Australia's Disability Services Sector 2019

The National Performance Benchmark Project – Report 3: Summary of Key Findings

May 2019

Professor David Gilchrist
University of Western Australia
Hackett Drive, Crawley
david.gilchrist@uwa.edu.au
Ph: 0404 515 270

Penny Knight
University of Western Australia
Hackett Drive, Crawley
Ph: 0431 994 545

Disclaimer

The information provided in this document is made available in good faith and is believed accurate at the time of publication. However, the document is intended to be a guide only and should not be seen as a substitute for obtaining appropriate advice or making prudent enquiries. The information is provided solely on the basis that readers will be responsible for making their own assessment of the matters discussed therein and that they should verify all relevant representations, statements and information. Changes in legislation, or other circumstances, after the document has been published may impact on the accuracy of any information or advice contained in the document and readers should not rely on the accuracy of information presented in this document. Information presented in this document does not constitute, and is not intended as advice nor used as an interpretive instrument. In the event of any inconsistency between this document and relevant legislation, provisions of the relevant legislation will prevail.

Neither the University of Western Australia (UWA) nor any employee or agent of UWA, nor any authors or contributors to this document shall be liable for any loss, damage, personal injury or death however caused (whether caused by any negligent or other unlawful act or omission of, by or on the part of UWA or otherwise) arising from the use of or reliance on any information, data or advice expressed or implied in this document.

Executive Summary

This is the third report of the National Performance Benchmarking Project.[1] It provides a summary of changes in the financial performance of a Panel of disability service providers between 2014/15 and 2016/17[2] as they transition into the National Disability Insurance Scheme (NDIS).

Reported data

The Panel of providers that have participated in this study has varied, with some losses (due to merger, lack of resources, etc) and some gains. For the 2017 year, the total number of registered Panel members for the financial survey was 154 of which 124 provided data for the 2016/17 financial year.

To provide the most accurate data on sector transition and to leverage one of the strengths in maintaining a panel, we have taken a conservative approach and included in this report findings related to the 99 organisations that provided reliable data for all three years of the study. The data from the other organisations will be included in later years. All participating organisations received an individualised benchmark report.

The National Disability Insurance Agency (NDIA) report that $2.16bn was paid to providers and participants in 2016/17. Therefore, the Panel comprises organisations that received 7.8% of NDIA expenditure.[3] As such, it provides a good snapshot of the performance of Australia's disability sector as a whole.

Key findings

Financial performance

The rate of growth of providers is falling well short of that needed to meet demand. The Total Income for the 99 organisations in the Panel was $1.87bn. Of this, $1.54bn, or 82%, was income from the provision of disability services, an increase of 8.8% since 2016 and a total increase of 17.8% over two years.

---

[1] *Also known as the Market Design and Evolution for Better Outcomes Research Program*

[2] *For the sake of brevity, we use the 2015, 2016 and 2017 to refer to the 2014/15, 2015/16 and 2016/17 financial years respectively.*

[3] *NDIS National Performance Report June 2018. Available from https://www.ndis.gov.au/medias/documents/national-performance-aug18/National-Performance-Report.pdf*

While this shows the sector has grown significantly, this rate of growth is insufficient to meet the forecast growth rate of the NDIA. In November 2016, the NDIA projected that the sector would grow from 17,000 participants in 2014-15 to 458,000 by 2019/20 with funding to increase from $8bn to $22bn or 175% in the three years.[4] Although thousands of new providers have entered the sector each year, only half are active and 44% are sole traders. The NDIA reports that 80% to 90% of payments are received by 25% of providers[5].

The survey data found that nearly half (48%) of the Panel report they were unable to meet demand for services (up from 35% in 2016) and 90% believe that they will be unable to meet demand in the next year. As such, it appears that organisations are not growing fast enough to meet demand for services.

Expenses for the provision of disability services increased to $1.49bn, of which 71.7% was Employee Expenses. As expenses grew faster than income, the Panel aggregate profit ratio fell from 4.4% to 3.5%. In total, 74% made a profit, 6% broke even and 20% made a loss.

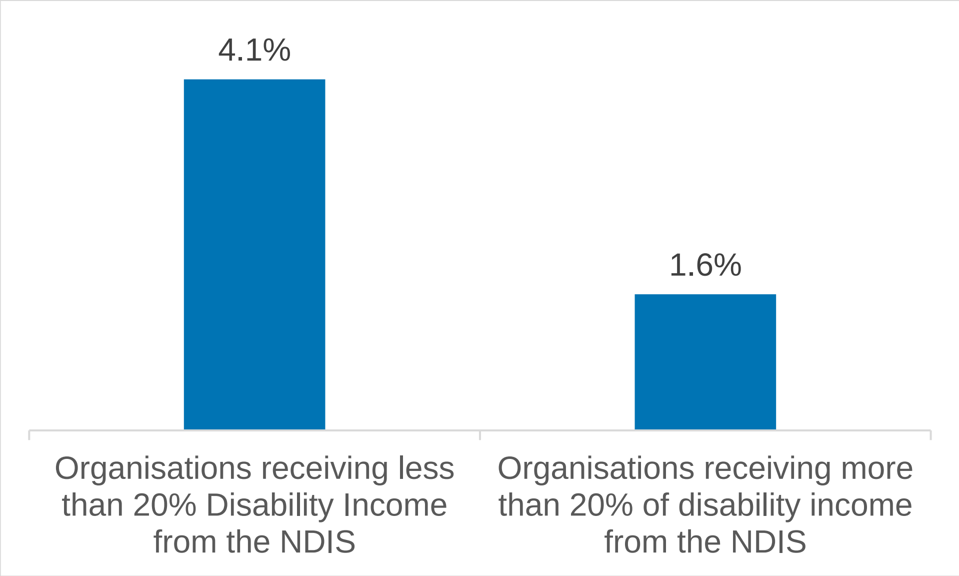
Importantly, when analysed by source of income, the results show that organisations receiving more than 20% of their income from the NDIS achieved significantly lower profit compared with organisations that had little or no NDIS funding and were still receiving funding from State/Territory governments or other Commonwealth Government sources. In total, these organisations made an aggregate profit of 1.6% compared with organisations receiving less than 20% of funding from the NDIS which achieved an aggregate profit of 4.1% (see figure 1).

---

4 National Disability Insurance Agency (2016) NDIS Market Approach. Statement of Opportunity and Intent. November 2016. Available from https://www.ndis.gov.au/medias/documents Statement-of-Opportunity-and-Intent-PDF-1.02MB-.pdf

5 NDIS National Performance Report as at June 2018. Available from https://www.ndis.gov.au/medias/documents/national-performance-aug18/National-Performance-Report.pdf

Figure 1: Aggregate Profit by Income Source



As in previous years, the larger organisations (income above $20m) achieved lower levels of profit than smaller organisations. There is also continuing evidence of polarisation of performance, with slightly more organisations making a profit, and fewer breaking even.

Disability Income from government sources was supported through donations totalling $36.2m, or 2.3% of all disability services income. In addition, two thirds of organisations received 'In-kind' services. These included free or heavily subsidised fundraising support (66%), support for AGMs (58%), Motor vehicles for service delivery (55%), and non-cash donations, such as furniture and equipment (54%). In total, 2,750 people also volunteered their time to support disability services, increasing the headcount of the disability workforce by 13%.

This demonstrates that, for a number of organisations, pricing is inadequate and is subsidised by donations and volunteer contributions.

Sustainability

The Net Assets of the panel increased from $655.9m in 2015 to $817.6m in 2017, representing growth of 24%. Organisations appear to be responding to the need to increase Current Assets to ensure they can transition to the NDIS, including in response to such business changes as the move to payments in arrears. Current Assets increased by 65% and the Aggregate Current Ratio now stands at $2:$1.

The Assets Ratio (the ratio of Total Assets to Total Liabilities) has remained at $3:$1 and the Return on Assets Ratio (Profit/Total Assets), which is an indicator of efficiency, has returned to 4.7% - similar to that achieved in 2015.

Staff

The disability workforce makes up approximately three quarters of the total FTE of Panel members. In 2017, these 99 organisations employed just over 14,000 FTE, an increase of 9% from the previous year, reflecting the growth in revenue and expenses.

The ratio of part-time to full-time staff (head count) increased from 1.9 to 2.5, continuing the strong preference towards the employment of part-time staff.

Importantly, the ratio of administration to care workers increased from 18.5% to 21.5%.

Clients and income by service

Of the 71,000 clients served by the panel, 23% were reported to be receiving at least some services funded by under the NDIS.

The average income per client when funded by sources other than the NDIS (State/Territory funding or other government funding) was higher on average ($16,976 per person) than the funding per client under the NDIS ($10,251 per person). This data is still under development, so should be treated with caution.

Overall Impact

The effective stewardship of the supply side of the Disability Services Market is critical to the future of the NDIS. Over the past three years, we have examined the sustainability and prospects for the development and maintenance of a strong supply side under the NDIS quasi-market funding system and identified a number of issues that, if left unchecked, are likely to cause significant harm to many of those people living with disability in Australia and to increase costs to government as it reacts to supply side failure.

It appears that the disability services sector is polarizing – some organisations are able to sustain service delivery while others are not. A gradual decline in the financial strength of many disability services providers was in effect prior to the introduction of the NDIS, but the financial pressures resulting from the NDIS are accelerating this decline.

The results of the Benchmark Study have once again found that the sustainability of major components of the Australian disability services sector are likely to be at risk and that the diversity of outcomes being faced by this sector strongly support the notion that successful market stewardship will rely upon the development of a nuanced and targeted Industry Development Plan.

Such a plan would consider the development of the sector in the context of a deep understanding of the diversity of the population of people living with disability. It would first recognise the variance in demand among service users and the resulting workforce needs, both in terms of quantity and capacity (experience and training), of the disability services sector. It would then focus on the development of necessary resources, allowing the market process to operate, where appropriate, or allowing for flexibility in the system where it serves the interests of Australians living with disability.

Acknowledgements

We acknowledge and thank all organisations that are part of our Panel for their anonymous contribution to this study. These organisations range from some of Australia's smallest to its largest disability service providers and, for some, providing the data required was a time consuming and complex process. However, they persevered in order to provide the evidence base needed to track sustainability in this changing environment.

We thank all current and past Panel members for their support and hope you (and others) will continue to participate in this project.

Australians with disability, their families and supporters, and ultimately the whole Australian community will benefit from a strong, efficient and innovative disability service sector.

This research was initially funded via a National Disability Research and Development Grant and via the Research and Data Working Group (RDWG), on behalf of all Australian Governments. For the 2016/17 financial year, the research was funded by NDS, together with a financial contribution from the NSW Government (Family and Community Services). The research commenced in 2014 by Curtin University and is now being undertaken by the University of Western Australia in partnership with National Disability Services, however, the research team remains the same. This report constitutes the third output of the program.

This report should be cited as follows:

Gilchrist, D. J. and P. A. Knight, (2018), Australia's Disability Sector 2018: Report 3 - Financial Performance: Summary of Key Findings.

Enquires should be addressed to:

Professor David Gilchrist
University of Western Australia
David.gilchrist@uwa.edu.au

Ph: 0404 515 270

Gordon Duff
General Manager – Sector Development and Research
National Disability Services
Gordon.duff@nds.org.au

Ph: 02 9256 3117

Contents

Introduction

The National Disability Insurance Agency (NDIA), along with the Commonwealth, state and territory governments, is responsible for the development of an efficient and sustainable supply-side for the provision of services to meet the needs of people accessing the National Disability Insurance Scheme (NDIS).[6]

The NDIA expects it will take three to five years for supply-side transition to occur and that the NDIS marketplace will eventually comprise For-profit and Not-for-profit (NFP) entities as well as alternative business models. Two of the key elements of the NDIA's and governments' market stewardship role is monitoring the NDIS supply-side to assess whether outcomes are being achieved and, directly and indirectly, facilitating change through the provision of information and price setting signals.

This research program focuses on supporting these aims by providing the NDIA and governments with independent and detailed information regarding the financial performance and relative sustainability of disability service provision in Australia. In doing so, it also provides information to providers, National Disability Services (NDS) and the broader community.

As such, this research has already played an important role in monitoring the transformation of the sector. It aims to identify risks, monitor change and identify any undesirable consequences together with potential strategic responses. Importantly, previous reporting has identified a number of potential outcomes which have manifested subsequently, confirming the value of the Panel approach taken in this study.

The first wave of the study consisted of four surveys over two years: two surveys examining financial performance and two examining organisational response. This third year of study, and this report, includes information related to the third year of monitoring the financial performance and sustainability of service providers.

This is the first benchmarking program established in Australia focusing on the disability services sector and it is the largest and most comprehensive study of the financial sustainability of organisations that provide disability services in Australia.

---

6 *National Disability Insurance Agency (2016) NDIS Market Approach. Statement of Opportunity and Intent. November 2016. Available from https://www.ndis.gov.au/medias/documents Statement-of-Opportunity-and-Intent-PDF-1.02MB-.pdf*

Approach

This research is being undertaken using a Panel of service providers from across Australia. The Panel was originally recruited based on existing information relating to the size (by turnover), location of operations (state or territory) and the population of all disability service providers. In 2015, all organisations that were registered with the NDIA as providers of services or were members of NDS were emailed and invited to join the Panel. Of over 200 respondents, 180 provided usable data for Wave 1 forming the Panel and these are being tracked over time. By tracking the same organisations, we can more accurately examine change as they transition to the NDIS, creating much higher predictive capacity in relation to supply-side change.

However, while ideally members of the Panel would be consistent over time, this was not possible as some members of the Panel closed or merged, others exited the supply of disability services and yet others, despite committing to participation, withdrew from the Panel. The collection of data can be complex, resource intensive (in time and money), and can be seen as a lower priority than other apparently more pressing issues.

Importantly, we also had organisations join the study each year. Table 1 shows the inflows and outflows of members of the Panel. Feedback from Panel members included that they were appreciative of the individual reports provided as it gave them important decision-making information never previously available, enabling evidenced based decision making.

Further information on the research methodology can be found in the Appendix.

This report

This report presents the top-level findings from Wave 5: Financial Performance. It summarises and compares the performance data from the 2014/15, 2015/16 and 2016/17 financial years for those organisations that have consistently provided data.

The use of medians

As the distribution of financial data – such as income, expenses, assets and liabilities – is strongly skewed, the median rather than the average is used as a measure of the 'midpoint' or 'typical' organisation. As the median is the midpoint of the Panel, 50% of organisations have a total or score higher, and 50% have a total or score lower than the median score. We believe that this data point is of higher value in analysing the sustainability of the Panel than the mean or average.

The Panel

The decline in participation in 2016 and 2017 was expected and is consistent with other studies of this kind. In the first year, research participants are enthusiastic to participate, and organisations fulfil their initial commitment to the study, despite some of the challenges. In years two and three, there is a decline in participation as organisations are aware of the limits of their own data and the resources required to source and provide this data in the format required. In addition, in these early years, the benchmark reports they receive are only providing one or two years of data and the benefits of participation may appear to be outweighed by the costs.

Table 1: Panel gains losses and size 2015, 2016 and 2017

Source of income	2015	2016	2017
Initial participants (invited to provide data)	200	180	154
Joined	N/A	9	2
Left (formally resigned)	N/A	7	7
Total that provided data two years	180	154	124
Total that provided data for three years (this report)	180	154	99

To maximise continued participation and attract new members we significantly revised the research approach, data collection tools and reports in 2017. Specifically, we;

1. Substantively revised the data collection template to

    - Pre-populate organisation data to reduce data re-entry
    - Pre-populate financial and other data from previous years to enable users to compare their data and confirm or correct in the same document
    - Build data validation checks into the template to identify areas data entry was missed, that might be erroneous or where results were significantly different to previous years
    - Provide an analysis page that immediately presented Panel members' key ratios for use by organisations assisting them to identify any major errors.

2. Developed a 'case manager' support structure. Participants were allocated a case manager at the commencement of the 2017 data collection. These case managers were introduced then provided one-to-one support to complete the template. Case managers reviewed the completed templates as they were returned, and emailed and phoned Panel members to chase up late responses, correct data omissions or errors and answer enquiries. Our research team sent more than 400 follow-up emails and made more than 300 personal phone calls. We also populated some key financial information for organisations ourselves using published sources, including from the Australian Charities and Not-for-profits Commission data set and organisations' own published financial information (from their websites).

3. Developed and implemented branding and marketing support, along with the establishment of a project-specific website.
4. Built and deployed an innovative, cloud-based reporting tool. After investigation of options, Microsoft Power BI was deployed to provide users with a digital version of the report that now enables CEOs, Chief Financial Officers, board members and others to select the data, years and formats of information that best suits their purposes. Power BI was chosen as Microsoft products are most widely used by the organisations in our Panel. To enable Panel members to access the report, a full licence to Power BI Pro was purchased on their behalf. As such, Panel members can use this licence to use the benchmark report and for their own in-house reporting.

In 2018, we also interviewed representatives from the organisations that had left the Panel. Of those that were continuing to provide disability services and had not merged or otherwise changed their structure, the main reasons given for leaving were the time and resource requirements associated with participation and/or the lack of data.

Even for those organisations with robust accounting and client data bases, completion of the form took 60 to 90 minutes. For many others, their databases and management accounts had not yet been re-organised or changed to accommodate the NDIS and therefore data had to be collected and compiled from several sources.

The representatives interviewed were very supportive of the project and apologetic for leaving the Panel. In most cases, they intended to re-join once their data bases were improved and they had resources available.

Reporting

As the study continues, we will adjust for changes in the composition of the Panel over time.[7.] However, at this point, the most accurate and useful way to present the findings of the Panel is to use only the data from those organisations that participated for all three years and from whom the quality of the data appears reliable.

To do this, in this report, we have identified the core Panel and have re-collated and analysed their data for each of the longitudinal study years – 2015, 2016 and 2017. This means the aggregate data in this report is different to that in previous reports as there are fewer organisations in the data set. In addition, organisations were able to update information that they have provided in previous years.

The results have been analysed at three levels as follows:

---

7 *These include weighting the results and replacement with like organisations.*

- The whole Panel. Analysis at this level shows the overall results for all organisations and provides a good representation of the disability services supply-side. The aggregated data reduces the impact of ad hoc or unusual results from any single organisation or any small group.
- By four organisational size cohorts. Examination and comparison of ratios for each of the size cohorts provides insight into the variation of financial sustainability and change for organisations of different sizes. It also enables the establishment of baseline levels for the different size cohorts.
- At the individual organisation level. This analysis was undertaken to provide feedback for individual organisations. This data is confidential and provided individually to participants via the tailored benchmark report discussed above.

Size cohorts

The number of organisations, the contribution each of them make to the total Panel income by size cohort, and their location of operation is shown in the tables below.

Table 2: Profile of all Panel members by income

	Annual turnover	No. Organisations	Percentage total income %
Very small	Less than $1m	16	0.3%
Small	$1m to $5m	51	5.5%
Medium	$5m to $20m	63	25.9%
Large	$20m +	24	68.3%
Total		**154**	**100.0%**

Table 3: Profile of Panel members included in the data set by income

	Annual turnover	2016 %	2017 %	Respondents to Markets Survey (ex Panel)	2017 No. Organisations
Very small	Less than $1m	10%	12%	43%	12
Small	$1m to $5m	33%	24%	25%	25
Medium	$5m to $20m	41%	45%	20%	46
Large	$20m +	16%	19%	12%	20
Total		100	100%	100%	103

Location

Table 4: Location of head office

	Very small (Less than $1m)	Small ($1m to $5m)	Medium ($5m to $20m)	Large ($20m+)	All	Respondents to Markets Survey (excl. Panel)
New South Wales	2	8	14	9	33	34%
Victoria	1	9	16	5	31	17%
Queensland	2	3	4	0	9	13%
Western Australia	2	2	4	6	14	10%
South Australia	2	3	3	0	8	9%
Tasmania	1	1	2	0	4	5%
Australian Capital Territory	0	0	2	0	2	8%
Northern Territory	1	0	1	0	2	4%
Total	**11**	**26**	**46**	**20**	**103**	**100%**

Our Panel

The disability services sector is complex and varied, reflecting the needs of the people it serves. In presenting consolidated data and statistics, it is easy to lose sight of the enormous variability of the organisations that form the Panel and the wider sector.

The members of our Panel include:

- Some of the largest providers of disability services in Australia, including those with income over $100m per year, hundreds of staff and serving clients in more than one State or Territory.

- Some of the smallest disability service providers, with less than three employees and who serve a very small population of people living with disability.

