

NDIS Green Paper No. 6
Cost Differentials, Cost Pressures & Labour Competition Impacting Western Australian Disability
Service Delivery

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Context:

This Green Paper is intended to be a concise, single-issue paper that contributes to the broader discussion surrounding the rollout and management of the NDIS within the Australian Disability Services System. It supports the Not-for-profits UWA White Paper “Six Years and Counting: The NDIS and the Australian Disability Services System”² and seeks to build on ours and others’ research activities to contribute to the creation of an efficient and effective, as well as a sustainable and innovative, Australian Disability Services System.

Summary:

The Not-for-profits UWA Research Team analysed data from published sources and volunteered data contributions provide by disability service providers to identify and examine key NDIS delivery cost differentials and cost pressures likely to exist between Western Australia and the other jurisdictions in Australia. It also gained access to data provided by a small number of disability service providers operating in Western Australia to find:

- 1) *Employee expenses as a share of total income continues to be significantly higher in WA compared to all other jurisdictions*
- 2) *Job quality is poorest in disability services with the job quality gap growing negatively and impacting capacity of service providers to respond to service user needs*
- 3) *Competition for staff in WA continues to increase driven by the expanding mining sector despite the highest participation rate and lowest unemployment rate of all jurisdictions*
- 4) *Evidence of the impact of these pressures is clear with 11 disability service providers reporting they have a combined 422.4 FTE vacancies representing 12% of their combined workforce*
- 5) *The impact of increasing costs and competition for labour as a result of poor job quality is exacerbated by the same 11 disability service providers reporting an average per client reduction in their SIL income (for instance) of 6.8% for 2020/21 compared to their experience of 2019/20*
- 6) *Under Utilisation in WA of 38% as of 31 March 2021 and of 35% in 2019/20 underscores the lack of capacity in disability service provision³*
- 7) *This situation is likely to worsen into the medium-term.*

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² See: <http://www.research.uwa.edu.au/not-for-profits-uwa#ndis-disability-services>

³ See the NDIA Quarterly Report for the quarter ended 31 March 2021:
file:///C:/Users/User/Downloads/QR%20Q3%20202021%20Full%20Report%20PDF.pdf

UWA Australian Disability Service System Research Project

Green Paper 6: Cost Differentials in Western Australian Disability Services Delivery



Paper:

This paper reviews the pressures on competition for labour in Western Australia which are predominantly a function of job quality and job availability. Given that disability services employees are some of the lowest paid employees in Australia, the impact of job quality on recruitment and retention is highly relevant in the context of underutilisation in the NDIS.

The examination of prices for NDIS-related services is very difficult because the necessary data assets are either non-existent or data collected by the NDIA is not shared. The prices are generally established uniformly notwithstanding that there are various geographically separate economies extant within Australia and which have differing social and cost-structure attributes as a result of historical economic pressures and structures, and commercial and other financial pressures. Indeed, the Australian economic structure has developed in response to local, regional and national impact factors. These factors include geographic, cultural and other demographic attributes that combine with national economic factors and the fiscal policy of state/territory and Commonwealth governments to cause basic economic elements, such as cost elements in delivering disability services, to vary in different locations and for different reasons. In the case of Western Australia, these attributes relate to the state's principal industry, mining, and to historical impacts related to workforce policy frameworks associated with industrial policies established over the last three decades.

The purpose of this paper is to examine areas where there are cost differentials, and pressures exacerbating cost differentials, experienced by Western Australian disability services providers as compared to those providers in other Australian jurisdictions. Essentially, we have focused on evidence of these cost differentials themselves together with evidence of the impact of these differentials, particularly in relation to job quality and competition for labour.

To develop this paper, we have analysed data available from the Australian Charities and Not-for-profits Commission (ACNC) Annual Information Statement (AIS) database—this data is relative to the social services main activity the predominant financial element of which is likely to be disability services; as to data efficacy, we are only able to analyse the data at this highest level as activity reporting data is still underdeveloped particularly in the context of the attribution of costs in a conglomerate nonprofit; this is not our preference, however, it is far more appropriate to review the higher level data than to make presumptions about the self-selected activity data. We have also analysed data and information provided by the Australian Bureau of Statistics, the Western Australian Treasury, the Western Australian Treasury Corporation, published reports of the NDIS itself and data provided by a small number of disability service providers. Should readers have queries related to the data itself or the analysis process undertaken, please contact the chief investigator, Professor David Gilchrist.

