National Disability Services

Results: Disability Markets Survey 2016

National Disability Services
Curtin University Not-for-profit Initiative

Contact details

Gordon Duff
General Manager, Sector Development and Research

About National Disability Services

National Disability Services is the peak industry body for non-government disability services. Its purpose is to promote and advance services for people with disability. Its Australia-wide membership includes over 1100 non-government organisations, which support people with all forms of disability. Its members collectively provide the full range of disability services - from accommodation support, respite and therapy to community access and employment. NDS provides information and networking opportunities to its members and policy advice to state, territory and Commonwealth governments.

Professor David Gilchrist
Director, Curtin Not-for-profit Initiative

About Curtin Not-for-profit Initiative

The Curtin Not-for-profit Initiative was established in 2011 and aims to:

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

This study was undertaken by the Curtin Not-for-profit Initiative, Curtin School of Accounting and commissioned by National Disability Services.

Citation Information
This document should be cited as follows: Gilchrist, D. J. and P. A. Knight, (2017), Results: Disability Markets Survey 2016, A Report for National Disability Services, Canberra.

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About this report

The Disability Markets Survey (previously the NDS Business Confidence Survey), is the fourth in a series of studies undertaken by National Disability Services (NDS) to monitor change in the supply of disability services, business conditions and the operations of disability services providers in Australia.

NDS, through its research arm the Centre for Applied Disability Research, initiated this work to track broad and emerging trends relating to the supply side of specialist disability services in Australia. The development of a systemic market position statement is thought to be relevant to the identification of strategies and points of intervention that support the development of a vibrant, innovative, sustainable supply of specialist disability services. The underlying assumption of this research program is that market, sector and workforce outcomes are inextricably linked to better outcomes for people with disability.

As part of NDS's long-term data strategy, the 2016 study was expanded from an examination of business confidence to examine a wider range of issues and the distribution was extended to include non-members of NDS. In addition, this year's study was undertaken by the Curtin University Not-for-profit Initiative (Curtin) and forms part of a longitudinal study of Australia's Disability Sector[1].

To reflect this change, the name of the study has been changed from the NDS Business Confidence Study to the Results: Disability Market Survey 2016.

	When	No. of responses	Response rate
Wave 4	Sept 2016	569	NDS members: 84% are NDS members, 16% are nonmembers.
Wave 3	Sept 2015	424	40%
Wave 2	Nov 2014	399	39%
Wave 1	May 2014	420	42%

Of the 569 organisations that responded to the survey, 84% are NDS members, 16% are non-members. The aim is to continue to widen the reach of the survey in future years to ensure it is representative of all service providers.

This year, respondents were given the option of electing to have their key data and Australian Business Number retained by the researchers at Curtin under strict confidentiality requirements for use in future surveys and forty-seven per cent (144) of those not in the existing study have elected to do this, which will further streamline on-going data collection.

1 Australian governments, through the Research and Data Working Group, are funding research which tracks the financial sustainability of disability services providers. This research operates as a low/no cost financial and other key metric benchmarking service for participating organisations. There are currently approximately 190 participating organisations representing a stratified sample of the supply side of specialist disability services in Australia.

Key findings

Disability services sector

The 569 organisations that responded to this survey are broadly representative of the disability sector in regard to organisation size and location.

- The relative proportions of organisations by size are like that in many other for-profit or not-for-profit industries. Eighty per cent of organisations have a turnover of less than $20M, more than half (58%) have an income of less than $5M, while a quarter are very small (income of less than $1M).
- Just over 30% of organisations operate in New South Wales, 19% in Victoria, 15% in Queensland, and 10% operate in Western Australia. Compared with estimates of organisation distribution, there is a slightly higher ratio of organisations from New South Wales and lower ratio of Victorian and Queensland based providers than would be expected. Otherwise the sample is consistent with population estimates.

Our respondents

- The ratio of organisations exclusively providing disability services is declining. More than half of organisations provide services to more than disability services clients.
- About half of all responding organisations report that they have provided services under the NDIS, while 77% are registered to do so.
- More than half (55%) reported providing services in regional areas, and 21% (100) provide services in remote areas.
- One in five organisations are for-profit, while 79% are not-for-profit entities.

The sector's experience of demand

The gap between demand and supply is expected to widen.

- With the continued rollout of the NDIS, 71% of providers have noticed an increase in demand for services during 2015-16.
- Three quarters expect demand will continue to grow into 2016-17 but only 60% are planning to increase the scale and range of services they provide.
- Thirty-seven per cent report that they are unable to keep up with demand, with 10% reporting that some clients received no service.
- Looking ahead, of the organisations that believe they will not be able to meet demand, only 13% believe that client needs will be fully met by another organisation. One in five believe that the clients they had to turn away will receive no services at all.
- More than half (58%) of organisations that are providing services under the NDIS report that one or more clients elected to transfer to alternative providers.
- More than half (53%) increased the scale and range of services during 2015-16, up from 25% in 2014.

The sector's response

- Providers are diversifying outside of the disability sector. Less than half (43%) reported that all of their activities relate to the provision of disability services.
- Nearly half report that they are entering new markets (client groups) not previously served.

The sector's financial strength

- Only a third of organisations reported a profit of 4% or more, while around 20% each broke even or made a loss.
- Approximately a third of organisations reported no growth in their net assets, and 15% a decline in net assets. Only half reported an increase in net assets. However, of this group, 29% reported net assets had only increased between 0% and 4%.
- Only 40% of organisations have budgeted to make a profit in 2016-17, and only 26% expect to achieve a profit of 4% or more.
- Even though only 55% of respondents made a profit, 87% reported that the financial strength of their organisation was satisfactory or better.

The sector's workforce

- Fifty-nine per cent of organisations increased their total head count in 2015-16 and 59% expect to increase their head count in this current financial year.
- Workforce constraints appear to be limiting growth. Organisations found it difficult to recruit and retain a wide range of employees. In particular, 23% of organisations employing speech therapists and 22% of organisations employing occupational therapists found people with these skills extremely difficult to recruit.

The sector's strategic planning

- There are a wide-range of changes that organisations must implement if they are to be successful under the NDIS. Over a third of organisations report that they need to develop their Information, communication and technology strategy, 33% need to focus on their marketing practice, 28% on implementing strategic or business plans and the same number need to improve their business or operational planning process.
- Ninety per cent of providers agree or strongly agree that their organisation is actively working on its productivity.
- Seventy-nine per cent report that they have a clear strategy for the next year and 66% that they have a clear vision of where the organisation will be in three years.
- Organisations are worried about how they will adapt to the NDIS. Sixty per cent agree or strongly agree that they are worried about their ability to adjust to changes resulting from the NDIS and 17% that their organisation is not focussed on growth.

Collaboration within the sector

- The majority of organisations (particularly the not-for-profits) actively collaborate to advocate for individual clients or for the sector as a whole. Over half have agreements in place with other organisations to refer or provide services to clients.

- Forty-one per cent of organisations have discussed merger, while 7% each are undertaking a merger or have completed a merger in the last year.
- The main reason given to discuss or undertake a merger was to broaden the range of services to existing clients, which was ranked first by 17% of respondents. Fifteen per cent reported that not being financially sustainable was their main reason for merging.
- Overall 22% of those considering or undertaking merger made a loss in their last financial year and 16% broke even. Less than half expect to make a profit in the current financial year (2016-17).

Disability service providers closing

- Nearly one in ten (8%) of respondents reported they had discussed winding-up. This rose to 40% for those that reported a weak financial performance.
- Organisations that discussed closing are not all small organisations. A quarter were mid-sized, with income of between $5M and $10M.
- Regional and remote providers are disproportionately affected. Seventy per cent of those discussing closing operate in regional areas and 41% in remote areas, compared with 55% and 21% respectively for all providers.
- Sixteen per cent discussed discontinuing the provision of disability services. Of these, 55% received less than half their income from the provision of disability services, suggesting a low exit barrier.

The perception of the NDIA

- There is strong support for the NDIS, but providers are concerned about the approach being taken by the NDIA, especially on poor sector engagement and co-design of market related settings. Only 13% agreed that 'the NDIA is working well with providers', and only 8% agreed that 'government is anticipating or responding well to the needs of organisations'.
- Providers are concerned they will not be able to provide services at the prices being offered under the NDIS (67%) and that they may have to reduce the quality of services in order to deliver at the prices specified (46%).
- When asked to identify the one thing that would have the most impact on their capacity to supply services, by far the highest ranked item was the need to ensure that prices are aligned with the actual cost of supply (58% ranked first).

Section 1:
The profile of the disability services sector

The success of the NDIS depends on a strong market for the supply of services.

To monitor the market and mitigate risks, it is necessary to understand the characteristics of suppliers that influence their capacity to both:

- respond to the major changes occurring in their operating environment (i.e. survive transition); and
- provide the quantity and quality of services needed by participants when the NDIS is fully implemented, and to do so cost efficiently.

These factors include basic organisational characteristics, such as size (annual income), resources (assets, skills, experience, reputation, business model), location, number and type of existing clients, income diversity and staffing. They also include the organisation's service models, its history and purpose, management's expectations and intentions, governance skills, and the expectations of stakeholders such as members and service users [2].

This section summarises the key factors believed to be affecting the sector's response to the NDIS and provides some explanation for the responses observed in this report.

Number of providers

For service provision to be effective and efficient, there needs to be enough supply to meet demand and enough competition to drive innovation and efficiency. In established markets, the number and types of suppliers will usually evolve slowly in response to service innovation, market pricing and user choice – some will close, others merge and new suppliers will enter. However, in markets undergoing rapid change, organisations that would otherwise be strong, capable and valued providers can be lost due to their lack of capacity to make the transition.

The loss of a few small providers or those in metropolitan areas may have limited impact on end-users or prices, and no impact on long-term market efficiency. However, the loss of a large provider, a specialist service or the sole provider in a regional location could have major consequences for people with disability and result in a major loss of assets and resources to the sector that will need to be replaced. As such, it is important to monitor and support efficient

2 This report examines organisational attributes in aggregate, but their importance for any individual organisation will depend on that organisation's unique market and operating environment. There is no business or service type that will work well in all locations or across all services. It is well recognised that the market conditions in regional and remote locations will present different challenges for both organisation transition and on-going service provision. In varying degrees, this is true for all organisations in all locations.

market evolution.

At present, it is unclear how many and what types of organisations are supplying disability services. The data available shows that as at 30 September 2016 there were 3,696 registered NDIS service providers with an additional 3,000 registrations in process.

Organisation size

Estimates of the size of providers prior to the introduction of the NDIS indicate that nearly a quarter were small, with income of less than $1M, and a further third had income of between $1M and $5M.

The relative proportions of very small, small, medium and large organisations are similar to that in many other For-profit or NFP industries. Figure 1 shows that 80% of organisations have turnover of less than $20M, with more than half (58%) having income of less than $5M.

However, in comparison to other industries, disability sector income appears to be slightly less concentrated into the larger organisations. Data from the Australian Charities and Not-for-profits Commission shows that in 2015 the top 10% of charities by income had 90% of the sector's total income[3].

This suggests that some market concentration is likely.

The sample of respondents to this survey is broadly consistent with estimates of market distribution.

The size of organisations has several affects, including on efficiency, innovation and ability to respond to change.

The optimal or efficient size of an individual organisation depends on a number of complex and interrelated demand and supply factors. In some cases, larger organisations are more efficient, while in other cases it is the smaller providers. For example, some therapy services may be more efficiently provided by sole practitioners or small practices with minimal management overheads – so long as external compliance obligations are low. The size of an organisation can also effect its ability to respond to change, as smaller organisations usually have fewer surplus resources, both in terms of both staff time and funds.

