

Disability Services Market Report

2018



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About National Disability Services

National Disability Services is the peak industry body for non-government disability services. Its purpose is to promote and advance services for people with disability. Its Australia-wide membership includes over 1,100 non-government organisations, which support people with all forms of disability. Its members collectively provide the full range of disability services - from accommodation support, respite and therapy to community access and employment. NDS provides information and networking opportunities to its members and policy advice to State, Territory and Commonwealth governments.

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About this report

This report summarises data from the 2017 Disability Markets Survey. This survey is the fifth in a longitudinal series of studies undertaken by National Disability Services (NDS) to monitor change in the supply of disability services, business conditions and the operations of disability services providers in Australia.

The underlying assumption of this research is that the availability, quality, quantity, cost and responsiveness of the market for the supply of disability services in Australia is inextricably linked to the outcomes that can be achieved for people with disability.

Background

This study was initiated by NDS and conducted by its research arm - the Centre for Applied Disability Research - in partnership with the University of Western Australia.¹

It provides a wide-range of data on the aggregate supply of disability services across Australia and monitors the sector's response to change and its strategic intentions. This data is useful for identifying, implementing and monitoring policy and interventions that support the development of a vibrant, innovative and sustainable supply of specialist disability services.

As part of NDS' long-term data strategy, in 2016 and subsequent studies were expanded from an investigation of business confidence to examine a wider range of issues. The survey was also more widely distributed to include non-NDS members. To reflect this change, in 2017 the name of the study was changed from the Business Confidence Study to the present Disability Services Market Report.

	When	Number of responses	Response rate
Wave 5	Sep 2017	662	NDS members: 35%; Non-members 65%
Wave 4	Sep 2016	569	NDS members: 84%; Non-members: 16%
Wave 3	Sep 2015	424	NDS members 40%
Wave 2	Nov 2014	399	NDS members 39%
Wave 1	May 2014	420	NDS members 42%

Six hundred and sixty-two respondents completed the survey on behalf of their organisations, of which 596 received income from the provision of disability services in the 2016/17 financial year and were therefore eligible for the survey. Of these, approximately 35% were NDS members and 65% were non-NDS members. This

¹ Australian governments, through the Research and Data Working Group, funded research between 2015 and 2017 that tracks the financial sustainability of disability services providers and operates as a low / no cost financial and other key metric benchmarking service for participating organisations. There are currently approximately 190 participating organisations representing a stratified sample of the supply side of specialist disability services in Australia. NDS continues to fund this research, see performancebenchmark.com.au.

increase in the proportion of non-members is the result of a deliberate effort to widen the reach of the survey, to ensure that it is representative of all service providers.

For the last two years respondents have been given the option of electing to have their key data and Australian Business Number (ABN) retained by the researchers at UWA under strict confidentiality requirements for use in future surveys. Half of all organisations responding to this question elected for the project team to keep their information. This will further streamline on-going data collection.

Some of the findings reported here were previously cited in the NDS 2017 State of the Disability Sector Report.²

Key findings

Sample

The sector is undergoing rapid change and the composition of the survey respondents reflects this change. In particular, the proportion of small and sole trader organisations has grown. Sub-\$1M organisations now represent over a third (39%) of respondents to the survey. Over a third (36%) of respondents are now For-profit organisations. Most of these For-profit organisations are small entities. Sixty-eight per cent of providers with sub-\$1M income were For-profit entities.

Demand

The gap between supply and demand appears to be widening further. Demand has continued to rise; however, an increasing proportion of suppliers are unable to keep up while growth in service provision is slowing down.

- The proportion of organisations experiencing increased demand has continued to rise. Four out of five respondents reported that demand for their services increased in the past year, up from 68% in 2014. Similarly, the proportion of organisations expecting demand to increase in the current year has further risen to 72%.
- There has been a significant increase in the proportion of organisations reporting that they could not meet demand. For the first time, less than half of all organisations (48%) indicated that they were able to satisfy demand in the last year. This trend is expected to continue, as the proportion of organisations expecting to satisfy demand in the current year is 44%.
- Growth in service provision is slowing down. The proportion of organisations that increased the range or scale of services provided in the last year has declined to 58%. There has been a steady decrease in the rate of growth of service provision since 2014.

² State of the Disability Sector Report 2017. December 2017 National Disability Services, Canberra.

Supply

Organisations are continuing to adjust their service provision in response to pricing and/or to remain financially sustainable.

- The growth in clients served and hours of service provided has continued across all service categories. Growth in service provision is still highest in Therapy Services, with 71% of organisations increasing clients served.
- Most organisations plan to offer new types of disability services. Fifty-two per cent of organisations plan to offer new disability services. Of those not already providing these services, 6% plan to offer Planning and Coordination Services.
- Organisations report reducing or ceasing the provision of some services, eight per cent reported that they were planning to reduce the volume of one or more disability services and 3% were planning to stop services in the next year.
- Organisations that discussed discontinuing the provision of disability services altogether have increased. Almost one in five organisations discussed discontinuing the provision of disability services (19%), while almost one in ten (9%) discussed winding up the organisation.

Financial performance

In the last financial year (FY16/17) just over half of organisations reported that they made a profit. Eighteen per cent reported that they broke even and 23% made a loss. Although only 44% of organisations made a profit of over 4%, 84% reported that the financial strength of their organisation was satisfactory, strong or very strong.

- Profitability is becoming increasingly polarised. The percentage of organisations making a loss of 4% or more also increased to 18%. It is possible that this may reflect a polarisation of performance. Consistent with this, both the proportion of organisations expecting to make a profit and those expecting to make a loss in the current year have also grown.
- A third of NFP organisations reported making a loss, compared with only 14% of For-profit organisations. Many of the small For-profit entities are sole-traders that typically do not take account of the owners' salary when calculating financial performance. As such, the financial performance of the NFP organisations (that is, one third made a loss) may better reflect sector performance.
- Just over half of organisations reported an increase in net assets in the last year. Just under a third reported no growth and 13% reported a decline. However, of the organisations that reported an increase in net assets, approximately a quarter reported that net assets only increased by between 0% and 4%.

Workforce

Organisations are continuing to increase their workforce to meet demand, but constraints on recruitment are limiting growth.

In addition,

- The profile of sector employment is continuing to shift towards part time employment and casualisation. Growth in the employment of part time workers continues to increase at a rate faster than full time workers. Fifty-five per cent of respondents will employ more part time casual workers.
- Reflecting the growth in service provision required to meet demand, in the current year demand will be highest for disability support workers and managers. Twenty-seven per cent of organisations expect to employ more disability support workers and demand for other staff is expected to remain strong.
- Of the thirteen occupations listed, organisations reported that ten were difficult to recruit in the last year. Organisations found it especially difficult to recruit specialist allied health staff, particularly psychologists, occupational therapists, physiotherapists and speech therapists. Thirty-eight per cent of organisations found it 'extremely difficult' to recruit psychologists.

Strategy

The proportion of organisations reporting that they met or exceeded all their objectives in the last year has fallen for a second year, to 39%, from a high of 54%. Organisations are focusing on key areas of improving productivity, collaborating with other organisations, and undertaking mergers.

- Ninety per cent of organisations agree that they are actively working on improving productivity. A further three quarters report that they have a clear strategy for the next year, and 63% report that they have a clear vision of where the organisation will be in three years.
- The majority (60%) are still worried about their ability to adjust to changes resulting from the NDIS. Nineteen per cent report that their organisation is not focused on growth. Most concerning, 8% agree that they are considering ceasing to provide disability services.
- The proportion of responding organisations that reported that they collaborate with other organisations to advocate for clients has remained high, at 63%. However, the percentage which reported that collaborated to advocate for the sector has declined from 67% to 61%.
- Over a third (38%) of organisations discussed undertaking a merger, and 11% were currently undertaking or had recently completed a merger. Organisations that discussed merger were more likely to believe that they would actually complete a merger. Nineteen per cent said it was likely or very likely their organisation would merge in the next two years, compared to 12% in the previous year.

Opinions on the NDIS

Support for the NDIS remains strong, but opinions on implementation are becoming more negative. Providers are worried that the NDIA's existing approach to sector engagement will result in implementation errors across a number of areas, particularly costing and pricing.

- Compared to the previous year, organisations were more likely to indicate concern about government policy in the sector. Seventy-seven per cent of organisations agreed 'the policy environment is uncertain' and 38% agreed that 'the risks the NDIS presents to my organisation outweigh the opportunities', an increase of 13%. Only 6% of organisations agreed that 'the government is anticipating or responding well to the needs of organisations', and only 8% agreed that 'the NDIA is working well with providers to implement the NDIS'.
- Organisations are consistently reiterating the critical importance of realistic costing pricing. Costing and pricing remains the highest priority area for improvement and has been consistently the top nominated area since the NDIS was introduced. When asked to identify the action government should take that would have the most impact on their capacity to supply services in the next year, 62% nominated the need to ensure that NDIS prices are aligned with the cost of supply. A majority (70%) of organisations are concerned that they will not be able to provide services at the prices being offered under the NDIS, and just over half believe that they may have to reduce service quality to deliver at the prices specified.

Australia's disability sector and the respondents to the survey

The aim of this research is to understand and predict the overall structure of the supply of disability services in Australia. Further it aims to support the development of a strong and healthy market for service users.³ As such, the report in this series start with a description of the primary characteristics of the sector to give the reader important contextual information. This information also enables some comparison of the survey sample with the whole population.

At this stage in the introduction of the NDIS, the population of suppliers of disability services is changing rapidly and this presents challenges for a longitudinal study. In particular, it is important to note that the composition of this year's sample is quite

³ This report examines organisational attributes in aggregate, but their importance for any individual organisation will depend on that organisation's unique market and operating environment. There is no business or service type that will work well in all locations or across all services. It is well recognised that the market conditions in regional and remote locations will present different challenges for both organisation transition and on-going service provision. In varying degrees, this is true for all organisations in all locations.

different from previous years in that 65% of respondents are not members of NDS. Many of these new entrants to the survey are small providers or sole traders. The change in sample reflects the intention to widen the population surveyed and further reflects the actual population of providers. Over time, the population will stabilise, but for now it is particularly important to read this section.

Population and sample

The key population characteristics examined in this section include the number, size and location of service providers. These are important attributes of functioning markets and there are some publically available statistics on these attributes that enable us to illustrate the sector. However, there are no population-wide statistics on other critical factors that affect supply, such as service range, reputation, efficiency and experience. It is important for readers not to rely simply on volume and location data in assessing market strength or quality. At this stage, many new providers are entering the market, but they may be – in fact are likely to be – different to existing providers, and in particular are likely to have less industry experience.

Similarly, not all organisations are equally important. For example, the loss or gain of a few small providers or those in metropolitan areas may have limited impact on end-users or prices, and no impact on long-term market efficiency. However, the loss of a large provider, a specialist service, or the sole provider of service in a regional location, could have major consequences for people with disabilities and ultimately reduce overall market efficiency. In markets undergoing rapid change, organisations that may otherwise be fit for purpose can be lost due to their lack of capacity to make the transition. It can take significant new resources and some years before new providers can replicate the experience and relationships of lost providers.

Number of providers

The total number of providers fundamentally impacts the supply of service. For service provision to be effective and efficient, there needs to be enough supply to meet demand and enough competition to drive innovation and efficiency. In established markets, the number and types of suppliers will usually evolve slowly in response to service innovation, market pricing and user choice. Some will close, others will merge and new suppliers will enter. If the new providers improve the quality, quantity and cost of service, service users will benefit, and if they can make reasonable returns, providers will stay in the market.

The NDIA reported that as at 30 November 2017, there were 10,117 unique organisations registered to provide services under the NDIS. This is more than double the number registered in late 2016 (3,696).⁴

⁴ NDIA (2017) *Registered providers – all states by group and name* [Microsoft Excel spreadsheet]. Canberra: NDIA. Available from: <https://www.ndis.gov.au/document/finding-and-engaging-providers/find-registered-service-providers> [accessed 3 March 2018]

Organisation size by income

The proportion of very small and small organisations responding to this survey has increased significantly.

Estimates of the size of providers prior to the introduction of the NDIS indicate that nearly a quarter were very small, with a yearly income of less than \$1M, and a further third were small, with an income of between \$1M and \$5M. However, since then, the proportion of higher income organisations has continued to decline; while the proportion of very small organisations has increased. Very small organisations now represent over a third (39%) of respondents. Organisations in the next largest category, small, exhibited a near proportional decrease, while medium (\$5M to \$20M) and large (\$20M+) organisations were less affected.

The size of an organisation has several effects, including on efficiency, innovation and ability to respond to change.

The optimal or efficient size of an individual organisation depends on many complex and interrelated demand and supply factors. This means that, in some cases, larger organisations are more efficient, while in other cases smaller providers are more efficient.

For example, some therapy services may be more efficiently provided by sole practitioners or small practices with minimal management overheads – so long as external compliance obligations are low.

The size of an organisation can also affect its ability to respond to change, as smaller organisations usually have fewer surplus resources, in terms of both staff time and funds.

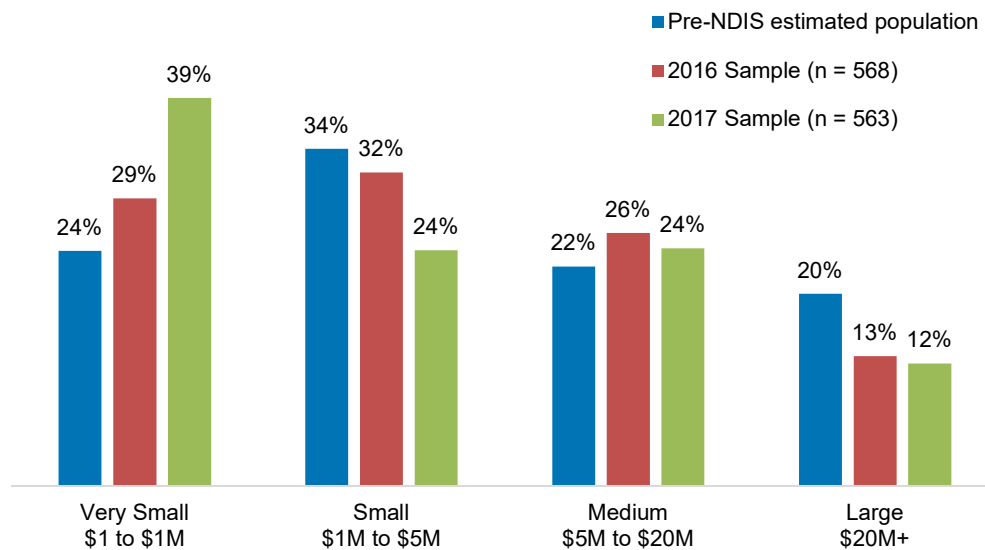
This result reflects both efforts to expand survey distribution to non-NDS members and the increasing number of sole traders and small organisations registering as providers.

The NDIS does not report the turnover of registered providers but organisational structure information shows that a growing number are sole traders. Anecdotal evidence suggests that many other new registrants are also very small. Because the actual proportion of organisations of each size is not known, the data has not been weighted.

The relative proportions of very small, small, medium and large organisations are similar to that in many other For-profit or NFP industries. Consistent with this, in comparison to other industries, disability sector income appears to be slightly less concentrated into larger organisations. Data from the Australian Charities and Not-for-profits Commission shows that in 2016 the top 10% of charities by income had

89% of the sector's total income, consistent with previous years (90% in 2015).⁵ This suggests that eventually some market concentration in the disabilities sector is likely.

Figure 1 Estimates of disability sector turnover and comparisons with survey samples



The majority of organisations responding to this survey also provided services outside of disability

From commentary both within and about the sector, it is often easy to assume that most disability service providers exclusively provide disability services. To examine the degree of exclusivity of providers, in prior waves of the study respondents were asked 'how much of this organisation's activities in the last financial year relate to the provision of disability services' and provided fixed answers, namely 'none', 'less than half', 'about half', 'more than half', 'all', or 'don't know'. In 2016, excluding the 'don't know' answers, 56% of respondents were not exclusive providers of disability services (that is, they answered 'less than half', 'half', or 'more than half').

