

A Sector in Existential Crisis

Pre-Budget Submission #2 2025-26

PRE-SUBMISSION DRAFT
FOR MEMBERS

NSW Council of Social Service

December 2024

About NCOSS

NSW Council of Social Service (NCOSS) is the peak body for non-government organisations in the health and community services sector in NSW. NCOSS works to progress social justice and shape positive change toward a NSW free from inequality and disadvantage. We are an independent voice advocating for the wellbeing of NSW communities. At NCOSS, we believe that a diverse, well-resourced and knowledgeable social service sector is fundamental to reducing economic and social inequality.

Acknowledgement of Country

NCOSS respectfully acknowledges the sovereign Custodians of Gadigal Country, where our offices are located. We pay our respects to Elders, past, present and emerging. We acknowledge the rich cultures, customs and continued survival of First Nations peoples on Gadigal Country, and on the many diverse First Nations lands and waters across NSW.

We acknowledge the spirit of the Uluru Statement from the Heart and accept the invitation to walk with First Nations peoples in a movement of the Australian people for a better future.

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For this submission

We would welcome the opportunity to discuss the recommendations and submission with you in greater depth. Should you have any questions, please do not hesitate to contact the NCOSS CEO Cara Varian cara@ncoss.org.au.

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People turn to community workers in their hour of greatest need.

But those front-line supports are on the brink of collapse.

The Government must help those who are keeping our communities together.

Without a strong, well resourced, high quality community services sector, our society (and governments) would be in deep trouble

CEO – Youth and Family Support Service

Summary of Recommendations

This Pre-Budget Submission (PBS) contains the following recommendations:

1. Deliver on Your Promise to the Community and Adequately Fund Critical Services

- 1.1 Respond to the sustainability crisis before critical supports fall apart
- 1.2 When costs go up, give community services more funding
- 1.3 Fund the mandated Portable Long Service Levy

2. Invest in Thriving, Local Community Services

- 2.1 Properly fund local neighbourhood and community centres
- 2.2 Properly fund community legal centres

3. Build a Resilient Community Sector

- 3.1 Co-Design a Community Sector Workforce Strategy
- 3.2 Reinstate Justice Connect's Not-For-Profit Law services in NSW.

Introduction

The NSW community services sector is vital social infrastructure that millions of people rely on. In NSW, the social service sector employs more than 240,000 staff, provides care and support to over one million individuals each year, and its annual output is worth \$15.4 billion¹.

Decades of inadequate government funding is starving the sector and threatening the community. If front-line providers of critical services are not financially sustainable, supports for people experiencing homelessness, escaping domestic and family violence, facing eviction, or simply struggling with the realities of poverty, are all at risk. A strong, viable sector is fundamental to the delivery of NSW Government's social policies and preserving social cohesion.

This Pre-Budget Submission contains the voices of NCOSS members and the social services sector in NSW. It tells the story of a sector that is under immense financial strain, pushing organisations to close programs, cut staff, and potentially shut down entirely.

In the words of another of our members, the sector is in **existential crisis**.

The NSW Government has a clear choice – **to immediately increase funding** to community service organisations that provide critical supports, **or to accept reduced service levels or service quality** to fit within the provided funding envelope. The sector cannot continue to accept inadequate funding that threatens its sustainability and the wellbeing of the community.

Note: For the 2025/26 Budget, NCOSS has submitted two Pre-Budget Submissions:

- 1. **NCOSS Pre-Budget Submission #1: Communities on the Edge.** This focuses on the steps that the Government must take to support those people on low incomes and experiencing disadvantage*
- 2. **NCOSS Pre-Budget Submission #2: An Existential Crisis.** This focuses on the steps that the Government must take to ensure the community service sector can continue*

¹ Equity Economics (2021), The Social Sector in NSW: Capitalising on the Potential for Growth, A Report Prepared for the New South Wales Council of Social Service, Sydney

A Sector in Existential Crisis

The financial pressures faced by the community service sector is pushing organisations to breaking point. While NCOSS acknowledges the Secure Jobs and Funding Certainty commitment, there are fundamental issues that must be dealt with now to avoid irreversible damage to the sector.