- Organisations operating solely in metropolitan areas and those operating in some of Australia's most remote locations.

- Organisations providing residential accommodation services for people with severe and complex disabilities that require 24-hour care and those providing therapy services, in-home support, aids and equipment and employment services. Some specialise in one service area, others provide a wide range of services.

- Large and small organisations that mostly provide other human services, such as aged care, child protection and support for the homeless, whilst still providing some disability services.

- Organisations that have just commenced providing services under NDIS and those whose income is sourced solely through NDIS.

- Faith-based and secular organisations, as well as those that arose through government outsourcing.

- Not-for-profit organisations (many of which are charities) driven by a mission to serve, and For-profit organisations with shareholders.

- Entities that are more than 70 years old that are established and respected members of their community, and others that have only a year or two of experience in the provision of disability services.

Three-year comparison of the core Panel

Are organisations growing and are they profitable?

Aggregate Income

Aggregate Income is the sum of all income for all organisations in our Panel. It provides an indication of the overall size and economic scale of the group of organisations included in this research while the change over time shows the rate of growth of the group.

It is important for readers to be aware that the Aggregate Income records changes in the income from all sources. For instance, in 2017, 29% percent of organisations in the core Panel provided services other than disability services. That is, their total income included income from additional services such as Aged Care, Child Protection and Mental Health.

The Aggregate Income for the Panel grew from $1.62bn to $1.87bn in the three years from 2015 to 2017, an increase of 16.3%. Between 2015 and 2016, income grew by 8.1% and, between 2016 to 2017, by a further 7.6% compared to the previous year.

In relation to data on the sources of income, Figure 2 shows that State/Territory governments are still the major source of income for organisations. In 2015, $1.12bn or 68.6% of income was derived from State/Territory governments and this increased to $1.15bn in 2016, declining to $1.13bn in 2017.

Although income from State and Territory governments as a percentage of total income has declined from 68.6% to 60.0%, in dollar terms organisations still received slightly more income from State/Territory governments in 2017 than they did in 2015.

Similarly, the amount of funds received from the Commonwealth Government (other than NDIS income) has also increased from $193m in 2015 to $248m in 2017 and still represents 13.2% of total income.

The continued growth in income from State/Territory governments and the Commonwealth Government (other than NDIS) masks the very large growth in funding from NDIS. For the Panel, NDIS income grew by 106.3%, that is, from $23m to $168m in three years. Although this is a three-fold increase from 3% to 9%, NDIS income represented only a small portion of total income for these organisations in the 2017 year. As organisations are not exclusive providers of disability services and providers receive income for the provision of disability services from sources other than the NDIS (including fees for service), it is very unlikely that the NDIS will ever account for 100% of the Aggregate Income of the Panel.

This situation is supported by the fact that income from donations and bequests has remained constant at 2% of Aggregate Income. In dollar terms, the income from donations was down slightly from $40.4m in 2016 to $39.4m in 2017.

Figure 2: Sources of Aggregate Income ($m) 2015, 2016 and 2017

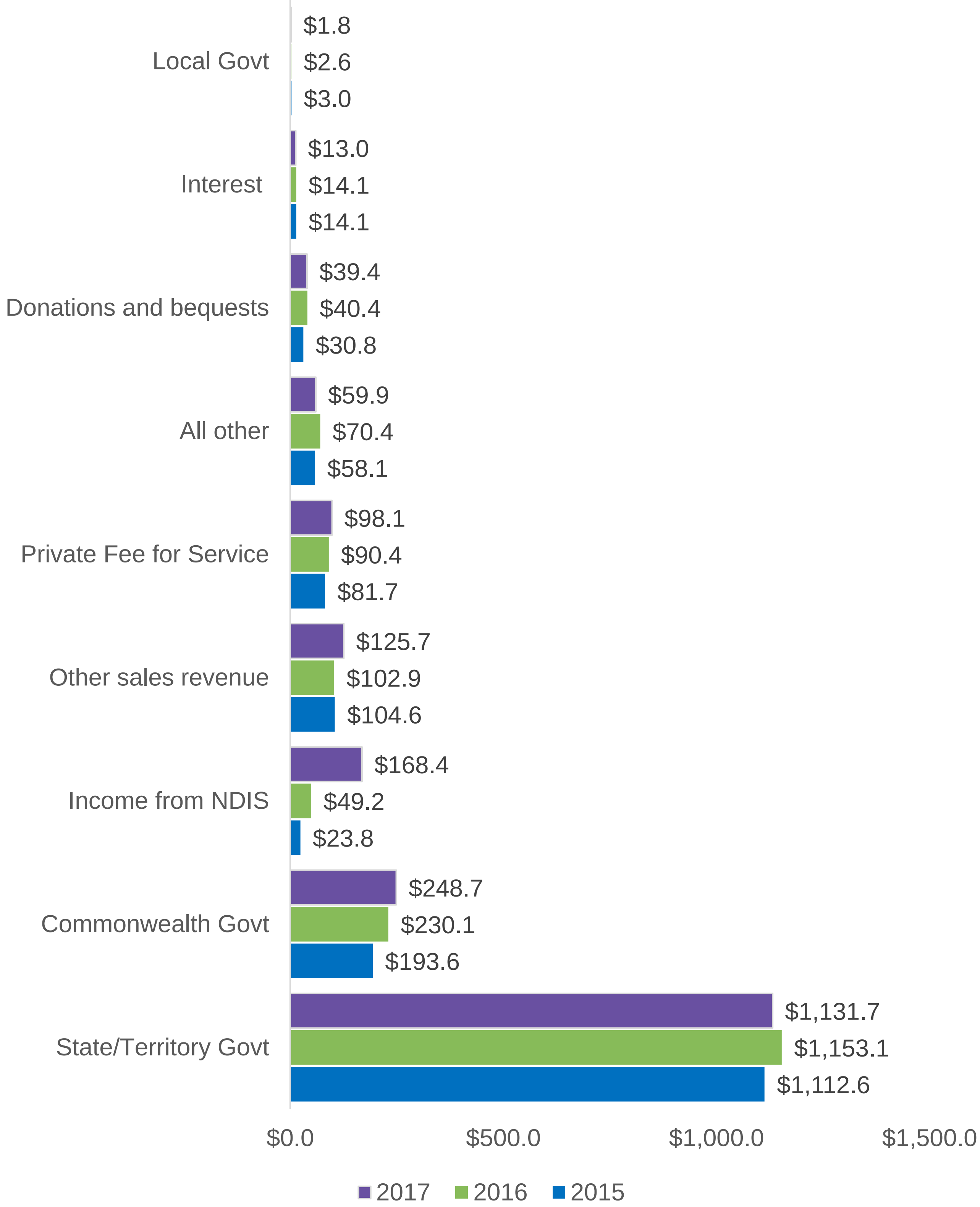


Table 5: Sources of Aggregate Income (%) 2015, 2016 and 2017.

Source of income	2015 %	2016 %	2017 %	2017 Total income All Orgs $m
State/Territory governments	68.6%	65.8%	60.0%	$1,131.7
Commonwealth (excluding NDIS)	11.9%	13.1%	13.2%	$248.7
NDIS	1.5%	2.8%	8.9%	$168.4
Other sales revenue	6.4%	5.8%	6.6%	$125.7
Private fee for service	5.0%	5.2%	5.2%	$98.1
All other income	3.6%	4.0%	3.2%	$59.9
Donations and bequests	1.9%	2.3%	2.1%	$39.4
Interest income	0.9%	0.8%	0.7%	$13.0
Local governments	0.2%	0.2%	0.1%	$1.8
Total Income	**100%**	**100%**	**100%**	$1,886.7

Aggregate Expenditure

Total Aggregate Expenditure, that is, the sum of all expenses of the Panel increased from $1.57bn in 2015 to $1.83bn in 2017 - an increase of 16.4%. That is, the increase in expenses over the three-year period was slightly higher than the increase in income. Between 2015 and 2016, expenditure grew by 7.4% and between 2016 and 2017, by a further 8.4%.

The proportion of Aggregate Expenditure allocated to different expense types has changed little over the three years. Employee expenses, including training, remains the largest expense accounting for 71.3% of total expenses. In dollar terms, the Panel spent $1.3bn on Employee Expenses in 2017, compared with $1.16bn in 2015, an increase of 16.9%. This growth reflects both an increase in staff headcount and an increase in average salaries and other workforce costs.

Figure 3: Aggregate Expenditure by type ($m) 2015, 2016 and 2017

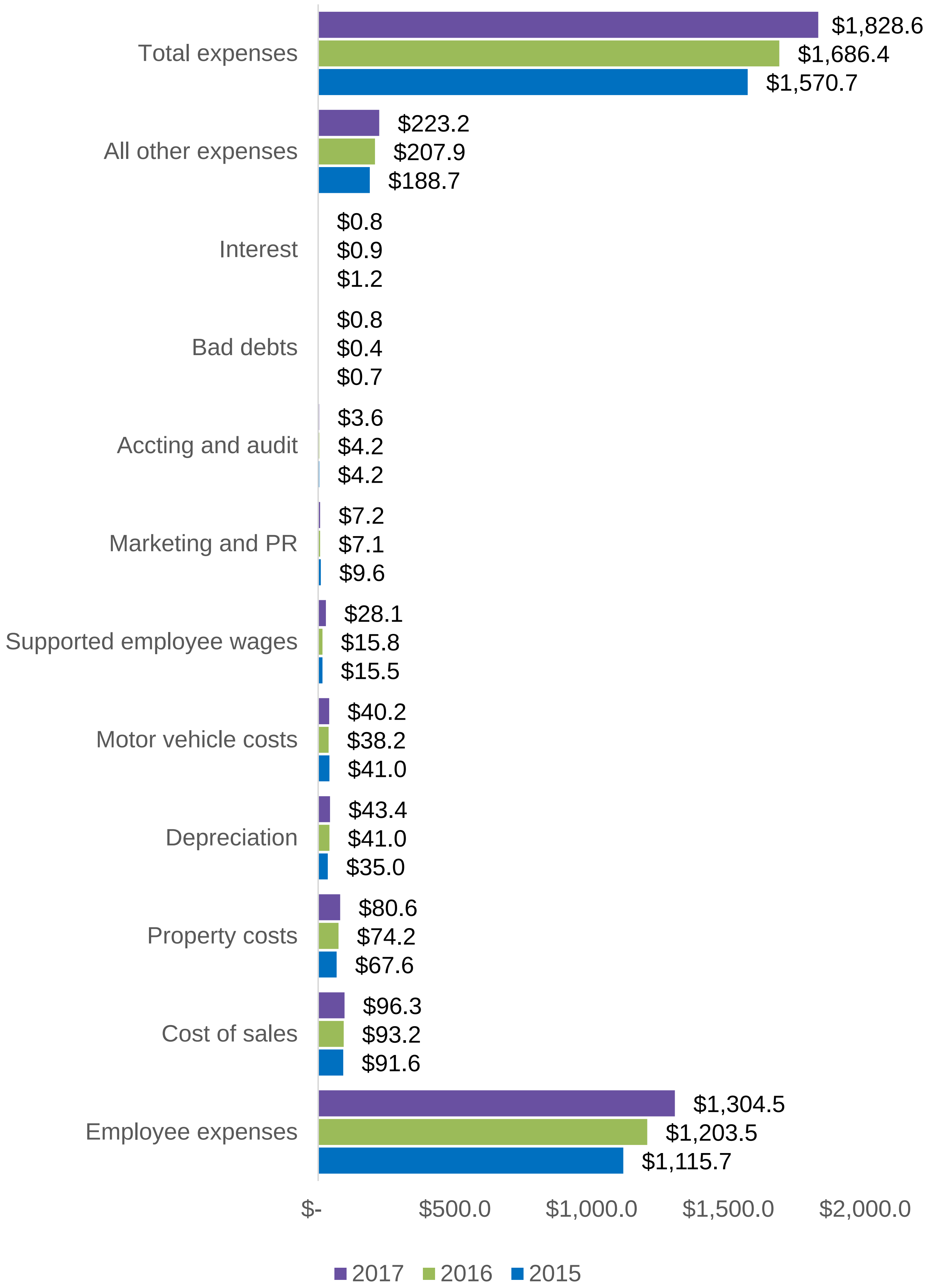


Table 6: Aggregate Expenditure by type (%) 2015, 2016 and 2017

Expense classification	2015 %	2016 %	2017 %	2017 $m
Employee expenses	71.0%	71.4%	71.3%	1,304.5
All other expenses	5.8%	5.5%	5.3%	223.2
Cost of sales	4.3%	4.4%	4.4%	96.3
Property costs	2.2%	2.4%	2.4%	80.6
Depreciation	2.6%	2.3%	2.2%	43.4
Motor vehicle costs	1.0%	0.9%	1.5%	40.18
Supported employee wages	0.6%	0.4%	0.4%	28.1
Marketing and public relations	0.3%	0.2%	0.2%	7.2
Accounting and audit	0.0%	0.0%	0.0%	3.6
Bad debts	0.1%	0.1%	0.0%	0.8
Interest	12.0%	12.3%	12.2%	0.8
Total expenses	**100%**	**100%**	**100%**	$ 1,828.6

Aggregate Profit

The profit ratio (or profit margin) indicates how much income is retained by the organisation after expensing all costs and is an indicator of efficiency. It is calculated as:

$$\frac{\text{Total Income} - \text{Total Expenses}}{\text{Total Income}}$$

and presented as a percentage.

Aggregating the operating results of organisations is not an accounting process, but it does provide an indication of the overall performance of this group of organisations.

Table 7: Aggregate Profit 2015, 2016 and 2017

	2015	2016	2017
Profit before tax ($m)	$86.5	$107.8	$101.0
Aggregate Net Profit (%)	5.33%	6.15%	5.38%
Median Net Profit	3.9%	3.0%	4.2%

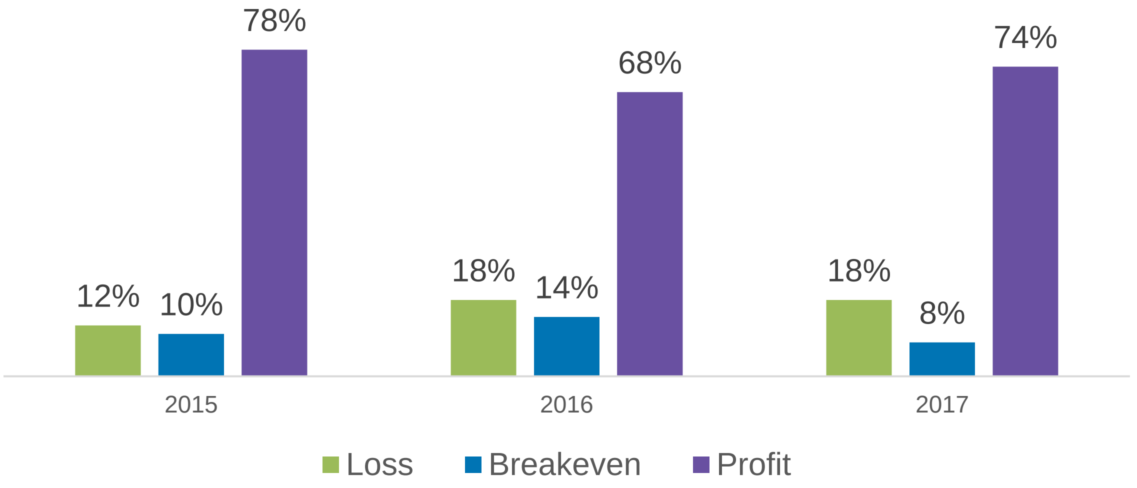
The Aggregate Profit for the Panel in 2016 was $107.8m (6.15%) but this fell to $101.0m (5.38%) in 2017. That is, while income has grown, the amount of this income expended on service delivery has also increased.

Organisation profit

For the purposes of this study, organisations are considered to be making a profit if they achieve a profit ratio of 1% or more. In 2017, 74% of Panel members made a profit, compared with 68% in 2016, but this result was still slightly lower than the 2015 result (78%).[8]

Aggregate Income, donations and bequests represent 2.1% or $39m in 2017. This income is used to deliver services and, if not available, organisations would have to either reduce services or achieve significantly lower profits. Without these donations, service sustainability would be negatively impacted.

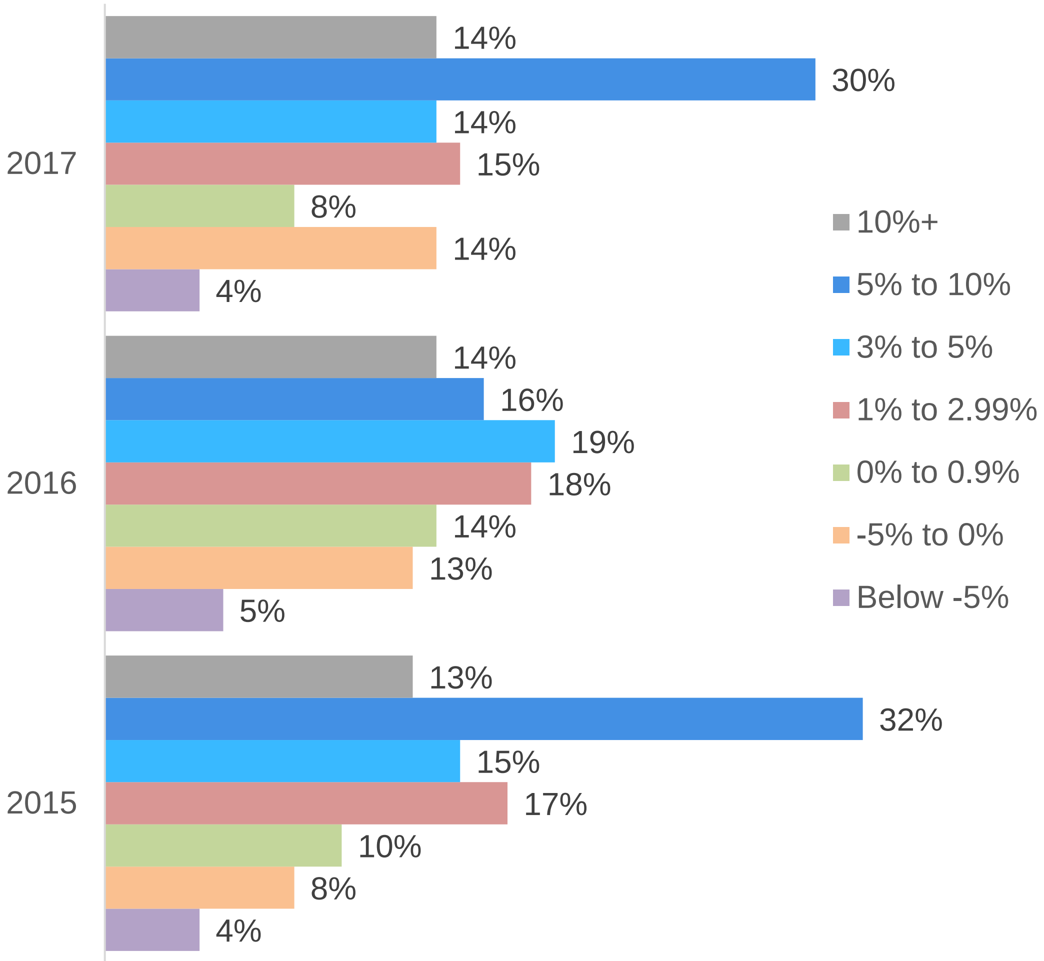
Figure 4: Percentage of organisations making a profit, loss or breaking even 2015, 2016 and 2017



When organisational profitability is analysed in more detail, the distribution of profits in 2017 is similar to that in 2015, albeit there were slightly more organisations making a loss in 2017. In 2017, 30% of organisations made a profit between 5% and 10%, similar to 2015, whereas 14% made a loss of between -5% to 0%, similar to 2016. The results for 2017 confirm the polarisation of profits which was first identified by this study in the 2017 Disability Markets Survey.

8 *Breakeven is defined as achieving a profit ratio of between 0% and less than 1%.*

Figure 5: Distribution of profits 2015, 2016 and 2017



The large variation in profits by size cohort reported in previous years continues. The small and medium size organisations reported the highest median profits at over 4.5%. As seen in 2015, the large organisations reported the lowest median profits overall. The most notable trend is the consistent decline in median profit for the very small organisations to 4.3% in 2017.

Again, these results suggest that larger organisations (those with income over $20m) are not more profitable.