3 Australian Charities and Not-for-profit Commission, Australian Charities Report 2015, Dec 2016.

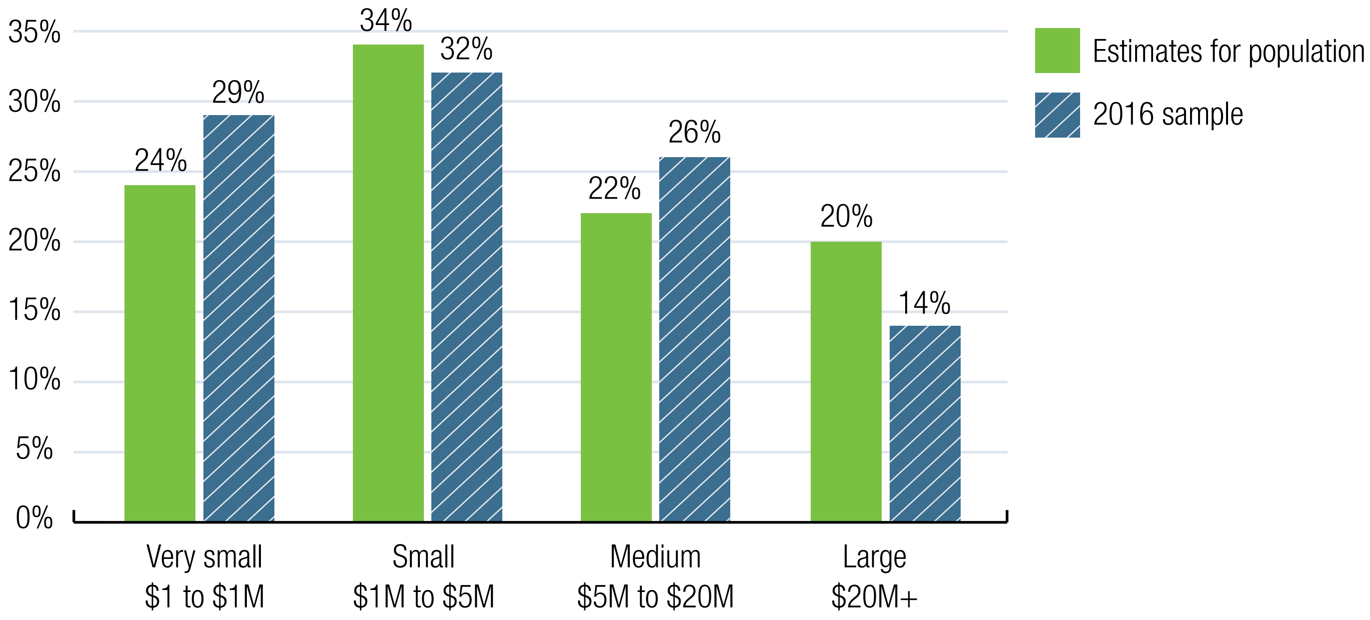

Figure 1: *Estimates of disability sector by organisation turnover and comparison with survey sample.*

Due to their resource limitations, it is often difficult to attract the smaller organisations to surveys. However, the results to the 2016 survey show that this group of organisations was very responsive to the study. Twenty-nine per cent of respondents to the 2016 study were very small and 32% were small. As such, this sample provides a good cross-section of the disability services sector. Because the actual ratio of organisations of each size is not known, the data was not weighted.

More than half of providers are not exclusively providing disability services

From commentary in and about the sector, it can be easy to assume that most suppliers exclusively provide disability services. However, only 43% of this year's respondents stated that all of their activities were related to the provision of disability services. Over a quarter of service providers (27%) reported that less than half of their activities were related to the provision of disability services, while 9% reported 'about half' and 19% 'more than half'.

This has significant implications regarding the ease with which organisations can shift resources and service provision into and out of the disability sector. Not-for-profits usually have less flexibility to move resources between sectors due to their requirement to deliver on their mission or purpose, but it appears many already provide services for other types of clients. The lower the barriers to exit the more likely that providers will be sensitive to pricing (i.e. they will more likely stop providing services where profit margins are low, zero or negative).

Noting that this year's sample included organisations that were not members of NDS, when the results from previous years are compared, it appears that the ratio of organisations exclusively providing disability services is declining. Comments from survey respondents indicate that some providers are seeking to diversify their client base to reduce risks, particularly as the outcome of the NDIS remains uncertain.

	All activities relate to the disability services sector	Registered to provide services in a trial site
Wave 1	59%	24.1%
Wave 2	56%	33.1%
Wave 3	53%	37.4%
Wave 4	43%	N/A

About half of all responding organisations have already provided some services under the NDIS

In the 2016 (Wave 4) survey, the questions regarding involvement in the NDIS were changed to reflect the on-going rollout of the scheme. Of this year's respondents:

- 77% are registered to provide services under the NDIS
- 51% reported that they had provided services under the NDIS

This means half of our respondents reported that they had direct experience of service delivery and payment under the NDIS.

In addition, 6% of respondents reported that they had received funding from the NDIA for Information Linkage and Capacity Building activities.

One fifth of responding organisations are for-profit entities

Of the total sample, 79% are not-for-profit organisations, 20% are for-profits and 1% are local government entities. Of the for-profit organisations, 5% are sole traders and half of the for-profits (48%) reported income of less than $250,000. As such, it appears that new for-profit suppliers are also largely small enterprises.

More than half (53%) had an income of less than $3M in 2015-16 and employed less than 50 staff.

Data from the NDIS that records if organisations are charities or for-profits and the legal entity type of the charity or for-profit is not fully reliable, but it suggests that about 60% to 70% of registered providers in 2016 were charities.

The number of suppliers in each state and territory broadly reflects the population

The number of suppliers providing services in each state and territory broadly reflects their populations. However, there is a slightly higher ratio of providers in the more populous states. Nearly half of all suppliers (47%) provide services in New South Wales or Victoria, and 15% provide services in Queensland. The jurisdictions with smaller populations have higher ratios of suppliers, and they are also supplied with services by organisations located in other states. For example, organisations with their head office in Victoria or New South Wales may also be providing services in Tasmania or the Northern Territory.

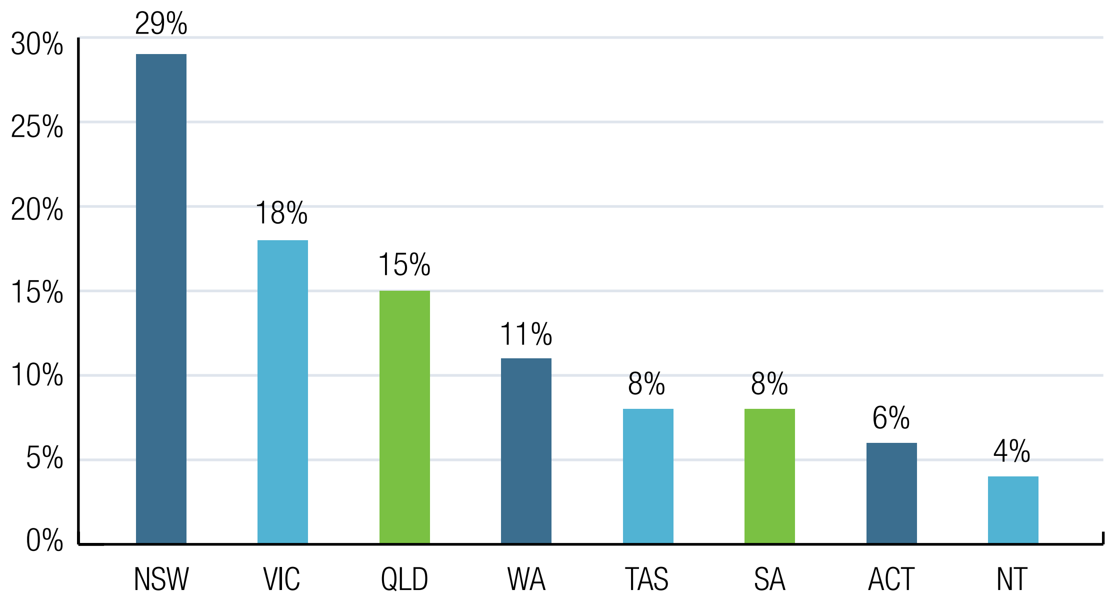

Figure 2: *Location of service provision (n = 467). Note: Total adds to more than 100% due to multiple response.*

Regional and remote service provision

Survey respondents provide services in all areas, including capital cities, regional cities, regional and remote areas. In total, more than half (55%) of respondents reported providing services in regional areas and 21% provide services in remote areas.

	NSW	VIC	QLD	WA	TAS	SA	ACT	NT
Capital city	25%	37%	24%	41%	51%	33%	38%	67%
Regional city	25%	27%	30%	27%	23%	26%	20%	19%
Regional area	35%	27%	35%	24%	20%	31%	22%	10%
Remote area	14%	9%	11%	9%	6%	11%	20%	4%

Section 2:
The sector's experience of demand

Demand

Demand is growing rapidly and suppliers are reporting a widening gap between demand and supply

Demand for disability services is ultimately felt at the 'front door' of disability service providers and therefore supplier feedback on their experience of demand is an important indicator of market pressures.

As the NDIS is rolled out, the growth in demand is increasingly being felt across the sector. Seventy-one per cent of service providers reported that demand for their services increased over the last year (compared with 61% in 2014) and 75% expect demand to increase further in 2016-17. Those experiencing and expecting the most growth are the specialist disability services providers.

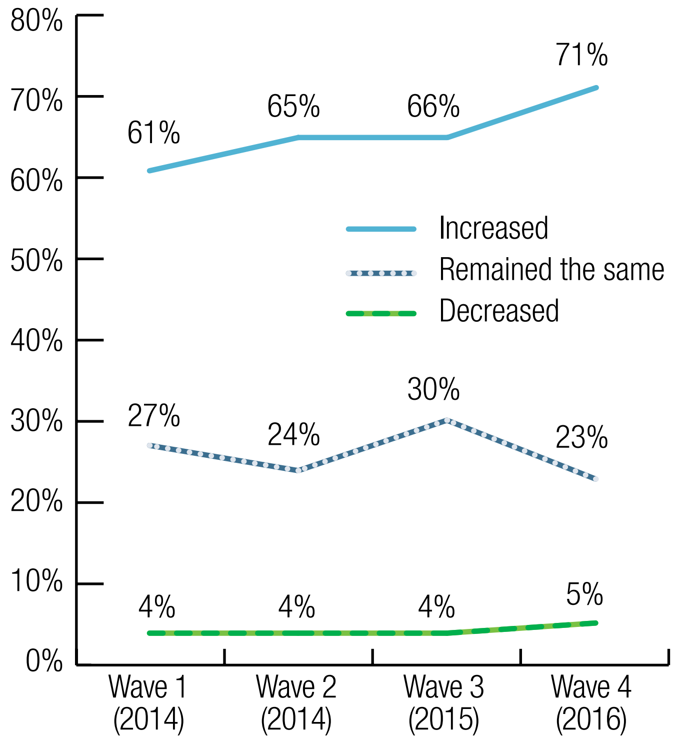

Figure 3: *Demand last year (n=512).*

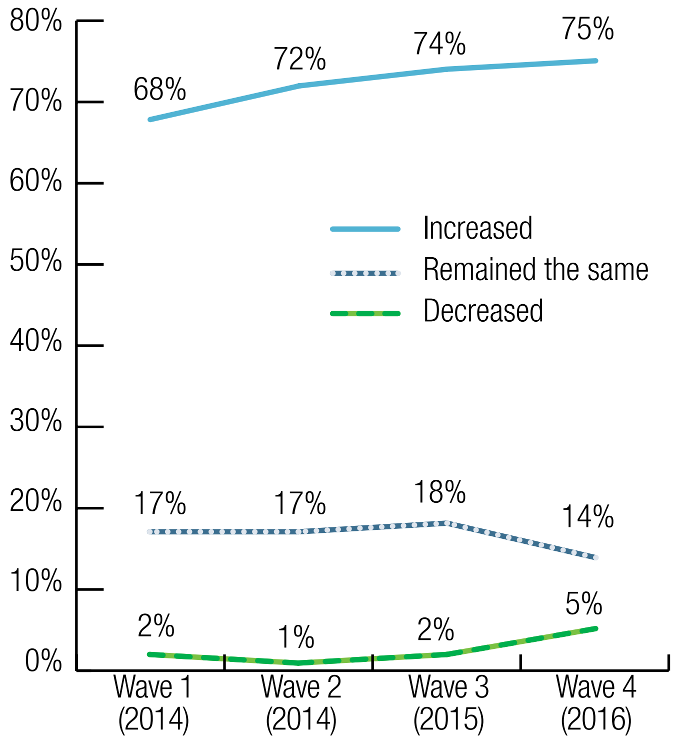

Figure 4: *Forecast demands next year (n= 508).*

Services users are showing signs of switching providers – half of providers ‘lost’ clients

Providing service users with choice and control is a key aim of the NDIS. More than half (58%) of organisations that are providing services under the NDIS report that one or more clients had left their service to go to alternative providers. At this stage, most clients appear to be moving to other, existing, not-for-profit providers (38%), but service users are also moving to other new not-for-profit providers, accessing small, sole practitioners (13%) and other for-profit providers (8%).

