



# AUSTRALIA'S DISABILITY SERVICES SECTOR 2016

## REPORT 1

### Financial Sustainability Summary of key findings

The first report of the Market Design  
and Evolution for Better Outcomes  
Research Program

## Executive Summary

This is the first report of the Market Design and Evolution for Better Outcomes Research Program. It provides a snapshot of the financial status of 180 Disability Service Organisations from across Australia for the 2014-15 financial year. It also provides a baseline against which change can be compared.

Importantly, the organisations in this study reported that only 2% of their income for the 2014-15 financial year was received from the National Disability Insurance Scheme (NDIS) and therefore this report essentially provides insight into the financial position of organisations prior to the introduction of NDIS.

This report summarises the findings of the first of four surveys. Subsequent reports will be published in Q4, 2016 - Sector Response; Q2 2017 - Financial Sustainability Report No. 2, and Q4 2017 Sector Response Report No.2.

### Aims

The aim of this research is to provide governments, service providers and the broader community with detailed information on the supply and sustainability of disability services in Australia. The information produced is intended to facilitate the development of policy that fosters a strong, competitive and efficient supply of disability services and supports the achievement of the objectives of the NDIS.

This research program examines the following research questions:

1. What is the likely impact of the NDIS on the structure and therefore costs and availability of supply?
2. What are the key risks (for various jurisdictions) and how can these be ameliorated?
3. How can we support the development of an efficient market?
4. What is the current aggregate financial sustainability of disability service organisations and how can we ensure sufficient supply?
5. To what extent and how are disability services organisations responding to market forces through different forms of strategic alliances and sector collaboration?

### Approach

This study involves recruiting disability service providers to a panel and then administering four surveys to the panel over two years. Two surveys will examine the financial performance of organisations and two will investigate the sector's response in areas such as service development, workforce, growth and mergers. The aim was to recruit a sample of organisations with a defined number from each

state and of particular sizes in order to ensure the sample is as representative as possible of what is believed to be the overall population of providers. Based on sector data, the size (income) categories selected were: Less than \$1M, \$1M to \$5M, \$5M to \$20M and above \$20M.

We received strong support from the sector with 200 providers volunteering to take part. Of these, 180 provided complete responses by the deadline. However, despite our best efforts (including phone and email contact) we were unable to achieve a representative sample of the smaller organisations – that is, those with an annual income less than \$1M.<sup>1</sup> This is common for studies of this kind. Respondents from this population will often tell us they have less time and resources to participate and may often not see the same benefits from participation as those in larger organisations. Nonetheless, this is an important group of providers. In total, 21 of the 180 study participants had a total income of less than \$1M in 2014-15.

As a result, the aggregate dataset under-represents the smaller organisations and so caution should be used in extrapolating results. Further, to assist in interpretation, this report also provides analysis by organisation size to enable examination within and across the size cohorts. Recruitment to the panel continues and it is hoped that publishing this and other reports will encourage more organisations to take part.

A significant amount of time and effort is involved in participating in this study and we are very grateful for the support from the organisations that have chosen to take part. The data provided will make a significant contribution to the development of evidenced-based policy. Additionally, in recognition of this significant contribution, all participants have been provided with an individual benchmark report designed to assist them to consider their financial position and performance as compared to their size peers and the panel as a whole.

## **Key findings**

The Disability Service sector is incredibly complex and diverse, reflecting the diversity of the people it serves. It is made up of Not-for-profit and For-profit organisations that contribute to the economic significance of the broader human services sector as well as making a material difference to the lives of many Australians.

Collectively, the panel returned data that indicated in aggregate the following:

- Turnover of \$2.93 billion;
- Net Assets of \$1.5 billion;
- 96% where Not-for-profit and 4% For-profit;
- They provided services to over 115,000 clients; and

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<sup>1</sup> The panel also under-represents organisations located in Queensland. See Section 2 for more details of the sample.

- They employed 27,000 staff directly providing or supporting the provision of services to people with disability.

The findings are complex and significant. Of major concern is the extent to which the panel holds spare cash or cash equivalents that can be applied to the capital needed to meet change. Change of the magnitude required by many organisations can be an expensive process and, given the impact on those people relying on services, it is imperative that the changing environment be met by an appropriately resourced response. There is significant need for further research to be conducted in order to examine the real capacity in the sector's aggregate balance sheet for resourcing change and meeting the financial impacts of the NDIS.

The findings are also diverse with the range of responses indicating that some organisations are likely to be in financial distress and some apparently in financial health. While further examination will be undertaken by the research team over the two-year period of this study, there is an immediate need to consider how the part of the sector that is likely to discontinue service provision is managed. This includes ensuring service continuity is not impacted and that there is an orderly exit from service provision so trained and experienced staff and organisational assets remain available to the sector.

Overall, this is the first report of a study that will bring considerable understanding of the sector's capacity for sustainability. It will inform policy as well as communicate areas for improvement in the sector.

# Contents

<b>1. Introduction</b>	<b>8</b>
<b>Background and Method</b>	<b>8</b>
<b>Interpreting the findings</b>	<b>10</b>
The size (income) cohorts	10
Time period of activity	11
This report	12
<b>2. The Panel</b>	<b>14</b>
<b>Who is in our panel?</b>	<b>14</b>
Size	14
How many are not-for-profits and for-profits?	14
What are the legal structures, charitable status and other registrations of the NFPs?	15
How many of the panel are registered as Australian Disability Enterprises (ADEs)?	15
What services did the panel provide?	15
<b>3. The Financial Position of Disability Service Providers</b>	<b>19</b>
<b>What is the asset base of the panel?</b>	<b>19</b>
Introduction	19
Net Assets – an indicator of an organisation's capacity and sustainability	20
Aggregate Net Assets – a measure of size, capacity and sustainability of the panel as a whole	21
Other findings	22
How are assets distributed across the organisations in the panel?	22
<b>The Key Financial Position Ratios and what they mean</b>	<b>24</b>
Asset Ratio	24
Current Asset Ratio	25
Fixed (Non-current) Asset Ratio	28
So what is the real financial capacity of these organisations?	29
<b>4. The Financial Performance of Disability Service Providers</b>	<b>31</b>
Introduction	31
Where does their income (and other resources) come from?	31
Does the source of income vary depending on the size of organisation?	33
How much In-kind support do organisations receive?	35
What do these organisations spend their money on?	37
<b>The Key Financial Performance Ratios and what they mean</b>	<b>41</b>
How much profit are these organisations making?	41
How widely do profit margins vary?	41
Does the Profit Ratio vary by the size of organisations?	42
What are the implications for the sector?	43
<b>5. The Workforce of Disability Services Providers</b>	<b>44</b>
<b>6. Confidence, forecasts and budgets of Disability Service Providers</b>	<b>47</b>



How confident are leaders about their organisation's financial capacity?	47
What are the panels' forecasts for demand, income and expenses?	48
Comments about financial capacity from the Disability Services Provider Panel	56
<b>7. Appendix- Research aims</b>	<b>61</b>
<b>8. Document Data</b>	<b>63</b>

## Acknowledgements and thanks

If it were possible, we would publish an Honour Role of the more than 180 disability services organisations who are supporting this research. However, participation is confidential.

Instead we acknowledge and thank each organisation for its anonymous contribution to this study. These organisations range from some of Australia's smallest to its largest disability service providers and for some, providing the data required was a time consuming and complex process. However, this contribution is critical in building a true picture of the sustainability issues facing disability service providers in the changing environment.

Australians with disability, their families and supporters, and ultimately the whole Australian community will benefit from a strong, efficient and innovative disability service sector. Thank you for your support and we hope you (and others) will continue to participate in this project.

We also thank the following for providing data and other support:

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<sup>22</sup> This report should be cited as follows: 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.

# 1. Introduction

## Background and Method

The aim of this research is to provide governments, service providers and the broader community with detailed information on the sustainability of disability service provision in Australia. A key driver for this research program is the introduction of the NDIS and the consequential substantial restructuring of individual organisations and the supply-side as a whole. At the time of writing, only 7% of participants in this research had entered the Scheme. However, as the Scheme expands, greater change is expected. This research will play an increasingly important role in monitoring this transformation to the services supply-side and support the development of responsive policy that can be introduced in a timely fashion allowing for a successful NDIS.

It will assist in facilitating the development of policy that fosters a strong and efficient supply of disability services and which 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.

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 current structure of supply and recruiting the panel. This is challenging as there is no single data set 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. The aim was to recruit 250 organisations in total, with fixed target



numbers by income and state. To encourage participation, members of the panel were offered an individualised benchmark report that provides them with comparison 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 kind in other sectors can cost participants \$10,000 or more per year to obtain.

However, despite this incentive, recruitment proved more difficult than expected and additional promotion of the survey, direct emails and telephone calls were used to bolster the sample.

Over 200 Disability Service Organisations (DSO) volunteered to participate. Of these, 180 submitted complete and valid responses to both the online survey and financial information template. This is lower than the target and, despite significant investment in recruitment, the initial panel is also under-representative of smaller organisations—notably those organisations with income under \$1M.

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 under-representative of organisations in Queensland, which may in part be due to the later introduction of NDIS in that state (the NDIA has significantly fewer registered providers in Queensland compared with other jurisdictions).

Figure 1 Comparison of target and achieved sample by organisation income

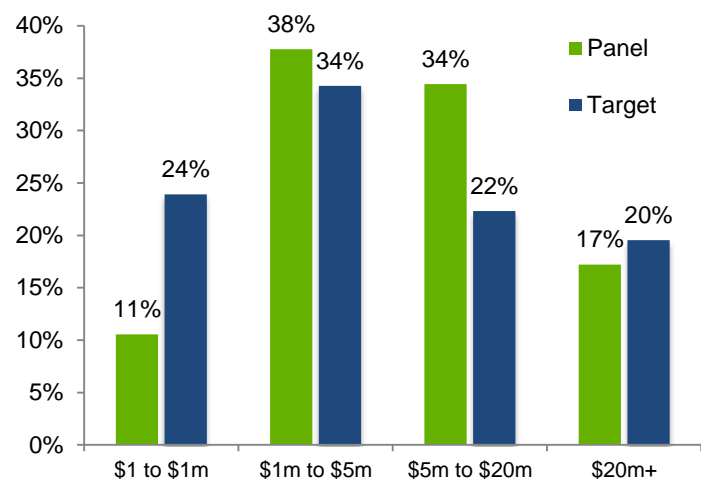
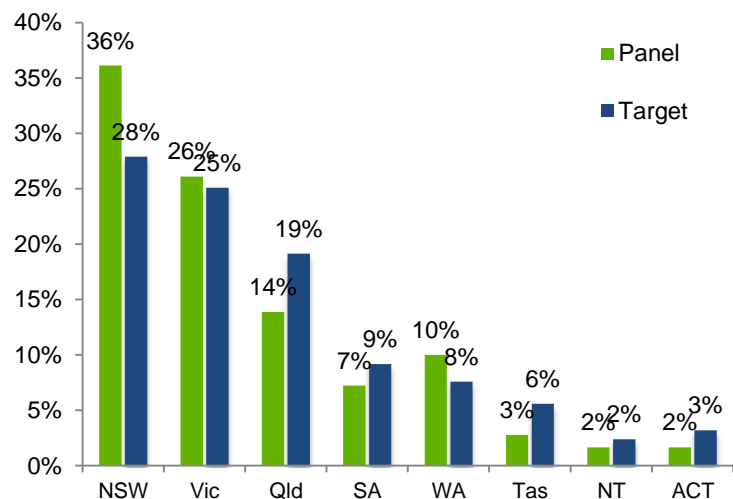


Figure 2 Comparison of target and achieved sample by location



Consideration was given to weighting the results. However, taking into account other factors, it was decided to report this first round unweighted to allow for a more direct and valid interpretation of the results.

Nonetheless, 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 examine the actual composition of the population of disability service providers and to seek to be representative. It also provides extensive information on the financial performance, client base, service volumes, and staffing of 180 organisations.

We continue to seek to recruit additional members to the study and hope that publishing these results and the provision of ongoing communication of the findings will encourage more volunteers. It is hoped that the provision of the individualised benchmarking report to participants provides them with significant intelligence related to their organisation compared to their size cohort and the total population of participating organisations.

Further information about the research method can be found in the appendix.

## Interpreting the findings

This report summarises the findings from the first survey examining financial performance. For the most part, it focuses on reporting the findings from size cohorts rather than for the panel as a whole.

As the first in a series of studies, it provides an initial description of the landscape of supply, and a starting point for examining financial performance and identifying areas of strength and weakness.

The data provided by panel members is confidential. Information has been aggregated and is reported in total and by size cohort. In addition, some data points and commentary are generalised to avoid identification of individual organisations.

### The size (income) cohorts

One of the key factors that may influence financial capacity and performance is organisation size. In this study, size is measured by annual income and the sample was stratified to identify participants in four size groups. These groups reflect categories used in other data sets and also what are often identified as key step-changes in the management and sustainability of organisations.

That is, organisations with income under \$1M will generally have few management staff and simpler systems. Once these organisations grow into the \$1M to \$5M income category, they will often need to invest in more complex control systems and business models.

However, there are variations and these categories are not perfect when we use them to delineate size and complexity. In particular, organisations in regional or remote areas may be small or very small in terms of income, but often have the systems and complexity of larger organisations as they deal with a wider range of funders and provide a broader range of services than similarly sized metropolitan-based organisations.

Table 1 Organisation income classifications

2014-15 Annual Income boundary <sup>3</sup>	Category name
\$0 to \$1M	Very small
\$1M to \$5M	Small
\$5M to \$20M	Medium
\$20M and over	Large

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 annual financial reports but, to answer some questions, some participants have had to make estimates. For example, not all organisations breakdown 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 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.

### Time period of activity

<sup>3</sup> These income boundaries are used for simplicity of reporting. Organisations were categorised based on actual reported 2014-15 income \$0 to \$999,999; \$1,000,000 to \$4,999,999; \$5,000,000 to 19,999,999 and \$20m and over.

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 financial year or as at June 30, 2015. Staff data was collected for the last pay period of the last financial year.<sup>4</sup>

### **The data has not been verified or audited.**

We examined respondents' submissions for outliers and made more than 40 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 will receive 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.

### **This report**

Although our focus was on minimising the size of the questionnaire, we still collect a substantial data set and so the data resulting from this first round of the study is extensive as it includes basic identification and demographic information, and detailed financial and service data.

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 first report, it provides an indication of context and baseline ratios.
- By the four size segments. 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 benchmarking report.

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<sup>4</sup> Two organisations reported their financial information on a calendar year basis and for these organisations the financial data relates to the 2014 year.