Figure 6: Median Profit Ratio by size cohort 2015, 2016 and 2017

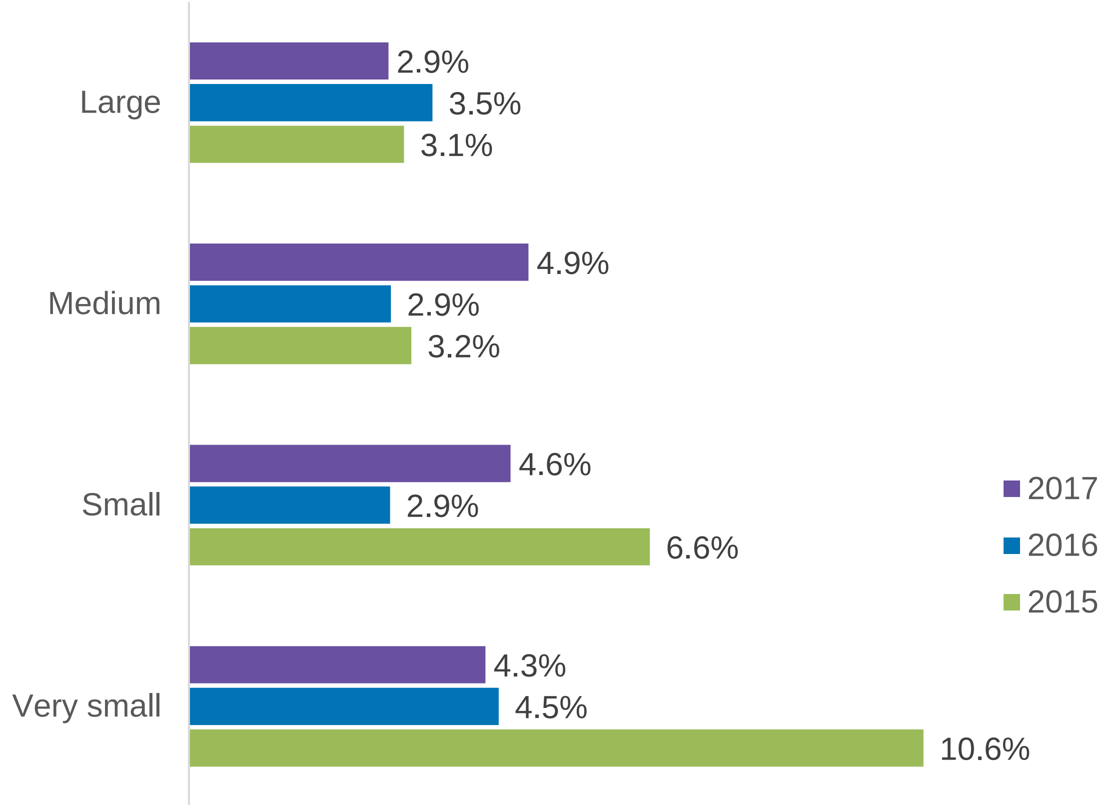


Table 8: Median Profit Ratio for size cohort 2015, 2016 and 2017.

Median profit	2015 %	2016 %	2017 %
Very small	10.6%	4.5%	4.3%
Small	6.6%	2.9%	4.6%
Medium	3.2%	2.9%	4.9%
Large	3.1%	3.5%	2.9%
All Orgs	3.9%	3.0%	4.2%

In dollar terms, the median profit generated by the medium size organisations has shown the strongest growth over the last three years. In contrast, the median profit of the largest organisations has declined significantly between 2016 and 2017. At this point in the research program, the median data provides only an indication of results and a more accurate picture of shifts in median profits will be achievable in future years.

Table 9: Median profit for size cohorts ($) 2015, 2016 and 2017

Median profit	2015 $	2016 $	2017 $
Very small	24,859	25,602	25,184
Small	153,134	86,166	153,025
Medium	296,177	196,042	465,938
Large	916,220	1,089,600	718,712

The NDIA has stated that the new consumer-controlled marketplace for disability services will "harness the power of the markets to achieve better outcomes for people with disability" and that the market will drive improvements in efficiency and effectiveness of service delivery.[9] Often, economic commentators assume that larger organisations are more efficient and profitable due to economies of scale. While this is true in some industries, it is not a universal phenomenon. In our previous report from this project (Report 2 – Financial Performance Summary of Key Findings) we noted a number of reasons that profitability may not increase with size for human services organisations and/or under the NDIS pricing structure. Information from Panel members and commentary from the sector suggests that:

- The ratio of fixed to variable costs is not high enough to achieve reductions in costs at higher scales of service delivery.
- Larger organisations may be spending relatively more on NDIS readiness than smaller organisations.
- Larger organisations hold more plant and equipment and so amortisation and depreciation are larger expenses for them.
- Smaller organisations may be operating with fewer levels of management and administration and with fewer specialist administration staff (e.g. they may not have a specialist Human Resources or Information Technology manager). They may also have more volunteer board members involved in direct management of the organisation – all serving to reduce costs.
- Smaller organisations may not be accounting fully for increases in liabilities caused by employee entitlement increases, outstanding GST or other liabilities

---

[9] *National Disability Insurance Agency (2016) NDIS Market Approach. Statement of Opportunity and Intent. November 2016. Available from https://www.ndis.gov.au/medias/documents Statement-of-Opportunity-and-Intent-PDF-1.02MB-.pdf*

due to cash accounting processes and the limited reporting requirements of small charities.[10]

- Smaller organisations may be involved in the provision of services which are peripheral to larger organisations and generate a higher profit.

Pricing is also a key factor. If prices under the NDIS are lower than the funding previously provided to deliver services, providers will make lower profits or make losses per unit of service unless they can re-engineer service provision to improve efficiency while not reducing quality below threshold levels. There can be significant clinical and other risks associated with responding to price signals in isolation of a quality framework, especially where that quality framework does not drive pricing.

How have balance sheets changed from 2015 to 2017?

Between 2015 and 2017, the Total Assets of the Panel organisations increased from \$1.04bn to \$1.25bn - an increase of 20%. Total liabilities increased from \$385.6m to \$408.8m or an increase of 6%. As a result, the growth in Net assets was 25% over the three years.

Nearly all Panel members are Not-for-profit (NFP) entities and, for these organisations, Net Assets can only be increased through retained earnings (that is, from profits from operations) or donations. As the Aggregate Profit of these organisations has fallen (see previous section), this reflects a conservative approach taken by these organisations.

Over the three years, there have been changes in the ratio of assets and liabilities by type. There was growth in assets in all categories, with the largest percentage growth in Accounts Receivable and Other Current Assets. The growth in Accounts Receivable may reflect the change in income timing and recognition, resulting from the shift to payment in arrears for NDIS services. This growth may also result from any delays in payments for services rendered. The total amount of Non-current Assets has increased in dollar terms, but continued to decline as a proportion of total assets. This may be an indication of organisations' lower rates of investment in non-current assets or, for some, the use of non-current assets to fund operations. It will be important to monitor the changes in these assets over the next few years.

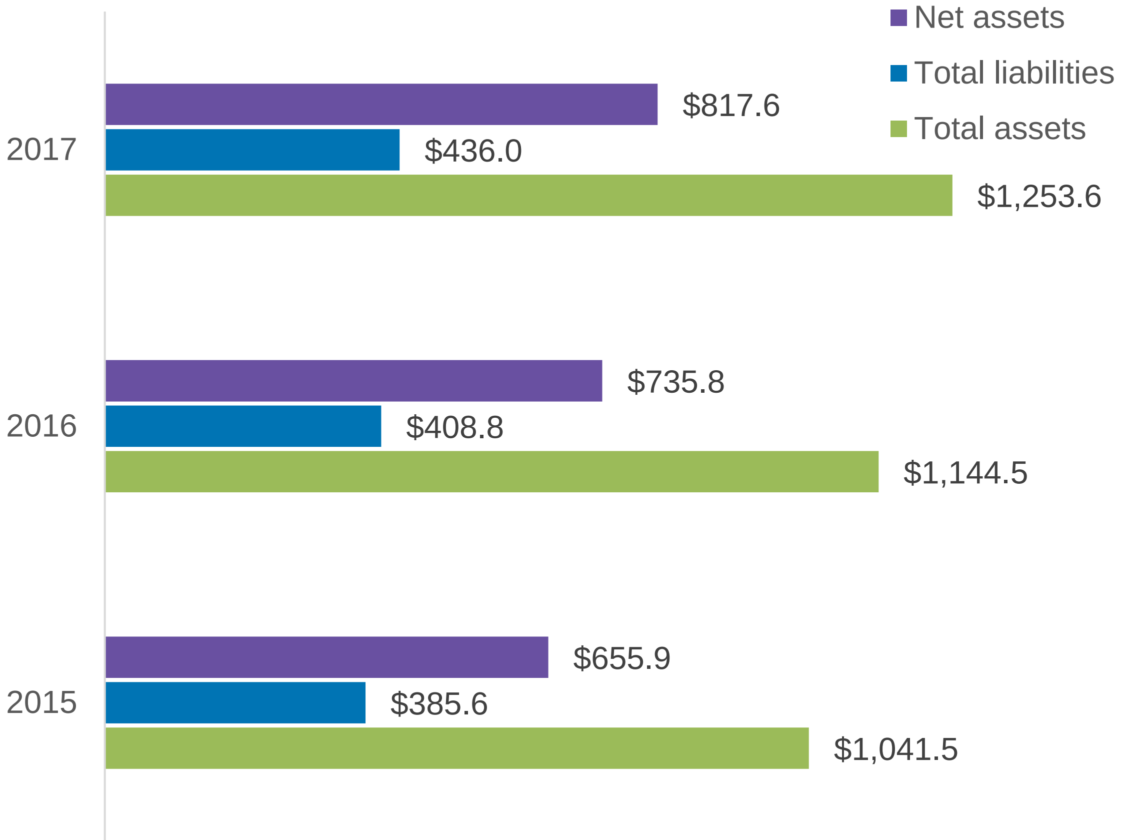
Accounts payable has also increased in dollar and percentage terms, which may reflect organisations extending the time they take to pay creditors. Which may also reflect prudent financial management. However, in some cases it can indicate that organisations may be starting to struggle to pay debts when they fall due. As the

---

10 For instance, see the Australian Charities and Not-for-profits Commission at acnc.gov.au

Current Ratio for the Panel has increased (see below) the overall growth in accounts payable is not cause for concern at this point.

Figure 7: Changes in Total Assets, Total Liabilities and Net Assets ($m) 2015, 2016 and 2017



Understanding Balance Sheets

The Balance Sheets of NFP organisations cannot be directly compared with those of for profit entities.

NFPs balance sheets include assets that can be identified as restricted and unrestricted assets. Restricted assets are usually sourced from donors or government and their use may be limited. As such, they may not be able to be deployed in the way the organisation wishes. For instance, they may not be able to be sold or used for purposes other than the purposes for which they were provided. Therefore, they are not able to be realised for cash or used as collateral when seeking to borrow from banks or other lenders. Unrestricted assets, on the other hand, are assets that are able to be deployed or realised at the discretion of the NFP. However, these assets often can't be used as collateral or sold as they are critical to the operation of the organisation, and their sale (say, upon realisation by a bank) would result in significant dislocation for people accessing services.

Even where assets are owned outright and with no limitations on their use, the value of the asset can be lower than is recorded on the balance sheet as they cannot be easily liquidated (for example, land zoned for provision of community services) or cannot be foreclosed on as this would tarnish the image of the lender (for example, a bank foreclosing on a loan to a disability accommodation provider).

In addition to the limits on the use of their assets, and unlike For-profits, NFPs are also not able to raise funds and increase net assets via increased shareholder investment or the sale of equity. This means they must rely on their retained earnings (net profit) or donations to increase net assets. As they have fewer options for raising funds, NFPs can appear to have comparatively stronger balance sheets and be more conservative in their stewardship and use of assets than equivalent For-profit organisations.

Figure 8: Changes in Assets by Type ($m) 2015, 2016 and 2017

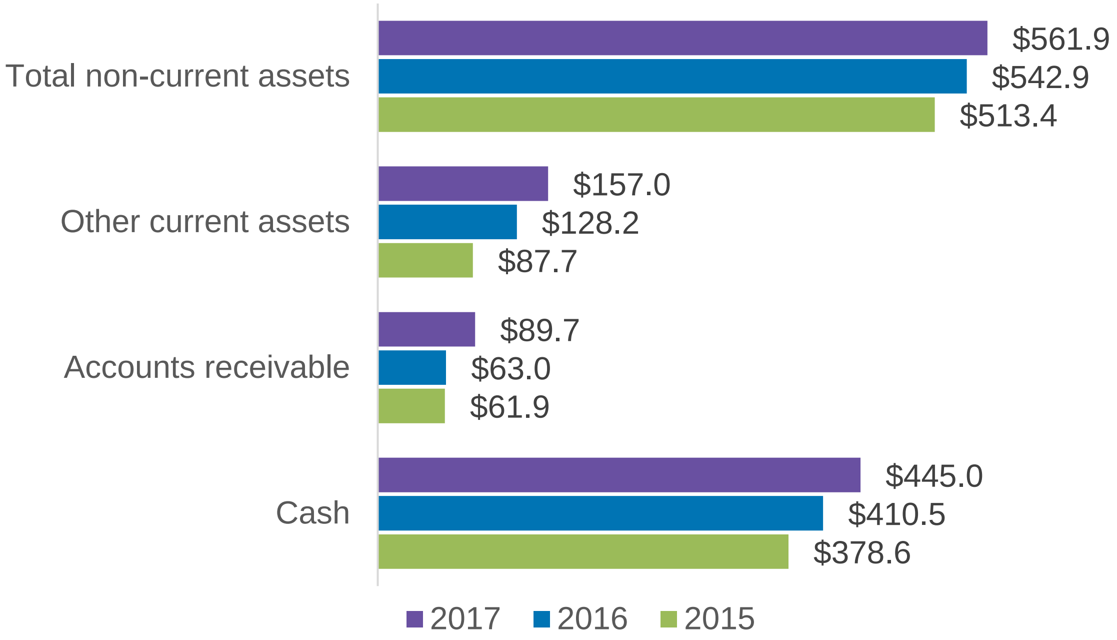


Figure 9: Changes in Liabilities by Type ($m) 2015, 2016 and 2017

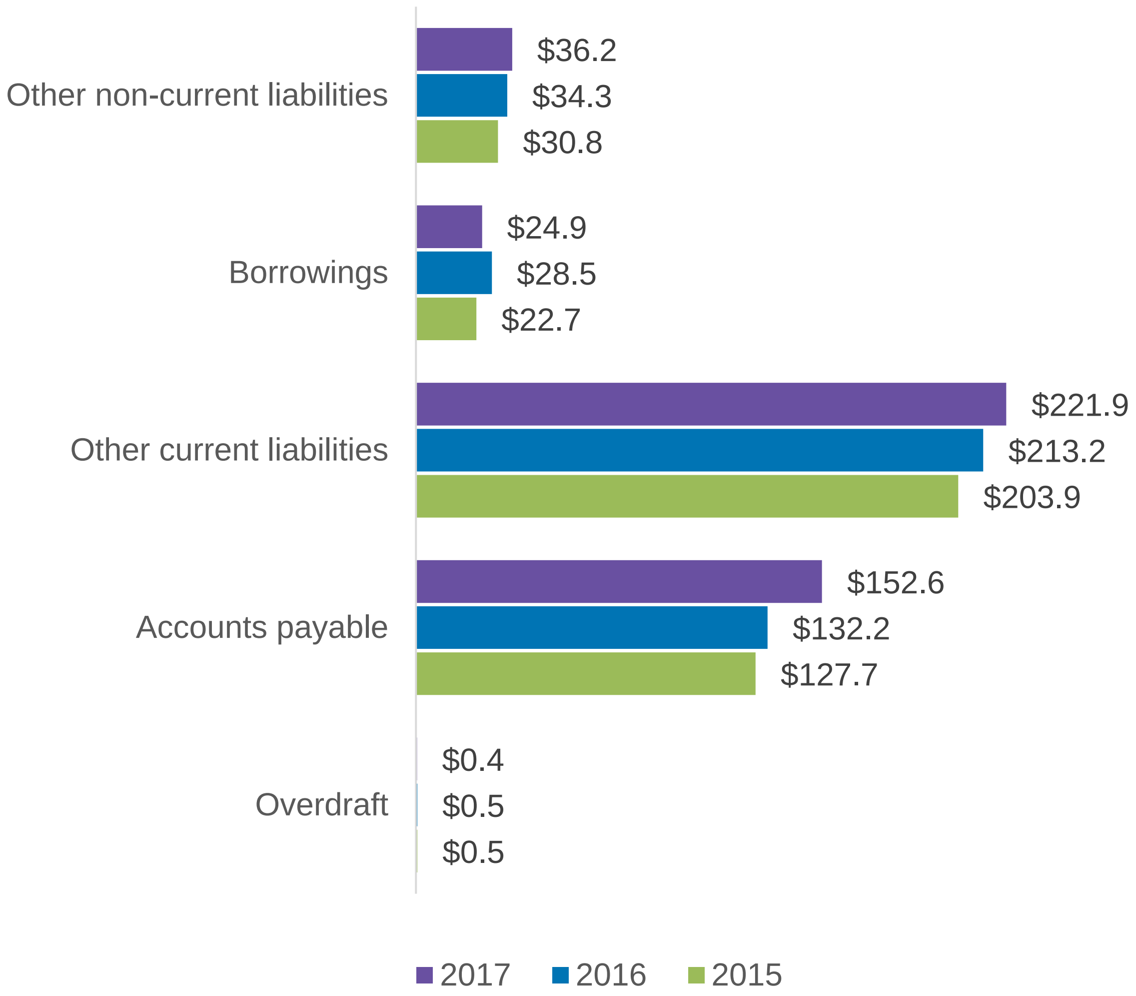


Table 10: Key Aggregate Panel Balance Sheet Data ($m) 2015, 2016 and 2017

	2015 $m	2016 $m	2017 $m	2015 %	2016 %	2017 %
Cash	378.6	410.5	445.0	36.3%	35.9%	35.5%
Accounts receivable	61.9	63.0	89.7	5.9%	5.5%	7.2%
Other current assets	87.7	128.2	157.0	8.4%	11.2%	12.5%
Total non-current assets	513.4	542.9	561.9	49.3%	47.4%	44.8%
Total Assets	**1,041.5**	**1,144.5**	**1,253.6**	**100.0%**	**100.0%**	**100.0%**
Overdraft	0.5	0.5	0.4	0.1%	0.1%	0.1%
Accounts payable	127.7	132.2	152.6	33.1%	32.3%	35.0%
Other current liabilities	203.9	213.2	221.9	52.9%	52.2%	50.9%
Borrowings	22.7	28.5	24.9	5.9%	7.0%	5.7%
Other non-current liabilities	30.8	34.3	36.2	8.0%	8.4%	8.3%
Total Liabilities	**385.6**	**408.8**	**436.0**	**100.0%**	**100.0%**	**100.0%**
Net Assets	**655.9**	**735.8**	**817.6**	**63.0%**	**64.3%**	**65.2%**

How have organisations performed with regard to Disability Services?

Of the 99 organisations in the Panel included in this report, 29 provided services in addition to disability services. Of these organisations, six received less than half of their total income from disability services.

In addition to collecting Total Income and Expenditure figures, data is collected on the income and expenditure for the provision of disability services alone.[11] At this stage, this is not a perfect measure as some providers are still transitioning their accounting systems to enable accounting for income and expenditure on a per service and per person basis.

Further, decisions – such as how to allocate the cost of buildings, equipment, head office costs and other expenses that also support the delivery of services other than disability services – are at the discretion of organisations and, similar to other industries, are unlikely to ever be fully consistent across organisations and reporting periods.

Aggregate Income from disability services

A total of $1.54bn or 82% of the Aggregate Income received by the Panel was recorded as disability services income, of which more than half (58%) was received from State/Territory governments and just over a tenth (10.9%) was received via the NDIS.

Disability services income grew by 8.3% between 2015 and 2016 and a further 8.8% the following year. In the two-year period from 2015, income grew by 17.8%.

Funds from States and Territory governments still represented the majority of income but declined from 66.5% in 2015 to 58.3% in 2017. In dollar terms, the total income from these sources was only slightly down from the high of $930.8m in 2016 to $901.5m, but still above the 2015 level. Non-NDIS income from the Commonwealth increased by over $30m in 2017.