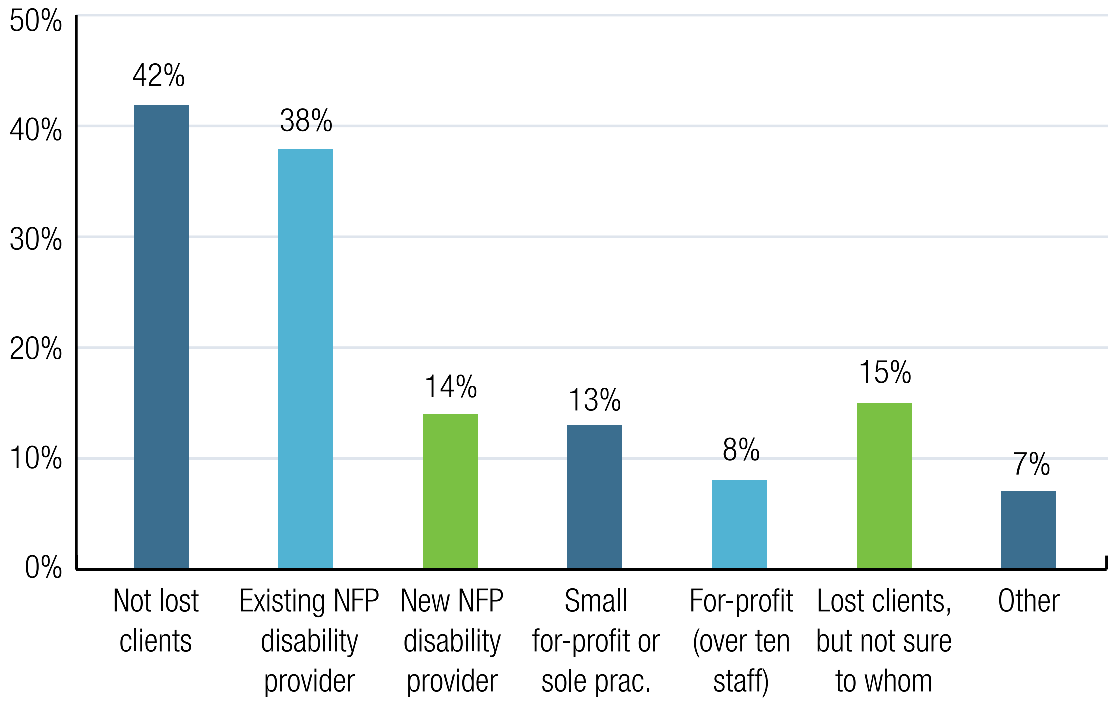

Figure 5: *Organisations under the NDIS that lost clients (n=237).*

In some cases, service providers reported that clients moved because they could not provide the service. However, many report that clients are also leaving because: they want a different kind of service (such as group rather than individual services or vice versa); because they followed staff members who have moved to other providers; because others provided higher quality services; and/or to use services located closer to their home. Others are reporting that competitors are aggressively targeting their clients with advertising and special offers, and in some cases suggesting that the service provider is not giving users full information, including details on the use of the individualised budget.

Section 3:
The sector's response

The gap between demand and supply is expected to widen as it appears that some organisations are reaching the limit of their capacity to expand – or are electing not to grow further in the current environment.

During 2015-16, more than half of all organisations increased the range of services they provided, yet the number reporting that they are keeping up with demand (60%) has not increased and 37% of all organisations are still reporting that they are unable to keep up with demand[4].

As a result, 10% of these organisations reported that clients received no service, over a third (35%) that client needs were only partially met by other organisations, and 14% that client needs had to be met (at least in part) by family or other supporters.

Looking ahead into 2016-17 financial year, 75% of providers expect demand to grow, but now only 60% are planning to increase the scale and range of services they provide – down from 68% in 2015.

"In the first quarter we had already reached 58% of the allocated number of clients we are funded to assist."

"The NDIS does not adequately fund services for clients with complex needs and high risk behaviours. We have to turn away clients."

Unless there is an increase in new providers, this will likely result in an increase in unmet client need. Of the half (53%) of organisations that believe they will not be able to meet demand this financial year, only 13% believe that client needs will be fully met by another organisation. Approximately one in five organisations (22%) believe that the clients they have to turn away will receive no service at all, and 43% believe that other providers will only partially meet their needs.

For all organisations, but particularly mission based not-for-profits, this is a very uncomfortable position. More importantly, it indicates that some participants may not be able to have their needs met, despite having the funding and control to do so.

4 2% were unable or did not want to forecast.

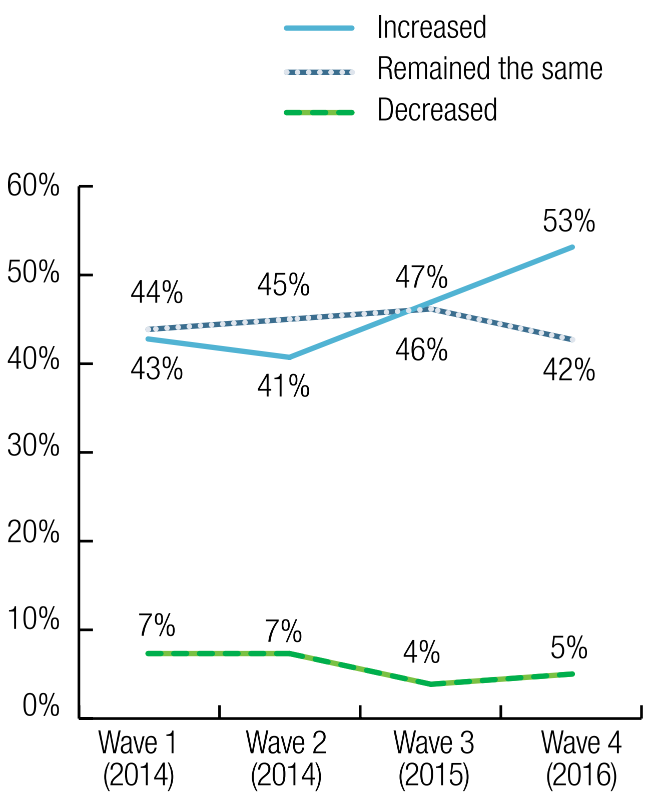

Figure 6: *Changes to the scale and range of services in the last year (n= 492).*

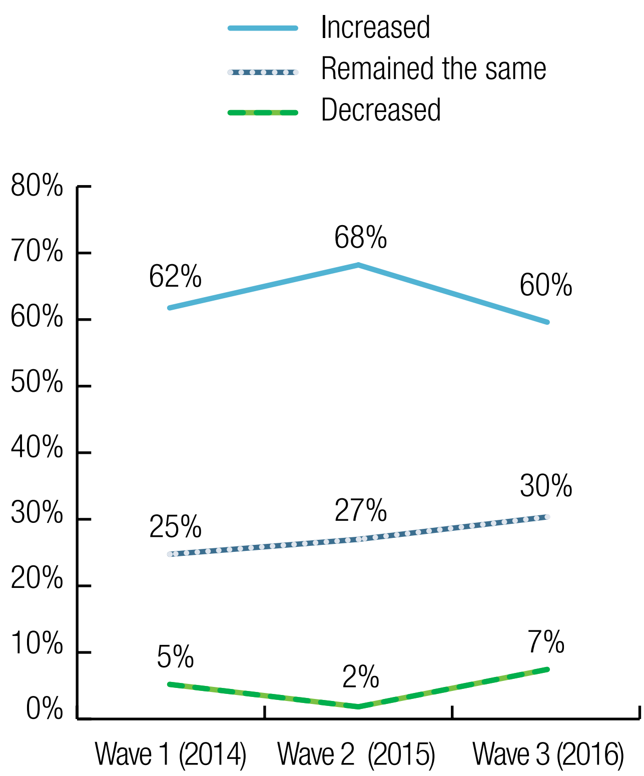

Figure 7: *Intention to increase scale and/or range of services next year (n= 492).*

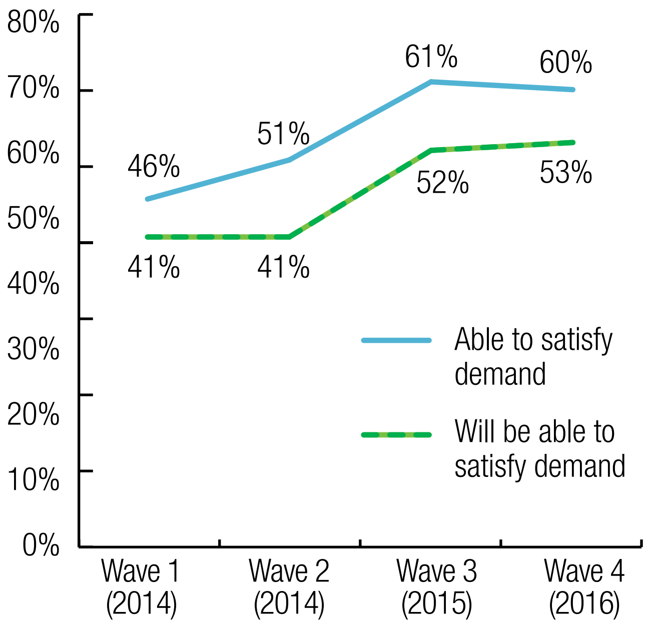

Figure 8: *Suppliers capacity to meet demand last year and forecasts for this year (n= 527).*

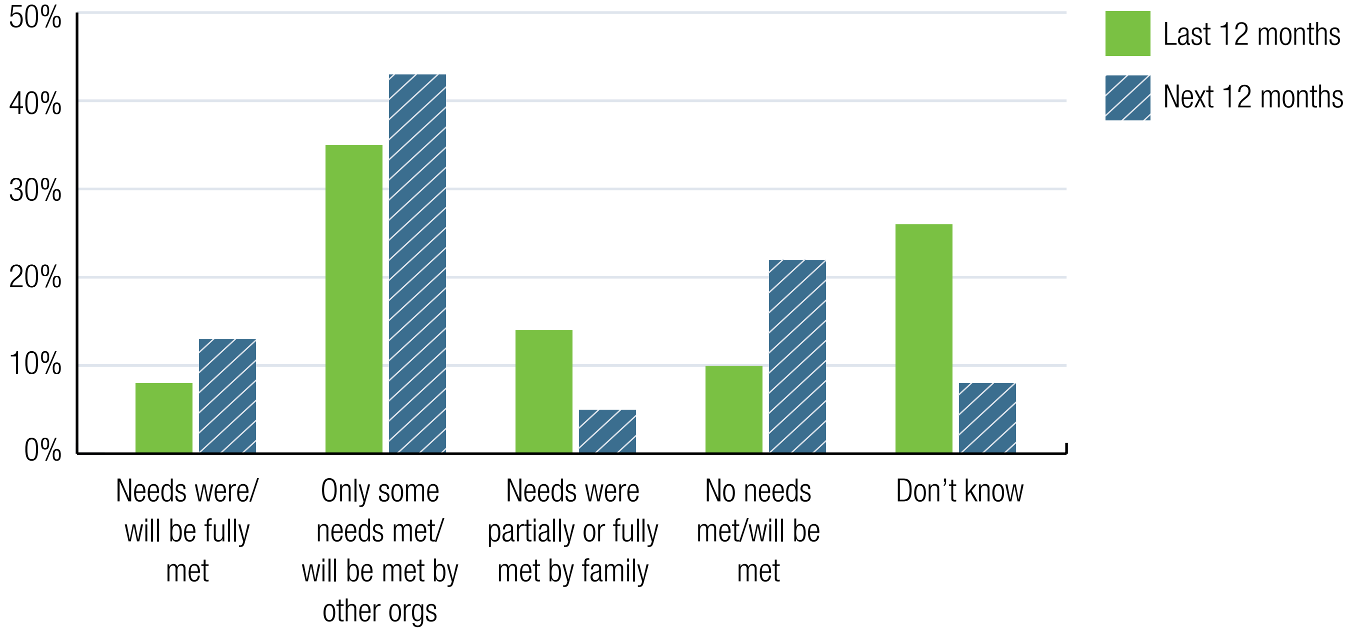

Figure 9: *Extent to which needs were met by other providers.*

Suppliers are showing signs of exercising choice and control

Pricing and availability decisions by government and government agencies are impacting actual and planned service provision and providers are expanding and contracting services in response.

Seventy-one per cent of organisations currently providing therapy services provided more hours of service last year than in the previous year. In contrast, of the organisations already providing these services, only 28% increased provision of supported employment services, 31% increased interpretation/translation services and 42% increased In-home nursing care. Ten per cent of those providing assistive technology provided less service.

Fifteen per cent of those currently providing advocacy services for individual clients plan to either reduce or stop providing these services in the next year, as will 10% of those providing behavioural support and 13% of those providing respite services.