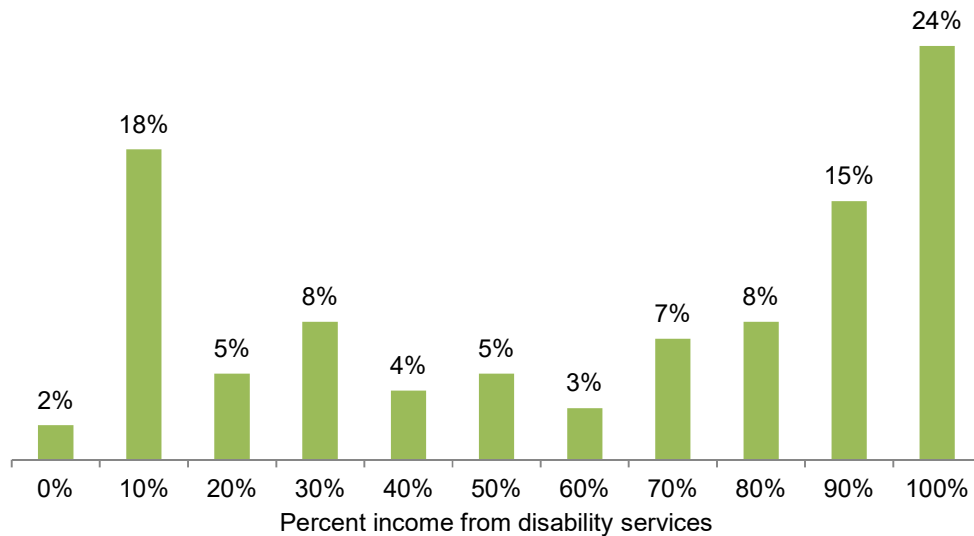
This year, this question was modified so that respondents could provide a more detailed percentage of income related to disability services – that is, 20%, 30% and so on. Over time, this question will provide greater detail regarding income and service diversification. For this year, this data cannot be directly compared to previous years.

The results for this year show the profile of providers in more detail. This year 39% reported that 90% or more of their income was related to the provision of disability services. Interestingly, nearly one in five (18%) of respondents received only 10% of

⁵ Australian Charities and Not-for-profit Commission, Australian Charities Report 2015, Dec 2016.

their income from disability services. This may be a reflection of the increase in the number of new, smaller registered providers responding to the survey this year.

Figure 2 Per cent of income from disability services in last financial year (n = 570)



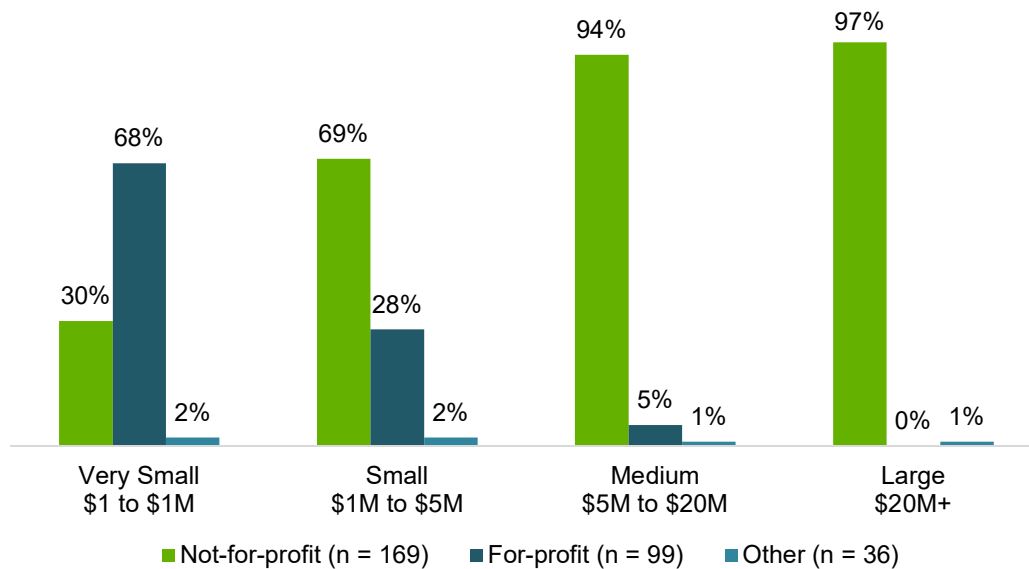
An organisations existing service and customer range has significant implications regarding the ease with which it can shift resources and service provision in and out of the disability sector.

A third of respondents are For-profit organisations

In the past, most providers were NFPs. NFPs usually have less flexibility to move resources between sectors due to their requirement to deliver on their mission or purpose. The lower the barriers to exit the more likely that providers will be sensitive to pricing (i.e. they will be more likely to stop providing services where profit margins are low or negative). This year, 36%, or just over a third of respondents, were For-profit organisations.

This is an 18% increase in the number of For-profits responding to this survey from last year. Not-for-profits (NFPs) continue to dominate the sector, but the growth in the very small and small, sole-practitioners has resulted in an increase in the ratio of For-profit providers. This is illustrated in Figure 3, which shows that 68% of providers with less than \$1M in income were For-profit entities, whereas 97% of large providers were NFPs.

Figure 3 Income by profit status



The majority of respondents reported providing services under NDIS

Last year, questions regarding involvement in the NDIS were changed to reflect the ongoing rollout of the scheme. Since then, there appears to have been a dramatic increase in organisations reporting NDIS involvement. Results this year suggest that most organisations are now transitioning or have transitioned to the NDIS. Of this year's respondents:

- 95% are registered to provide services under NDIS (from 77% last year)
- 86% reported that they have provided services under NDIS (from 51% last year)

This means that most organisations which responded to the survey now have direct experience of service delivery and payment under the NDIS.

This data contradicts the findings from the financial benchmark survey, which shows that the majority of organisations are yet to receive income from NDIA. As respondents in the financial benchmark survey were asked to report on their income in 2016/17 financial year, this difference may be due to organisations that entered the scheme post 30 June 2017 or who had received some, but little income under the NDIS.

The number of suppliers in each state broadly reflects population

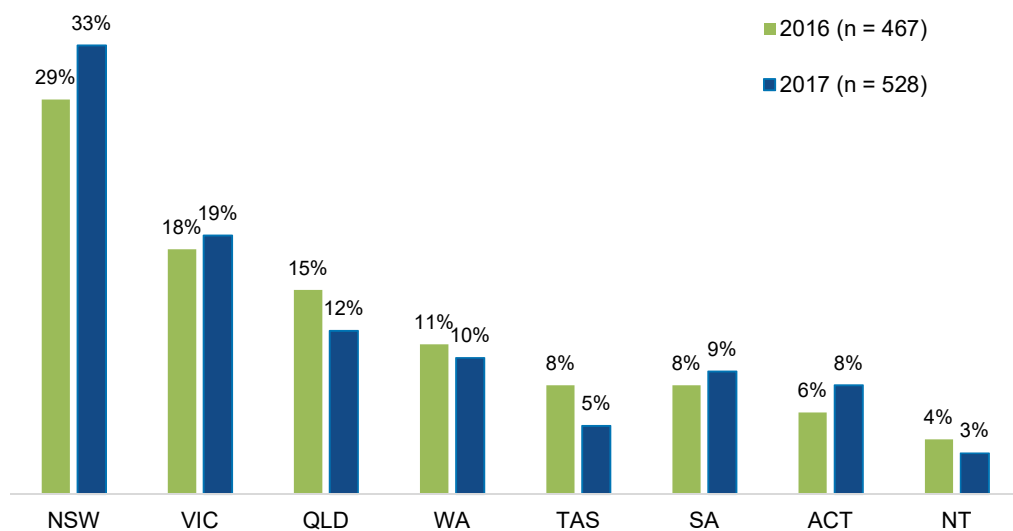
The proportion of suppliers providing services in each jurisdiction broadly reflects population. Overall there has been little change in the proportion of organisations reporting from each state and territory (Figure 4).

Over half (52%) of all organisations reported providing service in New South Wales or Victoria. This is a slight increase over the previous year (47%), and it is matched

by slight decreases in other less densely populated states and territories, with the exceptions of South Australia and the Australian Capital Territory. This trend should continue to be monitored to ensure that organisations in less populous states are not being disproportionately surveyed.

However, jurisdictions with smaller populations still have a higher ratio of suppliers, and they are also supplied with services by organisations located in other states. For example, organisations that have their head office located in Victoria or New South Wales may also provide services in Tasmania or the Northern Territory.

Figure 4 Location of service providers. Note: Total adds to more than 100% due to multiple responses.



The participation of organisations in remote and regional areas has declined

Organisations provide services in all areas, including capital cities, regional cities, and remote and regional areas. However, those operating in regional and remote areas face unique challenges and typically higher resulting costs and so it is particularly important that they are represented in this survey.

This year, the proportion of responding organisations providing services in remote and regional areas has declined (Table 1). This again may reflect the relative growth in the number of very small and small providers participating in the survey, rather than a reduction in the number of regional and remote providers. This trend will continue to be monitored.

Table 1 Location of services providers by state and area classification (n = 260)

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT	Total
Capital city	25%	37%	21%	41%	39%	26%	30%	66%	33%
Regional city	27%	24%	38%	20%	17%	26%	25%	14%	25%
Regional area	36%	32%	29%	25%	27%	29%	23%	16%	30%
Remote area	11%	7%	12%	14%	17%	19%	23%	5%	12%

2017 results

This is the fifth wave of this study and the results now provide clearer evidence of change over time and further support (or otherwise) for previous findings. Given the size of the data set now available, this section summarises the 2017 data for key metrics only, and includes other results only where these are material.⁶

Changes in actual and forecasted demand

The proportion of organisations experiencing increased demand has continued to rise. Four out of five (81%) respondents reported that demand for their services increased in the past 12 months, up from 75% in 2014.

Similarly, the proportion of organisations expecting demand to increase (or increase further) in the next 12 months has risen from 71% in 2014 to 72% in 2017.

It is clear that organisations are still experiencing the face of the wave of growth in demand.

Questions:

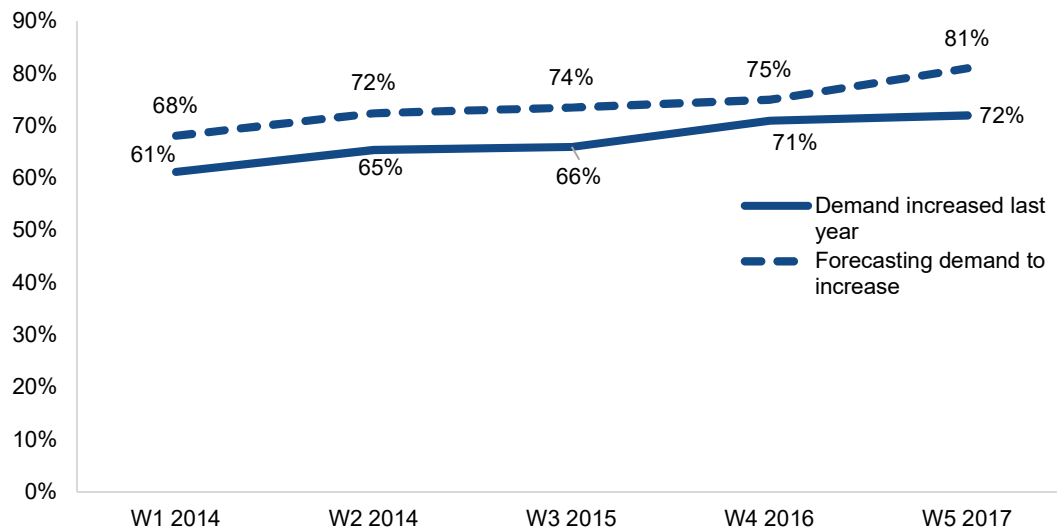
What's happening with demand for your services?

Over the past 12 months did the demand for your organisation's disability services decrease, remain the same or increase?

In the next 12 months, do you believe the overall demand for your organisation disability services will decrease, remain the same or increase?

⁶ Note: The size of the sample of organisation differs for each question. To simplify the charts, the sample sizes have not been included. Further information is available on request.

Figure 5 Organisations experiencing an increase in demand and expecting demand to increase (n = 413; 2017)



Changes in scale and service range

In 2017, the percentage of organisations that reported increasing the range and/or scale of services provided during the year increased from 53% to 58%.⁷ There has been a steady decrease in the rate of growth of service provision since 2014 (Figure 6).

Of equal concern is the proportion of organisations expecting to increase supply, which dropped to 58% from a high of 68% in 2015. There has been a corresponding increase in the number of organisations expecting to keep supply at the same level – from 25% in 2014 to nearly a third (32%) in 2017 (Figure 7).

Questions

Over the past 12 months, has the overall scale and/or range of disability services provided by your organisation decreased, remained the same or increased?

Over the next 12 months, does your organisation have plans to increase, decrease or remain the same in relation to the scale and/or range of service?

⁷ 2% were unable or did not want to forecast.

Figure 6 Changes to the scale and range of services in the last year (n = 456; 2017)

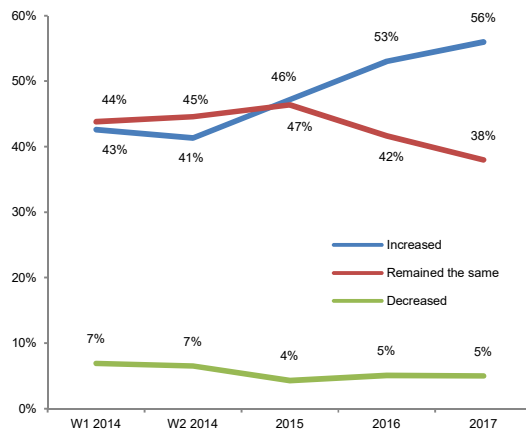
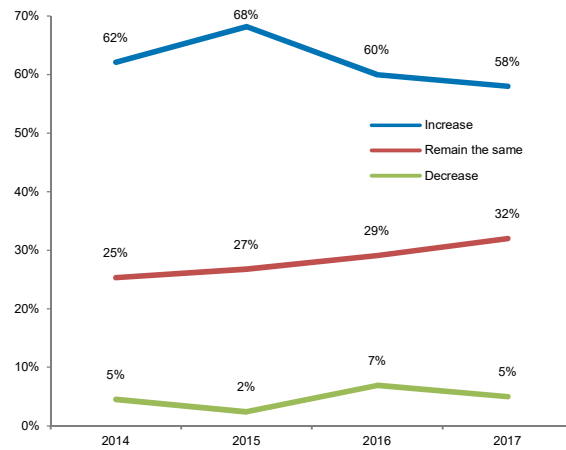


Figure 7 Intention to increase scale and/or range of services next year (n = 456; 2017)



Extent to which demand was met and ability to meet future demand

Reflecting the data on demand and growth of supply, for the first time, there has been a significant decrease in the proportion of organisations reporting that they could meet demand in the last 12 months.

Less than half of all organisations (48%) indicated that they were able to satisfy demand in the last year, down from 60% in 2016 (Figure 8).

Importantly, the proportion of organisations expecting to meet demand in 2018 also decreased. When asked to look ahead, only 42% of organisations expected to be able to meet demand in the next twelve months, down from 53% in 2016.

The implications from this data are self-evident. Approximately half of all suppliers are unable or unwilling to meet the needs of service users, creating risk of supply side failure.

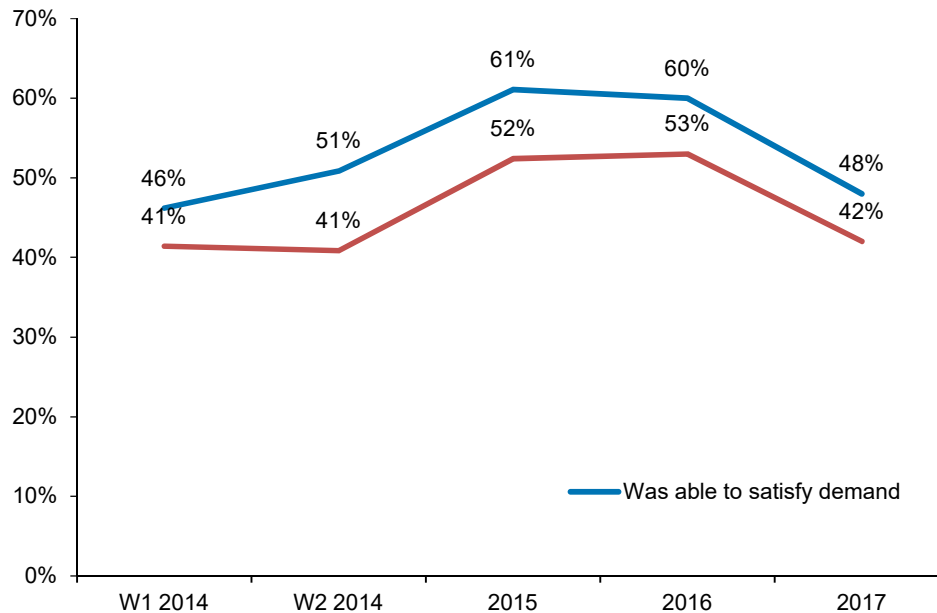
In a market in which prices can be negotiated between a buyer and a seller, undersupply would typically put inflationary pressures on prices and attract new market entrants. However, within the current policy settings of the NDIS, this is not possible, and therefore supply may not increase in response to market demand, or may increase at a slower rate, leaving some users without service.