The sector is grappling with soaring costs for goods and services, particularly in rent, insurance, and utilities. At the same time, it is struggling in the face of growing community need. To survive, service providers are draining reserves, cutting staff and reducing services.

We had to use our reserves, which are now nearly depleted

CEO – Child and Family Support Service – Regional NSW

A survey² of sector organisations by NCOSS in October 2024 revealed the extent of the problem and the risks it presents:

- 2 in 3 reported that their **actual operational costs exceeded the funding** they received
- 9 in 10 reported that their **costs increased more than the indexation** received from Government in 2023/24.

In response, organisations have already made drastic decisions in to survive. These decisions are directly impacting staff:

- 43% **reduced staff numbers**
- 33% **reduced staff hours**
- 44% **cut training and development costs**

7 in 10 respondents selected at least one of these three options.

... and the community:

- 33% **reduced the volume of service** for clients
- 31% **closed a program** or service
- 29% **reduced the number of clients** they supported

6 in 10 respondents selected at least one of these three options.

We have had to rationalise services to regional areas by the number of times we visit in person

Manager – Community Legal Centre – Regional NSW

² Survey performed by NCOSS in October 2024; approximately 130 participants, covering the diversity of the sector across geographies, service types, and revenue size.

We still meet our targets but clients are allocated less time individually, which in turn means less quality

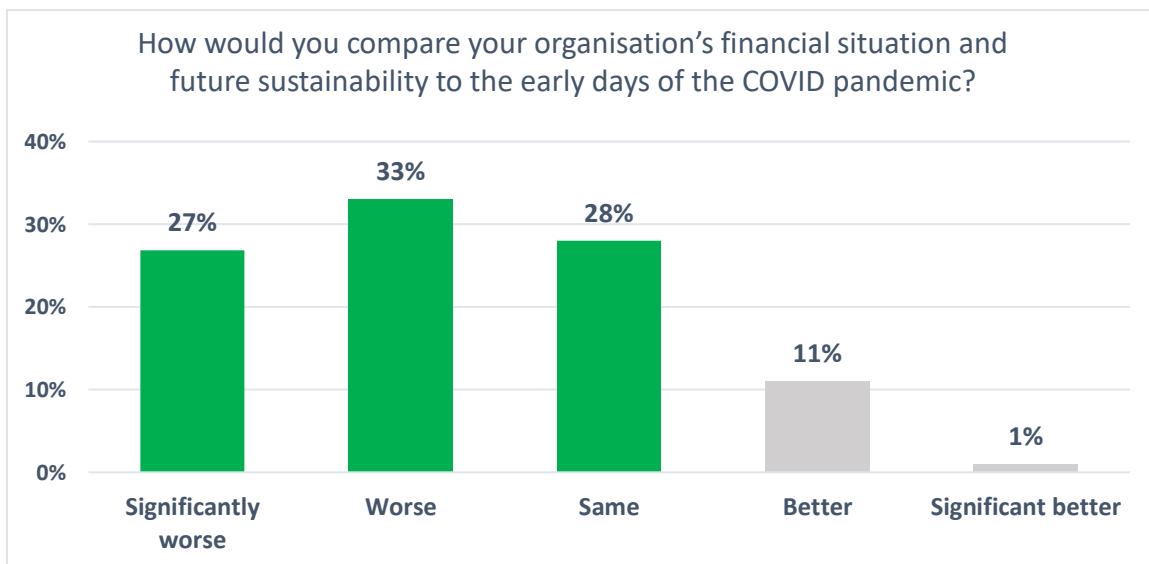
Manager – Neighbourhood Community Centre – Regional NSW

Only **1 in 3 organisations reported that they feel confident about their future viability**. As a result, organisations predict that the next 12 months will be even worse:

- **57% will make further cuts to staff**
- **42% will close programs**
- **51% will reduce important organisational investment.**

7 in 10 respondents selected at least one of these three options.

Further, 90% of respondents reported that **this crisis is as bad, or worse, than the early days of the COVID pandemic**. In response to the pandemic, the then-NSW Treasurer Dominic Perrottet announced a \$50 million Social Sector Transformation Fund. The Treasurer understood the crucial role that small and medium-sized charities and not-for-profits play in the lives of vulnerable people right across the State, and that the sector was hit hard with surges in demand and increased costs.



