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## Glossary

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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>AMS</td>
<td>Annual Market Survey</td>
</tr>
<tr>
<td>AT</td>
<td>Assistive technology</td>
</tr>
<tr>
<td>BIC</td>
<td>Building Inclusive Community</td>
</tr>
<tr>
<td>DHHS</td>
<td>Victorian Government Department of Health and Human Services</td>
</tr>
<tr>
<td>DSS</td>
<td>Commonwealth Department of Social Services</td>
</tr>
<tr>
<td>HR</td>
<td>Human resources</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and communications technology</td>
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<tr>
<td>ILC</td>
<td>Information, Linkages and Capacity building</td>
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<tr>
<td>LAC</td>
<td>Local Area Coordinator</td>
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<td>MEF</td>
<td>Market Enablement Framework</td>
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<td>NDIS</td>
<td>National Disability Insurance Scheme</td>
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<td>SDF</td>
<td>Sector Development Fund, Commonwealth Government funding</td>
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<td>SDP</td>
<td>NDIS Sector Development Project</td>
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<tr>
<td>TSP</td>
<td>Transition Support Package, Victorian Government funding</td>
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Executive summary

Introduction

In Australia, the National Disability Insurance Scheme (NDIS) is underway and intended to replace an “underfunded, unfair, fragmented, and inefficient” disability support system. The transition to the NDIS has been an exciting, yet challenging, period. However, there are growing concerns being raised by NDIS participants and providers about thin markets and market gaps.

Thin markets may present in certain regions, or for particular services and/or for specific cohorts of people with disability. Market stewardship is key to responding to early warning signals, minimising the risk of thin markets and developing a healthy marketplace. Thin markets will undermine the success of the NDIS. Protecting against thin markets is critical to support the development of an efficient, effective and equitable NDIS market.

This market dynamics study aims to clarify the factors that influence the sustainability of disability service providers under the NDIS and shape the development of a diverse marketplace. It further explores the need for, and nature of, further sector development support required by service providers in the two to three years post NDIS transition.

Methodology

Victorian and national data from the National Disability Services (NDS) 2018 Annual Market Survey and the Workforce Wizard has been analysed. This report also draws heavily on the NDIS Sector Development Project (SDP) Outcomes Evaluation, recent SDP policy surveys and reports, and the wider existing literature. Stakeholder feedback was received throughout the study.

Key findings

NDIS pricing is undermining the long-term sustainability of the Scheme, with 2018-2019 prices impacting providers’ ability to remain financially viable, maintain quality and develop a sustainable workforce. Victorian providers are worried they will not be able to provide services (63%) and will have to reduce quality (54%) at current prices. While NDS welcomes recently announced price increases, this does not solve all the issues, and does not mean the impact of insufficient pricing to date can simply be disregarded.
The financial viability of Victorian providers is under threat, with only 46% having made a surplus last financial year and even fewer (43%) expecting a profit this year. Greater risks are materialising for regional providers, who, compared with metro and state-wide organisations, are more likely to have made a loss last financial year, expect a loss this current year, expect a reduction in financial reserves, and expect greater increases in borrowings to acquire or build assets.

A stable and sufficient disability workforce is yet to be achieved with clear supply and sustainability risks emerging as a result of a largely aging workforce (nationally, 45% aged 45 years and above), a predominately casual workforce (43%) and high turnover rates of casual staff (7% per quarter). Providers are also unable to effectively recruit and retain certain occupations, which in Victoria includes key disability support roles.

People with disability are at risk of not receiving, or indeed already going without, home modifications and assistive technology (AT) services, transport supports, community participation supports, and high intensity/1:1 supports. People with complex, specialised needs or challenging behaviours are at particular risk of missing out on services.

NDIS pricing, the financial viability of organisations and the availability of a flexible workforce are collectively impacting organisations’ decisions to merge or wind-up. In the next two years, 38% of providers believe it is “very likely or likely” that their organisation will complete a merger. Regional organisations are more likely to merge in the next two years, and winding-up discussions were more common among regional and metro providers than larger state-wide organisations.

The current Information, Linkages and Capacity building (ILC) strategy may also contribute to the emergence of thin markets due to short-term contracts, Local Area Coordinator (LAC) capacity constraints and the net reduction in Victorian funding. The development of provider of last resort arrangements is necessary to ensure participants receive supports, irrespective of market gaps or emergencies.

**Conclusion and recommendations**

Australia has the opportunity to have a world-leading disability support system, if the NDIS is implemented well. Thin markets are clearly beginning to emerge, however unpacking and mitigating market gaps is complex. The not-for-profit disability sector will require a level of funded sector development support post NDIS implementation. Failure to address market risks will undermine the success of the Scheme. Success will enable people with disability to achieve their goals and participate economically and socially, irrespective of their location or needs.
In light of the findings, the following recommendations are proposed for Governments, the NDIA and NDS to consider in mitigating the risk of thin markets post NDIS implementation.

**Recommendations for Governments and the NDIA**

1. Invest in sector development during the 2-3 years post NDIS transition to enable the delivery of necessary supports identified below, particularly targeting rural and regional areas.

2. Embrace a market stewardship approach by considering local market conditions, engaging closely with all NDIS stakeholders, monitoring the market and steering the system, whilst also determining mechanisms to mitigate thin markets with perhaps:
   a. Incentives for rural/regional and niche providers to enter and remain in market;
   b. Employing a system of soft checks to identify supports that providers in thin markets require to remain viable and stay in business; and
   c. Using seed funding or grants for types of service provision identified as thin markets.

3. Implement the following actions to reduce the implications of inadequate NDIS pricing on providers’ ability to remain financially viable, maintain service quality and develop a flexible and sustainable workforce:
   a. Ensure NDIS pricing reflects the true cost of service provision;
   b. Expand the price setting criteria in the NDIS Act to ensure pricing is responsive to local market conditions;
   c. Ensure the benchmarking of prices to mature markets also considers geographical and participant contexts, not merely similar services;
   d. Transfer the price-setting role to an independent agency by July 2019 to increase transparency and ensure market development is evidence-based; and
   e. Develop a clear deregulation strategy that trials price deregulation in specific geographical sites, or service types.

4. Review and remove unnecessary NDIA red tape to better support the financial sustainability of NDIS providers.

5. Invest in the supply-side to enable people with disability to purchase services from providers with a sustainable workforce that delivers high-quality, customer-focused services. This may be achieved through:
   a. Supporting local stakeholders and communities to come together, collaborate and find solutions to local issues;
b. Developing a funded, portable training entitlement for disability support workers to acquire specialised skills and qualifications and develop their career;

c. Centrally involving NDS in the development of the NDIS Capability Framework and drawing on NDS’ well-established Workforce Capability Framework and extensive workforce development tools and resources;

d. Providing Government funding for university places and scholarships to attract new graduates into the sector;

e. Greater funding for NDS’ workforce attraction initiatives, such as projectABLE, to extend the reach of these successful programs;

f. Funding to maintain NDS' regular Workforce Wizard data collection and analysis, as it continues to fill a major workforce data gap;

g. Funding for the regular ongoing collection of detailed disability workforce information, by a statutory authority (such as ABS or Australian Institute of Health and Welfare); and

h. Publishing additional market data including information about areas of unmet needs, so providers can actively plan and develop their workforce.

6. Develop clear mechanisms to monitor services at risk of closure, and based on the services at risk from this report:

a. Publish the outcomes from the Assistive Technology and Home Modifications Redesign Project to ensure that people with disability are able to achieve their goals with AT and home modification services;

b. Ensure people with disability have access to community, social and economic opportunities by adjusting NDIS transport prices to reflect the true cost of service provision, investing in a Victorian community transport strategy and accessible infrastructure, ensuring adequate NDIS participant transport funding, confirming the eligibility of NDIS participants in the Multi-Purpose Taxi Program, and piloting the development of fleet management models and transport technology;

c. Monitor the provision of community-based day services to ensure people with disability have the opportunity to engage in community, social and recreational activities; and

d. Determine incentives for rural/regional travel provisions for providers so NDIS participants in regional and rural locations are not left without service.

7. Implement the following actions to mitigate the risk that people with complex, specialised needs or challenging behaviours experience thin markets:

a. Continued review of NDIS prices for high intensity/complex needs supports;
b. Funding training to support the development of a suitably skilled workforce, which also enables organisations to meet the obligations mandated by the NDIS Quality and Safeguards Commission; and

c. Monitoring the outcomes of the Complex Needs Support Pathway to ensure participants receive adequate plans.

8. Ensure appropriate measures are in place for people with disability to receive supports, irrespective of inexistent markets by:
   a. Publicly releasing the outcomes of the Maintaining Critical Supports Project and the policy and practice responses for provider of last resort arrangements; and
   b. Developing a flexible crisis response approach, enabling participants to receive emergency supports whilst also giving providers the confidence that support costs will be covered.

9. Strengthen the ILC to avoid the development of thin markets by:
   a. Implementing seven-year ILC contracts, enabling providers to build relationships in the community and achieve stronger outcomes for participants;
   b. Reviewing and monitoring the current ILC grant funding model, with the view of introducing much longer terms for funding of essential services without a competitive grant process;
   c. Recognising that LAC capacity constraints limit ILC success, and thus investing in further person-centred training for LACs to enhance their ability to link participants to services and build participant capacity, as well as ensuring a consistent approach across regions;
   d. Ensuring that the NDIA and Commonwealth Government recognise the crucial role that the Building Inclusive Community (BIC) program played in Victoria and the effect of losing the significant expertise, community capacity and social capital with the transition to the ILC.

Recommendations for NDS

Continue delivering sector development initiatives that consider local needs, providing intelligence, evidence and analysis to influence policy across all areas of Government, and collaborating with providers and people with disability, families and carers to promote the development of a sustainable and diverse NDIS market.

1. Support providers to improve their financial management capabilities and processes, with:
a. A particular focus on improving costing and financial processes and controls for providers to drive operational productivity, back-office efficiency, and further reduce corporate overheads; and

b. Targeting regional organisations, as there is already an emerging viability risk.

2. Promote the development of a skilled, capable, motivated and sustainable NDIS workforce through:

a. Supporting providers to implement flexible employment options to balance short- and long-term objectives, whilst improving staff utilisation and engaging, supporting and retaining staff; and

b. Developing affordable and timely training/development resources for staff and leaders to strengthen the workforce.

3. Support providers to responsibly merge or close if needed, by producing practical due diligence information that outlines best practice models and supports informed decision making.

4. Invest in further thin markets research by:

a. Expanding the Workforce Wizard data collection or conducting a spotlight issue to thoroughly investigate the occupations presenting as difficult to recruit and retain;

b. Drawing on provider data to undertake additional research/policy surveys with the intent of gaining more robust data regarding the services at risk of closure and the impact of the NDIS on participants with complex needs; and

c. Keeping abreast of the progress and outcomes of the Australian Research Council's Linkages Project, as this work will be instrumental in further identifying levers that Governments can use to steward emerging public service markets.
1 Introduction

1.1 NDIS market context

In Australia, the National Disability Insurance Scheme (NDIS) is underway and intended to replace an “underfunded, unfair, fragmented, and inefficient” disability support system (1). The NDIS is the largest social policy reform since Medicare, with the opportunity to give Australia a world-leading disability system, if implemented well.

The NDIS comprises of two parts:

1. Individual plans that provide reasonable and necessary supports for eligible people with disability. This also includes assistance with plan implementation.
2. Information, linkages and capacity building (ILC).

These components sit within the National Disability Strategy (2), and together aim to achieve better outcomes for people with disability, their families and carers.

The transition to the NDIS has been an exciting, yet challenging, period. The speed and scale of the roll out has been unprecedented, new systems and processes have been cumbersome, and some planners have lacked the required expertise, resulting in poor-quality plans and significant lags in participant phasing. Disability service providers have needed to develop new business models and organisational capabilities and make significant changes to their systems and processes to operate under the new environment. There has been a necessary focus on operational issues and cost efficiencies, which has limited capacity to innovate and grow. The impact on the Victorian community will be exacerbated as the current Building Inclusive Community (BIC) funding shifts to ILC grants, resulting in a net reduction in funding available to support Victorian communities in building accessible and inclusive environments for people with disability.