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. The median is the midpoint in the range and therefore 50% of organisations would have a total or score higher, and 50% lower than the median score. In some cases the highest and lowest amounts or values are also provided as an indication of the range.

## 2. The Panel

**The Disability Service Provider Panel is an economically significant group. The total income of these 180 organisations was \$2.93B. Collectively, they have Net Assets of \$1.5B and report providing direct and indirect services to more than 115,000 people with disability and others across Australia.<sup>5</sup> They employ over 27,000 staff who are either directly providing services to people with disability or supporting others providing services. Approximately one quarter (24%) of these staff are employed full time.**

**The majority (96%) of the panel are Not-for-profit (NFP) organisations and these organisations are supported by an estimated 8,600 volunteers.**

### Who is in our panel?

After data cleaning and analysis, 180 organisations were included in this first round of results. This section summarises the key data provided by these organisations.

#### Size

The smallest organisation in our panel had an income in 2014/15 of \$46,000 and the largest over \$200M. Net Assets ranged from less than (\$400,000) to over \$80M while the number of staff employed ranged from none to over 1,000.

#### How many are Not-for-profits and For-profits?

Of the final panel, eight organisations (4%) self-identified as For-profit and 172 as Not-for-profit organisations. The Australian Institute of Health and Welfare (AIHW) reported that 84% of non-government disability agencies are tax-exempt, suggesting that our panel under represents For-profit entities.<sup>6</sup> Of the service providers listed as registered with the NDIA as at December 2015, 68% are listed as For-profit entities.<sup>7</sup>

Although all of these organisations were invited to participate in this study, responses from For-profit providers were very low. This entity type was not controlled for in developing the panel, but For-profit providers will continue to be encouraged to participate in future survey rounds.

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<sup>5</sup> This is the sum of the number of clients served per organisation and therefore some clients may be double counted as a person with disability or carers may receive services from more than one provider.

<sup>6</sup> AIHW 2015. Disability support services: services provided under the National Disability Agreement 2013–14. AIHW bulletin no. 130. Cat. no. AUS 192. Canberra: AIHW. This data is based on service outlets not organisations (one organisation may have many service outlets) and therefore is not directly comparable.

<sup>7</sup> Review of the NDIA data identified some inconsistencies and errors with regard to entity type and tax status and this data appears overstated.

The For-profits ranged in size from those with a total income of less than \$1M to those with an income of up to \$20M. As this cohort is small, we have not provided more detailed examination of these organisations. Five of the For-profit providers are structured as trusts and three as commercial companies.

### **What are the legal structures, charitable statuses and other registrations of the NFPs?**

The majority (65%) of the Not-for-profit organisations self-identified as Incorporated Associations while 28% identified as Companies Limited by Guarantee. Nearly all reported that they are registered charities, but six of the panel didn't know if their organisation is registered as a Deductible Gift Recipient. Whether or not an organisation has charitable status or is registered as a Deductible Gift Recipient should be known by senior staff or can be quickly determined through online registers, such as ABN Look Up.<sup>8</sup> We have not corrected records for those organisations that did not know their charitable or registration status as this provides an indication of business knowledge.

### **How many of the panel are registered as Australian Disability Enterprises (ADEs)?**

ADEs are organisations providing supported employment opportunities for approximately 20,000 people with disability. There are 183 organisations funded by the Department of Social Services to operate ADEs in approximately 600 sites across Australia. These organisations are generally Not-for-profits and registered charities. Organisations may exclusively provide ADE services or may provide ADE along with other services, including other disability services. Twenty nine per cent of the panel (53 organisations) are registered as ADEs. Of the remaining 127 organisations, 24 did not know if they were registered as an ADE. Only those that identified as ADEs and provided data on their ADE income and expenses are included in the ADE data. Given the substantial changes occurring in the ADE sector (in particular to the calculation of wages for supported employees) these organisations will require additional specific examination.

### **What services did the panel provide?**

For this study, information on disability service types is collected in two ways: the existing NDA categories and the new NDIS categories. Under the National Disability Agreement (NDA) there are 34 individual service types which are consolidated into seven service groups. Most funded service providers have been required to provide data on client numbers and service volumes under these categories for more than five years and therefore these service group definitions are familiar to most members of our panel. As we wished to examine Supported (ADE) and Open Employment separately, the employment group was split to give us eight service groups or types.

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<sup>8</sup> [abr.business.gov.au](http://abr.business.gov.au)

Table 2 NDA AIHW service groups

**National Disability Agreement  
Australian Institute of Health and Welfare National  
Minimum Data Set Service Groups****Accommodation Support**

- Large residential/institution (>20 places)—24-hour care
- Small residential/institution (7–20 places)—24-hour care
- Hostels—generally not 24-hour care
- Group homes (usually < 7 places)
- Attendant care/ personal care
- In-home accommodation support
- Alternative family placement
- Other accommodation support

**Community Support**

- Therapy support for individuals
- Early childhood intervention
- Behaviour/specialist intervention
- Counselling (individual/family/group)
- Regional resource and support teams
- Case management, local coordination and development
- Other community support

**Community Access**

- Learning and life skills development
- Recreation/holiday programs
- Other community access

**Respite**

- Own home respite
- Centre-based respite/respite homes
- Host family respite/peer support respite
- Flexible respite
- Other respite

**Employment**

- Open employment
- Supported employment

**Advocacy, information and alternative forms of communication**

- Advocacy
- Information/referral
- Combined information/advocacy
- Mutual support/self-help groups
- Alternative formats of communication

**Other**

- Research and evaluation
- Training and development
- Peak bodies
- Other support services



The NDIA has created 30 service categories (or ‘Service Clusters’) which are used to form the basis of client service packages and pricing.<sup>9</sup> For many participants in the survey, these definitions are new or unknown and therefore it is more difficult for them to estimate service volumes or costs. However, over time, these categories will become more familiar to disability service providers and will be the basis for the assessment of service volumes.

Table 3 NDIA support clusters

<b>National Disability Insurance Agency Support Clusters</b>
Accommodation / tenancy assistance
Specialised assessment of skills, abilities and needs
Assistance with personal care and transitions in education settings
Assistance in coordinating or managing life stages, transitions and supports
Assistance with daily personal activities
Assistance with transport arrangements
Assistance to access and maintain employment
Assistive products for personal care and safety
Assistive equipment for recreation
Assistive products for household tasks
Behaviour support
Communication and information equipment
Specialist care for participants with high care needs
Assistance with daily life tasks in a group or shared living arrangement
Development of daily living and life skills
Early intervention supports for early childhood
Assistive technology specialist assessment, set up and training
Hearing Equipment
Home modification design and construction
Household tasks
Interpreting and translation
Other Innovative Supports
Participation in community, social and civic activities
Personal Mobility Equipment
Physical wellbeing activities
Management of funding for supports under a participant's plan
Therapeutic supports
Training for independence in travel and transport
Vehicle modifications

<sup>9</sup> These support clusters were accurate as at December 2015. For further information on the clusters see the NDIA website: [asset.ndis.gov.au/providers/pricing-and-payment/support-clusters](http://asset.ndis.gov.au/providers/pricing-and-payment/support-clusters)

For this first report, the NDA/AIHW service types are considered to be the most reliable estimate of service volumes and cost allocation.

Based on the NDA/AIHW Service Types, our panel provides services to over 115,000 clients.<sup>10</sup>

Many clients received more than one service, with the average of 1.46 services per person. Therefore, when the number of individual clients per service is added, the total (168,913) is greater than the actual head count of clients (115,273). These results are similar to the data reported by AIHW<sup>11</sup> that showed, on average, service users use 1.3 service groups. Our slightly higher ratio of use of more than one service may reflect the larger average size of our panel organisations.

Table 4 also shows the comparison of our data to AIHW data on the relative proportion of clients served by type. Although the data collection methods are not the same, the relative proportion of clients of each type is broadly similar.

Table 4 Number of clients served by panel members and comparison to AIHW data

Panel Service Users by Group	Total number	Per cent of total clients	AIHW service users by group <sup>12</sup>
<b>Total number of clients served</b>	<b>115,273</b>	<b>100%</b>	
<b>Accommodation Support</b>	9,890	9%	14%
<b>Community Support</b>	31,074	27%	44%
<b>Community Access</b>	16,568	14%	18%
<b>Respite</b>	10,508	9%	12%
<b>Open employment</b>	34,384	20%	35%
<b>Supported employment</b>	6,226	5%	7%
<b>Advocacy, information and alternative forms of communication</b>	41,671	36%	N/A
<b>Other</b>	18,592	16%	N/A
<b>Total of clients by service type</b>	<b>168,913</b>	<b>147%</b>	

<sup>10</sup> This is the sum of the number of clients served per organisation and therefore some clients may be double counted as a person with disability or carers may receive service from more than one provider.

<sup>11</sup> AIHW 2015. Disability support services: services provided under the National Disability Agreement 2013–14. AIHW bulletin no. 130. Cat. no. AUS 192. Canberra: AIHW.

<sup>12</sup> Ibid.

### 3. The Financial Position of Disability Service Providers

The total aggregated Net Assets of the panel was \$1.518B. The median Net Assets of organisations was \$2.4M. Several organisations had more liabilities than assets (that is Net Assets were negative – the lowest recorded Net Assets was \$400,000) and the highest Net Assets reported was over \$200M.

The 21 large organisations (16% of the panel) account for 67% of Net Assets.

The median Asset Ratio (the ratio of Total Assets to Total Liabilities) was 3.0 - that is \$3.00 in assets for \$1 in liabilities.

The median Current Ratio was 1.9, meaning that, on average, organisations reported \$1.90 of Current Assets for every \$1 of Current Liabilities and therefore appear well placed to meet short-term solvency requirements. However, there were large variations. Sixteen per cent reported data showing a Current Ratio below 1, which indicates these organisations may have liquidity problems. Interestingly, the very small and small organisations reported data suggesting better Current Ratios than the large organisations.

#### What is the asset base of the panel?

##### Introduction

The assets of an organisation are the resources it owns or controls and that it uses to produce value. Assets can be tangible, such as land, buildings or stock. They can also be intangible, such as a unique method of doing something (for instance, a service model), a licence to operate in a particular area, or a strong brand or reputation.

The value of Net Assets (that is, Total Assets minus Total Liabilities) held by an organisation provides an indication of its financial strength. Organisations with few assets (as compared to liabilities) are less able to respond to short-term crises or to capitalise on opportunities for improving efficiency or growth. If liabilities outweigh assets, the organisation may have solvency risk, may find it difficult to secure temporary or longer term loan funding, and ultimately may not be able to replace assets in order to maintain service delivery.

Assets are acquired in three ways. An organisation can be given an asset (for instance via a bequest or a grant); it can build assets through investing its time and resources by husbanding existing assets closely (such as renewing property assets or closely monitoring a car fleet); or it can operate profitably.

The quantum of Net Assets needed by an organisation depends on its level of activity (usually measured in terms of income or turnover), the types of goods or services it provides, and its business model. Generally, to be considered 'strong and sustainable' an organisation with income of \$20M per year and 300 staff will need more assets than an organisation turning over \$1M.<sup>13</sup>

It is important to be aware that assets are not all equally fungible. That is, one piece of property or asset type is not the same as another, even if they are valued the same. For instance, a property worth \$1M that is used to deliver service may not be as useful in supporting solvency as \$1M in cash in the bank. To sell the property would mean the organisation no longer has the infrastructure to deliver service and would have to rent alternative premises – possibly at a higher cost and with higher risk to ongoing capacity.

In addition, in the NFP sector, some assets are either restricted from sale or, if they are sold, the funds might be required to be used to purchase other long-term assets or returned to the original asset/funding provider. For example, a building may have been donated to the organisation on the proviso that it is used to support the mission of the organisation. The donor may stipulate that the asset cannot be sold and the funds applied to alternate purposes. Governments may also provide capital grants to organisations on the basis that the funding is only to be used for those assets and must be returned to government if the asset is sold.

Assets used by, but not owned by an organisation, are often termed "Administered Assets" or "Restricted Assets". Those that can be sold are often termed "Controlled Assets". As such, the Net Assets of Not-for-profit organisations need to be examined in some detail to determine their real contribution to sustainability.

### **Net Assets – an indicator of an organisation's capacity and sustainability**

At any one point in time, organisations will have both assets and liabilities. Generally, assets are amounts owned by or owed to your organisations and liabilities are generally debts to others to be paid out by the organisation at some future time. These can include amounts owed to banks and creditors and employee entitlements. Also, many disability organisations have been paid for services quarterly in advance and, while the payment is included in the organisation's income, a corresponding liability is recorded in the balance sheet to recognise that the services have not yet been delivered. As they are delivered, the liability is reduced.

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<sup>13</sup> For a more substantial discussion about financial sustainability, see: Gilchrist, D. J. and P. A. Knight (2012), Annual Funded Sector Report, A Report for the Disability Services Commission, Perth. Available at: <http://business.curtin.edu.au/wp-content/uploads/sites/5/2015/09/DSC-Annual-Funded-Sector-Report-2010-11.pdf>

Net Assets are simply the Total Assets of the organisation minus its Total Liabilities, which should result in a positive dollar value if the organisation is to be sustainable.

### **Aggregate Net Assets – a general measure of size, capacity and sustainability of the panel as a whole**

To monitor the collective sustainability of the panel members over time, it is necessary to calculate the sum of all assets and liabilities and calculate a total aggregate Net Assets figure. This provides a baseline to assess any changes in the sector as a whole. It also provides an indication of the level of investment in that sector over time and its current capacity and sustainability. While it provides insight into the aggregate balance sheet, it is made up of a mix of unsustainable and sustainable organisations.<sup>14</sup> For example, Table 5 shows that lowest Net Assets recorded by a member of the panel were -\$400,000, indicating this organisation may be facing financial difficulty.

The median Net Assets for the panel as a whole were \$2.4M. That is, 50% of the panel had more than \$2.4M in Net Assets and 50% of the panel had less than \$2.4M. Table 5 also provides other median figures that will be used as the baseline against which future shifts in assets and liabilities and therefore financial sustainability can be tracked. For example, the data shows that at present overdraft facilities extended are very low (the aggregate overdraft for all organisations was \$600,000). However, this may change as organisations adjust to being paid in arrears.

