

Australia's Disability Services Sector 2017

REPORT 2

Financial Performance
Summary of Key Findings
(National Benchmarking Project)

August 2017

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About this report

This report is one of five reports as listed below which are published as part of the NDS Market Design and Evolution for Better Outcomes research program. The program was funded with assistance from a grant offered under the National Disability Research and Development Agenda. The program commenced in 2015 with the first of a series of national surveys monitoring the financial sustainability and response of disability services providers under the National Disability Insurance Scheme (NDIS). The project was led by National Disability Services initially in partnership with Curtin University but was transferred to the University of Western Australia when the research team transferred there in early 2017.

Summary of all publications funded with assistance from a funding grant offered under the National Disability Research and Development Agenda

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

Gilchrist, D. J., and P. A. Knight, (2017), Australia's Disability Services Sector 2017: Report 2—Financial Performance—Summary of Key Findings (National Benchmarking Study), A Report for National Disability Services, Canberra

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

Gilchrist, D.J and Knight P. (2018) Disability Markets Survey 2017. A Report for National Disability Services, Canberra.

Gilchrist, D., Knight, P. (July 2018), Research Report: Market Design and Evolution for Better Outcomes. Findings from Investigation of Mergers of Disability Service Providers.

Disclaimer

This report is funded with assistance from a funding grant offered under the National Disability Research and Development Agenda, jointly implemented by disability representatives from Commonwealth, State and Territory governments. However, the information and views contained in this research are not intended as a statement of Australian Government, or any jurisdictional policy, and do not necessarily, or at all, reflect the views held by the Australian Government or jurisdictional government departments.

EXECUTIVE SUMMARY

This is the second report of the Market Design and Evolution for Better Outcomes Research Program (also known as the Disability Services National Benchmarking Project). It provides a snapshot of the changes in the financial performance of a Panel of 154 disability service providers (providers) between 2014/15 and 2015/16 as they transition into the National Disability Insurance Scheme (NDIS)

A significant proportion of existing providers are not exclusively delivering disability services. That is, they also provide services such as aged care, child protection and other human services. As their activities in other service sectors effects their financial sustainability this report includes data on the overall financial performance of organisations as well as their financial performance from to the provision of disability services.

Key findings

The results show growth in the aggregate financial performance of the cohort examined which is the result of some organisations getting financially stronger and some getting weaker. As this is only the second year of the study, it is too early to determine if the findings are indicative of trends.

Aggregate financial performance

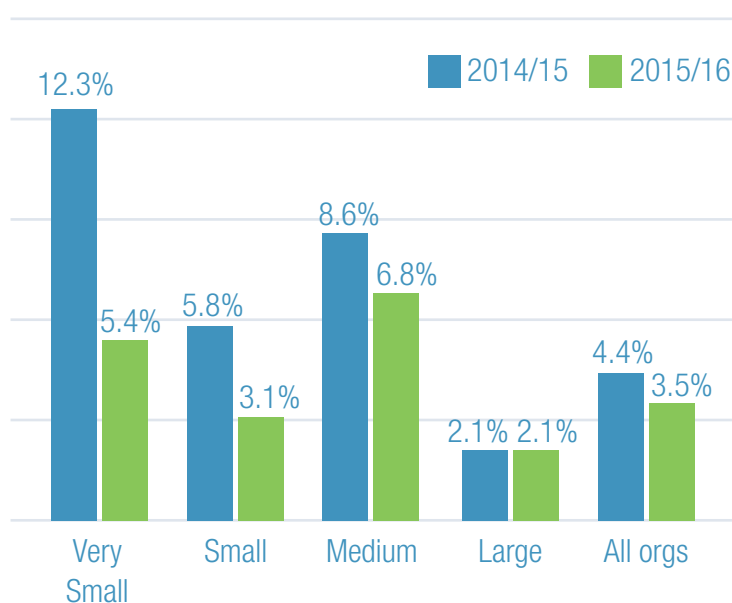
- Between 2014/15 and 2015/16, the total income for the Panel increased by \$220.5m (9.2%) to reach \$2,623m. As such, these 154 organisations alone represent a significant economic group.
- Aggregate income from NDIS increased by \$40.4m to \$77.9m. Although this represented an increase of 108%, NDIS sourced income represented only 3% of total income in 2015/16. The growth of income from States and Territories by \$111.2m was more than double the growth in NDIS-sourced income.
- Aggregate total expenses increased by \$193.1m or 8.3% to reach \$2,507m. Employee expenses continued to represent approximately 71% of total expenditure.
- Aggregate profit grew by \$27.4m or from \$88.0m (3.6%) to \$115.4m (4.4%).
- Donations and bequests are a significant contributor to sector income and profit. Aggregate donations and bequests represented 3.1% or \$82m of total income in 2015/16. When donations and bequests, are removed, aggregate Net Profit was \$12.5m (0.5%) growing to \$33m (1.3%) in 2015/16. A reliance by some organisations on this resource adds risk to service provision.
- Median profit declined from 3.9% to 3.8%
- While overall profits showed good growth, disaggregation of the data shows that the profits achieved is not uniform across all size cohorts. In 2014/15, for example, the median profit ratio of Very Small organisations (under \$1m in income) was 6.3% whereas the median profit of Large organisations was 2.8%. This data challenges commonly held beliefs about larger organisations being more efficient.
- In 2015/16, there was less variation in median profit across the size cohorts. The median profit of Very Small organisations declined to 4.0% and that of Large organisations increased to 3.6% (still lower than the profit margins achieved by the smaller organisations). As large organisations account for 68% of total income, it is their growth in profitability that accounted for the majority increase in overall profits.
- The variation between higher and lower performing organisations is evident in the number of organisations making a profit or loss. In 2014/15, 18 organisations made a loss, but this increased to 26 in 2015/16.
- The total assets of the Panel increased by \$159m to \$1,896m and total liabilities increased by \$41.6m to \$685m. As a result, net assets grew by \$125m (10.2%) in the 2015/16 year to reach \$1.35bn. This is a positive result for the Panel and indicates efficient use of resources. However, some of this growth may be due to specific-purpose donations being differently disclosed, operating assets being purchased and/or asset revaluation.

- Panel members' rating of their organisation's financial performance declined. In 2014/15 two thirds of Panel members rated their organisation as strong or very strong, but this dropped to 44% in 2015/16. Optimism about their future financial performance was also weaker.

Disability services financial performance

- Total income from the provision of disability service increased from \$1,818m to \$2,030m, a growth of \$212.5m or 11.7%. The majority of this increase (\$104m) was the result of an increase in income from State and Territory governments. (As mentioned above, NDIS income increased by \$40.4m).
- Total disability expenditure increased from \$1,738.7m to \$1,958.9m an increase of \$220.2m or 12.7%. Growth in Employee Expenses accounted for most of this increase, but employee costs increased proportionately and remained at approximately 70% of total expenses.

Figure 1 Median profits from disability services by size



- As the rate of growth in disability income was lower than the growth in disability services expenses, profit declined in absolute terms from \$79.5m to \$71.8m, a drop of \$7.7m. This represents a fall in profit margin from 4.4% to 3.5%.
- The median profit ratio from the provision of disability services remained at 2.1% for Large organisations, but declined across all other size cohorts.
- Removing disability related donations and bequests, the total profit from the provision of disability services dropped from 2.7% to 0.04%.
- Nearly three-quarters (73%) of the Panel reported that demand for their disability services increased during 2016, but a third (33%) reported they were unable to satisfy all requests for service. The same proportion (77%) expected demand for their services to increase during 2017 and, again, 32% expected they would not be able to meet demand.

Implications

To fulfil the policy objectives of the NDIS, the disability services sector will require:

- Existing providers to further transform their business models so they align with the National Disability Insurance Scheme (NDIS) policy, and
- Significant growth in capacity - which can be achieved through an increase in the capacity of existing providers and/or from entry of new providers.

Both transition and growth require the investment of resources and these dual pressures are amplifying the change, the risks and the related costs. This is reflected in the results from this study.

Panel members reported that their investment in transitions includes the costs of restructuring of their workforce, purchasing new information systems and training staff for new working environments. They are also investing resources in supporting their clients transition to the NDIS.

At the same time, Panel members are investing resources in building capacity to meet demand. These costs are also incurred in staff recruitment and training, new infrastructure (e.g. vehicles and Information technology) and spending on marketing. However, in managing growth, they must plan for, and fund, the differences between the prospective linear growth in revenue and the stepped growth in some costs, as well as match the pace of growth in staff numbers with the pace of growth in demand. The cost of any unused staff hours or other resources must be absorbed, directly impacting financial results.

The total expenses incurred for transition and growth must be met by the organisation from their own resources (current-year profits, donations, retained earnings or sale of assets) or from debt (e.g. a loan from a bank). Furthermore, organisations must invest resources many months or even years before they receive income growth.

The findings from Wave 3 and previous Waves of this study show that the Panel is fully supportive of the NDIS policy, but many are reporting financial stress regarding disability services and are concerned about the viability of these services in future. They are also reporting that they do not expect to meet demand for services in 2016/17.

Given the complexity of the changes they face, the resource requirements and risks, Boards and Executives of disability services providers will need a positive perception of the future operating conditions if they are to invest in transition and growth. If leaders feel that the costs of transition are too high or their organisation is not viable in the new operating environment, then they will likely close (or exit the provision of disability services). At least two of the Panel members merged for this reason and others have indicated that they are expecting to discontinue their disability services.

Key questions for policy makers

If the low operating profit margins reported by disability services continue or worsen, then providers who are unable to at least breakeven will have to close within two to three years unless they are willing to subsidise their disability services income from other services or donations or sell assets. Based on the findings, some of these may be Large providers. Disability services markets will also be unattractive to new entrants, particularly as aged care and other human services markets offer higher returns.

As a third of providers expect that they will not meet demand, there is significant risk of supply-side failure in the current operating conditions.

A reduction in profits is to be expected across a sector undergoing transition or in the early stages of growth and is being absorbed by providers. The key questions for sector leaders – including policy makers – is whether the sector has sufficient, suitable and available assets to continue to fund the transition and sufficient incentive to do so.

To answer this requires an understanding of the resources available to organisations (presented in this report) as well as considering the outlook for providers from their perspective.

Service providers have increased choice and control over the services they provide and to invest in change and growth, providers need to know the following:

1. The total costs of transition.
2. The price of services and the potential profitability of the 'new market', whether it is likely to be sufficient to enable organisations to return to profitability, and if so, how long it will take for them to rebuild their balance sheets.
3. The rate of growth and timing of expenditure in comparison with the growth in revenue.
4. The asset reserves of organisations.
5. The length of time organisations will need to fund investment before they receive returns. That is, will they run out of available assets before they can return to profit?

This information is needed at the service level.

The Commonwealth Government, via the relevant agencies, can influence the outcomes or provide guidance on the answers to some of these questions and doing so would greatly improve the efficiency and speed of transition, and encourage sector growth.

Specifically,

- The price of services must be set with precision so that there is a balance between achieving value for money with creating a market that is sufficiently attractive to new entrants and existing providers. The National Disability Insurance Agency (NDIA) have also stated that this is a key consideration in determining price controls¹. If returns appear low, providers will invest elsewhere or exit service provision, in many cases in order to protect the sustainability of other human services they provide. The data set developed for this study provides essential information for price monitoring.
- The NDIA should be fully transparent about all aspects of the volume and speed of the rollout of services, client numbers and the price of services. While policy level data is available, such as that found in the bilateral agreements between the Commonwealth and states and territories, this transparency should be provided at the lowest possible level of granularity—that is by service types and by location—as the current information that is obtainable in each jurisdiction is not sufficiently specific to facilitate planning.

Organisations will invest in change if they have some confidence in the future operating environment. Therefore, this information should be provided in advance—ideally at least three years ahead. It should also be reliable. That is, NDIS should commit to prices (at least during rollout) several years in advance and in a way that is fully transparent and builds confidence in providers.

- The NDIA should be fully aware of the impact that any delay or changes in service volumes will have on organisations costs and viability. If any alterations to forecast volumes must be made, this information should be provided to providers at least a year ahead, and ideally in the first quarter of the year so they can adjust budgets.
- Prices should be based on the comprehensive cost of service delivery.
- The success of the NDIS is predicated on the existence of a strong and healthy supply of service. To ensure the sector is not depleted during transition and growth, the full costs of transition and growth of organisations should be assessed by the NDIA and compared with the capacity to access resources. If there is a significant difference between the resources needed and those available, the NDIA has various options for directly and indirectly supporting transition and growth, including funding infrastructure purchases, providing access to low interest loans, or other supports.
- These elements can be included in an industry plan that could be developed with a view to creating certainty, developing a longer-term view of the sector composition and structure, and which could then be used to assess progress and outcomes achieved.
- This study is due to finish at the end of 2017. There is no other data available to support efficient pricing and evaluate providers' financial sustainability. This data is critical to meeting the objectives of the NDIS and the infrastructure for this study is established which will facilitate the ongoing collection of relevant data. The Panel is now established and continuing to monitor its performance will provide essential information to reduce risk and inform policy development, therefore we strongly recommend this study is continued.

1 National Disability Services 2017 Price Controls Review. Consultation on NDIS pricing arrangements Discussion Paper March 2017

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, but they persevered in order to provide the evidence base needed to track performance 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 funded via a National Disability Research and Development Grant via the Research and Data Working Group (RDWG) and it is being undertaken in collaboration with the Centre for Applied Disability Research. It was commenced by Curtin University and is now being undertaken by the University of Western Australia. This report constitutes the second output of the program.

This report should be cited as follows: Gilchrist, D. J., and P. A. Knight, (2017), *Australia's Disability Services Sector 2017: Report 2—Financial Performance—Summary of Key Findings (National Benchmarking Study)*, A Report for National Disability Services, Canberra.

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1. INTRODUCTION

The aim of this research is to provide governments, service providers and the broader community with detailed information regarding the financial performance of disability service provision in Australia.

A key driver for this research program is the introduction of the NDIS requiring the consequential restructuring of individual organisations and the supply-side as a whole. This research plays an important role in monitoring the transformation of the sector and will assist in facilitating the development of policy that fosters a strong and efficient supply of disability services and supports the achievement of the objectives of the NDIS.

This research is intended to identify risks, monitor change and identify any undesirable consequences together with potential strategic responses. It consists of four surveys over two years: two surveys examining financial performance and two examining organisation response. The financial data is based on the 2014/15 and 2015/16 financial years. The results provided here and the risks facing suppliers of disability services in Australia strongly reinforce the need for this study to be continued into the future.

Approach

This research is being undertaken using data from 180 disability service providers across Australia. To select the sample, existing information on the size (income), and location (state or territory) and the population of all disability service providers, and the profile of suppliers across Australia was obtained from several sources. From this, a sample frame was developed to be representative of the population as far as possible. 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 and formed the 'Panel' and are being tracked over time. By tracking the same organisations, we can more accurately examine change as they transition to NDIS.

Figure 1 Research approach



The study began in August 2015 and comprises four waves of research. Wave 1 and 3 involved examining the financial performance, staff and the client base of organisations. Due to the nature of the project and the scope of financial and other data needed, the information for both of these waves was collected using an MS Excel tool, individually prepared for each of the 180 participating organisations. By tailoring the collection template to individual organisations and pre-populating the template with their previously provided data, we aimed to reduce respondent workload and increase response rates.

Wave 2 observed the sector's response and examined the experiences, behaviours and expectations of service providers (collected through an online survey of Chief Executive Officers or other senior representatives) and the organisation's collaboration and merger intentions and activities. Wave 4, yet to commence, will examine the same topics as Wave 2.

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

This report

This report presents the top-level findings from Wave 3: Financial Performance. It summarises and compares the performance data from the 2014/15 and 2015/16 financial years.

The data has been analysed at three levels and this report focuses on presenting data at the first two of these as follows:

- The whole Panel. Analysis at this level provides the base data required to track whole-of-sector changes. In this report, it provides an indication of context and baseline ratios.
- 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 a tailored benchmark report.

As the distribution of key data, such as income, expenses, assets and liabilities is highly 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 would have a total or score higher, and 50% would have a total or score lower than the median score.

The Panel

Of the 180 organisations that formed the initial Panel, some did not participate in Wave 2 or Wave 3 due to merger, closure or ceasing provision of disability services. Others dropped out due to the time required to complete the template – often due to difficulties in obtaining the necessary data.