These challenges notwithstanding, the NDIS transition has been well supported in Victoria by the significant involvement of Ministers and senior government officials in the NDIS Implementation Taskforce, and targeted interventions administered by the Victorian Government Department of Health and Human Services (DHHS) including funding from the Victorian Government’s Transition Support Package (TSP) and the Commonwealth’s Sector Development Fund (SDF). Despite exceptional progress to date, there are growing concerns of thin markets and market gaps.
1.2 Thin markets and market failure

The NDIS marketplace is not one single market. Rather it is a number of interdependent and complex markets that deliver a range of services to different people with diverse needs (3). Thin markets emerge when there are insufficient buyers and sellers for the market to function as intended (3). In the case of the NDIS, thin markets may present in certain regions, or for particular services and/or for specific cohorts of people with disability (4). They may therefore arise as a result of unbalanced supply and demand, and/or unbalanced information about support (5). Thin markets and market inefficiencies may lead to the complete collapse of the market, where there are significant gaps or no providers (3). This is market failure.

Thin markets and market failure will undermine the success of the NDIS and will have significant implications for people with disability, their families, carers and communities. Drawing on the literature and early implementation documents, it is noted that:

- “Where there are thin market segments, such as rural and remote areas, providing choice will be more difficult and may require a greater level of market facilitation. It should also be acknowledged that there may be high personal and economic transaction costs to change providers, and these should be minimised” (5).
- Localised or systemic market failure may encompass a “decrease in participant choice, and decrease in the quality of service choices” (5).
- “In urban or peri-urban areas low prevalence of disability (or specific types of disability or particularly challenging situations with few or no support providers) may also present challenges in terms of thin markets” (6).
- “Thin markets are also susceptible to market failure, where no new providers enter the marketplace due to high costs of entry or lack of business prospects, and existing providers are challenged by being paid retrospectively for business, gaining the necessary breadth and depth of expertise, and business costs running higher than the funds collected via individuals” (6).

Without government intervention, this will result in shortages, reduced competition and poorer outcomes for people with disability (4). Participants most at risk include people living in outer regional and remote areas; people with complex, specialised needs or challenging behaviours; people who are culturally and linguistically diverse; Aboriginal and Torres Strait Islanders; and people with acute and immediate needs (4).

Geographic and consumer diversity need to be considered in each individual local market. Otherwise, people with disability will not have access to robust and functioning
markets and will, at best, be unable to exercise true choice and control, or at worst, have no access to essential supports. NDS looks forward to seeing the results of the DSS and NDIA commissioned work investigating thin markets (7), as key strategies and effective intervention options need to be urgently developed. Protecting against thin markets is critical to ensure efficiency, effectiveness and equity and is integral to deliver the promise of the NDIS.

1.3 Market stewardship

A key element in mitigating the risk of thin markets and developing a healthy marketplace is market stewardship. Market stewardship is defined as a series of oversight actions that support the functioning of a market (8). As Carey et al. (8) describes, this may involve monitoring markets for inequities, supplementing markets to address gaps, setting and adjusting the rules (i.e. prices), monitoring service quality, supporting innovation and diffusion of best practice, and providing consumers with information about available supports and providers. This is distinct from a regulatory role, which encompasses establishing standards for providers, registering and de-registering providers, and merely setting (and not adjusting) rules with prices (8).

According to the initial inquiry into the NDIS, it was imagined that the NDIA would only intervene if market failure could be demonstrated (1, 9). While the Productivity Commission (4) urgently recommended the NDIA consider tailored approaches to address thin markets, the role of the Agency was only recently clarified in October 2018 with release of the Market Enablement Framework (MEF) (10). The MEF offers some insights into the NDIA’s approaches in monitoring and enabling the market, however there is still no clear way to detect thin markets (3). Furthermore, the MEF does not mention provider of last resort arrangements (10), which the Productivity Commission called upon the NDIA to release in late 2017 (4).

Governments are responsible for the welfare of their citizens (3), therefore stewardship functions need to be clearly established to respond to early warning signals, minimise the risk of thin markets and facilitate the creation and development of the NDIS marketplace. Such stewardship functions must go beyond ensuring minimum market protections and consider public value and longer term outcomes (11).

1.4 Report purpose and structure

NDS is funded by the Victorian Government’s TSP “to support the readiness and transition of service providers and workforce to the NDIS”. Since May 2016, NDS has
been delivering its NDIS Sector Development Project (SDP) of which this report is a key deliverable.

This market dynamics study aims to clarify:

1. The factors that influence:
   a. the sustainability of disability service providers under the NDIS; and
   b. the development of a diverse NDIS marketplace that provides true choice for people with disability right across Victoria.

2. The need for and nature of further sector development support required by Victorian disability service providers in the 2-3 years post NDIS transition to help build provider sustainability and a diverse NDIS market.

In doing so, this study also examines the need for market stewardship in supporting a diverse NDIS market.

This report directly addresses the two SDP evaluation questions (12) relating to impact and sustainability:

- What are the challenges to provider sustainability post NDIS transition?
- What further support and information is required post NDIS transition, in order to help build provider sustainability and develop a diverse NDIS market?

Understanding the factors influencing thin markets is of central concern to NDS, as a means to supporting effective development of an equitable NDIS market. Therefore, this report focuses on how NDIS pricing, provider financial viability and disability workforce issues interconnect and impact providers’ decisions to discontinue services or undergo merger or closure. Recommendations are provided for Governments/NDIA and NDS to consider a range of market stewardship and sector development activities that can mitigate the risk of thin markets, and support the development of a diverse NDIS market.
2 Methodology

This report analyses Victorian and national data from NDS’ 2018 Annual Market Survey (AMS) and Workforce Wizard (September 2015 to December 2018).

Victorian AMS data has been segmented into geographical groups, comparing responses from organisations operating in metropolitan areas (i.e. greater Melbourne), regional areas (i.e. Murray, Gippsland and/or Western Victoria), and those operating at a state-wide level (i.e. in both or at least one greater Melbourne and one regional area).

It is important to note that a number of AMS questions received a low number of Victorian responses. This is particularly relevant when segmenting into geographical groups, therefore absolute values should be considered when interpreting these findings.

This report also draws heavily on the SDP Outcomes Evaluation findings (12), recent SDP policy surveys and reports, and the wider existing literature.

Stakeholder feedback was received throughout the study. Key stakeholders included:

- DHHS – NDIS Branch;
- NDS National Sector Development & Research and Policy teams;
- SDP Project Control Group;
- SDP Leadership team; and
- NDS Victorian Policy team.
3 Key factors influencing thin markets

This sectionunpacksthe risk of thin markets by exploring NDIS pricing, provider financial viability and the disability workforce.

3.1 NDIS pricing

The majority of the NDIS market operates under fixed prices, with only 25% of active participants self-managing their funds either fully or in part (13). NDIS-registered providers can negotiate service prices with participants who do not self-manage, up to the corresponding maximum in the NDIA Price Guide. Unregistered providers, however, are not subject to NDIS pricing caps and can negotiate freely with self-managing participants. Fixed prices are set by NDIA actuaries and should represent value for money and ensure the long-term sustainability of the Scheme. In the longer term, it is anticipated that “the pricing role of the Agency would diminish as the market developed, and this could allow disability services to even more closely resemble the economy-wide service sector” (1).

At present, and as reiterated by the Victorian Government (4), “NDIS pricing may be inhibiting market growth or risking provider failure (particularly in areas or services in which there are thin markets). In some areas, the NDIA appears to have applied flawed assumptions to its calculation of prices”. The following sections explore the impact of lean NDIS pricing.

3.1.1 The most significant challenge

Providers responding to the AMS cited “Adjusting NDIS pricing” as the top action by Government that would have the greatest positive impact on organisations’ capacity to deliver good services in the next year. In Victoria, 71 organisations cited this action, with 54% (n=38) ranking it as their number one action, compared to 46% of national respondents.

Furthermore, the most commonly reported challenge to Victorian providers’ sustainability post NDIS implementation was “some service types are not viable because of lean NDIS pricing” (n=163, 20%). This was the top challenge for regional, metro, and state-wide respondents (12).
3.1.2 The impact of inadequate pricing on the ability to deliver services

Sixty-three percent (n=60) of Victorian AMS respondents were worried they would not be able to provide NDIS services at the current 2018-2019 prices, and less than 20% (n=18) were not concerned. Victorian providers expressed greater concern compared to respondents from all states and territories, where 58% (n=263) were worried (appendix 1A).

The majority of Victorian organisations operating in regional areas – i.e. both regional and state-wide respondents – agreed or agreed strongly that they were “worried [they] won’t be able to provide NDIS services at current prices” (2018-19 prices). Interestingly providers operating solely in regional areas were more likely to disagree or disagree strongly with this statement, indicating they are somewhat less worried than their metro and state-wide counterparts (table 1, and appendix 1B).

Table 1: To what extent do you agree that you are worried you won’t be able to provide NDIS services at current prices? Geographical group analysis.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Metro</th>
<th>Regional</th>
<th>State-wide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree or agree strongly</td>
<td>51%</td>
<td>66%</td>
<td>76%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>32%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Disagree or disagree strongly</td>
<td>16%</td>
<td>25%</td>
<td>16%</td>
</tr>
</tbody>
</table>

3.1.3 The impact of inadequate pricing on service quality

A greater proportion of Victorian organisations reported they will have to reduce the quality of services under NDIA prices, compared with national organisations (agree or agree strongly: n=59, 61% and n=245, 54% respectively) (appendix 1C). Regional and metropolitan organisations were slightly more likely than state-wide organisations to agree that quality will have to be reduced (regional: n=20, 63%; metro: n=23, 62%; state-wide: n=14, 56%).

This data shows that NDIS pricing is more concerning to Victorian providers than national providers – both in relation to the ability to continue delivering services, and to maintain quality.

The impact of insufficient pricing on service quality was further illustrated by the interviews undertaken by Green et.al (14). While this paper focussed on the impact of
the NDIS on collaboration, it also clearly found that low NDIS prices threaten service quality. Providers were concerned about clients being left with organisations that delivered lesser quality services because of low prices for direct supports such as crisis management and daily living. In the words of one respondent:

“We’re actually making a large loss on NDIS services, and we’re actually reviewing all that at the moment and I’m in discussion with high up officials in the NDIS. We have been saying from the word go that it’s unsustainable… particularly in direct support delivery which is what we do… it’s a loss-making venture” (14).

### 3.2 Provider financial viability

Another financial factor influencing thin markets is providers’ ability to generate the profits required to continue surviving under the NDIS. It is also a question of whether providers have sufficient and available assets to fund the necessary scale-up.

#### 3.2.1 2018 Profit and Loss (P&L) results

In the financial year ending 30 June 2018, the majority of disability service providers made a surplus (46% of Victorian and 48% of national respondents). In Victoria, 37% (n=10) of regional organisations made a loss compared with 25% of metro (n=8) and 24% of state-wide (n=5) respondents. State-wide organisations predominately made a profit (n=12, 57%), compared to just under half of metro (n=13, 41%) and regional (n=11, 41%) respondents. Almost as many regional organisations made a loss as made a profit.

AMS respondents were asked to report their profit or loss margin (Victorian analysis is presented in appendix 2B). While it appears most Victorian organisations made a profit last financial year, profits were larger among metro organisations, with 38% (n=8) stating they made a profit of greater than 5%. Profits of this extent were only reported by 20% (n=4) of regional respondents and 13% (n=2) of state-wide organisations. However, a considerable proportion of metro respondents (n=5, 24%) also reported a loss of 1-5%, and approximately 15% (n=3) made a loss greater than 5%.

#### 3.2.2 Anticipated 2019 P&L results

AMS respondents also indicated their expected P&L results for the financial year ending 30 June 2019 (appendix 2C). Forty-three percent of Victorian organisations expect to make a profit on their disability services, 3% less than those who made a profit last year. A greater proportion of regional organisations expect a loss (n=7, 32%) compared
to state-wide (n=3, 17%) and metro organisations (n=4, 14%). Just 32% (n=7) of regional organisations expect to make a surplus, compared to half (n=14) of the metro respondents and 44% (n=8) of state-wide organisations.