**Table 5 The panel's aggregated balance sheet**

	<b>Total \$M</b>	<b>Median \$M</b>	<b>Max \$M</b>	<b>Min \$M</b>
<b>Cash</b>	\$693	1.2	74.9	0.0
<b>Accounts receivable</b>	\$103	0.1	20.1	0.0
<b>Other Current Assets</b>	\$174	0.1	21.8	0.0
<b>Total Current Assets</b>	<b>\$970</b>	<b>1.7</b>	81.0	0.0
<b>Total Non-current Assets</b>	<b>\$1,672</b>	<b>1.6</b>	616.6	0.0
<b>Total assets</b>	<b>\$2,642</b>	<b>3.9</b>	691.5	0.1
<b>Overdraft</b>	\$0.6	0.0	0.4	0.0
<b>Accounts payable</b>	\$320	0.2	83.4	0.0
<b>Other Current Liabilities</b>	\$656	0.6	300.1	0.0
<b>Total Current Liabilities</b>	<b>\$977</b>	<b>1.1</b>	383.5	0.0

<sup>14</sup> For further information pertaining to accounting definitions, see: Gilchrist, D. J., (2014), A National Costing and Pricing Framework for Disability Services, A Resource Developed for National Disability Services, Canberra. Available at: <http://business.curtin.edu.au/schools-and-departments/accounting/our-research/not-for-profit-initiative/reports/>

	<b>Total \$M</b>	<b>Median \$M</b>	<b>Max \$M</b>	<b>Min \$M</b>
<b>Borrowings</b>	\$84	0.0	35.7	0.0
<b>Other Non-current Liabilities</b>	\$63	0.1	18.9	0.0
<b>Total Non-current Liabilities</b>	<b>\$147</b>	<b>0.1</b>	<b>35.7</b>	<b>0.0</b>
<b>Total Liabilities</b>	<b>\$1,124</b>	<b>1.3</b>	<b>419.2</b>	<b>0.0</b>
<b>Net Assets</b>	<b>\$1,518</b>	<b>2.4</b>	<b>272.3</b>	<b>-0.4</b>

### Other findings

- Eleven organisations did not record any Non-current Assets, meaning they had no assets such as buildings, equipment or vehicles. These organisations were typically very small or small.
- Only seven organisations recorded an overdraft and five of these were small organisations.
- Two thirds (125 organisations) did not record any borrowings, including more than half of very small organisations and three quarters of small organisations.
- One in five organisations (38 organisations) did not report Non-current Liabilities. That is, they had no borrowings or long-service leave that would fall due in future reporting years. Again, this was evident more in the very small (12 organisations) and small (23 organisations)

The total of \$1.5B in Net Assets of these disability organisations reflects the collective investment and efforts of people with disabilities, their families, communities, volunteers, donors, disability services provider organisations and governments into building the resources of the sector over many years. They provide the core community investment built over decades and are the foundation upon which significant policy change can be built, including in relation to the NDIS.

While we need to read these results in the context of them being collected as the first year of a two-year program and that further analysis will provide more detailed information, we also need to recognise the inherent value in this national asset and husband the resource as the foundation for national change.

### How are assets distributed across the organisations in the panel?

Most industries have income and asset distributions that follow the Pareto principal. That is, there are a small number of large organisations (that account for the majority of the income and assets) and a large number of small organisations that account for the balance.

Table 6 shows the breakdown of the panel's aggregate balance sheet by organisation size to examine the extent to which the panel's resources and liabilities are concentrated in the larger organisations.

The 28 large organisations which make up 16% of the panel account for 72% of Total Assets. Interestingly, they also accounted for 79% of Total Liabilities; meaning that their Assets Ratio should be lower than that of smaller organisations. This is discussed below.

In contrast, half of the panel have an income under \$5M and yet these organisations account for only 10% of the aggregate Net Assets and the 21 very small organisations collectively contribute only 1%.

As such, these results are consistent with the distributions of assets found in other industry sectors.

Table 6 Aggregated balance sheet by organisation size

Balance Sheet	Very small	Small	Medium	Large	Total
	\$1 - \$1M	\$1M - \$5M	\$5M - \$20M	\$20M+	Total
Number in panel	21	69	62	28	180
Per cent of Panel	12%	38%	34%	16%	100%
Cash	\$6.32	\$59.17	\$178.06	\$449.25	\$692.79
Accounts receivable	\$0.35	\$4.84	\$22.09	\$76.21	\$103.48
Other Current Assets	\$0.27	\$24.95	\$58.52	\$90.25	\$173.99
<b>Total Current Assets</b>	<b>\$6.94</b>	<b>\$88.95</b>	<b>\$258.67</b>	<b>\$615.71</b>	<b>\$970.27</b>
Total Non-current Assets	\$4.23	\$97.17	\$282.88	\$1,287.22	\$1,671.51
<b>Total assets</b>	<b>\$11.17</b>	<b>\$186.13</b>	<b>\$541.55</b>	<b>\$1,902.93</b>	<b>\$2,641.78</b>
Total assets %	0.4%	7%	20%	72%	100%
Overdraft	\$0	\$0.25	\$0.38	\$0	\$0.63
Accounts payable	\$0.34	\$11.80	\$41.61	\$266.74	\$320.50
Other Current Liabilities	\$1.24	\$29.25	\$108.79	\$516.42	\$655.69
Total Current Liabilities	\$1.58	\$41.30	\$150.78	\$783.16	\$976.82
Borrowings	\$0.94	\$6.13	\$11.56	\$65.03	\$83.65
Other Non-current Liabilities	\$0.35	\$4.55	\$15.97	\$42.37	\$63.24
<b>Total Non-current Liabilities</b>	<b>\$1.29</b>	<b>\$10.68</b>	<b>\$27.53</b>	<b>\$107.39</b>	<b>\$146.89</b>
<b>Total Liabilities</b>	<b>\$2.87</b>	<b>\$51.99</b>	<b>\$178.31</b>	<b>\$890.56</b>	<b>\$1,123.72</b>
Total Liabilities %	0.3%	5%	16%	79%	100%



Balance Sheet	Very small	Small	Medium	Large	Total
<b>Net Assets</b>	<b>\$8.30</b>	<b>\$134.14</b>	<b>\$363.24</b>	<b>\$1,012.38</b>	<b>\$1,518.06</b>
Net Assets % of total	1%	9%	24%	67%	100%

## The Key Financial Position Ratios and what they mean<sup>15</sup>

### Asset Ratio

The Asset Ratio is the ratio of Total Assets to Total Liabilities. Most serviced-based organisations aim to have an Asset Ratio of more than 1.0. That is, they aim to have more than \$1 in assets for every \$1 in liabilities. A ratio lower than 1.0 would indicate that the organisation is ‘highly leveraged’—that is, it has more liabilities than assets. As with all ratios, the healthy range for this ratio is organisation-specific.

For the panel, the Aggregate Asset Ratio is:

$$\text{Panel Aggregate Assets Ratio} = \frac{\text{Total Assets } (\$2,642\text{m})}{\text{Total Liabilities } (\$1,124\text{m})} = 2.4$$

This shows that, in total, the panel members have \$2.4 for every \$1 of liabilities, Prima facie, this could indicate that, overall, the panel has capacity to increase borrowings in order to respond to medium- to long-term change, and to grow.

However, while this ratio provides a baseline measure for the panel, it should be interpreted with caution. As mentioned above, some assets held by Not-for-profits are not as easy to sell or ‘liquidate’ as similar assets held by For-profit organisations. In some cases, these assets cannot be used as collateral for loans and in others the difficulty of potentially foreclosing on a Not-for-profit’s asset may make lenders reluctant to use them as collateral or encourage them to charge higher interest rates to offset the risks. Furthermore, organisations cannot leverage these assets to grow the organisation unless they have the capacity to service the debt (make repayments and meet interest obligations) out of recurrent income.

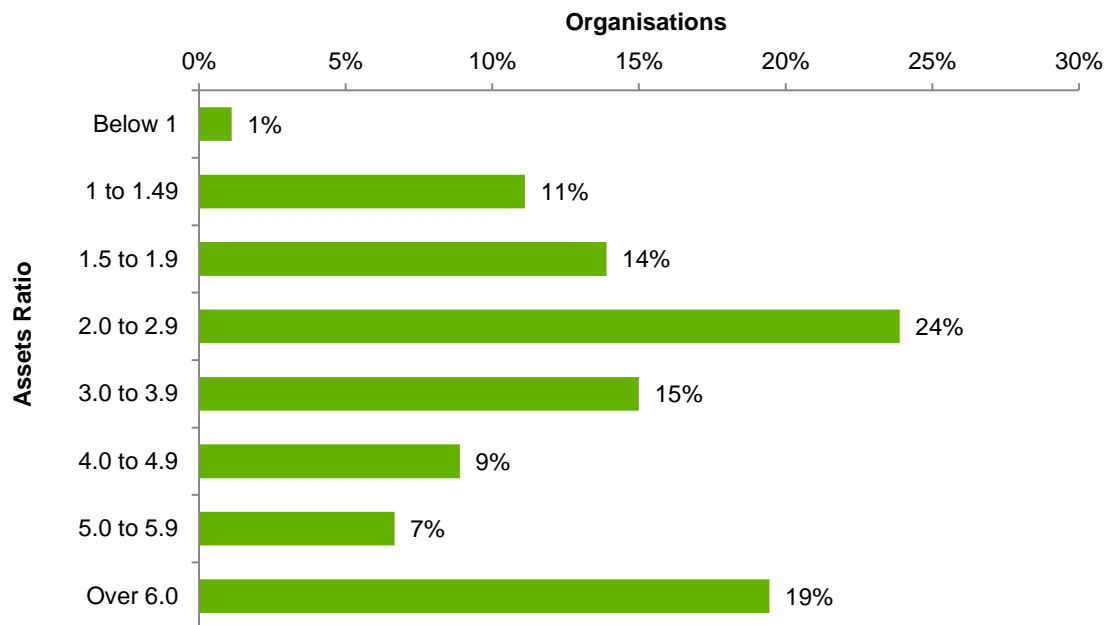
When the Asset Ratios of organisations were examined individually, they showed significant variation. The median Asset Ratio for all organisations was 3.0 or \$3 of assets for every \$1 in liabilities. This means that half of all organisations had an Asset Ratio above \$3 and half had an Asset Ratio below \$3. The lowest reported ratio was 0.7 (that is, this organisation had more liabilities than assets) and the

<sup>15</sup> For more detailed discussion regarding the elements highlighted here, including definitional elements, see: Gilchrist and Knight (2012) Ibid. Further definitional elements can be found in the National Standard chart of Accounts Data Dictionary at: [asset.acnc.gov.au/ACNC/Manage/Reporting/NSCOA/NSCOAtable/ACNC/Report/NSCOA.aspx?noleft=1](http://asset.acnc.gov.au/ACNC/Manage/Reporting/NSCOA/NSCOAtable/ACNC/Report/NSCOA.aspx?noleft=1)



highest was over 100. Organisations with a very high Asset Ratio may indicate they are not leveraging their assets to best advantage for their organisation.

Figure 3 Distribution of Net Assets ratios



### Current Asset Ratio

Assets and liabilities can be further examined as 'Current' or 'Non-current'. Current Assets and Current Liabilities are those that are likely to crystallise within the next year. That is, assets will be realised and liabilities paid before the expiry of the next twelve month-period. Non-current Assets and Liabilities are those that are likely to crystallise at some point after the expiry of a year.

The reason for differentiating Current and Non-current Assets and Liabilities is to manage the organisation's finances more effectively and to ensure that Current Assets (e.g. cash) are sufficient to cover Current Liabilities (e.g. employee entitlements and GST collected) and that Non-current Assets are likewise sufficient to cover Non-current Liabilities (such as loans). Organisations with a large amount of Current Liabilities (debts or bills to be paid in this financial year) but little or no Current Assets may find they are unable to pay their bills and would have to borrow or sell assets in order to do so. Therefore this ratio is a good indicator of short-term survivability.

The Current Ratio is a key measure for many disability organisations transitioning to the NDIS. Prior to the introduction of the NDIS, most disability organisations have been paid by state or territory funders quarterly in advance, meaning they receive

their income before having to spend money on service delivery (which is mostly in the form of salaries). Under the NDIS, they will receive payment in arrears, and only when claims are submitted. That means organisations have to fund salaries and other expenses for some time before they will receive payments and this funding will come from Current Assets, especially cash. We term this requirement 'Working Capital'.

In most industries, the target Current Ratio is between 1.5 and 2.0. While a ratio below 1.0 is an indicator of potential financial stress, a high Current Ratio can also suggest that an organisation is not making the best use of its assets. As with all ratios, the Current Ratio is an indicator only and should an organisation (or in this case a group of organisations) be found to fall outside the expected range it flags a need for further investigation.

For the panel, the aggregate Current Ratio is:

$$\text{Panel aggregate Current Ratio} = \frac{\text{Current Assets (\$970M)}}{\text{Current Liabilities (\$977M)}} = 0.99$$

This ratio would indicate that many organisations will only just be able to cover their Current Liabilities and that they should investigate their capacity for continuing in solvency.

However, further investigation at the organisation level shows that the median Current Ratio is 1.9 and that the ratios vary widely. The lowest Current Ratio recorded is 0.14 (meaning the organisation had only had 14 cents in Current Assets to for every \$1 it had in Current Liabilities) and the highest is 68.8.

The difference in the aggregate and median ratios suggests the aggregate Current Ratio is being affected by a few large organisations that have low (poor) ratios. This is evident in Table 7, which shows that organisations with income over \$5M have lower median Current Ratios than the smaller organisations. Collectively the larger organisations have more Current Liabilities than they do Current Assets, but it is not clear if this is within the normal range for these organisations. These organisations may be borrowing in the short term in order to build systems and assets to prepare for the NDIS.

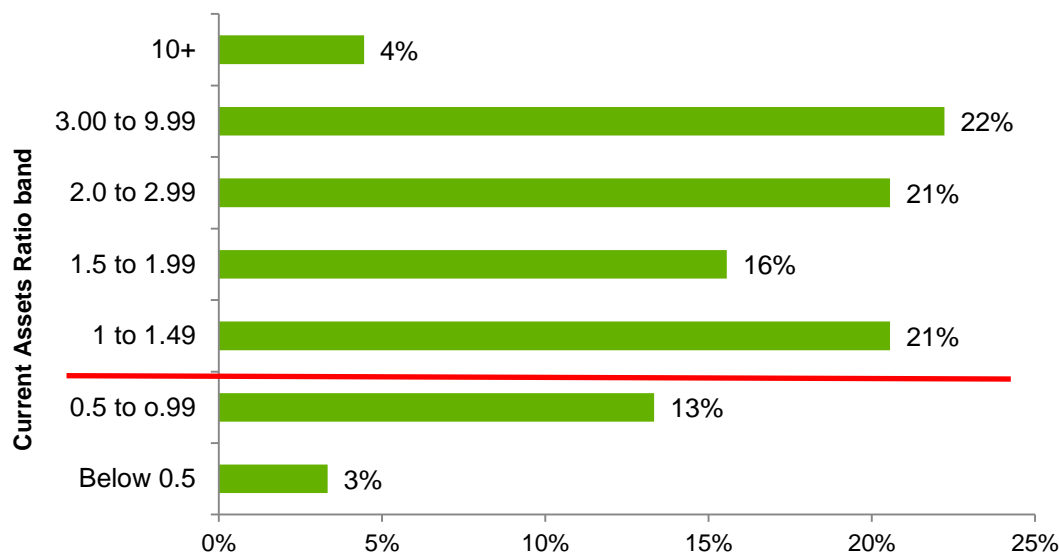
Table 7 Key financial ratios by organisation size.