Thirty-eight per cent of organisations are planning to introduce new services not currently offered in the next year. Of those not already providing these services, 8% plan to offer planning and coordination services, 6% plan to offer assistance with new accommodation, and 6% plan to offer travel and/or therapy services.

This is the first collection of information on actual and intended supply, and further iterations of data collection will be required before trends can be established and areas of over or under-supply identified. However, it is evident from this first data set that providers are being responsive to prices and market forces and exercising their emerging capacity and responsibility to provide services that are both needed and viable.

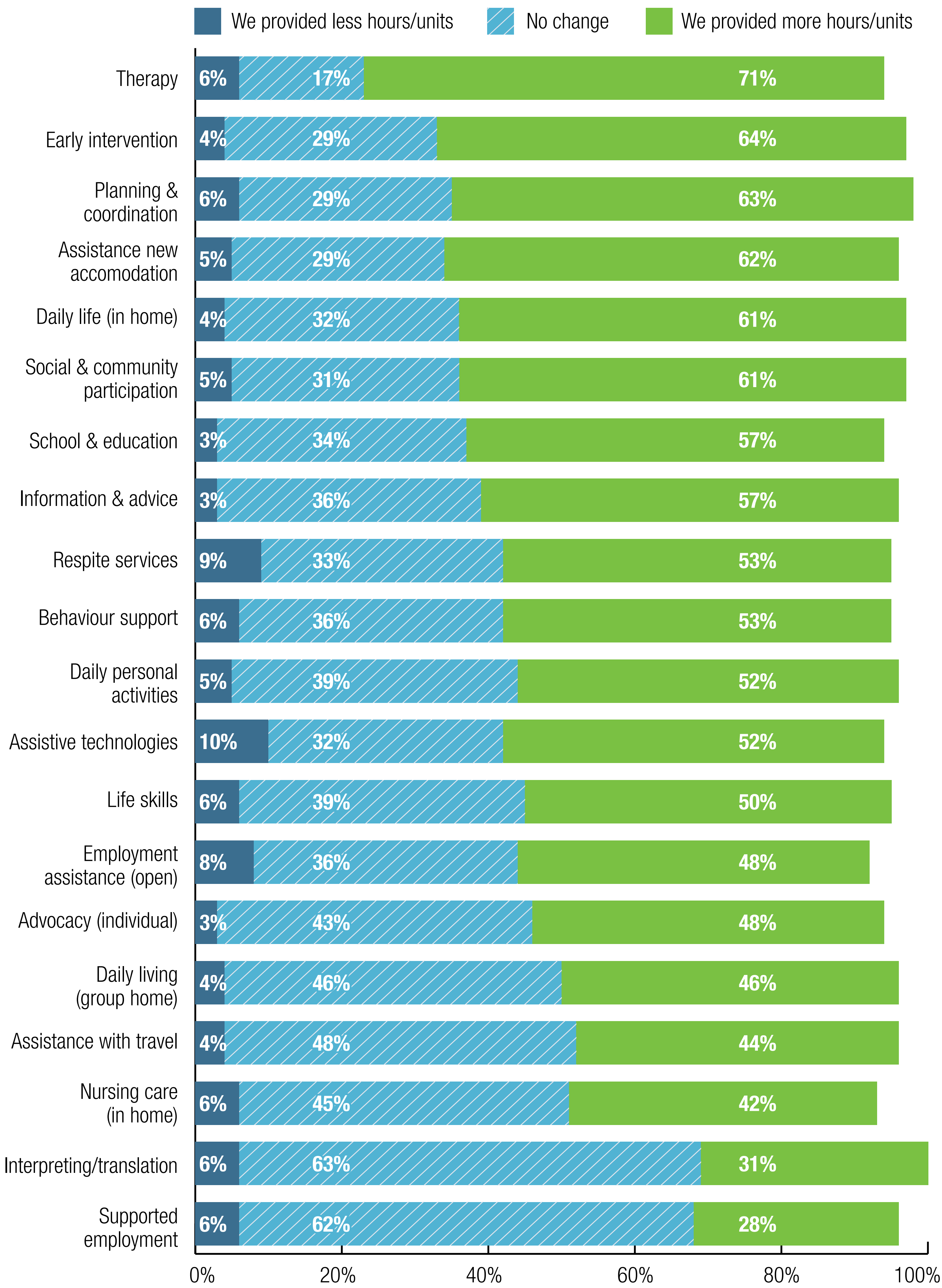

Figure 10: *Changes in service volumes (n = 31+).*

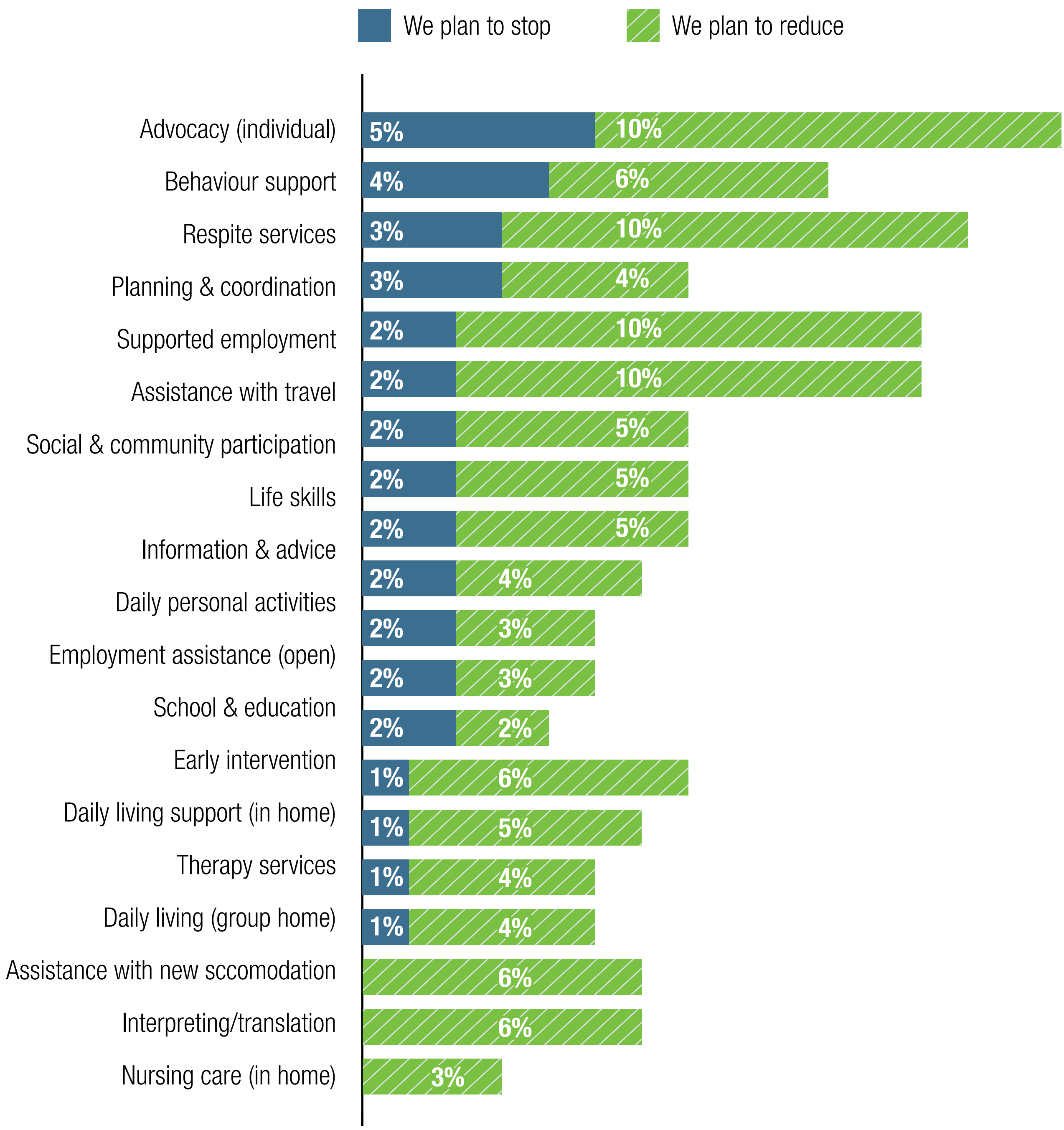

Figure 11: *Planned changes to service range (n =468).*

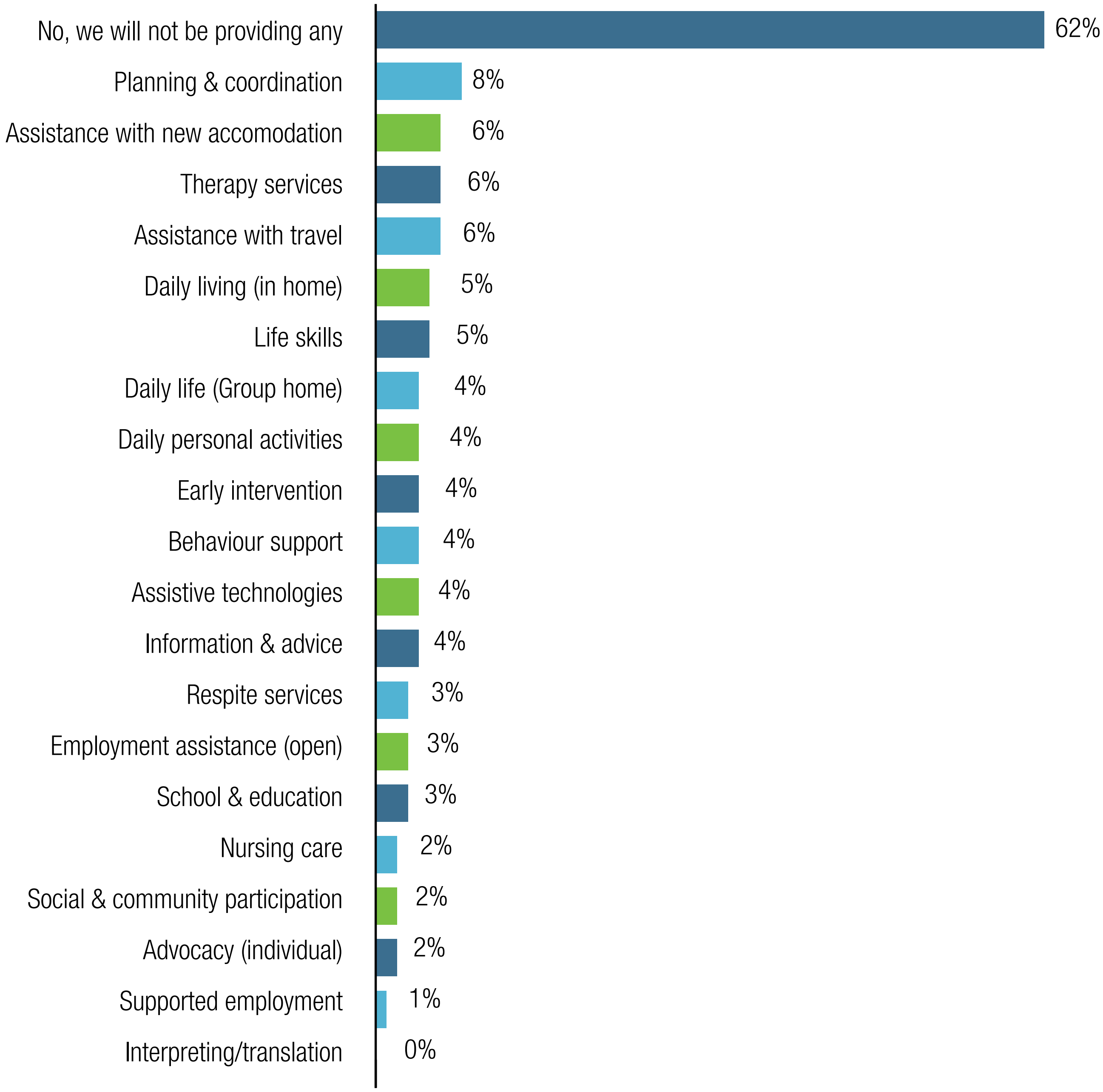

Figure 12: *Planned new services (n = 468).*

Providers are also diversifying (or further diversifying) outside of the disability sector

At present, less than half of respondents (43%) reported that all of their activities relate to the provision of disability services. The majority also provide services to other clients, such as those in need of aged care, mental health, or homelessness support.

Nearly half (48%) report that they are entering new markets (client groups) not previously served. Notably, one in five (21%) are planning to begin providing services to aged care clients, 17% are planning to provide community care services (previously HACC) and 13% will serve mental health clients.