Questions

Over the past 12 months, was your organisation able to satisfy all requests for disability services?

In the next 12 months, do you think your organisation will be able to satisfy all requests for disability services?

Figure 8 Met demand and expectations of meeting demand (n = 413; 2017)



Changes in services provided – expansion by disability service type

Respondents were asked to select the services that they currently provide from a list of 20 service types that are consistent with the support categories used by the NDIA.

For each of these service types, they were then asked if they served more, less or the same number of clients (by head count) in the last year and whether they provided more, less or the same number of hours of service.

The results show that the growth in head count has continued across service categories and is similar to that experienced in 2016.

The growth in service provision was highest in Therapy Services, Planning and Coordination and Social and Community Participation. Supported Employment (ADE) has the lowest rate of growth, and correspondingly, a larger number of organisations reported providing services to fewer people. Nonetheless, the number of organisations that reported an increase in the provision of Supported Employment services was double that reporting a reduction of service.

In terms of hours of service provided, the results reflected a similar pattern to the growth in head count.

Questions

Comparing the past 12 months with the year prior to that, did your organisation serve more, less or the same number of clients in each of these service types? (Only services currently being provided are available for selection.)

Comparing the past 12 months with the year prior to that, did your organisation provide more, less or the same number of total hours in each of these service types? (Only services currently being provided are available for selection.)

Figure 9 Organisations reporting growth in clients (head count) by service types

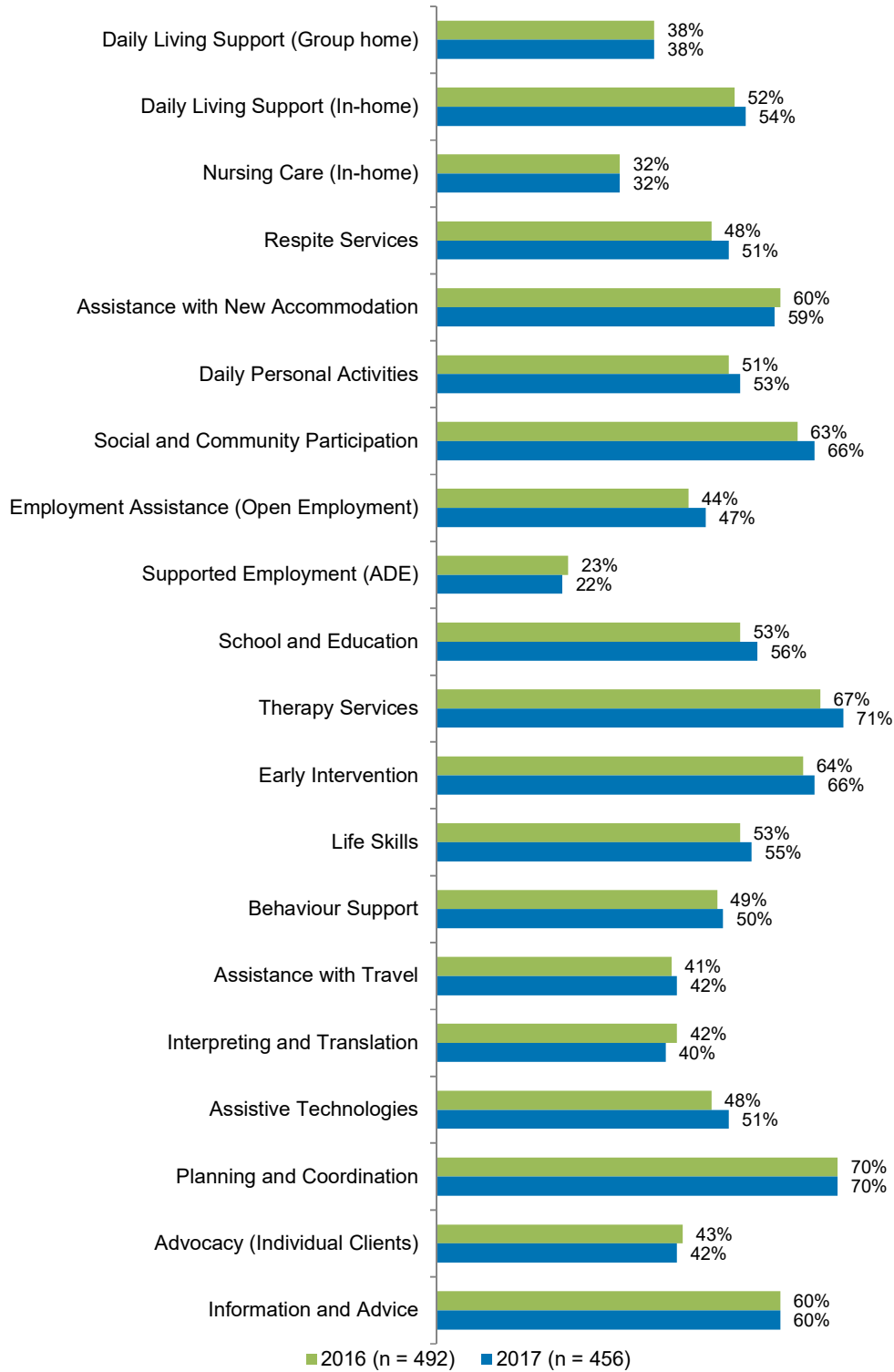
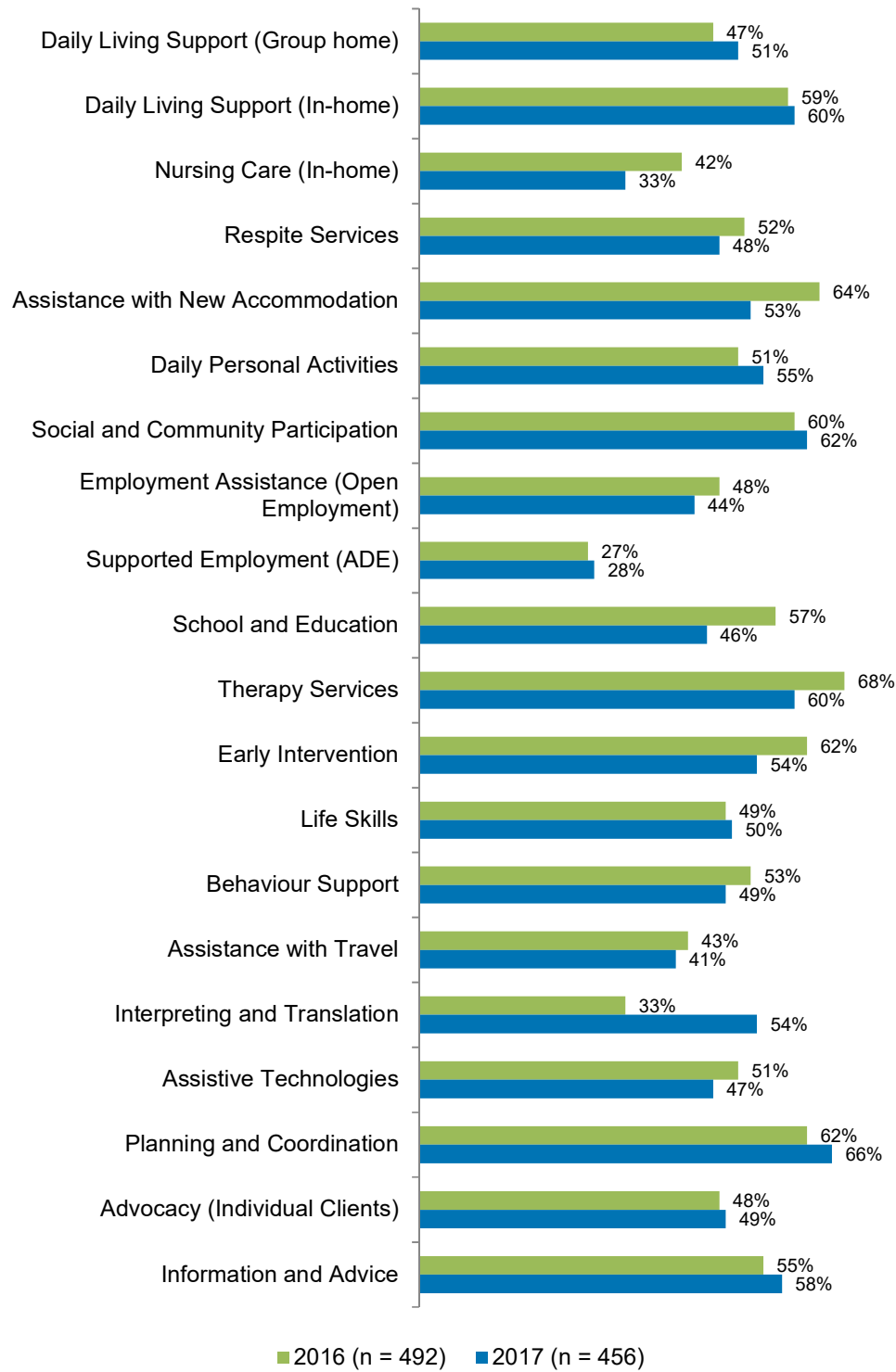


Figure 10 Organisations reporting growth in the hours of service provided by service type



Changes in services provided – new disability services

The percentage of organisations that will be providing new services in the next 12 months increased from 48% to 52%, and conversely, those not providing new services fell from 62% to 48%.

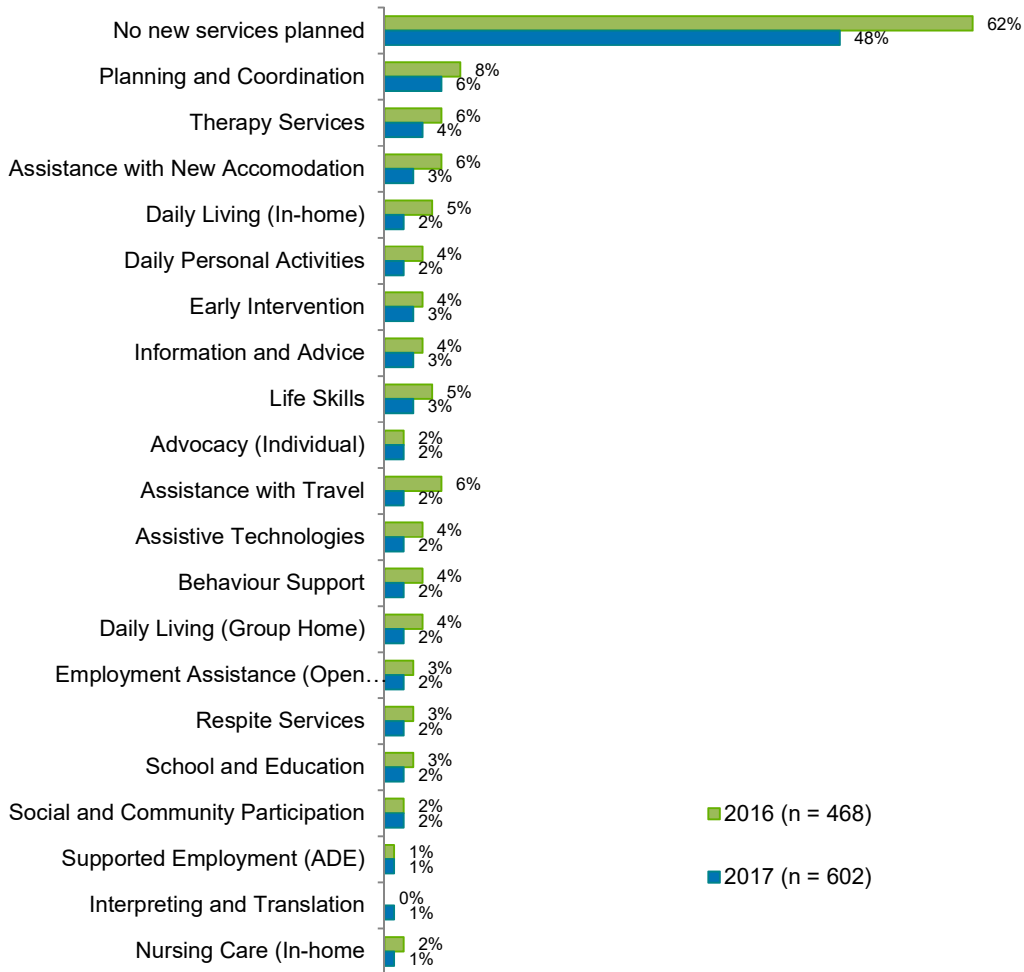
Of those not already providing these services, 6% plan to offer Planning and Coordination Services and 4% plan to offer Therapy Services. Therapy services are widely considered attractively priced under the NDIS and appear to be still attracting new entrants. This reflects the data in Figure 9 and

Figure 10.

Question

In the next 12 months will your organisation begin providing any of the following services for the first time?" (Only services not currently being provided are available for selection.)

Figure 11 Organisations planning on providing new services by category



Changes in services provided – reducing and stopping the provision of disability services

In total, 8% of responding organisations reported that they were planning to reduce the volume of one or more disability services and 3% were planning to stop one or more services in the next 12 months.

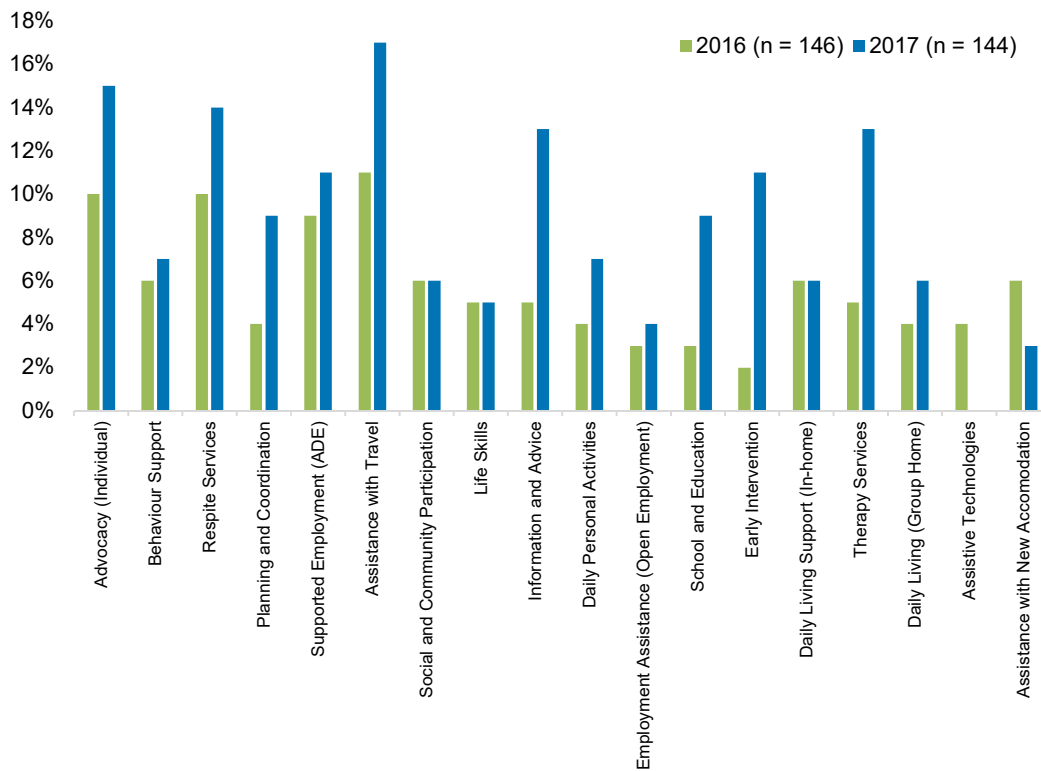
The percentage of organisations planning to reduce services has increased from 6% to 8% in the last year. There have also been changes in the types of services that are being reduced, as shown in Figure 12.

Of those planning to reduce services, 17% are planning to reduce Assistance with Travel. The other areas that organisations are planning to reduce service provision in are Advocacy (Individual), Respite Services, Information and Advice and Therapy Services.