Balance Sheet	Very small	Small	Medium	Large	Total
	\$1 - \$1m	\$1m - \$5m	\$5m - \$20m	\$20m+	Total
Cash as % of Total assets	57%	32%	33%	24%	26%

Balance Sheet	Very small	Small	Medium	Large	Total
<b>Accounts receivable as % of Total assets</b>	3%	3%	4%	4%	4%
<b>Other Current Assets as % of Total assets</b>	2%	13%	11%	5%	7%
<b>Total Current Assets as % of Total assets</b>	62%	48%	48%	32%	37%
<b>Total Non-current Assets as % of Total assets</b>	38%	52%	52%	68%	63%
<b>Overdraft as % of Total Liabilities</b>	0%	0%	0%	0%	0%
<b>Accounts payable as % of Total Liabilities</b>	12%	23%	23%	30%	29%
<b>Other Current Liabilities as % of Total Liabilities</b>	43%	56%	61%	58%	58%
<b>Total Current Liabilities as % of Total Liabilities</b>	55%	79%	85%	88%	87%
<b>Borrowings as % of Total Liabilities</b>	33%	12%	6%	7%	7%
<b>Other Non-current Liabilities as % of Total Liabilities</b>	12%	9%	9%	5%	6%
<b>Median current Asset ratio</b>	5.2	2.3	1.5	1.5	1.9

Figure 4 shows the percentage of organisations falling into each Current Ratio band. A total of 16% of organisation fall below 1.0, indicating that they are at risk should their income decline or expenses increase rapidly.

Figure 4 Distribution of Current Ratios (line shows those below 1).



### Fixed (Non-current) Asset Ratio

Similarly to the Current Ratio, the Fixed Asset Ratio<sup>16</sup> compares the amount of Non-current Assets to Non-current Liabilities in order to present a picture of the medium to longer term sustainability of an organisation. The aggregate balance sheet shows \$1,525M of net Non-current Assets. On the surface, this suggests that these organisations have considerable resources against which they may be able to borrow to support investment in innovation or growth.

The panel's aggregate Fixed Assets ratio is:

$$\text{Panel aggregate Fixed Assets ratio} = \frac{\text{Non-current Assets (\$1,672M)}}{\text{Non-current Liabilities (\$147M)}} = 11.4$$

The median Fixed Assets ratio was 9.3. However, over 35 organisations did not report having either any Non-current Assets or Non-current Liabilities and, therefore, a fixed Asset Ratio could not be calculated.

In addition, the financial data provided by panel members did not distinguish between Controlled and Administered assets. As mentioned previously, this is an important distinction because not all Fixed Assets may be able to be liquidated or used for collateral. Furthermore, an organisation can only borrow against assets if they can service the debt (make the repayments and meet interest charges) which must be paid from current income. As such, having assets does not necessarily

<sup>16</sup> In this section we use the terms "Non-current Assets" and "Fixed Assets" interchangeably recognising that the title "Fixed Asset Ratio" is the traditional name that applies to this ratio while "Non-current Assets" is the term applied to this class of assets.

translate into debt carrying capacity. Therefore, this aggregate figure should be used tentatively to give an indication of net asset position and as a demonstration of the significant investment already made by the Australian community in this sector, rather than as an indicator of the leveraging capacity of the sector or its prospects for realisation assets to fund reinvestment and restructuring.

### **So what is the real financial capacity of these organisations?**

The sustainability of disability service providers turns on their capacity to meet the challenges of a changing environment. To meet these challenges, organisations need capital as well as different skills. At the aggregate level, the discussion above highlights the net asset position of the panel. However, it does not give us an indication of any “spare financial capacity” these organisations might be carrying and which, on the face of it, might be invested into the development of the organisation. It is, therefore, necessary to examine the types of assets that these organisations hold in more detail.

To assist in this regard, we randomly selected five panel members and examined their assets (using their submitted annual financial reports) to show the proportion of operating assets versus all other assets.

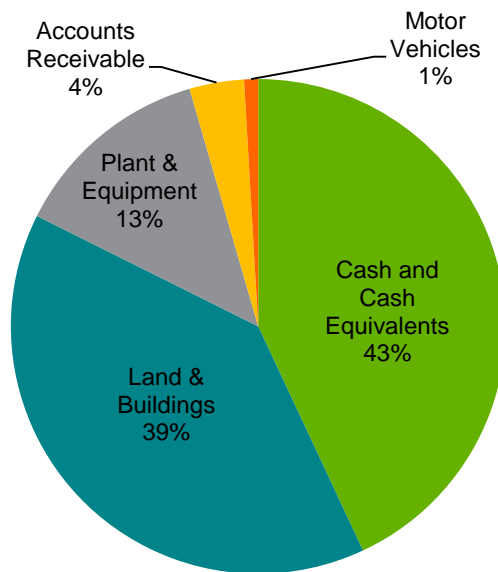
Figure 5 highlights that, at the aggregate for the five randomly selected panel members, 53% of gross assets held are operating assets. That is, these assets are used to deliver services while 47% are cash assets that include working capital and reserves required to offset liabilities including employee entitlements. A certain proportion of these operational assets are Administered Assets, held and deployed for operational purposes and will have funder and other limitations in relation to their use and realisation.

The proportion of Administered Assets is unknown and is the subject to on-going research. However, their existence will also reduce the capacity of organisations to borrow funds.

Further, in addition to the other restrictions on the sale of assets, it is important to be aware that Not-for-profits, unlike For-profit organisations, are unable to shift their capital to other business sectors that may achieve higher returns. In most cases (and particularly for registered charities) the ‘Objects’ of the organisation, as defined in their constitution, restrict their operations to particular service types or beneficiaries.

For example, the objects may require the organisation to provide services to ‘people with disability’ and, therefore, prevent them from evolving into a predominately aged care or health provider. As such, they are not operating in a truly ‘free market’ as they cannot easily shift their capital from one sector to another.

Figure 5 Proportion of operating assets – Five panel members



## 4. The Financial Performance of Disability Service Providers

**In 2014-15, the panel members reported that they received more than half of their income from State and Territory governments and a quarter from the Commonwealth government. The total income of the panel in 2014-15 was \$2.9B. Individual organisations reported income in ranges from less than \$50,000 to more than \$100M.**

**The median profit ratio (margin) for the panel was 3.8%, meaning that half of the panel achieved a profit of greater than 3.8% and half less than 3.8%. The largest organisations (those with income greater than \$20M) had a lower median profit margin at 3.2%. Over a quarter of panel members (27%) achieved a profit of less than 1%, with 17% making a loss. Given this data applies to the 2014-15 financial year, it is not clear if these profit ratios are normal for the panel or reflect organisations' responses to the NDIS.**

### Introduction

The financial performance of an organisation is summarised in its Income (Profit & Loss) Statement. This section summarises the sources of income, expenditure and profit, and reports key financial performance ratios that can be calculated from the Income Statement.

### Where does their income (and other resources) come from?

Disability organisations can receive money from a wide range of sources, including from government in the form of contracts for the provision of services, or grants, donations and bequests, income from other activities (such as child-care), and from fundraising. The National Standard Chart of Accounts Data Dictionary provides useful definitions. However some legacy issues remain regarding the application of accounting terms and methodology.<sup>17</sup> In addition, readers should note that we have not confirmed the data provided by respondents in terms of these definitions and so there could be discrepancies in the results reported below.

Organisations that are dependent on a single source of income can be at greater risk than those that have multiple income streams as they are more likely to be impacted by changes in policy and have less flexibility in terms of deploying their staff and assets. They may also find that the pursuit of their mission or goals is strongly

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<sup>17</sup> Available here: [http://asset.acnc.gov.au/ACNC/Report/NSCOA.aspx?WebsiteKey=45fb18b0-1522-4755-9e15-7a5698cff68b&hkey=4fccb694-d137-4e28-ae49-52ca38635f9d&noleft=1&New\\_ContentCollectionOrganizerCommon=5](http://asset.acnc.gov.au/ACNC/Report/NSCOA.aspx?WebsiteKey=45fb18b0-1522-4755-9e15-7a5698cff68b&hkey=4fccb694-d137-4e28-ae49-52ca38635f9d&noleft=1&New_ContentCollectionOrganizerCommon=5)

influenced - and impacted - by the policy and 'politics' of that single buyer. Therefore, multiple sources of income are generally considered to be indicators of greater sustainability.<sup>18</sup>

The income ratios show the extent to which organisations are dependent on each source of income. Care should be taken in interpreting this graph as some organisations had to provide estimates of the income from each source.

The sources of income have and will continue to change significantly throughout the roll out of the NDIS. The ratios show the extent to which organisations were receiving income from state and territory governments in the 2014-15 year and that only a small percentage of income (2%) in that year was received from the NDIS.

Of interest is the fact that most organisations in our panel have reported only small amounts of income from the provision of services other than disability services. Also of note is that 7% of income was received through Private Fees for Service. Donations and bequests totalled \$19M or only half of one per cent.

Table 8 Consolidated Profit and Loss Statement

The Aggregated Profit and Loss Statement		\$M
<b>Income</b>		
State and Territory Governments		\$1,677.87
Commonwealth (not NDIS)		\$634.69
ADE Income		\$101.03
NDIS - Clients		\$60.59
Local Governments		\$5.64
Private Fee for Service		\$190.30
Total Other Disability Income		\$137.48
Not disability services related		\$129.77
<b>Total Income</b>		<b>\$2,937.36</b>
<b>Expenses</b>		
Disability excluding ADE		\$1,702.69
ADE Only		\$208.66
Not disability		\$904.16
<b>Total Expenses</b>		<b>\$2,815.51</b>
<b>Profit before tax</b>		<b>\$121.85</b>

The total aggregate income for the panel was \$2,937M and total expenses \$2,815M, leaving a total aggregate profit before tax of \$121.85M or 4%. Tax was paid by only three organisations in our panel.

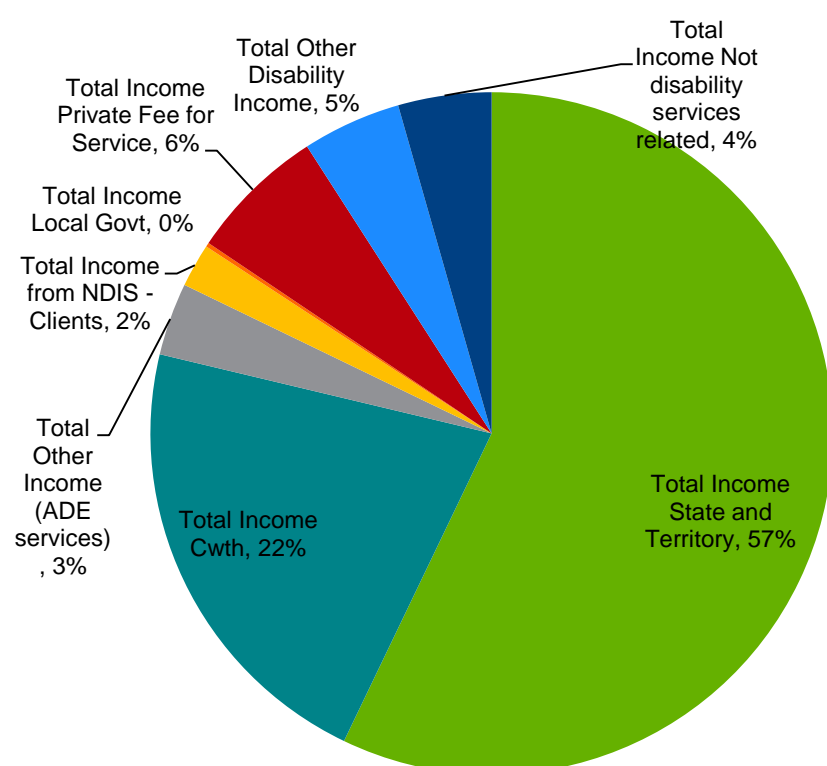
<sup>18</sup> For a deeper discussion relating to these issues, see: Gilchrist and Knight (2012) Ibid.



Table 9 Sources of income

Source of income	Income \$M	% of Total Income
State and Territory Governments	\$1,677.87	57%
Commonwealth (not NDIS)	\$634.69	22%
ADE Income	\$101.03	3%
NDIS - Clients	\$60.59	2%
Local Governments	\$5.64	0%
Private Fee for Service	\$190.30	6%
Total Other Disability Income	\$137.48	5%
Not disability services related	\$129.77	4%
<b>Total Income</b>	<b>\$2,937.36</b>	<b>100%</b>

Figure 6 Sources of income



### Does the source of income vary depending on the size of organisation?

Tables 10 and 11 summarise the income sources for organisations by size and shows the amount and proportion of funding received. Commonwealth funding is a

higher percentage of income for the medium and large organisations. Smaller organisations have a greater reliance of disability services income from other sources, which include income from sales, donations and other sources.