For those organisations with robust accounting and client data bases, completion of the form took approximately 60 to 90 minutes. However, for others, data had to be collected and compiled from several sources.

It can be difficult to retain members in the second year of a longitudinal study of this kind as respondents experience the workload from participation, but do not yet see the benefits. To encourage Panel members to stay with the research and support completion, our research team sent more than 400 follow-up emails and made more than 300 personal phone calls to encourage on-going participation and to collect feedback. We also populated some key financial information for organisations ourselves using published sources, including the Australian Charities and Not-for-profits Commission website and organisations' own published financial information (from their websites).

Nine organisations also joined the Panel in 2017. These organisations had the choice of providing data for only the 2015/16 financial year or providing data for both the 2014/15 and 2015/16 financial years. Those that provided data for both years were included in the final Panel of organisations in this study.

After reviewing all returns and examining the results, we took the decision to include only those organisations that provided robust data for both the 2014/15 and 2015/16 financial years. This conservative approach enables the most accurate possible tracking of performance over time and provides the most reliable view of the sector. As a result, 154 organisations were included in this year's study.

The financial data provided by 28 additional organisations will be added to the data set and re-analysed to examine any variations between the narrower subset reported here and the full population of the Panel.

Due to the reduction in size of the Panel in Wave 3 (and to take into account data revisions by the Panel), the Wave 1 data was re-analysed to provide readers with an accurate baseline for the current Panel organisations. As such, the data in this report is different to that presented in the first report (Australia's Disability Sector 2016).² To clarify, the data in both reports is accurate, the difference is that the data in this report is a subset of that reported in 2016. By resetting the starting point to include only the same organisations in both years, this report aims to provide readers with the most accurate possible picture of change.

Size cohorts

To aid more specific selection of Panel members and analysis, the total population of organisations in the Panel was divided into four size cohorts. The membership and percentage of total Panel income of each cohort is shown in the table below.

Table 1 Profile of 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%

Location

Table 2 Location of head office

	Very small (Less than \$1m)	Small (\$1m to \$5m)	Medium (\$1m to \$5m)	Large (\$20m +)	All
New South Wales	4	15	23	9	51
Victoria	1	18	19	6	44
Queensland	5	9	6	1	21
Western Australia	2	3	6	6	17
South Australia	2	4	4	2	12
Tasmania	1	1	2	0	4
Australian Capital Territory	0	0	2	0	2
Northern Territory	1	1	1	0	3
Total	16	51	63	24	154

² 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

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, many hundreds of staff and serving clients in more than one State or Territory.

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

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 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 not yet provided 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.

Small and large organisations 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.

2. THE STARTING POINT: THE PANEL'S ACTIVITY AND OUTCOMES FOR 2014/15

Income, expenditure and profit for 2014/15

Aggregate Income

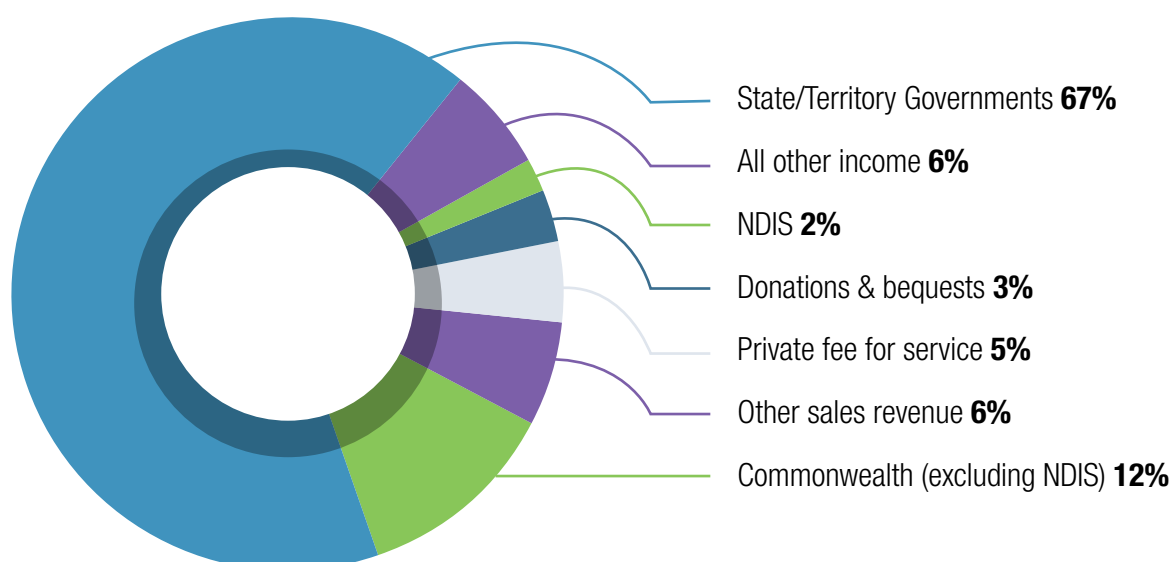
For the financial year ending 30 June 2015, the total income for all Panel members (Aggregate Income) was \$2,403m. Given that this is the income for only the 154 organisations in our Panel, these organisations alone represent a significant economic group.

Of total income, two thirds (66%) was sourced from State and Territory Governments. Income from the NDIA was only \$37.4m or 1.6%. As such, the 2014/15 data essentially provides a snapshot of the financial performance and outcomes of the sector prior to the introduction of the NDIS.

It should be noted that this is the total income of the Panel. Thirty five per cent (54 organisations) of the Panel provide services other than disability services and the income reported here includes the income for all sources. We examine total income, expenses and profit as this provides an indication of the financial strength and performance of the whole organisation and, therefore, its capacity to transition through change. In addition, as total income, expenditure and profit data is sourced from annual financial statements, this data is the most robust measure of financial performance.

Income from disability services alone for 2014/15 is estimated to be 76% or approximately \$1,818m.³ Larger organisations were more likely to be providing disability services along with other human services.

Figure 2 All sources of income 2014/15



³ Some organisations had difficulty in separately identifying income and expenses related to the provision of disability services from other sources of income. Under previous funding models, there was no reason to separate income or expenses into service types and therefore accounting systems are not yet structured to do so. Others had contracts and/or provided services that combined funding for disability with the provision of other human services. All organisations providing services under the NDIS will in future be required to account for NDIS funded services and therefore will be able to provide more accurate measures in future.

Table 3 Sources of aggregate income 2014/15

Source of income	Total income All Orgs \$m	Proportion of Total Income %
State/Territory governments	\$1,600.8	66.6%
Commonwealth (excluding NDIS)	\$281.7	11.7%
Other sales revenue	\$135.5	5.6%
Private fee for service	\$124.6	5.2%
All other income	\$119.9	5.0%
Donations and bequests	\$75.5	3.1%
NDIS	\$37.4	1.6%
Interest income	\$21.8	0.9%
Local governments	\$5.5	0.2%
Total Income	\$2,402.7	100.0%

Aggregate expenses

Total aggregate expenses for the Panel in 2014/15 were \$2,315m. Employee costs accounted for the majority of expenditure (\$1,644m or 71%) and were by far the single largest expense for all organisations.

As such, any changes to the costs or efficiency of the workforce will have the largest impact on financial performance.

Given that most of the income received by disability service providers is spent on employee expenses, these organisations also have an impact on the local economies in which they operate.

The organisations that have the lowest ratio of employment to total costs are generally those that manufacture or resell products, such as Australian Disability Enterprises (ADEs) that purchase materials for production and provision of aids and equipment. These expenses fall under the category of 'cost of sales' and reach as high as 68% of total expenses for individual organisations.

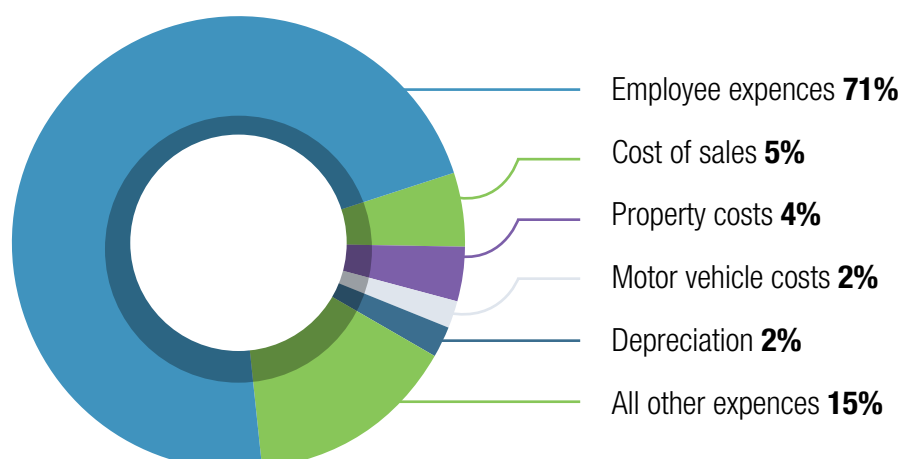
Figure 3 Aggregate expenditure by type 2014/15

Table 4 Aggregate expenditure by type 2014/15

Expense classification	Total expenses All orgs \$m	Proportion of total expenses %
Employee expenses	1,644.8	71.1%
Cost of sales	106.8	4.6%
Property costs	98.6	4.3%
Motor vehicle costs	57.1	2.5%
Supported employee wages	21.5	0.9%
Marketing and public relations	16.7	0.7%
Accounting and audit	8.0	0.3%
Bad debts	1.0	0.0%
Interest expense	2.2	0.1%
Depreciation	53.4	2.3%
All other expenses	304.5	13.2%
Total Expenses	2,314.6	100.0%

Aggregate profit

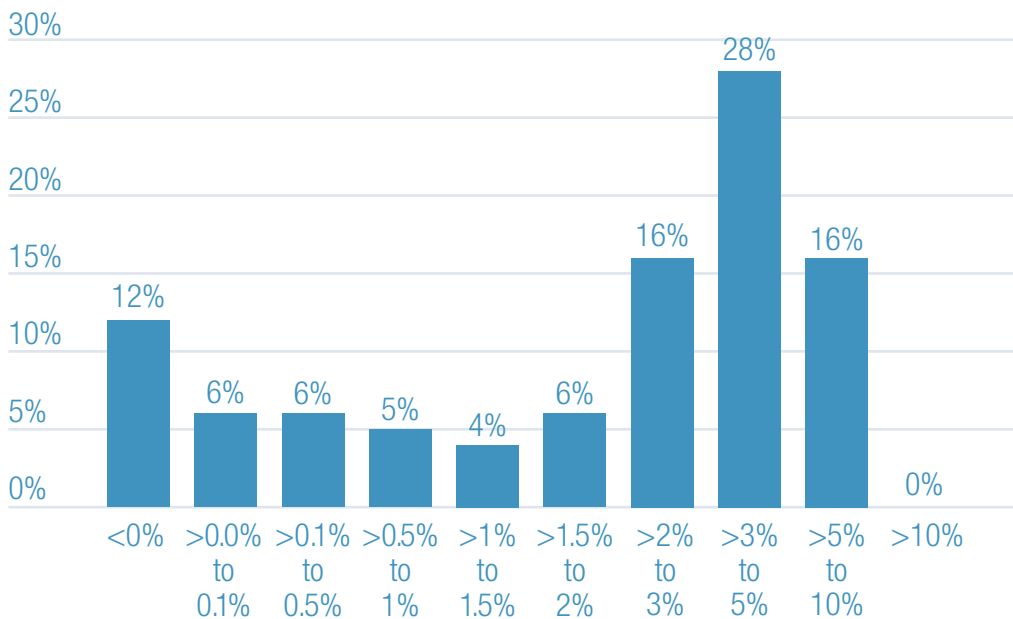
The profit ratio (or profit margin) indicates how much income is retained by the organisation after expensing all costs and is an indicator of efficiency. It is calculated as:

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

And usually presented as a percentage.

While aggregating the operating results of organisations is not an accounting process, it does give the reader an understanding of the magnitude of the financial performance of the Panel. The aggregate profit was \$88.0m or 3.7%. Again, it should be noted that this is the profit ratio or margin for organisations as a whole and not for disability services alone. When donations and bequests are removed, the total aggregate profit is reduced to 0.5%.

There was considerable variation in the profit margins achieved by Panel members. The majority (136 or 88%) reported making a profit and nine broke-even. Eighteen organisations (12%) reported making a loss. Of those making a profit, 49 organisations (32%) reported making a profit of between 0.5% and 3.0%.

Figure 4 Distribution of profit ratios 2014/15

There was also a large variation in median profit ratios across the size cohorts. This may challenge some common assumptions about organisational sustainability and in particular, that larger organisations are likely to be more profitable and sustainable. This is further addressed in Section 3.

The median profit of smaller organisations was higher than that of the larger organisations. The Very Small organisations achieved a median profit of 6.3%, whereas the median profit of the Large organisations was 2.8%.

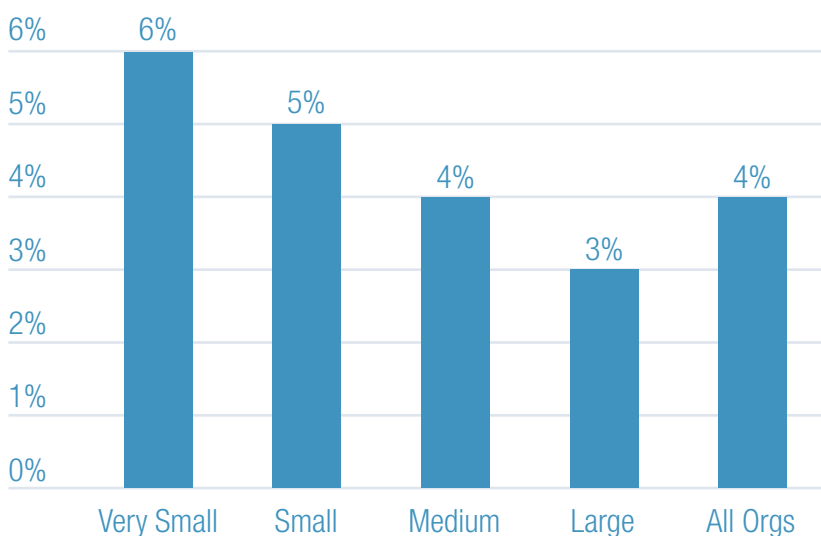
Figure 5 Median net profit ratio by organisation size 2014/15

Table 5 Profit by size 2014/15

Org size	Median Net Profit %	Median Net Profit \$
Very small	6.3%	\$21,125
Small	5.1%	\$145,517
Medium	3.5%	\$317,458
Large	2.8%	\$1,093,713
All orgs	3.9%	\$173,159

There are a number of reasons that small disability service providers may be more profitable in general than other cohorts. These include:

- 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 not be accounting fully for increases in liabilities caused by employee entitlement increases, outstanding GST or other liabilities due to cash accounting processes and the limited reporting requirements of small charities.⁴
- Smaller organisations may be involved in the provision of services which are peripheral to larger organisations and generate a higher profit.
- Smaller organisations may be operating with fewer levels of management and administration and with fewer specialist administration staff (e.g they do 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.

The analysis of the relative profitability of each size cohort needs to be examined more closely in order to identify the substantive causes of this differentiation. However, this data challenges commonly-held beliefs that larger organisations are more efficient and, therefore, profitable. It is, therefore, critical to ensure policy makers have actual data on financial performance available in support of decision making as opposed to anecdotal evidence and assumptions.