Question

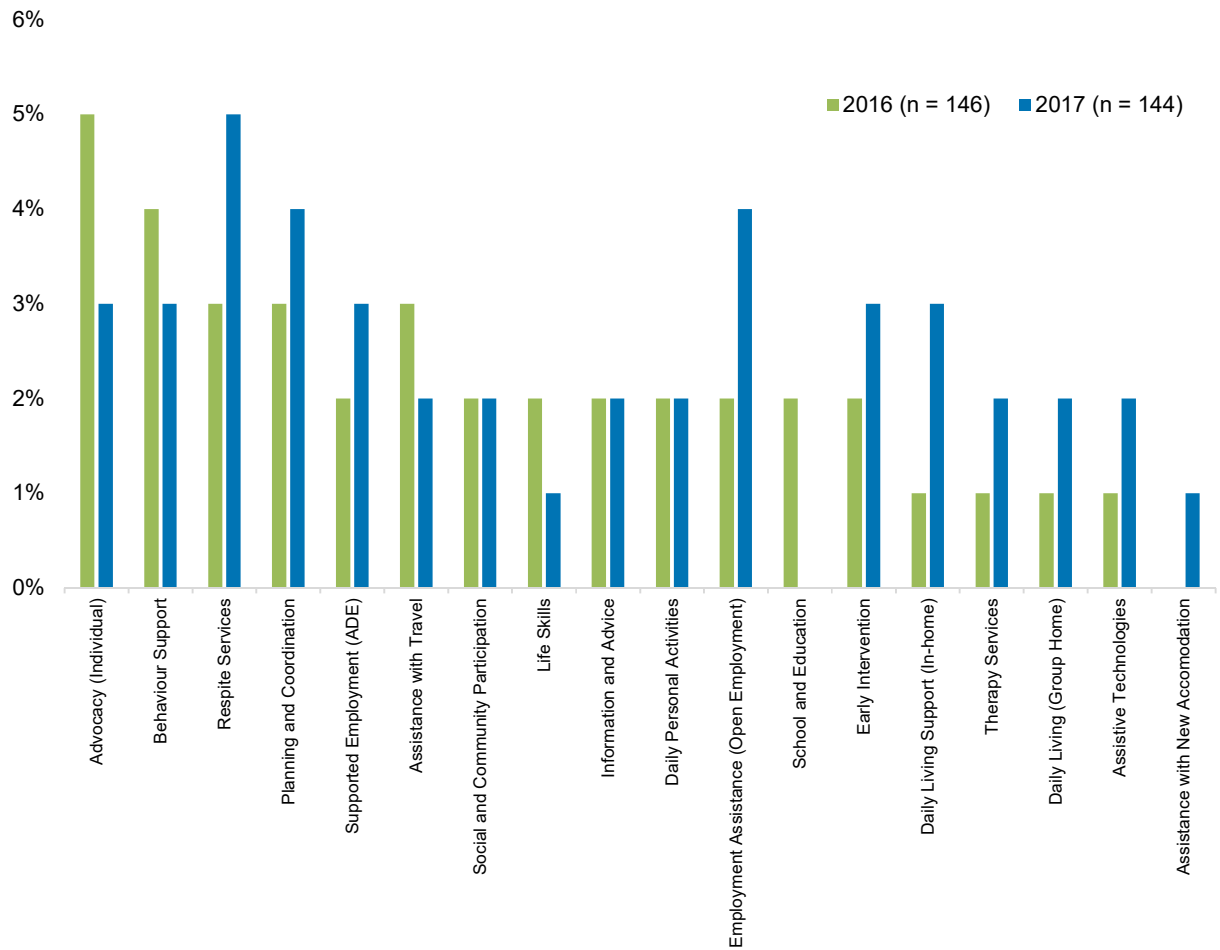
In the next 12 months, is your organisation planning to stop providing any of your current services or planning to reduce the volume of current services?

Figure 12 Planned reduction in services. Note: Total adds to more than 100% due to multiple responses.



The percentage of organisations planning to cease the provision of one or more services has remained approximately the same over the last year. Figure 13 shows the services that are being ceased and compares 2016 and 2017. However, it should be noted that this chart is based on small sample sizes in each service category.

Figure 13 Planned cessation of services. Note: Total adds to more than 100% due to multiple responses.



Changes in services provided – entering other markets

Over half (46%) of responding organisations reported that they are planning on entering new markets (client groups) not previously served, a slight (3%) increase on the previous year.⁸

Notably, 17% are planning to begin providing services to aged care clients (either in-home or residential), 10% are planning to provide mental health services and 6% are planning on commencing child protection and support services (not childcare).

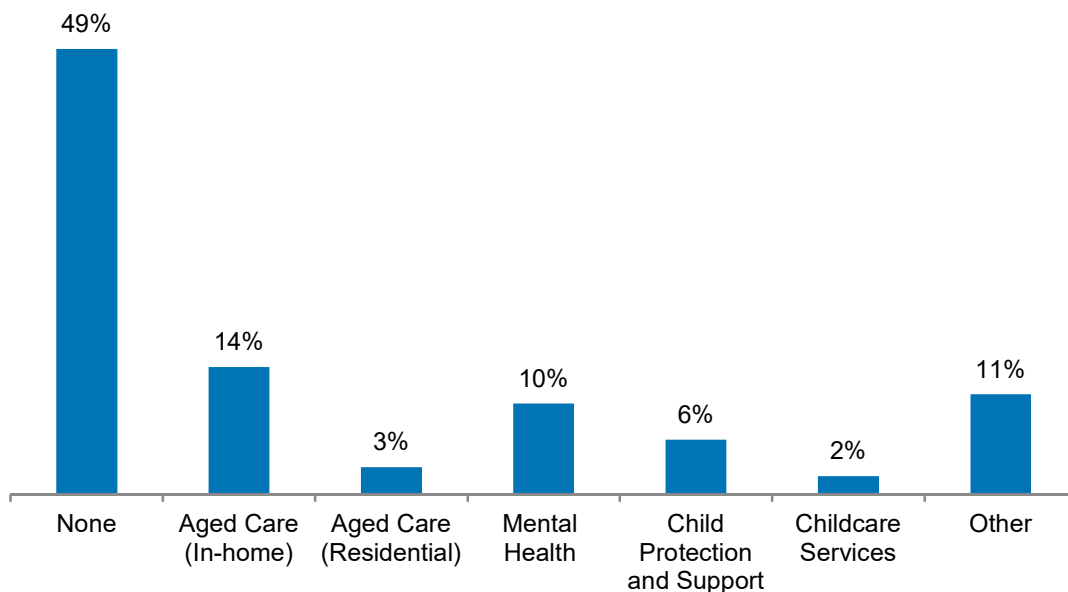
The extent to which organisations are moving into new markets is related to their level of specialisation. Only a third (35%) of organisations specialising in disability services are planning to enter new markets in the next year, whereas a majority (65%) of those for which disability services is half or less of their business are planning to move into new markets.

Question

In the next 12 months, is your organisation planning to start providing any services other than the disability services listed above?

That is, are you intending to provide services not funded by the NDIA nor any other disability services funder?

Figure 14 Intention to enter new markets in the next year (n = 526)



⁸ The 2016 data has not been included as the answer categories were altered, which may have effected results.

Client movement

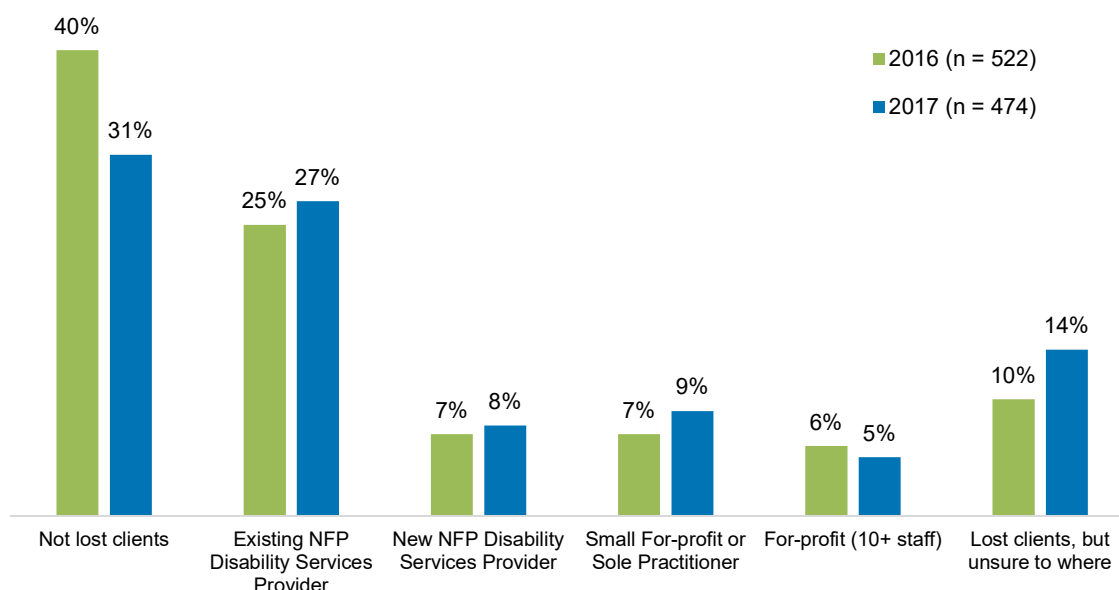
Sixty-three per cent of responding organisations reported that they had lost clients to other providers in 2017, an 11% increase from the previous year.

Consistent with the previous year, most clients appeared to be moving to other, existing NFPs (27%). Clients also moved to other new NFP providers (8%); small, sole practitioners (9%); and other For-profit providers (5%).

Question

Over the past 12 months, have you lost disability service clients to other providers? If so, what type of provider is now serving these clients?

Figure 15 Movement of clients to different providers



The organisations that lost clients provided a wide range of reasons for this occurring. These were grouped into several themes, namely:

- Practical aspects outside of the organisation's control, such as a family moving.
- Not being able to provide the services required.
- Encouragement and influence on the part of planners.
- Other providers being better able to meet client needs.
- Heavy 'sales tactics' from competitors, including offering services for prices below NDIS prices or services that respondents believe cannot genuinely be provided or maintained.

Question

“Do you know why did these clients chose another provider? If so, please write in any comments below.”

“Anecdotally much of this was directed by planners.”

“(The other organisation) charged less than NDIS price list.”

“I believe providers are more competitive and will do most anything to obtain possible revenue sources. What a shame that people now have \$ signs on their head. Person centred practice has gone out the window and networking is non-existent.”

“Sales tactics from providers in order to get clients to have their coordination of supports done through the same place they have their other supports. Generally the larger, 'one stop shop' providers.”

“Our wait-list is too long.”

“Client does not choose them. NDIS staff and the intermediary assessors pushed clients to cheaper options without due consideration for functionality or long term benefits. We have so many examples of this it is very concerning.”

“Not happy with the service being offered.”

“I suspect they have been encouraged to switch by NDIA staff to demonstrate choice.”

“Try something different.”

“They didn't choose, they lost support coordination in their plans.”

“The organisation made a strategic decision to no longer support the clients due to the complexity of their needs and the drain on resources. Accordingly it was no longer cost beneficial for the organisation to continue the supports.”

“Mixture of reasons - inability to service all hours, response to change in business, loss of some clients following staff poached by other providers.”

Workforce demands

Reflecting the expected growth in service provision required, 62% of organisations expect to employ more disability support workers this year, a slight increase over 2016 (59%).

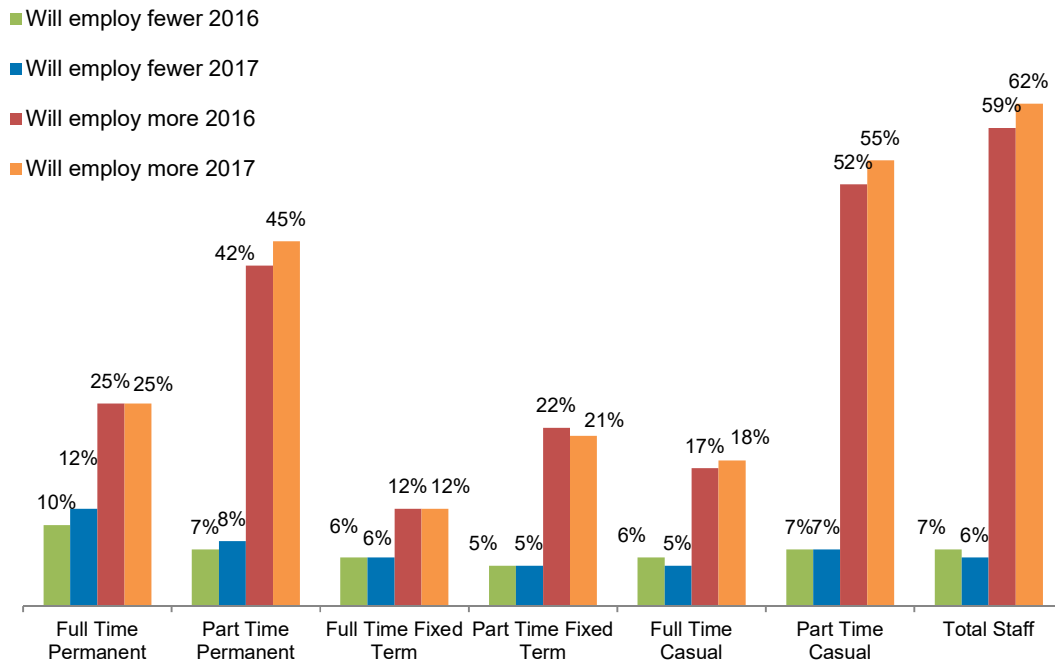
Growth in the employment of Part Time workers continues to increase at a rate faster than the employment of Full Time workers. Fifty-five per cent of respondents will employ more Part Time Casual workers and 45% reported that they will employ more Part Time Permanent workers.

Organisations are also increasing the number of Full Time workers; however, the rate of growth is lower, which means that the profile of sector employment will continue to shift towards Part Time employment.

Question

By the end of this current financial year and in relation to your disability service operations only, do you expect to employ less, the same or more disability Direct Support Workers (or Allied Health Staff) in each of the following categories?

Figure 16 Planned change in workforce in the current year (2016 n = 444; 2017 n = 385)



Of the thirteen occupations listed, organisations reported that ten were difficult to recruit. Figure 17 shows the occupations employers are finding 'extremely' difficult to recruit and compares 2016 and 2017 responses. The occupations that have become harder to recruit over the last year are:

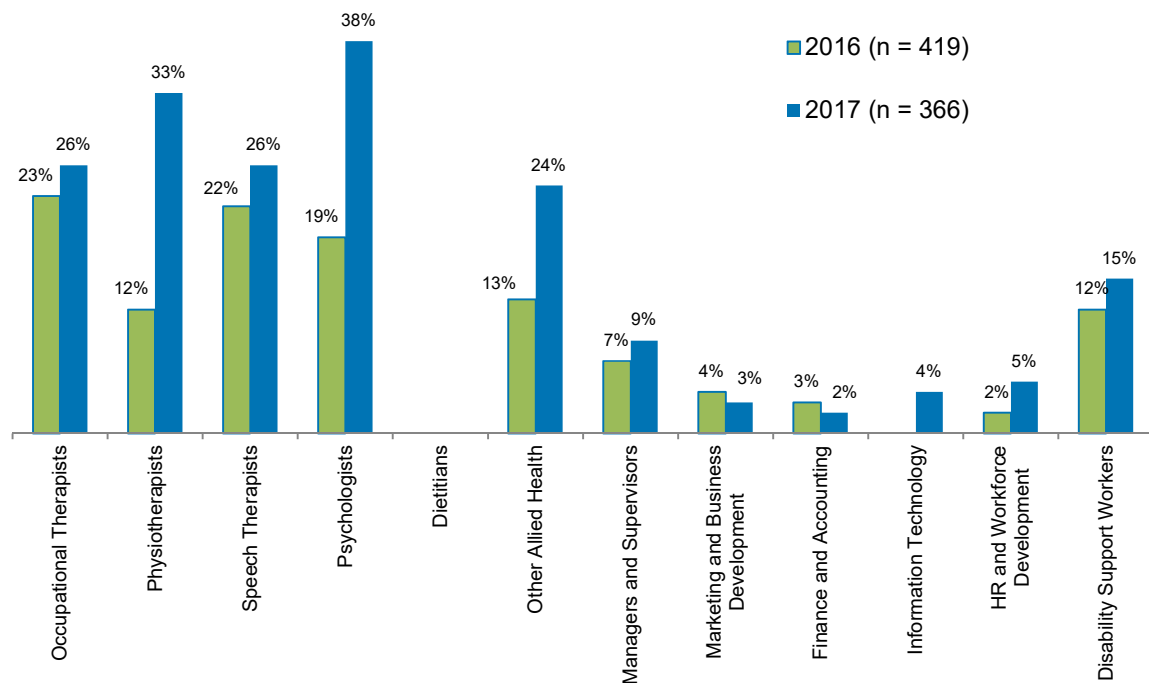
- Psychologists (38% of organisations)
- Physiotherapists (33% of organisations)
- Occupational Therapists (26% of organisations)
- Speech Therapists (26% of organisations)

In contrast, few organisations are finding it difficult to recruit dietitians or information technology staff.

Question

In the past financial year how difficult or easy has it been to recruit competent staff in the following categories in relation to your disability services?