Projected margins were also analysed (appendix 2D). Notwithstanding the low response numbers, it is noteworthy that metro organisations are expecting larger profits than regional and state-wide respondents. Regional providers expect to make profits, losses and break-even in equal proportions, and they are also around twice as likely to expect a loss than their metro and state-wide counterparts.

### 3.2.3 Financial resources

AMS respondents were asked whether they expect their financial resources in the following categories to change in the 2018/19 financial year:

- Financial reserves;
- Working capital (cash or liquid assets essential to day-to-day operations);
- Borrowings to fund working capital; and
- Borrowings to acquire or build assets.

#### 3.2.3.1 Financial reserves

The majority of Victorian organisations expect financial reserves to increase 1-5% (n=12). However, as shown in appendix 2E, the spread of responses is vast. It appears that regional organisations are less likely to expect increased reserves than metro organisations, and where they do expect to increase, it is by a lot less. Furthermore, regional organisations are more likely to expect their reserves to reduce, and by more. Fifty-six percent (n=9) of regional respondents expect a negative change, compared to 47% (n=7) of state-wide and 38% (n=8) of metro organisations. A positive change was more commonly expected by metro organisations (n=13, 62%) than state-wide (n=7, 47%) and regional (n=7, 44%) respondents.

#### 3.2.3.2 Working capital

In this current financial year, the majority of Victorian organisations expect either a slight increase in their working capital (27%, indicating a change of 1-5%) or a slight decrease (27%, indicating a change of -1 to -10%) (appendix 2F).

Metro and state-wide organisations appear more likely than regional organisations to increase their working capital (state-wide: n=9, 64%; metro: n=12, 63%; regional: n=6, 40%). Furthermore, a higher proportion of regional organisations expect a negative change in working capital (n=8, 53%), compared to state-wide (n=5, 36%) and metro
(n=6, 32%) organisations. However, two metro respondents (11%) indicated a negative change greater than -21%.

Organisations across Victoria largely expect a slight increase or no change in borrowings to fund working capital.

3.2.3.3 Borrowings to acquire or build assets

In Victoria, the majority of respondents expect either an increase in their borrowings to acquire or build assets (n=16, 59%) or no change (n=10, 37%). There were 22% (n=6) expecting a change of 1-5%, and 26% (n=7) expecting an increase of 21% or above (appendix 2G).

Interestingly, the majority of the 1-5% increase can be attributed to metro organisations (n=3, 38%), whereas an increase of 21% or more is largely reported by regional (n=4, 36%) and state-wide organisations (n=2, 29%).

3.2.4 Future costs and economies of scale

Providers were asked whether they expect the following costs to change in this current financial year ending 30 June 2019, as compared with changes in service volumes:

- Direct labour expenses;
- Capital expenditure; and
- Admin expenses.

3.2.4.1 Direct labour expenses

Victorian responses were mixed, with 41% (n=34) expecting labour costs to keep pace with changes to service volumes, and 37% (n=31) expecting costs to grow faster than growth in service volumes (appendix 2H).

Regional organisations are most likely to expect labour costs to grow faster than service volumes (regional: n=14, 54%; state-wide: n=7, 30%; metro: n=9, 27%). Only 27% (n=7) of regional organisations expect labour costs to keep pace, compared with 52% (n=12) of state-wide and 45% (n=15) of metro organisations (appendix 2I).

3.2.4.2 Capital expenditure

The majority of Victorian organisations expect capital expenditure will keep pace with changes to service volumes, and this is broadly consistent across regional, metro and state-wide groups (appendix 2J).
3.2.4.3 Administration expenses

In Victoria, there appears to be widespread consensus that administration expenses will grow faster than growth in service volumes (n=43, 52%). Twenty-seven percent (n=22) expect that costs will keep pace (appendix 2K).

The majority of regional and metro organisations expect that costs are growing at a faster rate (n=17, 65% and n=18, 55% respectively). However, only 35% (n=8) of state-wide organisations expect this growth, with 39% (n=9) projecting growth in service volumes will outpace administration cost increases (appendix 2L). This suggests that larger state-wide organisations may benefit from some economies of scale.

3.2.5 Providers’ comments on their financial position

Following the financial questions in the AMS, providers were invited to comment on their organisation’s financial position. Thematic analysis of the Victorian comments articulates the impact of inadequate NDIS pricing (n=3) and the challenges in financial management (n=3).

“Our Board are concerned about the revenue stream in disability services (not including therapy services) as it is budgeted as a loss due basically to NDIS pricing.”

“We returned to a small surplus in 2017-18 after experiencing an unexpected deficit of 10%. We have had to change to offering short-term contracts over casual positions and had to totally change our financial management processes to give us more accurate information on a monthly basis.”

It was also evident that investment in systems and infrastructure is required (n=2), particularly to support a mobile workforce. Two comments also indicated that the NDIS limits organisations’ ability to innovate and experiment.

“Although our organisation has strong financial reserves, the reality of full NDIS roll out, as it inches closer, and the negative financial impacts it has already brought for direct support work, decreases the Board's appetite for investing in service experimentation and adaptation. This decreases our strategic capacity and leaves us to be overly reactive.”

3.2.6 Financial viability – an ongoing challenge

Financial viability risks and an inability to innovate were also clearly apparent in the SDP Outcomes Evaluation (12). Providers were asked to select the top three
challenges that may hinder their organisation’s ability to be sustainable following NDIS implementation:

- After lean NDIS pricing, the second most commonly reported challenge was “financial viability risks related to the cost of corporate/back-office functions”; and
- The fourth most common challenge was “focus on cost efficiency reduces capacity to innovate or grow” (12).

Of these financial challenges, it was further evident that:

- “Financial viability risks related to the cost of corporate/back-office functions” presented in the top three sustainability challenges for metro and state-wide organisations, but not for regional providers; and
- “Focus on cost efficiency reduces capacity to innovate or grow” was more commonly selected by metro and regional respondents than by state-wide organisations (12).

The significance of these financial challenges must further be considered alongside the “outcomes gained” and “support needs” questions from the SDP Outcomes Evaluation.

### 3.2.7 Support to manage finances

Providers are clearly expressing a need for support to manage their finances. This is further illustrated by the following SDP Outcomes Evaluation findings:

- Of all outcomes gained from participation in SDP supports or activities, “Increased capability to understand and manage our financial position” represented only 7%;
- The second most common support that providers need to help address challenges and build sustainability was “practical support to manage cost efficiencies and build financial sustainability”; and
- There was a much stronger demand for “practical support to manage cost efficiencies and build financial sustainability” among metro and regional organisations, than among state-wide respondents, suggesting this need is more prevalent in smaller organisations (12).

Victorian AMS data also shows that “costing and pricing” and “financial processes and controls” are among providers’ top five business capability areas most in need of improvement (see list below).

1. Costing and pricing.
2. Information, communications and technology.
3. Market research, strategies and planning.
5. Human resources (HR) strategy and workforce planning.

As shown in appendix 2M, it is evident that organisations with a regional presence recognise the need to improve in costing and pricing, with 90% of state-wide (n=9) and 79% (n=15) of regional organisations ranking this capability as their first or second priority. Comparatively, only 40% (n=8) of metro respondents ranked costing and pricing as first or second.

The need to improve capability in financial processes and controls was ranked highly by regional organisations (n=9, 64%) (appendix 2N), and ranked to a lesser degree among state-wide and metro respondents (n=5, 42% and n=3, 30% respectively ranking it first or second).

Market research, strategies and planning was also more commonly ranked first or second among regional respondents (n=7, 58%), compared to metro (n=6, 43%) and state-wide (n=4, 36%) organisations.

### 3.3 Disability workforce challenges

The NDIS brings significant challenges to the sector in terms of growing and developing the workforce. Since June 2015, the workforce has needed to more-than-double and organisations have had to diversify and develop their workforce to meet the needs of NDIS participants (5). A skilled, diverse and sustainable workforce is integral in enabling a person-centred approach to delivering supports and preventing thin markets from emerging.

#### 3.3.1 State of the disability support workforce

NDS tracks national and Victorian disability workforce trends through quarterly Workforce Wizard data collection. Analysis of this data from 2015-2018 shows that, in Victoria and nationally, the disability sector is predominately comprised of women (69%). As of March 2017, 45% of the Australian workforce was aged 45 years or over (15).

Victorian workforce composition trends have been relatively stable (appendix 3A). On average, casual staff comprise 43% of the Victorian disability support workforce, and permanent staff make up 50% of the workforce. However, permanent staff are mostly employed part-time (on average 83% of the Victorian permanent workforce). Victoria appears to have a strong history of a largely casual workforce, with an additional rise in casual staff since March 2018. In Victoria, permanent staffing has been on the decline since June 2016, however, it increased in December 2018. Similarly, there has been a
significant decline in permanent staff and a gradual increase in casual staff nationally (appendix 3A). On average, casual staff comprise 43% of the Australian disability support workforce, and permanent staff make up 52% of the Australian workforce. Nationally, full-time staff comprise a greater proportion of the permanent workforce (23%) than in Victoria (17%).

Appendix 3B shows the Victorian and national quarterly turnover rates for disability support workers by employment type. As expected, casual staff turnover fluctuates and is higher than permanent staff turnover. The average casual turnover rate is 7% per quarter (both nationally and in Victoria), compared to 4% per quarter for permanent staff in Victoria and 5% nationally. Victorian permanent staffing turnover rates appeared relatively stable until September 2017. However, they have since risen.

Reasons why staff resigned varied between new and long-term staff. Staff employed for six months or less left because of working hours (particularly insufficient work and shift-work), lack of permanent job opportunities, low pay and limited career progression opportunities. On the other hand, long-term workers resigned because they were relocating, retiring or had family or health issues (16).

### 3.3.2 Workforce sustainability challenges

Workforce-related challenges were also a strong theme in the SDP Outcomes Evaluation (12). The third and fifth most commonly reported challenges were “difficulty recruiting staff” (more significantly selected among metro respondents) and “unable to afford investment in staff training, certification or development”. Interestingly, “difficulty retaining staff” was less commonly selected.

### 3.3.3 Recruiting and retaining competent staff

AMS data shows that in 2017-18 recruiting and retaining competent staff was difficult across a range of occupational categories. Psychologists, occupational therapists and speech therapists appeared difficult to recruit both in Victoria and nationally. Non-therapist occupations such as disability support workers and support coordinators, however, appeared more challenging to recruit in Victoria than all other states and territories. Nationally, Local Area Coordinator (LAC)/planner is the only non-therapist group appearing in the top five most difficult to recruit. Appendix 3C shows the top five occupational categories that were “extremely or moderately difficult” to recruit in Victoria and nationally.

Recruiting disability support workers was challenging across all Victorian regions, whereas support coordinators were more difficult to recruit in regional (n=10, 67%) and
state-wide (n=9, 53%) organisations, compared with metro organisations (n=4, 29%). Recruiting therapist occupations appeared to be more of a metropolitan challenge (appendix 3C).

In terms of retaining competent staff, non-therapist occupations such as disability support workers, support coordinators and managers/supervisors of disability support workers appeared to be harder to retain in Victoria than nationally (appendix 3D). Similar to the recruitment findings, retaining psychologists and speech therapists was difficult for both Victorian and national respondents.

In Victoria, non-therapist groups appeared more difficult to retain in regional and state-wide organisations, whereas therapists were more commonly selected by metro organisations as “extremely or moderately difficult” to retain. These findings are further detailed in appendix 3E.

### 3.3.4 The need for practical workforce support

Workforce-orientated supports are identified in the SDP Outcomes Evaluation as key to addressing challenges and building provider sustainability beyond NDIS implementation (12). “Practical support to recruit and retain staff” and “practical support to develop innovative workforce models” were among the top seven most beneficial supports required by providers, with the most popular support being “affordable and timely training/development resources for staff and leaders” (17%) (12).

Interestingly, “practical support to recruit and retain staff” was demanded more by metro respondents (11%), compared with regional (8%) and state-wide (7%) respondents. Regional organisations expressed a greater need for “practical support to develop innovative workforce models” (15%), compared with metro and state-wide respondents (12%) (12).