The extent to which organisations are moving into new markets is related to their level of specialisation. Only a third (33%) of organisations specialising in disability services are planning to enter new markets in the next year, whereas 75% of those for which disability services is half or less of their business are planning to move into new markets.

Organisations that are exclusive providers of disability services, and receiving or soon to be receiving all their income from NDIA, will be impacted more by NDIS pricing. As such, this is an important group to monitor as their profit and financial sustainability may be a stronger and earlier indicator regarding pricing effectiveness.

Similarly, the comments indicate that some of the exclusive disability service provider organisations are diversifying into new markets to mitigate the short-term risk associated with the introduction of the NDIS. They may revert to being exclusive providers of disability services when the roll-out is complete. As such, monitoring these organisations and other's level of concentration in disability services will be another important indicator of market attractiveness.

WHY WILL YOU BE ADDING THESE SERVICES?

"To dilute our dependence on NDIA and supplement income."

"Allowing the age bracket to be extended to over 65 year olds living with a disability."

"The NDIA set pricing is insufficient to keep our service in financially stable condition."

The comments also show that governments will need to consider their cross-sectoral pricing structures to ensure that different policy areas and/or agencies do not unwittingly create internal price competition. In one example, funding via the Department of Veterans' Affairs for identical services was higher, so providers encouraged clients to access that funding rather than NDIS funding.

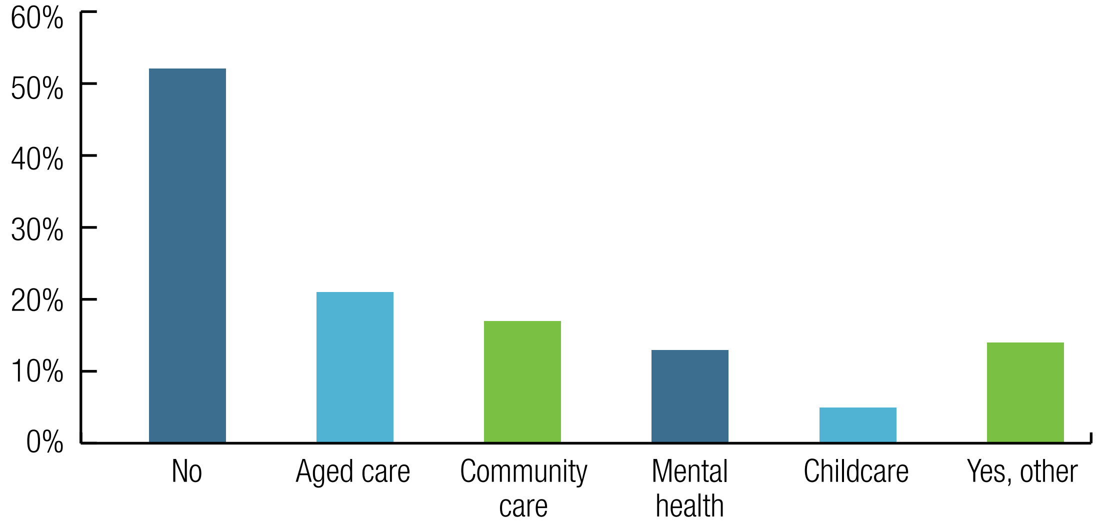

Figure 13: *Intention to enter new markets in next year (n=465).*

Financial strength

The financial strength of the suppliers is variable. Some organisations have capacity for growth, but a significant number may soon struggle to supply services

Only a third of organisations reported a profit of 4% or more

For the NDIS to be sustainable, organisations providing services must be able to make a profit. This is true for both for-profit and not-for-profit organisations, although as not-for-profits do not distribute their profit to shareholders the profit they require to be sustainable may be somewhat lower. In our sample, 19% of organisations were for-profit organisations.

Just over half (55%) of all respondents reported they made a profit, 20% broke even and a further 21% made a loss (the remainder did not know or were new entities)[5]. Of all organisations, just over a third (36%) achieved a profit of 4% or more for the 2015-16 financial year.

Many organisations will break-even or make a loss in a single year or even over a few years when dealing with a short-term event or investing for growth, but no organisation can survive in the medium or long-term without making a profit. Organisations that are inefficient will fail and be replaced by those that are more efficient, but if the margins are too low, demand will outstrip supply (at least until prices and therefore margins are increased) and quality becomes the only lever available to some organisations to reduce costs as prices are set. As such it will be necessary to monitor profit margins to ensure that supply is maintained overall, and particularly in specific service or customer groups that may be at risk of supply side failure.

The minimum amount of profit required to attract and retain an organisation in a market is a decision for the directors or owners. For most, the profit must be enough to cover sector inflation. For-profit providers will typically require profit to be sufficient to prevent investment being transferred to another sector.

5 There was no variation between for-profits and not-for-profits on the proportion of organisations reporting making a profit, loss or breaking even last year.

Half of organisations reported growth in net assets

Similar to profit reports, there was significant variation in the reported changes in net assets across organisations, although the range was not as wide as profit ratios. In their last financial year, approximately a third (32%) of organisations reported no growth in their net assets and 15% reported net assets had declined. Only half reported an increase in net assets. However, of this group, 29% reported net assets had increased between 0% and 4%. Interestingly, 42% (or 19% of all respondents) reported net assets had increased by 10% or more. This presents a more favourable outlook for sector strength and sustainability.

Suppliers' profit outlook is even less favourable

While 55% reported making a profit in 2015-16, only 40% of organisations have budgeted to make a profit in 2016-17 and only 26% expect to achieve a profit of 4% or more. For- profit organisations are more likely to be forecasting a profit (58%); 23% expect to break-even and 8% are forecasting a loss.

Of the organisations that expect to make a profit, more than half (51%) of not-for-profits and 14% of for-profits are expecting that profit to be 4% or less. Therefore, it is unlikely that the profit forecast will meet sector cost inflation.

It will be important to monitor this data over time to determine if organisations' budgeted profit expectations actually match their outcomes. However, if this data is indicative of viability, then service standards or prices will need to be altered if supply is to be maintained. Low profit forecasts may be one of the reasons for organisations slowing their pace of growth. Rapid growth into markets with low or no profit simply results in organisations going out of business more quickly.