Figure 17 Per cent of employers finding occupations extremely difficult to recruit



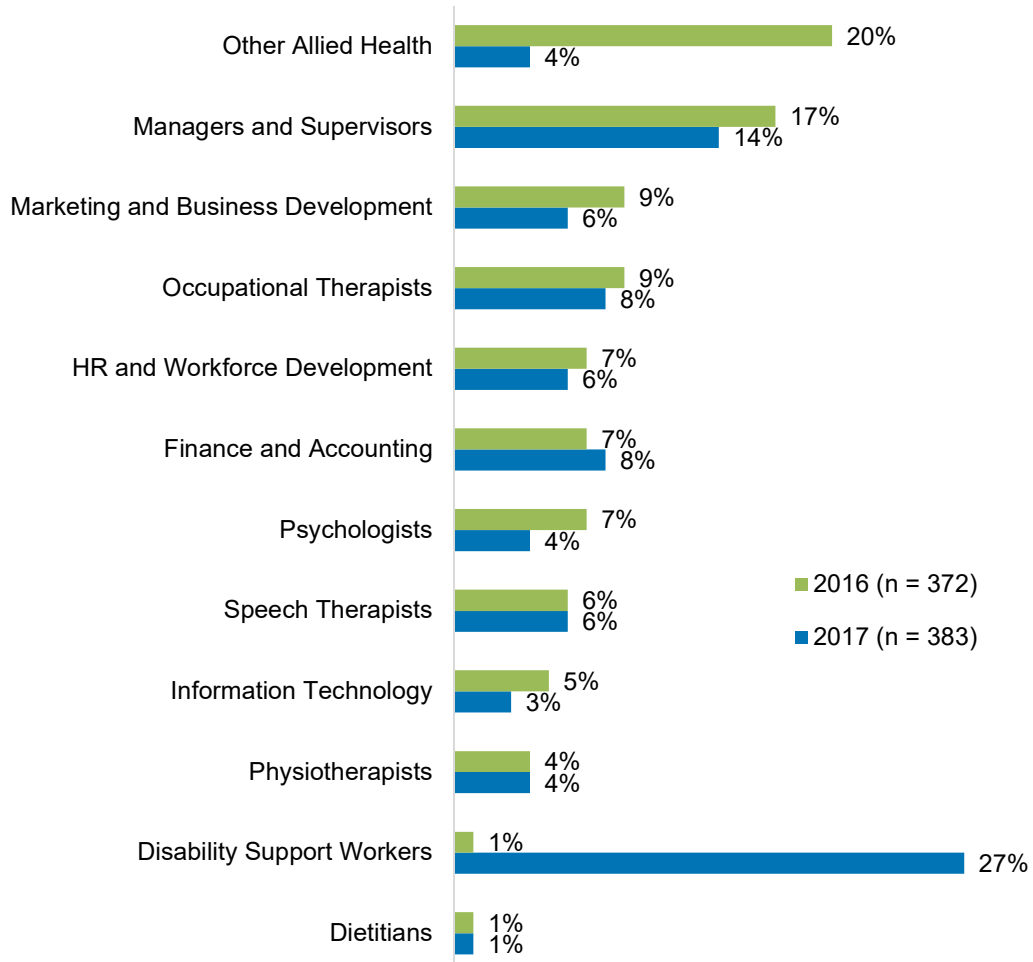
Intentions to recruit

In the current year, demand will be highest for Disability Support Workers and Managers and Supervisors. Demand for other staff will remain strong. Constraints on workforce recruitment will continue to limit capacity to meet demand.

Question

In the next financial year which of the following types of staff does your organisation intend to recruit in relation to your disability services?

Figure 18 Occupations intending to recruit in the next financial year



Financial performance

Overall performance

In the last year, just over half (56%) of organisations reported that they made a profit, 18% reported that they broke even and a further 23% made a loss (the remainder did not know or were new entities).

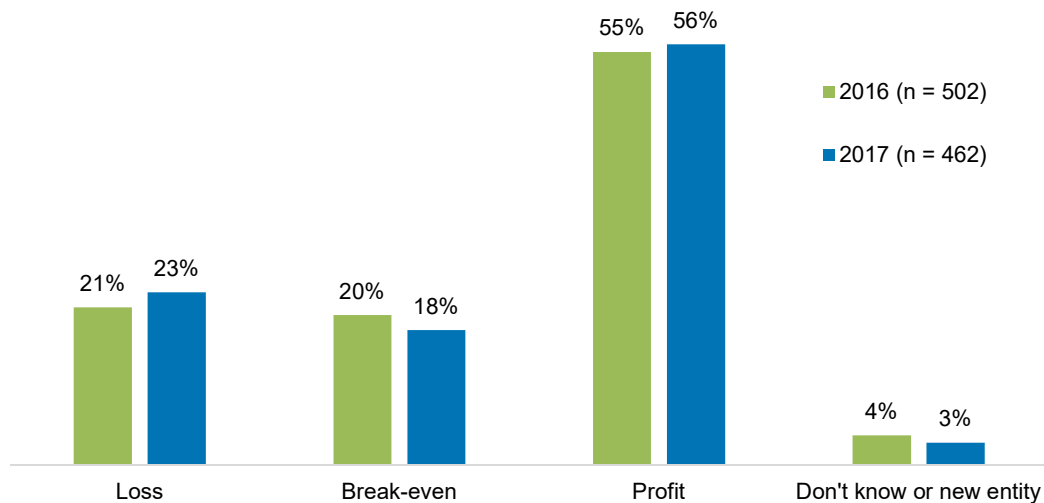
These results are similar to those reported in 2016. It should be noted that, while this question asked specifically for the financial performance of disability services only, organisations and respondents do not always separate their performance by market or service type, and as such these results may also be a reflection of overall financial performance. The financial benchmark survey provides greater detail on profitability by market and service type. Nonetheless, this data reflects the financial sustainability of organisations.

Question

The following questions refer to your disability services operations only. In this past financial year, did this organisation make a loss, break-even or profit (surplus)?

If profit/loss, what was your profit (surplus) margin? If a loss what was your margin of loss?

Figure 19 Overall financial performance



Organisations making a profit or loss

The minimum amount of profit required to attract and retain an organisation in a market is a decision for the directors or owners of the organisations. For most, the profit must be enough to cover sector inflation. For-profit providers will typically require profit to be sufficient to prevent investment from being transferred to another sector.

Of the organisations that made a profit in the 2015/16 financial year, 43% reported achieving a profit of 4% or more. This is a significant improvement since 2016 (36%), and may reflect organisations seeking to create reserves to support full transition into the NDIS.

At the same time, the percentage of organisations making a loss of 4% or more also increased from 13% in 2016 to 18% in 2017. It is possible that this may reflect a polarisation of performance. That is, that financial performance is not normally distributed, but rather shows increases in both profit and loss-making organisations, leaving fewer trading around the break-even mark. However, at least three more years of research will be required to determine if this is part of an ongoing trend.

Figure 20 Amount of profit made in the 2015/16 financial year (n = 502)

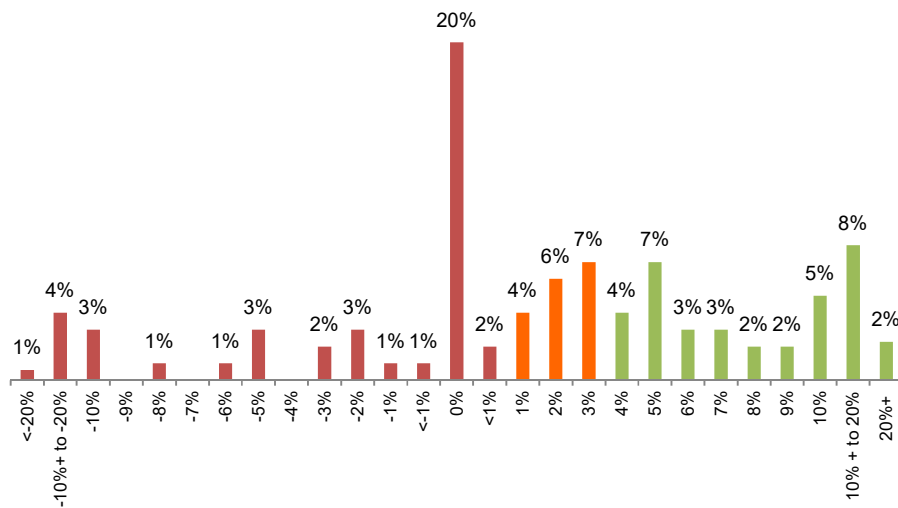
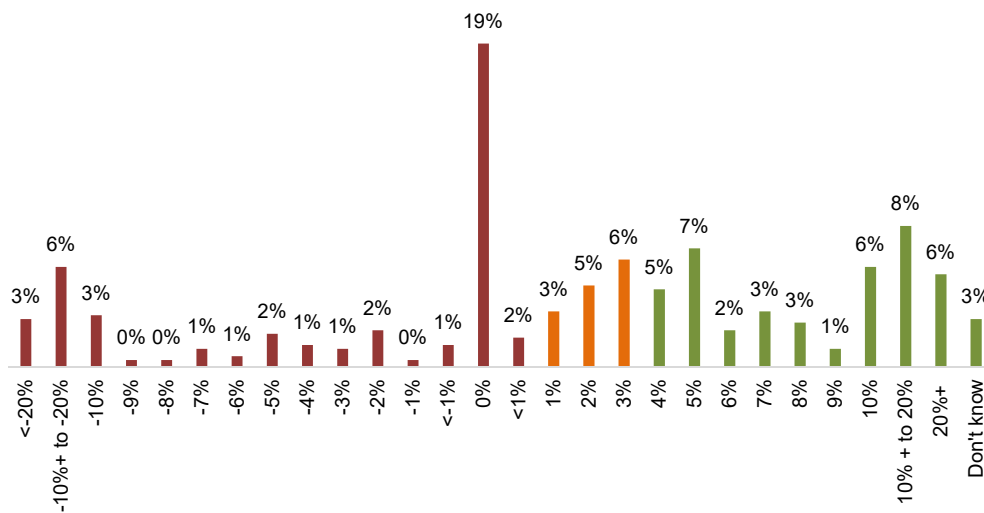


Figure 21 Amount of profit made in the 2016/17 financial year (n = 450)



Comparison of Not-for-profit and For-profit financial performance

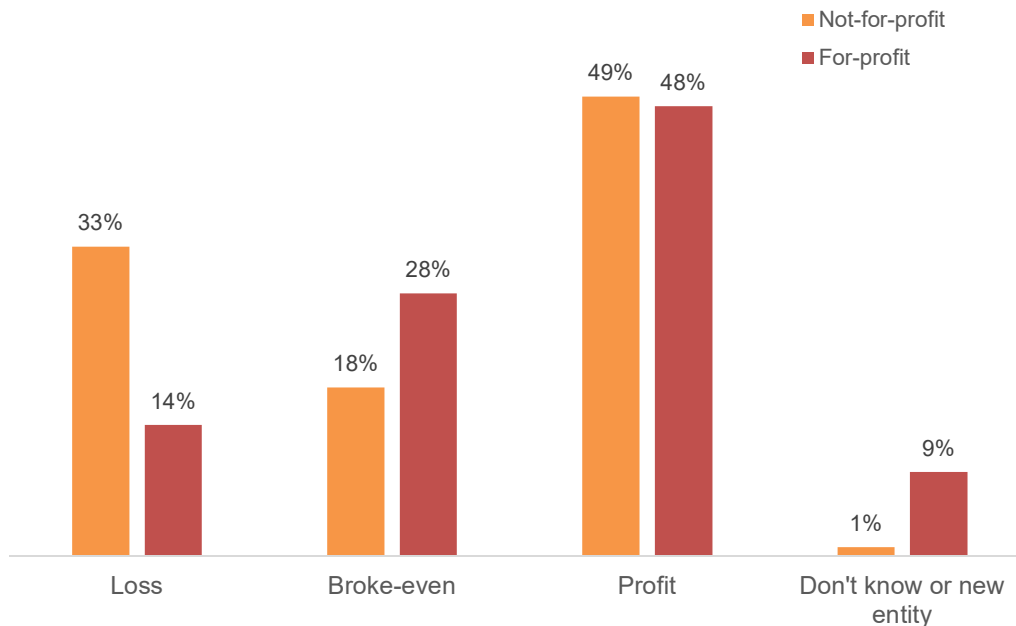
There is a significant difference in the reported financial performance of the Not-for-profit and For-profit organisations. Similar proportions of both types of organisations reported making a profit, but one third of NFP organisations report making a loss, compared with only 14% of For-profits.

For-profit entities are predominantly small or sole traders (53% have income of less than \$250,000) and these organisations do not usually identify the owner's salary as an expense, but instead consider the net income of the owner to be the profit of the entity. Essentially, this means the proportion of genuinely profit-making organisations may be much lower than reported.

The profitability of the NFP organisations is more likely to be an accurate assessment of sector profit.

This is the first time this study has attracted a large number of small and sole trader enterprises and future surveys will examine this issue more detail.

Figure 22 Comparison of For-profit and NFP financial performance



Expected profit

Both the proportion of organisations expecting to make a profit and those expecting to make a loss have grown. There is a corresponding reduction in the number of organisations expecting to break-even.

Data on the expected amount of profit and loss shows that in 2017, a larger percentage expect to make a profit (up from 26% to 30%), while those expecting a loss of 4% or more also increased from 11% to 19%.

Again, this is data only collected across two years, but it supports the possibility that organisations are moving to opposite ends of the spectrum of financial performance. If this trend continues, it would suggest that approximately one fifth of organisations are facing more than one year of financial stress.

Question

Do you expect this organisation will make a loss (deficit) break-even or a profit (surplus) in this current financial year?

By how much, in this current financial year?

Figure 23 Profit expectations for the current year

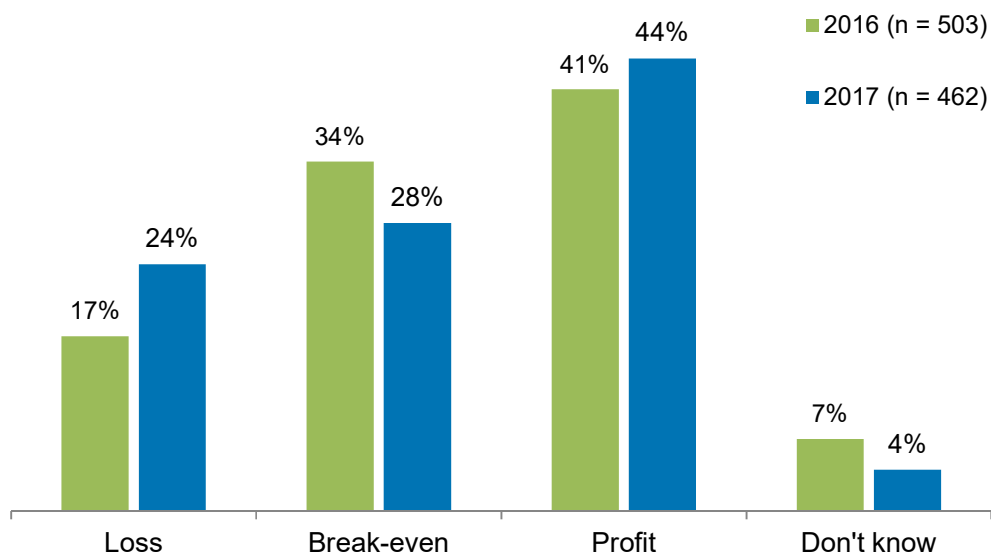
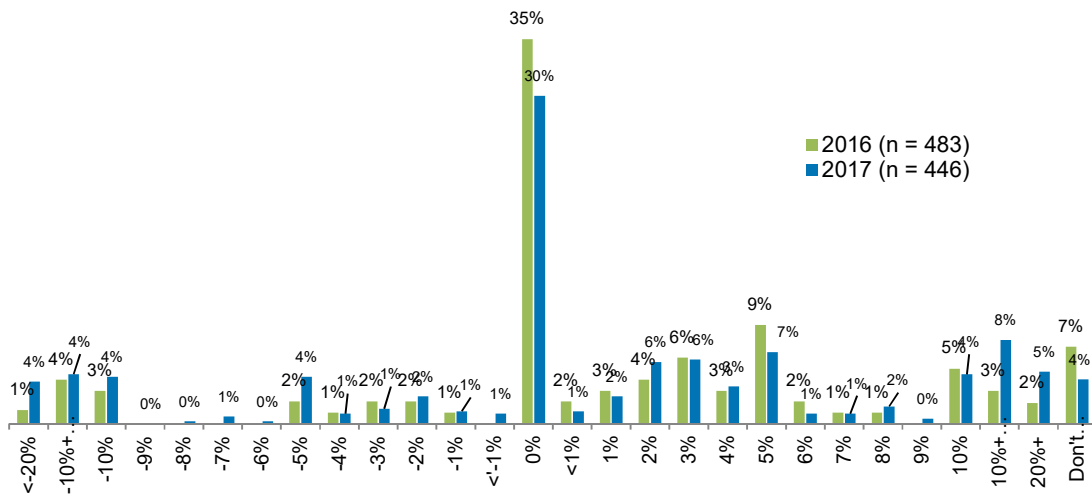


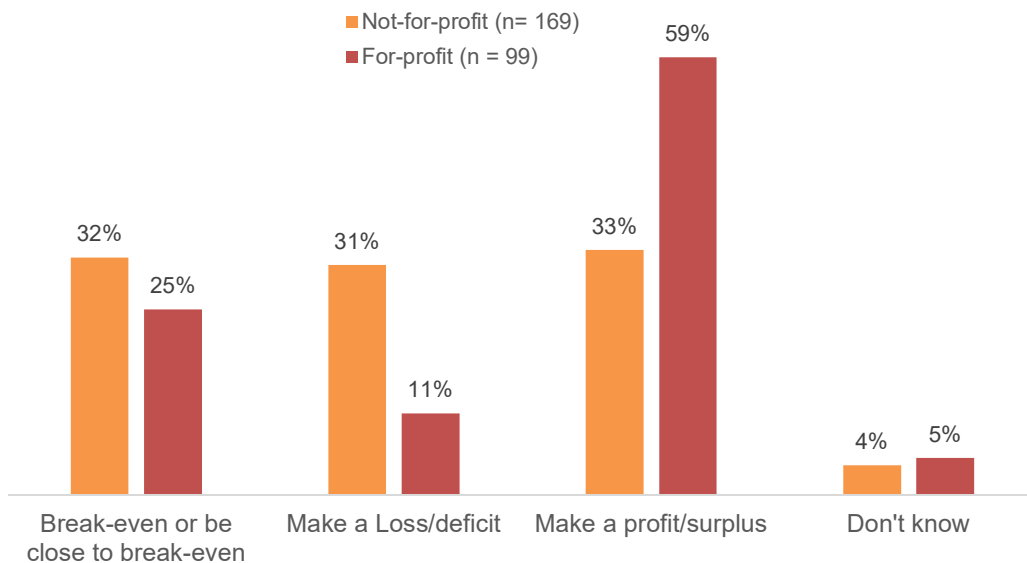
Figure 24 Expected current year profit margin



Comparison of For-profit and Not-for-profit expected financial performance

Similar to the reports of actual profit, NFPs and For-profits are significantly different in regard to their expectations of profit. Only a third of NFP organisations expect to make a profit in this current financial year compared with 59% of For-profit entities.