This is grim, and a damning assessment on the government's role as steward of the sector. It is a clear call to action.

Stories from the front line

Following are four anonymised case studies that show the depth of the issues being faced by organisations.

CASE STUDY 1 – A Disability, Children and Family Service

“We just end up being professional volunteers. Our staff are volunteering all the time for children and families... We don’t want and need to be making huge profit margins, we just want to cover the costs of our services... I want to focus on genuine, much more deep engagement with the beneficiaries of our service. Not on me having to fight for every bit we’ve got.”

Banksia* is a regional service provider that annually supports 2,500 children through 20 programs across five LGAs. Its 100 staff work in allied health and social work. Banksia has strong, long-standing connections with the local Aboriginal communities –10% of its staff and 25% clients are Aboriginal or Torres Strait Islanders. Demand for Banksia’s services has risen, with long waiting lists and oversubscribed playgroups due to local childcare shortages. Families also struggle with high living costs, domestic violence, and lack of transport, adding to the organisation’s challenges.

Operating on \$6M from 12–13 funding sources, Banksia faces ongoing funding uncertainty and rising costs for insurance, rent, utilities, and cybersecurity. In eight years, overhead costs have jumped from 20% to 35%. To manage funding issues, the CEO spends more time on grant applications, and senior staff are diverted from client care to focus on redesigning services. Despite constant fundraising efforts, Banksia had to cut services due to budget limitations.

The CEO recommends the following actions:

- A. Acknowledge and fund the escalating service delivery costs. Including the full cost of preparing grant applications.
- B. Streamline recommissioning processes to notify organizations of funding decisions six months in advance.
- C. Prioritize local, community-based services and professionals for faster, more relevant support.

CASE STUDY 2 – A Regional Neighbourhood Centre

'I've tried helping homeless people outside office hours, but our housing provider demands paperwork, saying, 'You need to scan this, this, and this.' I explained, 'We're on a median strip in front of a property they've just been evicted from; there's no scanner'. They replied, 'You'll have to, or we can't help.' Services with physical community presences are failing to show up, relying instead on community centres like ours to fulfill their contract obligations, which is unsustainable and unethical'.

Waratah* is a community centre in regional NSW with decades of experience supporting families, children, the homeless, and other vulnerable groups. It runs 28 hours weekly with three employees and eight volunteers, but has no core operational funding. The centre receives TEI funding from DCJ but is increasingly handling complex community needs that require trauma-informed crisis response, not just referrals. With many funded programs based 40 minutes away, Waratah's community often misses out due to limited public transport.

Waratah serves as an intake and referral hub on which other providers rely, while it handles a threefold increase in inquiries beyond its funding limits. To manage the volume and protect staff well-being, the centre expects to reduce hours.

"From a 'no wrong door' approach to 'no door' is the only way to address demand that exceeds our funding."

The manager argued that funding centres like Waratah should be a government priority:

"Neighbourhood centres are core social infrastructure. And it's the government's business. The centres are asking for \$150,000 to \$200,000 annually to secure their sustainability. For a minimal investment compared to the pointy end stuff, their impact in building strong and resilient communities and wrapping support networks around vulnerable people so they know where to go before it gets to the pointy end like OOHC has so much more value for money."

CASE STUDY 3 – A Youth Service

"I'm in Year 10 and want to finish Year 12. I want to study, but with all the screaming, fighting, and violence, I can't even focus in my room. I don't know how I'll get through my HSC."

Protea* is a regional grassroots service supporting vulnerable young people (ages 12-25) and their families. With nearly 60 staff and decades of experience, Protea offers early intervention, NDIS, and specialised individual support. The area has amongst the highest rates of child abuse and domestic violence. School retention rates are extremely poor and the region experiences the impact of mental illness.

Despite its successful track record of providing evidence-based services, Protea struggles to meet rising demand due to inadequate funding, a lack of government commitment and inconsistent stakeholder coordination.

Many regional youth centres in the region were repurposed due to lack of government funding, despite high local need, including for after-school support for youth. Protea's daily client engagements have nearly doubled in the past year. Costs for insurance, utilities, travel, and compliance have soared. With a \$140,000 deficit in FY24 and depleted reserves, the agency may soon reduce staffing and services.