NDIS income grew from $49.2m in 2016 to $168.4m in 2017, an increase of over 600%. However, due to the growth in other sources of funding, this NDIS income represented only 10.9% of total disability income in 2017. The NDIS is being rolled

[11] *As noted in previous years, some organisations were unable to easily separate disability income and expenses from other income and expenses at this stage and provided estimates. The quality of this data will improve as more services are funded through the NDIS as organisations will have records of these sales and will need to track expenses against these.*

out differently across the States and Territories and this low proportion of total disability income from the NDIS reflects the overall rate of rollout nationally.

Other sales revenue and Income from Private Fee for Service also appeared to grow in 2017 and may have contributed to growth income for the Panel. However, some of this growth may be due to the reallocation of income into these categories from the catch-all category of ‘All other income’, which has declined. This may be evidence of Panel members improving their record keeping and the accuracy of responses.

Donations and bequests can be used to subsidise the cost of service and are therefore important to consider when assessing financial sustainability and financial risk. For 2017, the donations and bequests mainly or exclusively for disability services totalled $36.2m - 2.3% of total disability services income.

Figure 10: Aggregate Income from disability services 2015, 2016, 2017 ($m)

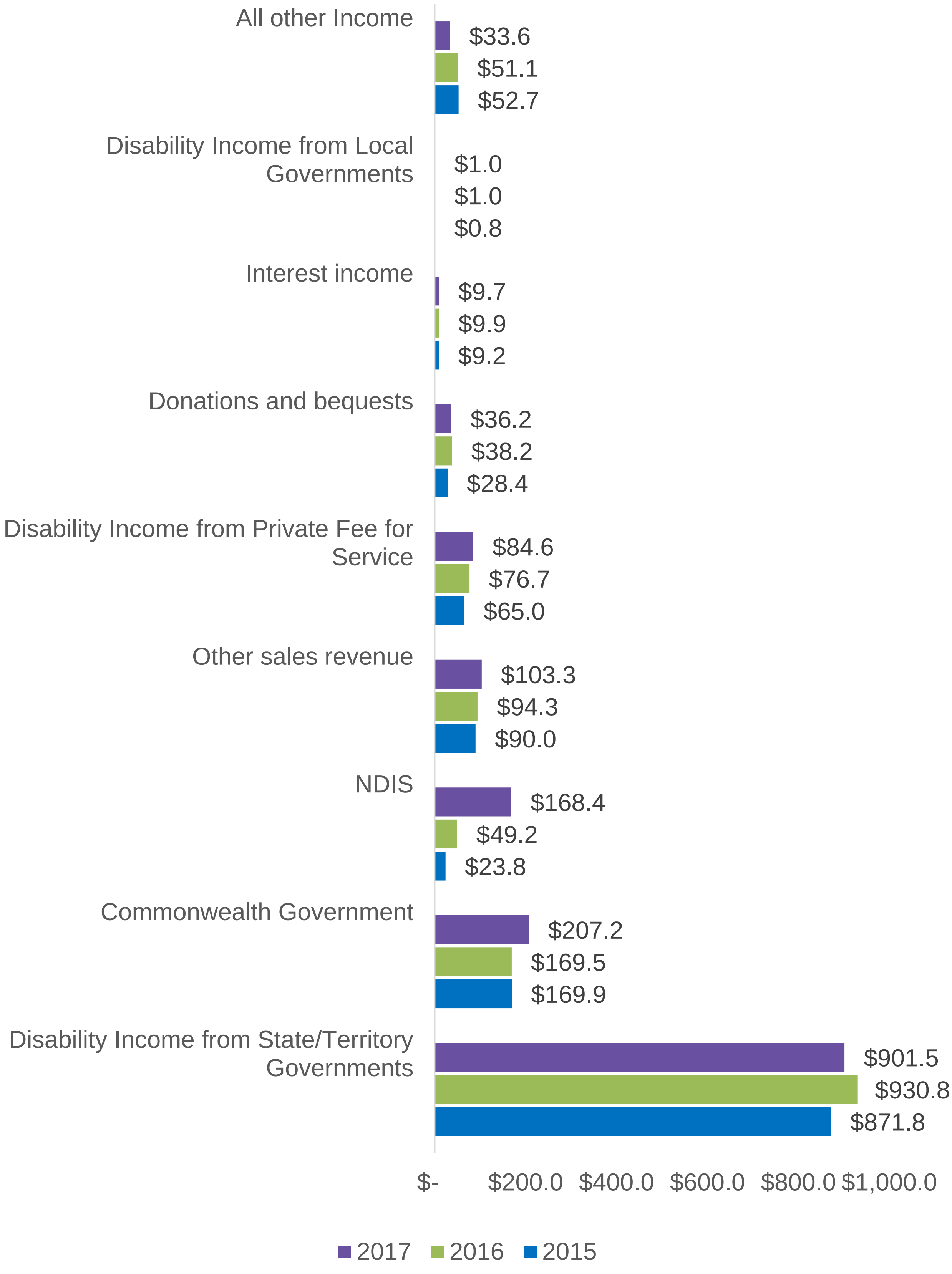


Table 11: Aggregate Income from disability services (%) 2015, 2016 and 2017

Source of income	% 2015	% 2016	% 2017	2017 Disability income All Orgs $m
Disability Income from State/Territory Governments	66.5%	65.5%	58.3%	899.4
Commonwealth Government	13.0%	11.9%	13.4%	206.9
NDIS	1.8%	3.5%	10.9%	168.4
Other sales revenue	6.9%	6.6%	6.7%	103.1
Disability Income from Private Fee for Service	5.0%	5.4%	5.5%	84.3
Donations and bequests	2.2%	2.7%	2.3%	36.2
Interest income	0.7%	0.7%	0.6%	9.6
Disability Income from Local Governments	0.1%	0.1%	0.1%	1.0
All other Income	4.0%	3.6%	2.2%	33.4
Total Income	**100%**	**100%**	**100%**	**$1,542.4**

Aggregate Expenses for disability services

Aggregate disability expenses totalled $1,491m - an increase of 19% since 2015. Over the same period income grew by 17.8%, therefore profits were down (see below).

The allocation of expenditure across the different categories has remained mostly stable. Employee Expenses, including recruitment and training, grew to $1.062bn – an 18% increase from the $970m in 2016. This may reflect both a growth in FTE numbers and in costs per FTE (see section on Staff below).[12] Similar to previous years, 71% of expenditure was allocated to employee expenses. Given the structure of pricing and funding disability services, organisational sustainability is highly sensitive to any changes in workforce costs and efficiency. While many are still working with Enterprise Bargaining Agreements or national awards, flexibility in workforce deployment can be limited. Further, challenges to recruitment and retention also mean that employers operate in a very narrow band and cannot simply increase or decrease salaries or modify employment conditions without impacting their capacity to operate. Poor working conditions translate into difficulty in retaining an adequately experienced workforce. The next largest single category of expenditure was property costs, representing 4.2% of income, and largely unchanged over the period examined.

---

12 Full-time Equivalent (FTE). Calculated based on a 35 hour week period

Figure 11: Aggregate Expenses for disability services 2015, 2016 and 2017

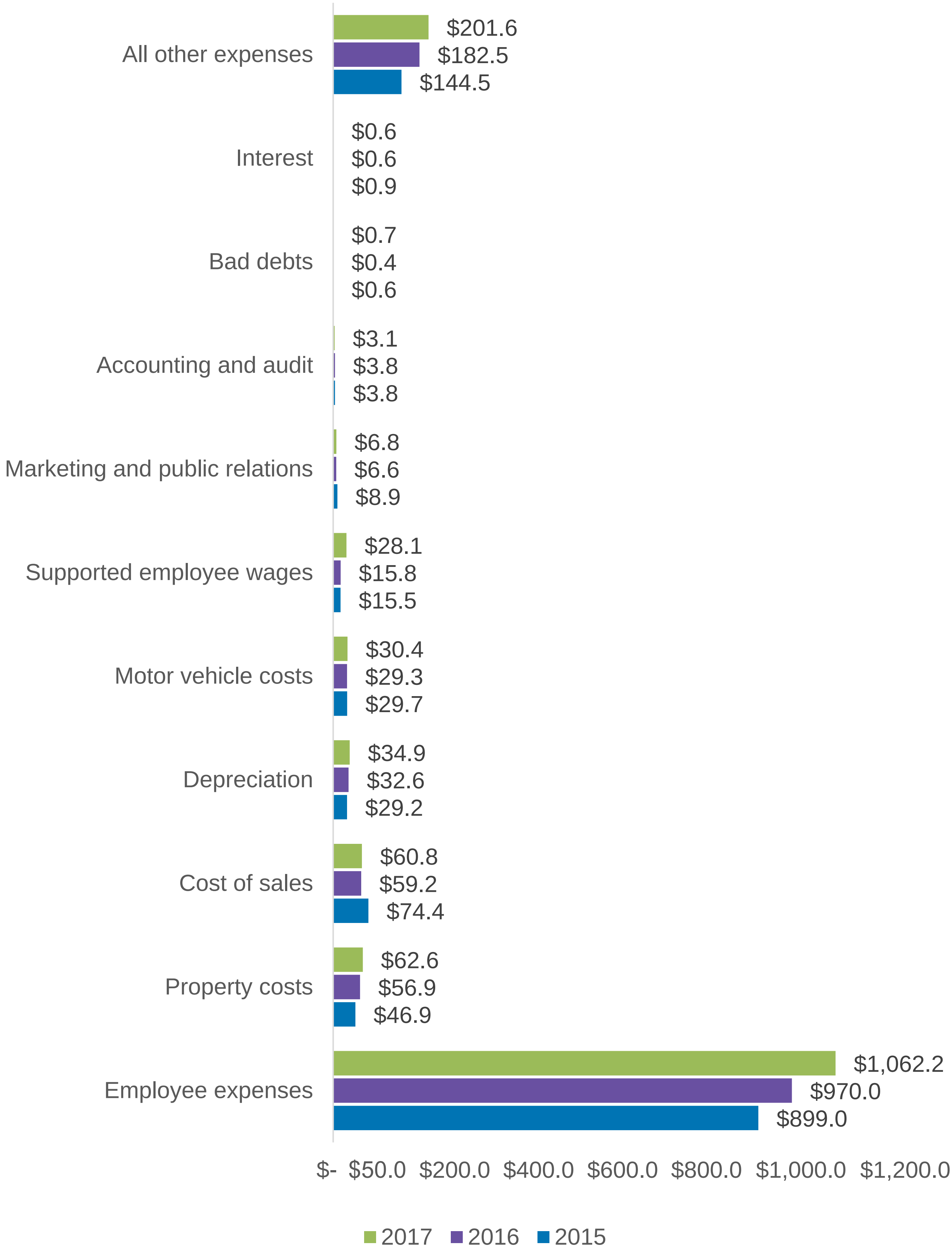


Table 12: Aggregate Expenses for disability services 2015, 2016 and 2017

Expense type	2015 %	2016 %	2017 %	Disability Expenses 2017$m
Employee expenses	71.7%	71.5%	71.2%	$ 1,062.2
Property costs	3.7%	4.2%	4.2%	$ 62.6
Cost of sales	5.9%	4.4%	4.1%	$ 60.8
Depreciation	2.3%	2.4%	2.3%	$ 34.9
Motor vehicle costs	2.4%	2.2%	2.0%	$ 30.4
Supported employee wages	1.2%	1.2%	1.9%	$ 28.1
Marketing and public relations	0.7%	0.5%	0.5%	$ 6.8
Accounting and audit	0.3%	0.3%	0.2%	$ 3.1
Bad debts	0.1%	0.0%	0.0%	$ 0.7
Interest	0.1%	0.0%	0.0%	$ 0.6
All other expenses	11.5%	13.4%	13.5%	$ 201.6
Total Disability Expenses	**100%**	**100%**	**100%**	**$ 1,491.8**

Aggregate Profit from disability services

The Aggregate Profit from disability services in 2017 was $53.7m or 3.5%. This is a decline in both dollar and percentage terms and reflects the growth in expenditure, most notably employee expenses.

At 3.5%, the Aggregate profit level is only slightly above long-term inflation[13] and if maintained, would mean that organisations would be able to add little to build their balance sheets in real terms.

Median Net Profit, that is, the mid-point of the profits reported was 4.2% – an increase over both the 2015 and 2016 years. Given that Aggregate Disability Profit was down, this suggests that profits may have been more widely distributed at the upper end. This is demonstrated in Figure 12.

13 The Reserve Bank of Australia states that the Governor and Treasurer have agreed that the Inflation Target should be 2% to 3%, which is defined as a medium-term average. See www.rba.gov.au/inflation/inflation-target.html

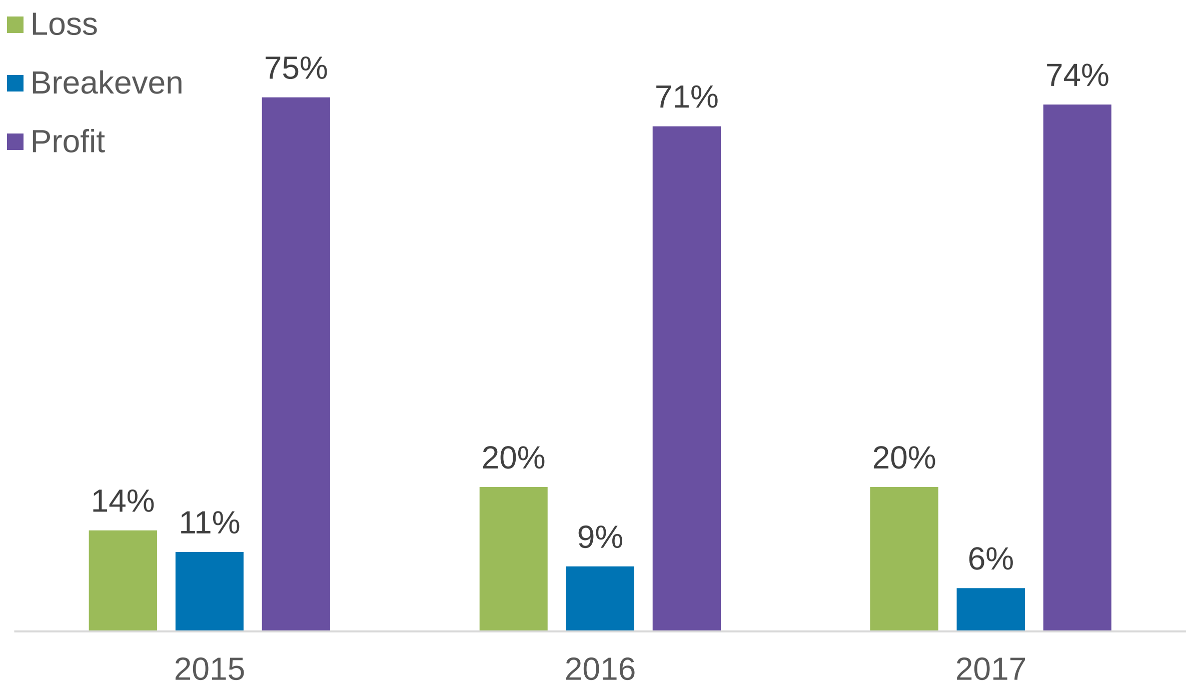
Table 13: Profitability from disability services ($m) 2015, 2016, and 2017

Disability profit	2015	2016	2017
Profit before tax ($m)	$58.3	$63.0	$53.7
Net Profit (%)	4.4%	4.4%	3.5%
Median Net Profit (%)	3.8%	3.5%	4.2%

Profits from disability services

In total, 74% of Panel members made a profit (defined as profit of 1% or more), up from 68% in 2016, but slightly lower than in 2015[14]. As was seen with Total Profit, the percentage of Panel members making a loss did not change, but rather the number breaking even (defined as 0% to less than 1% profit) fell to 6%.

Figure 12: Percentage of organisations making a profit from provision of disability services 2015, 2016 and 2017.



The distribution of profits from disability services

In total, 74% of Panel members made a profit (defined as profit of 1% or more), up from 68% in 2016, but slightly lower than in 2015, as was seen with Total Profit, the

---

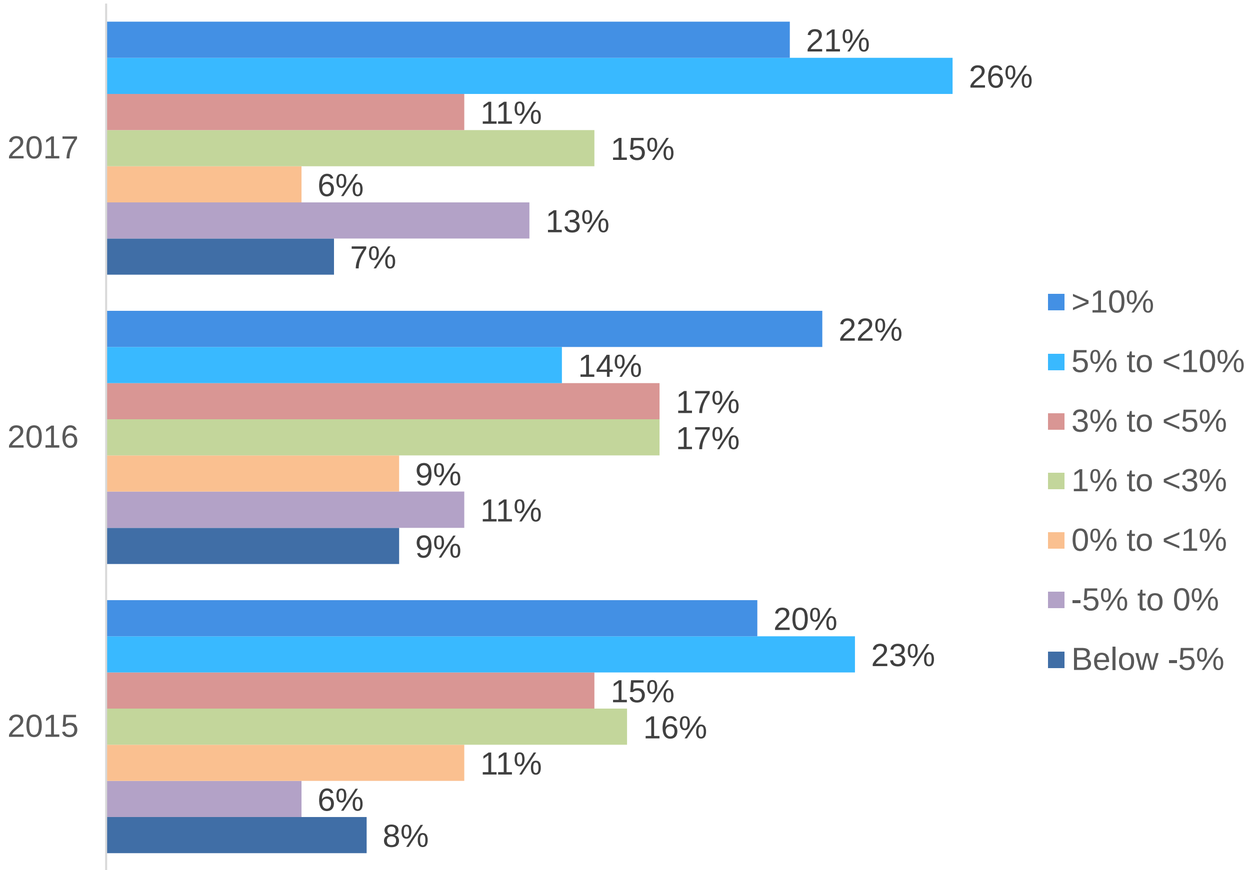
[14] For the purposes of this study, organisations are considered to be making a profit if they achieve profit ratio of 1% or more.

percentage of Panel members making a loss did not change, but rather the number breaking even fell to 6%.

When the distribution of profits is considered in more detail, it appears the percentage of organisations making a profit of between 5% and 10% nearly doubled, with a quarter (26%) of all Panel members reporting profits at this level. The number making profits of 1% to 3% was 15%, similar than previous years.

These results support predictions in previous reports that profitability of organisations may become quite varied and polarised in the next few years. This finding reinforces previous commentary we have made suggesting that a more nuanced and focused supply-side management process is necessary to ensure the ongoing provision of appropriate quality services to people living with disability.