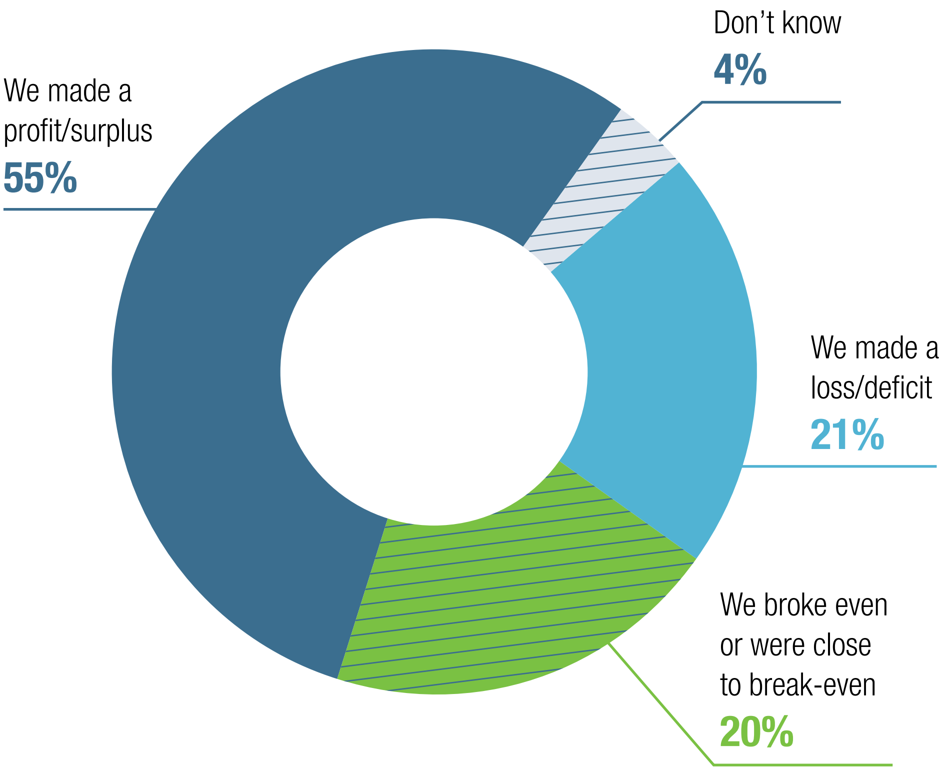

Figure 14: *Profit/Loss last financial year (n= 502).*

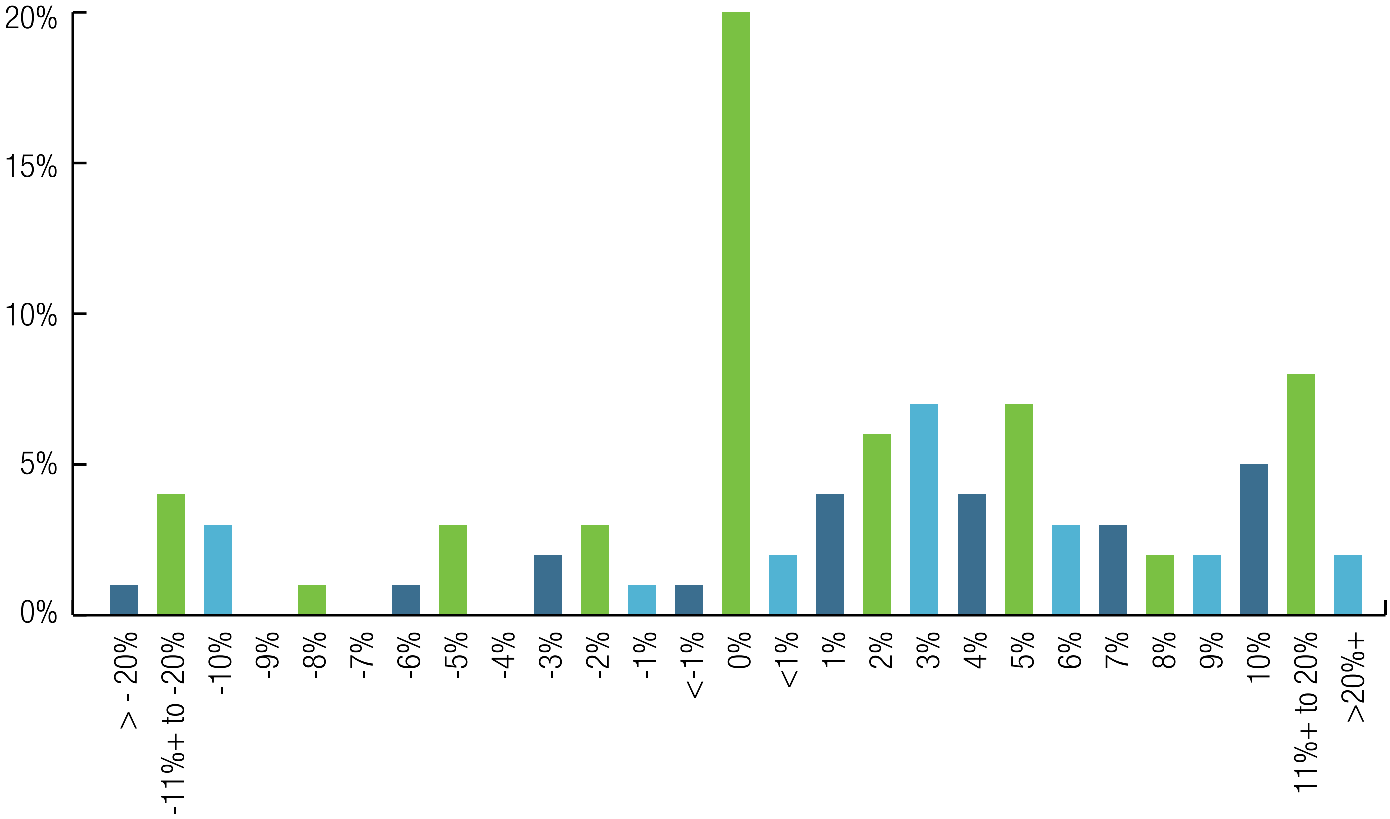

***Figure 15:** Amount of profit made in 2015-16 (n= 483).*

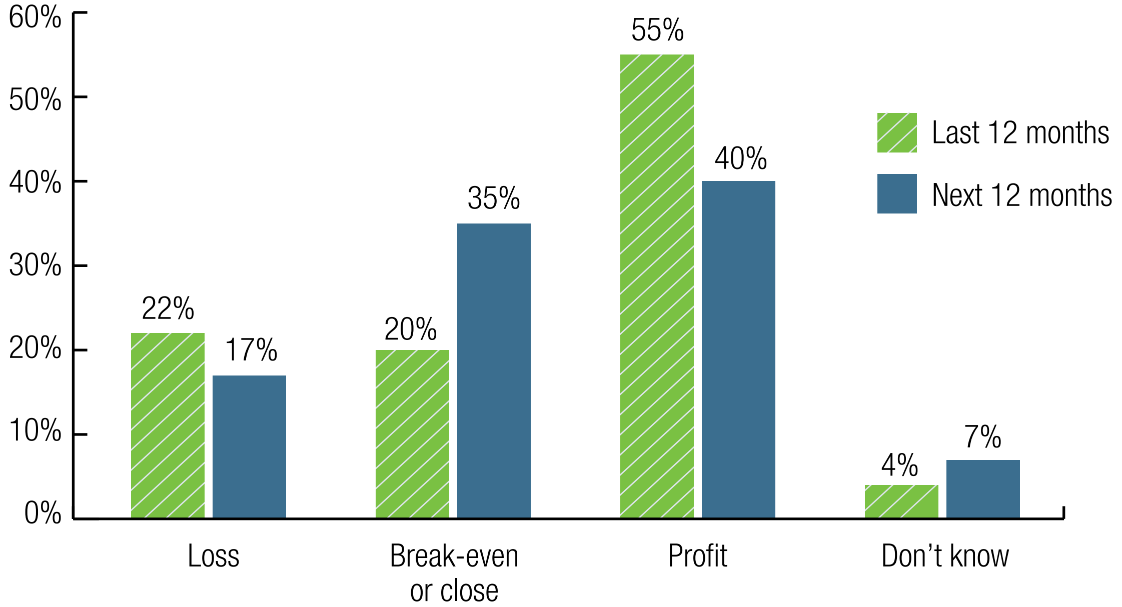

***Figure 16:** Comparison of 2015-16 and 2016-17 profit (n= 483).*

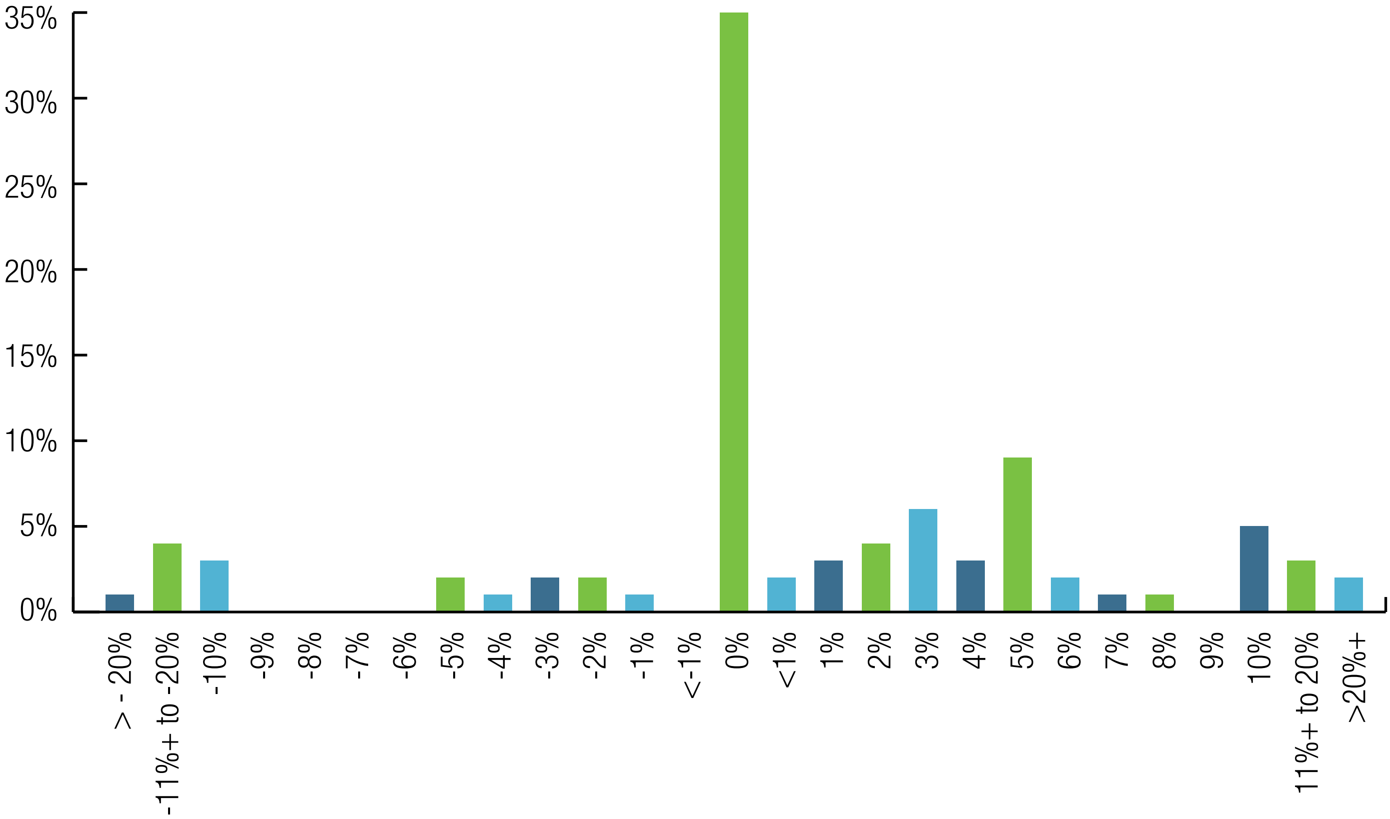

Figure 17: *Expected profit margin 2016-17 (n= 483).*

Perceived financial strength

In addition to asking a series of questions on actual financial performance, this year respondents were also asked to provide a qualitative rating of their financial strength. This is a collective and relative measure, as the leadership of a loss-making organisation with few assets may feel 'much stronger' when breaking even, and similarly an organisation with a strong balance sheet making a strong profit may feel 'much weaker' when profit falls to 5%. However, when monitored over time and cross-referenced with actual profit and asset data, it will provide an indicator of sector expectations. For this year's respondents, even though only 55% made a profit, 87% reported that the financial strength of their organisation is satisfactory, strong or very strong.

While this data illustrates the need to use actual, rather than perceived financial performance as an indicator of financial sustainability, it is leaders' perceptions and opinions that give rise to their decisions, which is why it is important to measure both. For example, the early data shows a correlation between perceptions of financial strength and discussions on closure or merger, and actual merger. To illustrate, overall 8% of respondents reported that they had discussed closing their organisation, whereas this rose to 40% for those that reported that their financial performance is weak.

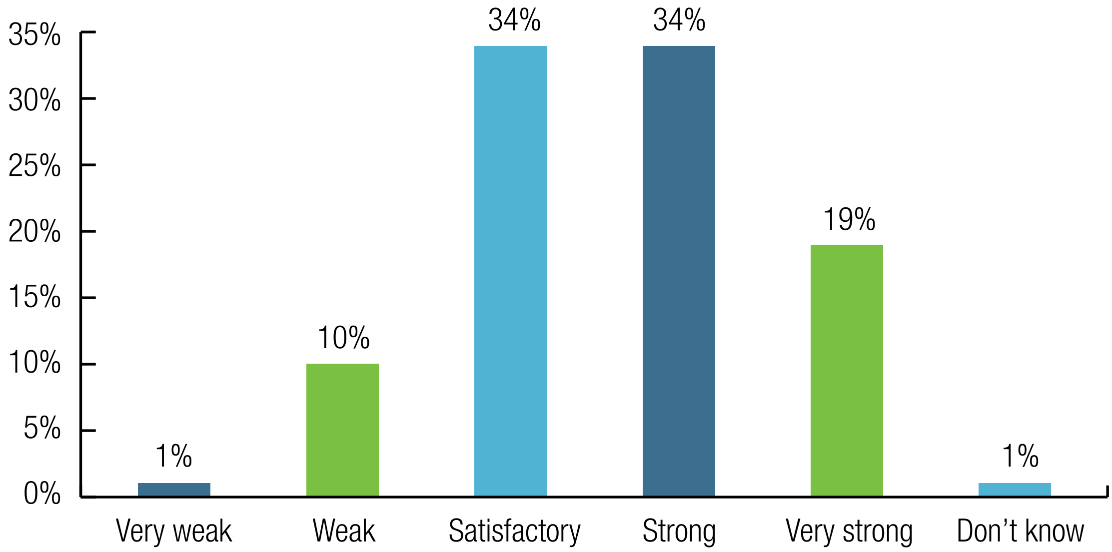

Figure 18: *Self reported overall assessment of financial strength.*

Workforce constraints appear to be limiting growth

Reflecting reported and expected growth, 59% of organisations increased their total head count in 2015-16 and 59% expect to increase their head count in this current financial year. Most growth will be in part time casual workers (51%) and part time permanent workers (42%). However, 44% of organisations are also expecting to increase their requirements for full time permanent workers.

Twenty-three percent of organisations employing speech therapists and 22% of organisations employing occupational therapists found employees with these skills extremely difficult to recruit. A further 32% and 31% respectively found them moderately difficult to recruit. Organisations have also had trouble recruiting psychologists (51% moderate to extremely difficult) and other types of allied health workers.

Demand for 'other' allied health workers and managers and supervisors of disability workers is expected to be high, with 52% and 43% of organisations respectively planning to recruit people with these skills in the next year. Organisations also expect to be recruiting a wide range of health and other staff, including marketing/business development professionals (22%), occupational therapists (22%), and speech therapists, psychologists, finance/accounting staff, and hr staff (17% each).

As could be expected, the occupation types most difficult to retain were the same as those most difficult to recruit.