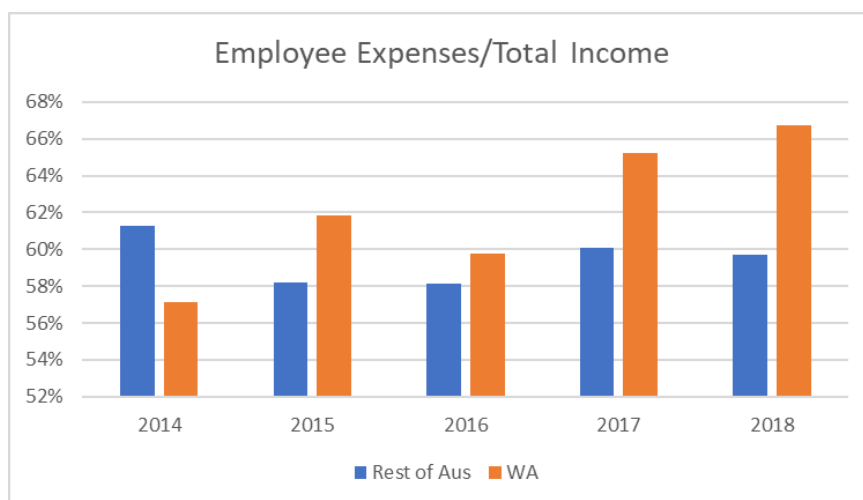
Overall, our analysis confirms that there is a strong argument for reform in pricing processes employed by the NDIA in response to the cost differentials themselves, competition for labour in the context of job quality and underutilisation, and the establishment of appropriate data assets that can assist in analysing localised cost structures in support of a more effective and efficient funding rationing system in disability services for that state.

While this examination relates to Western Australia as compared to the remainder of the Australian jurisdictions, the findings suggested here are likely to be replicated in other jurisdictions, although perhaps with differing points of emphasis and differing drivers of variation.

Employee Recruitment & Retention Pressures – Job Quality & Competition for Staff

The largest expense category for most human services organisations is that of employee expenses. This is because human services, such as disability services and supports, are labour intensive activities. Additionally, due to the low quality of jobs in the disability services sector—that is, disability services jobs are very low paid, unreliable as to hours allocated and income, and often represent unpalatable tasks—the employment vacancy rate is also an important indicator of pressure here. Even if an organisation can afford to pay current rates, the intra-sector competition for workforce means that often disability service providers are unable to fill vacant positions as indicated by vacancy rates in the sector and across the economy as a whole. Additionally, the structure of industrial arrangements in this industry in WA has developed over a period of 30 years in response to competition for labour by increasing the hourly rates offered, leave entitlements and other arrangements in order to compete with industries offering higher job quality. These industrial arrangements cannot be easily exited, and it is not likely that reducing job quality by changing the industrial arrangements will result in a better outcome with respect to recruitment and retention.

Figure 1: Employee Expenses for Social Services Charities as a Proportion of Income; 2014 to 2018



To examine these pressures, we have principally analysed data related to employment costs provided by registered charities who indicated that their main activity was social services (including disability services)—this activity expressly excludes aged care services and health services, both of which constitute the bulk of operational human services spending together with disability services.

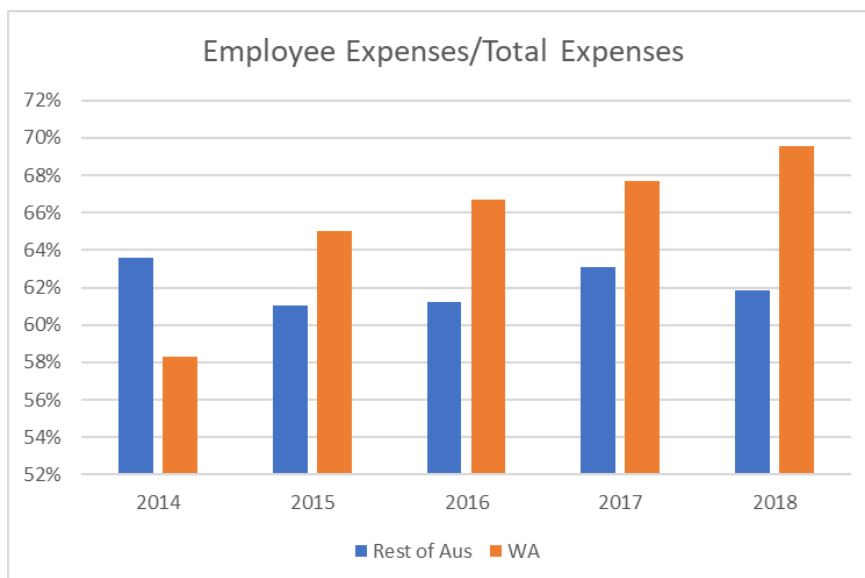
We have analysed the expenditure of these organisations over five financial years from 2014 to 2018 and compared the WA-based organisations with those organisations based in the remainder of Australia.