⁴ For instance, see the Australian Charities and Not-for-profits Commission at acnc.gov.au

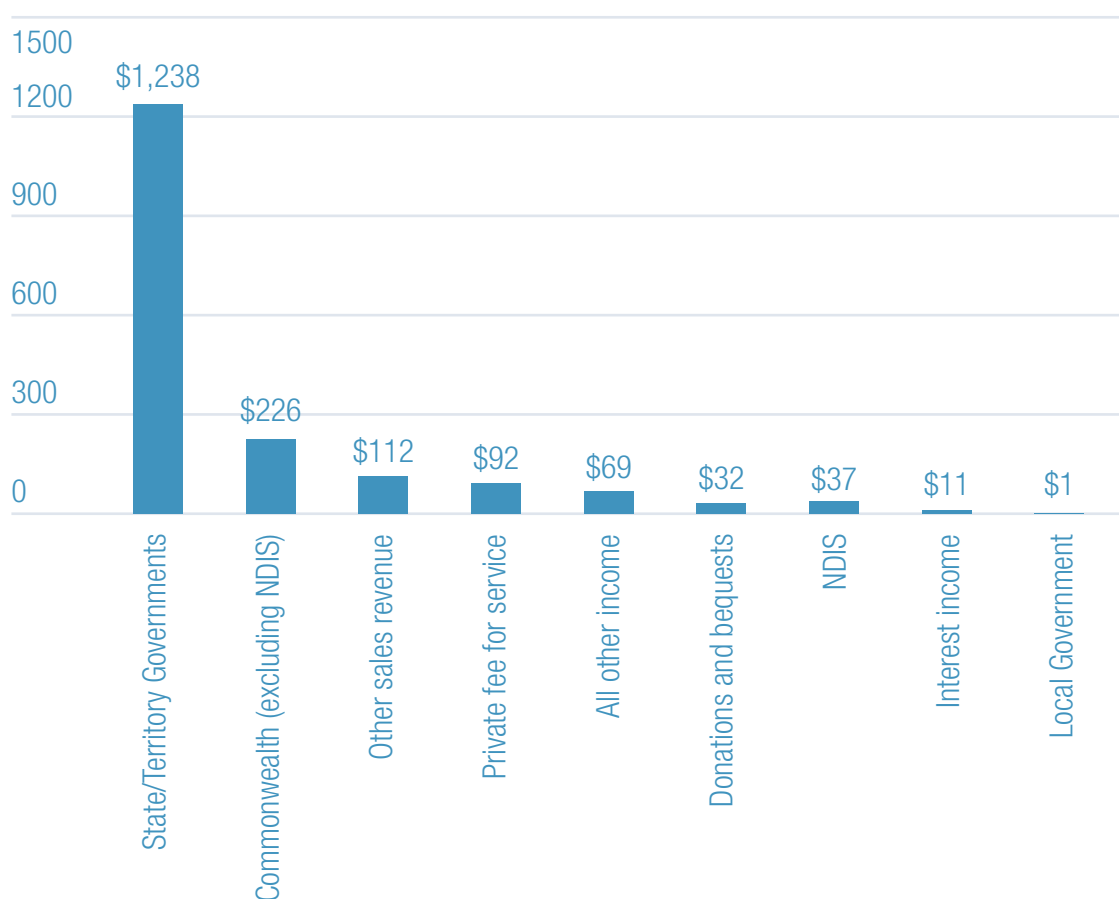
Disability services income, expenses and profit for 2014/15

Of the 154 organisations in the Panel, 54 provided services in addition to disability services. Removing the recorded income and expenses for the provision of 'non-disability' services enables examination of disability services provision alone.⁵

Disability Income

A total of \$1,818m or 76% of the aggregate income received was recorded as disability services income, of which approximately two-thirds (68%) was received from State/Territory governments and only 2.1% was received via the NDIS. Donations and bequests effectively subsidise the cost of service and are therefore important to consider when assessing financial sustainability and financial risk. For 2014/15 the donations and bequests mostly or exclusively for disability services totalled \$30.1m (1.7% of total disability services income).

Figure 6 Disability services income 2014/15 (\$m)



⁵ As noted previously, 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.

Table 6 Disability services income 2014/15 (\$m)

Source of income	Total income All orgs \$m	Proportion of total income %
State/Territory governments	\$1,237.9	68.1%
Commonwealth (excluding NDIS)	\$225.8	12.4%
Other sales revenue	\$112.0	6.2%
Private fee for service	\$91.9	5.1%
All other income	\$69.0	3.8%
Donations and bequests	\$31.7	1.7%
NDIS	\$37.4	2.1%
Interest income	\$11.2	0.6%
Local governments	\$1.2	0.1%
Total Income	\$1,818.2	100.0%

Disability expenses

Aggregate disability expenses totalled \$1,728m or which \$1,257m (72%) were allocated to employee expenses.

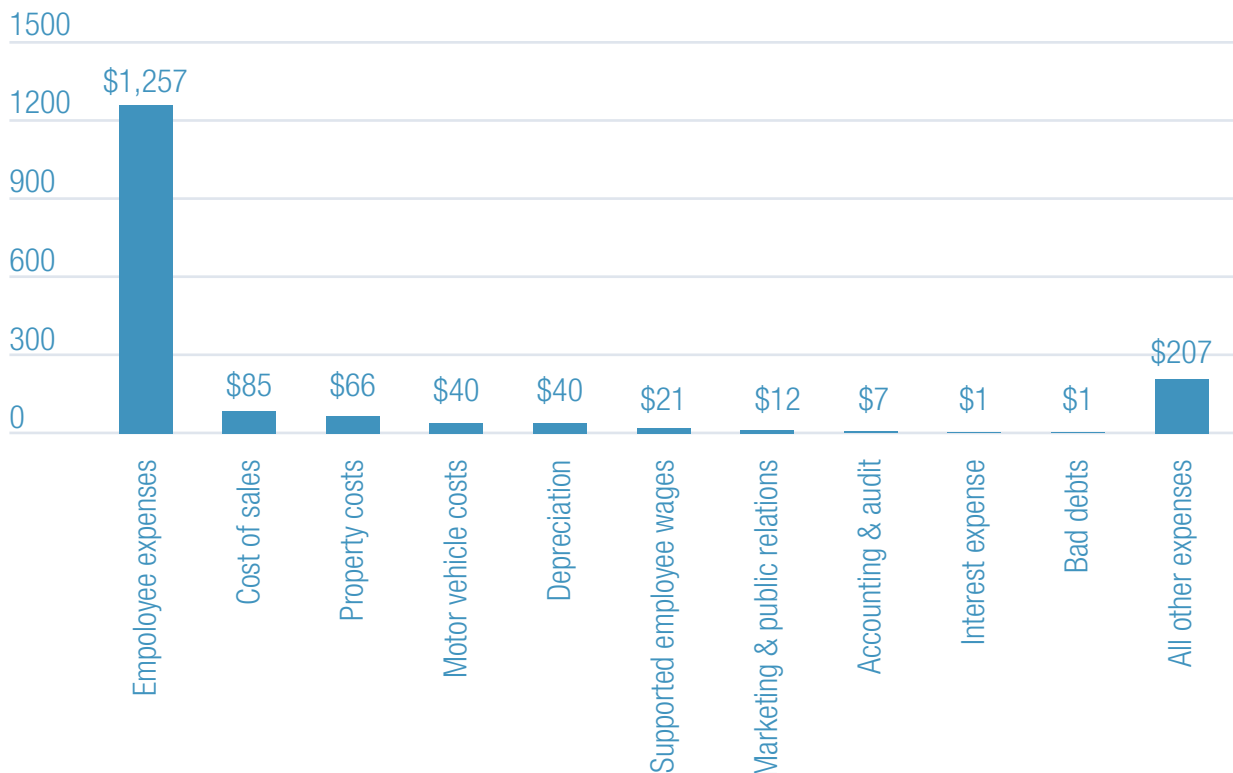


Table 7 Disability expenses 2014/15

Expense classification	Total expenses All orgs \$m	Proportion of total expenses %
Employee expenses	\$1,257.3	72.3%
Cost of sales	\$85.0	4.9%
Property costs	\$66.0	3.8%
Motor vehicle costs	\$40.1	2.3%
Depreciation	\$40.2	2.3%
Supported employee wages	\$21.5	1.2%
Marketing and public relations	\$12.3	0.7%
Accounting and audit	\$7.1	0.4%
Interest expense	\$1.1	0.1%
Bad debts	\$0.8	0.0%
All other expenses	\$207.4	11.9%
Total Expenses	\$1,738.7	100.0%

Disability profit

The aggregate profit from disability services was \$79.5m or 4.4%.

The Balance Sheet as at 30 June 2016

The aggregate balance sheet shows that the total assets and liabilities of the Panel came to \$1,737m and \$644m respectively, leaving net assets of \$1,092m or 63%. Current assets represented 45% (\$778m) of all assets, and of total assets, 31% (\$531m) was held as cash. This reflects the sources of income – 65% received funding in advance from State/Territory governments in the form of block funding for the provision of services, and have a corresponding current liability to provide services.

Almost all organisations in the Panel are Not-for-profit (NFP) organisations, and as noted in the report on Wave 1 of this study, the assets of NFP organisations (or of sectors dominated by NFP organisations) cannot be compared directly with those of For-profit organisations.

NFPs balance sheets include assets that can be identified as “restricted” and “unrestricted” assets. Restricted assets are usually sourced from donors or government with restrictions as to their use. As such, they are often unable 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, often these assets are also unable to 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.

Description	Total \$m	Proportion %	Median \$
Assets			
Cash	\$531.4	31%	\$1,446,772
Accounts receivable	\$95.3	5%	\$112,177
Other current assets	\$151.5	9%	\$123,758
Total current assets	\$778.1	45%	\$1,928,539
Total non-current assets	\$958.7	55%	\$2,132,007
Total Assets	\$1,736.8	100%	\$4,576,879
Liabilities			
Overdraft	\$0.6	0%	\$57,198
Accounts payable	\$205.8	32%	\$347,464
Other current liabilities	\$327.9	51%	\$787,109
Total current liabilities	\$534.3	83%	\$1,084,524
Borrowings	\$44.3	7%	\$192,602
Other non-current liabilities	\$65.4	10%	\$147,301
Total non-current Liabilities	\$109.7	17%	\$164,200
Total Liabilities	\$644.0	100%	\$1,508,611
Net Assets	\$1,092.8		\$2,430,963

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 do not categorically indicate performance. Usually, they are used to identify areas of operation where the executive/board should undertake further analysis.

Ratio	Calculation	Purpose
Current	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Current assets (such as cash) need to be sufficient to cover the realisation 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 but usually higher.
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.
Non-current	$\frac{\text{Non-current Assets}}{\text{Non-current Liabilities}}$	Non-current assets include assets such as property and investments and Non-current liabilities include borrowings and long-service leave obligations. This ratio provides an indicator of long-term sustainability.
Return on Assets	$\frac{\text{Net Profit}}{\text{Total Assets}}$	The ratio of profit to assets is an indicator of efficiency or productivity.

Ratio	Aggregate result	Implications
Current	1.46	This is likely to be satisfactory, but at the lower boundary.
Asset	2.70	This appears satisfactory, but will be important to monitor over time.
Non-current	8.74	This appears high, but as discussed in this section, may not reflect the effective asset values of the Panel or the relative contributions to sustainability such assets can make.
Return on Assets	5.07%	The ROA must be sufficient to retain suppliers in the market and to attract new supply, particularly for For-profit providers. At 5.1% it is similar to the ROA reported for the aged care sector. ⁵

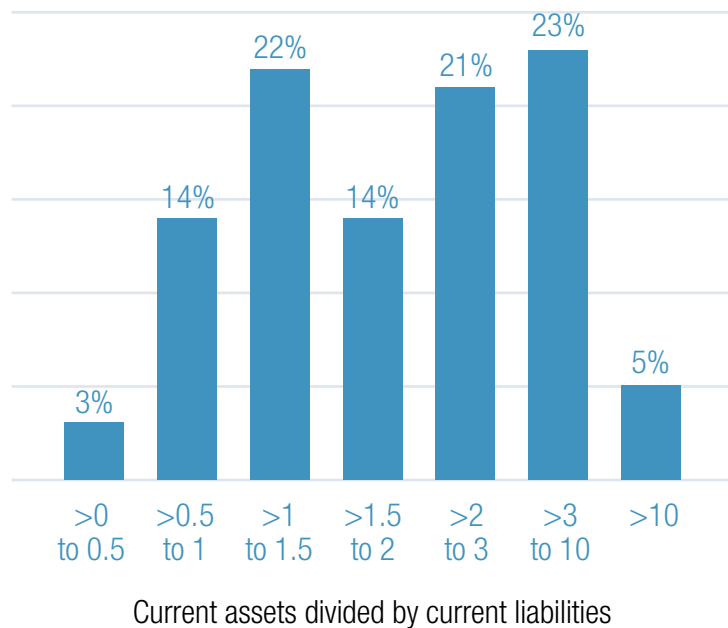
⁵ Aged Care Financing Authority, Annual Report on the Funding and Financing of the Aged Care Sector, July 2016.

Distribution of Current ratios

In total, 16% of organisations reported a current ratio below 1.0, which would indicate these organisations may struggle to pay their debts when they fall due. This should be of concern to the boards of directors and management of these organisations as this may indicate an organisation that is, or will, become insolvent.

At the other end of the scale, nearly half (48%) of organisations have a current ratio of more than 2.0, which suggests that they may be holding too many assets in short-term (one year) accounts. To prepare for the shift from payment in advance (which has been the usual practice under the State/Territory funding models) to payment in arrears (the NDIS payment policy) organisations have been encouraged to improve their current ratio by increasing their working capital. Working capital is the amount of money required to self-fund services between service delivery (that is, the spending of money on salaries and other costs to deliver services) and receiving payment from the NDIS. This, and the additional risks involved in sector transition, may have encouraged organisations to aim for higher current ratios than will be needed when the NDIS is fully rolled out. It can be an indicator of savings for purpose.

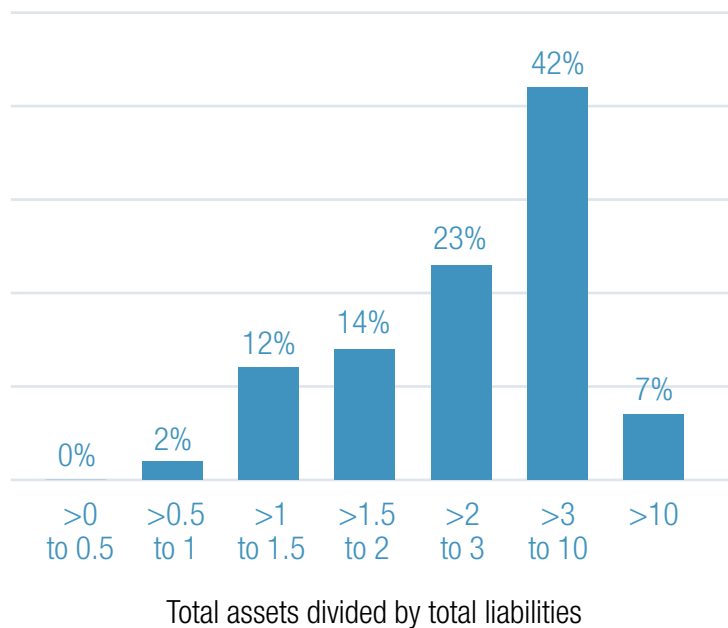
Figure 7 Distribution of current ratios 2014/15



Distribution of Asset ratios

The number of organisations with a high ratio of total assets to total liabilities reflects the nature of the asset bases of NFPs. Nearly all organisations (98%) report that their ratio of assets to liabilities is greater than 1.0, and nearly half (49%) report that their ratio is greater than 3.0, showing that (on paper at least) these organisations could repay all of their debts if wound up. However, as discussed above, these ratios are not necessarily indicators of bankability or sustainability.

Figure 8 Distribution of asset ratios 2014/15

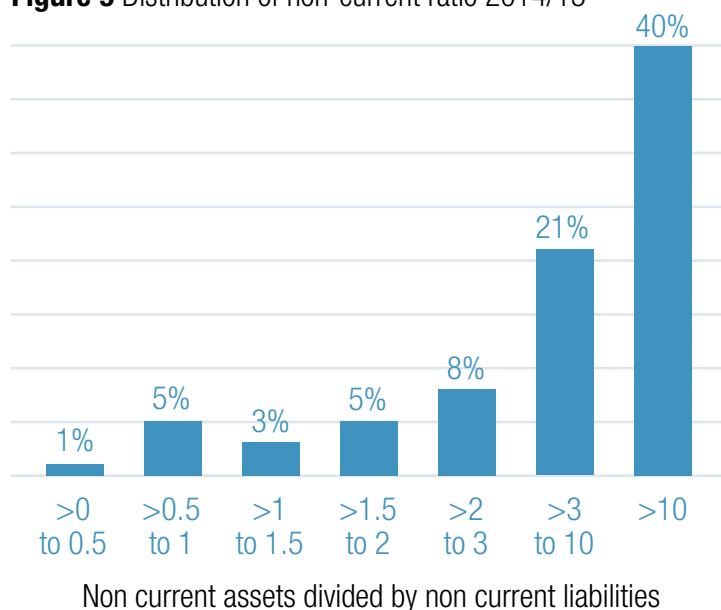


Distribution of Non-current ratios

Most organisations (77%) had non-current ratios above 1.0, and 61% had a non-current ratio of above 3.0, indicating that for every dollar in non-current liabilities, they had three or more dollars in non-current assets.