In response, Protea redesigned rosters and service areas to support staff, provides external supervision and continues to fund the employee assistance program, initially funded by DCJ during COVID. Protea aims to expand its NDIS work to diversify funding, but there is uncertainty with the upcoming overhaul and other impacts such as the changes from transition from casual to permanent staffing contracts, which the funding models do not reflect. To continue its work, Protea requires \$500K over two years and submitted a business case to Treasury. Protea urges an approach with coordinated services, skilled and supported youth workers, and a commitment to evidence-based solutions provided by place based community organisations. The CEO advocates for a long-term strategy to improve support for youth:

"Our solution is for local councils to have a serious strategy for creating affordable facilities for collaborative 'Youth Hubs' in communities. By adopting such targeted early intervention model, you can support young people aged 12 up to 25 years when the help is most needed to change the trajectory. It's the best bang for the buck you'll ever get... We need better coordinated services. So unless we build intervention and prevention capacity in services such as ours, particularly in localised regional areas, the community directly suffers. We know the answers. The evidence is there. And it's really inexpensive and cost effective".

CASE STUDY 4 – Aboriginal Community Focused Service

“I wouldn't say it's a lack of services....if anything, we do have a lot of services, but there is a lack of communication, and no one knows what everyone else is doing until it's always after the fact. We struggle to know where to send clients because there is no collaborative front.....without that coordination I would say it's hard to form that interagency response we all wish to see”.

Wattle* is a regional service in NSW, that provides critical, volunteer-based support, particularly for Aboriginal communities in the area. It provides youth work, mental health support, cultural mentoring, legal assistance, and referrals to homelessness services, supported by five volunteer staff and without a core funding source. Despite growing needs and overlapping work with the DCJ, Wattle has received less than \$20K in grants over three years. Attempts to secure sustainable funding have repeatedly been unsuccessful, leaving Wattle struggling to meet demand with minimal resources. The Co-CEO has used his personal funds for essentials like rent and insurance and, to raise funds, has taken courses in grant writing and started an art business.

Wattle often takes on cases from government agencies without receiving funding, including cases from distant regions. Wattle bears the service load without corresponding support, while other providers funded to support the region have no physical presence in the area.

Rising homelessness due to regional migration and the redevelopment of the local CBD has further stretched Wattle's capacity, which received 70 weekly referrals for homelessness assistance at one stage. Numbers of culturally and linguistically diverse clients seeking assistance have also increased.

Wattle struggles to make appropriate referrals, as other services either can't take new clients or don't meet intake criteria. The lack of collaboration and funding jeopardizes Wattle's effectiveness and the well-being of the community.

The Co-CEO recommends systemic changes: open and community-tailored tender processes, stronger interagency approaches, and development of community hubs for accessible support. Politicians need to better represent regional communities and push for targeted funding for place-based organizations that understand and address specific local needs. He emphasizes the importance of community-driven, culturally sensitive support. Improved interagency collaboration could enhance trust, capacity, and sustainability in social support, enabling Wattle and similar organizations to provide more reliable assistance.

Recommendations

1. Deliver on Your Promise to the Community and Adequately Fund Critical Services

The Government is failing to sufficiently fund critical social services that communities rely on, and expect the Government to deliver. The Government must keep its promise to the community, and take immediate action. If it does not, services will close down, workers will quit the sector, and communities will be left with no support in the midst of once-in-a-generation liveability crisis.

We are burning our people out trying to meet demand with less resources than ever before.

General Manager – Neighbourhood Community Centre – Regional NSW

1.1 Respond to the sustainability crisis before critical supports fall apart

The financial situation for community organisations is at crisis point. Surging demand and unfunded cost increases pose extreme risks to the sector and our communities.

The crisis is exacerbated by historic chronic underfunding by Government. 2023 research³ of community sector service providers demonstrated that:

- less than 15% receive funding that is adequate to cover the full cost of service delivery, wage increases, overhead costs, and to prepare for emergencies or disasters.
- 65% do not receive sufficient funding to enable them to meet community demand
- 52% of funding arrangements did not sufficiently cover critical organisational costs such as administration, management, and IT required to operate services.

The NCOSS survey outlined above at 7 in 10 organisations predict they will either need to cut staff, close programs or cut organisational investment. 9 in 10 organisations report that this crisis is as bad, or worse, than the COVID pandemic.