In the AMS, “HR strategy and workforce planning” was the fifth most commonly cited business capability in which Victorian organisations most need to improve in the next 12 months. All (n=10) state-wide organisations ranked this capability as first or second priority (appendix 3F).
4 Propensity to discontinue

NDIS pricing, provider financial viability and disability workforce challenges all contribute to providers’ decisions to discontinue. This may occur at the service level, through changes in service volumes, or at the organisational level by merging or winding-up.

4.1 Service level

4.1.1 Changes in the volume of services

AMS respondents were asked which services:

- They provided less hours of in 2017-2018, compared to the previous year; and
- They plan to reduce or stop providing in 2018-2019.

4.1.1.1 Services that providers delivered less of in 2017-2018 compared to the previous year

Victorian providers delivered less hours of community nursing care, home modification and assistive technology (AT) services. In both Victoria and nationally, AT services and specialised supported employment services were delivered to a lesser extent in 2017-2018 compared to the year before. Appendix 4A compares the top five most commonly cited services in Victoria and nationally.

4.1.1.2 Services that providers plan to reduce or stop in 2018-19

This year Victorian providers planned to reduce or stop home modification services and AT, as well as vehicle modifications. Nationally, plan management and assistance with travel and transport were most commonly cited. Assistance with travel and transport is likely to reduce or stop amongst both Victorian and national providers. Appendix 4B compares the top five most commonly-cited services in Victoria and nationally.

The intentions to reduce travel and transport supports is further consistent with NDS Victoria’s recent survey exploring transport under the NDIS (17), which found that 83% of providers were making a loss on transport services. In the next 12 months, 21% expected to decrease the size of their fleet and a fifth were unsure of their organisation’s fleet intentions.

4.1.2 Requests for services that providers have been unable to provide

Over the last 12 months, the vast majority of providers have received requests for disability services that they have not been able to provide (Victoria n=65, 74% and
national n=287, 68%). Victorian providers’ comments were thematically analysed to understand the type of requests that disability service providers were unable to meet. The most prominent themes identified are shown in box 1, along with illustrative quotes.

**Box 1: Type of requests that disability service providers were unable to meet and illustrative quotes.**

<table>
<thead>
<tr>
<th>Prominent themes</th>
<th>Illustrative quotes</th>
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| High intensity services and clients with high needs (n=17) | “1:1 support in the community”  
“Persons requiring high intensity support”  
“The number of clients with high needs requiring support cannot be met according to the new centre-based pricing.”                                                                                   |
| Requests far away, particularly in regional and rural locations (n=11) | “Requests for services in outlying townships, (cost of travel is not covered by the 20 minute allowance).”  
“Not so much the type, more the location of where the client was living. Remote regional locations and inability to be able to recruit staff in the area and not being able to get existing staff to travel.” |
| Clients with behaviours of concern (n=6)             | “Complexed behaviours of participants; lack of behaviour management support for people; complexed care; persons requiring high intensity support.”                                                                        |
| In-home supports (n=6)                               | “Home modifications, home-based therapy”  
“In-home support in rural areas.”                                                                                                                                                                             |
| Workforce shortages – the inability to meet demand (n=6) | “Volume of hours required. We have not been able to recruit enough staff to meet demand.”                                                                                                                          |

Providers also indicated they were unable to meet the following requests: respite (n=5), support coordination (n=4), allied health (n=4), short services (n=4), clients with mental health concerns (n=4), group-based services (n=3), ineligible clients (n=2), clients awaiting plan reviews (n=2).
4.1.4 Day services and participants with complex support needs

A recent NDS Victorian survey explored the impact of NDIS transition on providers’ ability to continue delivering flexible, person-centred day services (18). This report highlighted that community-based supports are being severely challenged:

- Forty percent of respondents delivering community and centre-based activities reported more activities now being held in the centre that were once held in the community; and
- Providers indicated that, as a result of NDIS pricing arrangements from 1 July 2018, they now have fewer resources available to organise community participation opportunities (31%) and are considering ceasing delivery of non-centre-based activities (14%).

Providers further reported that:

- NDIS pricing arrangements discourage the operation of community-based services and rather incentivise centre-based programs.
  - “The new centre-based rate makes it more appealing to segregate people in facilities rather than community inclusion.”
- Removal of the centre-based loading will further impact the financial viability of organisations.
  - “Lower funding makes community-based activities less attractive and financially sustainable. When the Agency removes the centre-based loading, this will negatively impact our organisation from a financial position.”
- “Transport funding is totally inadequate.”
- There is a significant administrative burden, which adds pressure to financial viability and organisations’ ability to deliver flexible services to people with disability.
  - “We manage this as best we can (and reasonably well), however it is a significant administrative burden and adds additional cost to an underfunded service.”
  - “Participants can change activities each term but once the participants ratios for groups are entered into the claiming system it is too difficult to change or add new participants until the next term. This limits participants being able to change activities or new participants commencing.”
Continued delivery of community-based activities is only possible by employing casual staff, using larger sized groups and supporting clients with less complex needs.

- We hire mainly casual staff for these types of support and run a tight roster. We are still able to run bigger groups with the right support.”

It was also clear that NDIS participants with high support needs are at serious risk of no longer receiving day service supports:

- While the majority of respondents do not plan to exit participants with high support needs in 2019 (78%), an estimated 233 participants will be asked to leave. This will have an enormous impact on participants, their families and communities.
- Thirty-nine percent of providers have not accepted any new clients this year with complex needs, and 24% do not have the ability to do so. Inadequate 1:1 pricing was cited as the primary reason for this.
- An estimated 167 participants with complex support needs, who were previously supported on an individual basis, are now being supported in groups.

This data suggests that community-based day services are at particular risk of thin markets, which will hamper the ability of people with disability to engage in community, social and recreational activities. People with complex needs are clearly being turned away, or supported in larger groups, which may not best align with their needs or wishes and certainly does not align with the NDIS’ intended purpose of a more individualised approach to support.

4.1.4 What will happen to people with disability?

AMS respondents were asked “Regarding the services your organisation has not been able to provide, what do you think will happen in most cases?” The majority of providers expect the needs of these clients will not be fully met. 37% of Victorian providers (n=24) were concerned that some clients’ needs will not be met by other organisations, compared with 30% nationally (n=87). Furthermore, a large proportion of providers expect that clients’ needs won’t be met and they will go without service (Victoria n=19, 29% and nationally n=98, 34%) . These figures are concerning, with merely 12% of Victorian providers (n=8) and 21% of national providers (n=59) expecting that clients’ needs will be fully met by other organisations, and an expectation that informal support provided by families and other unpaid carers may also need to increase (appendix 4C).

Segmenting the Victorian results by geographical groups (appendix 4D) shows that:
The vast majority of regional and state-wide organisations expect some client needs will not be met by other organisations (n=6, 30% and n=8, 44% respectively);

Metro organisations mostly expect that their clients’ needs won’t be met and they will go without service (n=11, 41%) or they expect some client needs will not be met by other organisations (n=10, 37%);

Regional organisations were most optimistic that client needs will be fully met by other organisations (n=4, 20%).

4.2 Organisation level

4.2.1 Merger activity

Current merger activity across Victoria has been investigated by analysing data from the AMS. The majority of respondents:

- Had not discussed merger (n=57, 66%);
- Were not planning on undertaking a merger (n=70, 85%);
- Were not currently undertaking a merger (n=76, 92%); and
- Had not completed a merger in the last 12 months (n=77, 95%).

These findings were very similar nationally.

Across all questions, larger state-wide organisations were more likely than smaller metro and regional organisations to have discussed or engaged in merger activity (appendix 4E). Forty-five percent (n=10) of state-wide respondents had discussed merger, compared to 35% (n=12) of metro and 23% of regional (n=7) respondents. Similarly, 18% (n=4) of state-wide organisations were planning to undertake a merger, compared to 7% (n=2) of metro and regional respondents. At the time of the survey 17% (n=4) of state-wide respondents were in the process of merging (compared to one regional and one metro organisation), and 10% (n=2) of state-wide respondents had completed a merger in the last 12 months (compared to again one metro and one regional respondent).

Of Victorian AMS respondents who had discussed and/or were planning to undertake merger, 38% (n=11) indicated it was “very likely or likely” and 41% (n=12) indicated “very unlikely or unlikely” that their organisation will complete a merger in the next two years. Across geographical groups (appendix 4F), it appears that:
Half of these state-wide organisations (n=5) indicated a merge in the next two years was “very unlikely or unlikely” and 40% (n=4) indicated “very likely or likely”;

Metro respondents largely anticipate a merge is “very unlikely or unlikely” (n=5, 42%); and

Regional organisations think it is “very likely or likely” (n=3, 43%).

The main reasons Victorian organisations chose or may choose to merge, were to:

- Improve efficiency (n=18);
- Increase the number of people serviced (n=13);
- Broaden the range of existing services (n=13); or
- Develop/maintain market share (n=12).

Merger activity is largely seen as an opportunity for growth among disability service providers.

4.2.2 Winding-up (closing) the organisation

The majority of Victorian organisations have not discussed winding-up (closing) their organisation (n=69, 84%). However, while merger activities and discussions were more prevalent among state-wide organisations, winding-up discussions were more common among regional and metro respondents (n=5, 18% and n=4, 13% respectively). Only 5% (n=1) of state-wide organisations reported having had closure discussions (appendix 4G).

Thematic analysis of Victorian comments shows that financial factors (n=10) were the main reasons organisations had discussed closing their operations. Respondents particularly noted the administrative burden and low pay rates under the NDIS.

“Still owed $30,000+ from NDIS. This is a lot for a small business to cover when we have to pay staff and overheads.”

“Massive admin burden making financial viability extremely difficult.”

Comments regarding the lack of clarity or confidence in NDIA information and requirements were also frequently mentioned (n=4).

“Burnout dealing with NDIS frustrations and uncertainties.”

Respondents also noted that closure discussions were undertaken as a way of exploring their options (n=3), with one respondent citing “good business practice to discuss the worst possible case situation”. An inability to achieve positive outcomes for clients was also reported (n=2).
5 Discussion and mitigation strategies

If people with disability do not have access to robust and functioning markets they risk going without services altogether, or only having access to inadequate service options, and therefore are unable to exercise true choice and control in purchasing the supports that best suit their individual needs and preferences. The data examined in section 4 clearly points to thin markets emerging in Victoria’s rural and regional communities, as a result of the interplay of lean NDIS pricing, financial viability pressures, workforce shortages and challenges, and service access and transport issues. It also illustrates emerging risks of some specific market supply gaps, notably home modifications and AT services, some therapies, community participation, and 1:1 supports for people with high or complex needs. Participant transport appears to be both an emerging service gap itself and a key driver of contraction amongst various other services that are dependent upon transport or significant provider travel.

Acting quickly to mitigate these market risks is integral to the success of the NDIS. There has been enormous investment in supporting Scheme roll out and sector development in Victoria, particularly through the TSP and SDF, which will go to waste if strategies are not developed to protect thin markets from emerging.

In light of the lessons from the UK, Gash et al. (11) advances that overseeing market mechanisms in public services requires an ongoing process of learning, change and adaptation. Governments need to embrace a market stewardship approach and:

- Engage closely with users and providers to understand the needs, objectives and enablers of successful delivery;
- Set rules, and let users and providers respond to incentives;
- Monitor the market as it develops and determine how providers are responding to the rules and incentives; and
- Steer the system by adjusting the rules (11).

NDS looks forward to seeing the results of the DSS and NDIA commissioned work investigating thin markets (7), as key strategies and effective intervention options need to be urgently developed. As the peak-body for non-government disability service organisations, NDS also requires support to continue delivering sector development initiatives, providing intelligence, evidence and analysis to influence policy across all areas of Government, and collaborating with providers and people with disability, families and carers to promote the development of a sustainable and diverse NDIS market. This section discusses the effects of the various influences driving thin markets and identifies potential strategies for mitigation.
5.1 Impact of pricing – a key Government lever

Pricing is undermining the long-term sustainability of the Scheme, with current 2018-2019 prices directly impacting on providers’ ability to remain financially viable, maintain quality and develop a sustainable workforce. The data presented in this report shows that NDIS pricing is more of a concern among Victorian providers than nationally – while the reasons are no doubt multi-faceted, Victoria’s additional layers of quality and compliance requirements are likely to be amplifying the effects of lean pricing. NDS welcomes the recently announced price increases, however this does not solve all the issues, and also does not mean the impact of insufficient prices to date can simply be disregarded.