Figure 13: Distribution of profits from disability Services 2015, 2016 and 2017

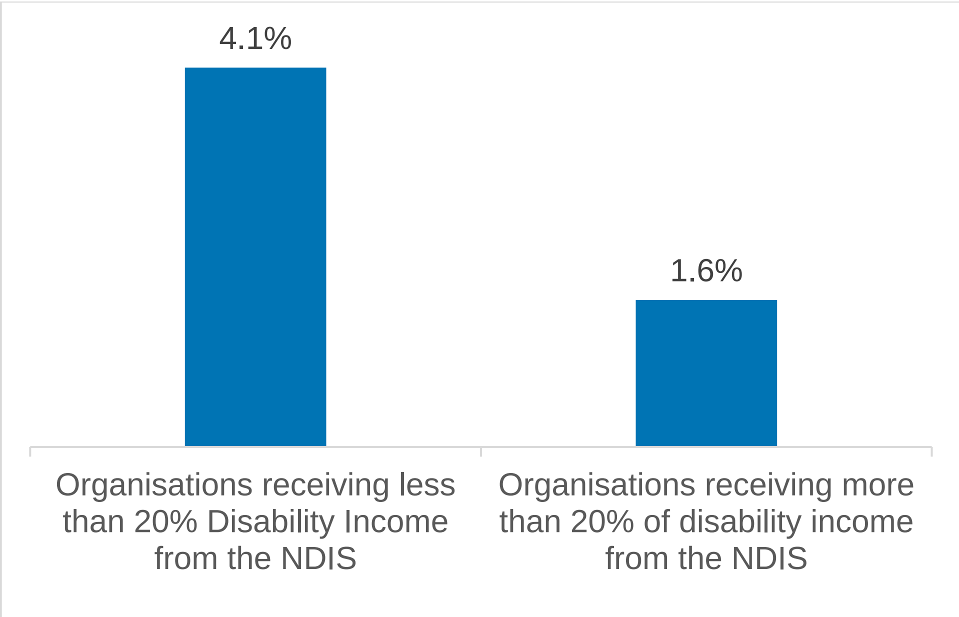


Profit from NDIS-funded Disability Services

As mentioned above, many organisations in the 2016/17 year received only a small portion of the income from the NDIS. To further examine the profitability of organisations as they transition into the NDIS, Panel members were divided into those that had less than 20% income derived from the NDIS (54 organisations) and those that had more than 20% income derived from the NDIS (38 organisations)[15].

The results show that there is a significant difference in the Aggregate Profit Ratio of those organisations participating in the NDIS. The organisations not participating in the NDIS achieved an Aggregate Profit from disability services of 4.1%. For those that received 20% or more of their income from the NDIS, the profit from disability services was 1.6%, which is below a financially sustainable level.

Figure 14: Disability Profit – NDIS and Not NDIS 2017



Disability profit by cohort

Similar to Total Profit, there is a wide variation in the median profits by cohort. The median profits of the very small organisations remained at 4.1%, but more than doubled for the small organisations to reach 7.0%. The large organisations are showing a decline in median profits to 1.3%, which is of some concern and will need to be monitored.

15 To improve accuracy, when dividing the Panel into these two groups, the data from seven organisations was removed as it showed inconsistencies, such as significantly over- or understate-income from the NDIS or overall disability profit.

Table 14: Median profit for disability services by cohort (%) 2015, 2016 and 2017

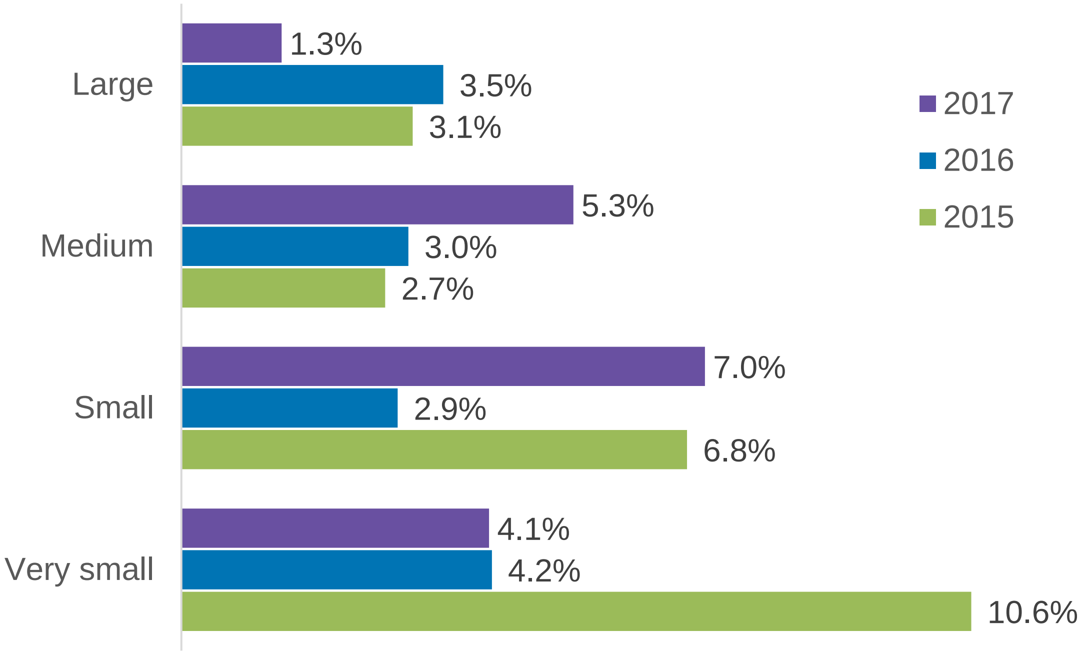


Table 15: Median profit for disability services by cohort (%) receiving

Median profit	2015 %	2016 %	2017 %
Very small	10.6%	4.2%	4.1%
Small	6.8%	2.9%	7.0%
Medium	2.7%	3.0%	5.3%
Large	3.1%	3.5%	1.3%
All Organisations	3.8%	3.5%	4.2%

Key ratios report card

Many financial ratios could be calculated from the financial data. This section focuses on four key ratios that, along with the profit ratio (discussed above), provide base-level indicators of sustainability or efficiency. It is important to remember that ratios are indicators only and are not categorical identifiers of performance levels or financial sustainability. Usually they are used to identify areas of operation where the executive/board should undertake further analysis.

In reviewing these ratios, readers should remember that they are based on the balance sheet information which is collected for the whole organisation and may be impacted by issues not related to the provision of disability services. For example, organisations that provide residential aged care are required to allocate bond payments to current liabilities which can result in Current Ratios of less than 0.5.

While a Current Ratio at this level would normally be cause for concern, it is not usually of concern for this kind of aged care organisation.

Ratio	Calculation	Purpose
Current	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Current assets (such as cash) need to be sufficient to cover the obligations of current liabilities (such as employee entitlements). This ratio can indicate short-term survivability. Service organisations are likely to aim to have a ratio of at least 1.5.
Asset	$\frac{\text{Total Assets}}{\text{Total Liabilities}}$	The ratio of assets to liabilities indicates the capacity of the organisation to repay all its debts in the case of winding up. Most service organisations aim to have a ratio of over 1.0. The inverse of this ratio is the Debt Ratio.
Return on Assets	$\frac{\text{Net Profit}}{\text{Total Assets}}$	The ratio of net profit to assets is an indicator of efficiency or productivity. Higher ratios indicate greater efficiency in the use of assets in generation of income.
Months of spending ratio	$\frac{\text{Current Assets - Current Liabilities}}{\text{Total Expenses - Depreciation}} \text{x12}$	This is an indicator of the time an organisation would have to wind-up if all income sources cease. The amount required varies, but in general organisations should aim for at least three months of spending.

Changes in the key financial position ratios

The Aggregate Current Ratio for the Panel increased from 1.7 in 2015 and 2016 to 2.0 in 2017. Organisations appear to be heeding warnings to ensure they have enough working capital to fund supply as they shift from being funded in advance to being paid in arrears and to cope with delays in payments caused by the NDIS planning process.

The ratio of total assets to total liabilities (the Net Assets Ratio) has been maintained at 3.0. This is still on the slightly high end of the ideal range but may reflect the conservative approach being taken to investment and growth that was recorded in the survey. Assets would include operational assets which are less likely to be fungible. Further, under previous block funding arrangements, balance sheet monitoring and building was not always a high priority and therefore assets may not be accurately valued. Some Panel members have commented that their board is now paying closer attention to these matters. As also mentioned above, the Net Asset Ratio may be higher for NFP organisations, but these assets might be encumbered (for instance, land may have been provided for residential disability care only, and cannot be utilised or converted for other purposes).

The Return on Assets Ratio has returned to the 2015 level and only slightly reflects the reduction in profit margins, which is expected in an industry undergoing transition. Overall, the Return on Assets Ratio is still strong.

Similar to the Current Ratio, the Months of Spending Ratio has been improving year on year as organisations adjust to payment in arrears and the increase risks of operating in an NDIS environment.[16]

Table 15: Key financial performance ratios 2014/15, 2015/16 and 2016/17

Median Ratio	2015	2016	2017	Comments
Current	1.6	1.7	2.0	Satisfactory
Asset	2.8	3.0	3.0	Satisfactory
Return on Assets	4.6%	3.6%	4.7%	Satisfactory
Months of Spending ratio	1.7	1.6	2.1	Improving, but needs to be monitored

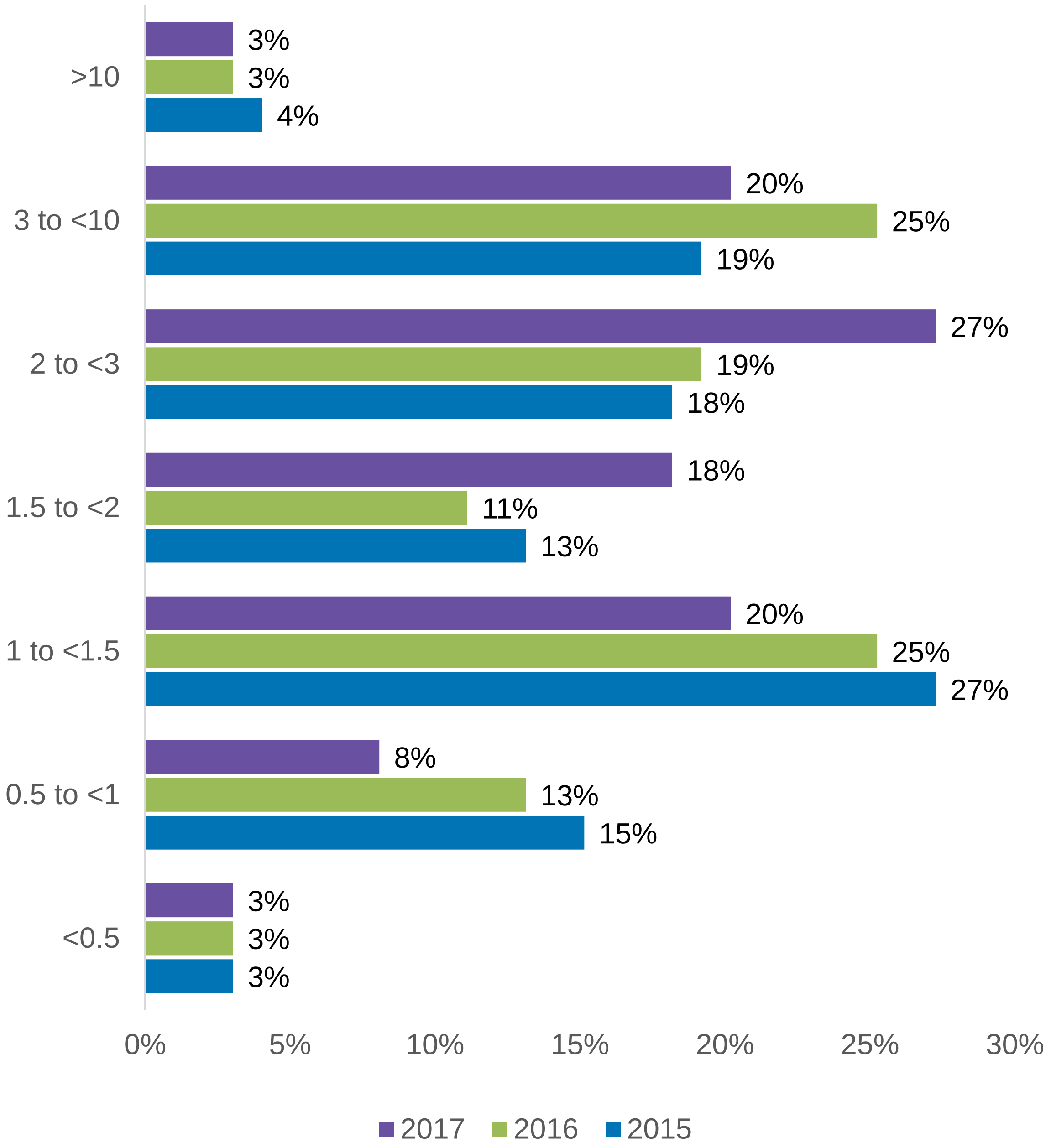
Current Ratio

The distribution of Current Ratios shows that the number of organisations with results lower than 1.0 (which is an indicator of potential insolvency) has fallen to 11%, the lowest in three years. There has also been a decline in the percentage of organisations with a ratio of between 0 and 1.5. Concurrently, there has been an increase in the number of organisations with Current Ratios of between 1.5 and 2.0 and between 2 and 3, showing that more organisations are managing liquidity well in the range up to a ratio of 3. For organisations with a ratio of greater than 3, they are consistent with 2015 distributions.

---

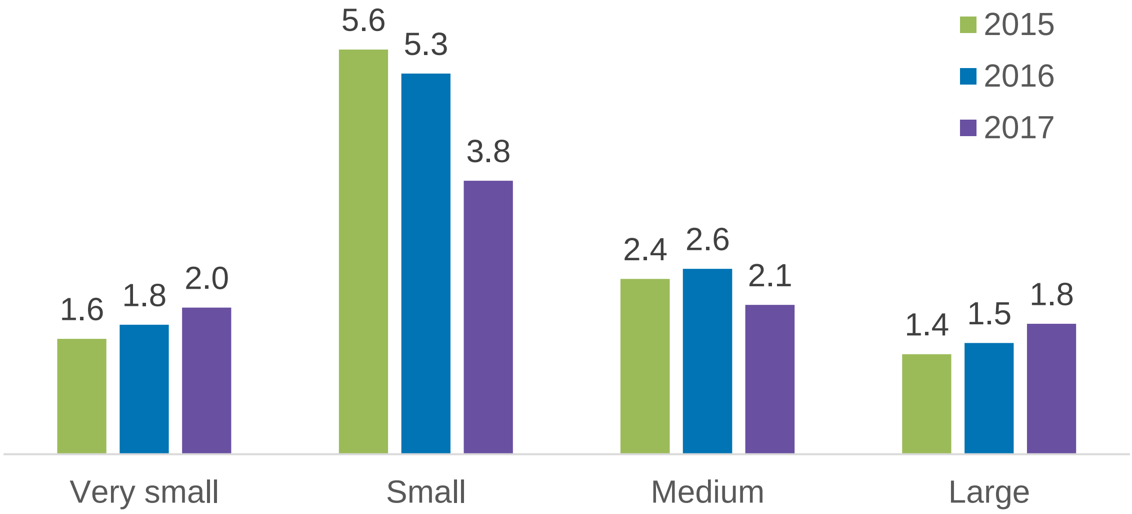
16 Depreciation is included in this measure consistent with formula used in the NDIS Provider Tool Kit.

Figure 16: Distributions of Current Ratios for 2015, 2016 and 2017



The median Current Ratios for the cohorts show that at least for the very small, small and large organisations Panel members are moving their ratios towards recommended industry levels. These changes will also reflect the reduction of payments in advance.

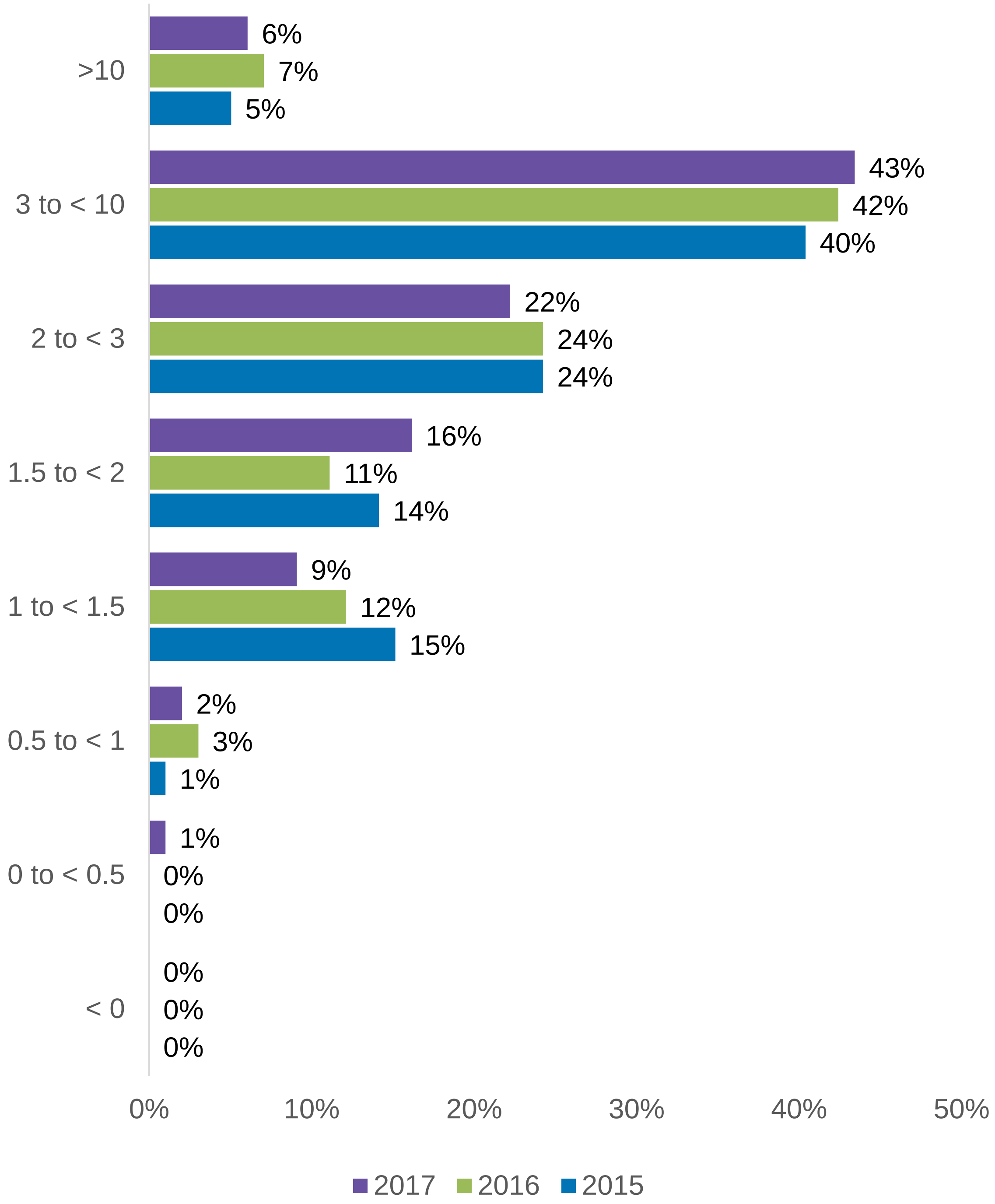
Figure 17: Median Current Ratios by Cohort 2015, 2016 and 2017



Net Assets Ratio

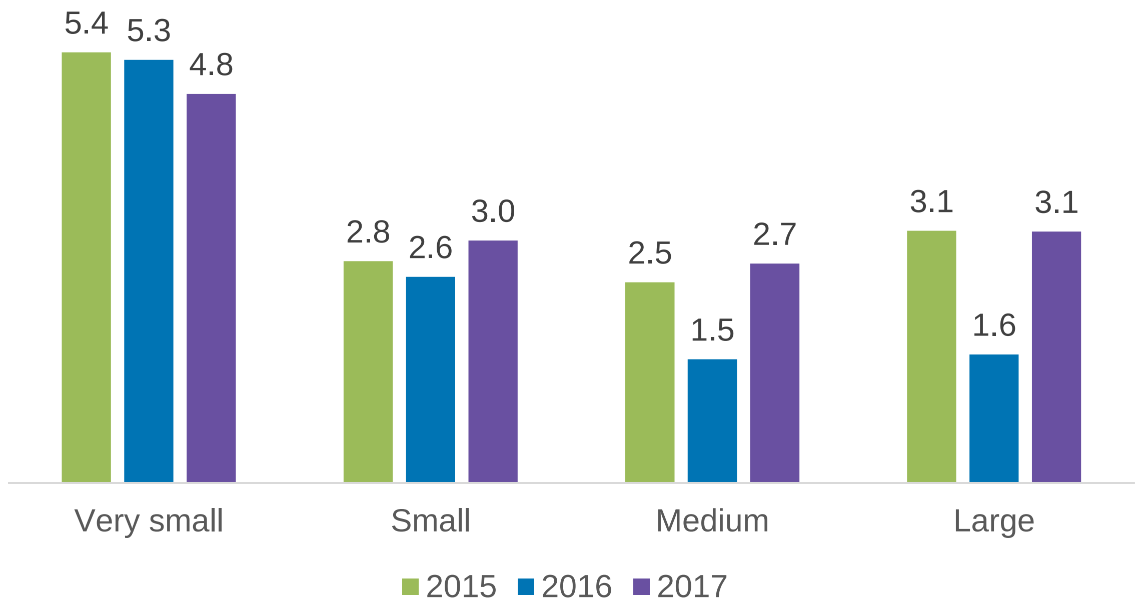
There has been a slight increase in the Net Asset Ratio from 2016 to 2017, showing a slight improvement in sustainability. When analysed in detail, there has been an improvement in Net Asset Ratios more broadly. Nearly three quarters of organisations had an Asset Ratio above 2. Indeed, the growth in the number of organisations with Asset Ratios above 3 suggests that providers are taking a conservative attitude to growth.