Table 10 Income by source and profit by size of organisation

Financial Performance	Very small	Small	Medium	Large	Total
	\$1 to \$1M	\$1M to \$5M	\$5M to \$20M	\$20M+	
<b>Income</b>					
<b>State and Territory</b>	\$5.86	\$105.16	\$375.18	\$1,191.67	\$1,677.87
<b>Commonwealth (Not NDIS)</b>	\$0.94	\$35.24	\$122.42	\$476.09	\$634.69
<b>ADE services</b>	\$17.51	\$36.75	\$22.23	\$24.54	\$101.03
<b>NDIS - Clients</b>	\$0.16	\$6.52	\$6.82	\$47.08	\$60.59
<b>Local government</b>	\$0.43	\$2.51	\$1.64	\$1.05	\$5.64
<b>Private fee for service</b>	\$22.15	\$70.09	\$21.38	\$76.68	\$190.30
<b>Other disability</b>	\$11.32	\$62.71	\$55.82	\$7.63	\$137.48
<b>Not disability services related</b>	\$6.12	\$57.61	\$25.03	\$41.01	\$129.77
<b>Total income</b>	\$64.47	\$376.60	\$630.52	\$1,865.77	\$2,937.36

	Very small	Small	Medium	Large	Total
	\$1 to \$1M	\$1M to \$5M	\$5M to \$20M	\$20M+	
<b>Income</b>					
<b>State and Territory</b>	57%	55%	57%	57%	57%
<b>Commonwealth (Not NDIS)</b>	9%	18%	19%	23%	22%
<b>ADE services</b>	3%	3%	4%	3%	3%
<b>NDIS - Clients</b>	2%	3%	1%	2%	2%
<b>Local government</b>	1%	1%	0%	0%	0%
<b>Private fee for service</b>	7%	7%	5%	7%	6%
<b>Other disability</b>	22%	7%	10%	3%	5%
<b>Not disability services related</b>	0%	6%	4%	4%	4%
<b>Total income</b>	100%	\$192	100%	100%	100%

**Table 11 Percentage of income by source and profit by size of organisation**

### **How much In-kind support do organisations receive?**

Many Not-for-profit organisations receive in-kind support in the form of discounted or free buildings, professional services, support for events and fundraising. This type of in-kind support can be significant and as they are not recorded may impact costing and efficiency data. For this study, we asked panel members to identify the types of in-kind support they receive and from whom. We did not ask the value of in-kind support, as this is difficult to estimate. However, some respondents volunteered this information.

A third of organisations received in-kind support for fund raising and professional services (e.g. accounting, legal, human resources, website developers). Fifteen percent received in-kind support for the AGM or other events, which included things like discounted or free venue hire and food. Nine per cent receive vehicles for service delivery at discounted rates and a further 9% receive support for property maintenance.

The panel members provided a range of comments about the type and value of in kind service received. These include the following.

“Approximately \$7.2K in kind service property donated by commercial organisation as good will gesture.”

“Rent for 2 x 5 bedroom properties, estimated at \$41,600.”

“We have use of a property rent free for residential care.”

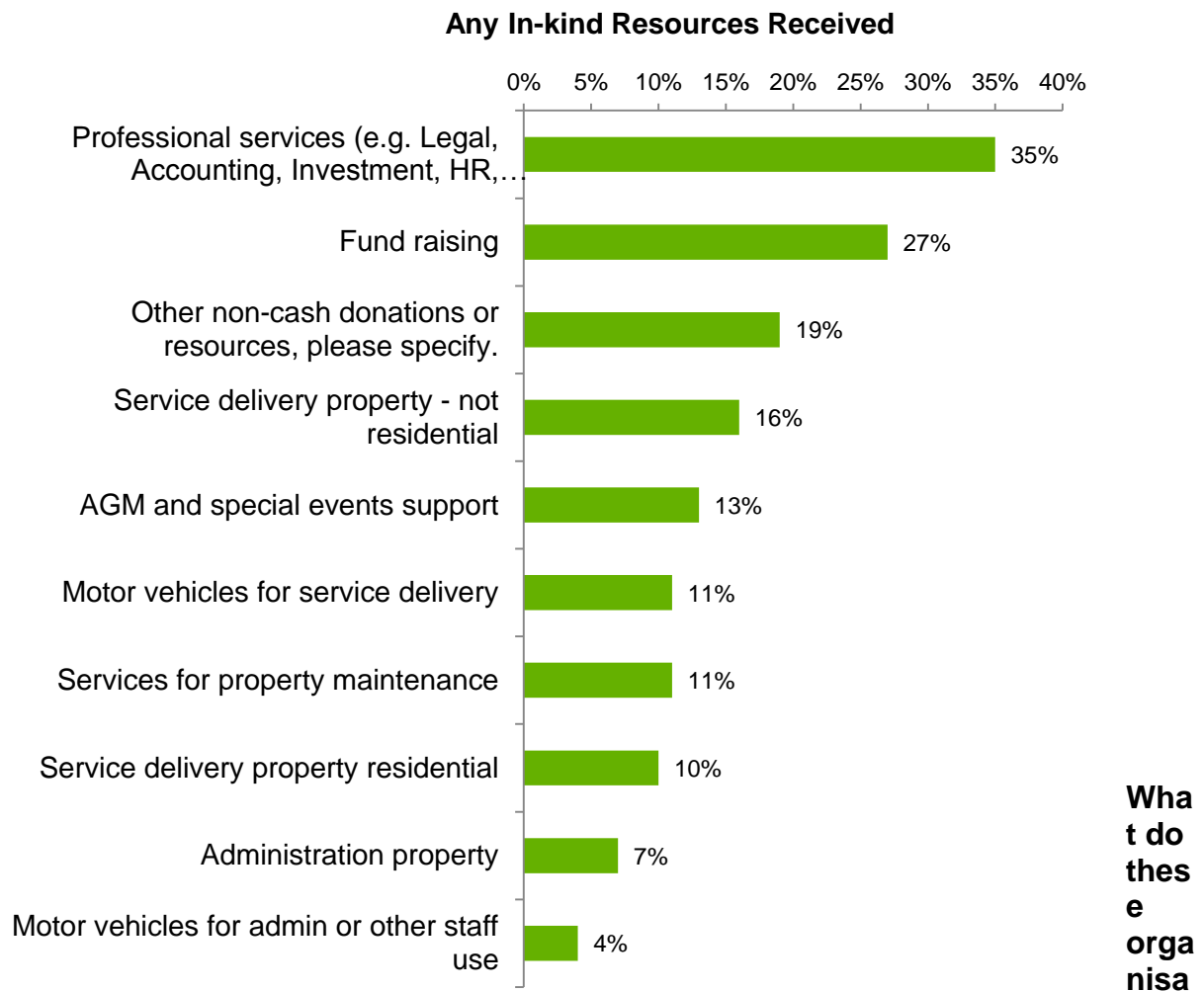
“An approximate value of the "in-kind" would be \$25,000.”

[We receive] “Legal advice from Clayton Utz”

Table 12 In-kind resources received

	Commercial Orgs	Private donors	NFPs	Govts.	Others
<b>Fundraising</b>	11%	19%	3%	0%	2%
<b>Prof services</b>	21%	10%	1%	0%	2%
<b>AGM and events</b>	8%	6%	1%	0%	0%
<b>Non-residential property</b>	2%	1%	2%	9%	0%
<b>Property maintenance</b>	3%	2%	0%	3%	1%
<b>Vehicles for service</b>	4%	2%	0%	3%	0%
<b>Residential property</b>	0%	1%	0%	7%	0%
<b>Admin property</b>	1%	0%	1%	2%	1%
<b>Vehicles for admin</b>	0%	1%	0%	0%	0%
<b>Other</b>	6%	6%	1%	1%	0%

Figure 7 Percentage of organisations receiving in-kind resources



### What do these organisations spend their money on?

When the data is aggregated, a total of 70% of organisations' expenses are allocated to employee salaries and related costs, such as superannuation, workers compensation insurance and payroll tax. This is instructive given that for all charities it has been reported that 54% of income is expended on staff costs and emphasises the staff-intensive nature of disability service provision.<sup>19</sup> When this is broken down by service type, 74% of expenditure on disability services (not including ADE services) was spent on employment costs. In total, the panel reported paying \$1.9B in salaries and related employee expenses. The next largest category of expense was Cost of Sales—which is a particularly large proportion of expenses for ADEs. Property costs accounted for 4%, followed by vehicles at 2%.

These organisations report spending approximately \$19M on marketing and PR and \$8M on accounting and audit costs. Less than one in five organisations did not report any accounting or audit costs which may indicate that these services are provided for free as in-kind support.

<sup>19</sup> See: Cortis, N., Lee, I., Powell, A., Simnett, R. and Reeve, R. (2015) Australian Charities Report 2014. Centre for Social Impact and Social Policy Research Centre, UNSW Australia. Available at: <http://asset.acnc.gov.au/ACNC/Pblctns/Rpts/CharityReport2014/ACNC/Publications/Reports/CharityReport2014.aspx>



Seventy per cent of organisations reported no bad debts from the provision of disability services (excluding ADE services) and therefore bad debt expense are low, totalling \$1.2M, which is less than 0.04% of expenses and a similar proportion of income. This equates to 4c in every \$10 of income and reflects the high ratio of income from government contracts and grants where the likelihood of bad debts is far less.

Table 13 Application of expenses by service type

	Disability (Ex ADE) \$M	%	ADE \$M	%	Not Disability \$M	%	Total \$M	%
Employees	1,253	74%	112	54%	611	68%	1,976	70%
Supported employee wages	-	0%	22	11%	-	0%	22	1%
Cost of sales	64	4%	25	12%	91	10%	180	6%
Property	63	4%	10	5%	43	5%	116	4%
Vehicles	39	2%	6	3%	19	2%	65	2%
Marketing and PR	12	1%	1	0%	6	1%	19	1%
Accounting and audit	6	0%	1	0%	1	0%	8	0%
Bad debts	1	0%	0	0%	0	0%	1	0%
Interest	1	0%	0	0%	6	1%	8	0%
Depreciation	34	2%	8	4%	35	4%	78	3%
All other expenses	228	13%	24	11%	91	10%	343	12%
<b>Total</b>	<b>1,703</b>	<b>100%</b>	<b>209</b>	<b>100%</b>	<b>904</b>	<b>100%</b>	<b>2,816</b>	<b>100%</b>

Analysis of disability service expenses only (that is, excluding ADE expenses) by the size of organisation found no significant differences in relative proportions. At all sizes of organisation, employee salaries accounted for between 71% and 76% of salaries.<sup>20</sup>

Table 14 shows the median (excluding 0) of disability expenditure (excluding ADE expenditure) for each type and organisation size. This information provides a basis for organisations to compare their own disability expenditure to that of other organisations.

<sup>20</sup> Average expenditure on employees for very small organisations was 56%. However, the very small organisations allocated 32% of expenditure to the "Other" category, and it is possible that they did not fully account for employee expenses. This result will be examined further.

Table 14 Median (excluding 0) expenditure by type and size of organisation

	Very small \$,000	Small \$,000	Medium \$,000	Large \$,000	All \$,000
Employees	\$290.5	\$1,439.8	\$5,529.8	\$25,394.6	\$3,047.0
Cost of sales	\$40.9	\$122.1	\$559.2	\$683.2	\$208.8
Property	\$11.4	\$69.8	\$272.0	\$915.4	\$136.5
Vehicles	\$7.1	\$30.3	\$125.2	\$655.0	\$73.7
Marketing and PR	\$2.7	\$5.1	\$19.0	\$98.5	\$10.4
Accounting and audit	\$4.3	\$10.9	\$20.3	\$48.9	\$15.2
Bad debts	\$0.1	\$1.8	\$4.4	\$28.3	\$3.0
Interest	\$2.9	\$3.3	\$12.9	\$16.0	\$9.5
Depreciation	\$8.4	\$40.0	\$123.5	\$594.9	\$75.9
All other expenses	\$98.8	\$202.5	\$606.7	\$3,359.3	\$433.4



## The Key Financial Performance Ratios and what they mean

### How much profit are these organisations making?

The Profit Ratio or Profit Margin is one of the most important financial ratios. It is a measure the amount of each dollar of income that is retained by the organisation and it can be an indicator of efficiency. The aggregate profit margin is the Total Profit (before tax) divided by the Total Income.

The profit ratio (margin) is calculated as: 
$$\frac{\text{Profit (before tax) } (\$121.85\text{m})}{\text{Total Income } (\$2,937.36\text{m})} = 4.14\%$$

This means that for every dollar of income, 4.14 cents of profit was generated. The median Profit Ratio of the panel was 3.8%. The highest reported profit margin was 41.9% and the lowest -91%. It should be noted that an organisation's Profit Ratio can vary significantly from year to year for reasons other than those related to operations. For example, if an organisation receives a significant donation for a capital item (say, a building or a motor vehicle), this will appear as income on their Profit and Loss statement while its subsequent expenditure will not.

### How widely do profit margins vary?

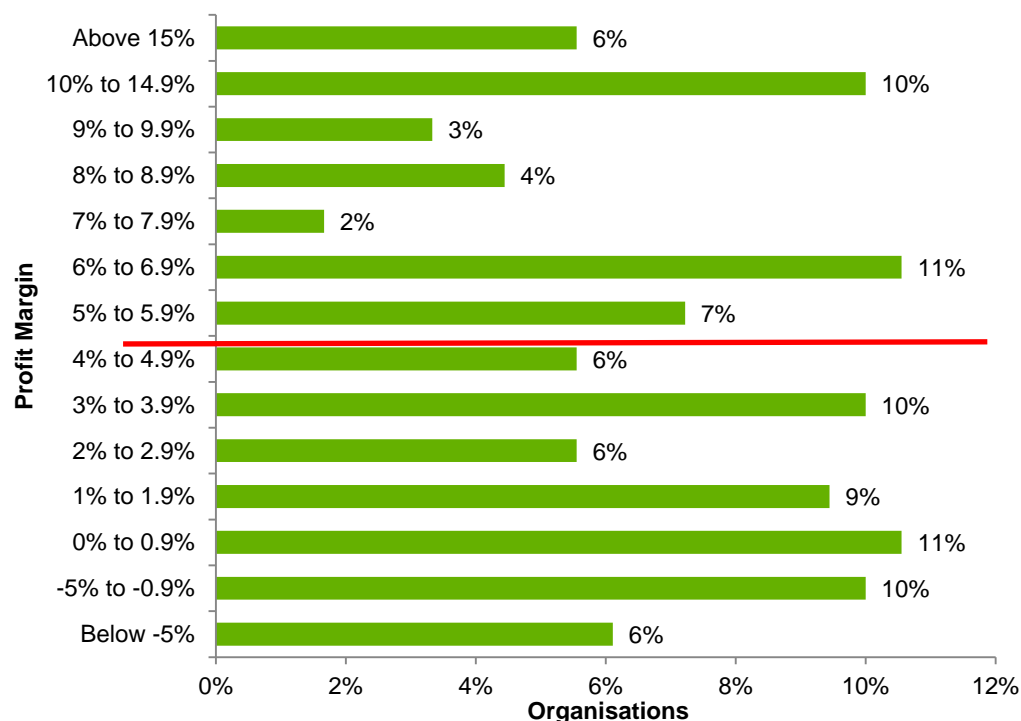
When the results of individual organisations were examined, there was, again, significant variation. Over 15% of panel members (29 organisations) recorded a loss with 6% reporting a loss of more than 5% (See Table 15). The median profit margin varied by size of organisation, with the largest organisations having the lowest median profit margin. It is very possible that there may be restructuring within the sector given these results.