The NSW Government must respond, and decisively.

³ Cortis, N. and Blaxland, M. (2023) At the precipice: Australia's community sector through the cost-of-living crisis, findings from the Australian Community Sector Survey. Sydney: ACOSS

Recommendation 1.1: The NSW Government provide immediate financial support to the sector, through one of two options:

- A. A once-off investment in the sector, similar to the Social Sector Transformation Fund (SSTF). The government could choose from:
 - a) Funding for organisations to use flexibly in response to their needs
 - b) Funding for organisations to invest in ways to enhance efficiency and effectiveness (e.g. technology, staffing, outcomes measurement and reporting, accreditation, workforce capacity development)
- B. Maintain the current funding envelope for contracts, but allow all funded organisations to re-negotiate service levels so that they can cover their costs in a sustainable manner.

NCOSS and the sector are ready to work with the NSW Government to design the detail of the response to this crisis.

1.2 When costs go up, give community services more funding

The community services sector relies heavily on government funding, and has limited power to control cost increases. Wages in the sector are typically linked to Federal Awards (e.g. SCHADS), with the Fair Work Commission setting increases each year that must be passed on in full. Similarly, other costs such as increases to the superannuation guarantee are legislative requirements. This is in addition to the impact of inflation on prices of goods and services that are critical to service delivery (e.g. rent, utilities, insurance).

The NSW Government must ensure it meets its obligations as a steward of the sector. This requires adequate indexation for not-for-profit organisations, so that they can meet cost increases without cutting services, reducing critical organisational investment, or running unsustainable deficits. Indexation must be consistently applied across all government agencies, and passed on in full to front-line service providers.

Recommendation 1.2: The NSW Government trial a standardised approach to indexation in the 25/26 Budget. This approach should be developed through consultation with the sector, use agreed inputs, and be consistently applied across all funding agencies.

1.3 Fund the mandated Portable Long Service Levy

NCOSS's submission on the Portable Long Service Leave Scheme clearly communicated the risk of imposing a levy on organisations. The Department of Customer Service in its Regulatory Impact Statement noted that the initial levy "*will not be an entirely new cost as*

employers have long service obligations. However, the amount may increase particularly initially as the scheme is set up". NCOSS agrees with this assessment; a survey of our members suggested that the Levy could increase costs by 1% of ordinary wages for the sector compared to current approaches to long service leave provisioning.

It is untenable that the Government would impose an additional cost on the sector and not fund it. Failure to cover the increased costs risks the sector's ability to sustainably provide high-quality community services, which undermines the very purpose of the Portable Long Service Leave Scheme.

Recommendation 1.3: The NSW Government increase sector funding to cover the additional cost of the Portable Long Service Leave Scheme levy. This could be achieved through annual indexation (see Recommendation 1.2 above).

We now do Return and Earn so instead of my staff doing our core business we are counting cans and bottles to make sure there is food/vouchers/advocacy for clients.

General Manager – Neighbourhood Community Centre – Regional NSW

2. Invest in Thriving, Local Community Services

2.1 Properly fund local neighbourhood and community centres

Neighbourhood and Community Centres (NCC) play a critical role in their local communities. They provide social connection and psychological support, distribute food and financial aid, translate complex messaging, and ensure that available relief reaches those whose need is greatest. They are often the provider of last resort when people are unable to access support from other service systems (such as aged care, mental health, homelessness and disability support).

Despite the critically important role NCCs play in supporting local communities, there is no dedicated funding from the Government to keep the doors open. Instead, these centres must rely on program-based funding, one-off grants, fundraising and donations to scabble together sufficient funds to cover their cost. This is unsustainable and undermines their ability to support people who are the most disadvantaged and excluded.

Recommendation 2.1: Invest \$35 million per annum to establish long-term core funding for Neighbourhood and Community Centres, funding a part-time Centre Manager, part-time Administration Officer, and core operational funding.

2.2 Properly fund community legal centres

Community Legal Centres play a fundamental role in protecting the social fabric of the community, and must be treated as such by the NSW Government.