Figure 18: Distributions of Asset Ratios 2015, 2016 and 2017



The median Asset Ratios by cohort shows that the very small organisations have the highest Asset Ratios, reflecting both their often-smaller asset base, higher cash and low levels of liabilities.

Figure 19: Median Asset Ratios by Cohort 2015, 2016 and 2017

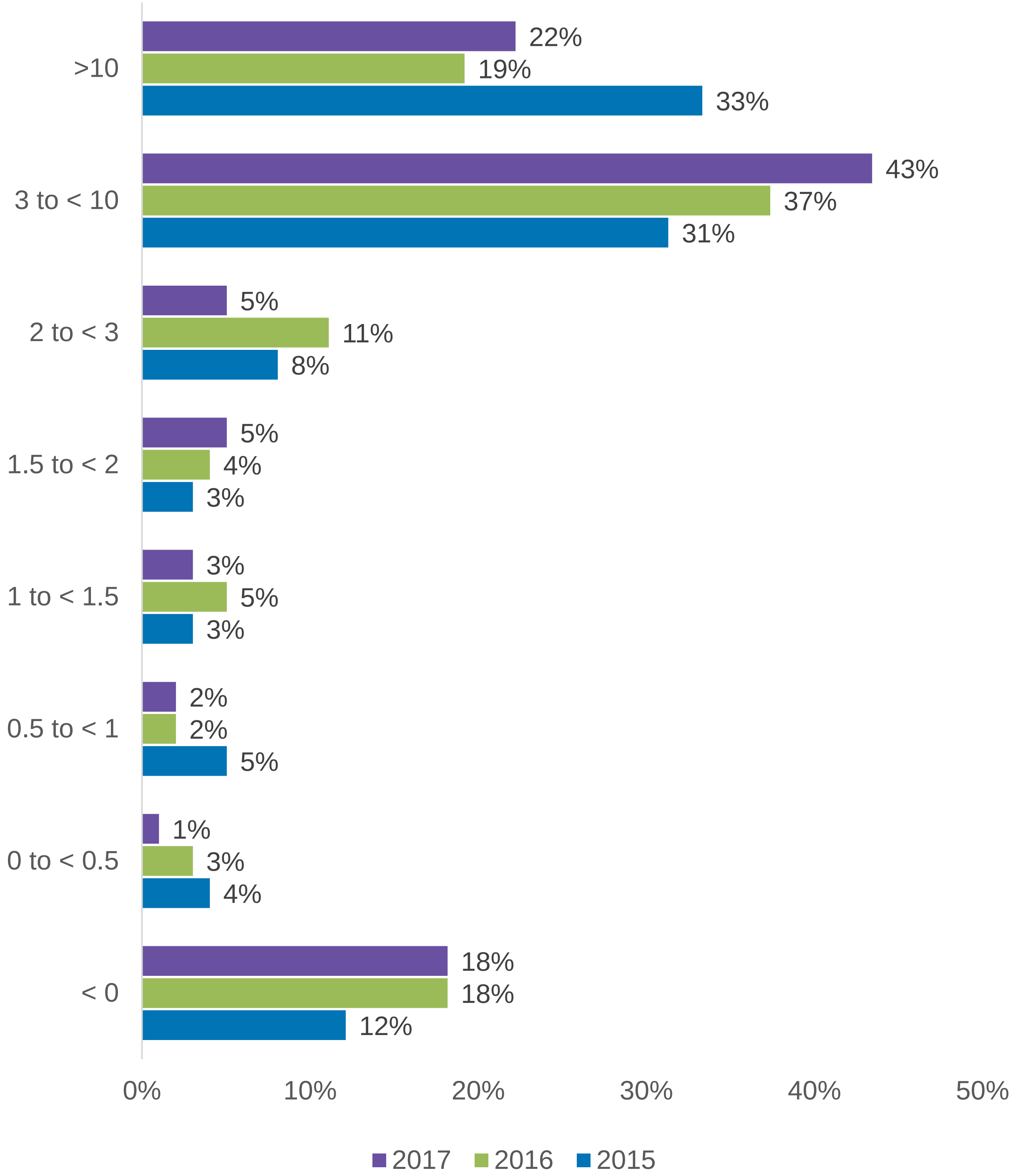


Return on Assets Ratio

Changes to the Return on Assets Ratio (ROA) have been mixed. The number of organisations that are reporting a return on assets of between 3 and 10 has increased consistently, suggesting an improvement in their efficient use of resources. However, 18% of organisation are still recording ROA of less than 0.

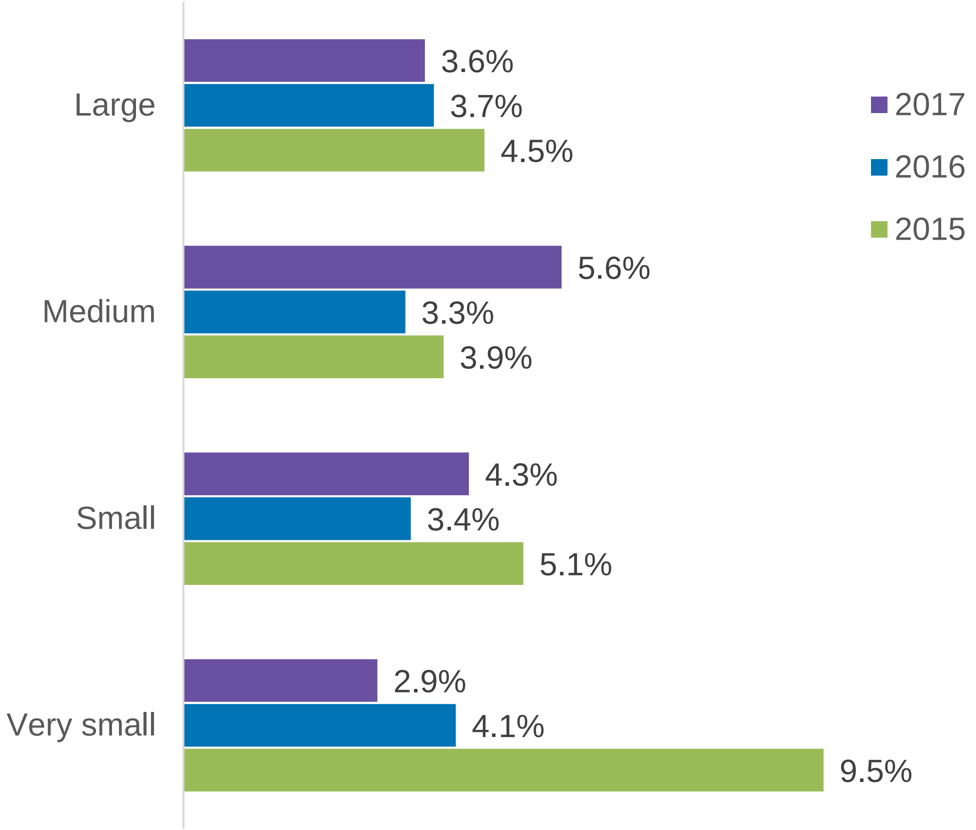
For the sector to retain and attract new entrants, the ROA will need to be sufficient to warrant the investment and risk. This improvement in ROA will therefore a positive sign for the sector.

Figure 20: Distributions of Return on Assets Ratio 2015, 2016 and 2017



The changes in the median ROA by cohort partly reflect the changes in median profits. The ROA of smaller organisations has fallen, and the small and medium size organisations show better results overall than the largest organisations. This further suggests that efficiency may not be positively correlated with size, at least at this point in the development of the sector. Over time, the capacity for the larger organisations to leverage their assets may result in better asset utilisation for these entities.

Figure 21: Distribution of median ROA by cohort 2015, 2016 and 2017



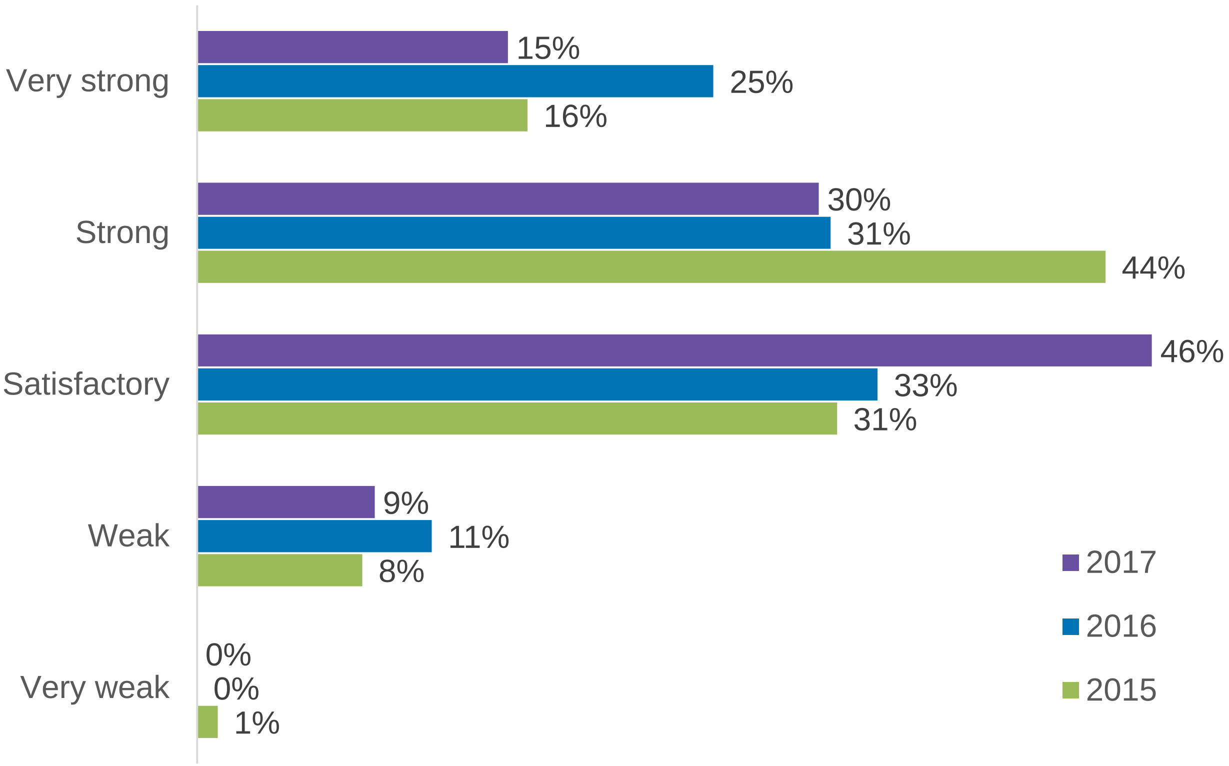
Changes in ratings of financial strength and outlook

In addition to tracking reported financial data, this study also assesses a wide range of other non-numeric variables. These include perceptions of financial strength.

The results of the Panel for the last two years are compared with the results from the Disability Markets Survey for 2015. They show that the percentage of Panel members feeling that their organisation is strong or very strong has fallen from 60% in 2015 to 45% in 2017. Nearly half (46%) rate their organisational financial strength as ‘satisfactory’.

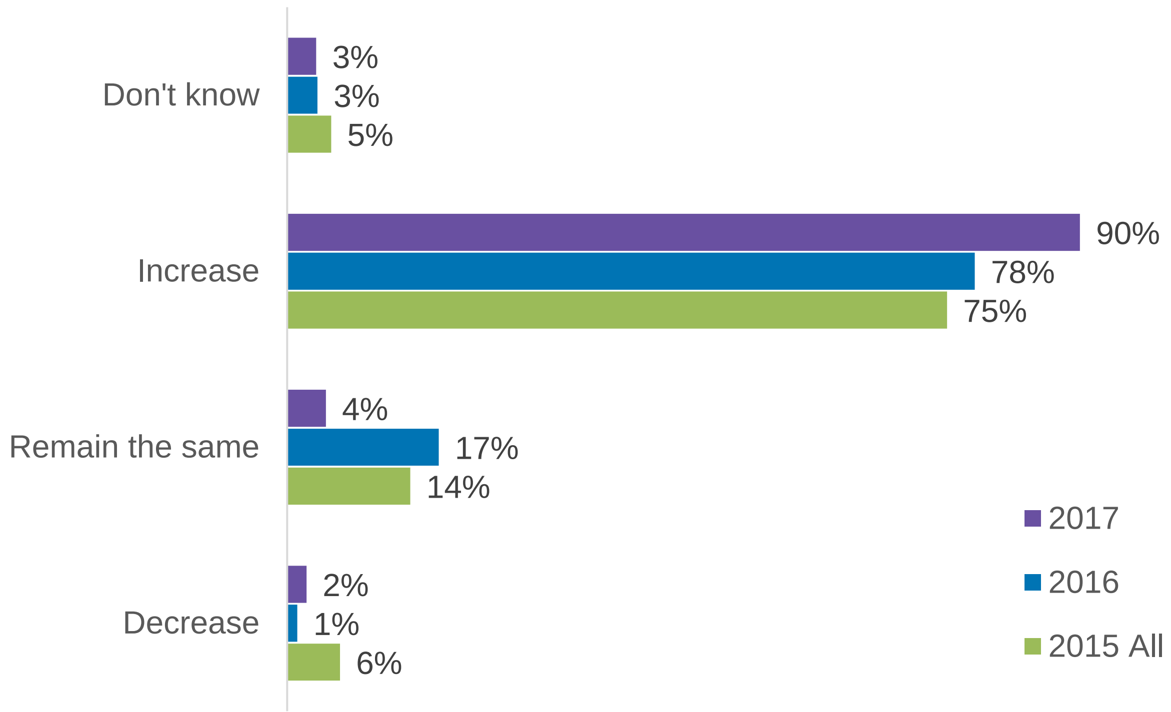
Fourteen percent of the Panel made a loss in 2017, but despite this, only 9% rated their organisation as ‘weak’, suggesting that the representatives of these organisations are still sufficiently confident about their organisation’s financial future. There was no correlation between the size of the organisation and their rating of financial strength.

Figure 22: Perceived financial performance 2015, 2016 and 2017.



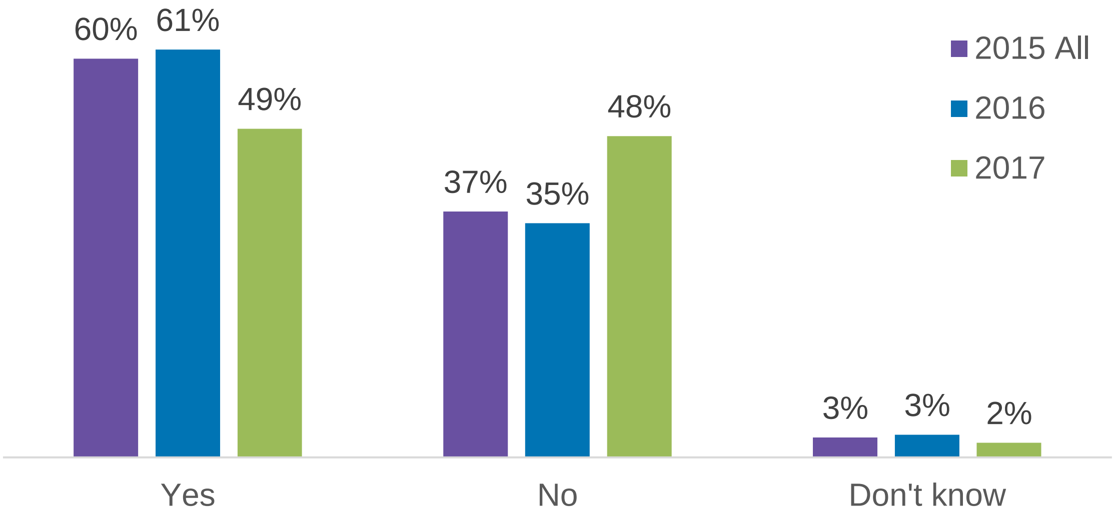
Question: Overall, how do you rate the current financial strength of this organisation?

Figure 23: Expectations of future demand 2015, 2016 and 2017



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

Figure 24: Ability to meet demand 2015, 2016 and 2017



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

Three quarters of the Panel reported that demand for their services increased in 2017 and nearly all members of the Panel expect demand for their disability services will increase over the 2017/18 financial year. However, an increasing number of Panel members are unable to meet demand. In 2017, nearly half (48%) said they could not meet demand for services.

Staff

The disability workforce makes up approximately three quarters of the total FTE for Panel members. In 2017, the total disability workforce for Panel members increased from 12,920 FTE to 14,093 FTE which is a significant increase of 9% and is indicative of the rate of growth of organisations in response to the NDIS.[17]

[17] *Similar to data on expenses, allocation of staff to disability services and the provision of other services can be difficult for providers who provide services in addition to disability services. Our analysis of the data provided by Panel member shows increasing consistency over time, but this data should still be treated as indicative only at this stage*

The results show that the trend towards employing part-time staff continues, with the ratio of part-time to full-time staff (headcount) increasing from 1.9 in 2015 to 2.5 in 2017.[18]

The ratio of Disability Administrative and Managerial staff to Disability Direct Care Workers increased from 18.5% to 21.5%, possibly reflecting the need for additional administrative staff to handle both transition to the NDIS and increases in the ongoing administrative overhead, including in relation to compliance, billing, workforce management and marketing.

The average disability income per disability FTE in 2015 was approximately $100,000 increasing to $110,000 in 2016 and remaining at this level for 2017.

Table 16: Work force data 2015, 2016 and 2017

Disability workforce	2015 No.	2016 No.	2017 No.
Direct care workers			
Disability services – Full-time headcount	4,652	4,404	4,147
Disability services – Part-time headcount	11,353	11,279	14,032
Total hours per week	386,569	375,409	405,913
Administration and management staff			
Disability services – Full-time headcount	1,529	1,751	1,896
Disability services – Part-time headcount	740	1,058	880
Total hours per week	71,650	76,808	87,356
Total disability workforce			
Full-time headcount	6,181	6,155	6,043
Part-time headcount	12,093	12,337	14,912
Total hours per week	458,219	452,217	493,269
FTE[19]	13,092	12,920	14,093
All other staff			
Full-time headcount	1,713	2,287	2,194
Part-time headcount	1,485	3,309	3,132
Total hours per week	97,743	123,136	142,005
Total workforce			
Full-time headcount	7,894	8,442	8,237
Part- time headcount	13,578	15,646	18,044
Total hours per week	555,962	575,353	635,274
FTE	15,885	16,439	18,151

18 Definitions of measures of staff are consistent with those used for the ND's Workforce Wizard service and can be found in the Glossary.