Figure 25 Comparisons of For-profit and Not-for-profit expectations of financial performance.



Net assets

Just over half (54%) of responding organisations reported an increase in net assets in the last year, while approximately a third (28%) reported no growth and 13% reported that net assets had declined.

This is a slight improvement compared to the previous year (50%), with fewer organisations reporting no growth or a decline in net assets. However, of this group, a quarter (24%) reported that net assets only increased by between 0% and 4%.

Interestingly, at the other end of the scale, 23% of all respondents reported that net assets had increased by 10% or more. This may indicate a group of organisations is building financial capacity. However, this data will need to be validated in subsequent waves of research.

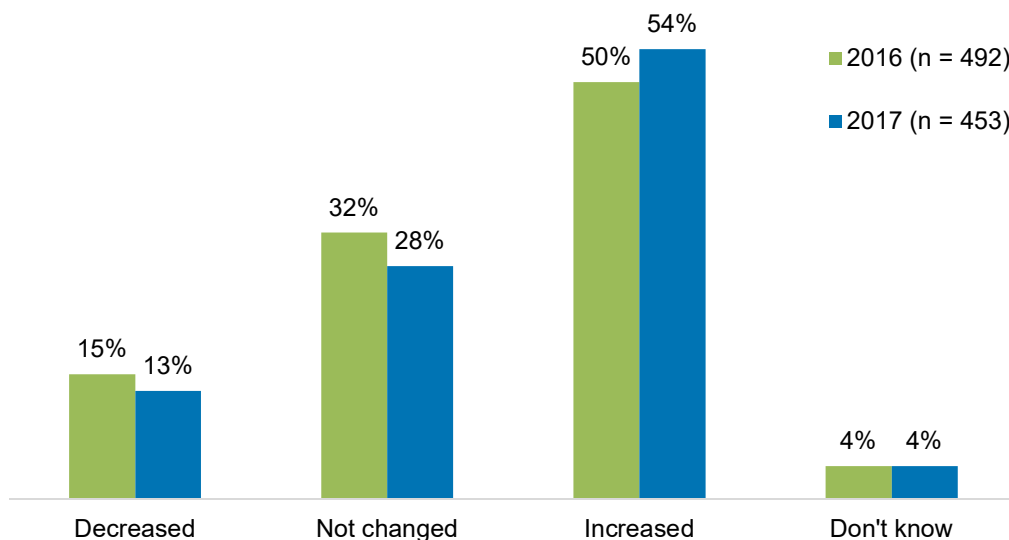
Analysis by entity type again shows variation in change in net assets for the For - profits and the NFPs. Nineteen per cent of NFPs report a reduction in net assets, compared with 8% of For-profits. For-profits were much more likely to report that net assets did not change (41%) than NFPs (26%).

Question

During the most recent financial year, did the net assets of this organisation decrease, remain the same or increase compared with the previous financial year?

By how much?

Figure 26 Change in net assets



Perceived financial strength

In addition to asking a series of questions on actual financial performance, in Waves 4 and 5, respondents were asked to provide a qualitative rating of their financial strength.

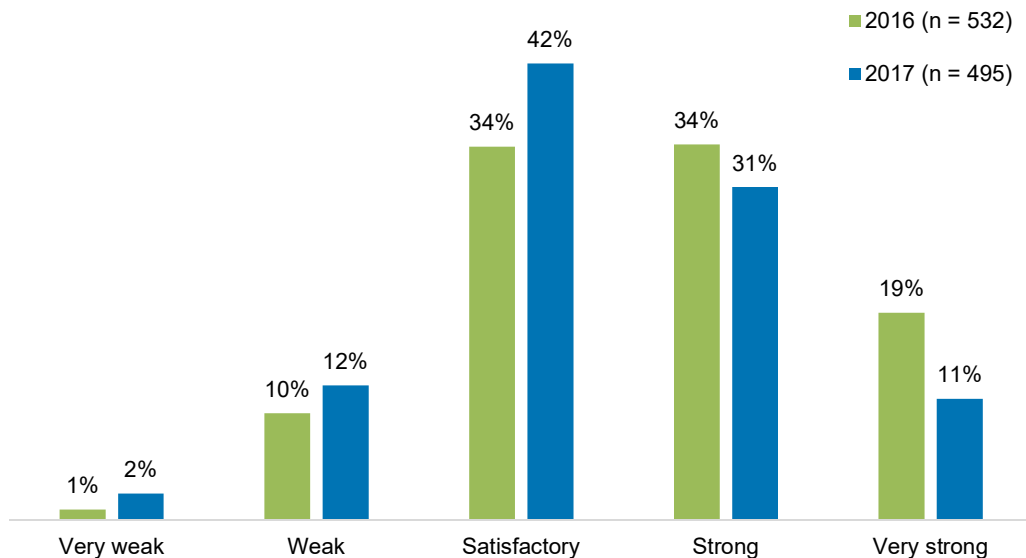
Similar to last year, the results this year showed a discrepancy between actual and perceived performance. Although only 44% of organisations made a profit of over 4%, 84% reported that the financial strength of their organisation was satisfactory, strong or very strong.

While this proportion is similar to the previous year (83%), overall it appears there has been a slight decline in perceived financial strength across organisations. In the last year, 42% of organisations reported that their strength was strong or very strong, a decline of 9% from the previous year, while the proportions of organisations which reported that their financial strength was very weak, weak, and satisfactory have all increased.

Question

Overall how do you rate the current financial strength of this organisation?

Figure 27 Perceived financial strength



Organisations meeting their objectives

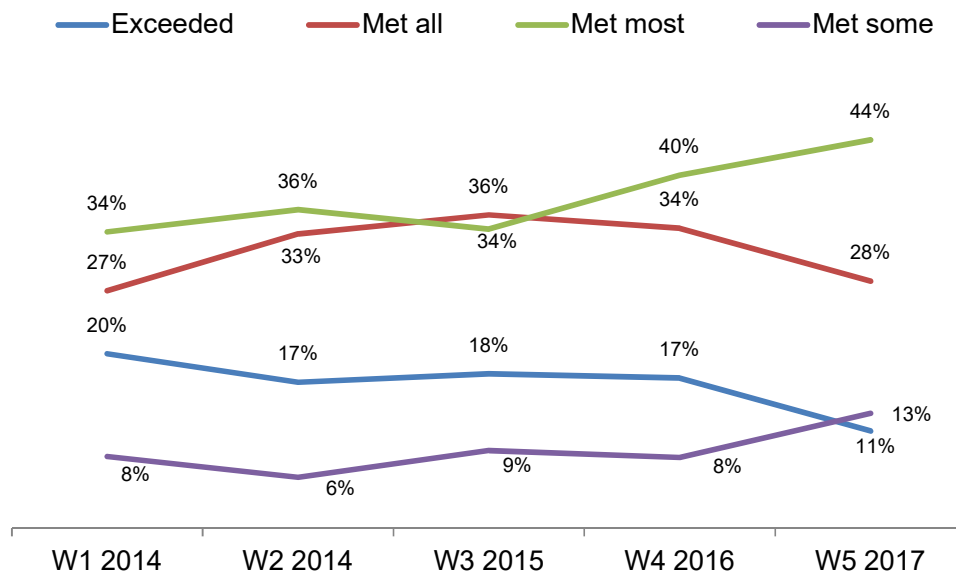
The proportion of organisations reporting that they met or exceeded all of their objectives in the last year has fallen for a second year. There has been a corresponding increase in the number that met 'some' or 'most' of their objectives.

Opinions on whether objectives were met are relative and subjective, and are not an indicator of actual performance, but rather of the thoughts of the organisations leaders. Continued decline in leader's sense of achievement is a measure of sentiment and capacity for perseverance.

Question

“Over the past 12 months in regard to your disability service operations, to what extent do you think your organisation has met its operational objectives?”

Figure 28 Success in meeting objectives in the last year



Strategic responses

Overall, there has been little change in strategic responses and intent since 2016.

Ninety per cent of organisations agree that they are actively working on improving productivity, 75% report that they have a clear strategy for the next year, and 63% report that they have a clear vision of where the organisation will be in three years. However, 60% are still worried about their ability to adjust to changes resulting from the NDIS and 19% report that their organisation is not focused on growth. Consistent with the data reported on organisation closure, 7% agree that they are considering ceasing to provide disability services.

As organisations continue to transition into the NDIS and solve some of the initial difficulties involved with this change, it is expected that responses to these questions will change. However, at the time of the survey, there was no demonstrable improvement or worsening of opinions.

Question

To what extent do you agree or disagree with the following statements regarding your organisations overall strategy?

Figure 29 Opinions on overall strategic response 2017 (n= 441)

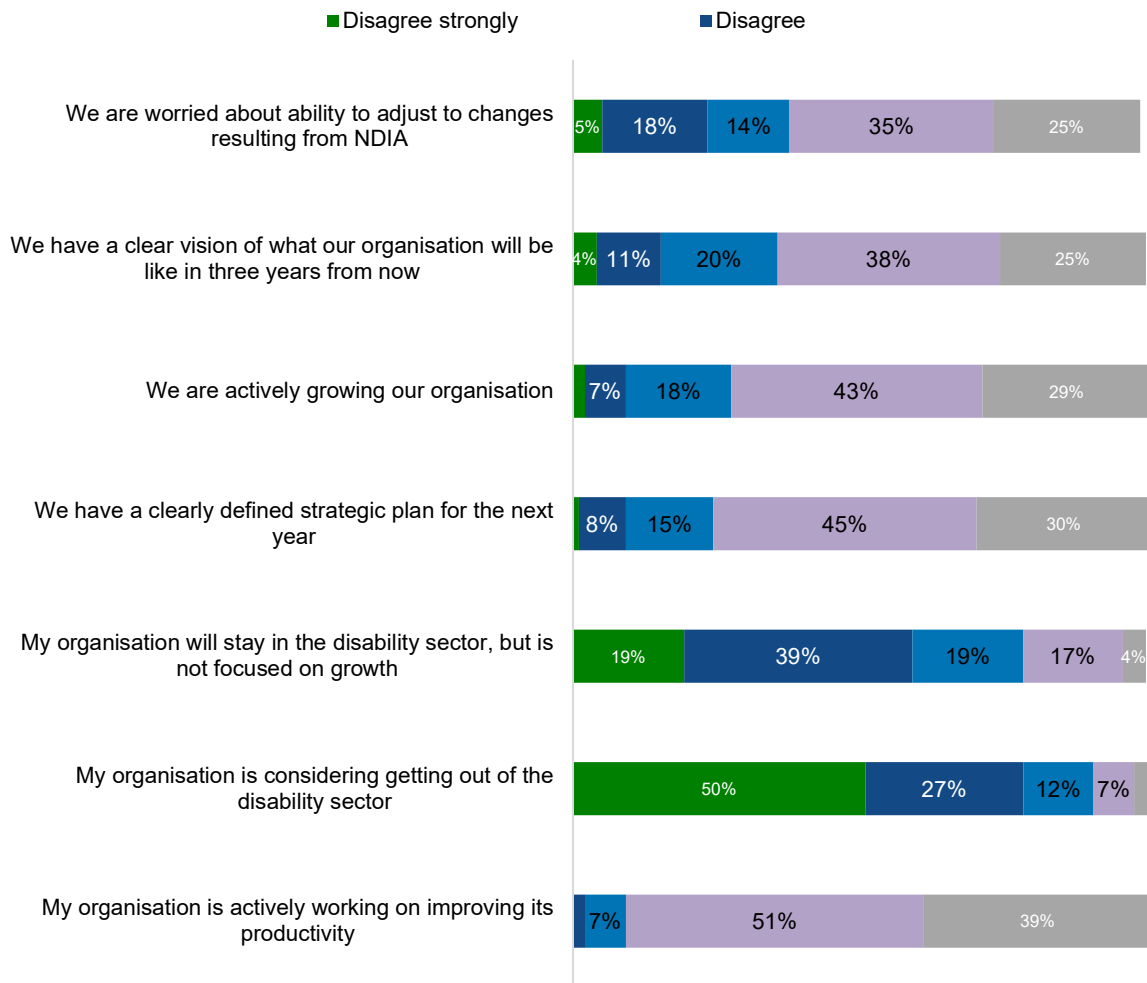
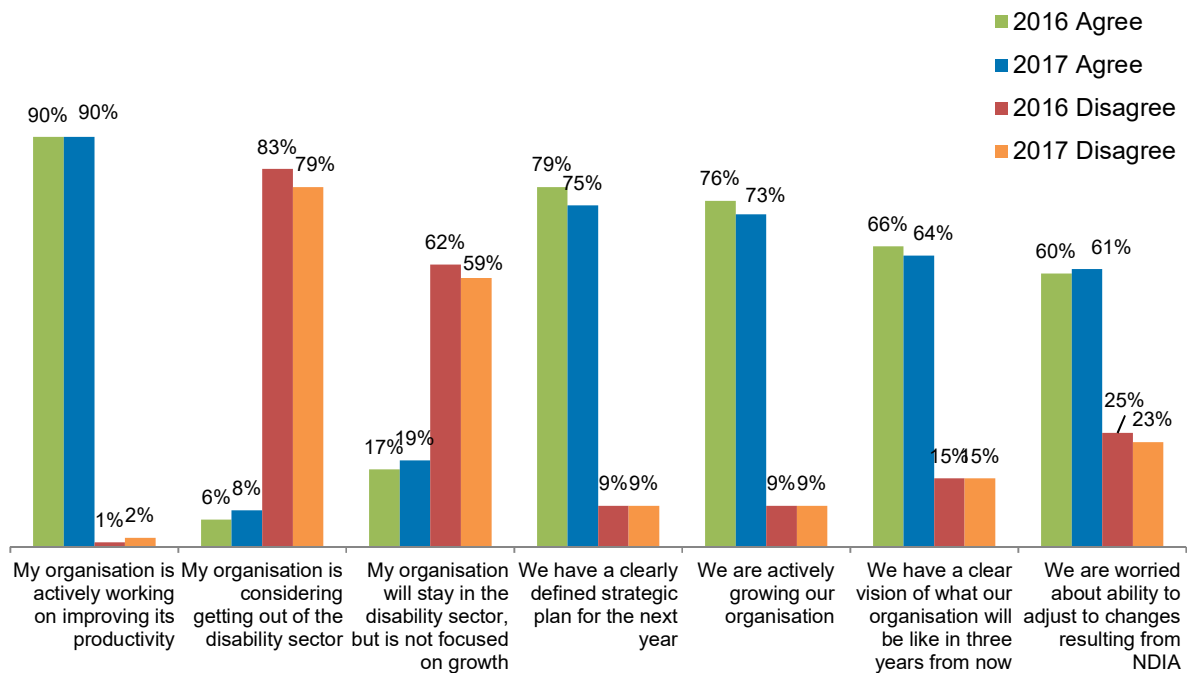


Figure 30 Comparison of opinions on overall strategic response (2016 n= 457; 2017 n= 441)



Priorities for improvement

Costing and pricing remains the highest priority area for improvement (36%), and this has been consistently the top nominated area since the NDIS was introduced. However, it is evident that costing and pricing is less of a priority than in 2016, possibly indicating that some organisations have addressed this issue, at least for now.