In 2023-24, Community Legal Centres in NSW provided 145,441 services to 60,009 people including:

- 41,883 people experiencing financial disadvantage
- 12,698 people with disability or mental illness
- 10,089 people experiencing or at risk of family violence
- 5,767 Aboriginal and Torres Strait Islander people
- 12,879 people whose main language spoken at home is not English
- 4,926 people in outer and regional and remote clients.

This was an increase of 11 percent on the previous year.⁴ However, while the new National Access to Justice Partnership Agreement (NAJP) provides funding certainty and some additional funding, it falls far short of the increased community need. Under-funding is already forcing community legal centres in New South Wales to turn away more than 1,700 people every week.⁵

Additional funding for Community Legal Centres is an investment that avoids longer-term costs such in the justice system and the social system more broadly, and must be prioritised by the NSW Government.

Recommendation 2.2: Increase funding to community legal centres across NSW, including a \$16 million increase in annual base funding, and additional investment for specialist services for community groups such as migrants, asylum seekers and refugees.

3. Build a Resilient Community Sector

3.1 Co-Design a Community Sector Workforce Strategy

The NSW Social Sector provides essential care and support to over 1 million people each year – including those impacted by poverty, homelessness, domestic violence, mental health challenges, disability or other complex issues.⁶ The Sector is also an economic powerhouse - in the five years before the COVID-19 pandemic, 1 in 8 jobs created in NSW

⁴ Data sourced from Community Legal Centres NSW

⁵ Data sourced from Community Legal Centres NSW

⁶ Equity Economics (2021), The Social Sector in NSW: Capitalising on the Potential for Growth, A Report Prepared for the New South Wales Council of Social Service, Sydney

was in the Social Sector. The NSW Social Sector employs over 230,000 people, with annual economic output worth \$15.4 billion.⁷

However, the work is often unseen and viewed as a cost rather than an investment. As a result, the work is under-valued, with significant structural barriers that impact the ability of the sector to attract and retain a highly-skilled workforce. These include:

- Poor pay and inadequate entitlements
- Chronic underfunding in the face of rising demand and increased administrative burden
- Lack of formal recognition and resourcing of the sector's critical role in responding to emergencies
- Short-term contracts and program uncertainty
- Lack of stewardship and a strategic approach to development of the social services industry

Without a skilled, well-remunerated, experienced workforce, the Government risks losing the very workforce that protects the community's most vulnerable; the Government risks failing to deliver on its social contract with the people of NSW.

The Government must respond with a clear plan and dedicated investment – a NSW Social Sector Workforce Plan. The plan must include strategies that will:

- make the Social Sector an attractive career
- retain existing staff and volunteers
- ensure an appropriately skilled workforce of the future.

Recommendation 3.1: The NSW Government establish a sector-wide workforce strategy to ensure that it can continue to attract, recruit and retain a highly-skilled, psychologically safe, and valued workforce.

3.2 Reinstate Justice Connect's Not-For-Profit Law services in NSW.

Justice Connect's Not-for-profit Law program is a sector-led service that not-for-profits and their peak bodies trust; it is the only service of its kind in Australia. Starting in NSW in 2016, it provided practical legal education, advice and pro bono referrals to law firms and barristers. Between financial years 2020-22 it:

- delivered 15,000 hours of free legal advice and information to NSW organisations
- trained 5,400 NSW board members, staff and volunteers

⁷ Equity Economics (2021), The Social Sector in NSW: Capitalising on the Potential for Growth, A Report Prepared for the New South Wales Council of Social Service, Sydney

- developed 202 new and updated legal information resources for NSW organisations, and
- had 342,000 NSW-based visitors to its nfplaw.org.au website.

NSW Government funding for the program ceased in 2022. Community organisations that before had access to free, high-quality, and specialist legal and governance help, now have nowhere else to go. At a time when the operating environment is more complex than ever and organisations are stretched beyond capacity, access to free legal and governance support is of benefit to individual organisations, the people they support and to the NSW Government in its commissioning role. It saves organisations time, money, and resources so they can deliver more services to communities in need. As the sector continues to grapple with increasing demand and the need to constantly adapt to an ever-changing environment, access to free legal support will become even more crucial.

Recommendation 3.2: Invest \$546,000 per annum to reinstate Justice Connect’s Not-For-Profit Law services in NSW.