19 FTE is calculated based on 35-hour week.

Figure 25: Disability workforce 2015, 2016 and 2017

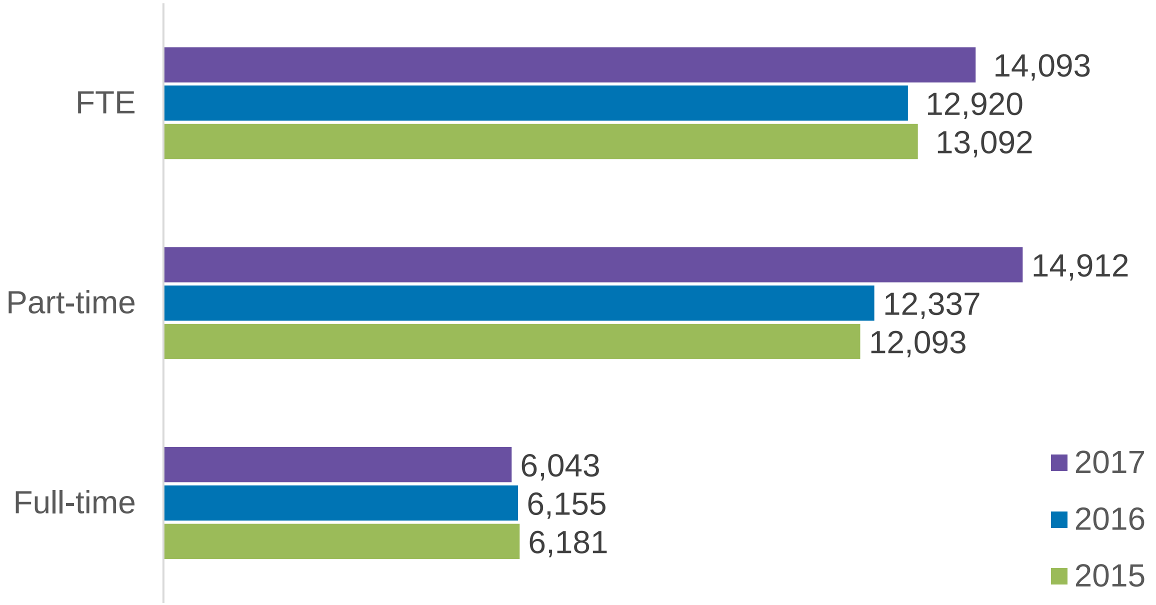
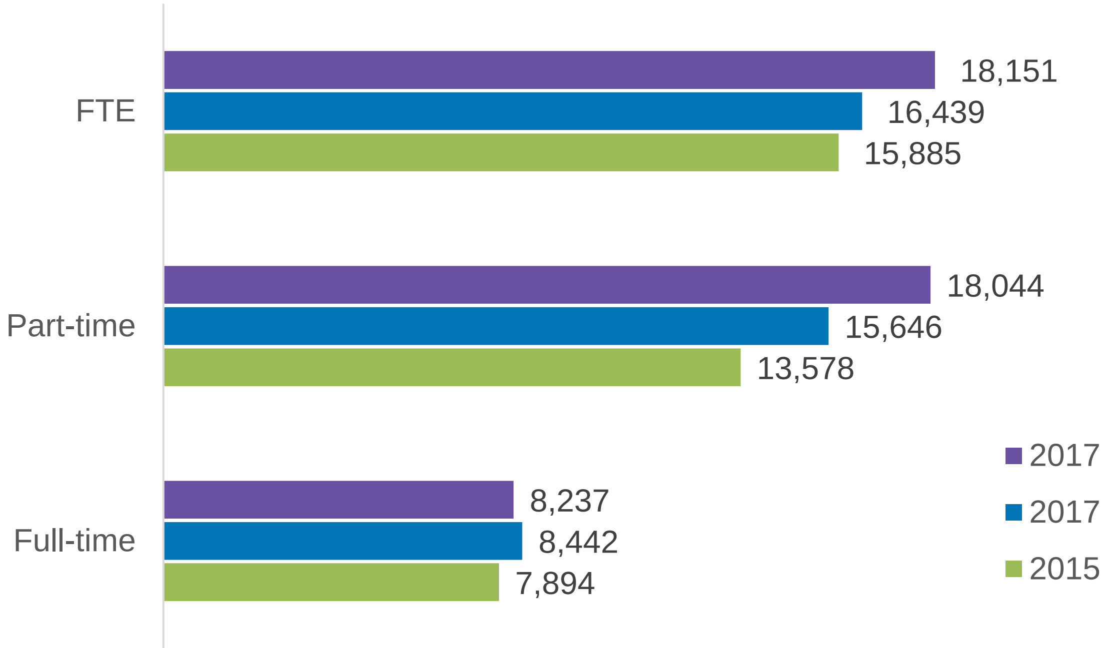


Figure 26: Total workforce 2015, 2016 and 2017



In-kind services and volunteers

In-kind services

Both NFP and For-profit organisations can receive free, discounted or 'in-kind' services. In addition to donations, NFP organisations can receive free or subsidised support in the form of low or no cost properties (including housing to provide daily living support in group homes), professional services, such as legal, accounting, marketing services, vehicles, events support such as hosting of Annual General Meetings, fundraising support and other benefits.

For-profit entities can also receive in-kind services, including government incentives and grants.

At present, the majority of services for people with disabilities are currently provided by NFP organisations that can receive significant and regular subsidies. These subsidies can distort the calculation of the true cost of services and should be accounted for when considering the financial viability of disability services as they may not always be available for free.

Generally, organisations do not record the market value of subsidised or in-kind services and, therefore, at this time, the benchmark project asks only for organisations to identify the types of services they receive and the source. Given the complexity in answering this question, it was not compulsory, nonetheless, more than half of the Panel provided information.

The results show that many organisations are receiving material amounts of free or subsidised services. Of those that responded, about two thirds (66%) received support for fund raising, 58% for AGM or special events, 55% received support with motor vehicles for service delivery, and 54% received non-cash donations of resources, such as office and accommodation furnishing and equipment.

More than half received discounted or free Non-residential property for service delivery, which could include low or no rent office accommodation, activity or therapy rooms. Half received low or no cost properties to provide residential services. These can include the provision of accommodation from State/Territory housing authorities and in some cases, local government.

Low or no cost property in particular, can significantly reduce the apparent cost of service provision and should be fully accounted for by the NDIA when determining prices. Importantly, if there are no on-going arrangements for State/Territory and local governments to continue to provide homes for group housing, buildings for service delivery and administration, these significant costs will need to be borne by the NDIS. To support better transparency, services providers will also need to fully account for the true value of rents, donations and subsidies.

Table 17: Percentage of organisations receiving free or in-kind services

	Governments	Commercial organisation	NFPs	Private donors	Other sources	Source not known	Did not receive
Service delivery property - Residential	35%	2%	2%	8%	2%	2%	50%
Service delivery property - Not Residential	22%	9%	5%	5%	9%	2%	48%
Administration property	17%	9%	9%	9%	7%	2%	48%
Services for property maintenance	17%	14%	3%	9%	6%	3%	49%
Motor vehicles for service delivery	21%	14%	3%	10%	3%	3%	45%
Motor vehicles for admin or other staff use	11%	11%	6%	11%	0%	6%	56%
Professional services (e.g. Legal, Accounting, Investment, HR, Marketing, IT, etc)	4%	31%	4%	14%	4%	2%	42%
AGM and special events support	5%	22%	10%	12%	2%	5%	44%
Fund raising	6%	21%	9%	22%	6%	2%	33%
Other non-cash donations or resources	2%	17%	4%	24%	4%	2%	46%

Volunteers

Each year, the provision of disability services in Australia is supported by thousands of volunteers who provide both professional services volunteering (such as the in-kind administrative services mentioned above), fundraisers, as well as volunteer allied health workers and others that provide services directly to people with disabilities or their families in the form of one-to-one care, transport, meals and community engagement support. The family and friends of people with disabilities are not counted as volunteers.

For the 2017 financial year, the Panel reported receiving support from a total of 2,750 volunteers specifically to support the provision of disability services. Sixty-two percent expected their volunteer hours to remain the same in the next financial year and 22% were expecting volunteer hours to increase.[20] The total headcount of employed staff providing disability services for 2017 was 20,955 (see above) and therefore volunteers boost the total headcount of people providing disability services by approximately 13%.

Clients and income by service

Panel members provided information on the total headcount of all clients and client headcounts per service. They also provided data on the income per disability service type. This data was not readily available for some organisations and estimates were made.

> The Australian Institute of Health and Welfare collects data on disability support services under 34 service types that are grouped into seven service groups. The NDIA uses different service categories and these have been updated as the NDIS is being rolled out.
>
> To enable tracking of the supply of key services over time, a series of service categories were developed that match the NDIA's list of service types being used in 2015/16.

Clients by service type

For 2017, the total number of clients the Panel reported serving was approximately 71,000 – an increase of 15%. Of these, 23% were reported to be receiving at least some NDIS funded services. This is double the number reported for 2016.

In addition, Panel members also provided data on the number clients by service type. As clients can receive more than one service type, the overall number of clients per service is greater than the total client count. For many providers, particularly the smaller organisations, providing data on income type and source and client numbers by service is still difficult and estimates were made.

20 The total number of volunteers (headcount) was similar in 2016 at approximately 2,650.

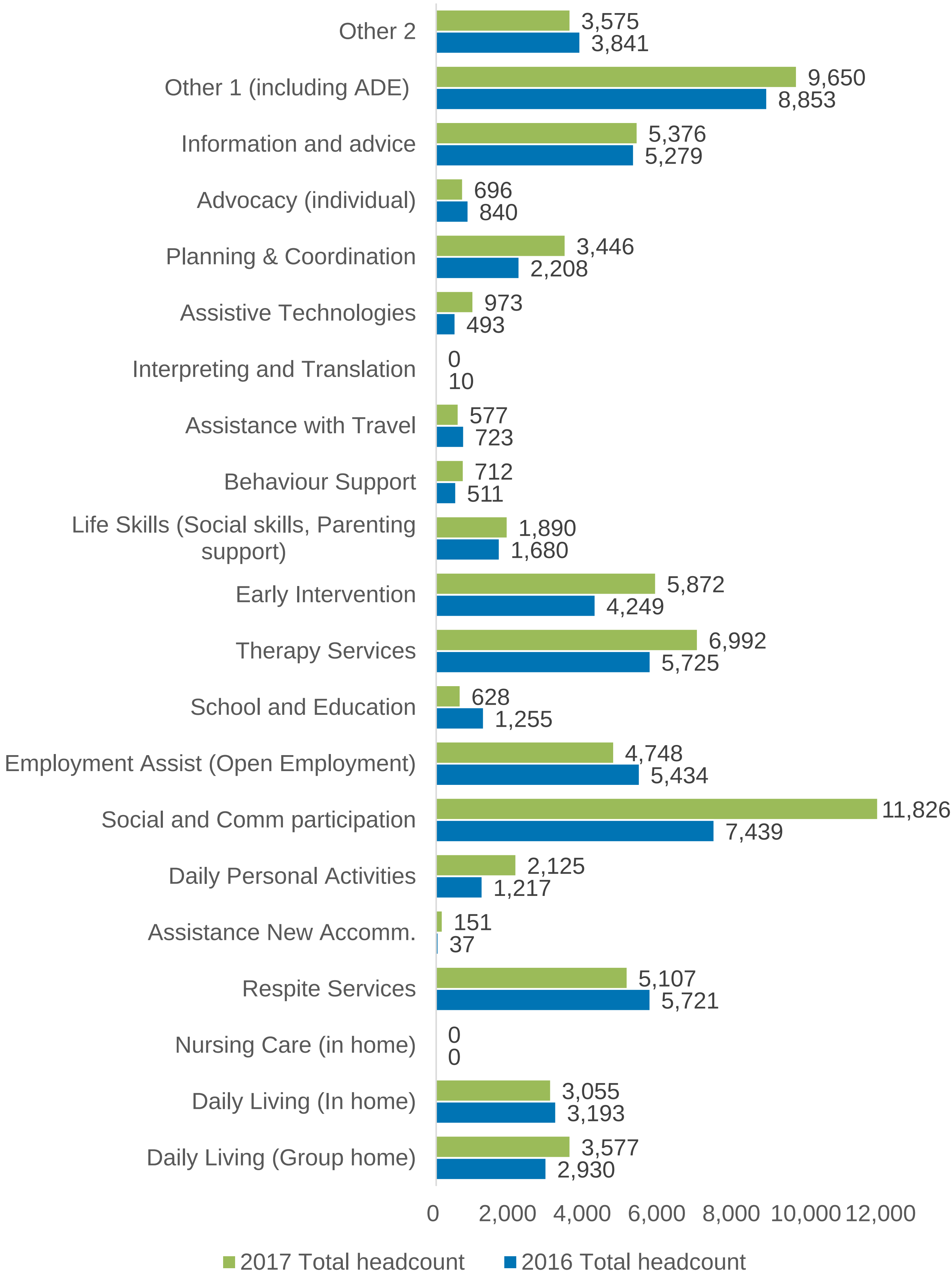
The results to date show that the greatest increase in client numbers is in assistance with Social and Community Participation, Planning and Coordination, Therapy and Early intervention.

Table 18: Clients headcount by service type 2015/16

	2016			2017		
	Non-NDI clients headcount	NDIS clients headcount	2016 Total headcount	Non-NDIS clients headcount	NDIS clients headcount	2017 Total headcount
Daily Living (Group home)	2,845	85	2,930	2,582	995	3,577
Daily Living (In home)	2,748	445	3,193	2,293	762	3,055
Respite Services	5,607	114	5,721	4,526	581	5,107
Assistance New Accom	4	33	37	2	149	151
Daily Personal Activities	1,037	180	1,217	1,368	757	2,125
Social and Com participation	6,065	1,374	7,439	6,439	5,387	11,826
Employment Assistance (Open Employment)	5,373	61	5,434	4,642	106	4,748
School and Education	1,255	0	1,255	592	36	628
Therapy Services	5,232	493	5,725	5,595	1,397	6,992
Early Intervention	3,551	698	4,249	3,851	2,021	5,872
Life Skills	1,295	385	1,680	1,694	196	1,890
Behaviour Support	389	122	511	316	396	712

	2016			2017		
Assistance with Travel	537	186	723	407	170	577
Interpreting and Translation	10	0	10	0	-	0
Assistive Technologies	401	92	493	922	51	973
Planning & Coordination	1,869	339	2,208	1,867	1,579	3,446
Advocacy (individual)	840	0	840	696	-	696
Information and advice	5,279	0	5,279	5,261	115	5,376
Other 1 (including ADE),	7,865	988	8,853	7,754	1,896	9,650
Other 2	3,836	5	3,841	3,511	64	3,575
Total	56,038	5,600	61,638	54,318	16,658	70,976

Figure 27: Client headcount Non-NDIS and NDIS 2016, and 2017



Income by service type

Similar to the data on workforce and clients, the accuracy of data on income per service type is improving but still limited by the constraints of the accounting and recording systems of providers. As such, these results should be treated with caution.

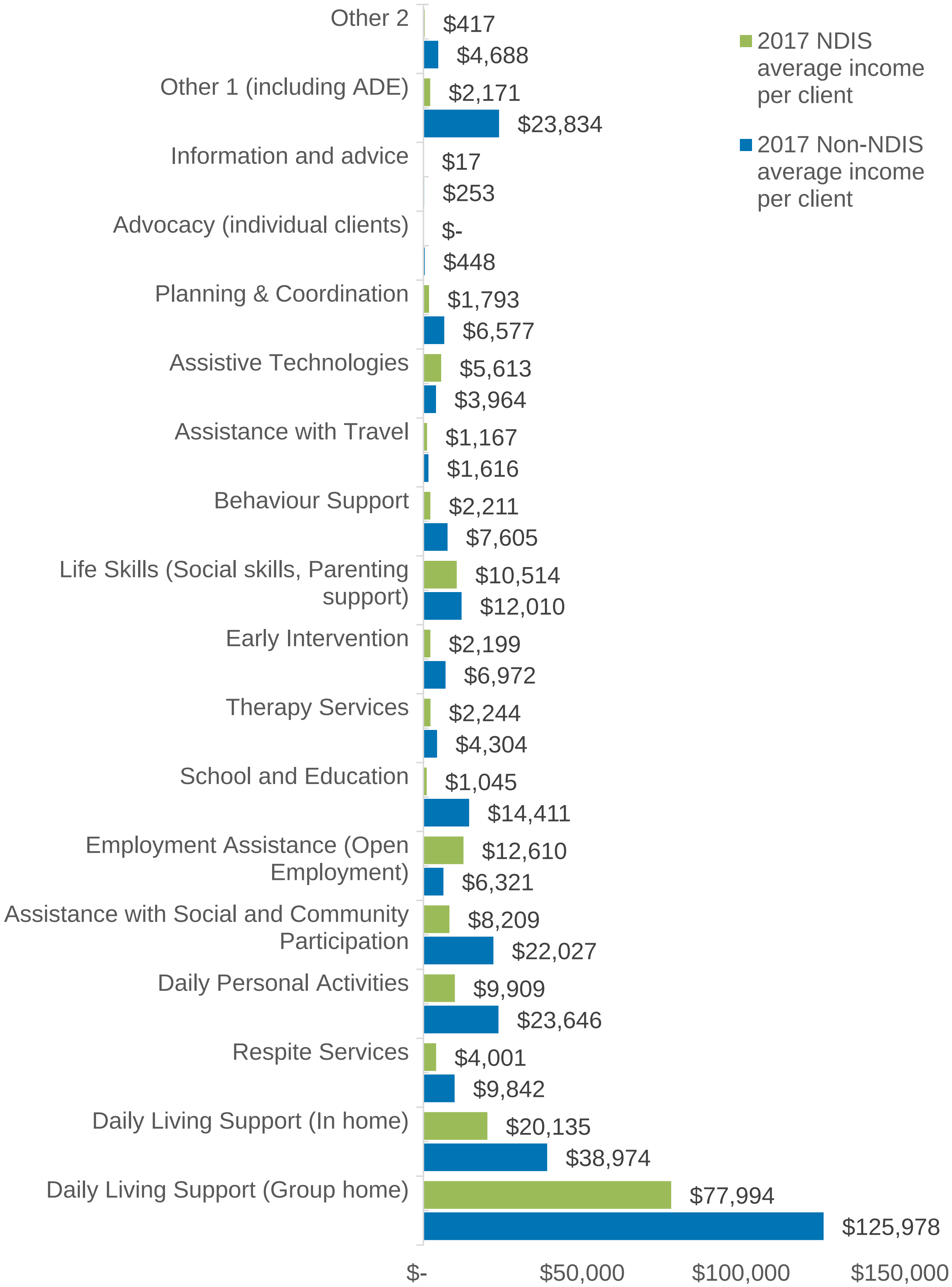
Overall, the results show that the average income per client per service type is lower for NDIS funded services than for services funded from other sources. Based on income and client head count per service type, the amount of funding received per person under NDIS was $10,215 compared with $16,976 per person in total sourced from other sources (States/Territory governments, Other Commonwealth Government funding, Fees for service, etc).

Table 19: NDIS and Non-NDIS income per client 2016 and 2017

Service type	2016 Non-NDIS average income per client	2016 NDIS average income per client	2017 Non-NDIS average income per client	2017 NDIS average income per client
Daily Living (Group home)	$108,016	$ 87,094	$125,978	$77,994
Daily Living (In home)	$32,103	$24,476	$38,974	$20,135
Respite Services	$12,449	$4,762	$9,842	$4,001
Daily Personal Activities	$14,016	$9,606	$23,646	$9,909
Social and Com Participation	$19,862	$8,734	$22,027	$8,209
Employment Assistance (Open Employment)	$6,182	$10,686	$6,321	$12,610
School and Education	$12,076	$0	$14,411	$1,045
Therapy Services	$3,988	$2,552	$4,304	$2,244
Early Intervention	$5,588	$3,675	$6,972	$2,199
Life Skills (Social skills, Parenting support)	$14,280	$4,239	$12,010	$10,514

Service type	2016 Non-NDIS average income per client	2016 NDIS average income per client	2017 Non-NDIS average income per client	2017 NDIS average income per client
Behaviour Support	$9,558	$2,708	$7,605	$2,211
Assistance with Travel	$1,498	$596	$1,616	$ 1,167
Assistive Technologies	$328	$2,210	$3,964	$5,613
Planning & Coordination	$6,435	$1,829	$6,577	$1,793
Advocacy (individual)	$450	$0	$448	$0
Information and advice	$248	$0	$253	$17
Other 1 (including ADE)	$25,815	$16,620	$23,834	$2,171
Other 2	$5,727	$2,100	$4,688	$417
Total	$17,755	$3,296	$16,976	$10,215

Figure 28: Average income per client per service Non-NDIS and NDIS 2017



Glossary

1	**Income from National Disability Insurance Agency (NDIS Income)**	Any payments made by the National Disability Insurance Agency (NDIA) under the National Disability Insurance Scheme (NDIS), or its local variant in your state or territory.
2	**Income from clients claimed under NDIS**	Income received from the NDIA, or its local variant in your State or Territory, in response to claims for payment.
3	**All other income from NDIA**	Any other income not included in the above categories and received from the NDIA or its local variant in your state or territory.
4	**Income from the Commonwealth Government**	All income received from the commonwealth government, excluding NDIS. It does not include capital grants recorded as income for the purposes of the Australian Accounting Standards.
5	**Income from State/Territory Governments**	All income received from state and territory governments. It does not include capital grants recorded as income for the purposes of the Australian Accounting Standards.
6	**Income from Local Governments**	All income received from local governments. It does not include capital grants recorded as income for the purposes of the Australian Accounting Standards.
7	**Income from Private Fee for Service**	Income for services that are self-funded by private individuals or organisations for specific services provided. In regard to disability services, it includes fees not paid for by a government nor claimed under the NDIS or its local variant in your state or territory, e.g., living expenses charged in accommodation services, disability therapy services for children paid for by their parents, and payments for a client's accommodation services paid by a benefactor/donor or insurance company. Exclude donations (reported separately below).