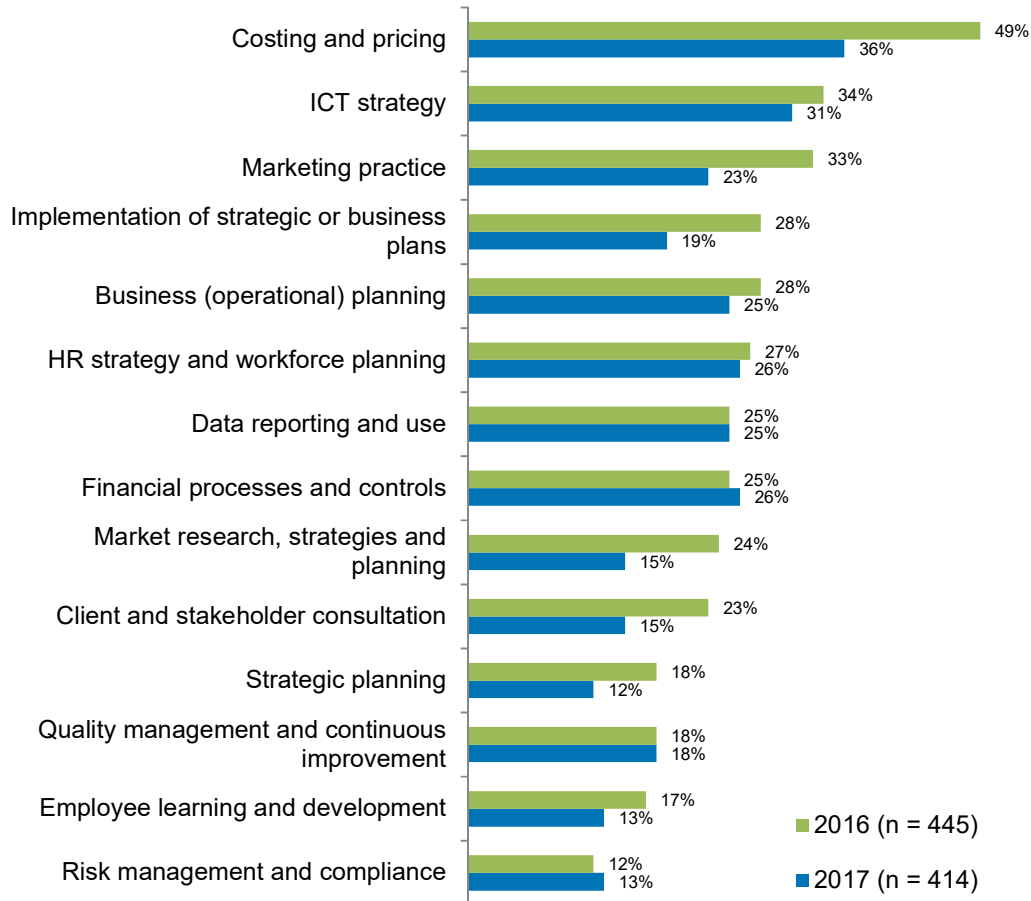
Similarly, ICT strategy remains the second highest priority for improvement amongst respondents and has not changed significantly since 2016. Of the remaining areas, Marketing and Business Planning were less frequently mentioned as priority areas, as was Market Research, Client and Stakeholder Consultation and Strategic Planning. These changes in priorities may also reflect the larger number of small providers in the sample this year. For example, small organisations are less likely to undertake formal HR and strategic planning than larger organisations with the resources to do so are.

Question:

“In which of the following business areas, if any, does your organisation need to improve most in the next 12 months?”

Areas are sorted in to four categories, from 'Top three we most need to develop' to 'We are good at these.'

Figure 31 Areas of operations most in need of improvement in the next 12 months



Collaborations, mergers and closures Collaboration

The percentage of organisations which reported that they are collaborating with others to advocate for the sector has declined from 67% to 61%.

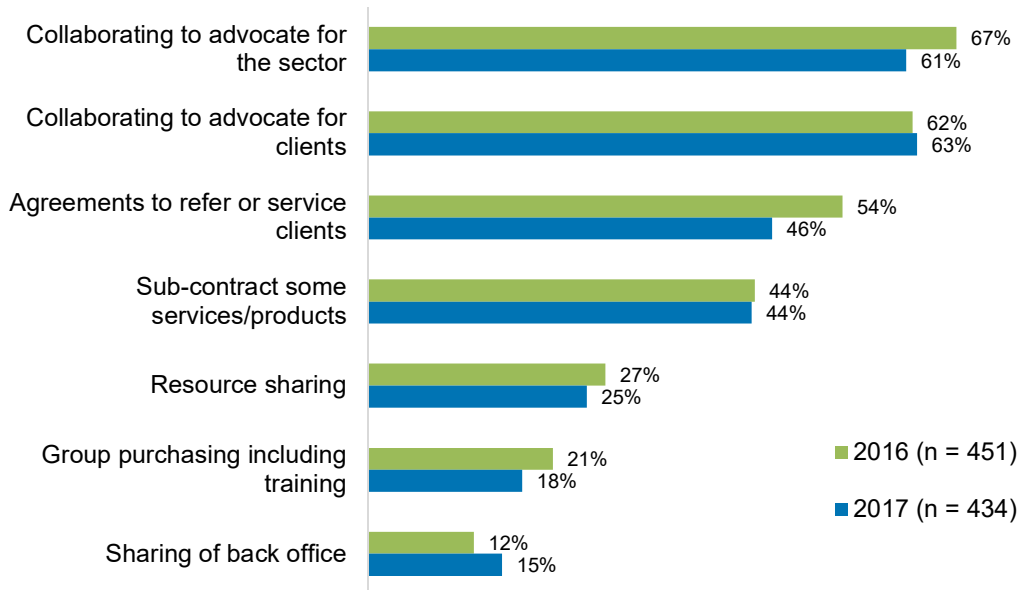
There is a higher representation of For-profits in this year's sample, and this may partially explain why there has been reduction in reports of advocacy. However, detailed analysis shows that while the proportion is lower, 47% of For-profits still reported that they collaborate to advocate for the sector.

Sixty-three per cent of responding organisations reported that they collaborate with other organisations to advocate for clients (no change since 2016). The number of organisations reporting that they have agreements to refer or service clients has also declined.

Question:

Does this organisation have any of the following collaborative arrangements with another organisation?

Figure 32 Working collaboratively and sharing resources 2016 and 2017



Merger

Thirty-eight per cent of organisations discussed undertaking a merger, 5% were currently undertaking a merger and 6% recently completed a merger. The percentage of organisations reporting that they have discussed merger has decreased, which may again reflect the changes in the sample and higher ratio of small and sole trader providers.

Of the organisations that discussed merger, more were likely to say that they were likely to actually complete a merger. Of those who discussed merger, 19% said it was likely or very likely their organisation would merge in the next two years, compared to 12% in the previous year. Twenty-seven per cent of organisations that discussed merger believe that there is a more than 50% chance that they will complete a merger within the next two years.

Question

Over the last 12 months, has your organisation discussed or undertaken any of the following?

1. Discussed merger
2. Currently undertaking a merger
3. Discussed stopping the provision of disability services but continuing with other services
4. Discussed winding-up (closing) the organisation

The proportion of organisations that have discussed discontinuing the provision of disability services has increased slightly. Almost one in five organisations discussed discontinuing the provision of disability services (19%), compared to 16% in the previous year; while almost one in ten (9%) discussed winding up the organisation.

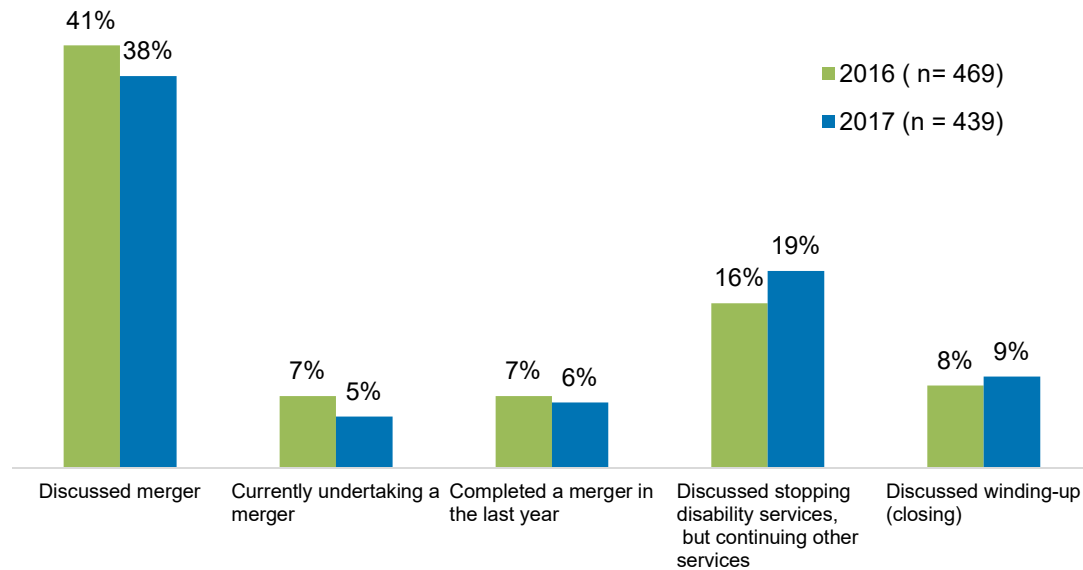
Overall, 42% of those that discussed merger and 30% of those that were undertaking or had recently completed a merger made a loss or broke even in the last year. Less than half (40%) of those discussing merger expect to make a profit in the current financial year.

Attributes correlated with merger

Analysis of these results by size, income and profit show that the organisations discussing reduction of services or closure have slightly weaker financial performance. However, they are not smaller, experiencing significantly lower demand, nor exclusively NFP or For-profit providers. However, there is a slightly higher ratio of organisations providing services in regional and remote areas in this group.

Overall, the results from questions on merger show a slight slowing of the incidence of merger discussion and activity.

Figure 33 Merger and market exit strategies (n = 439)



Smaller organisations are still less likely to have discussed, undertaken or completed a merger. Of the total sample, 39% of organisations had income of less than \$1m, yet of the organisations that discussed merger, again, only 15% had income of less than \$1m; and only three (6%) reported currently undertaking a merger or having recently completed a merger.

Thirty-eight per cent of organisations that discussed merger in the last year had an income of between \$5m and \$20m, and 21% had an income of over \$20m. These proportions remain the same compared to the previous year. Forty per cent of organisations currently undertaking a merger or having recently completed a merger had an income of between \$5m and \$20m, and 32% of organisations currently undertaking a merger or having recently completed a merger had an income of over \$20m.

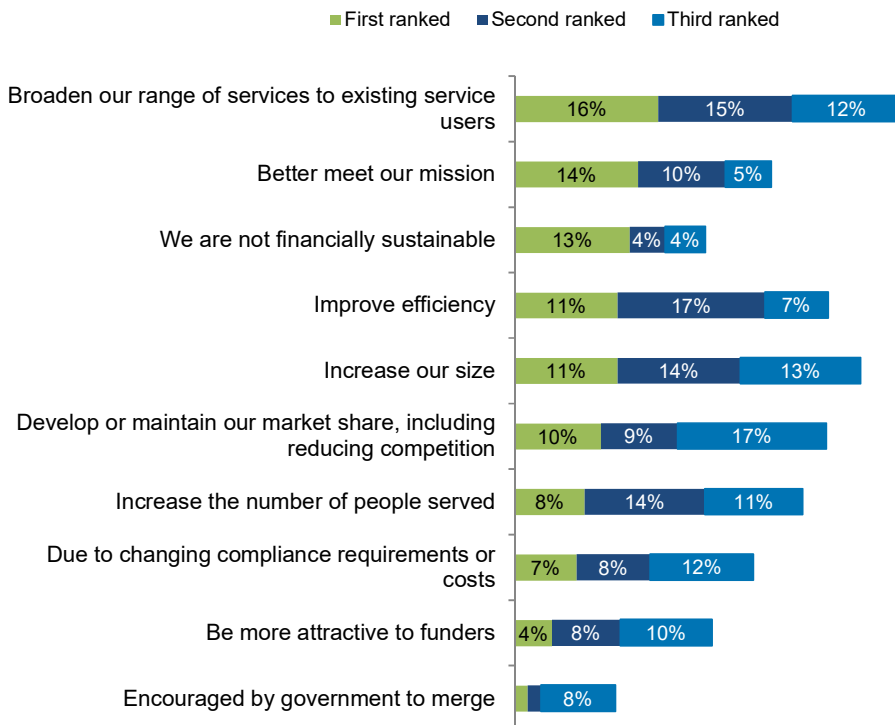
Reasons for merging

Similar to previous years, the main reason given for discussing or undertaking a merger was to broaden the range of services to existing clients, which was the first ranked reason for 16% of organisations and the second most important reason for 15%.

Thirteen per cent nominated not being financially sustainable as the primary reason for merger.

This year the top reasons to merge have also evolved to include mission, which 4% more organisations nominated as the primary reason to merge this year, replacing 'develop or maintain market share' (10%) as the second most nominated primary reason to merge.

Figure 34 Reasons for merger (n = 439)



Opinions about the NDIS and government's approach to implementation

Support for the NDIS remains strong, but opinions of the government's performance in implementing the NDIS appear to be worsening.

Compared to the previous year, organisations were more likely to agree with negative statements about government action and less likely to agree to positive statements.

In particular, 77% of organisations agreed that 'the policy environment is uncertain'. The proportion which agreed to the statement 'the risks the NDIS presents to my organisation outweigh the opportunities' increased by 13% to 38%; while over half (55%) agreed to the statement 'there are too many rules and regulations that my organisation has to follow', an increase of 10%.

Only 6% of organisations agreed that 'the government is anticipating or responding well to the needs of organisations', and none agreed strongly. Similarly, only 8% agreed that 'the NDIA is working well with providers to implement the NDIS'. One in ten (10%) agreed that 'the NDIA has a high level of respect for current service providers', nearly halving from the previous year (18%).

The only area where perceptions improved was that organisations were slightly more likely to agree that 'Commonwealth Employment Services is working well with providers'. However, even so only 6% agreed to this statement, from 2% agreement in the previous year. These responses may reflect increasing familiarity with the NDIA or worsening of perception about how government is implementing the roll out. Many providers are worried that the NDIA's existing approach to engagement with the sector will result in implementation errors across a number of areas. In particular, the majority (70%) of organisations are concerned that they will not be able to provide services at the prices being offered under the NDIS, and over half (51%) believe that they may have to reduce the quality of services in order to deliver at the prices specified. As prices are essentially fixed under the NDIS, providers will have to reduce quality of service to reduce costs unless they find some other way to improve service productivity.

Question

If you have any comments about the implementation of the NDIS, please write them in below.

"Stop running the NDIA like it is on fire. Instead of stampeding to one issue, placing a temporary fix on it then spend a month writing an enormous report, fix the problem properly in the first place and skip the red tape."

"No respect by NDIA for viability of services. NDIA reluctant and extremely slow to fix their problems that impact on service providers and families."

"The NDIA needs to get their systems in place and ensure ALL staff understand the way the scheme is designed to work. Misunderstanding, inability to contact planners and plans being rolled out to quickly without the correct budgets in place creates more work for both providers and the NDIA."

IT systems in particular need to be able to reflect the scheme with flexibility of core supports and being able to claim.”

“The NDIS planning and administrative processes are not working well and are too cumbersome. It takes approx 5 x the admin time to process client services than previous/other funding systems. I am concerned that too much NDIA resources and \$\$\$ is being put toward "planning" and will consume funds meant to be directed at patient services.

Why have a flawed "planning" process at all? I think a better model is to simply quote for services as required, within a structure that determines reasonable and necessary.”

“Chaotic, lack of information, too much constant change, not clear communication from NDIS to families/participants, roll out too rushed and too many mistakes, portal is inefficient.”

“We have an outstanding claim for over 1 year that nobody seems to be able to sort out. Huge debt to our organisation. If this continues to happen or go unsolved, we have to reconsider. The financial risks of not being paid is high after providing a service in good faith.”