As can be seen in Figures 1 and 2, these data demonstrate a considerable differential between the proportion of total income expended on employee expenses in Western Australia as compared to the other Australian jurisdictions. Indeed, the proportion of total income absorbed in employee expenses in Western Australia was 57% in 2014 compared to that of the other jurisdictions of 61%.

Whereas, from 2015, this dichotomy had reversed with Western Australia recording a proportion of 67% of total income being absorbed in employee expenditure as compared to 60% returned for the other jurisdictions by 2018. This is as a direct result of the impact of industrial responses needed to meet competition for staff over a considerable period.

A similar picture is seen in relation to our examination of charities with the main activity reported as social services in terms of the proportion of expenses represented by employee expenses (see Figure 2). The differential was in Western Australia’s favour in 2014 at 58% compared to 64% for the remainder of the country. By 2015, this element had turned against Western Australia, which reported 70% of total expenses consisting of employment expenses as against a reported 62% for the remainder of the country in 2018. Again, this results from the industrial framework established in WA in response to competition for personnel over time.

Figure 2: Average Employee Expenses for Social Services Charities as a Proportion of Total Expenses; 2014 to 2018

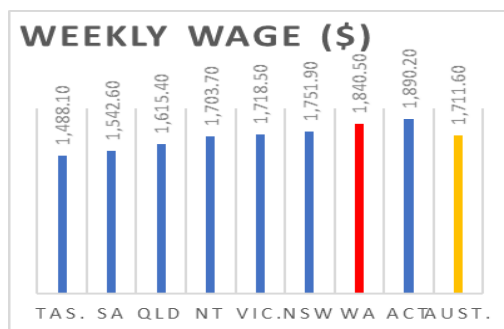


The fundamental difference can also be seen across the board by looking at the comparison of adult full time average weekly earnings between states and territories, as shown in Figure 3. Western Australia has the highest average wage⁴ after the ACT. Notwithstanding, WA also records the highest gender pay gap in the federation with women earning 22.87% less than men. The next highest gender pay gap in Australia is that of 13.63% in Queensland.⁵ This finding reinforces the need for reform in terms of building job quality for women given the preponderance of women working in part time and casual positions in the human services sector.

⁴ Here average weekly ordinary earnings for fulltime adults is used as a proxy. However, the trend is the same for the other wage categories.

⁵ Source: Australian Bureau of Statistics 2020. Access here: <https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release>

Figure 3: Average Weekly Wage Rates; All Australian jurisdictions⁶



Drivers of Job Quality Differentials in Western Australia

The latest release of the ‘Jobs in Australia’ report by the ABS (2020) covers the 2017-18 financial year and offers some reasons for the high average salaries reported in the ACT including that 22.5% of the workforce are professionals, compared with 17.8% in WA. When broken down into industries, ‘Public administration and safety’ was the largest job category in the ACT, with 25.8%, and 8.2% of jobs in ‘Health care and social assistance’. Compared to Western Australia ‘Health care and social assistance’, though lower than other jurisdictions as a proportion, had the highest number of jobs at 10.5% such that labour demand in the health and social assistance sector is highest but job quality is compromised.

A further driver of differential cost experiences for the Western Australian disability sector relates to the impact of mining on the employment market. The Western Australian economy has enjoyed high participation rates as a result of the economic impact of the mining sector. Participation rates are expected to increase when the quality of the job (i.e. remuneration levels, hours worked and type of work undertaken) improves. That is, a particular job is more desirable the higher the job quality.

The higher-paying mining sector has performed very well for a number of years now and this is a major driver of increases in the participation rate—it is worth a worker’s while to come back to employment—and drives up wage expectations, as can be seen in Figure 4. WA has consistently had the highest participation rate in Australia (67.2% in July 2020, versus 64.7% average), while the unemployment rate in WA at March 2021 was at 4.8%⁷, which was the lowest nationally, it has fallen to 4.7% according to May 2021 ABS figures⁸.