Sixty-three percent of Victorian providers are worried that they won’t be able to provide services at the 2018-2019 prices. Current prices do not reflect the true cost of service provision. In order to remain viable, providers will either ‘cherry-pick’ the services they want to deliver or reduce quality. Providers may choose to deliver services that are more profitable, turn away clients with complex needs or challenging behaviours, and avoid reaching rural and regional locations to fill market gaps and generate profit.

On the other hand, 54% of Victorian providers indicate they will have to reduce quality at current prices. Quality may be eroded by reducing training and supervision, increased workforce casualisation, employing staff at lower classification rates, compromising participant and worker safety and/or reducing risk management processes. Increasing group sizes and/or decreasing the provision of 1:1, high intensity support is also likely. The margins for which – in NDIS pricing – are already extremely thin.

There is a risk that these effects are exacerbated by the significant costs of complying with the Quality and Safeguarding Framework. NDIS pricing is driving providers to merely mitigate risks and comply, rather than exceeding minimum standards by innovating, striving for outcomes and customer satisfaction, and offering value for money.

Most providers who are unable to meet participants’ requests anticipate that clients’ needs will only partially be met by other organisations (37%), or they will go without services altogether (19%). Only 12% of Victorian providers expect clients’ needs to be fully met by other organisations. Pricing is the most significant factor impacting providers’ ability to deliver services and meet clients’ requests and is the number one challenge to their sustainability under the NDIS. Victorian and national providers believe that adjusting NDIS pricing will have the greatest impact their organisation’s
capacity to deliver good services. Providers recognise pricing as a significant challenge and are calling for Government action.

**Adjusting pricing is therefore a powerful lever for Government** to use in stewarding the market and proactively preventing market failure. In the short-term, prices must accurately reflect the cost of providing services. Prices need to be flexible and respond to the intricacies of local market settings to mitigate risks of market failure. Currently, NDIS actuaries are not legally required to take into account local market conditions and therefore it is unclear whether these factors are considered when setting prices (9, 19). The Commonwealth Government has advised that “while the sector transitions, the Government will explore ways to improve price settings, like benchmarking prices to mature markets where similar services are delivered” (7). If benchmarking is employed, this also needs to consider geographical and participant contexts, not merely similar services. As recommended by Carey et al. (9), price setting criteria in the NDIS Act (19) should be expanded to ensure local market conditions are taken into account and pricing can be responsive.

**Existing governance structures lack transparency and may further impede Governments’ ability to effectively use prices as a tool to steward the market.** The Commonwealth Department of Social Services (DSS) is responsible for overall Scheme functioning and the NDIA plays a critical role in recognising market gaps and providing information. NDIS actuaries who set prices report to the NDIA, and are not accountable to Commonwealth or State Governments (19). As Malbon et al. (20) suggest, these layered responsibilities may lead to significant accountability risks – which are even more concerning given the capacity limitations of the NDIA. Malbon et al. (20) argue that for pricing to be used effectively as a market stewardship lever, each party must have clearly defined responsibilities and sufficient capacity to fulfil their respective accountability role. Consistent with the Productivity Commission’s recommendations (4), NDS strongly believes price-setting should be transferred to an independent agency by July 2019. This would provide greater confidence that price-setting is transparent and evidence-based, and ensure the primary focus is on market development, rather than perhaps being used to offset budget pressures (4).

It is also important to keep sight of **the long-term shift to a deregulated market**, where, like unregistered providers, registered providers will be free to negotiate service fees. The NDIA anticipates this will occur as the market matures in size and quality (21), although there is “not yet a clear path towards reaching it” (22). The impact of price deregulation is yet to be known, as there are currently no public sector markets based on personalisation that have fully deregulated prices (3). According to classical market theory, a deregulated NDIS market would achieve efficiency, where natural forces move
the market to equilibrium i.e. where demand equals supply. In reality, however, not all participants have access to robust and functioning markets where such equilibrium can develop – thin markets are a significant risk for rural and remote communities, for certain services and for people with low prevalence disabilities (23). While there may be fears of government intervention introducing rigidity into the market (8), a strategic and active approach to addressing market gaps is required to ensure meaningful choice and control for people with disability. NDS recommends a staged approach to deregulation, which trials price deregulation in specific geographical sites or service types. Greater transparency of market information is also key to the establishment of an effective marketplace, enabling evidence-based planning to meet market needs. Dickinson et al. (23) recommends the following levers to address market risks to ensure a diverse range of providers and prevent neglect of people with disability in thin markets:

- Incentives for regional/rural and niche providers to enter and remain in market;
- A system of soft checks to identify supports that providers in thin markets may require to remain viable and in business; and
- Use of seed funding or grants for types of service provision identified as thin markets.

5.2 Provider financial viability

The fragile financial position of disability service providers is a real threat to the success of the NDIS. This analysis shows that across Victoria:

- Only 46% of providers made a surplus in the financial year ending 30 June 2018;
- In this current financial year, even fewer providers expect to make a profit (43%);
- 37% expect labour costs to grow faster than the growth in service volumes; and
- Over half (52%) expect administration expenses will grow faster than growth in service volumes.

While just under half of providers either made or expect to make a surplus, this needs to be considered in light of the delayed roll out. The phasing of transition did not meet the bilateral agreement, and therefore providers making a profit were still likely to be in receipt of State Government block funding. As discussed in the context of pricing, financial stress hampers providers’ ability to deliver quality services and develop their workforce, thus further increases the likelihood of ‘cherry picking’ clients and services. With financial factors cited as the main reason organisations had discussed closing, these results illustrate serious risks that providers will wind-up if current trends persist.

Provider financial results are also negatively affected by inefficient and flawed NDIA processes and systems, and frequent changes to procedures, which drive an
increasing administrative burden for providers. At the provider level, back-office functions are not funded, leaving providers unable to invest in information and communications technology (ICT) capability to automate business processes and reduce administrative errors. Similarly, the slight increase in borrowings to acquire or build assets may reflect the withdrawal of State Government grants for buildings and fleet purchases under the NDIS. Finally, NDIS pricing and the unfunded costs of corporate/back-office functions curtail providers’ ability to invest in innovation and growth, further limiting their ability to be sustainable post NDIS implementation. NDS recommends reviewing and removing unnecessary NDIA red tape as an essential step towards getting the NDIS on track (24).

These findings also clearly point to greater risks materialising for regional providers – who, compared with metro and state-wide organisations, are more likely to:

- Have made a loss in the last financial year (ending 30 June 2018);
- Expect a loss in this current financial year (ending 30 June 2019);
- Expect a reduction in financial reserves;
- Expect a negative change in working capital;
- Expect greater increases in borrowings to acquire or build assets; and/or
- Expect that labour and administration costs will grow faster than service volumes.

While we do not have a complete picture of each individual organisation's financial situation and intentions, the data analysed suggests that regional organisations may:

- Draw on their reserves to remain viable (however it is not known what these reserves are being used for);
- Be at risk of trading insolvent, with negative changes in working capital suggesting they are less likely to fully cover short-term liabilities; and
- Be unable to acquire or build assets from their profits alone.

Regional organisations face unique challenges, which may be driving these distinctly increased risks. Firstly, profit and loss results may be impacted by the difficulty in attracting new clients across large distances and a compounding effect of lean NDIS travel and transport prices. Secondly, labour and administration expenses are likely to be driven by scale and geographic density.

While it appears that all organisations need access to some form of practical support with financial management, a specific focus is needed on regional organisations to enhance their financial viability and sustainability. Regional organisations recognise they need to improve capabilities in costing and pricing, and financial processes and controls. Tailored business support through the DSS' Boosting the Local Care
Workforce Program – Transition Assistance Funding is a positive step, enabling providers to purchase professional services (such as business advice and software upgrades) to grow their business and workforce capability (7). However, further sector development support must also focus on supporting providers to drive operational productivity and back-office efficiency to help manage costs and reduce corporate overheads, particularly prioritising regional and smaller organisations.

5.3 Workforce sustainability challenges

Providers with a stable workforce that delivers high-quality, customer-focused services will have a competitive advantage under the NDIS. Current data however suggests that a stable and sufficient disability workforce is yet to be achieved, with clear supply and sustainability risks materialising as a result of:

- A largely aging workforce (nationally 45% aged 45 years and above);
- A predominately casual workforce (43% in Victoria and nationally); and
- High turnover rates of casual staff (7% in Victoria and nationally).

The disability workforce is older than the national average – 34% of the Australian labour force is aged over 45 years (25), compared with 45% aged 45 years or above in the disability sector. In Australia, 46% of women retirees had retired from the labour force by the age of 55 (26). A significant proportion of the disability sector’s workforce is therefore close to retirement. During this critical period of NDIS transition and market development, losing long-term, committed staff and expertise will negatively impact organisations. A projected 18% growth in full-time equivalent (FTE) workers is required to meet the needs of NDIS participants (4). Long-term supply-side investment is necessary to meet the growing local demand for workers. It is recognised that Governments are working to raise awareness of disability sector roles, improve perceptions and promote job opportunities (particularly through vocational education and training pathways) (7). However, further investment could include:

- Government funding for university places and scholarships to attract new graduates into the sector; and
- Greater funding for NDS’ workforce attraction initiatives, such as projectABLE, to extend the reach of these successful programs.

The Victorian disability sector’s workforce is highly casual, with a casual turnover rate of 7% per quarter. This is concerning, given that 5.5% of people employed in the health care and social assistance industry in February 2018 had changed employer or
business in the last 12 months\(^1\) (27). While quarterly and annual turnover rates are not exactly comparable, this is based on proportions and still provides a rough benchmark – and the 4% quarterly turnover rate for permanent disability sector staff in Victoria is considerably lower than the casual rate. High casual turnover rates have significant implications for the quality of support for people with disability. In particular, it disrupts continuity and leaves participants less satisfied with the service, having an overall impact on their quality of life (28, 29). Providers also face an additional financial burden associated with casual recruitment and training costs (25), as well as higher loading costs, less hours of engagement, longer term industrial risks and costs, and lower levels of employee commitment (29). It is harder to engage casual staff in training and team meetings and ensure high-quality performance (29). On the other hand, permanent staffing offers a range of benefits from increased employee engagement and commitment to supporting the retention of skilled staff (29). This impacts the sustainability of an organisation, as participants can exercise choice and shift to a provider that effectively meets and responds to their needs.

**Providers are also unable to effectively recruit and retain certain occupations,** which presents risks of thin markets for particular services. This data analysis suggests that:

- Recruiting psychologists, occupational therapists and speech therapists appears to be difficult in Victoria and nationally;
- Recruiting non-therapist occupations such as disability support workers and support coordinators, however, appears to be more challenging in Victoria compared to nationally;
- Retaining psychologists and speech therapists presents a significant issue among Victoria and national respondents; and
- Retaining non-therapist occupations such as disability support workers, support coordinators and managers/supervisors of disability support workers appears to be a greater challenge in Victoria than nationally.

The delayed release of the ‘Team of Practice Guidance for Support Coordinators’ by the NDIA Intermediaries is currently adding further pressure on the workforce and the delivery of these supports.

At the geographical group level, it appears that in Victoria:

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\(^1\) This does not take into account employees who may have resigned and become unemployed.
• Recruiting and retaining non-therapist occupations was more challenging in regional organisations, whereas
• Recruiting and retaining therapists was more difficult among metro respondents.

The small sample size of the geographical group data compromises external validity, therefore it is not suggested that emerging thin markets are identified based on this data alone. Nevertheless, despite the very real risks and Government concerns about the sector’s ability to scale up according to participants’ needs, there is no publicly funded disability workforce data collection process. The Australian Bureau of Statistics (ABS) continues to merge data on disability workers with other classifications, which obstructs any chance of obtaining regular labour force analysis. In order to appropriately monitor workforce factors influencing thin markets, there needs to be:

• Funding to maintain NDS’ regular Workforce Wizard data collection and analysis, which fills major gaps in disability workforce data and provides insight into workforce market development;
• Publication of additional market data including information about areas of unmet need, so providers can effectively plan and develop their workforce; and
• Funding for the regular ongoing collection of detailed disability workforce information, by a statutory authority (such as ABS or Australian Institute of Health and Welfare).