Typically, organisations with ratios above 10.0 would raise questions about asset leveraging. However, given the nature of NFPs' assets (discussed above), more investigation would be required. NFPs are often less able or willing to borrow against non-current assets, instead relying on donations to replace items like vehicles and property.

Figure 9 Distribution of non-current ratio 2014/15



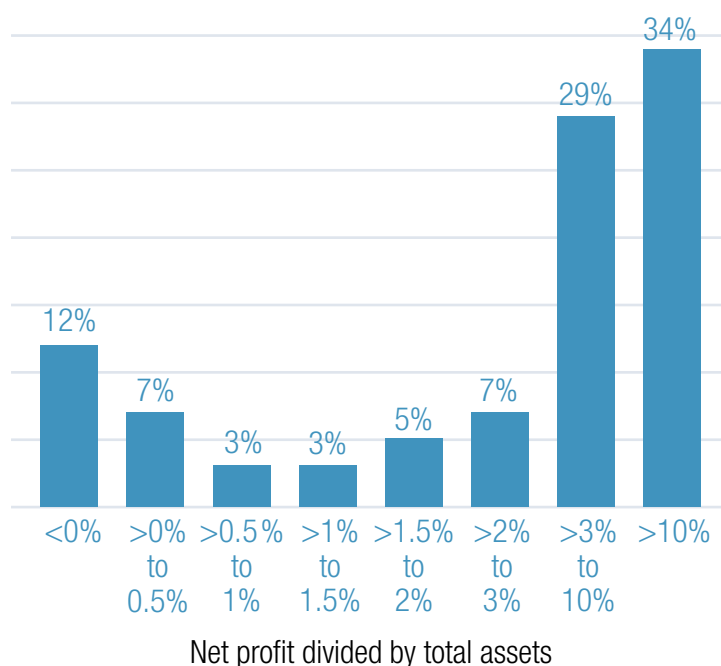
Distribution of Return on Assets ratios

The distribution of the Return on Assets (ROA) ratios reflects the distribution of profit ratios. An organisation making a loss will have a ROA below zero.

The 'right' level of ROA depends on a range of factors and varies across services types. For example, organisations that are capital intensive, such as residential accommodation providers (who own their properties) will have more assets and may achieve significantly lower ROA than those providing in-home support, that require less assets.

A third (34%) of organisations were achieving an ROA above 10% and a further 29% are achieving an ROA of between 3% and 10%. This indicates strong returns are being achieved by some organisations.

Figure 10 Distribution of return on assets ratios 2014/15

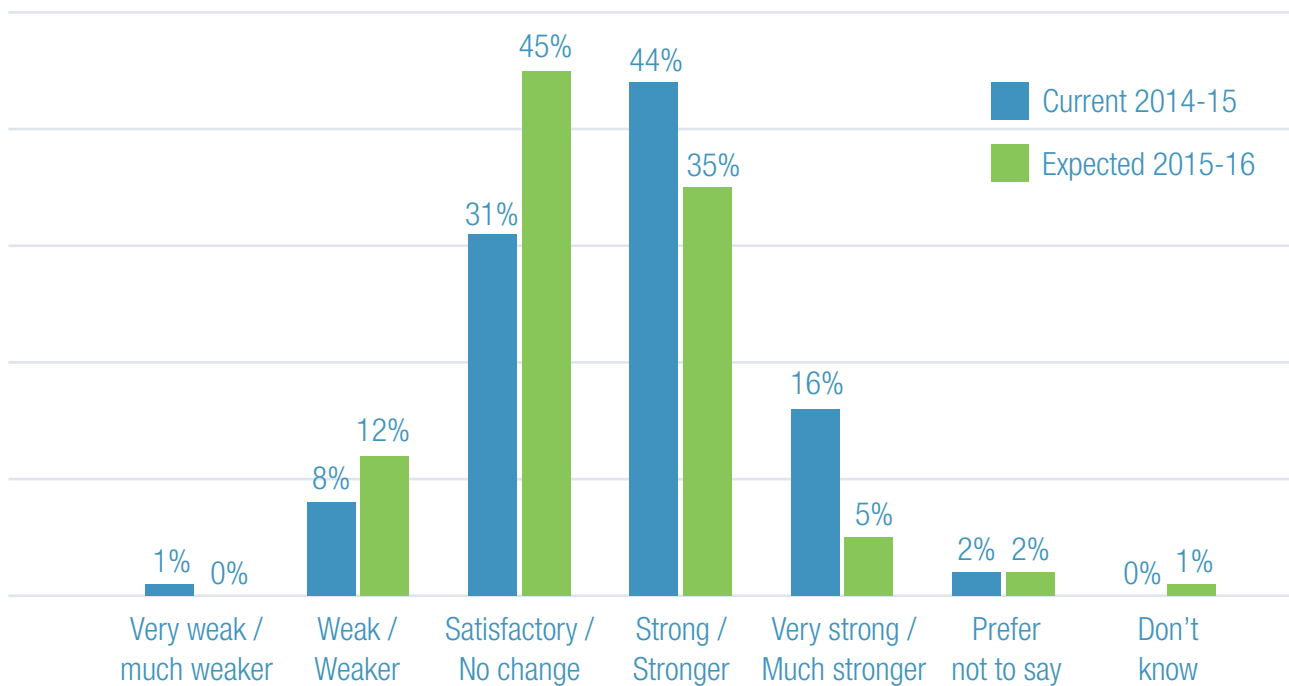


Ratings of overall financial strength

Comparison of the 2014/15 and forecast 2015/16 rating of financial strength shows that most sector leaders feel that their organisation was 'strong' or 'very strong' in 2014/15, but many expected that their performance would get worse over the 2015/16 financial year.

For example, 44% of Panel members rated their organisation as 'strong' and 16% as 'very strong' for the 2014/15 year, but only 35% expected their organisation to be 'strong' and 5% 'very strong' in the following year.

Figure 11 Financial strength distribution



Staff profile – all and disability services

As at 30 June 2015, the Panel reported employing a total of 30,173 staff, of which 11,311 worked full time and 18,862 worked part time. In the last pay period of the 2014/15 financial year, the total employment was 22,268 FTE.

The staff working in disability services accounted for 81% or 24,456 staff, of which 35% (8,564) worked full time while 65% (15,892) worked part time.

The overall ratio of administrative support staff to direct service workers in terms of FTE was 21%, but this ratio varied significantly by the size of organisation. Very Small organisations had a ratio of 67% of support to direct disability services workers, whereas, for Large organisations, this ratio was 19%, suggesting levels of efficiency or productivity vary by organisation size, and that larger organisations may achieve higher productivity.

Figure 12 Employment of full and part time staff (headcount) by organisation size 2014/15

Total headcount	2014-15				
	Very Small	Small	Medium	Large	Total
Full time					
DISABILITY services direct workers (including allied health staff)	13	473	1,944	4,041	6,471
DISABILITY services support, administration and management staff	17	275	689	1,112	2,093
Total disability - Full time	30	748	2,633	5,153	8,564
Part time					
DISABILITY services direct workers (including allied health staff)	48	1576	3,355	9,631	14,610
DISABILITY services support, administration and management staff—Part-time headcount	21	332	304	625	1,282
Total disability - Part time	69	1908	3,659	10,256	15,892
All					
DISABILITY services direct workers (including allied health staff)	61	2,049	5,299	13,672	21,081
DISABILITY services support, administration and management staff	38	607	993	1,737	3,375
Total disability	99	2,656	6,291	15,409	24,456

Figure 13 Employment of full time and part time staff (headcount) by organisation size 2014/15 (percentage)

Total headcount (%)	2014-15				
	Very Small	Small	Medium	Large	Total
Full time					
DISABILITY services direct workers (including allied health staff)	0%	7%	30%	63%	100%
DISABILITY services support, administration and management staff	1%	13%	33%	53%	100%
Part time					
DISABILITY services direct workers (including allied health staff)—Part-time headcount	0%	11%	23%	66%	100%
DISABILITY services support, administration and management staff—Part-time headcount	2%	26%	23%	49%	100%
All					
DISABILITY services direct workers (including allied health staff)	0%	10%	25%	65%	100%
DISABILITY services support, administration and management staff	1%	18%	29%	52%	100%
Total	0%	11%	26%	63%	100%

Figure 14 Employment (Full Time Equivalent – FTE) by organisation size 2014/15

FTE	2014-15				
	Very Small	Small	Medium	Large	Total
Full time					
DISABILITY services direct workers (including allied health staff)	44.1	1,168.7	3,833.6	9,544.8	14,591.2
DISABILITY services support, administration and management staff	29.7	342.1	850.1	1,775.9	2,997.8
Ratio of support to direct staff	67%	29%	22%	19%	21%
Total disability – FTE	73.8	1,510.8	4,683.7	11,320.7	17,589.0
All other staff (not related to the provision of disability services)	3.7	156.4	575.7	3,943.0	4,678.8
Total FTE	77.5	1,667.2	5,259.4	15,263.7	22,267.8

Volunteers

In addition to their paid staff, the Panel members reported receiving support from more nearly 13,000 volunteers, of which over 6,000 were supporting the provision of services for people with disability. This represents a very large and low cost resource supporting the provision of disability service. It is unclear if the NDIS will have an impact on volunteer numbers, but it is likely that the ratio of volunteer to paid staff will fall as more For-profit organisations enter the market.

	Very Small	Small	Medium	Large	Total
Volunteers mostly supporting DISABILITY services	448	1,258	1,750	2,651	6107
Volunteers mostly supporting other (not disability) services	169	735	533	5,163	6600
Total	617	1,993	2,283	7,814	12,707

3. HOW DID THE PANEL PERFORM IN YEAR 2?

Introduction

This section compares the performance of the 154 members of the Panel that provided usable data in 2015/16 with the base year (2014/15) and identifies changes.

Changes in income, expenditure and profit 2014/15 and 2015/16

Aggregate income

In 2015/16 financial year, the total income for the Panel increased by \$221m (9.2%) to reach \$2,623m.

Although the Panel was impacted by the rollout of the NDIS, and NDIS income increased by 108% from \$37.4m to \$77.9m, NDIS sourced income still represented only 3.0% of total income. In absolute terms, the growth in State/Territory funding – an increase of \$111m, was almost three times the increase in NDIS income.

In 2014/15 all organisations in the Panel were providing disability services, and most were registered to provide services under the NDIS, but only 41 organisations reported receiving income under the NDIS. This increased to 50 organisations in 2015/16. Of these, six reported receiving more than 20% of their income under the NDIS.

As such, the impact of the NDIS on the income and profits of the Panel is still to be felt, and the growth in service provision reflected in the 2015/16 year was funded mostly through State and Territory Governments. This finding also highlights that the preparedness of disability service providers is likely still to be tested as the NDIS rolls out into the future.

The number of organisations that provided services other than disability services remained at 54 (35%).

Figure 15 Income by Source 2014/15 and 2015/16 (\$m)