Figure 35 Providers' opinions on NDIS and NDIA (n = 449)

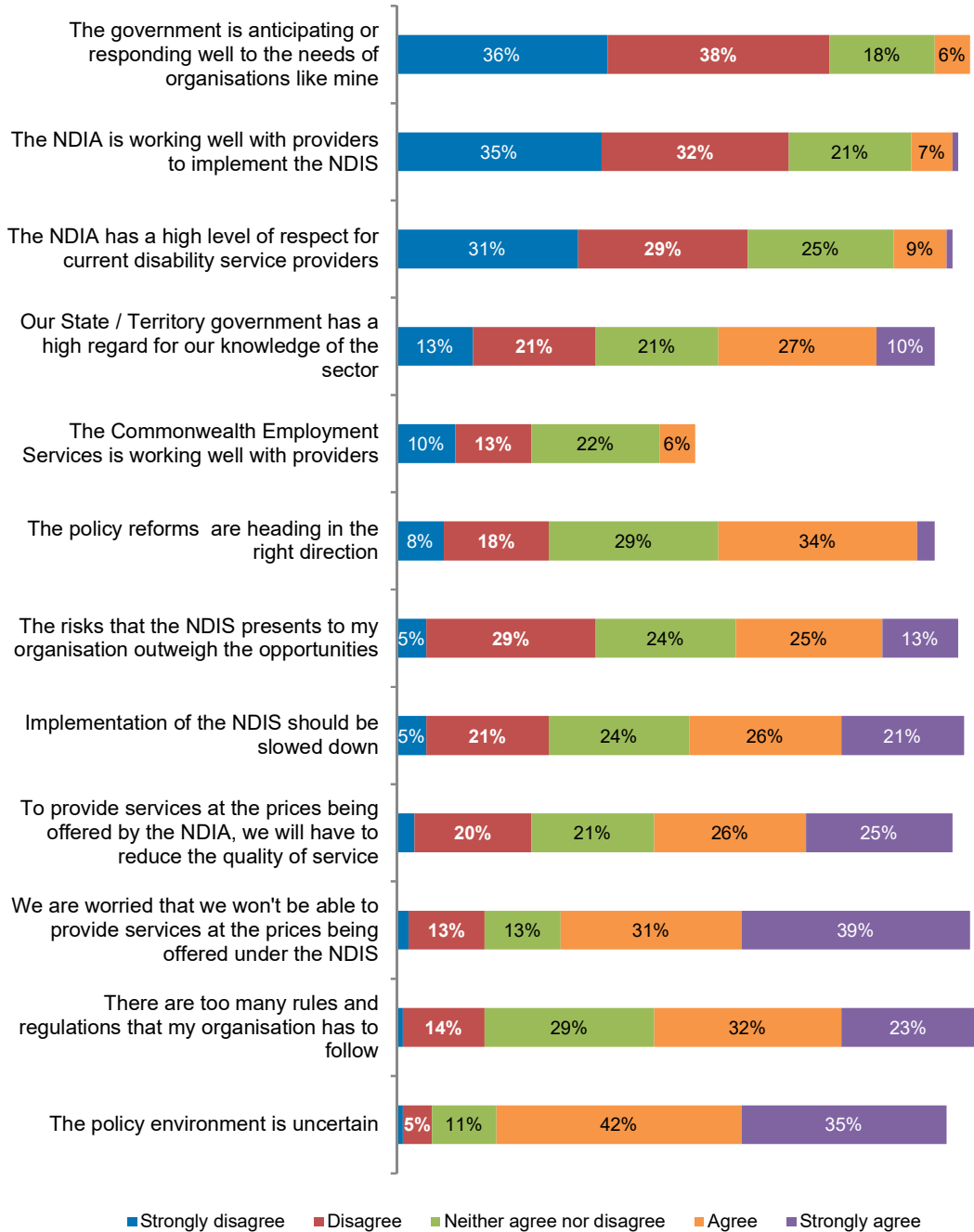
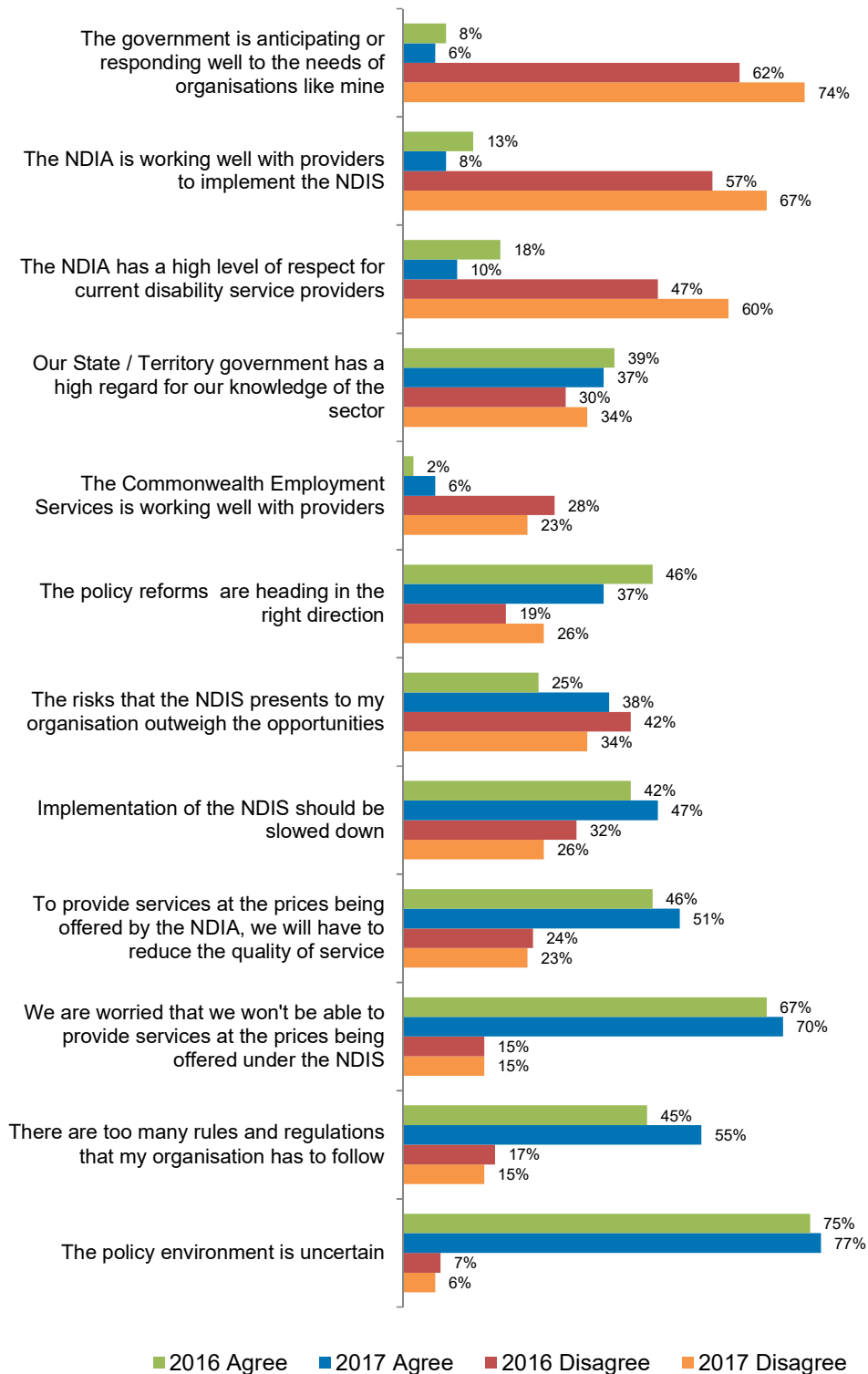


Figure 36 Comparison of 2016 and 2017 providers' opinions on the NDIS and the NDIA



Pricing remains the single most important issue

Organisations have consistently reiterated the critical importance of effective pricing. When asked to identify the top priority that would have the most impact on their capacity to supply services in the next year, again this year by far the top response was the need to ensure that NDIS prices are aligned with the actual cost of supply.

Despite a very high rate nominating this as their top priority last year (58%), the proportion increased further to 62% of all responding organisations. The next most rated priority was a 'provide us with practical business advice and support to transition to the NDIS' at 8%.

Organisations are not seeking pricing that results in strong profits, but enough to ensure that they can continue to provide services to existing clients and meet the needs of new clients. Sustainability in the short, medium and long term requires pricing that reflects the comprehensive cost of service delivery.

Other than realistic pricing and practical advice and support in order to make the transition to the NDIS, organisations also asked for data on the expected demand and supply for services in their service area (18% ranked first or second), and a large proportion also want the modern award aligned with contemporary work requirements (30% ranked first or second).

Question

Which of the following actions by governments would have the greatest impact on your organisation's capacity to deliver services in the next year?

Figure 37 Government actions that would have the greatest impact organisations' capacity to deliver services in the next year (n = 404)

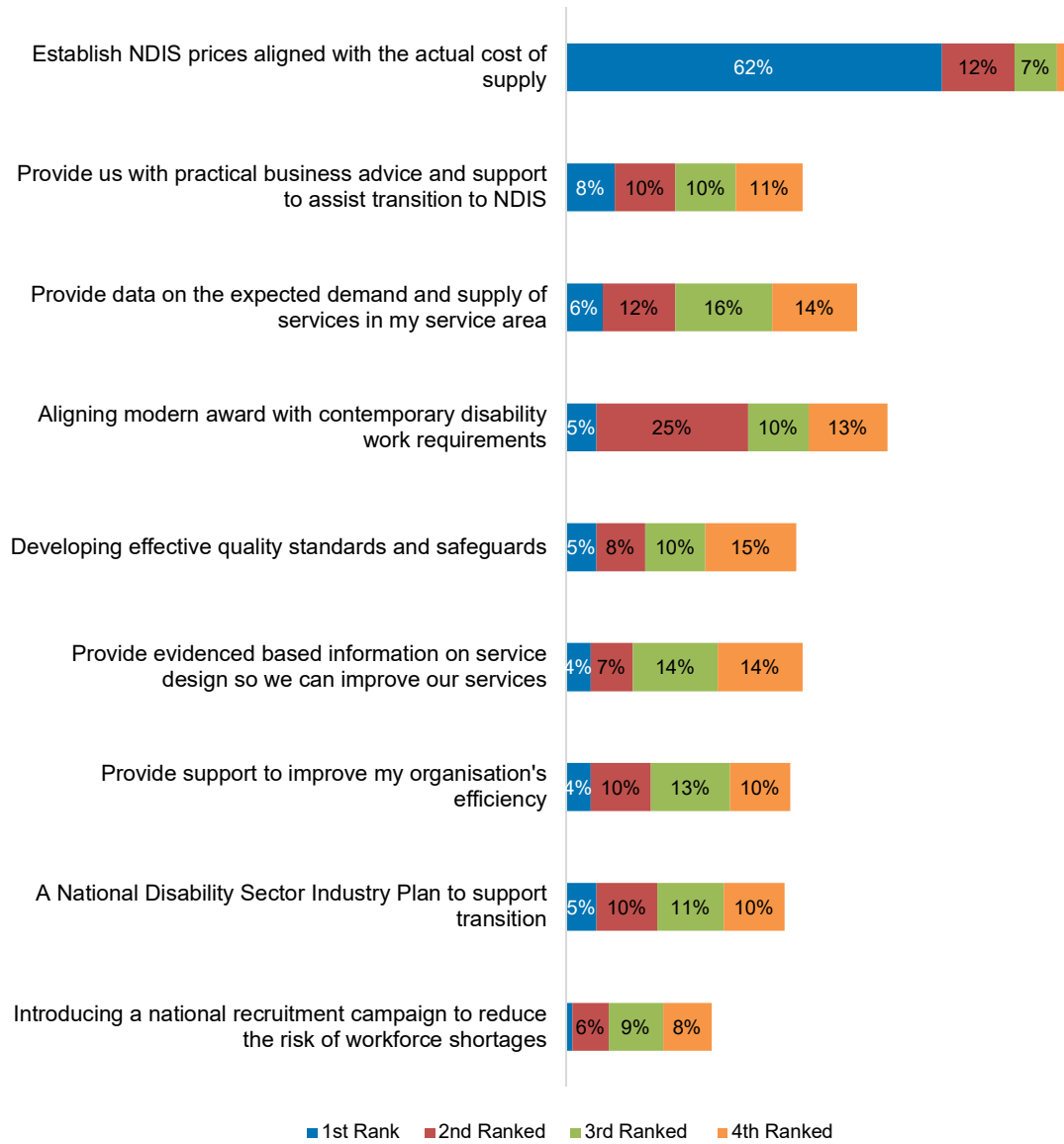
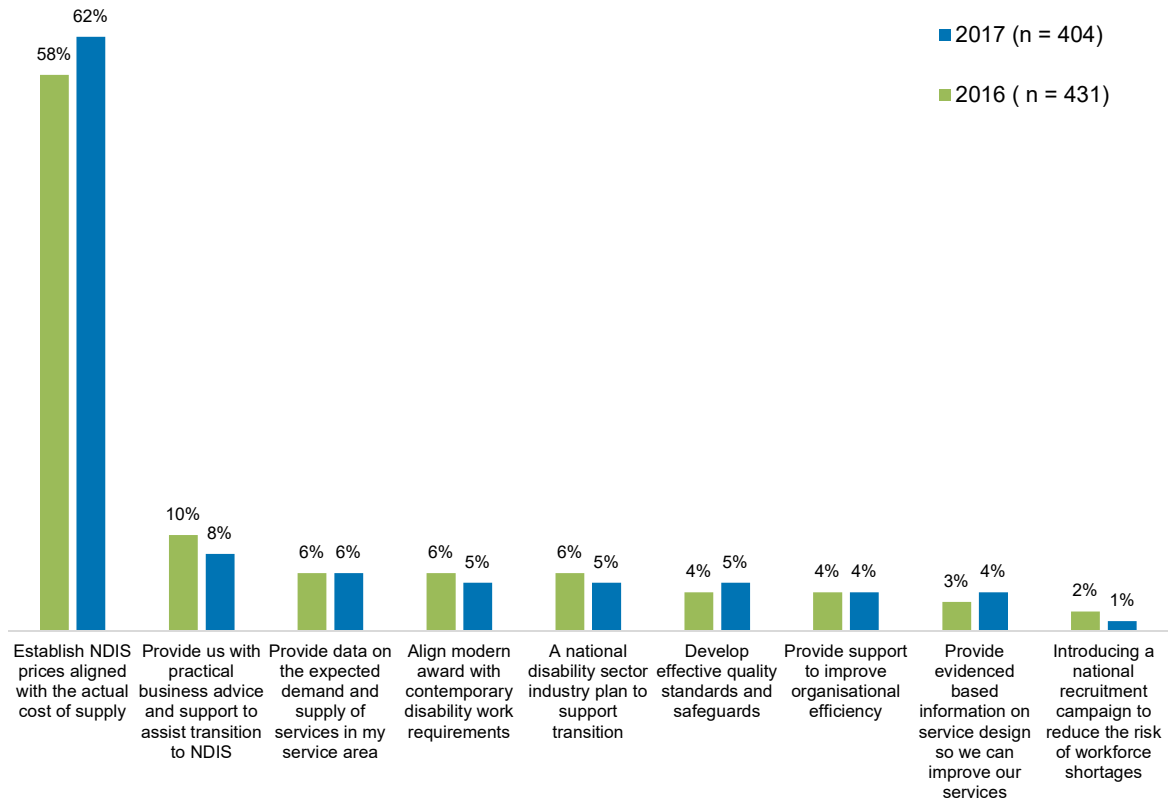


Figure 27 Government actions that would have the most impact on capacity to deliver service



Confidence Barometer

	W1 2014	W2 2014	2015	2016	2017
Last financial year					
Met or exceeded expectations	47%	50%	53%	51%	39%
Sufficient or more than sufficient financial resources	59%	61%	67%	77%	68%
Overall operating conditions in non-government disability sector have improved	N/R	10%	14%	22%	19%
Business conditions in the Australian economy have improved	N/R	7%	6%	13%	18%
This financial year					
Will meet all or exceed most expectations	62%	62%	64%	54%	43%
Will have sufficient or more than sufficient financial resources	51%	5%	55%	67%	57%
Labour costs will grow faster than income	N/R	N/R	N/R	43%	48%
Average costs per client will grow faster than income	N/R	N/R	N/R	40%	45%
Staff will increase	30%	45%	53%	59%	62%
Overall operating conditions in non-government disability sector will improve	N/R	16%	24%	28%	26%
Business conditions in the Australian economy will improve	N/R	8%	11%	20%	25%
Overall financial strength (strong and very strong)	N/R	N/R	N/R	51%	42%