Table 15 Profit margins – Per cent of organisations in each band

Profit margin band	% Organisations in band	
<b>Below -5%</b>	6%	
<b>-5% to -0.9%</b>	10%	
<b>0% to 0.9%</b>	11%	42%
<b>1% to 1.9%</b>	9%	
<b>2% to 2.9%</b>	6%	
<b>3% to 3.9%</b>	10%	
<b>4% to 4.9%</b>	6%	23%
<b>5% to 5.9%</b>	7%	
<b>6% to 6.9%</b>	11%	
<b>7% to 7.9%</b>	2%	20%
<b>8% to 8.9%</b>	4%	

Profit margin band	% Organisations in band	
9% to 9.9%	3%	
10% to 14.9%	10%	
Above 15%	6%	16%
Total	100%	

Figure 8 Profit margin - Percentage of organisations in each profit band (line shows approximate position of median).



### Does the Profit Ratio vary by the size of organisations?

The Profit Ratio can be examined in two ways and in both cases, there is variation in the Profit Ratios by size cohort.

The ratio for 'All organisations' shows the total profit of each size group and provides an indicator of the extent to which each size cohort as a whole is returning a profit. For example, the profit ratio for all Medium sized organisations is the total income of all Medium sized organisations (\$658M) minus the total expenses (\$623M) - which equals \$35.6M - divided by total income. That is, 5.4%. This analysis shows that collectively, the Very Small organisations achieved a profit ratio of -0.6%, that is, a loss.

The second method of assessing Profit Margin is to examine the median profit for each group. For example, in the Very Small group the lowest recorded profit margin was -91% and the highest 37%, but the median profit was 4.1% (that is, half of the Small organisations achieved a profit greater than 4.1% and half achieved a profit of less than 4.1%). When the medians are examined, the Large organisations recorded the lowest median profit.

Table 15 Comparison of profit ratio by organisation size

	Very small	Small	Medium	Large	Total
Total Income all orgs (\$M)	10.3	192	658	2,076	2,937
Total Expenses all orgs(\$M)	10.4	184	623	1,999	2,815
Total profit before tax all orgs (\$M)	(0.1)	8.7	35.6	77.6	121.8
<b>All orgs profit ratio i.e. Total profit (before tax) ÷ Total Income (%)</b>	<b>-0.6%</b>	<b>4.5%</b>	<b>5.4%</b>	<b>3.7%</b>	<b>4.1%</b>
<b>Median Profit ratio (before tax)</b>	<b>4.1%</b>	<b>4.4%</b>	<b>3.5%</b>	<b>3.2%</b>	<b>3.8%</b>

### What are the implications for the sector?

Profitability is an important consideration in relation to all organisations operating in a market economy – regardless of the funding arrangements. It is from profits that the balance sheet is strengthened, reserves created for investment in innovation and change management, long term asset replacement, and loans and other financing options are serviced. The findings summarised in this report represent only one year of operations and reflect a year in which many organisations reported that they were investing in new information systems, training and business re-organisation.

The poor profitability of the sector (42% generating less than 3% 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.

## 5. The Workforce of Disability Services Providers

**In total, the panel report employing more than 27,000 staff or more than 18,000 FTE in the provision of disability services.**

Panel members were asked to provide information on full time staff head count, part time staff head count and total hours staff worked in the last pay period of their last financial year, which for nearly all was 30 June 2015. Data was collected in three categories:

- Disability Services Direct Workers and Allied Health Staff. These are staff that provide disability services and those who coordinate or supervise their work. They include client support officers, key workers and case managers, and managers if they also have a direct client support role. Allied Health Staff are allied health professionals who provide support directly to clients.
- Disability Services Support Workers. These are administration and management 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.
- All other staff. These are all other staff employed by the 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 roles within the organisation.

For this study, to simplify the data collection, panel members were not asked to also provide information on the numbers of each of these staff who were employed on a permanent or casual basis.

FTE was calculated by dividing the total hours worked by 35.

Not all panel members provided data on staff numbers, and therefore caution should be used in interpreting the results.<sup>21</sup> Similarly, some respondents had to make estimates of the split between the three categories of workers and others did not provide data in some fields (such as total numbers of staff hours). As such, this data should be considered indicative only.

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<sup>21</sup> Nine organisations did not provide data on staff and a further eight organisations provided data on headcount, but not on FTE.

Figure 9 Numbers of full and part time staff employed (headcount)

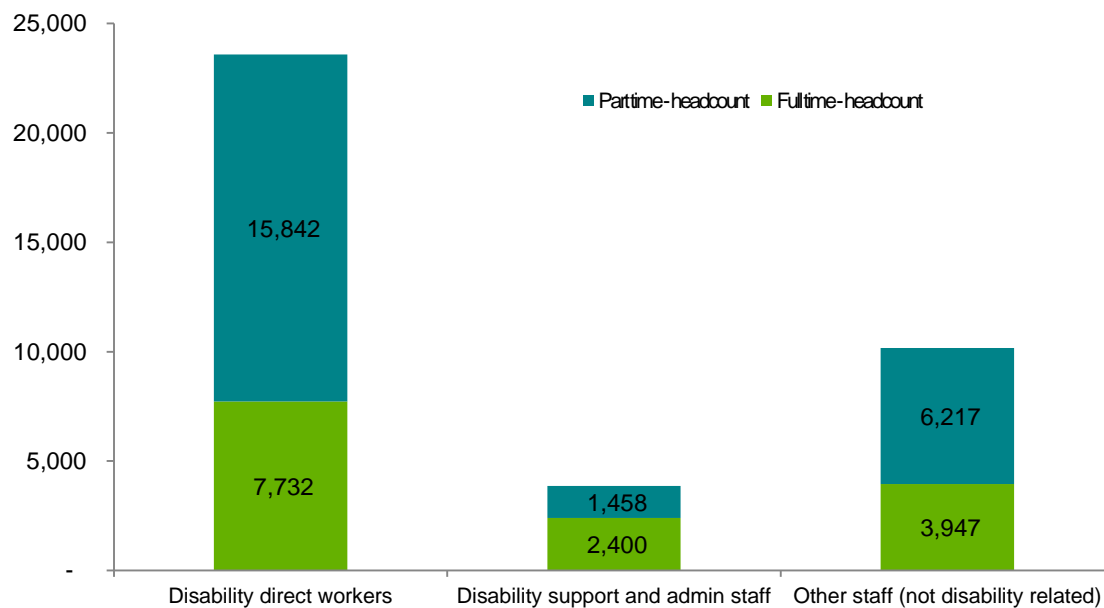
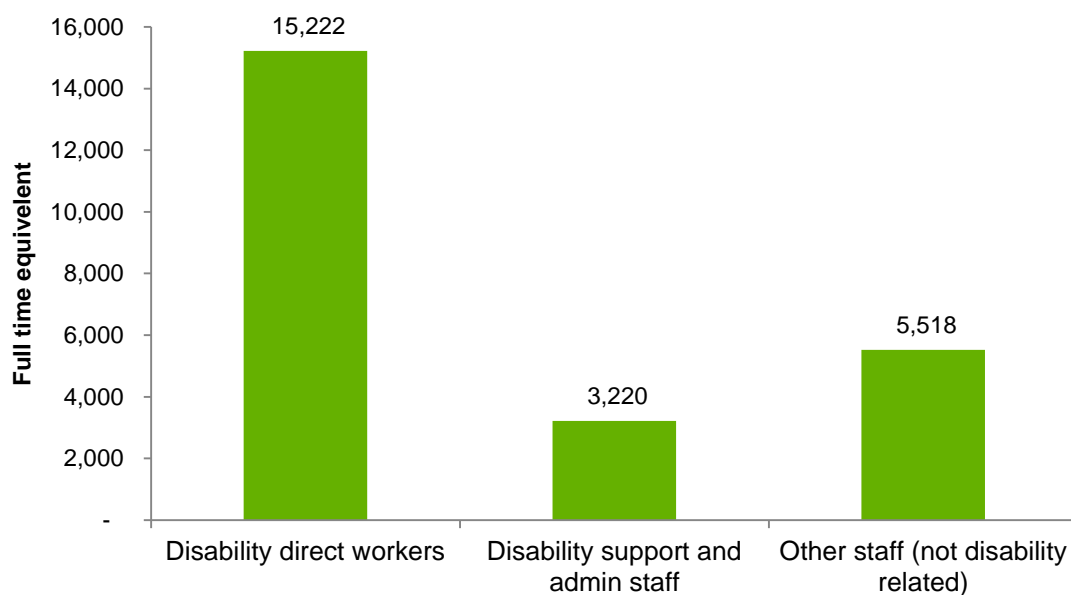


Figure 10 Number of FTE



Of those reporting, the total FTE providing disability services was reported at 18,442. Based on FTE, the ratio of disability direct support workers to disability direct workers was 1 to 4.7. That is, there was one FTE of disability support worker for 4.7 FTE of disability direct worker.

**Table 16 Total and median FTE**

Percentages and the 'n's needed.

	Total FTE				Median FTE	
	Disability Direct	Disability Support	Other Staff	Total All Staff	Median All Disability	Median All Staff
Very small (n = 21)	59	35	2	96	4	4
Small (n = 69)	1,316	407	249	1,972	22	26
Medium (n = 62)	4,165	909	800	5,874	76	85
Large (n = 28)	9,681	1,870	4,467	16,018	313	478
Total	15,222	3,220	5,518	23,961	36	43

## 6. Confidence, forecasts and budgets of Disability Service Providers

**Most respondents are confident about their organisation's financial strength. However, one in ten expect their organisation to be less strong by mid-2016 and this included respondents from some of the large organisations.**

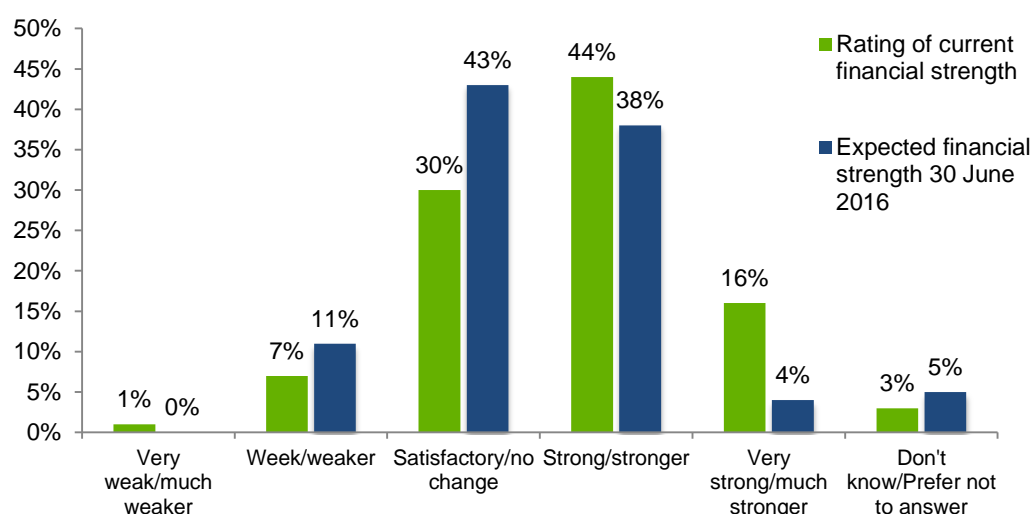
### **How confident are leaders about their organisation's financial capacity?**

The first survey for this study included questions regarding senior executives' views of the financial strength of their organisation and their expected strength as at 30 June this year. These opinion-based questions reflect a range of factors, including the organisation's actual performance, sector and public commentary about disability sector organisations (and, for Not-for-profits, the perception of this sector more generally), and the optimism or pessimism of the respondent. They also reflect the general mood in the economy. As such they are measures of mood and perception as much as actual financial capacity, but as these factors influence risk appetite and resilience they are important attributes.

At the time of the survey (January to March 2016) 60% of respondents rated their financial strength as 'strong' or 'very strong' and a further 30% rated their strength as 'satisfactory'. Eight per cent rated their capacity as 'weak'. When analysed by size and other factors, there was no demographic factor that appeared to be correlated with results.

Nearly half of respondents are optimistic about their organisation's future and feel it will be stronger (44%) or much stronger (4%) by 30 June 2016. A further 43% believe it will be unchanged. However, just over one in ten respondents believe their organisation will be weaker by mid-2016 and these organisations included some of the large as well as some of the small organisations.

Figure 11 current rating of financial strength and expectation of financial strength at 30 June 2016



### What are the panels' forecasts for demand, income and expenses?

**Sixty per cent of organisations expect their 2015-16 profit to be either the same or less than in the previous year and 15% believe it will fall by at least 50%. While most are expecting strong increases in income, average income per client is not expected to change significantly while costs are expected to grow strongly – particularly costs in Information and Communications Technology (ICT) and for new services/product development.**

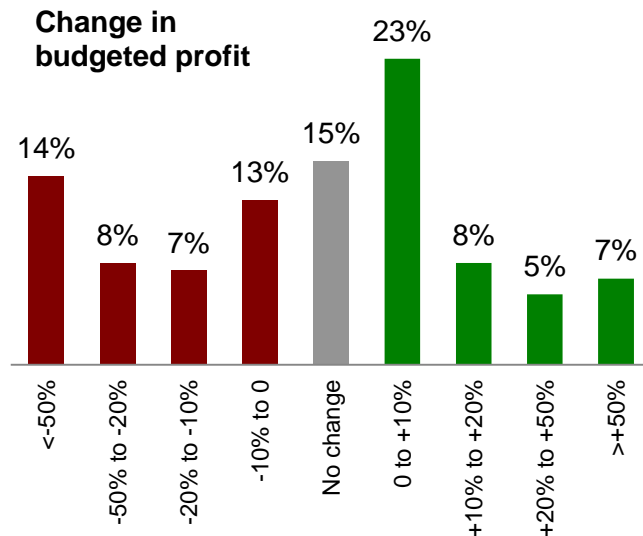
Panel members were asked about their budgets and forecast for the 2015-16 financial year in relation to a number of key client and financial metrics. The charts in this section show the percentage of organisations expecting an increase or decrease in each attribute and the extent of that expected change.

The results again show the variation in financial performance across the sector, with some organisations reporting positive trends across all areas and others showing signs of stress, including to profit margins and Net Assets. The expense area budgeted to increase the most is ICT.

Note: The graphs have been coloured to enable interpretation. In most cases increases in income and decreases in costs are marked in green. However, increases in staff training and development and new product/service development have been marked green as these are often considered to be positively correlated with sustainability. Of course, the colouring of the graphs is subjective.

