

Position Statement

Reforming commissioning & funding for community mental health



Our vision

For all people in Australia living with mental health and wellbeing challenges to live a life that is meaningful to them.

The issue

The community mental health (CMH) sector is a critical component of the broader mental health system, delivering prevention, early intervention, psychosocial support and support after crisis, to people living with mental health challenges, their families and carers. Further, CMH services play a pivotal role in connecting individuals experiencing mental health challenges with comprehensive health and social supports. This integrated approach addresses the multifaceted needs of individuals, reducing the likelihood of inpatient admissions and other high-cost and avoidable interventions.¹

An estimated one in five people experience a mental health disorder in any year and data shows the rate of psychological distress and prevalence of mental health conditions lasting more than 12 months is increasing.² It is estimated that 230,500 individuals with severe mental illness and 263,100 individuals with moderate mental illness are missing out on psychosocial support.³

CMH is primarily funded by the Commonwealth, state, and territory governments, with a significant number of grants and contracts administered through the 31 Primary Health Networks (PHNs). Despite growing demand and numerous intersecting reforms, CMH commissioning and funding approaches have not been updated to ensure they remain fit for purpose. This has been highlighted in the *Productivity Commission Inquiry Report on Mental Health* which noted that there are 'too many funding channels,' resulting in excessive administrative burden. Similarly, the UWA Centre for Public Value has argued that current funding and contracting policies are undermining the capacity of the community service sector.⁴

Experiences across the CMH sector show:

- Funding rarely covers the true cost of service delivery, and there is a growing gap between actual service costs and contract funding:^{5,6}
 - Grants and contract funding often exclude adequate provisions for indirect costs, including compliance, risk management, training and administrative functions.⁷ These functions are crucial for ensuring consumer and staff safety, maintaining a skilled workforce, and ensuring service responsiveness.
 - Funding does not account for the escalating costs of maintaining information security and data resilience, exposing CMH organisations to financial and reputational risks and compromising service users' privacy and safety.

- Indexation is inconsistently and inadequately applied, amounting in effect to real-terms funding cuts. This issue is especially prevalent in PHN and state and territory commissioning, where full indexation is rarely passed on.
- The Consumer Price Index (CPI) is an inaccurate tool for calculating indexation increases in the human services sector.⁸
- Contract funding does not reflect local needs or contexts:
 - Funding models often fail to reflect the variation in service demand across geographic areas—particularly in regional, rural, and remote communities, as well as in areas of high socioeconomic disadvantage. As a result, organisations in under-resourced regions are expected to deliver the same level of service with fewer resources, higher costs, and greater workforce challenges.
- The current CMH contracting approach is characterised by multiple funding sources with little collaboration or integration between them, resulting in further inefficiencies:
 - The many government bodies that commission CMH services operate independently of one another. This results in a significant administrative burden due to varying KPIs and outcome measures, diverse reporting and compliance expectations, and the use of multiple data collection tools and systems.
 - Short-term funding contracts, a lack of transparency, and poor notice periods regarding whether service agreements will be terminated or extended make it difficult for CMH services to offer long-term or ongoing contracts, which in turn makes it challenging to attract and retain high-quality staff.
 - Short-term contracts perpetuate the need for redundancies but increasingly, service contracts stipulate that funding cannot be used to fund staff redundancy costs.
 - Short-term contracts inhibit the growth, maturation and innovation of programs and reduce cost savings and efficiencies that could be gained over time.
 - Short-term contracts impact a CMH organisation’s ability to achieve workforce, service and organisational sustainability.
- Current funding and commissioning arrangements constrain innovation at both the sector and service levels.
 - Funding is rarely provided for evaluation, trialling new approaches or workforce development.
 - Contracts are often inflexible limiting the capacity of CMH organisations to adapt to emerging needs or create efficiencies in service delivery.
 - Core activities that enable and drive innovation—such as research, lived experience co-design, and sector advocacy—are frequently unfunded or treated as non-essential.
 - Mental health is undergoing generational reform, yet there is an expectation that organisations will evolve, scale, and innovate without the dedicated funding or infrastructure required to do so.

Neami's position

A thriving, sustainably funded and resourced CMH sector is essential to Australia's wellbeing and productivity. We urge all levels of government to commit to meaningful reform of CMH funding and commissioning practices.

In doing so, we strongly recommend that governments draw on existing work already underway. The *Not-for-profit Sector Development Blueprint* provides a valuable foundation for shaping effective reform, and the *Secure Jobs and Funding Certainty Roadmap*, endorsed by the NSW Government, offers a model of leadership that should be replicated nationally. These documents offer clear, actionable principles to support an effective, robust and sustainable CMH sector.

Neami's position is that whole-of-sector reform to CMH service commissioning is urgently needed. In the interim, we propose the following practical recommendations to improve current funding and contracting practices:

Contract reform

- Minimum five-year contracts for CMH programs and services as per Action 17.1 of the *Productivity Commission Inquiry into Mental Health*.
- Minimum six months' notice for contract adjustments, and for cessation or renewal of contracts. This should be an industry standard built into all new community sector contracts.
- For service delivery in regional and remote locations, funding should incorporate regional loading and flexible contract conditions to reflect the increased costs and challenges of service delivery.