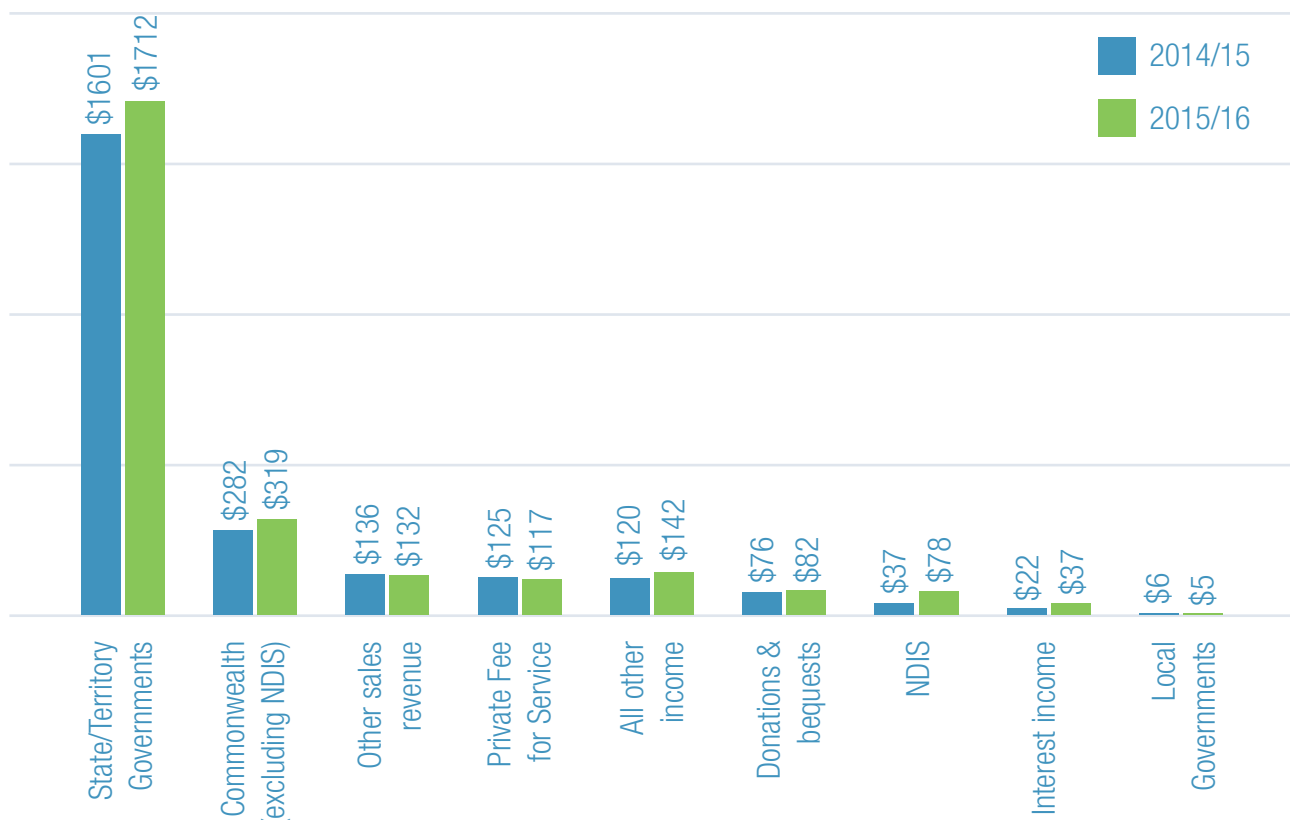


Table 8 Income by source 2014/15 and 2015/16

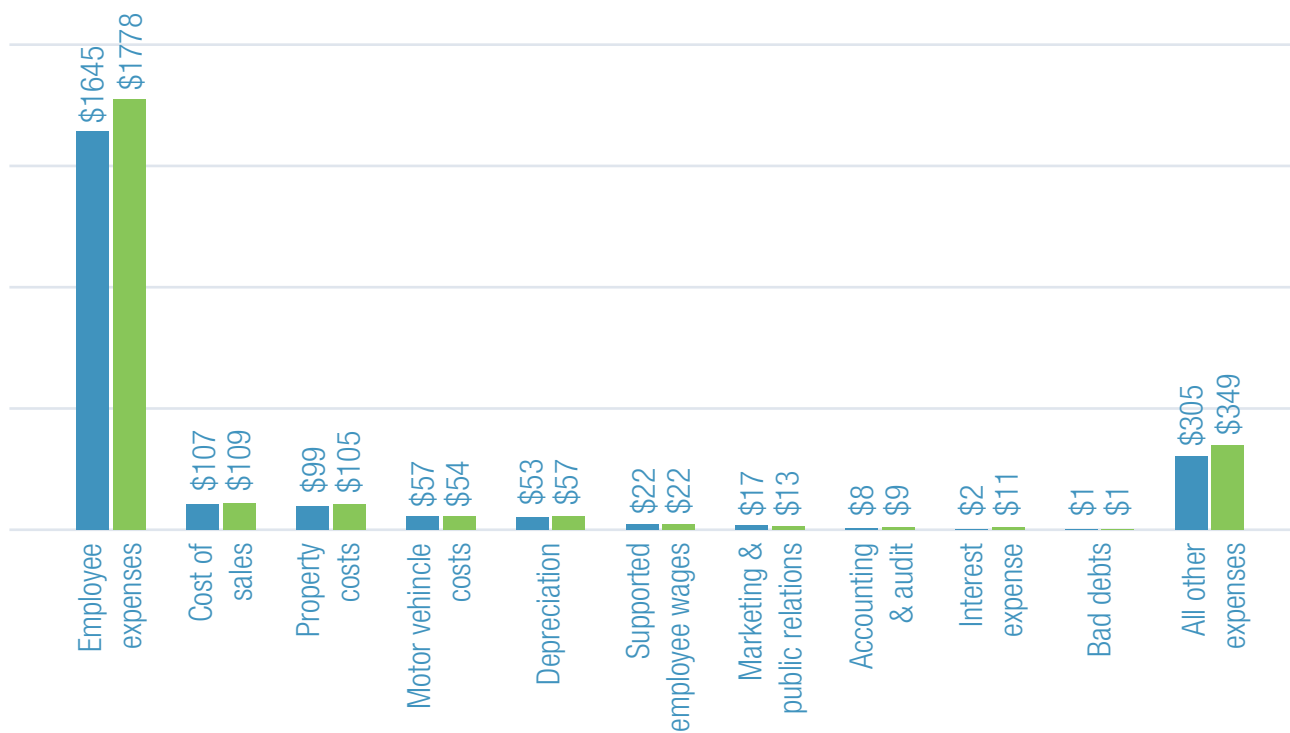
Source of income	2014-15		2015-16		Change	
	\$m	%	\$m	%	\$m	%
State/Territory governments	\$1,600.8	66.6%	\$1,712.1	65.3%	\$111.3	6.9%
Commonwealth (excluding NDIS)	\$281.7	11.7%	\$319.1	12.2%	\$37.4	13.3%
Other sales revenue	\$135.5	5.6%	\$131.6	5.0%	\$(3.9)	(2.9%)
Private fee for service	\$124.6	5.2%	\$116.9	4.5%	\$(7.7)	(6.2%)
All other income	\$119.9	5.0%	\$141.7	5.4%	\$21.8	18.2%
Donations and bequests	\$75.5	3.1%	\$82.3	3.1%	\$6.8	9.0%
NDIS	\$37.4	1.6%	\$77.9	3.0%	\$40.5	108.0%
Interest income	\$21.8	0.9%	\$36.5	1.4%	\$14.7	67.7%
Local governments	\$5.5	0.2%	\$5.3	0.2%	\$(0.2)	(4.0%)
Total Income	\$2,402.7	100.0%	\$2,623.4	100.0%	\$220.7	9.2%

Aggregate expenses

In 2015/16, the total expenses for the Panel increased by \$193m or 8.3% to reach \$2,508m. The majority of this increase was growth in employee expenses from \$1,645m to \$1,778m, an increase of \$133m or 8.1%.

After employee expenses, the single largest increase in costs in dollar terms was All Other Expenses, which rose by \$44.0m, or 15% on the previous year. Interest expenses reportedly increased from \$2.2m to \$11.2m, an increase of over 400%. However, this was due mostly to a single organisation that reported paying over \$6m in interest expenses in 2015/16.

In addition to funding increases in service provision, the Panel's expenditure reflected the expenses they incurred to transform their organisations to meet the needs of the NDIS. Most transition costs have to be incurred prior to any possible increase in service provision, and thus increases in income. For example, investment in new the client records and accounting systems required to operate under the NDIS must be incurred before income from the NDIS has commenced. Similarly, organisations are investing in human resources capacity—from the board to the frontline—in order to understand, manage and implement change.

Figure 16 Expenses by type 2014/15 and 2015/16 (\$m)**Table 9** Expense by type 2014/15 to 2015/16

Expenses	2014/15		2015/16		Change	
	\$m	%	\$m	%	\$m	%
Employee expenses	\$1,644.8	71.1%	\$1,777.6	70.9%	\$132.8	8.1%
Cost of sales	\$106.8	4.6%	\$109.3	4.4%	\$2.5	2.3%
Property costs	\$98.6	4.3%	\$104.5	4.2%	\$5.9	6.0%
Motor vehicle costs	\$57.1	2.5%	\$54.1	2.2%	\$(3.0)	-5.3%
Depreciation	\$53.4	2.3%	\$57.3	2.3%	\$3.9	7.3%
Supported employee wages	\$21.5	0.9%	\$22.0	0.9%	\$0.5	2.3%
Marketing and public relations	\$16.7	0.7%	\$13.4	0.5%	\$(3.3)	-19.8%
Accounting and audit	\$8.0	0.3%	\$9.2	0.4%	\$1.2	15.0%
Interest expense	\$2.2	0.1%	\$11.2	0.4%	\$9.0	409.1%
Bad debts	\$1.0	0.0%	\$0.7	0.0%	\$(0.3)	-30.0%
All other expenses	\$304.5	13.2%	\$348.6	13.9%	\$44.1	14.5%
Total Expenses	\$2,314.6	100.0%	\$2,507.9	100.0%	\$193.30	8.4%

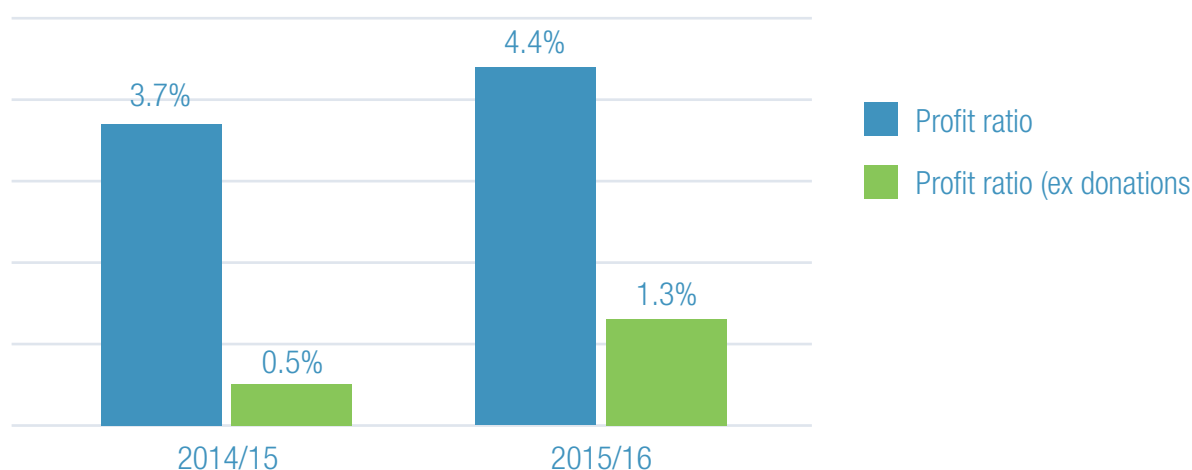
Aggregate profit

In 2015/16, the Panel achieved a total profit of 4.4% or \$115m, an increase over the profit of \$88.0m or 3.7% achieved in 2014/15, which is a very positive outcome. The overall profit increased by \$27.4m, an increase of 31% on the prior year's profit.

However, when donations and bequests are considered, the adjusted profit margin increased from 0.5% to 1.3%. A much tighter return.

To attract new entrants into service delivery, particularly For-profit providers, and to encourage existing providers to increase supply, the profit margins in the sector must be attractive. Typically, in the absence of an industry benchmark, market attractiveness is assessed by comparison with current bank deposit or government bond rates and these returns are above these levels at the time of writing.⁷ However, these results may also be compared with the Health CPI figure which may be a better indicator of sustainability as it measures the cost increases incurred in health service provision generally.⁸

Figure 17 Comparison of profit ratios 2014/15 and 2015/16



In 2014/15, 18 members of the Panel (12%) reported making a loss and a further nine (6%) broke-even.⁹ For 2015/16, the number of organisations making a loss increased to 26 (17%) and those breaking even increased from 9 to 10 (7%). Therefore, the organisations making a profit fell from 127 to 118. Of these, the number reporting a profit of 3% or less increased from 59 (38%) to 63 (41%).

⁷ At 6 August 2017, Commonwealth Government 5 Year Bond Yield was 2.162%.

⁸ The Australian Bureau of Statistics published a Health CPI change in costs of 3.8% for the year ended 30 June 2017. See: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>.

⁹ For this analysis, break-even is defined as making a profit of between 0% and 0.5%.

Figure 18 Profit distribution (number of organisations) 2014/15 and 2015/16

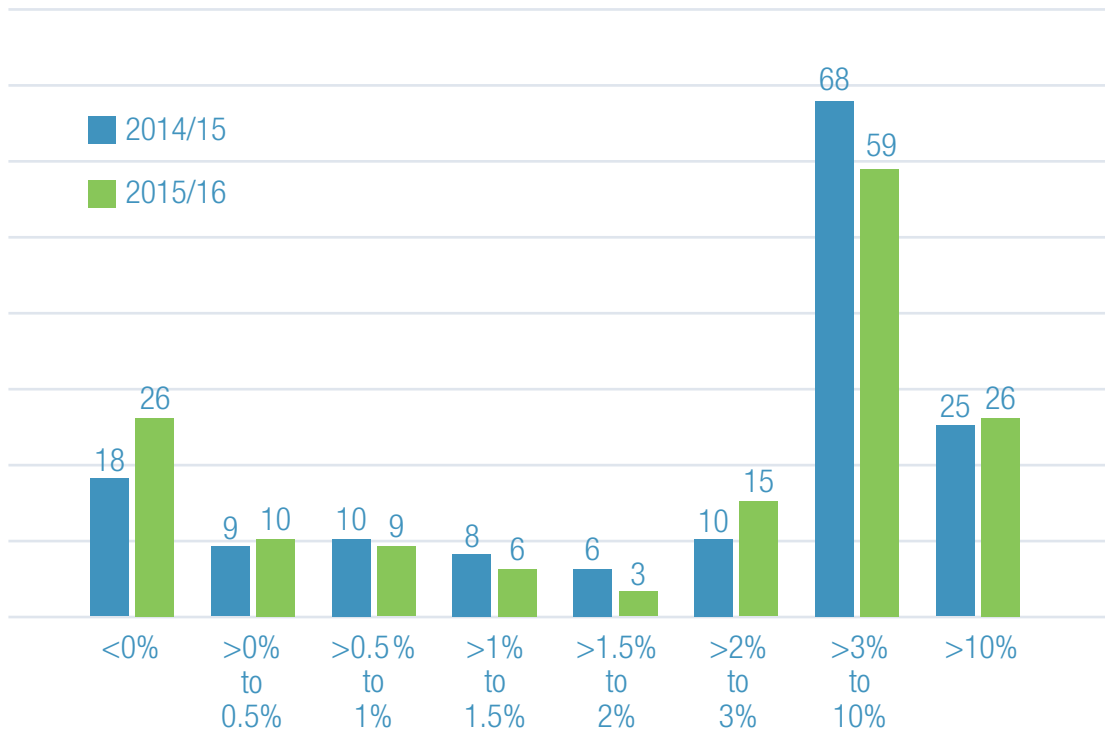


Figure 19 shows the overall median profit declined from 3.9% in 2014/15 to 3.8% 2015/16. When analysed by size, median profits for Large organisations increased to be equal to that of the Medium sized organisations. The median profits of the Very Small and Small organisations have declined significantly but are still higher than median profits for the Medium and Large organisations.

Figure 19 Comparisons of median profit margins 2014/15 and 2015/16 by size

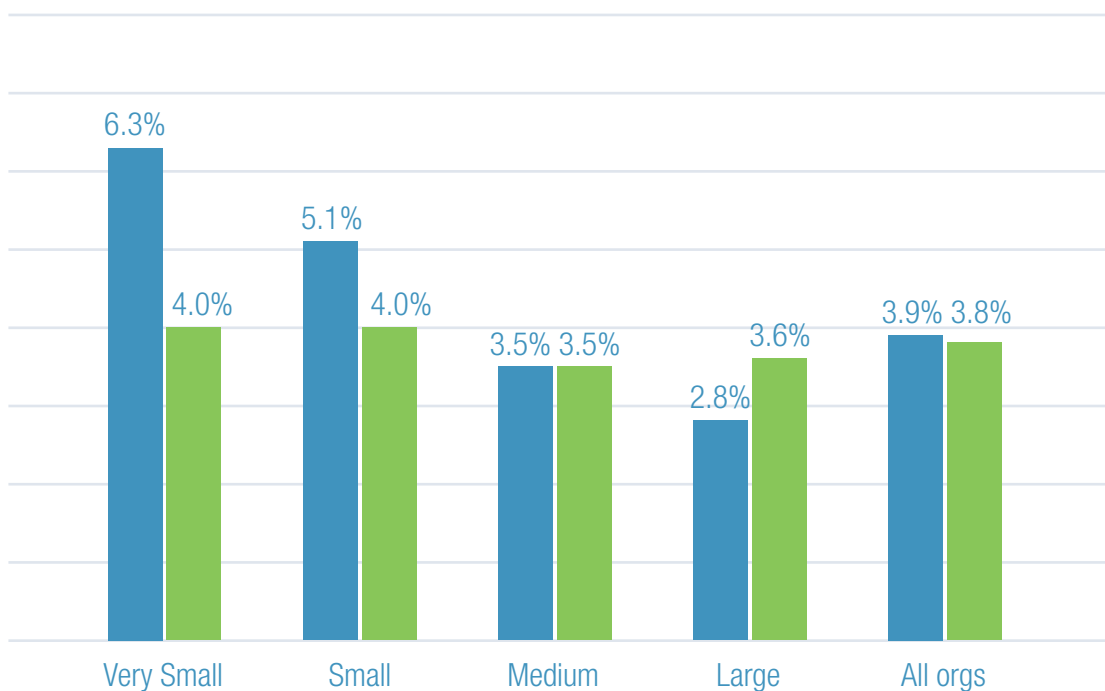


Figure 20 Comparison of median profits margins 2014/15 to 2015/16

	2014-15		2015-16		Change	
	%	\$	%	\$	%	\$
Very small	6.3%	\$21,125	4.0%	\$23,565	-2.3%	\$2,440
Small	5.1%	\$145,517	4.0%	\$110,289	-1.1%	\$(35,228)
Medium	3.5%	\$317,458	3.5%	\$384,896	-0.1%	\$67,438
Large	2.8%	\$1,093,713	3.6%	\$1,150,300	0.8%	\$56,587
All orgs	3.9%	\$173,159	3.8%	\$147,874	-0.1%	\$(25,285)

Comparison of disability services income, expenses and profit 2014/15 and 2015/16

Change in disability income

There were 54 organisations that provided services other than disability services and when the income and expenditure related to these 'non-disability' services were removed, the total income attributed to disability services increased from \$1,818m to \$2,030m, a growth of 11.7%. This disability income represents 77% of total income; a proportion similar to the 76% reported in 2014/15.

The growth in disability service income incorporates increases in both State/Territory-sourced income and income from the NDIS. The increase in State/Territory-sourced funding was 8.4%, equating to growth of \$135m. NDIS-sourced income increased by 108%, but this represented an increase of only \$40.5m, therefore the increase in State/Territory income outstripped the growth in NDIS by a factor of 2.6.