NDS welcomes the recently released NDIS Demand Map as an important source of up-to-date market information that can support providers with business and workforce planning (7). However, this does not describe the current environment – it is, rather, a forecast of the NDIS market once it is fully developed (expected to be by 2023). Therefore a significant data gap remains.

Low NDIS prices are further compromising providers’ ability to employ and upskill permanent staff, and discouraging the sector to create jobs that would alleviate professional shortages (such as allied health assistants and peer workers) (30). Recent price announcements notwithstanding, the following sector development initiatives will help mitigate the emergence of market gaps:

• Development of a funded, portable training entitlement for disability support workers to acquire specialised skills and qualifications and develop their career.
• Support for providers to implement innovative workforce models and more flexible industrial frameworks. This could enable organisations to balance short- and long-term objectives, whilst improving staff utilisation levels and cost efficiency, and further engaging, supporting and retaining staff.
• Providing affordable and timely training/development resources for staff and leaders to strengthen the workforce.

Whilst overall the recently released NDIS Market and Workforce Strategy (7) does not meet NDS' expectations, NDS supports the development of an NDIS Capability Framework to grow a skilled, capable and motivated workforce. NDS, however, must be centrally involved in the development. NDS has a well-established Disability Workforce Capability Framework (31) that defines the skills, knowledge and capabilities required by common job roles across the disability sector. Person-centred people management resources are also available to support the framework’s practical application (32). The NDIS Capability Framework must draw on this material and NDS' extensive workforce development tools and resources, and further consider how a national framework will be implemented and tailored to deliver the capabilities needed at a local level.

The ability to recruit, retain and develop a flexible workforce is a major success factor for organisations under the NDIS. Whilst workers are unavailable, rationed or unskilled, the notion of consumer choice and control will have limited value.

5.4 Discontinuing services

Data analysed in this report points to risks of thin markets emerging for certain services. Providers may be inclined to ‘cherry pick’ services or participants most likely to generate surplus. Unfortunately, given the small number of responses to certain AMS questions, services at risk cannot be concretely identified. The Victorian findings do, however, suggest that people with disability may be at risk of not receiving home modifications and AT services, transport supports, community participation supports, and high intensity/1:1 supports.

**Home modifications and AT services are at risk:**

- Providers delivered less hours of these services in 2017-2018 compared to the previous year; and
- Providers plan on further reducing or stopping these services.

NDS is aware of structural problems with getting AT and home modification services into plans, as well as the significant delays with AT approvals and the excessive administrative burden for providers. This is likely driving providers’ recent reduction in hours of service delivered, and their plans to further reduce or stop these services. NDS welcomes the results of the Assistive Technology and Home Modifications Redesign Project, as without new arrangements there is a serious risk that people with disability
will continue to face unacceptable delays and will be unable to achieve their goals without necessary AT and home modifications.

**Assistance with travel and transport is at risk:**

- Providers plan on stopping or reducing these services;
- Eighty-three percent of providers are making a loss providing transport services; and
- Twenty-one percent plan to decrease the size of their fleet.

Transport and travel have a unique role in facilitating service provision, and therefore have the ability to ameliorate thin markets if funded and administered properly.

The following factors may explain why providers are making a deficit and therefore intend to stop or reduce provision:

- The insufficient allocation of transport funds in participant plans;
- A shift from block funding, where providers could cross-subsidise services to maintain their transport services;
- The uncertainty of Home and Community Care Program for Young People funding, which enabled community transport providers to deliver transport at highly subsidised rates; and
- The complex NDIS participant transport and provider travel policies (17, 33).

Assistance with travel and transport is also fundamental to community participation by people with disability. In its paper on disability transport in Victoria (17), NDS recommends the following strategies to mitigate risks of thin markets and ensure people with disability have access to community, social and economic opportunities:

- Adjustment of NDIS transport prices to meet the cost of service provision, via the Bilateral Agreements;
- Investment in a Victorian community transport strategy and accessible public transport infrastructure;
- Ensuring NDIS participant transport funding allocations are sufficient;
- Confirming the eligibility of NDIS participants in the Multi-Purpose Taxi Program, beyond June 30 2019; and
- Piloting development of innovative fleet management models and use of transport technology.

On the other hand, **provider travel is impacting the ability of organisations to meet requests from participants living far away, particularly in regional and rural locations.** Services for participants in these hard-to-reach areas is hardly viable under
the existing travel pricing arrangements. At a regional level, we have already observed significant financial viability risks, workforce challenges and a greater likelihood of organisational closure. The impact of pricing and workforce availability further exacerbate the risk of thin regional markets. To effectively mitigate this risk, NDS supports the strategies in the Market Enablement Framework, particularly “working with providers to identify incentives to deliver supports, for example use of remote travel provisions across a number of participants in a similar location”. Strategies need to be developed, as worker travel is fundamental in supporting participant goals across diverse settings.

Community-based day services are at risk:

- Just under half of providers (40%) delivering community and centre-based activities report that more activities are being held in the centre;
- Pricing changes have contributed to 31% of providers having fewer resources available to organise community participation opportunities, and 14% of providers considering ceasing operation of non-centre-based activities.

NDIS Price Guide changes from 1 July 2018 have significantly constrained the viability of community-based day services. Pricing encourages providers to deliver supports in larger groups and provide centre-based supports as opposed to community-based activities. NDS is pleased to see that the base limit for attendant care and community participation will be increased up to 15.4% from 1 July 2019. These price increases are long-awaited and necessary to ensure people with disability have access to the high-quality innovative services required to support their engagement in community, social and recreational activities. Despite the price increases, however, providers will continue to face labour intensive administrative processes and workforce challenges which further limit the delivery of flexible, person-centred supports.

1:1 and high intensity supports are at risk:

Lean pricing is forcing providers to decline new requests for high intensity daily personal activities and 1:1 community and centre-based supports. Services for NDIS participants with complex support needs are also particularly at risk, as:

- Providers plan to stop or reduce high intensity daily personal activities;
- Providers have received requests from participants with high needs and clients with behaviours of concern that have they been unable to provide; and
- As noted above, day service providers:
  - Plan to exit people with high support needs from their day services;
Anticipate that exited participants (and those they have been unable to service) will not have their needs met by other providers and will go without service (30%);

- Have not accepted new participants with complex needs in 2019 (39%) and 24% are unable to do so; and
- Are supporting people with complex support needs in groups rather than on an individual basis.

The Joint Standing Committee (21), the Productivity Commission (4) and the McKinsey&Company review (22) all acknowledged that people with complex, specialised needs or challenging behaviours are at significant risk of market gaps. Despite participants with complex needs having access to large NDIS packages, providers must prioritise financial viability and therefore may ‘cherry pick’ participants with less complex needs. As the Office of the Public Advocate notes (34), “people in this cohort are not an attractive business prospect for the private market”, particularly given the “complexity, challenges and risks involves in meeting their needs”.

NDIS pricing is directly influencing these results as current prices are insufficient to ensure adequate staff training and appropriate support for participants with complex needs. NDS is pleased to see a recent increase in complexity prices, however providers continue to bear significant administrative costs and difficulties in operationalising these prices changes. The Complex Needs Support Pathway is also a positive step in facilitating better outcomes for people with complex needs, however providers will continue to ‘cherry pick’ unless appropriate incentives are in place. Internationally, the following actions have been employed to improve equity:

- Further subsidies for vulnerable groups;
- Direct payments to build up staff and expertise through increased demand;
- Greater funding given to people in areas of more need; and
- Provider of last resort arrangements (9).

This international evidence suggests the following actions would be appropriate:

- Continued review of NDIS prices for high intensity/complex needs supports;
- Funded training to support the development of a suitably skilled workforce, which also supports organisations to meet obligations mandated by the NDIS Quality and Safeguards Commission;
- Monitoring the outcomes of the Complex Needs Support Pathway, as this should help ensure participants receive adequate plans; and
- Establishing a crisis response policy and provider of last resort arrangements.
5.5 Merger activity and winding-up

NDIS pricing, the financial viability of organisations and the availability of a flexible workforce collectively impact organisations’ decision to merge or wind-up. The majority of Victorian organisations have not discussed merging, do not plan on undertaking a merger, or have not completed a merger. Similarly, the majority have not discussed winding-up their operations. Nevertheless, in the next two years, 38% perceive it to be “very likely or likely” that their organisation will complete a merger, while 41% indicate that it is “very unlikely or unlikely”.

A recent KPMG report (35) found that 43% of Australian corporates\(^2\) plan to undertake merger and acquisition (M&A) activity in the next 12 to 24 months. These results are similar to the 38% of respondents indicating a merger is “very likely or likely”. KMPG further advances that “organic growth in the current economic environment is not sufficient to meet the growth aspirations of many boards and management teams” (35). Compared to all sectors, the health, aging and human services sectors were far less positive about an increase in M&A activity (35).

The analysis in this report shows interesting trends around merging and discontinuing across Victoria:

- Larger state-wide organisations are more likely than smaller metro and regional organisations to have discussed or engaged in merger activity;
- Completing a merger in the next two years is likely among regional organisations and unlikely among metro organisations; and
- Regional and metro respondents are more likely than state-wide organisations to have had discussions about winding up.

While merger activity was generally seen as an opportunity for growth (to improve efficiency, increase the number of people serviced or broaden the range of services), the main reasons for winding-up were financial. The financial data already demonstrates a clear risk of thin markets emerging in regional areas – this risk is exacerbated by the considerable proportion of regional organisations discussing closure or indicating that merger is likely in the next two years. There is an opportunity to mitigate this risk by proactively supporting organisations discussing or undertaking merger or closure. Practical due diligence guides could assist providers with best practice models prior to an investment or closure decision. Organisations that may be in denial and not considering or discussing merger or closure also need to be supported.

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\(^2\) Corporates ranged from the following sectors: consumer, retail, industrial, energy and natural resources, financial services, and health, ageing and human services. The disability sector was not included.
as these organisations represent an even greater risk to the market with sudden or unplanned exit. Given the different reasons why organisations merge or close, there is merit in supporting organisations to better understand their options to make informed decisions.

**While a level entry and exit in the market is normal and desirable, if other providers are unable to absorb the additional demand this will have significant implications for people with disability.** The MEF (10) recognises that in most cases additional demand will be absorbed - however this report shows providers have grave doubts that participants they have had to turn away will have their needs fully met by other providers. In such cases where the market is unable to absorb additional participants, the NDIA may cooperate with local providers, community partners, support coordinators, and participants to support the changeover (10). Short-term commissioning of providers may also be required to ensure people with disability are not left without service (10).

### 5.6 Provider of last resort

While the MEF is an “approach to monitoring the market, identifying potential issues, deciding whether to intervene, and if so, what type of intervention is required”, there is no mention of a provider of last resort. Emergencies will occur, whether in relation to temporary or acute assistance needs, or in circumstances where carers are unwell or injured. The Joint Standing Committee’s report on market readiness (21) asserts the NDIA must “publicly release the outcomes of the Maintaining Critical Supports Project and its policy on provider of last resort arrangements”. NDS strongly believes that a provider of last resort policy needs to also address crisis response and guarantee that regardless of what needs to happen, costs will be covered. Currently providers have no ability to quickly change a participant’s support and have no confidence that they will be paid in the event of a disability support emergency. NDS echoes the Office of Public Advocate (34) in that the framework and policy should ensure:

- In situations of market failure, providers of last resort are adequately resourced;
- Providers of last resort have a workforce with specialised experience, skills and expertise that meet participants’ needs;
- Clear procedures exist to support planners, LACs and support coordinators in these circumstances; and
- Any approved supports will be provided, not just ‘critical supports’.