Remunerate CMH organisations for the true cost of service delivery

- Adjust base funding in CMH service agreements to reflect the full cost of delivering services.
- Undertake an inquiry into the nature and value of indirect costs in the human services sector.
- Make provision for top-up funding to enable CMH organisations to pass on any award wage changes arising from the Fair Work Commission's review of the Social, Community, Home Care and Disability Services Industry Award.
- Introduce into service agreements clauses to mandate the provision of additional funding to respond to the impact of increased costs that result from legislative, or government policy change together with an expectation of consultation with affected service providers.
- Additionally, contract funding must include remuneration reviews that recognise and address increased costs associated with changes to the operating context, including increase data burden and risk.

Full indexation must be passed on to CMH organisations on a yearly basis, including funding administered through PHN grants and contracts.

- The Commonwealth government must invest in the development of a reliable measure of indexation that reflects costs in the human services sector as has been recommended by the Centre for Public Value.⁹
- Indexation must reflect:
 - Fair Work Commission's Annual Wage Review increase on Awards
 - Consumer Price Index in the interim until a more accurate index for human services can be developed
 - any increases in the Superannuation Guarantee
 - increases as a result of portable long service leave contributions and WorkCover premiums

Reforming commissioning and contracting to foster sector and service innovation

- There must be a genuine commitment to embed and fund innovation across the commissioning lifecycle. The commissioning lifecycle should be underpinned by seven key principles:
 - **Outcomes-focussed:** Commissioned programs must be designed to achieve measurable outcomes that reflect consumer priorities and deliver real-world impact; contracts must include funding for consultation and codesign.
 - **Flexible and tailorable:** Commissioning and service agreements must include structures that allow for local adaptation and responsiveness to changing community needs and priorities. There should be an expectation that commissioning bodies and service providers will work together and any legitimate costs not covered by the contract, are honoured.
 - **Evidence-based:** Continuous improvement requires investment in evaluation, research, and data. Government funding should include specific allocations for these functions, enabling learning and accountability.
 - **Cyclical and iterative:** Commissioning processes must support ongoing refinement, with built-in mechanisms for review and improvement at regular intervals across the commissioning cycle.
 - **Collaborative:** Commissioning bodies must engage with the mental health community—including service providers, people with lived experience, families, and carers—throughout the commissioning and evaluation processes to identify needs, co-design solutions, and improve service delivery.
 - **Holistic:** Commissioning must account for the social determinants of mental health and support cross-sectoral coordination, particularly with housing, employment, education, and justice systems.
 - **Lived experience led:** To support system-wide innovation that translate to outcome consumers want and need lived experience leadership should be a funding priority, embedded across service design, delivery, evaluation and governance to ensure services are delivering outcomes that people need and want.

About Neami National

We're big believers in everyone having the opportunity to live a full life. We support people to achieve wellbeing and mental health outcomes that matter to them. We provide services across Australia for mental health and wellbeing, housing and homelessness, and suicide prevention. We're proud to support 34,000 people each year and offer services across 40 different Indigenous lands.

Endnotes

¹ Mental Health Australia & National Mental Health Consumer & Carer Forum. 2024. [Advice to governments: evidence-informed and good practice psychosocial services](#). January 2024.

² Australian Institute of Health and Welfare. 2024. [Australia's mental health system - Mental health - AIHW](#).

³ Health Policy Analysis. 2024. [Analysis of unmet need for psychosocial supports outside of the National Disability Insurance Scheme Final Report](#). 15 August 2024.

⁴ Gilchrist, DJ. 2025. Making Community Services Sustainable: CSI UWA Webinar. 1st April 2025.

⁵ Gilchrist, DJ & Perks, B. 2025. “[Real Costs, Real Impacts: A Path to Social Services Sustainability](#)”. A report developed by the Centre for Public Value, UWA Business School, for Catholic Social Services (Australia) Ltd, Canberra, Australia

⁶ Productivity Commission. 2020. [Inquiry Report: Mental Health](#); p. 835.

⁷ Social Ventures Australia and the Centre for Social Impact. 2022. [Paying what it takes: funding indirect cost to create long-term impact](#). Social Ventures Australia. P.23

⁸ Gilchrist, DJ & Feenan, CT. 2024. [Economic Paper 2: Why the CPI and WPI are not Appropriate Bases for Human Services Funding Indexation](#). Working Paper Series on the Economics of Human Services, Centre for Public Value, UWA Business School, Perth, Australia

⁹ Gilchrist, DJ & Feenan, CT. 2023. [Challenging the Framework for Funding Indexation in Australian Human Services: Achieving Sustainability](#). A report developed by the Centre for Public Value, UWA Business School, Perth, Australia.