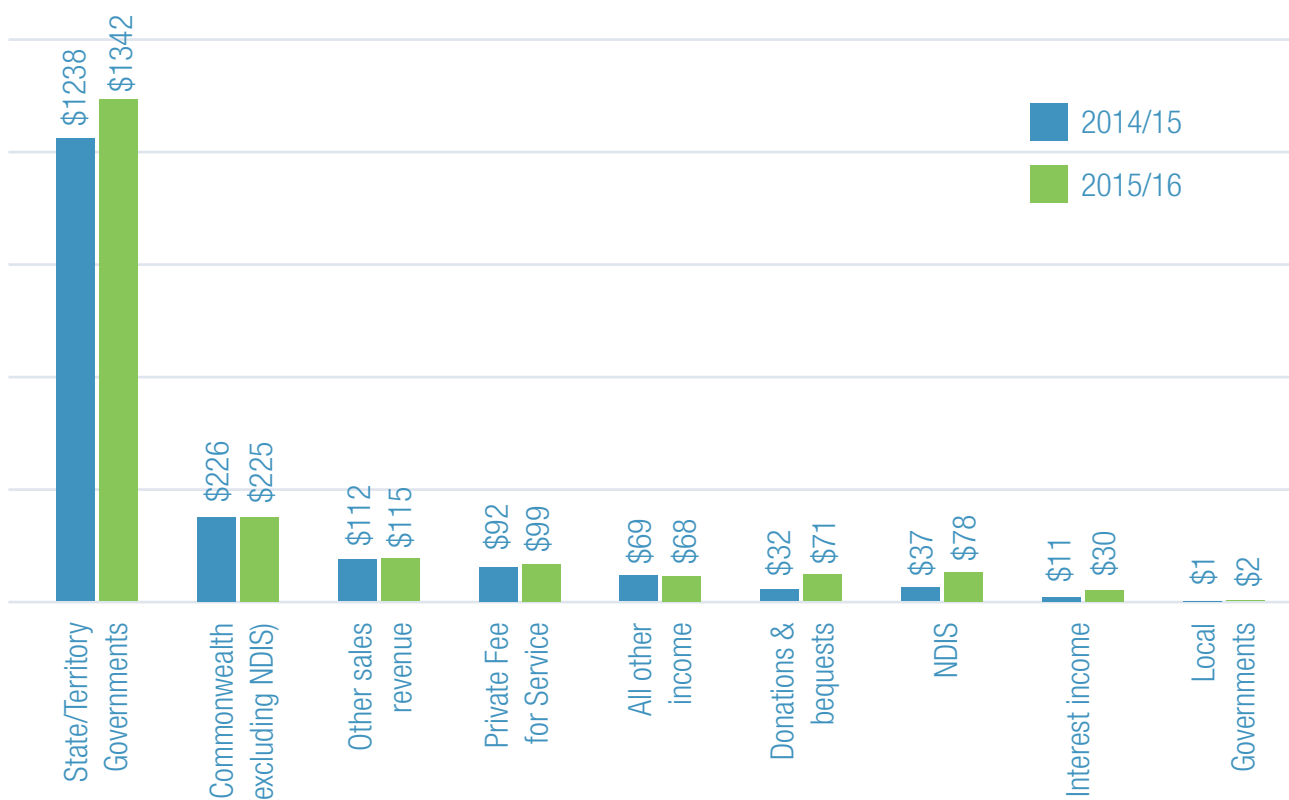
Figure 21 Comparison of disability services income for 2014/15 and 2015/16 (\$m)

Table 10 Comparison of disability services income for 2014/15 and 2015/16

Income	2014/15	2015/16	Change	
	\$m	\$m	\$m	%
State/Territory governments	\$1,237.9	\$1,342.3	\$104.4	8.4%
Commonwealth (excluding NDIS)	\$225.8	\$224.8	(\$1.0)	-0.4%
Other sales revenue	\$112.0	\$115.1	\$3.1	2.7%
Private fee for service	\$91.9	\$99.4	\$7.5	8.2%
All other income	\$69.0	\$68.3	(\$0.7)	-1.0%
Donations and bequests	\$31.7	\$70.9	\$39.2	123.8%
NDIS	\$37.4	\$77.9	\$40.5	108.0%
Interest income	\$11.2	\$29.9	\$18.7	166.4%
Local governments	\$1.2	\$2.0	\$0.8	66.1%
Total Income	\$1,818.2	\$2,030.7	\$212.53	11.7%

Change in disability expenses

Aggregate disability services expenses grew by 13% or \$220m. This growth was due mainly to an increase in Employee Expenses of \$125.3m. However, the ratio of employee to total expenses was similar to 2014/16 at 71%.

As mentioned above in the analysis of the aggregate results, the growth in interest expense was mostly the result of a single organisation that reported a large increase in interest compared with their 2014/15 costs.

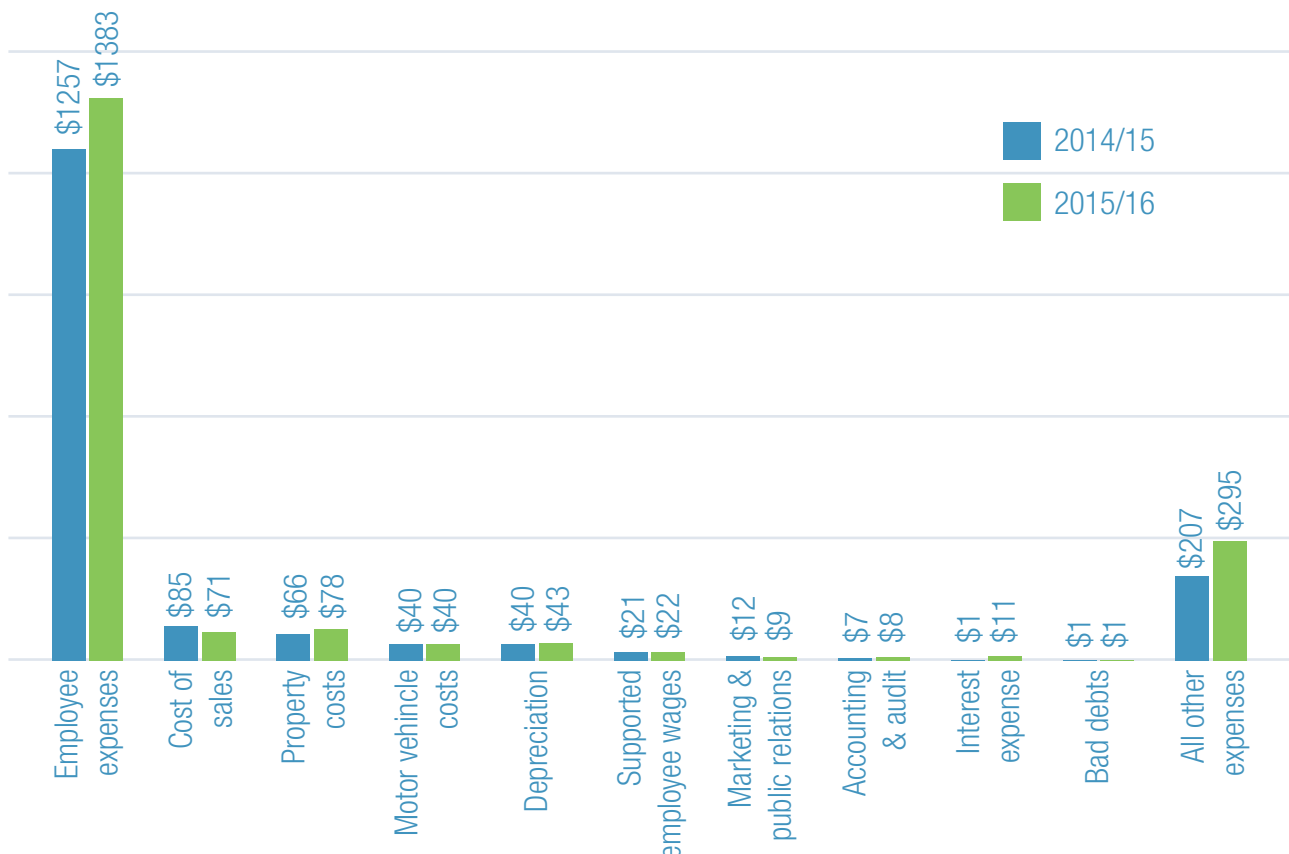
Figure 22 Comparison of disability services expenses 2014/15 and 2015/16 (\$m)

Table 11 Comparison of disability services expenditure 2014/15 and 2015/16

Expenses	2014/15	2015/16	Change	
	\$m	\$m	\$m	%
Employee expenses	\$1,257.3	\$1,382.6	\$125.3	10.0%
Cost of sales	\$85.0	\$70.9	(\$14.1)	-16.6%
Property costs	\$66.0	\$78.2	\$12.2	18.5%
Motor vehicle costs	\$40.1	\$39.7	(\$0.4)	-1.0%
Depreciation	\$40.2	\$42.5	\$2.3	5.9%
Supported employee wages	\$21.5	\$22.0	\$0.5	2.4%
Marketing and public relations	\$12.3	\$8.7	(\$3.6)	-29.3%
Accounting and audit	\$7.1	\$7.7	\$0.6	9.4%
Interest expense	\$1.1	\$10.5	\$9.4	824.9%
Bad debts	\$0.8	\$0.6	(\$0.2)	-23.8%
All other expenses	\$207.4	\$295.4	\$88.0	42.5%
Total Expenses	\$1,738.7	\$1,958.9	\$220.2	12.7%
Net Profit	\$79.5	\$71.8	(\$7.7)	-9.7%

Change in disability profit

Figure 23 shows the changes in disability income, expenses and profit. Total profit fell from \$79.5m to \$71.8m, a decline of 9.68%. The median profit fell from 4.4% to 3.5%.

If income from donations and bequests is removed, the aggregate profits achieved in 2014/15 were 2.7% falling to 0.04% in 2015/16.

When analysed by size cohorts, the median profits fell in all groups other than for the Large organisations.

Figure 23 Summary of changes in disability services income, expenditure and profit for 2014/15 and 2015/16 (\$m)

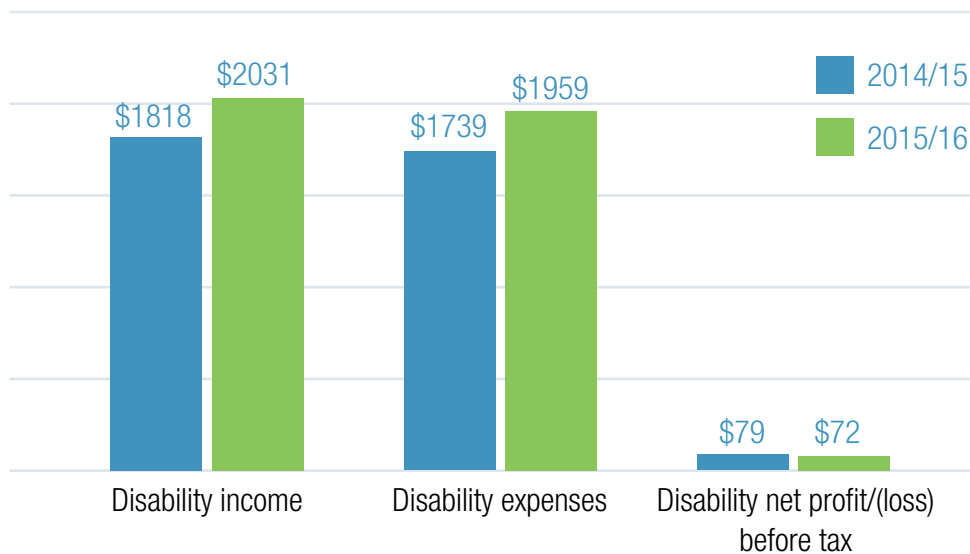
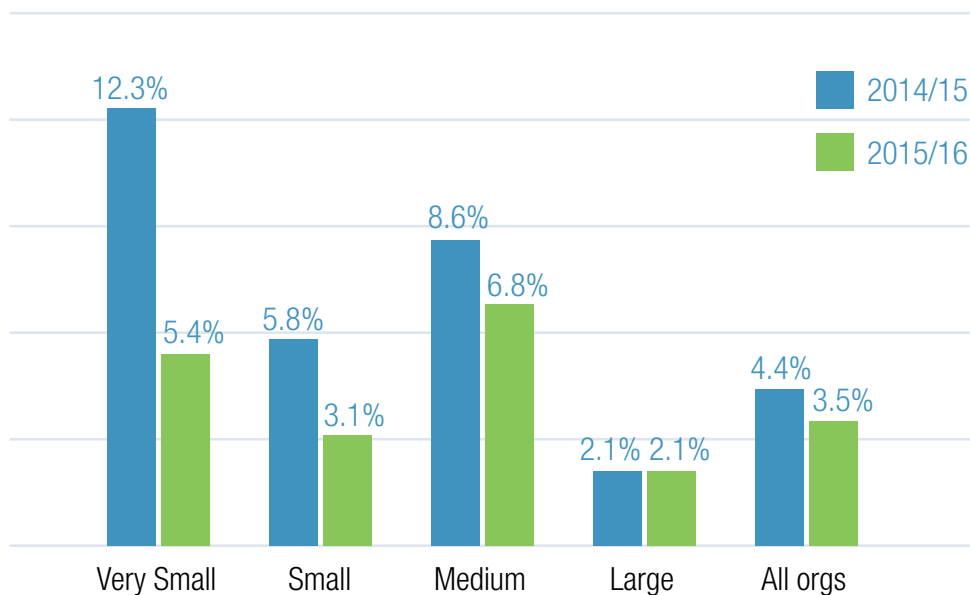


Figure 24 Median profit by size cohort for 2014/15 and 2015/16



Declines in profit would be expected in an industry undergoing the scale of transformation currently being experienced within the disability sector. Many of the costs of transition are expended months or years prior to receiving any associated increase in income and/or profit.

It is important to note that, in addition to funding the transition, the disability sector is growing at a rapid pace. Organisations must increase their capacity to supply services (e.g., appoint additional staff, acquire additional properties and vehicles) ahead of the growth in their revenue, particularly now that services are paid for in arrears. The key challenge for many organisations is matching the pace of their growth in capacity with the growth in demand, as any unused capacity has a direct impact on sustainability.

There are also other issues impacting transition costs that are complex and unique to the NDIS. For example, comments from providers included reference to the 'underutilisation' of NDIS packages by clients. Organisations

had based their growth forecasts and budgets, including staff recruitment and expenditure, on the assumption that service users would spend most of the funding they were allocated in their plans. However, depending on the service and other factors, clients have spent less than 80% of their packages, significantly reducing income resulting in under-utilisation of staff and an overall increase in costs per unit of service.¹⁰

The key question that arises from this analysis is whether the sector has sufficient, suitable and available assets to fund the costs of transition and growth required to meet demand.

To answer this question requires consideration of:

1. The total cost of transition.
2. The price of services and the potential profitability of the NDIS. Will it be sufficient to enable organisations to return to profitably, and if so, how long it will take for them to rebuild their balance sheets?
3. The rate of growth and timing of expenditure in comparison with any expected growth in revenue.
4. The asset reserves of organisations and the types of assets that are held—whether they can be applied to support the costs of transition.
5. The length of time organisations will need to fund investment before they receive returns. That is, will they run out of available assets before they can return to profit?

Furthermore, the demand for, and the costs of services, the costs of transition and the financial viability of providing services varies significantly between service types, organisations and locations. Therefore, the answers to these questions need to be considered at both an aggregate and disaggregated level. Part of the value of considering these issues highlights the need for the development of an industry plan which can then be used to create certainty, structure the sector and identify deficiencies.

“We are currently running a planned deficit budget. This is to allow for extra staffing and system development in preparation for the NDIS. The planned deficit was marginally less than expected (2.5% rather than 3.2%).

Due to sustained financial constraints we are limited in our capacity to invest in growth strategies. As a result, our path back out of deficit position is a slow and steady one. The sector needs reassurance around future funding in order to create strategies around growth and future sustainability.”

“At and present, we lose money on the provision of NDIS services. We plan to focus on our costs and calculate the volume required to be able to break even and make money.”

“We have found we entered the NDIS Trial with significant reserves, however ongoing claiming issues and missed claiming opportunities due to systems issues have meant that we have provided services but not claimed this income. After 2 years, our reserves are decreasing as we work feverishly to address cash flow and income claiming and tracking issues.”

“Our increase in profit was mainly due to donations & a fundraising dinner.”

“\$170,000 of our profit was due to a grant from State Government for capital purchases.”

“Very difficult circumstances to make large profits. We experienced one customer in administration which took over \$20,000 from our income. Times are difficult.”

¹⁰ Productivity Commission 2017, National Disability Insurance Scheme (NDIS) Costs, Position Paper, Canberra.

Clients and income by service

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 over time of the supply of key services, a series of service categories were developed that match the NDIA's list of service types being used in 2015/16.

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.