The strength and significant value generation of mining in the state means high wages are readily available for Western Australians to work in the mining and adjacent services sectors. The most recent Jobs in Australia report by the ABS (2020), shows that for the 2017-18 financial year, 4.5% of WA’s jobs were in mining. The next highest was Queensland with 1.3%. For comparison, Western Australia also only had 10.5% of jobs in ‘Health care and social assistance’, below the national average of 11.1%. Outside of greater Perth, regional WA had 6.3% of jobs in ‘Mining’ (Queensland was 1.9% regionally) and only 8.7% of jobs in ‘Health care and social assistance’.

⁶ Source: Australian Bureau of Statistics: <https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release>

⁷ Source: Western Australian Treasury Corporation at <https://www.watc.wa.gov.au/wp-content/uploads/2021/04/Labour-force-March-2021.pdf>

⁸ See ABS here: <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release#states-and-territories>

UWA Australian Disability Service System Research Project

Green Paper 6: Cost Differentials in Western Australian Disability Services Delivery



That is, the nature of the Western Australian economy is such that, while the participation rate exceeds the national level, the impact of the mining sector ensures that competition for workers is significant and that the low-paying disability services sector cannot compete for workforce capacity without improving job quality.

This reality also increases costs in terms of employee turnover and replacement while adding additional challenges and overhead costs to the management of workforce in the context of service quality and clinical risk—the low remuneration offered means that new Australians are increasingly taking up roles in the sector, increasing training and management costs for service providers and increasing the cultural diversity complexity needing to be managed. This is especially an issue in regional and remote locations.

Regional and Rural Labour Competition

Western Australia is also geographically one of the largest sub-national jurisdictions in the world. This means that, when we consider the pricing of disability services, we need to take into consideration economic conditions and impacts at the very local level.

Interestingly, Western Australia has the least disparity between wages in the capital city versus the regions, as is evident in *Figure 5*, meaning workers in country towns earn comparable wages to those in the capital city, Perth.

This is likely a result of competition for labour in the context of the mining economy. Indeed, fly-in-fly-out arrangements mean that employees who work on mine sites can live regionally and still participate in these higher wage jobs. Thus, the competition in regions for staff is exacerbated as job quality comparisons impact participation decisions of regional staff as well as those in the capital city.

Costs associated with living in regional towns and communities are likely to compound this issue further, as attracting and retaining quality staff in disability service provision requires, at the minimum, a liveable wage, and ideally a competitive remuneration package.

Evidence of Impact

There is increasing and worrying evidence that the poor job quality described above is combining with very attractive alternative work options to increase job vacancy rates in the Western Australian disability services sector. A review of the situation of 11 disability service providers based in Perth identified that these organisations had 422.4 FTE in vacancies as at 24th June 2021 representing 12%

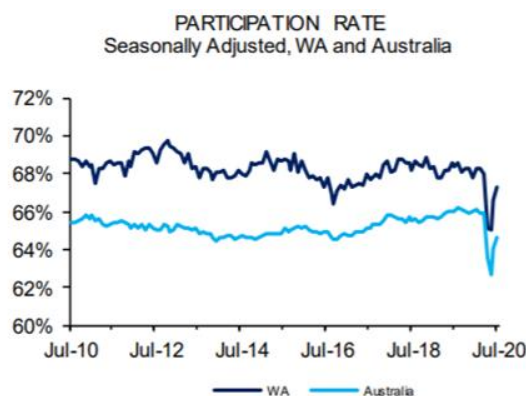


Figure 4: Participation Rate of Western Australia and Australia. Source: Government of Western Australia Department of Treasury

Premium for working in capital cities (ratio over rest of state regions)

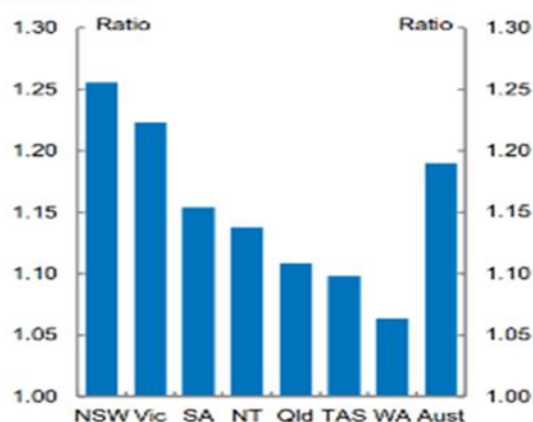


Figure 5: Ratio of City to Regional wages in Australian States. Source: WA Treasury

UWA Australian Disability Service System Research Project

Green Paper 6: Cost Differentials in Western Australian Disability Services Delivery



of their combined workforce. The top four by vacancy rate out of these 11 disability services providers had vacancies of 196, 75, 46 and 38 respectively.