Releasing further information on the Maintaining Critical Supports Project (formerly described as provider of last resort arrangements) and the policy and practice
responses is critical to ensure appropriate measures are put in place, enabling participants to receive supports irrespective of market gaps.

5.7 ILC

The ILC is a key ingredient in helping avoid service gaps, particularly in regional and rural areas, by connecting people with disability to their local community, services and programs. The current strategy, however, needs to be strengthened to avoid the development of thin markets.

Firstly, short-term ILC contracts have significant implications for people with disability and service providers. NDS is somewhat encouraged to see a shift from short-term funding (usually 12 months) to longer term funding arrangements that are adjusted to the needs of each program (36). The national 2020 ILC strategy (36), however, suggests that the grants will be mostly three-year investments. This is disappointing, given the Productivity Commission’s recommendation to set community service grants to a default of seven-years (37). This inquiry into human services reforms clearly found that short-term contacts:

- Impede service providers’ ability to deliver and improve services, as they are focussed on seeking short-term funding; and
- Hinder service providers’ ability to develop strong and stable relationships with clients, which further impedes service delivery and the achievement of outcomes for service users (37).

Seven-year contracts would enable providers to make necessary investments in the workforce, build relationships in the community, support stronger outcomes for participants and ensure a smooth transition at the end of the contract (37). The Productivity Commission (37) also suggests new programs could be trialled with short-term contracts.

Secondly, thin markets are more likely to arise in Victoria, as there has historically been greater funding through the BIC program. Since 2002, across Victoria, the BIC program (formerly the Community Building Program) has:

- Supported people with disability to optimise participation in their local communities;
- Built and strengthened Victorian communities’ capacity to support people with disability and their families; and
- Achieved integrated local community planning that engages people with disability, their families, service providers and community organisations (38).
Warrnambool City Council clearly illustrates the value of the BIC program in Victoria (box 2).

**Box 2: The impact of the BIC program – Warrnambool City Council**

Victoria is unlike any other state in Australia in that the State Government has made a strong commitment to the development of community building infrastructure through the funding of the RuralAccess, MetroAccess and the DeafAccess initiatives. This places Victoria in a unique position to engage in community development activity which responds to the needs and aspirations of people with disability.

The program recognises the potential for local government to lead and facilitate change in local communities by planning and engaging mainstream community organisations and services across the full range of community infrastructure (education, employment, transport, sport and recreation, arts and cultural development, tourism etc) and building their capacity to include people with disability. (38)

Nationally, the ILC funding envelope is $132 million (39). Therefore, it is likely that some essential BIC services will be no longer funded and significant local expertise and social capital will be lost in Victoria. The extensive work currently undertaken by the 70 Metro, Rural and Deaf Access Officers to deliver place-based social inclusion and community strengthening initiatives is likely to be reduced. This will have significant implications on local communities’ ability to build long-term, sustainable change that considers the needs and aspirations of people with disability, their families and carers. NDS recognises that the Victorian Government has been transparent about the BIC transition plan. However, NDS also recommends that the NDIA review and monitor the current ILC grant funding model, with the view of introducing much longer terms for funding of essential services without a competitive grant process. This is fundamental to mitigate the emergence of thin markets and to ensure appropriate and quality services can be delivered across all jurisdictions.

Thirdly, as noted by the Productivity Commission (4), **LACs have “focussed more on developing participant plans and less on linking participants to services and building participant capacity”**. LACs play an integral role in delivering ILC outcomes by supporting local communities to become accessible and inclusive to people with disability and thus prevent inequities (39). LACs are unable to deliver these outcomes as long as their capacity remains constrained by the need for continued prioritisation of participant plans. LAC staff would also greatly benefit from further training in person-centred planning approaches, as well as more consistent processes across NDIS regions and different LAC organisations.
6 Conclusion and recommendations

Australia has the opportunity to have a world-leading disability support system, if the NDIS is implemented well. Thin markets are clearly beginning to emerge, however unpacking and mitigating market gaps is complex. Following the logic of insurance models, upfront investment in sector development and market stewardship to mitigate the risks of thin markets will lead to greater cost-savings in the future. This is certainly more efficient than not acting and rather observing certain participants being denied service, a decline in service quality, and a decrease or withdrawal of services and organisations. Clear strategies need to be established and funded to ensure people with disability have access to robust and functioning markets.

The not-for-profit disability sector will require a level of funded sector development support post NDIS implementation to ensure the NDIS marketplace evolves effectively and equitably. Failure to address market risks will undermine the success of the Scheme and will weaken the community’s confidence in public service reform. Success will enable people with disability to achieve their goals and participate economically and socially, irrespective of their location or needs.

In light of the findings, the following recommendations are proposed for Governments, the NDIA and NDS to consider in mitigating the risk of thin markets post NDIS implementation.

6.1 Recommendations for Governments and the NDIA

1. Invest in sector development during the two to three years post NDIS transition to enable the delivery of necessary supports identified below, particularly targeting rural and regional areas.

2. Embrace a market stewardship approach by considering local market conditions, engaging closely with all NDIS stakeholders, monitoring the market and steering the system, whilst also determining mechanisms to mitigate thin markets with perhaps:
   a. Incentives for rural/regional and niche providers to enter and remain in market;
   b. Employing a system of soft checks to identify supports that providers in thin markets require to remain viable and stay in business; and
   c. Using seed funding or grants for types of service provision identified as thin markets.
3. Implement the following actions to reduce the implications of inadequate NDIS pricing on providers’ ability to remain financially viable, maintain service quality and develop a flexible and sustainable workforce:
   a. Ensure NDIS pricing reflects the true cost of service provision;
   b. Expand the price-setting criteria in the NDIS Act to ensure pricing is responsive to local market conditions;
   c. Ensure the benchmarking of prices to mature markets also considers geographical and participant contexts, not merely similar services;
   d. Transfer the price-setting role to an independent agency by July 2019 to increase transparency and ensure market development is evidence-based; and
   e. Develop a clear deregulation strategy that trials price deregulation in specific geographical sites, or service types.
4. Review and remove unnecessary NDIA red tape to better support the financial sustainability of NDIS providers.
5. Invest in the supply-side to enable people with disability to purchase services from providers with a sustainable workforce that delivers high-quality, customer-focused services. This may be achieved through:
   a. Supporting local stakeholders and communities to come together, collaborate and find solutions to local issues;
   b. Developing a funded, portable training entitlement for disability support workers to acquire specialised skills and qualifications and develop their career;
   c. Centrally involving NDS in the development of the NDIS Capability Framework and drawing on NDS’ well-established Workforce Capability Framework and extensive workforce development tools and resources;
   d. Providing Government funding for university places and scholarships to attract new graduates into the sector;
   e. Greater funding for NDS’ workforce attraction initiatives, such as projectABLE, to extend the reach of these successful programs;
   f. Funding to maintain NDS’ regular Workforce Wizard data collection and analysis, as it continues to fill a major workforce data gap;
   g. Funding for the regular ongoing collection of detailed disability workforce information, by a statutory authority (such as ABS or Australian Institute of Health and Welfare); and
   h. Publishing additional market data including information about areas of unmet needs, so providers can actively plan and develop their workforce.
6. Develop clear mechanisms to monitor services at risk of closure, and based on the services at risk from this report:
   a. Publish the outcomes from the Assistive Technology and Home Modifications Redesign Project to ensure that people with disability are able to achieve their goals with AT and home modification services;
   b. Ensure people with disability have access to community, social and economic opportunities by adjusting NDIS transport prices to reflect the true cost of service provision, investing in a Victorian community transport strategy and accessible infrastructure, ensuring adequate NDIS participant transport funding, confirming the eligibility of NDIS participants in the Multi-Purpose Taxi Program, and piloting the development of fleet management models and transport technology;
   c. Monitor the provision of community-based day services to ensure people with disability have the opportunity to engage in community, social and recreational activities; and
   d. Determine incentives for rural/regional travel provisions for providers so NDIS participants in regional and rural locations are not left without service.

7. Implement the following actions to mitigate the risk that people with complex, specialised needs or challenging behaviours experience thin markets:
   a. Continued review of NDIS prices for high intensity/complex needs supports;
   b. Funding training to support the development of a suitably skilled workforce, which also enables organisations to meet the obligations mandated by the NDIS Quality and Safeguards Commission; and
   c. Monitoring the outcomes of the Complex Needs Support Pathway to ensure participants receive adequate plans.

8. Ensure appropriate measures are in place for people with disability to receive supports, irrespective of inexistent markets by:
   a. Publicly releasing the outcomes of the Maintaining Critical Supports Project and the policy and practice responses for provider of last resort arrangements; and
   b. Developing a flexible crisis response approach, enabling participants to receive emergency supports, whilst also giving providers the confidence that support costs will be covered.

9. Strengthen the ILC to avoid the development of thin markets by:
a. Implementing seven-year ILC contracts, enabling providers to build relationships in the community and achieve stronger outcomes for participants;
b. Reviewing and monitoring the current ILC grant funding model, with the view of introducing much longer terms for funding of essential services without a competitive grant process;
c. Recognising that LAC capacity constraints limit ILC success, and thus investing in further person-centred training for LACs to enhance their ability to link participants to services and build participant capacity, as well as ensuring a consistent approach across regions;
d. Ensuring that the NDIA and Commonwealth Government recognise the crucial role that the BIC program played in Victoria and the effect of losing the significant expertise, community capacity and social capital with the transition to the ILC.

### 6.2 Recommendations for NDS

1. Continue delivering sector development initiatives that consider local needs, providing intelligence, evidence and analysis to influence policy across all areas of Government, and collaborating with providers and people with disability, families and carers to promote the development of a sustainable and diverse NDIS market.

2. Support providers to improve their financial management capabilities and processes, with:
   a. A particular focus on improving costing and pricing, and financial processes and controls, to drive operational productivity, back-office efficiency, and further reduce corporate overheads; and
   b. Targeting regional organisations, as there is already an emerging viability risk.

3. Promote the development of a skilled, capable, motivated and sustainable NDIS workforce through:
   a. Supporting providers to implement flexible employment options to balance short- and long-term objectives, whilst improving staff utilisation and engaging, supporting and retaining staff; and
   b. Developing affordable and timely training/development resources for staff and leaders to strengthen the workforce.
4. Support providers to responsibly merge or close if needed by producing practical due diligence information that outlines best practice models and supports informed decision making.

5. Invest in further thin markets research by:
   a. Expanding the Workforce Wizard data collection or conducting a spotlight issue to thoroughly investigate the occupations presenting as difficult to recruit and retain;
   b. Drawing on provider data to undertake additional research/policy surveys with the intent of gaining more robust data regarding the services at risk of closure and the impact of the NDIS on participants with complex needs; and
   c. Keeping abreast of the progress and outcomes of the Australian Research Council’s Linkages Project, as this work will be instrumental in further identifying levers that Governments can use to steward emerging public service markets.
7 References


35. KPMG. Australia’s Evolving Deals Landscape. 2018.


Appendix 1: NDIS pricing

Appendix 1A
To what extent do you agree that you are worried you won't be able to provide NDIS services at current prices? Victorian and national analysis.

Appendix 1B
To what extent do you agree that you are worried you won't be able to provide NDIS services at current prices? Geographical group analysis.

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<th>Metro</th>
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<th>State-wide</th>
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<td>Agree or agree strongly</td>
<td>51%</td>
<td>66%</td>
<td>76%</td>
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<tr>
<td>Neither agree nor disagree</td>
<td>32%</td>
<td>9%</td>
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<tr>
<td>Disagree or disagree strongly</td>
<td>16%</td>
<td>25%</td>
<td>16%</td>
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Appendix 1C

To what extent do you agree that to provide services at the prices being offered by the NDIA, you will have to reduce the quality of service? Victorian and national analysis.
Appendix 2: Provider financial viability

Appendix 2A

In its most recent full financial year did this organisation make a loss, break-even or make a profit (surplus) in regard to its disability services? Geographical group analysis.