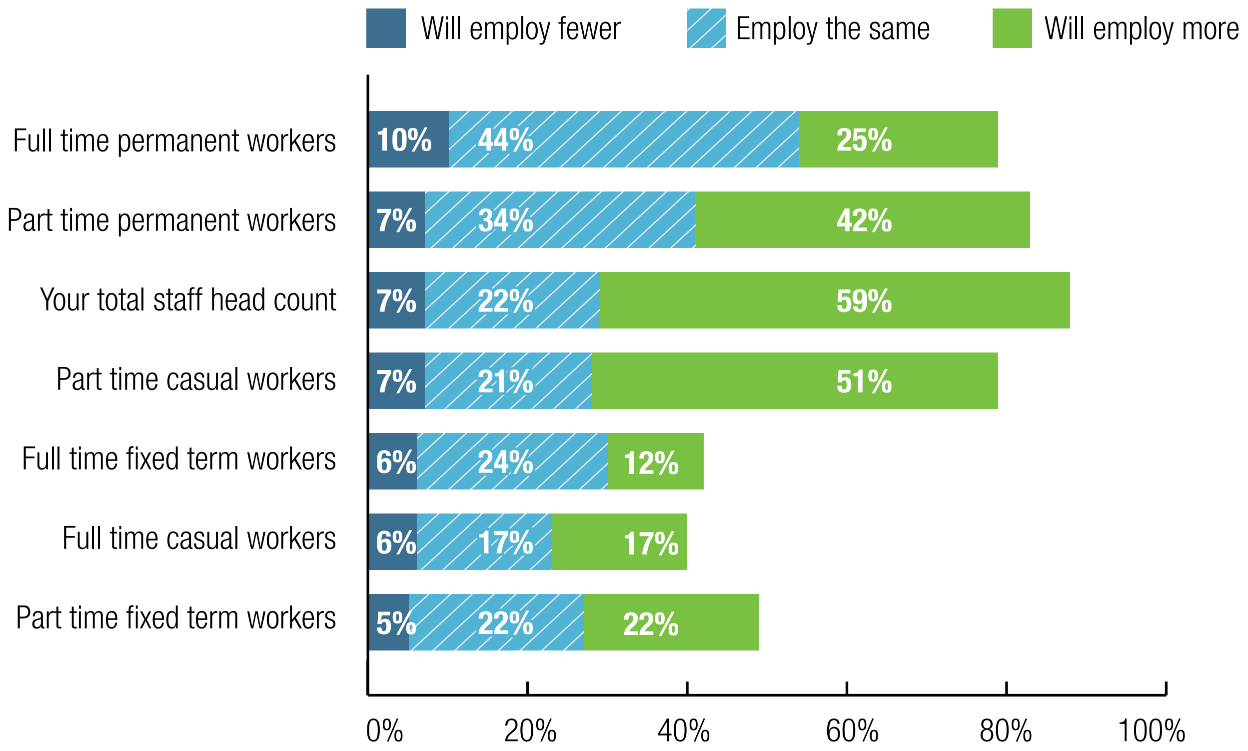

Figure 19: *Changes in workforce in the 2016/17 financial year.*

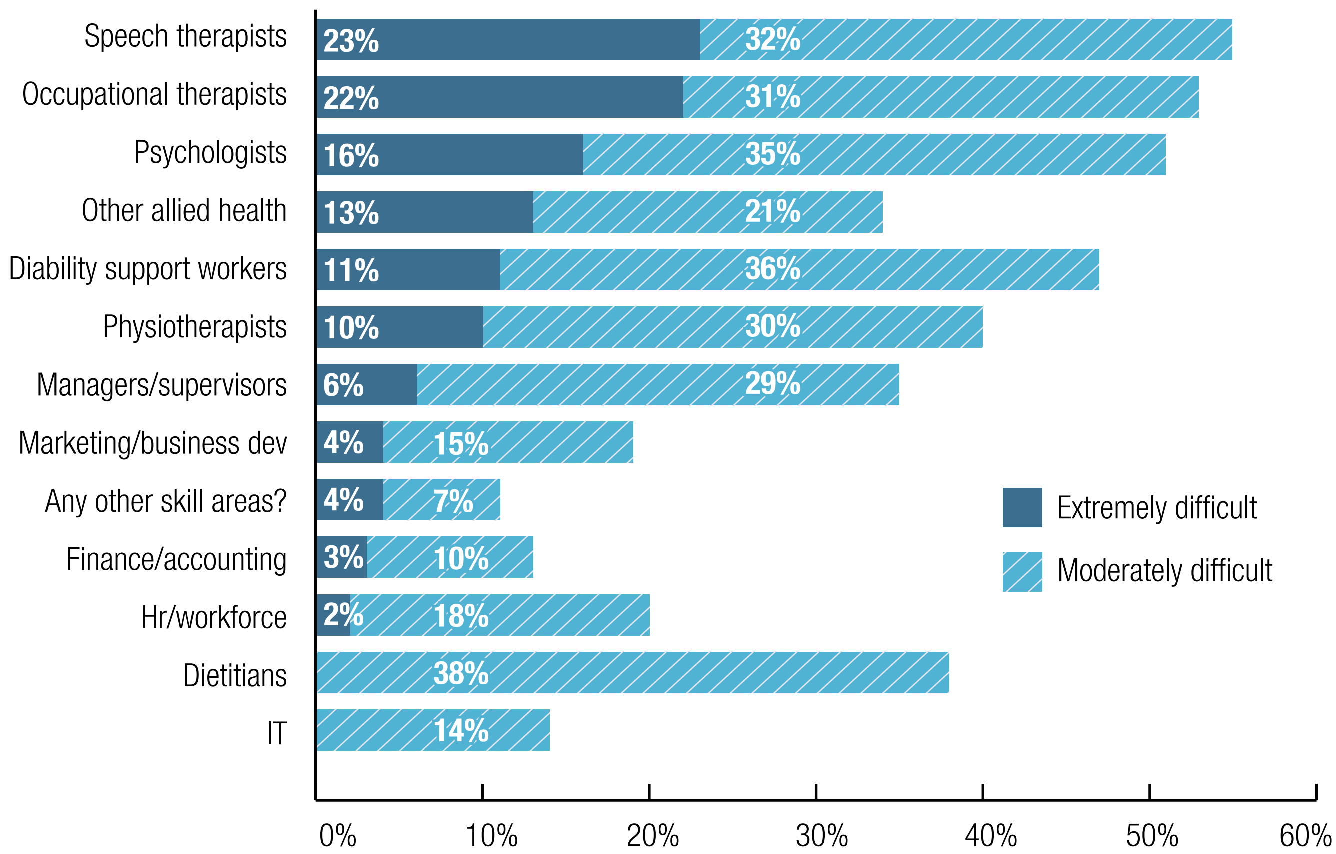

Figure 20: *Ease or difficulty in recruiting staff in the 2015-16 financial year.*

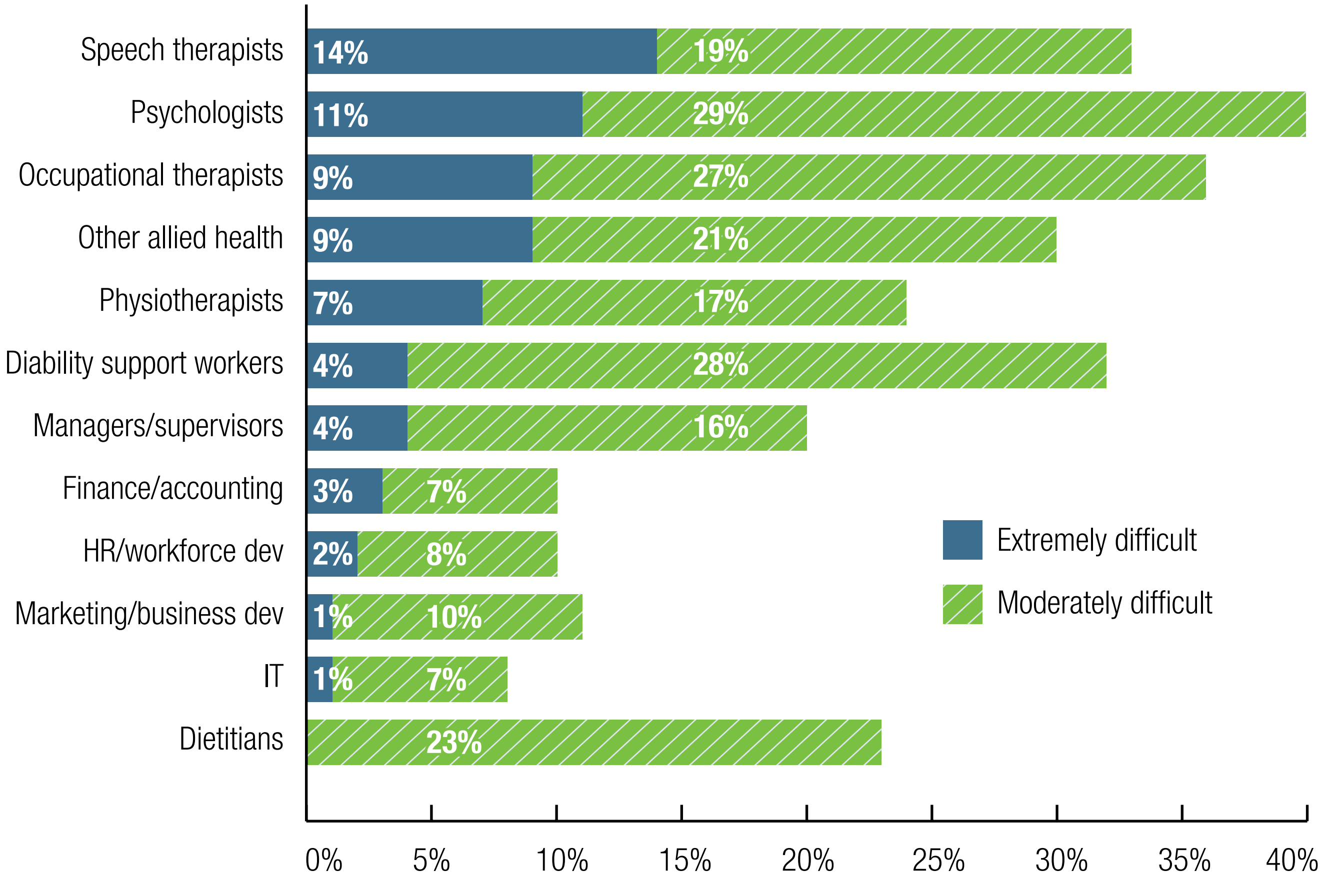

Figure 21: *Ease or difficulty in retaining staff in 2015-16 financial year.*

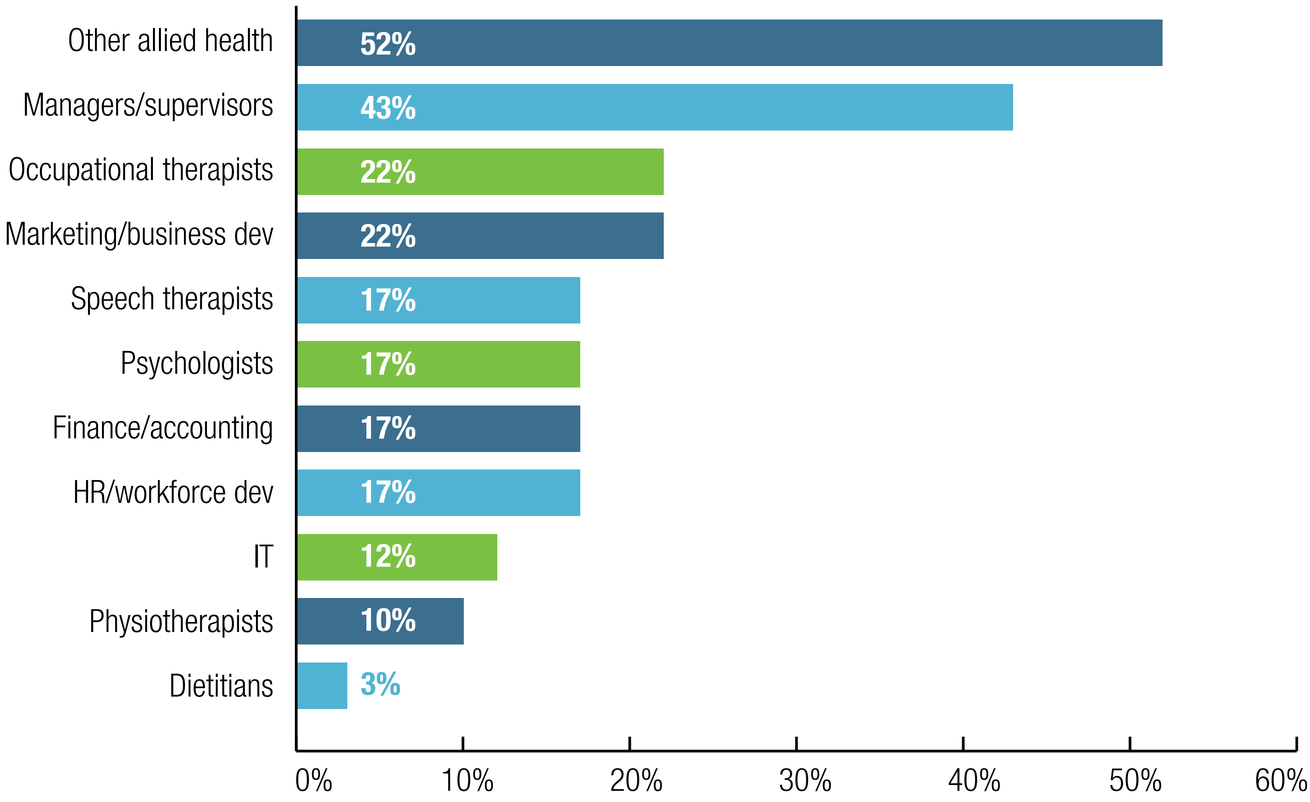

Figure 22: *Intentions to recruit (n=305).*

The supply side is focussed on re-structuring in response to market forces

There are a wide-range of changes that organisations must implement in the next 12 months if they are to be successful under the NDIS

Organisations have been actively working on redesigning their business models and operations, and introducing new infrastructure and methods of working. However, there are a wide range of areas that many organisations believe still need to be improved. The main one is costing and pricing, which was nominated by nearly half of all respondents (49%) as in their 'top three areas in need of improvement'. This is a critical issue for survival and a new skill area for many providers.

Over a third of organisations (35%) still need to develop their Information, communication and technology strategy, 33% need to focus on their marketing practice, 28% on implementing strategic or business plans and the same number need to improve their business or operational planning process. Around one in four to five need to improve HR strategy and workforce planning, data reporting, financial process and controls, market research, strategies and planning and/or client and stakeholder consultation. This question limited respondents to only three high priority areas, but the results indicate that many have a very long and complex 'to do' list to complete.