Clients by service type

In total, the Panel reported serving 139,870 clients, of which 90,285 (65%) were clients receiving disability services (other than services provided by Australian Disability Enterprises (ADEs). This is a 55% increase in total clients over 2014/15, where the Panel reported serving 90,297 clients, of which 79,641 (88%) were clients receiving disability services. Of these, 4.3% were clients receiving services under NDIS.

The data reflects other published data on the ratio of clients who have transitioned to the NDIS.¹¹

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.

Over time, tracking this data will provide information to determine income and profitability by service type.

¹¹ AIHW 2017. Disability support services: services provided under the National Disability Agreement 2015–16. AIHW bulletin no. 140. Cat. no. AUS 212. Canberra

Table 12 Clients headcount by service type 2015/16

	NDIS	Not NDIS	Total clients	%
Daily Living Support (Group home)	208	4,827	5,035	3%
Daily Living Support (In home)	671	16,939	17,610	10%
Nursing Care (In home)	30	6,168	6,198	4%
Respite Services	46	11,828	11,874	7%
Assistance with New Accommodation	33	7,272	7,305	4%
Daily Personal Activities	270	19,355	19,625	12%
Assistance with Social and Community Participation	1,698	30,340	32,038	19%
Employment Assistance (Open employment)	63	8,408	8,471	5%
School and Education	-	1,789	1,789	1%
Therapy Services	1,095	7,789	8,884	5%
Early Intervention	789	5,594	6,383	4%
Life Skills (Social skills, Parenting support)	484	3,305	3,789	2%
Behaviour Support	152	599	751	0%
Assistance with Travel	191	11,571	11,762	7%
Interpreting and Translation	-	276	276	0%
Assistive Technologies	102	1,053	1,155	1%
Planning & Coordination	373	4,829	5,202	3%
Advocacy (Individual clients)	-	1,368	1,368	1%
Information and Advice	-	9,429	9,429	6%
Other	1,080	10,431	11,511	7%
Total	7,285	163,170	170,455	100%

Income by service type

Given the small proportion of income received via the NDIS, the data on income per service type is analysed based on the sum of disability services income received from all sources. As the proportion of income from the NDIS increases, the breakdown of NDIS and other income can be reported and provides a basis for examining financial performance data in more detail.

For 2015/16, Daily Living (Group home) represented the largest percentage of total income for the Panel (32%), followed by Assistance with Social and Community Participation (13%) and Daily Living Support (In home; 10%). This data is preliminary and will be refined over future iterations of the survey.

Service type	% of disability income received.
Daily Living Support (Group home)	32.4%
Daily Living Support (In home)	10.3%
Nursing Care (In home)	NR
Respite Services	7.2%
Assistance with New Accommodation	0.1%
Daily Personal Activities	3.8%
Assistance with Social and Community Participation	12.9%
Employment Assistance (Open employment)	4.6%
School and Education	1.4%
Therapy Services	2.8%
Early Intervention	1.4%
Life Skills (Social skills, Parenting support)	2.8%
Behaviour Support	0.5%
Assistance with Travel	0.1%
Interpreting and Translation	0.0%
Assistive Technologies	0.1%
Planning & Coordination	1.4%
Advocacy (Individual clients)	0.1%
Information and Advice	0.1%
Other	18.0%
Total	100.0%

How did the balance sheet change from 30 June 2015 to 30 June 2016?

Comparing the balance sheet from 30 June 2015 to 30 June 2016, the Total Assets of the Panel increased by \$160m (9.2%) to \$1,896m and Total Liabilities increased by \$41.6m (6.5%) to \$686m. As a result, Net Assets grew by \$118m (11%) in the 2015/16 year to reach \$1,211m.

There was little change in the proportion of assets and liabilities by type. The growth in assets was driven largely by growth in Other Current Assets, which grew by 28% (\$42.7m) and in an increase in cash of \$61.1m (12%).

The largest contribution to the growth in liabilities was a 19% increase in Non-Current Liabilities, which increased by \$20.6m. This was offset by a slight decrease in Current Liabilities, which declined by \$16.0m (3.0%).

As the net assets of NFPs can only be increased through retained earnings (that is, profits from operations or donations), and as profit margins have fallen, this growth in Net Assets reflects effective stewardship of assets by the Panel.

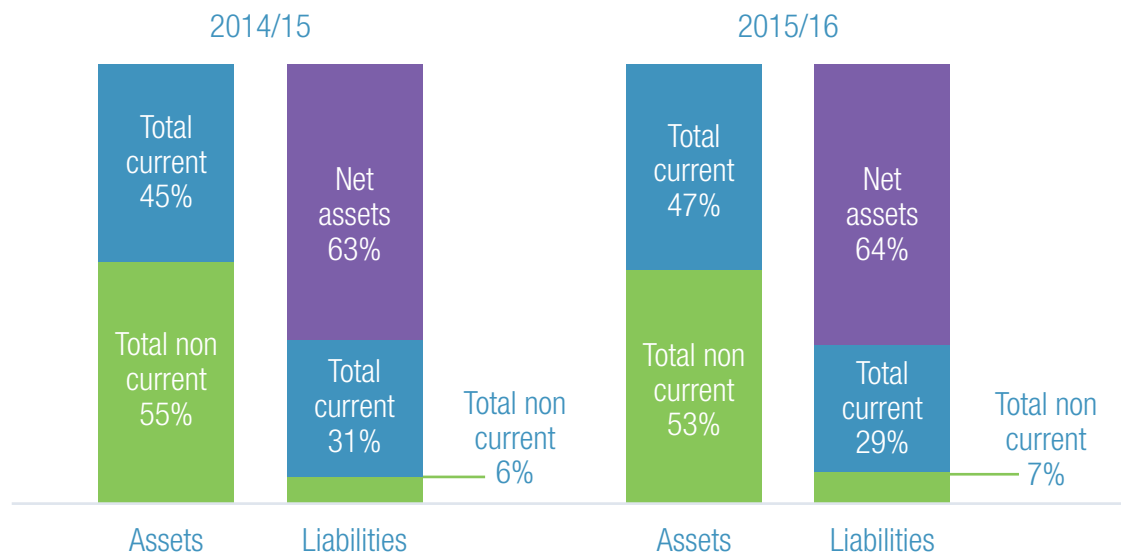


Table 13 Comparison of aggregate balance sheet for 2014/15 and 2015/15

Description	2014/15		2015/16		Change	
	Total \$'000	Median \$'000	Total \$'000	Median \$'000	Total \$'000	Total %
Assets						
Cash	\$531,386	\$1,447	\$592,465	\$1,417	\$61,079	11.5%
Accounts receivable	\$95,257	\$112	\$96,407	\$119	\$1,150	1.2%
Other current assets	\$151,452	\$124	\$194,153	\$95	\$42,701	28.2%
Total current assets	\$778,095	\$1,929	\$883,025	\$2,297	\$104,930	13.5%
Total non-current assets	\$958,700	\$2132	\$1,013,367	\$2,276	\$54,667	5.7%
Total Assets	\$1,736,794	\$4,577	\$1,896,392	\$4,516	\$159,597	9.2%
Liabilities						
Overdraft	\$618	\$57	\$570	\$50	\$(48)	-7.8%
Accounts payable	\$205,763	\$347	\$238,221	\$356	\$32,458	15.8%
Other current liabilities	\$327,919	\$787	\$316,459	\$694	\$(11,460)	-3.5%
Total current liabilities	\$534,301	\$1085	\$555,250	\$1,076	\$20,950	3.9%
Borrowings	\$44,344	\$193	\$54,408	\$479	\$10,064	22.7%
Other non-current liabilities	\$65,378	\$147	\$75,928	\$140	\$10,550	16.1%
Total non-current liabilities	\$109,722	\$164	\$130,336	\$158	\$20,614	18.8%
Total Liabilities	\$644,023	\$1,509	\$685,586	\$1,454	\$41,564	6.5%
Net Assets	\$1,092,771	\$2,431	\$1,210,806	\$2,510	\$118,033	10.8%

Changes in the key financial position ratios

The aggregate current ratio has increased from 1.46 to 1.59, reflecting the increase in current assets. As the introduction of NDIS will mean greater volatility in income and providers will be paid in arrears instead of in advance (as was common under many of the previous block funding arrangements), they were actively encouraged through media and training to increase their current asset ratios. The results suggest that, overall, the Panel has achieved this.

The ratio of total assets to total liabilities remains largely unchanged and at 2.77. The non-current ratio has decreased from 8.74 to 7.78. Although 7.78 might be considered to be healthy, the decline is of interest. There is no evidence from the study that NFPs are liquidating non-current assets to build working capital, but this data will be important to monitor over time.

The Return on Assets ratio has declined only slightly reflecting the reduction in profit margins, which is expected in an industry undergoing transition. Overall the Return on Assets ratio is still strong.

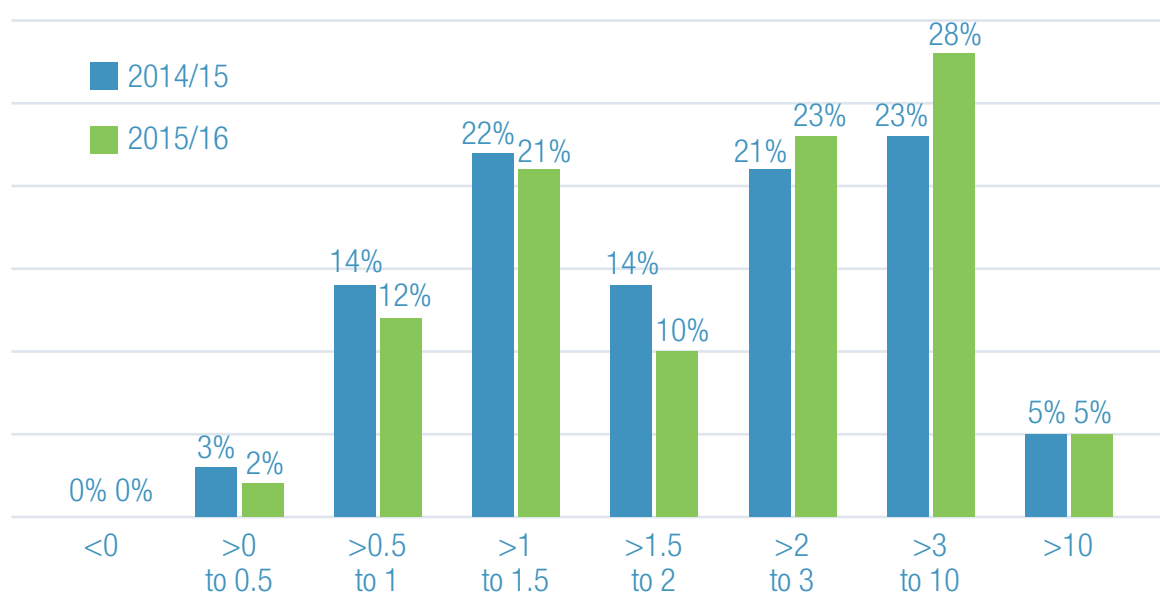
Table 14 Comparison of key financial performance ratios 2014/15 and 2015/16

Ratio	2014/15	2015/16	Change
Current assets	1.46	1.59	0.13
Asset	2.70	2.77	0.07
Non-current assets	8.74	7.78	(0.96)
Return on Assets	5.1%	6.1%	1.0%

Current Ratio

The shift in current ratios is evident in the comparison of distribution from 2014/15 to 2015/16. The number of organisations with current ratios of less than 1.0 dropped from 17% to 14% and there was a notable increase (5.2%) in those with current ratios above 3.0.

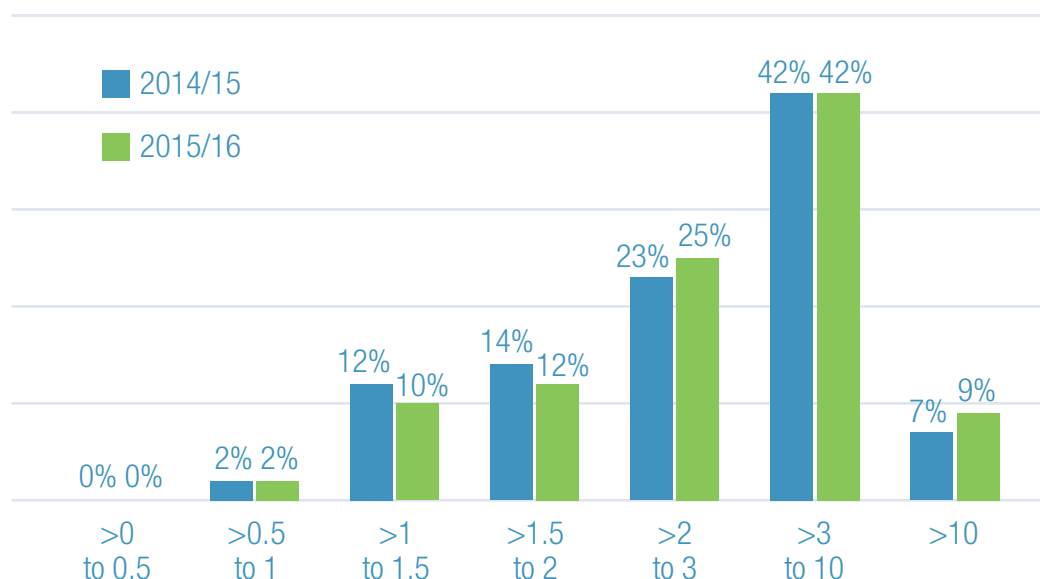
Figure 25 Comparison of distributions of Current ratios for 2014/15 and 2015/16



Asset ratio

Examination of the asset ratios shows little change in the distributions between 2014/15 and 2015/16.

Figure 26 Comparison of distributions of Asset ratios for 2014/15 and 2015/16



Non-current ratio

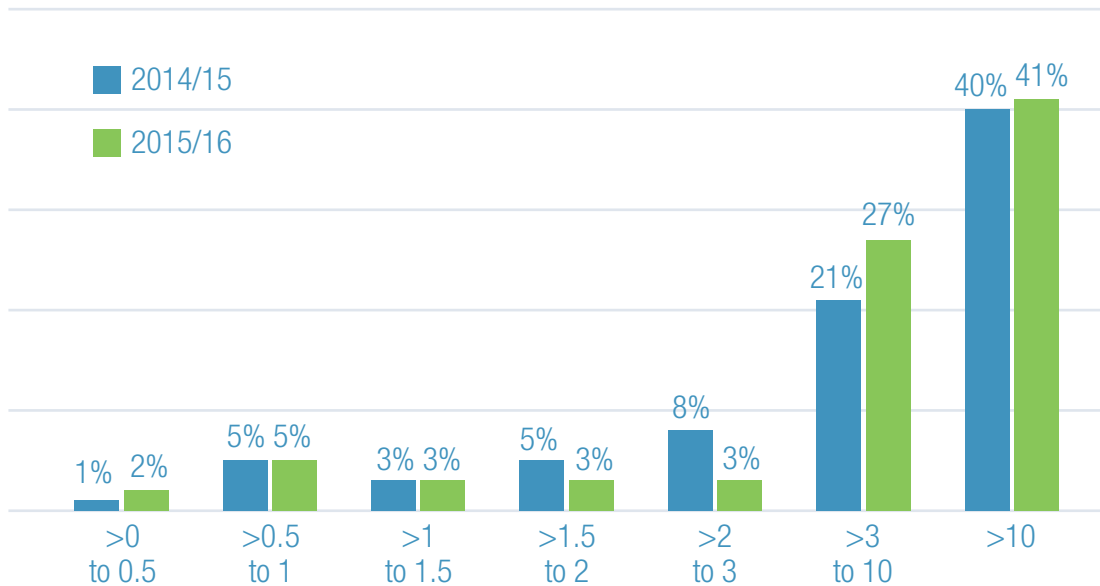
The aggregate non-current ratio declined overall, but analysis of the distribution of non-current ratios shows that this change was not uniform. There is a trend of polarisation in the distribution. Organisations with weaker non-current ratios (lower than 2.0) further worsened (skewed to the left), while the distribution of organisations with non-current ratios over 2.0 have improved (skewed to the right), despite the overall decline.

“Decrease in current assets (cash) was due to planned investment in rebranding, marketing, IT and other growth strategies.”

“Large increases in our surplus and net assets is due to a capital campaign to upgrade our large facility in [Location]”.

