadequate funding prevents investment in technology, workforce development, and service innovation that would drive sector productivity
3. **Fiscal vulnerability:** When social service organisations contract services due to financial pressures, governments ultimately bear higher costs through more expensive interventions
4. **Service gaps:** Underfunding leads to “hidden service shrinkage” where vulnerable Australians miss needed support, creating long-term economic and social costs
5. **Resource misallocation:** The sector’s high reliance on government funding (75-98 per cent) means government funding policy directly determines efficient resource allocation across a significant portion of the economy

Economic Reform Implications

Productivity Impact

The social services sector represents a significant portion of government expenditure and employment. Current funding models create major inefficiencies:

- **Inefficient resource allocation:** Funding models fail to match community needs, leading to misdirected resources and suboptimal outcomes
- **Workforce inefficiencies:** High vacancy rates (reaching 47 per cent in one case) create productivity drags and increase costs through expensive agency staffing (increasing by 125 per cent in one case)
- **Technology barriers:** Inadequate funding for technological advancement inhibits productivity growth, with IT subscription costs rising by up to three hundred per cent without corresponding funding increases
- **Regulatory compliance burden:** Quality and compliance costs increasing (up to 57 per cent) without funding recognition, diverting resources from direct service delivery
- **Economic participation reduction:** Service contraction reduces support for vulnerable populations to participate in the workforce and economy

Community and Taxpayer Implications

The current approach to social services funding increases fiscal pressure and creates significant community impacts:

- **Communities as shock absorbers:** Vulnerable Australians bear the brunt of system failures through reduced access, delayed services, and diminished quality of care
- **Reduced access to essential services:** Particularly severe in regional and remote areas where not-for-profits are often sole providers
- **False economy for taxpayers:** Underfunding leads to higher long-term costs due to crisis interventions, hospitalisations, and justice system involvement
- **Cost-shifting:** When social services contract, costs transfer to more expensive primary healthcare services and informal carers
- **Reduced value for money:** Without proper investment, taxpayer dollars achieve suboptimal social outcomes and economic participation
- **System fragmentation:** Disconnects between policy changes and funding approaches create structural inefficiencies that waste public resources

Recommendations to Improve Economic Performance

1. **Evidence-Based Contracting Process**
 - Base contracting on empirical evidence of full-service delivery costs
 - **Economic Benefits:** Improves allocative efficiency, reduces market failures, prevents cost-shifting
2. **Appropriate Indexation Methodology**
 - Develop a sector-specific Producer Price Index
 - Eliminate arbitrary “efficiency dividends”
 - Address the substantial gap between indexation rates (1.3-5.13 per cent) and actual cost increases (7-13.9 per cent)
 - **Economic Benefits:** Increases fiscal transparency, provides economic stability, prevents artificial service contraction
3. **Capital Funding Mechanisms**
 - Establish timely capital injection mechanisms for technology transitions and workforce development
 - **Economic Benefits:** Enables productivity-enhancing technology adoption, addresses skill shortages
4. **Data Asset Development**
 - Create comprehensive mapping of community service needs and gaps
 - **Economic Benefits:** Addresses information asymmetries, enables evidence-based resource allocation
5. **Accelerate Implementation of the National Not-for-profit Sector Development Blueprint**
 - Ensure appropriate infrastructure, capital investment and ongoing funding for the Blueprint released in November 2024
 - **Economic Benefits:** Reduces duplication, creates economies of scale, enhances sector capacity

Conclusion

The sustainability of Australia’s social services sector is a critical economic reform issue. Current funding approaches create systemic inefficiencies that undermine productivity, economic resilience, and budget sustainability.

By implementing these reforms, the government would enhance economic performance through more efficient resource allocation, strengthen economic resilience by supporting vulnerable populations, and improve budget sustainability by preventing cost-shifting to more expensive services.

We urge the Economic Reform Roundtable to prioritise these reforms as part of Australia’s broader economic reform agenda.

ⁱ Gilchrist, D.J., & B. Perks. (2025). “Real Costs, Real Impacts: A Path to Social Services Sustainability.” Centre for Public Value, UWA Business School, for Catholic Social Services, Canberra, Australia. [Attached]

ⁱⁱ Catholic Social Services Australia (2017). Submission to the Productivity Commission’s Inquiry into Human Services Reform.

ⁱⁱⁱ Catholic Social Services Australia (2016). Income to Live. <http://www.cssa.org.au/storage/1-260516-income-to-live-fact-sheet.pdf>

^{iv} Australian Catholic Bishops Conference (2017). Australia’s economy must serve every one of us. ACBC Media Blog.