This pressure is concerning as it is impacting the capacity of disability service providers to continue to support high-needs individuals who are some of the most vulnerable people in Australia and who need to supports and services to live their lives.

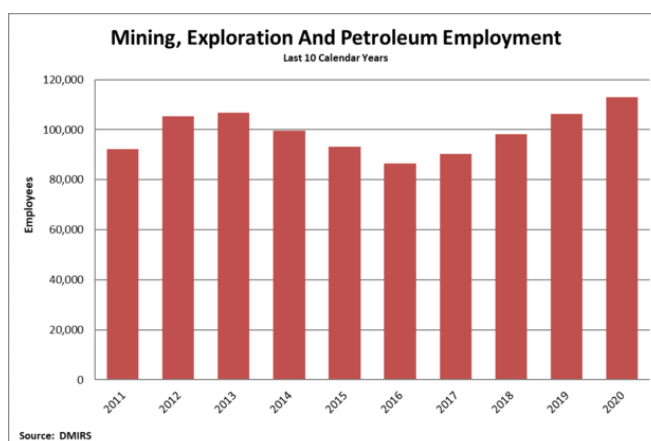
The Future

The prospects for a reduction in competition for workforce in Western Australia are not good. The economy has continued to operate with minimal impact from COVID-19 and the most significant industry, mining, is set to continue to grow from a very high production and pricing base.

Mining Boom

The ongoing Western Australian mining boom has ensured competition for workforce has escalated in the state. The Department of Mines, Industry Regulation and Safety reported that the resources industry hit a record in employment numbers in 2020 as shown in figure 6, replicated from the Department's Industry Activity Indicators Report.⁹ This record was achieved notwithstanding COVID-19 impacts which restricted work practices and employee attendance on sites for part of the 2020 calendar year.

Figure 6: Mining, Exploration and Petroleum Employment Numbers



This economic activity is not likely to slow down in the foreseeable future with the regulating department reporting resources projects of \$140b slated for implementation, up from September 2020's reported value of \$129b.¹⁰ Therefore, competition for workforce will continue in Western Australia and, combined with increases in the cost of living, job quality is likely to have a determinative impact on workers' employment choices.

CPI Changes

For the March 2021 quarter, Perth had the second largest CPI increase¹¹ of 1.4% on a quarter-on-quarter basis, with the next largest increase being Hobart with a 0.8% increase.¹² This increase was likely affected by the WA electricity subsidy. However, it is also likely demonstrative of the increasing cost of living in Perth. With increases in costs of living come increased personal financial pressure

⁹ See website here: <http://dmp.wa.gov.au/About-Us-Careers/Latest-Resources-Investment-4083.aspx>

¹⁰ See also the Department's Principal Resources Projects Report 2019-20 at <http://dmp.wa.gov.au/Documents/Investors/Western-Australias-principal-mining-projects-2019-20.pdf>

¹¹ Darwin had the largest increase at 2.8%.

¹² Western Australian Treasury Corporation, CPI Q1 2021. <https://www.watc.wa.gov.au/wp-content/uploads/2021/04/CPI-Q1-2021.pdf> and the ABS: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>

UWA Australian Disability Service System Research Project

Green Paper 6: Cost Differentials in Western Australian Disability Services Delivery



which, in turn, drives participation and job selection decisions. This increased cost of living will likely increase the unattractiveness of low paid human services jobs as compared to those offered in other industries in Western Australia.

Industry Specific Changes

The human services sector includes aged care and mental health services and supports provision. The recent Commonwealth budget included significant funding increases in these two areas in response in part to findings related to the Aged Care Royal Commission. In terms of aged care, the Commonwealth has allocated an additional \$17.7b, including funding for sustainability for aged care providers.

In terms of mental health services, the same budget included an increase in funding of \$2.3b, including funding for workforce growth needed to provide additional and extended services.

Both of these budget initiatives will increase recruitment and retention pressure on the disability services sector which has also experienced cost increases as a result of the implementation of the unfunded quality framework amongst other cost increases.