Appendix 2B

Regional

![Regional Bar Chart]

State-wide

![State-wide Bar Chart]

Note: organisations reporting a margin between 0 and 1%, have been categorised as 0.
Note: organisations reporting a margin of 10-20%, have been categorised as 11-20%
Appendix 2C

In this current financial year, do you expect this organisation will make a loss (deficit), break-even or a profit (surplus) on its disability services? Geographical group analysis.
Appendix 2D


**Metro**

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<tr>
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<td>21% and above</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Regional**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>-21% and below</td>
<td>0%</td>
</tr>
<tr>
<td>-11 to -20%</td>
<td>10%</td>
</tr>
<tr>
<td>-6 to -10%</td>
<td>5%</td>
</tr>
<tr>
<td>-1 to -5%</td>
<td>15%</td>
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<tr>
<td>0</td>
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<td>5%</td>
</tr>
<tr>
<td>11-20%</td>
<td>10%</td>
</tr>
<tr>
<td>21% and above</td>
<td>0%</td>
</tr>
</tbody>
</table>
Note: organisations reporting a margin between 0 and 1%, have been categorized as 0.
Note: organisations reporting a margin of 10-20%, have been categorised as 11-20%.

Appendix 2E

In this current financial year, do you expect your organisation's financial reserves to change? Geographical group analysis.
Appendix 2F

In this current financial year, do you expect your organisation's working capital to change? Geographical group analysis.

**Victoria**

<table>
<thead>
<tr>
<th>Change Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>-21% and below</td>
<td>0%</td>
</tr>
<tr>
<td>-11 to -20%</td>
<td>10%</td>
</tr>
<tr>
<td>-6 to -10%</td>
<td>20%</td>
</tr>
<tr>
<td>-1 to -5%</td>
<td>30%</td>
</tr>
<tr>
<td>0</td>
<td>40%</td>
</tr>
<tr>
<td>1-5%</td>
<td>50%</td>
</tr>
<tr>
<td>6-10%</td>
<td>60%</td>
</tr>
<tr>
<td>11-20%</td>
<td>70%</td>
</tr>
<tr>
<td>21% and above</td>
<td>80%</td>
</tr>
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</table>

**Metro**

<table>
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<th>Percentage</th>
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</thead>
<tbody>
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<td>-21% and below</td>
<td>0%</td>
</tr>
<tr>
<td>-11 to -20%</td>
<td>10%</td>
</tr>
<tr>
<td>-6 to -10%</td>
<td>20%</td>
</tr>
<tr>
<td>-1 to -5%</td>
<td>30%</td>
</tr>
<tr>
<td>0</td>
<td>40%</td>
</tr>
<tr>
<td>1-5%</td>
<td>50%</td>
</tr>
<tr>
<td>6-10%</td>
<td>60%</td>
</tr>
<tr>
<td>11-20%</td>
<td>70%</td>
</tr>
<tr>
<td>21% and above</td>
<td>80%</td>
</tr>
</tbody>
</table>

**Regional**

<table>
<thead>
<tr>
<th>Change Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>-21% and below</td>
<td>0%</td>
</tr>
<tr>
<td>-11 to -20%</td>
<td>10%</td>
</tr>
<tr>
<td>-6 to -10%</td>
<td>20%</td>
</tr>
<tr>
<td>-1 to -5%</td>
<td>30%</td>
</tr>
<tr>
<td>0</td>
<td>40%</td>
</tr>
<tr>
<td>1-5%</td>
<td>50%</td>
</tr>
<tr>
<td>6-10%</td>
<td>60%</td>
</tr>
<tr>
<td>11-20%</td>
<td>70%</td>
</tr>
<tr>
<td>21% and above</td>
<td>80%</td>
</tr>
</tbody>
</table>
Appendix 2G

In this current financial year, do you expect your organisation’s borrowings to acquire or build assets to change? Geographical group analysis.

**Victoria**

-21% and below: 0%
-11 to -20%: 14%
-6 to -10%: 21%
-1 to -5%: 0%
0: 0%
1-5%: 0%
6-10%: 0%
11-20%: 7%
21% and above: 14%

**Metro**

-21% and below: 0%
-11 to -20%: 10%
-6 to -10%: 20%
-1 to -5%: 30%
0: 40%
1-5%: 0%
6-10%: 0%
11-20%: 5%
21% and above: 50%
Appendix 2H

During this current financial year, do you expect that your organisation's direct labour expenses will change? Victorian analysis.

- Costs will grow at a rate faster than growth in service volumes
- Costs will keep pace with changes to service volumes
- Costs will not grow as fast as growth in service volumes
- Don't know
Appendix 2I
In this current financial year, do you expect that your organisation’s direct labour expenses will change? Geographical group analysis.

Appendix 2J
In this current financial year, do you expect that your organisation’s capital expenditure will change? Geographical group analysis.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Victoria</th>
<th>Metro</th>
<th>Regional</th>
<th>State-wide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs will grow at a rate faster than growth in service volumes</td>
<td>21%</td>
<td>19%</td>
<td>24%</td>
<td>22%</td>
</tr>
<tr>
<td>Costs will keep pace with changes to service volumes</td>
<td>38%</td>
<td>38%</td>
<td>44%</td>
<td>30%</td>
</tr>
<tr>
<td>Costs will not grow as fast as growth in service volumes</td>
<td>14%</td>
<td>9%</td>
<td>12%</td>
<td>22%</td>
</tr>
<tr>
<td>Don't know</td>
<td>27%</td>
<td>34%</td>
<td>20%</td>
<td>26%</td>
</tr>
</tbody>
</table>
Appendix 2K

In this current financial year, do you expect that your organisation’s administration expenses will change? Victorian analysis.

- 52% Costs will grow at a rate faster than growth in service volumes
- 16% Costs will keep pace with changes to service volumes
- 27% Costs will not grow as fast as growth in service volumes
- 6% Don’t know

Appendix 2L

In this current financial year, do you expect that your organisation’s administration expenses will change? Geographical group analysis.

- Costs will grow at a rate faster than growth in service volumes
- Costs will keep pace with changes to service volumes
- Costs will not grow as fast as growth in service volumes
- Don’t know

Metro  Regional  State-wide
Appendix 2M

Improving costing and pricing in the next 12 months. Geographical group analysis.

Appendix 2N

Improving financial processes and controls in the next 12 months. Geographical group analysis.
Appendix 3: Disability workforce challenges

Appendix 3A

Forms of employment in the disability support workforce.

**Victoria**

<table>
<thead>
<tr>
<th>Month</th>
<th>Permanent</th>
<th>Fixed</th>
<th>Casual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun 2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep 2015</td>
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</tr>
<tr>
<td>Dec 2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mar 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec 2016</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Mar 2017</td>
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<td></td>
<td></td>
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<tr>
<td>Jun 2017</td>
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<tr>
<td>Sep 2017</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Dec 2017</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**National**

<table>
<thead>
<tr>
<th>Month</th>
<th>Permanent</th>
<th>Fixed</th>
<th>Casual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun 2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep 2015</td>
<td></td>
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<td>Dec 2015</td>
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<tr>
<td>Mar 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun 2016</td>
<td></td>
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<tr>
<td>Sep 2016</td>
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<td></td>
</tr>
<tr>
<td>Dec 2016</td>
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<td></td>
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<tr>
<td>Mar 2017</td>
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<td></td>
</tr>
<tr>
<td>Jun 2017</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Sep 2017</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Dec 2017</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Appendix 3B

Quarterly turnover rates by form of employment. Victorian and national analysis.

![Graph showing quarterly turnover rates by form of employment.]

Appendix 3C

Top 5 ‘extremely or moderately difficult’ occupations to recruit in the past financial year. Victorian and national analysis.

<table>
<thead>
<tr>
<th>Top 5</th>
<th>Victoria</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Psychologist</td>
<td>Psychologist</td>
</tr>
<tr>
<td>2</td>
<td>Occupational therapist</td>
<td>Physiotherapist</td>
</tr>
<tr>
<td>3</td>
<td>Disability support worker</td>
<td>Speech therapist</td>
</tr>
<tr>
<td>4</td>
<td>Speech therapist</td>
<td>Occupational therapist</td>
</tr>
<tr>
<td>5</td>
<td>Support coordinator</td>
<td>Local Area Coordinator / Planner</td>
</tr>
</tbody>
</table>
Appendix 3C

Top 5 ‘extremely or moderately difficult’ occupations to recruit in the past financial year. Geographical group analysis.

Appendix 3D

Top 5 ‘extremely or moderately difficult’ occupations to retain in the past financial year. Victorian and national analysis.

<table>
<thead>
<tr>
<th>Top 5</th>
<th>Victoria</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Disability support worker</td>
<td>Psychologist</td>
</tr>
<tr>
<td>2</td>
<td>Psychologist</td>
<td>Speech therapist</td>
</tr>
<tr>
<td>3</td>
<td>Support coordinator</td>
<td>Physiotherapist</td>
</tr>
<tr>
<td>4</td>
<td>Managers/supervisors of disability support workers</td>
<td>Disability support worker</td>
</tr>
<tr>
<td>5</td>
<td>Occupational therapist</td>
<td>Dietitian</td>
</tr>
</tbody>
</table>
Appendix 3E

Top 5 ‘extremely or moderately difficult’ occupations to retain in the past financial year. Geographical group analysis.

Appendix 3F

Improving HR strategy and workforce planning in the next 12 months. Geographical group analysis.
### Appendix 4: Propensity to discontinue

#### Appendix 4A

Services that organisations provided less of in the last 12 months compared to the year prior. Victorian and national analysis.

<table>
<thead>
<tr>
<th>Top 5</th>
<th>Victoria</th>
<th>Nationally</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Community Nursing Care (n=1, 25%)</td>
<td>Assistive Technology (n=12, 20%)</td>
</tr>
<tr>
<td>2</td>
<td>Home modification (n=1, 11%)</td>
<td>Specialised supported employment (n=10, 23%)</td>
</tr>
<tr>
<td>3</td>
<td>Assistive Technology (n=1, 11%)</td>
<td>Hearing Services and Specialised Hearing Services (n=4, 17%)</td>
</tr>
<tr>
<td>4</td>
<td>Specialised supported employment (n=1, 11%)</td>
<td>Early Childhood Supports (n=11, 14%)</td>
</tr>
<tr>
<td>5</td>
<td>Exercise physiology and physical wellbeing activities (n=1, 11%)</td>
<td>Vision equipment (n=1, 14%)</td>
</tr>
</tbody>
</table>

#### Appendix 4B

Services that providers plan on stopping and reducing in the next 12 months. Victorian and national analysis.

<table>
<thead>
<tr>
<th>Top 5</th>
<th>Victoria</th>
<th>Nationally</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Home modification (n=3, 33%)</td>
<td>Plan management (n=18, 18%)</td>
</tr>
<tr>
<td>2</td>
<td>Vehicle modifications (n=2, 25%)</td>
<td>Assistance with travel and transport (n=22, 15%)</td>
</tr>
<tr>
<td>3</td>
<td>Assistive Technology (n=2, 22%)</td>
<td>Behaviour support (n=15, 13%)</td>
</tr>
<tr>
<td>4</td>
<td>Assistance with travel and transport (n=7, 20%)</td>
<td>Therapeutic supports (n=14, 9%)</td>
</tr>
<tr>
<td>Top 5</td>
<td>Victoria</td>
<td>Nationally</td>
</tr>
<tr>
<td>-------</td>
<td>----------------------------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>5</td>
<td>High intensity daily personal activities (n=5, 18%)</td>
<td>Household tasks (n=13, 9%)</td>
</tr>
</tbody>
</table>
Appendix 4C

Regarding the services your organisation has not been able to provide, what do you think will happen in most cases? Victorian and national analysis.

[Bar chart showing responses to different scenarios regarding unmet client needs.]

- I don't know
- I expect client needs will be fully met by other organisation(s)
- I expect some client needs will not be met by other organisation(s)
- I expect the family of the client or other unpaid supporters will provide the service
- I expect these clients needs won't be met and they will go without service
- Other (please specify)

Victoria National

Victoria National
Appendix 4D

Regarding the services your organisation has not been able to provide, what do you think will happen in most cases? Geographical group analysis.
Appendix 4E


Appendix 4F

How likely is it that this organisation will complete a merger in the next two years? Geographical group analysis.
Appendix 4G

Over the last 12 months, has your organisation discussed winding-up (closing) the organisation? Geographical group analysis.