8	**Contracts**	All contracts to provide services to people (individuals or groups) with disabilities. This includes employment, accommodation, therapy and all other services provided to designated people (individuals or groups). Include here all income received from the state and territory governments including that received under the NDIS policy or its local variant in your State or Territory.
9	**Grants and other income**	Include in this category all income that related to the provision of services that are not provided to specific individuals. For example, group advocacy (such as local area coordination) and education services and access equipment.
10	**Other Income**	All other income for the provision of services that does not fall into any of the other categories.
11	**Other sales revenue**	Sales from ADE and other commercial activities.
12	**Income from donations and bequests**	A donation is voluntary support (in cash or gifts in kind) where there is no a material benefit to the donor. It includes donations from public collections, fundraising, members (but not membership fees), supporters and employees. They also include any bequests and memorials. This includes tax deductible donations and gifts from the public, tax deductible donations from members, supporters and employees, and non-tax deductible gifts and bequests.
13	**Interest income**	Interest earned on cash temporarily held in savings accounts, certificates of deposit, or other investments.
14	**All other income**	Income from sources that are not covered in any of the other categories. For most organisations, this should be zero. Please contact the research team if you have more than 10% of your income represented in this category.

Financial Data: Expenses

15	**Employee expenses (Australian Disability Enterprises (ADEs) should exclude supported employee wages)**	All gross amounts paid or payable to, on behalf of, or in relation to the employment of all staff employed by your organisation on a permanent or casual basis (including replacement staff). ADEs should exclude supported employee wages. This may include: • salaries and wages • annual leave expense • long service leave expense • sick leave expense • termination payments • salary sacrifice • superannuation • workers' compensation • fringe benefits tax and fringe benefits provided including motor vehicles at taxable value • recruitment expense • cost recovery • other costs relating to paying salaries and wages • fees paid on employees' behalf
16	**Supported employee wages**	Total employment costs including salaries and wages, superannuation, workers' compensation insurance and payroll tax.
17	**Cost of sales**	Cost of goods sold for ADE and other commercial activities.
18	**Property costs**	Costs associated with properties used for any purpose.
19	**Motor vehicle costs**	All costs associated with operating the motor vehicle fleet (used for any purpose) including lease costs, maintenance and insurance (including buses).
20	**Marketing and public relations**	All costs associated with the promotion of the organisation including materials, website development, brochures. This item does not include marketing staff.
21	**Accounting and audit**	All costs associated with the financial management and audit of the organisation provided by external service providers.
22	**Bad debts**	Those debts which have been written off due to non-recovery, plus any estimates for doubtful debts that have been charged to the accounts.

23	**Interest**	Interest paid or interest penalties and includes interest accrued.
24	**Depreciation**	Depreciation and amortisation expense on all assets.
25	**All other expenses**	Any expenses that do not fall into the above categories. This should be less than 10% of total expenditure. Please contact the research team if other expenses are higher than 10%.

Financial Data: Balance Sheet

26	**Cash**	Cash at bank and on hand.
27	**Accounts receivable**	Gross accounts receivable owing by debtors at the end of the financial period which are expected to be collected in the next 12 months (i.e. those that owe you money).
28	**Other current assets**	Any current assets that are not cash or cash equivalents (e.g. where you have cash invested in a timed investment that cannot be accessed without a fee, this would be included as cash). Other current assets should also include related off-setting balances (such as doubtful debts which will reduce accounts receivable current assets).
29	**Total non-current assets**	All non-current assets.
30	**Overdraft**	Any amount borrowed from the bank as at the end of the reporting year and which can be recalled by the bank with short or no notice. This can include a drawn overdraft, a drawn line of credit or a mortgage that is due for repayment in full at any time within the next twelve months (the amount actually drawn, not the facility value).
31	**Accounts payable**	Gross accounts payable owing to trade creditors or suppliers at the end of the reporting period which are expected to be collected in the next 12 months (i.e. those that you owe money to).
32	**Other current liabilities**	All current liabilities other than overdraft and accounts payable.
33	**Borrowings**	The long-term component of any and all loans owed by the organisation to banks and others.
34	**Other non-current liabilities**	All non-current liabilities other than borrowings.

Other Terms

35	**Land**	Freehold and leasehold land which is shown at cost, impaired value or revalued amount.
36	**Buildings**	Freehold or leasehold buildings and any improvements or revaluations to buildings.
37	**Plant and equipment**	The total value of movable plant and equipment (excluding vehicles) that is owned or leased, recorded at cost.
38	**Motor vehicles**	Motor vehicles (including buses) are recorded at cost and can be purchased, under hire purchase or leased.
39	**Client headcount**	Number of clients serviced, without splitting.
40	**Full-time Staff**	Full-time is 35 or more hours per week. Do not include self-employed people or contractors, or those working outside Australia.
41	**Part-time Staff**	Part-time is 1 to 34 hours per week. Do not include self-employed people or contractors. Include paid board members.
42	**Full-time Equivalent**	FTE is calculated as total hours per week divided by 35.
43	**DISABILITY services direct workers (including allied health staff)**	Disability Services Direct workers are people directly providing disability services and those who coordinate or supervise their work. Client support officers, key workers and case managers are included. Managers are included ONLY IF they also have a direct client support role. Allied health workers are allied health professionals who provide support directly to clients.
44	**DISABILITY services support, administration and management staff**	Disability Services Support, administration and management staff are staff that do not provide services directly to clients. They include administrative, human resource, marketing, quality assurance staff and management, such as the CEO and paid board members.
45	**All other staff (not related to the provision of disability services)**	Includes all other staff employed by this organisation that do not contribute, either directly or indirectly, to the provision of disability services or its management. This might include staff employed in a social enterprise, other human services provision and/or other role within your organisation.

Disability Service Categories

These categories have been updated since 2016 to allow for changes to NDIS. They have been developed based on the NDIS categories. Please contact us if you would like further information.

46	**Daily Living Support (Group home)**	Assistance with daily life in a group or shared living arrangements
		Assisted Living – Complex Needs
		Assisted Living – Challenging Behaviours
		Meals Preparation, Cleaning & Maintenance
		Recreation support
47	**Daily Living Support (In home)**	In home assistance with daily life
		Assisted Living – Complex Needs
		Assisted Living – Challenging Behaviours
		Meals Preparation, Cleaning & Maintenance
		Recreation support
48	**Nursing Care (In home)**	Community Nursing Care for High Needs
49	**Respite Services**	Daily, overnight and extended respite (Out of home)
		In home Respite
50	**Assistance with New Accommodation**	Short Term Transitional Support to group home
		Assistance with accommodation / Tenancy Assistance
51	**Daily Personal Activities**	Assistance with Self-care
		Night-time Sleepover
		Assistance with Self-care Complex Needs
52	**Assistance with Social and Community Participation**	Group-based Activities
		Community Activities Access Assistance
53	**Employment Assistance (Open employment)**	Post School Transition
		Training & Support in Employment
		Job Search Assistance
		Support in Employment
54	**Supported Employment (ADE)**	Includes all Supported Employment activities by Australian Disability Enterprises

55	**School and Education**	Specialised Transport
		Assistance with personal care and transitions in educational settings
		Transition from School to Other Education
56	**Therapy Services**	Therapy Services, Counselling, Occupational Therapy, Physiotherapy, Speech Therapy
57	**Early Intervention**	Childhood Interventions – Group
		Childhood Interventions - Individual
58	**Life Skills (Social skills, Parenting support)**	Parenting Training
		Social Skills Development
		Other
59	**Behaviour Support**	Management Planning, Group therapy
60	**Assistance with Travel**	Assistance with Travel
61	**Interpreting and Translation**	Interpreting and Translation – Auslan
62	**Assistive Technologies**	Assistive Technologies
		Personal Care Technologies
		Recreation Assistive Technologies
63	**Planning & Coordination**	Coordination of Supports
		Transition Planning
		Assistance with Decision Making & Budgeting (Including Financial Intermediaries)
		Skills Development
64	**Advocacy (Individual clients)**	Information, support and advocacy provided to individual clients
65	**Information and Advice**	Includes general information, advice and advocacy provided to many users

Appendix One: Research Method

Background and aims

This research is being undertaken using data from a Panel of organisations that selected with the intention of forming a stratified sample. That is, the population of disability service organisations at 2014 was examined to determine its profile with regard to size (income), and location (State or Territory) and then a sampling frame was developed that is representative of the population. By structuring the sample to be representative of the population of disability service organisations, we can have greater confidence that the results reflect the supply-side and the impact of change.

The first phase of this study involved determining the structure of supply prior to the introduction of the NDIS and recruiting the Panel. This was challenging as there is no single dataset that lists all disability service providers, and it was necessary to make estimates based on a range of different data sources, including the Australian Institute of Health and Welfare Disability Services data, the National Disability Insurance Agency's (NDIA) list of registered providers, the membership list for National Disability Services (NDS) (via the Centre for Applied Disability Research) and the Australian Charities and Not-for-Profits Commission (ACNC) data.

After the final Panel structure was established, NDS promoted the study to its members to encourage recruitment, and invitation emails were sent by the Curtin University Not-for-profit Initiative (Curtin) to organisations registered as providers with the NDIA. To encourage participation, members of the Panel were offered an annual individualised benchmark report that provides them with comparisons of their activity and performance data with that of their size cohort and the Panel as a whole. This is a significant incentive as reports of this type in other sectors can cost participants many thousands of dollars and are generally less comprehensive.

Method

Wave 1 – Financial Sustainability

The first wave of the survey achieved 180 complete and valid responses to both the online survey and financial information template. The data from this study was summarised in a report titled: Australia's Disability Services Sector 2016 Report 1 Financial Sustainability Summary of Key Findings.[21]

In addition to distributing the report,

---

[21] *Gilchrist, D. J. and P. A. Knight, (2016), Australia's Disability Sector 2016: Report One - Financial Sustainability and Summary of Key Findings, A Report for the Research Data Working Group, Sydney.*

- the Curtin research team provided 30 one-on-one advice sessions with Panel members to discuss results and implication for their organisation, and

- NDS/Curtin provided four webinars for NDS members summarising the key results.

The findings from Wave 1 were also referenced by a number of key publications, and the Productivity Commission both cited the findings and recommended that the study be continued beyond Wave 4.

Wave 2 – Sector Response Survey

Wave 2 of the study involved the collection of data from CEOs or senior executives about their organisation's actions in the previous 12 months and intentions and expectations for the next 12 months. This survey included collecting information about collaborations, mergers, investment and profitability.

To reduce respondent burden and prevent duplication, the Wave 2 survey was undertaken in conjunction with NDS's Business Confidence Survey. This survey had been undertaken by NDS for two years (three prior waves) and examined several similar issues. Panel members were sent a similar questionnaire concurrently with the survey of NDS members and non-members (the questionnaire for the Panel excluded or pre-populated some questions to remove duplication). By using similar survey instruments, we were also able to compare the results from Panel and non-Panel members.

Despite the Sector Response Survey being comparatively easy and quick to complete, not all Panel members completed their Wave 2 questionnaire, and more than 60 organisations were contacted by email and phone to encourage completion. In total, 165 of the 180 in the Panel organisations completed the survey online. The findings from the Business Confidence Survey were summarised in a report published by NDS titled Results: Disability Markets Survey 2016.[22]

Wave 3 – Financial Sustainability Survey (this report)

In response to the outcomes from Wave 1 and 2, the data collection method for Wave 3 was modified to enable Panel members to provide all information through one survey instrument. An individualised MS Excel model/template was built to collect information from each Panel member for the 2015/16 financial year. This model pre-populated base data, enabled Panel members to update their information from the 2014/15 financial year, enter the data for 2015/16 financial year, and check and compare their results. It also included definitions, validation controls and

---

22 Gilchrist, D. J. and P. A. Knight, (2017), Results: Disability Markets Survey 2016, A Report for National Disability Services, Canberra.

calculated key financial ratios. The check and compare and ratios sections were designed to encourage Panel members to self-check and validate results.

All Panel members and those that had nominated to join since Wave 2 were emailed their individualised template and at least three reminder emails were sent to encourage response. More than half of all organisations did not respond by March 2017 and we therefore commenced a program of emails and phone calls to offer assistance and encouragement. In many cases, we contacted members more than six times.

When the survey templates were returned, they were checked by the research team, and in more than half of all cases needed to be returned to the Panel member for clarification or completion of missing data. Again, this required both email and telephone contact to encourage completion and return.

Due to the lower than expected returns and error rates, the time to complete the data collection was longer than expected. In total, 27 organisations did not complete their responses or were insufficient for inclusion. For 12 of those organisations, to keep them in the Panel, we collected base financial data ourselves from published sources, including published annual reports and data from the Australian Charities and Not-for-profits Commission. This data enabled comparison of top line income and profit measures.

The reasons given by Panel members for withdrawing from the study were varied. In some cases, the organisations merged, ceased trading or ceased providing disability services. In most cases, Panel members withdrew because they did not have ready access to the information required or did not have staff resources to complete the template. In particular, organisations that were not exclusive providers of disability services often struggled the most, as disaggregating disability income, expenditure and services from their other services was particularly difficult.

This presented some data collection issues. Based on our conversations with providers, it appeared that those with high quality record keeping systems were both able to provide the data and keen to compare their results with others. For many, this is the first and only opportunity they have had to compare their efficiency and effectiveness with another organisation. These organisations that struggled to provide data also reported more problems with NDIS transition and profitability.

We continued to recruit for new Panel members through Wave 1 and Wave 2 and in total, 12 organisations joined the Panel for Wave 3. Of these, three organisations provided data for both their 2014/15 and 2015/16 year and have been included in this report. The others will have their data included in subsequent iterations of the data (if the project is continued). All participants that provided 2015/16 data were provided with a benchmark report.

To reduce error or bias, we took a conservative approach in analysing the results and have included only the 154 organisations that provided responses to both Wave 1 and Wave 3, that is for the 2014/15 and 2015/16.

Wave 4 – Sector Response Survey

Wave 4 of the study was undertaken in October/November 2017 and report results were published in 2018.

Table 20: Survey waves

Wave	Responses (orgs	Data collection	Report
1: Financial Sustainability	180	Dec 2015 to May 2016	Australia's Disability Services Sector 2016 Report 1 Financial Sustainability Summary of Key Findings
2: Sector Response	165 (Panel) + 440	Sept 2016 to Nov 2016	Results: Disability Markets Survey 2016
3: Financial Sustainability	181 (157 completed both Waves)	Dec 2016 to June 2017	Australia's Disability Services Sector 2017 Report 2: Financial Sustainability Summary of Key Findings
4: Sector Response	126 included	Oct to Nov 2017	Disability Services Market Report 2018
5. Financial sustainability	124 (99 satisfactorily completed all four waves)	October 2017 to September 2018	Australia's Disability Services Sector 2018 Report 3 – The National Performance Benchmark Project (This report)

How representative is our Panel?

The initial Panel was structured to replicate the distribution of organisations providing disability services in 2014 by location (State/Territory) and income. Data on the demography of organisations that provide disability services is not readily available and the sample was stratified based on data available from several sources, namely the Australian Institute of Health and Welfare Disability Services data, the National Disability Insurance Agency's (NDIA) list of registered providers, the membership list for National Disability Services (NDS) (via the Centre for Applied Disability Research) and the Australian Charities and Not-for-Profits Commission (ACNC) data. A description of the initial Panel can be found in the report from Wave 1.[23]

---

[23] *Gilchrist, D. J. and P. A. Knight, (2016), Australia's Disability Sector 2016: Report One - Financial Sustainability and Summary of Key Findings, A Report for the Research Data Working Group, Sydney*

The profile of the organisations included in this study is shown in table 2 and table 3. The Panel is under-representative of very small organisations and over-representative of medium and large organisations. Under representation of smaller organisations is common in this kind of research and it is a difficult problem to solve, as many do not have the resources needed to provide the data required and may see less benefit in participation. The sample is also over representative of organisations in New South Wales and under-representative of organisations in Queensland and the States and Territories with lower populations. The underrepresentation of Queensland based organisations may in part be due to the later introduction of NDIS in that state (at the commencement of the study, the NDIA had significantly fewer registered providers in Queensland compared with other jurisdictions). The over-representation of providers from NSW is not easily explained, but may be related to state-based issues.

The results in this report provide a good base to address the research questions and represent a major step forward in our understanding of the supply-side of the sector. It is the first large-scale study to track performance over time and it provides detailed information on the financial performance, client base, service volumes, and staffing of 99 organisations over three years and a further 80 organisations for one or more years.

Interpreting the findings

This report summarises the findings from the third survey examining financial performance. It focuses on reporting the findings from both the Panel as a whole and the size cohorts. This enables comparison year-by-year comparison of 99 organisations that have participated in all three financial surveys.

We do not report data that allows identification of Panel members, such as minimum or maximum turnover or profit.

Time period of activity

Nearly all organisations in the Panel have a 30 June financial year-end. As such, unless otherwise indicated, data was collected for the 2014/15, 2015/16 and 2016/17 financial years. Staff data was collected for the last pay period of the last financial year[24].

Data quality

It should be noted that the data in the survey is based on the information provided by participants. Most have provided their financial information based on their annual financial reports but some participants have made estimates in regard to such things

---

24 Two organisations reported their financial information on a calendar year basis and for these organisations the financial data relates to the 2014 year.

as client numbers or income by service. For example, not all organisations break down their income and expenditure by source, such as NDIS income, State/Territory funding, and own source funding. Furthermore, the source of income is also changing rapidly as the volume of services provided via the NDIS increases. As such, the total values (total income, expenses, profit) and the values derived from the balance sheet are more reliable at this stage and therefore this report focuses on this data. Similarly, many organisations have yet to develop client information systems that allow for the quick identification of client or service data and therefore had to make estimates of client numbers.

The data has not been verified or audited

The considerable difficulty faced by some organisations in providing this data is a finding in itself. We aimed to keep the information we requested to a minimum while collecting enough detail to provide the analysis required and to be of use to senior executives and boards to benchmark performance against others, set targets, and determine budgets. Given the difficulty faced by some organisations in providing this information, it appears that they have not been tracking these variables. While this may have been unnecessary in previous funding environments, the monitoring of this data will become very important under the NDIS.

We examined respondents' submissions for obvious errors and made more than 100 enquiries with Panel members to follow up on data or check information that did not seem to tally with other data provided. However, readers should be aware that we have not audited or verified individual submissions. Nearly all organisations have their financial reports independently audited, but we have not verified the translation of data into our collection templates and online survey, nor have we examined individual organisations' auditors' reports. At the completion of each round of the financial performance study, organisations have received an individualised benchmark report. It is hoped that this and ongoing improvements to financial and client information systems within organisations will encourage participation and improve data quality over time.

To encourage on-going participation in the study, in 2017/18 we introduced a number of new services for Panel members. This included the provision of individual case managers who worked with Panel members to help them complete their returns and the establishment of a website to support Panel member communications and engagement.

In 2018 we also explored alternatives for providing benchmark reports in a live, interactive format. After considering a number of options, we developed, tested and launch the 2018 benchmark report using Microsoft Power BI software. This software platform was chosen as Microsoft products are most widely used by providers, are mostly intuitive to those familiar with MS Excel and they enabled the development of performance dashboards. To enable Panel member to access this service, each has been provided with a subscription to Power BI Pro at a cost of more than $1,500 per month for the Panel. Their subscription gives them full access to the software which they can use for their own reports. Panel members are provided with videos and phone support to use the service. As at October 10, 2018 the reports had been accessed 1,486 times.