# Factsheet: Financial Sustainability of Disability Services

Curtin University’s Not-for-profit Initiative and National Disability Services’ Centre for Applied Disability Research are undertaking a first-of-its-kind study. The research investigates the financial sustainability of the non-government disability sector in Australia. The first report baselines the financial position of approximately 180 disability service providers for the 2014-2015 financial year, prior to the commencement of the transition to the full NDIS. The following is a sample of the key findings of the first report.

This research is based on the analysis of the financial position of 180 organisations, made up of 96 per cent of not-for-profit organisations and 4 per cent for-profit organisations.

On average, these organisations hit these milestones:

* $2.93 billion turnover
* 115,000 clients
* 27,000 staff
* $1.5 billion net assets

## Net Current Assets Ratio

Current asset ratios are a good indicator of short-term survivability and a key measure for many disability organisations transitioning to the NDIS. A ratio under 1 indicates that a company’s liabilities are greater than its assets and suggests that the company in question would be unable to pay off its obligations if they came due at that point.

**The median Current Ratio is 1.9.** A total of 16 per cent of organisations fall below 1.0, indicating that they are at risk should their income decline or expenses increase rapidly.

The data breaks down as follows:

* 4 per cent of organisations have a current ratio of 10 or over.
* 22 per cent of organisations have a current ratio of between 3 and 10
* 21 per cent of organisations have a current ratio of between 2 and 3
* 16 per cent of organisations have a current ratio of between 1.5 and 2
* 21 per cent of organisations have a current ratio of between 1 and 1.5
* 13 per cent of organisations have a current ratio of between 0.5 and 1
* 3 per cent of organisations have a current ratio of between 0 and 0.5

## Assets

Organisations with a turnover of more than 20 million per annum hold 67 per cent of the net assets in the sector. These large organisations are better placed to utilise their assets to support change and growth.

## Staff costs

70 per cent of Disability organisations expenses are allocated to employee salaries and related costs, such as superannuation, workers compensation insurance and payroll tax. This compares with just 54 per centfor all not for profit organisations or charities.

## Profitability

Over 15 per cent of panel members (29 organisations) recorded a loss in the last financial year with 6 per cent reporting a loss of more than 5 per cent.

The poor profitability of the sector (42 per cent generating less than 3 per cent profit) suggests that the prospects for a sizable proportion of the sector to be in a position to service loans are very slight while prospects for generating future free cash flows for investment in change and innovation are also low.

The results also suggest that a significant minority of organisations may ultimately be facing solvency and sustainability issues. These issues are likely to be exacerbated unless the planned series of NDIS pricing reviews deliver ‘efficient’ prices that reflect real service delivery costs and the need for innovation.

## Forecasting

Data:

* 42 per cent of organisations are expecting budgeted profit to be lower.
* 71 per cent are forecasting an increase in client numbers.
* 80 per cent expect total income to increase, reflecting growth in client numbers.
* 83 per cent are expecting an increase in total expenses.

Two thirds of organisations have budgeted to increase their spending on new products or service development. Of these:

* 24 per cent are budgeting for an increase of 10 per cent
* 23 per cent are budgeting for an increase of 1 to 20 percent
* 13 per cent are budgeting for an increase of 20 to 50 per cent
* 6 per cent are budgeting for an increase of more than 50 per cent

Beyond this, 85 per cent of organisations are expecting an increase in total employee expenses, and 30 per cent are increasing their technology budget.

## Residential Accommodation

For providers of residential accommodation or client service accommodation, most are expecting an increase in costs. Staff training and development budgets are up:

* 36 per cent of organisations are expecting a 10 per cent increase
* 17 per cent are expecting a 17 per cent increase
* 11 per cent are expecting a 20 to 50 per cent increase
* 7 per cent are expecting an increase of over 50 per cent
* 17 per cent are expecting no change
* 12 per cent are expecting a decrease

The information in this factsheet has been selected from the report ‘Australia’s Disability Sector 2016: Report One - Financial Sustainability and Summary of Key Findings, A Report for the Research Data Working Group, Sydney,’ by D.J. Gilchrist and P.A. Knight.