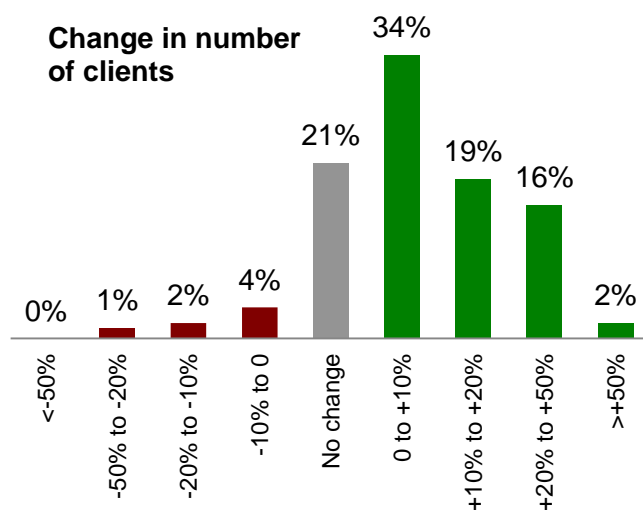


Figure 12 Expectations of change in demand, income, expenditure and profit

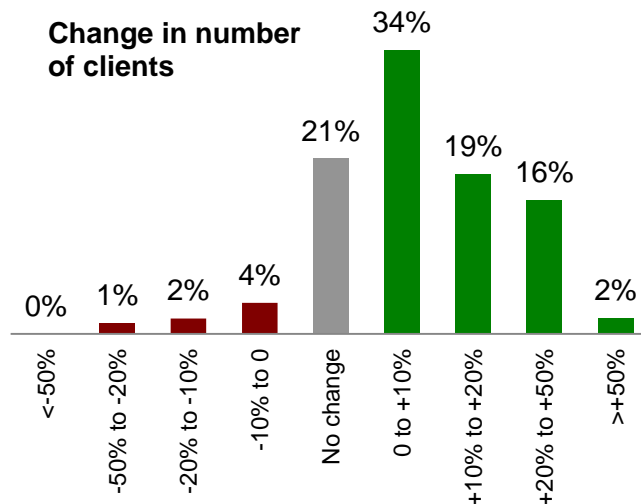


Forty two per cent of organisations are expecting budgeted profit to be lower in 2015-16, with 14% expecting it to be half or less than it was in the previous year.

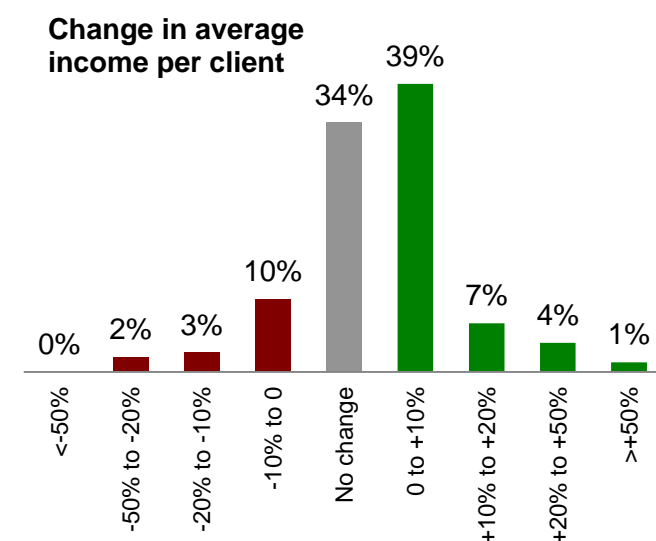
Of those expecting a profit increase, most were expecting the increase to be modest, that is, within 10% of the previous year's profit.



Seventy one per cent of organisations are forecasting an increase in client numbers, with nearly one in five expecting client numbers to be up by between 10% and 20%, and a further 16% expecting a 20% to 50% increase. As such, a large number of organisations will need to respond to considerable change. Those organisations not expecting growth include some accommodation providers whose growth is limited by infrastructure capacity.

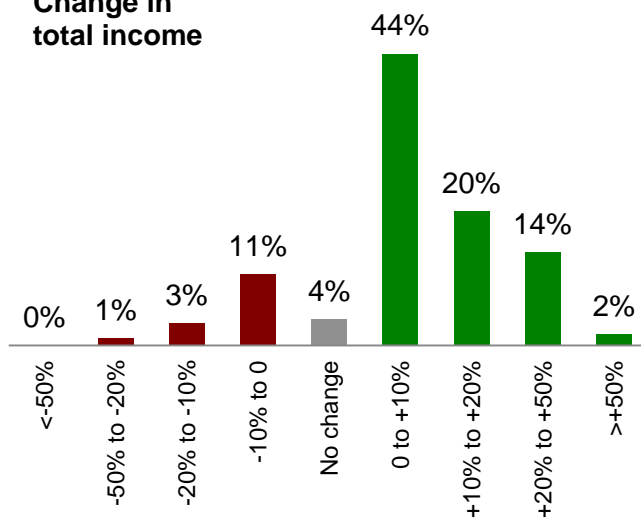


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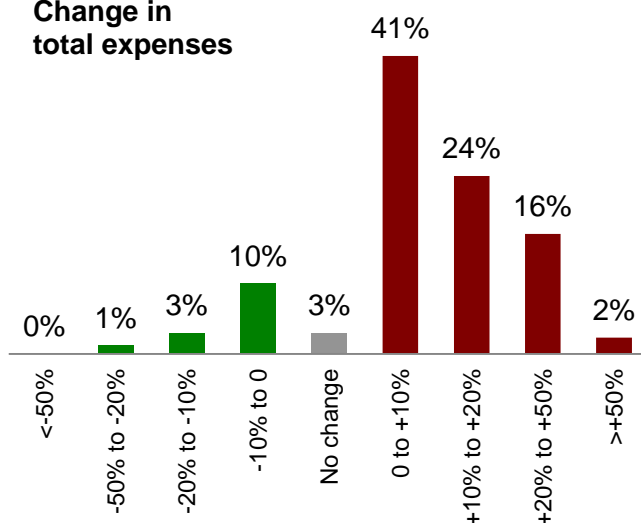
A third of panel members are expecting average income per client to remain the same and 39% to increase by up to 10%. Given the growth and other changes these organisations will need to absorb, this will put significant pressure on profitability and is reflected in their profit forecasts (above).

### Change in total income



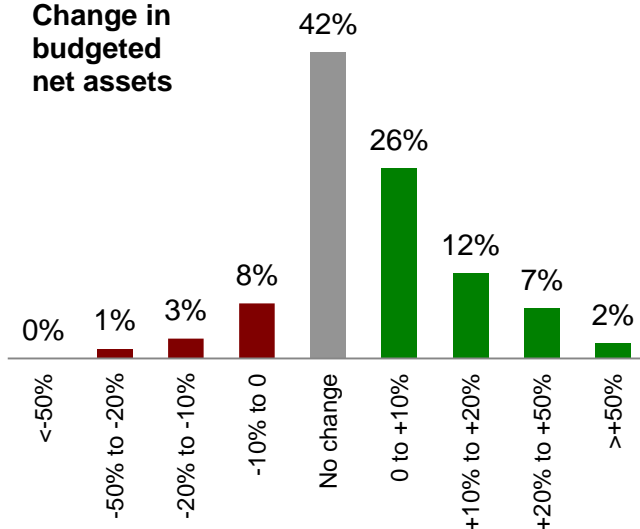
Eighty per cent of organisations are expecting 2015-2016 total income to increase, reflecting the overall growth in client numbers. However, interestingly, 15% were expecting a decline in income. Some of these organisations are operating in areas in which the NDIS is not going to be implemented within 2015-16 or where state/territory government contracts are being wound up and there is less assurance of income from NDIS participants.

### Change in total expenses



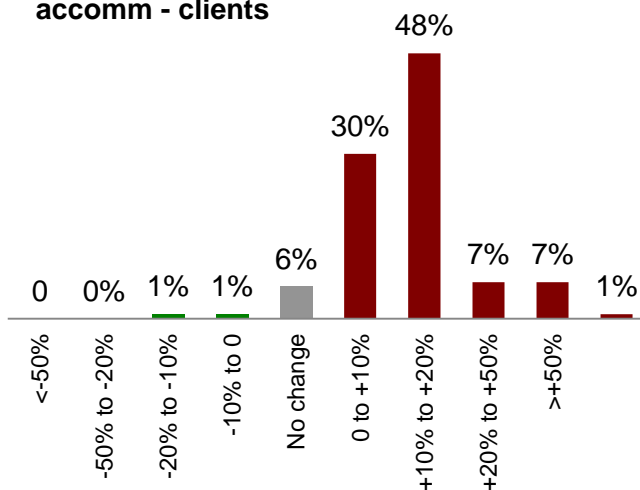
Along with the increase in client numbers and total income, 83% are expecting an increase in total expenses. Only 3% expect no change in total expenses and 14% expect a decline.

### Change in budgeted net assets



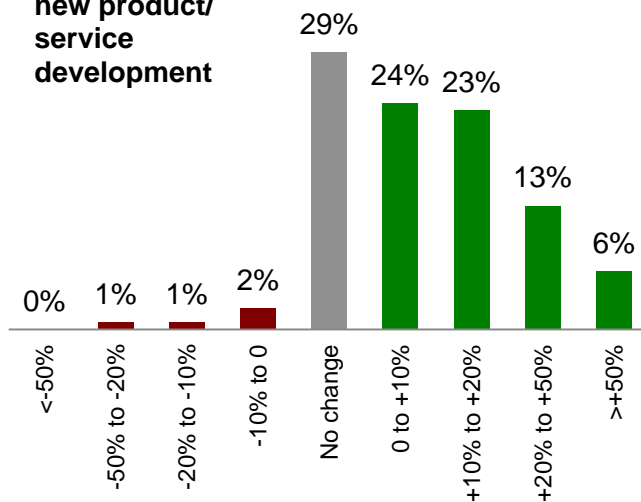
The largest proportion of organisations (42%) are expecting no change in budgeted Net Assets and a quarter are expecting growth of 0% to 10%. Those expecting larger growth are likely to include some that are planning growth or undertaking a merger.

### Change in cost of accomm - clients



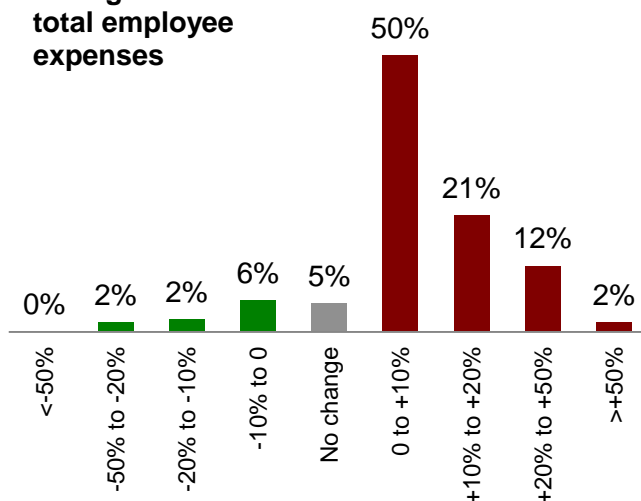
For those providing residential accommodation or client service accommodation, most are expecting an increase in costs, reflecting the increase in client numbers and changes in costs per client, such as rent increases.

### Change in new product/ service development



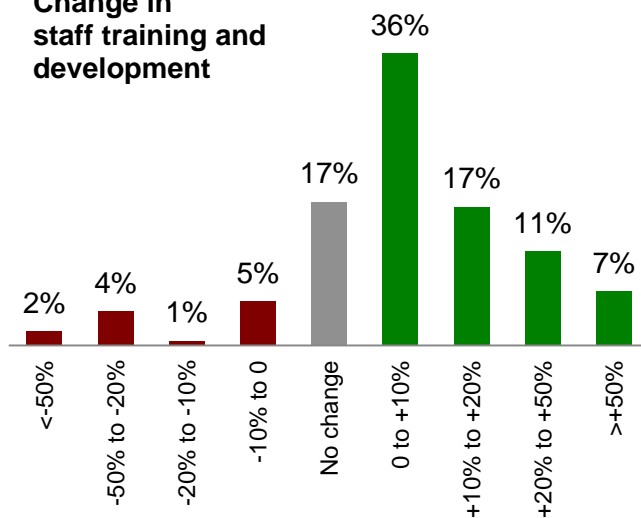
Two thirds of organisations have budgeted to increase their spending on new product or service development during 2015-16, with 23% budgeting for an increase of 23%. Six per cent have planned for this budget line to grow by more than 50%. This finding is likely to reflect both the increased flexibility of organisations to design service types (rather than being constrained to contracts) and to be more responsive to efficiency opportunities.

### Change in total employee expenses



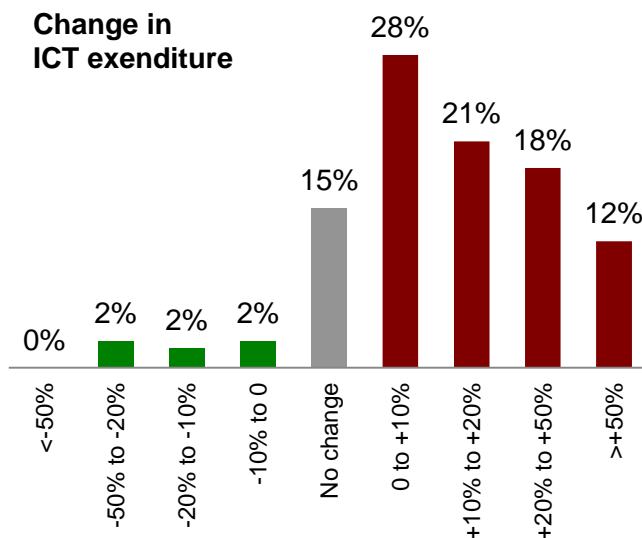
Eighty five per cent of panel members are expecting an increase in total employee expenses, with 14% budgeting for an increase of greater than 20%. Much of this increase will be driven by the increase in staff numbers required to service additional demand, but for some, this also reflects expectations of competition for employees and higher recruitment and retention costs, including increases in superannuation and insurances.

### Change in staff training and development



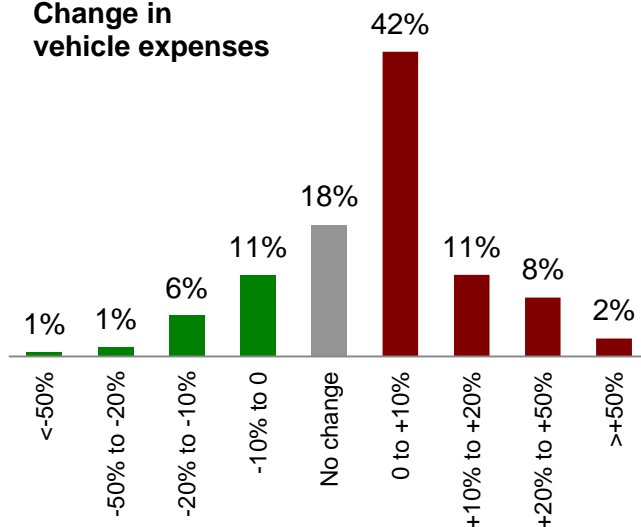
Staff training and development budgets are also up for 2015-16, with 7% expecting the increase to be more than 50%, 11% budgeting for a 20% to 50% increase, 17% an increase of between 10% and 20% and 36% expecting an increase of up to 10%. The high numbers in this expense area suggest that these cost increases are not only driven by volume changes, but also by a need to invest further in training across the board.