“Capital grant for purchase of new administration building added \$3.2m to the net equity.”

Figure 27 Comparisons of distributions of non-current ratios for 2014/15 and 2015/16



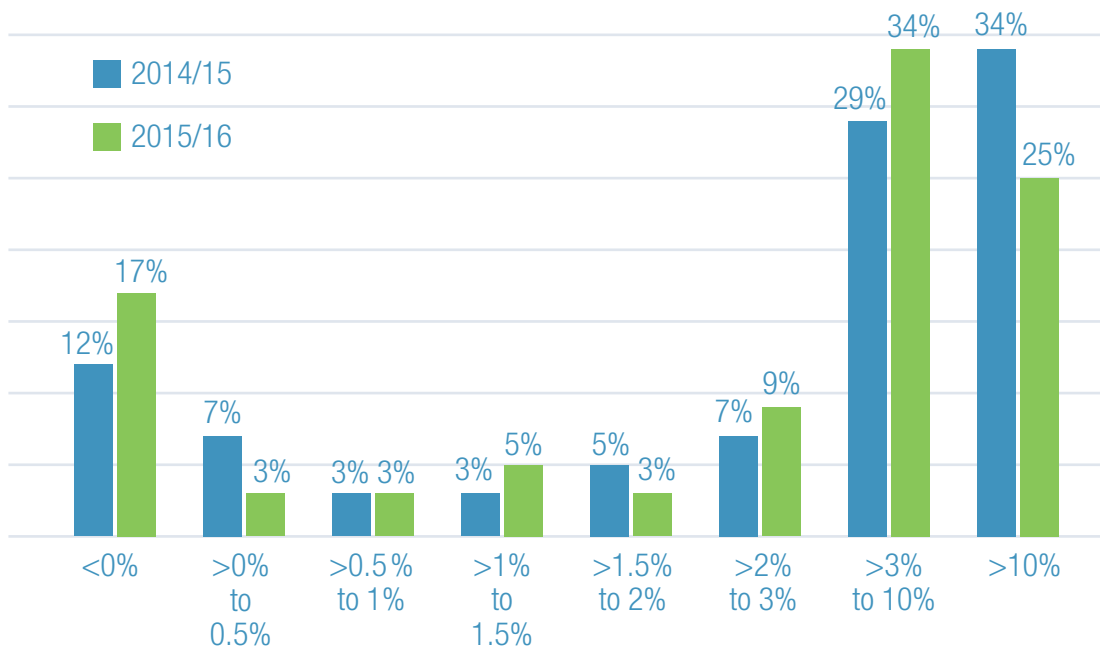
Return on Assets ratio

In 2014/15, 63% of the Panel achieved a Return on Assets (ROA) ratio above 3.0%, however, this dropped to 59% in 2015/16, resulting in the decline in aggregate ROA.

As the distribution of Return on Assets ratios reflects profitability, more organisations had an ROA ratio of less than zero, as a higher proportion (17%; 27 organisations) made a loss in 2015/16 compared to last year (12%; 18 organisations).

The ROA will need to be sufficient to retain and attract service providers – particularly For-profit providers – and therefore any reduction in ROA is of concern and it will be important to watch this ratio over the next few years.

Figure 28 Comparison of distributions of Return on Assets ratios for 2014/15 and 2015/16



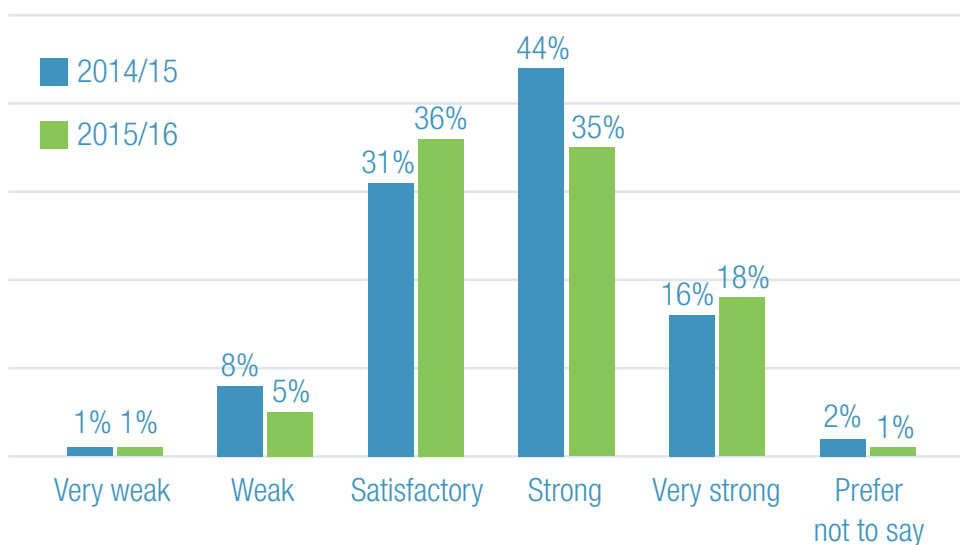
Changes in ratings of financial strength

In addition to a tracking reported financial data the study also assesses perceived financial performance and expectations of future financial performance.

The results show shifts in both perceived financial performance and expectations of future financial performance.

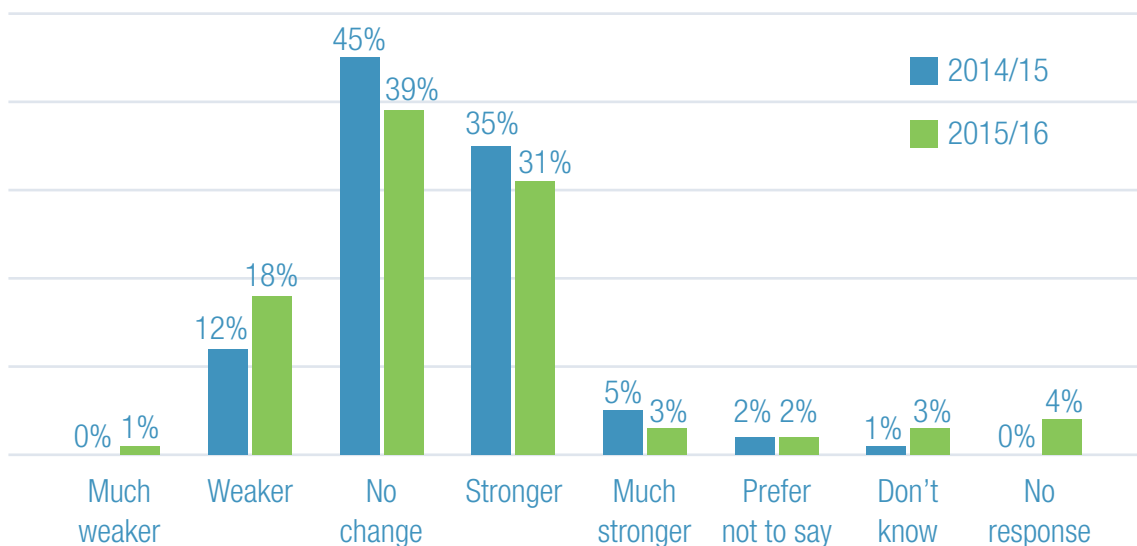
In 2014/15, 60% of Panel members rated their organisation as strong or very strong, but this fell to 53% into 2015/16. However, the proportion of Panel members rating their organisation as very strong alone increased from 16% to 18%. At the same time, the number of organisations that rated themselves as weak declined from 8% to 5%.

Figure 29 Comparison of perceived financial performance for 2014/15 and 2015/16



Panel members' outlook on their future financial performance was less optimistic across the board. In 2014/15, 50% were predicting they would be stronger in the next financial year, and 45% predicted no change. In 2015/16, 34% believe they would be stronger and only 39% predicted no change. The number expecting to be weaker increased from 12% to 19%.

Figure 30 Comparison of expectations of future financial performance for 2014/15 and 2015/16



Staff

The total disability staff headcount employed by the Panel remained stable, increasing slightly from 24,456 to 24,863 (1.7%; 407). Despite this, disability services FTE increased by 1,856, or 11%. This reflects anecdotal evidence that organisations are meeting increased demand with existing staff while expanding staff in other categories.

The total head count of all staff, including those not providing disability services, increased from 30,173 to 33,527, an increase of 3,354 staff or 11%. Total FTE grew proportionally by a reported 12%.

This data indicates that growth in the numbers of staff not providing disability services was higher than the growth in disability services staff. This confirms the findings from Wave 2 of this study, which found some organisations that provided services other than disability services, for example aged care, have focused their growth into these sectors.

The FTE ratio of disability support, administration and management staff to direct workers has declined from 0.21 to 0.19, indicating that organisations are changing staff ratios, perhaps to reduce costs.

Table 15 Changes in Headcount 2014/15 to 2015/16

Headcount	2014/15	2015/16	Change	
			Number	%
Full time				
DISABILITY services direct workers (including allied health staff)	6,471	6,597	126	2%
DISABILITY services support, administration and management staff	2,093	2,456	363	17%
Total disability - Full time	8,564	9,053	489	6%
Ratio support to direct staff – Full time	0.32	0.37		
Part time				
DISABILITY services direct workers (including allied health staff)	14,610	14,481	(129)	-1%
DISABILITY services support, administration and management staff -	1,282	1,329	47	4%
Total disability - Part time	15,892	15,810	(82)	-1%
Ratio of support to direct staff – Full time	0.09	0.09		
Total				
DISABILITY services direct workers (including allied health staff)	21,081	21,078	(3)	0%
DISABILITY services support, administration and management staff	3,375	3,785	410	12%
Total disability staff	24,456	24,863	407	2%
Ratio support to direct staff	0.16	0.18		

Table 16 Changes in FTE from 2014/15 to 2015/16

FTE	2014/15	2015/15	Change	
Total				%
DISABILITY services direct workers (including allied health staff)	14,591.3	16,334.4	1,743.1	12%
DISABILITY services support, administration and management staff	2,997.8	3,110.7	113.0	4%
Total disability FTE	17,589.1	19,445.1	1,856.1	11%
Ratio support to direct FTE	0.21	0.19		
All other staff (not related to the provision of disability services)	4,678.8	5,486.9	808.15	17%
Total FTE	22,267.9	24,932.0	2,664.1	12%

Volunteering

The Panel reported a drop in both volunteers supporting disability services and in total volunteers. Volunteers are an important resource for NFPs and it is not yet clear why volunteer numbers may have declined, but this is consistent with other data on volunteering rates.¹²

Table 17 Changes in volunteers 2014/15 and 2015/16

	2014-15	2014-15	Change	
			Number	%
Volunteers mostly supporting disability services	6,107	5,970	(137)	-2%
Volunteers mostly supporting other (not disability) service	6,600	6,504	(96)	-1%
Total	12,707	12,474	(233)	-2%

“[We] have excess capacity in volunteers so we are able to meet increased demand in the short term.”

¹² Australian Bureau of Statistic, 2014, General Social Survey: Summary Results, cat. No. 4159.0 viewed 20 July 2017

4. THE PANEL'S OUTLOOK

Demand for and supply of service

Nearly three-quarters (73%) of the Panel reported that demand for their disability services increased in 2016, but a third (33%) reported they were unable to satisfy all requests for service.

The same proportion (77%) expected demand for their services to increase during 2017 and, again, 32% expected they would not be able to meet demand.

Panel members commented that their growth was constrained by NDIS prices, staff availability and resource limits. They also stated that they were reviewing their services and having to cease the provision of services that would not be financially sustainable or where there were insufficient profits from other services to cover the losses.

"There will be some services we will not be able to meet demand for since we are not able to offer them within NDIA prices. If we can meet the NDIA price, we will have enough resources to meet client demand."

"We will be able to meet client demand eventually but there is increasing pressure on our wait lists."

"As there's a shortage of early childhood practitioners working in rural/remote regions, our service will be challenged by the demand for these services."

"Demand is higher but the income associated with the support clusters is inadequate to cover the cost of actually providing the services."

"[We had] three recent referrals for supported accommodation but no accommodation available or too expensive. These clients therefore unable to move to our area to be closer to family."

"[Our] ability to meet demand will depend on workforce."

"We could meet demand but we need to have a profitable business model and that will mean deliberately not doing some services."

Several mentioned that long waiting lists for services existed and that they were not yet funded by State/Territory or NDIS income.

"Our State funding to provide services to clients with a disability is fully utilised and we have a waiting list of clients."

"Lack of availability of housing will severely restrict the number of people who can access these services."

Merger, exit and closure

Two-thirds of Panel members reported that their board/senior management had discussed the idea of merger and 12% were currently undertaking a merger and/or had just completed a merger.¹³ However, of those discussing merger, only 15% believed it likely or very likely that they would merge in the next two years.

Thirteen percent had discussed stopping the provision of disability services but continuing the supply of other services, and 9% discussed winding-up the organisation.

“Generally speaking at this stage, providers seem to have little appetite or urgency to merge. This may change as organizations start to experience financial distress.”

“Many organisations are talking about mergers but very few are actually doing anything. Heads in sand, etc.”

“A year long process that involved financial commitment from Board as well as commitment to mission and benefit to customers as driver of decisions, extensive work for senior management, and a rigorous process designed by external trusted consultants.”

“They are more complex than one may think & our view is that we would only invest in exploring one IF it REALLY created more value overall.”

¹³ Organisations can undertake more than one of these options at any time and therefore they are not mutually exclusive. That is, they can be concurrently discussing merger, undertaking a merger and discussing closure.

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 1 RESEARCH METHOD

Background and aims

This research is being undertaken using data from a Panel of organisations that were selected to form a stratified sample. That is, the current population of disability service organisations 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.

As such, the first phase of this study involved determining the structure of supply prior to the introduction of the NDIS and recruiting the Panel. This is 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 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.¹⁴

In addition to distributing the report,

- 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 organisations 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

¹⁴ 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.

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 combining the surveys, 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 2016.¹⁵

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 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 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 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 not sufficiently 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 from 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 sampling 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. Those organisations that struggled to provide data were also reporting more problems

¹⁵ Gilchrist, D. J. and P. A. Knight, (2017), Results: Disability Markets Survey 2016, A Report for National Disability Services, Canberra.

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 (the final wave)

It is planned to undertake Wave 4 in October/November 2017 and report results in early 2018.

Table 18 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: Financial Sustainability Summary of Key Findings
4: Sector Response		Due Oct to Nov 2017	Results: Disability Markets Survey 2017

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 1.¹⁶

The profile of the organisations included in this study is shown in Table 19 and Table 20. The Panel is under-representative of Very Small organisations and over-representative of Medium size 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

¹⁶ 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

organisations in Queensland. 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.

Table 19 Profile of Panel: Income

	Annual Turnover	Organisations No.	Estimated percent of population	Percent of Panel
Very small	Less than \$1m	16	24%	10%
Small	\$1m to \$5m	51	34%	33%
Medium	\$5m to \$20m	63	22%	41%
Large	\$20m +	24	20%	16%
Total		154	100%	100.0%

Table 20 Profile of Panel: Location

State/Territory	Organisations No.	Estimated percent of population	Percent of Panel
New South Wales	51	28%	33%
Victoria	44	25%	29%
Queensland	21	19%	14%
Western Australia	17	9%	11%
South Australia	12	8%	8%
Tasmania	4	5%	3%
Australian Capital Territory	2	2%	1%
Northern Territory	3	3%	2%
Total	154	100%	100%

Total does not add to 100% due to rounding

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 154 organisations, as well as information on a further 33 organisations that will be available for later analysis.

Interpreting the findings

This report summarises the findings from the second 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 and also, given the difficulty in achieving a matched sample, from cohort to cohort.

The second set of data in a longitudinal study is the most difficult to report. The first year provides a base-line and the first insight into the sample. The third and subsequent studies enable identification of trends. However, in the second year it is not possible to be certain that changes are indicative of trends. Our focus this year has been to report data that is consistently showing similar patterns.

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 and 2015/16 financial years or as at June 30, 2015/16. Staff data was collected for the last pay period of the last financial year¹⁷.

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 2014/15 and 2015/16 annual financial reports but some participants have made estimates in regard to such things 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 80 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.

¹⁷ Two organisations reported their financial information on a calendar year basis and for these organisations the financial data relates to the 2014 year.