### Change in ICT expenditure



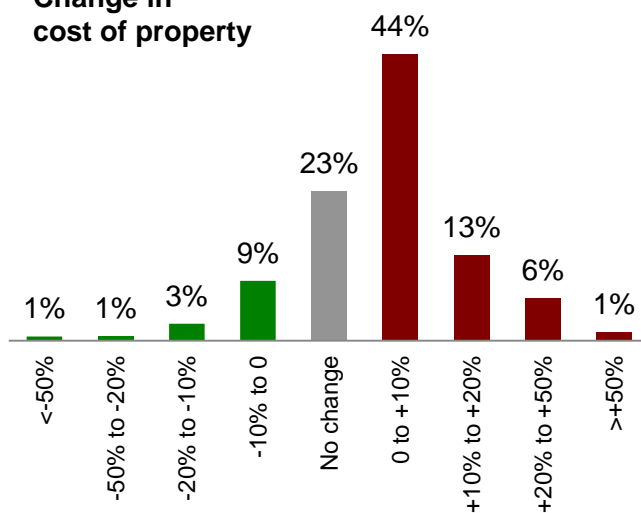
This expense area shows the highest expected increase of all those examined. Thirty per cent of organisations are increasing their Information, Communications and Technology (ICT) budget by more than 20% and a further 21% by between 10% and 20%. To provide services under the NDIS, many organisations need to invest in new client information and billing systems (along with other ICT) in order to account for service and bill clients.

### Change in vehicle expenses



In contrast to the expected increase in ICT budgets, increases in vehicle expenditure budgets are expected to be more modest. Forty two per cent expect growth in vehicle expenses of up to 10%.

### Change in cost of property



The forecasts for the increase in administration, property and accommodation expenses are similar to those for vehicles. Despite expectations of growth in both clients and staff, most are not expecting significant increases in the administration accommodation overheads.

## Comments about financial capacity from the Disability

### Services Provider Panel

Panel members were asked if they had any comments to make about their current financial strength and 47 organisations chose to comment. These comments are listed below to give context to the financial results presented and to illustrate the range of situations organisations are currently facing.

*“As a result of a significant increase in wages for Supported Employees following a change from BSWAT to another wage assessment tool, it is not anticipated that an otherwise stronger financial result will be possible”.*

*“Back to core business. Not be used to cross subsidise other functions.”*

*“Board has implemented a bottom line operational contribution policy to ensure that balance sheet strength is improved over the next 10 years. Cashflow will be a major hurdle if the NDIS system introduces payment in arrears as opposed to the grants in advance currently received.”*

*“[Name of entity removed] has given us \$25,000 since the budget was done to prepare us for NDIS and have offered \$100,000 capital to fund NDIS finance costs. We have also reduced staff in 2015-16 to reduce our losses. We had equity of \$116,000 before the above actions took place and no debts, new cars etc.”*

*“Early 2016, employed new, highly capable CFO, expecting improved financial management, budgeting and outcomes.”*

*“Financial strength into the future is hard to estimate at the moment as the organisation is developing business ventures that are new to us and start up costs are relatively high in this first year.”*

*“Financial strength is in transition as the NDIA trial sites are delayed and in SA unclear until recently. Effectively 12 months behind schedule and demand increasing.”*

*“Forecast is to incur a loss. This is due to moving from \$50 per hour with NSW ADHC funding to \$41.26 with NDIS. In the NDIS cost modelling (per hour rate) transport is not considered. For our organisation it makes up \$4 per hour of the \$41.26 rate NDIS pays in NSW. In a total dollar cost to our organisation it is [Cost estimate removed] pa.”*

*“The NDIS funding model penalises those organisations who have historically provided transport for the reasons mentioned, as it was part of their state funding agreement. Those services who do not supply transport are far better off. It demonstrates the NDIS lack of knowledge in the disability sector. The NDIS modelling on efficiency does not take into account; Long service leave, sick leave,*



*any other leave such as army reserve, study, personal, paternity, carers leave any transport cost incurred to the organisation. It is flawed in [terms of both] staff and supervisors wages [as provision for] both are not what industry historically and currently pays. The 6% margin is not attainable on modelling that does not take into account all the cost and a true cost of service provision."*

*"Fundraising and Trust/Foundation revenue is down for the first half of the financial year."*

*"Huge investment in ICT systems is required to be NDIS ready. 50% of our income will be affected by customer phase-in to NDIS next year. We still lack essential detail about how FACS and NDIA will manage the phase-in and its financial implications ... with less than 5 months before phase-in commences!"*

*"I feel that our organisation will grow over the next financial year but hard to describe it as being stronger as that growth is due to NDIS funding so if you are reliant on one thing I don't think it is a strong position to be in. I think it is weaker."*

*"In order for our organisation to maintain contractual star rating performance to avoid reallocation of business share it has meant sacrificing financial performance."*

*"In the process of building [Number of facilities removed] new aging in place units for people with disabilities. While it is not ideal timing we are currently cash strong and feel this will further improve our position in years to come."*

*"It is hard to determine as Disability is just one small part and although growing other parts of the organisation may be de-funded in the Aged Care and Carer reforms."*

*"It needs to be stronger but uncertain due to recent decision to employ a full-time speech pathologist with an expectation (hope) that they will generate 60%+ of their salary in income through NDIS clients."*

*"[Name of entity removed] is excited by the opportunities afforded to it by the NDIS through supporting more individuals and families."*

*"No significant change to our financial position. The overall financial impact of the introduction of NDIS in FY16 will continue to be minimal. We would expect to see a gradual change in FY17 with a more marked change in FY18. Much of this is dependent on the speed with which clients will actually be transitioned."*

*"Our organisation has not been accustomed to trying to work towards a surplus as it was discouraged by funding bodies in the past. This has left us with less in reserve than we may have had if the expectation had been to work to a 5% surplus (for example) over the years we have existed. As a matter of interest we were not even meant to keep anything in reserve for long service leave as the Commonwealth would pay it for staff of Community Service Organisations receiving Commonwealth funding."*

*“Our organisation is investing in the future. We have new management, new Board of Management and a new strategic plan which is based over the next 3 years. New services are commencing and the demographics of clientele is changing. The old service model reflected the best ideas of the 1990's. We are determined to be a leader in the field in 3 years and truly focus on Client Directed Services and Supports.”*

*“Over the last 6 months we have conducted substantial reviews of various systems and allocated resources to these activities.”*

*“ [Name of entity removed] is currently negotiating for the possibility of an amalgamation with a larger service.”*

*“Service provision there will be no change in financial strength. However, we are having to outlay a considerable amount to implement a new Client Management.”*

*“System as we move towards the implementation of the NDIS which commences roll out in our service areas from July 2016. This will impact on our financial strength.*

*Significant investment in new systems such as client management system, time and attendance.”*

*“Signs are currently positive for growth.”*

*“Slightly weaker in the short-term from a financial perspective due to investment that will be required into improving systems and technology and from the cash flow impact of moving away from block funding received in advance.”*

*“The Board and organisation is still uncertain of the effects of the NDIS.”*

*“The business has been through a relocation and is experiencing significant growth due to the new premises as well as the hiring of staff which will result in significantly higher income and expenses, over 100% growth from 2015 in many cases.”*

*“The change of the basis of funding from block in advance to individualised in arrears will have an impact of the organisation's working capital.”*

*“The [Name of entity removed] has access to a trust.”*

*“The future challenge is capital to fund investments to grow businesses and the fact that NDIS will add a significant complexity to what we do that will effect cash flow because of being paid in arrears.”*

*“The main issue is grant funding from the [Name of government removed]. At present Total Recreation (TR) is block funded. No advice from the [Name of government removed] re transitioning to individual funding. We have accessed the strengths of the organisation in relation to where it will fit into the scheme of things once the NDIS is fully operational. The options that look favourable to TR will be*

*within tier 2. That is where our services will be most beneficial to our clients. Whilst funding to individuals in tier 3 will be taken up by larger organisations we envisage that many of our existing clients will not be eligible for packages. The work in communities to develop realistic and sustainable options for people with a disability is our specialty, indeed this is the area we are presently working in and continue to build on."*

*"The previous CEO focused on accumulating cash asset. New Management will be investing heavily in staff development and making some capital investments which will initially decrease Net Assets. We are now also registered as NDIA provider, this system will decrease our cash flow initially. Loss of block funding through [Name of government agency] will impact financial performance."*

*"This organisation is experiencing considerable additional administration costs due to the implementation of the aged care reforms which amounts to 80% of our core business. It is hoped that by the end of this financial year 2015-16 we will be able to employ one less administrative officer."*

*"Unable to comment on predicted financial strength as at 30 June 2016 as we are in the process of employing new staff to expand and improve services provided."*

*"[Name of entity removed] posted a loss of over \$500,000 last year. We will break even this year."*

*"We are currently employing consultants to assess our computer systems and business processes to help us understand our NDIS readiness. We will be purchasing a new computer system in the 2015/16 financial year."*

*"We are currently undertaking a review of financial performance and business models, with a view to restructuring the organisation to eliminate any loss making enterprises, improve staff efficiencies, develop the business models to match the NDIA pricing levels with a view to a 5% profit."*

*"We have forecast some growth in our commercial business but this growth will keep in line with the inflated cost of doing business, wages and funding uncertainty."*

*"We have planned to purchase a for profit business that [detail removed]. This business will provide additional profit to our disability organisation."*

*"We have some concerns about the potential additional costs we could incur to earn the same amount of revenue under NDIS as we do with our previous clients. On top of this there is the potential for large unknown costs regarding client management software that we may need under NDIS that we have not budgeted for due to the uncertainty of the market requirements. The 2014/15 margin was relatively low and the 2015/16 Disability budget is for a substantial loss but this could end up being a lot worse if we find that in order to compete in the NDIS sector we require more*

*resources and expenditure than we have planned for. The size of the unknown factors and their financial impact are our biggest concern.”*

*“We have sound financial reserves but little in the way of significant capital assets.”*

*“There are also the currently unknown factors of what the NDIS will require in areas such as IT and marketing.”*

*“We start transitioning into NDIS from 1 July and are expending considerable resources on preparing for this.”*

*“We will be increasing staff numbers to cover increased demand in services but do not expect any further income.”*

*“We will be looking to diversify and move into areas that are adequately funded.”*

*“current NDIS funding around direct supports is not sustainable and if we continued to work only in this area we would collapse.”*

*“We will be transitioning to some NDIS clients so are unaware of financial impact this will have.”*

*“With our changes in our organisation - from an Incorporated association to a company limited by guarantee; plus a change of name + a dedicated marketing approach to re-launch the company + dedicated marketing campaign to position ourselves for NDIS, we believe our client numbers will increase over the next financial year - this is offset with an increase in professional development and resourcing the company to cater for the NDIS transition.”*

## 7. Appendix- Research aims

The aim of this research is to provide governments, service providers and the broader community with detailed information on the supply and sustainability of disability services in Australia in order to facilitate the development of policy that fosters a strong, competitive and efficient supply of disability services and supports the achievement of the objectives of the NDIS. The research is intended to monitor change and identify any undesirable consequences and potential strategic responses.

This research will examine the following research questions:

1. What is the likely impact of the NDIS on the structure and therefore costs and availability of supply?
2. What are the key risks (for various jurisdictions) and how can these be ameliorated?
3. How can we support the development of an efficient market?
4. What is the current aggregate financial sustainability of disability service organisations and how can we ensure sufficient supply?
5. To what extent and how are disability services organisations responding to market forces through different forms of strategic alliances and sector collaboration?

Specifically, this research will provide the following:

- A detailed understanding of the landscape of supply of disability services across Australia, including organisation size, location, age, entity type, staffing, volunteers, range of services and range of clients, and how these elements are changing in response to the NDIS.
- A summary of the financial position of service providers including their annual net income, sources of income, assets and liabilities. The data will also assess key financial ratios—including both industry-specific and recognised financial ratios. The ratios will be analysed by key demographic characteristics, such as location and income to identify any trends, such as changes in the number of smaller suppliers or increases in average income over time.
- An assessment of the overall financial strength of the sector, identification of indicative benchmarks for financial ratios and the number and type of organisations outside ideal ranges. This data will be monitored annually in order to identify change.

- An assessment of the impact of market forces on aggregate service provision and pricing, including identification of services which may be under or over supplied.
- The identification of key risks to future sector sustainability and service provision at an aggregate level.
- Service providers' corporate responses to market forces, particularly the extent of sector innovation, collaboration, strategic alliances and merger via service delivery metrics.
- Recommendations regarding the strategies required to maintain or develop an effective, efficient and responsive market for service users.

The secondary aims are to:

- Establish a credible and supportable method for aggregating the financial position of the nation's disability service providers;
- Create a new comprehensive, longitudinal data set that can be used for on-going monitoring and analysis of sector capacity and change across a range of areas, including employment and volunteering;
- Leverage existing data sets compiled by CADR and the Curtin Not-for-profit Initiative in order to further build a statistically accurate and comprehensive understanding of the supply of services, employment and related supply side factors essential to the effective delivery of disability services under the NDIS.

## 8. Document Data

This study was undertaken by the Curtin Not-for-profit Initiative, supported by the Centre for Applied Disability Research and funded by the Research and Data Working Group.

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### The Curtin Not-for-profit Initiative

Curtin's School of Accounting established the Curtin Not-for-profit Initiative in 2011 following a refocus of research objectives toward industry-ready research outputs that are readily applicable in practice. As such, the aims of the Initiative are to:

- a) Develop a body of research focused on practical and implementable outcomes that will enhance the resilience, efficiency and the sustainability of the Not-for-profit Sector Australia-wide;
- b) Build significant and effective industry engagement in order to identify and prioritise the topics of research, and to facilitate dissemination and discussion of the findings to the best effect for the sector; and
- c) Build a body of up-to-date, Australia specific knowledge that can be used to inform policy and practice within government, the Not-for-profit Sector and the broader community with a view to enhancing policy outcomes to the greater benefit of all communities in Australia.

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