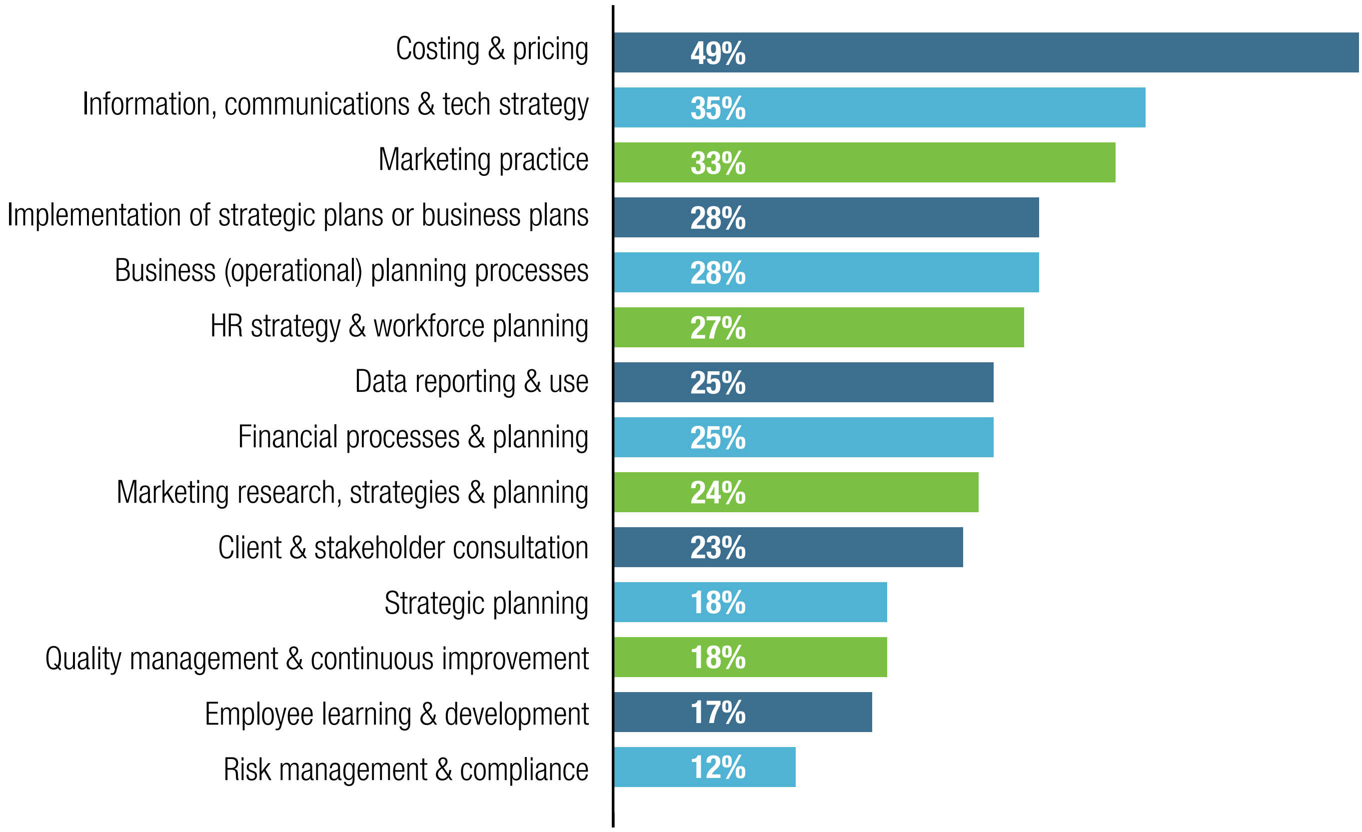

Figure 23: *Areas of operations most in need of improvement (n =392).*

Strategy and concerns

Organisations continue to focus on improving productivity and have plans for the future, but they are worried about how they will adapt to the NDIS

Ninety per cent of providers agree or strongly agree that their organisation is actively working on its productivity, 79% that they have a clear strategy for the next year, and 66% that they have a clear vision of where the organisation will be in three years. However, 60% agree or strongly agree that they are worried about their ability to adjust to changes resulting from the NDIS and 17% that their organisation is not focussed on growth.

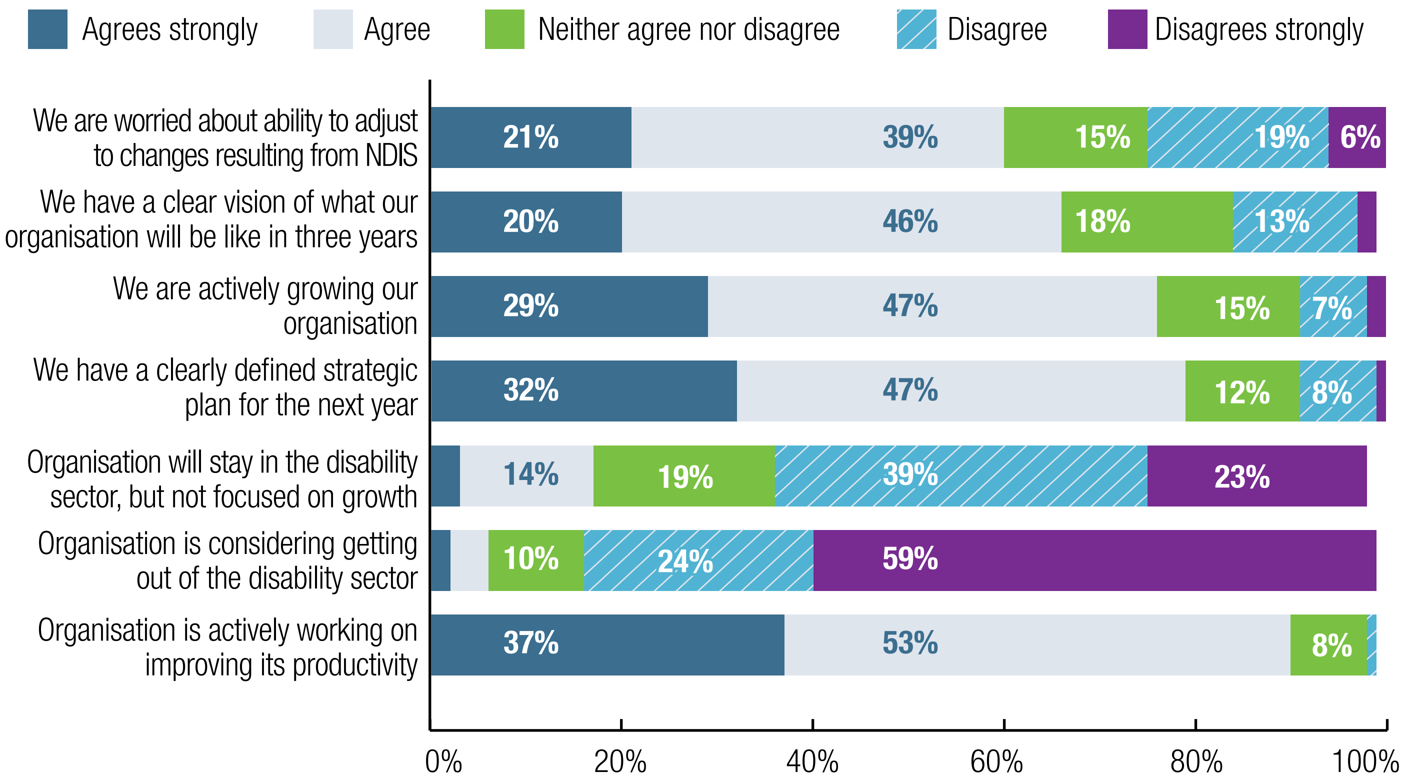

Figure 24: *Suppliers response to the NDIS (n= 459).*

Collaborations and mergers

Organisations continue to adapt to market conditions, including working in collaboration with others and merging

The majority of organisations within the sector (particularly the not-for-profits) actively collaborate with others to advocate for individual clients or for the sector as a whole. Over half (55%) have agreements in place with other organisations to refer or provide services to clients and a quarter (27%) share resources.

Forty-one per cent of organisations have discussed merger and, similar to previous years, 7% each are undertaking a merger or have completed a merger in the last year. Of those discussing merger, 12% said it is likely or very likely their organisation will merge in the next two years.

Importantly, of these, 16% have discussed discontinuing the provision of disability services and 8% have discussed closing their organisation.

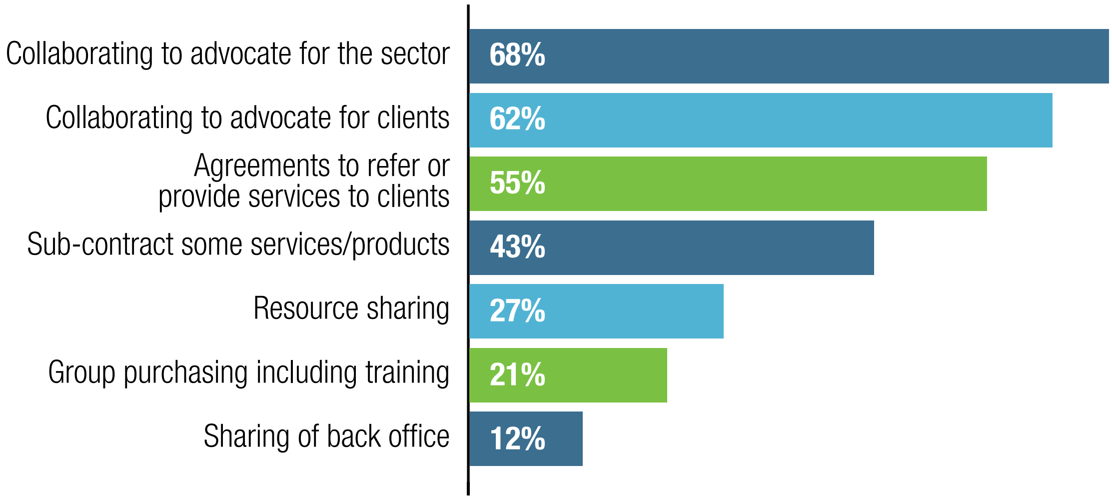

Figure 25: *Working collaboratively and sharing resources (n=450).*

Merger activity

The smaller organisations were less likely to have discussed, undertaken or completed a merger. Of the total sample, 29% of organisations had income of less than $1M, yet with regard to discussing or being involved in merger, only 11% had income of less than $1M. Some of these organisations are sole practitioners or very small not-for-profits.

Thirty-seven per cent of organisations discussing or undertaking a merger had income of between $5M and $20M, and 21% had income over $20M. Overall, 22% of those considering or undertaking merger made a loss in their last financial year and 16% broke even. Less than half expect to make a profit in the current financial year.

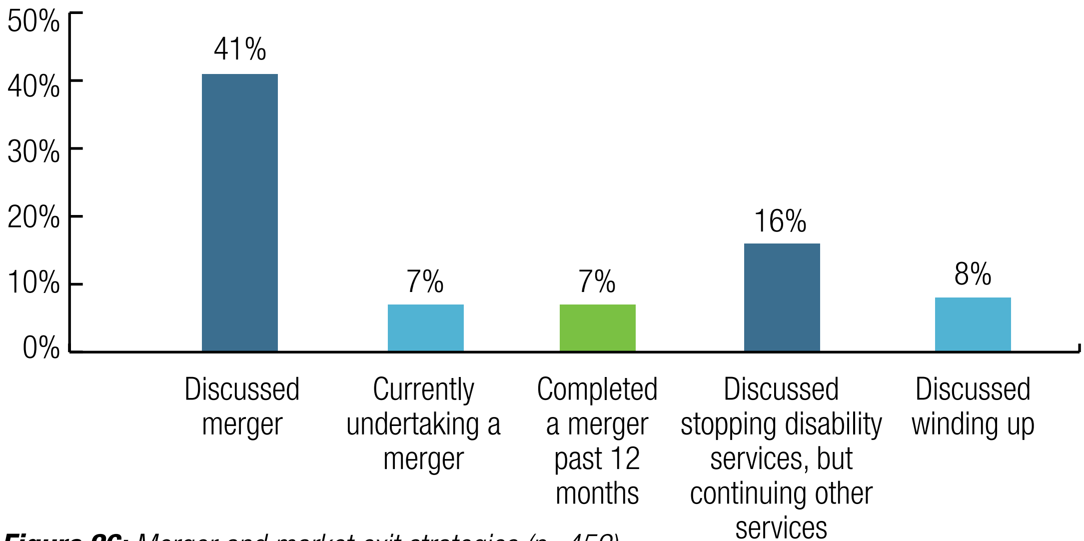

Figure 26: *Merger and market exit strategies (n=452).*

The main reasons given for discussing or undertaking a merger were to broaden the range of services to existing clients, which was the first ranked reason for 17% and the second most important reason for 19% of respondents. Of the other key reasons, to improve efficiency was nominated by one in five (21%) as their second highest ranked motivation. Fifteen per cent of respondents reported that not being financially sustainable was their main reason for merging, and for 10% this was their second ranked reason.

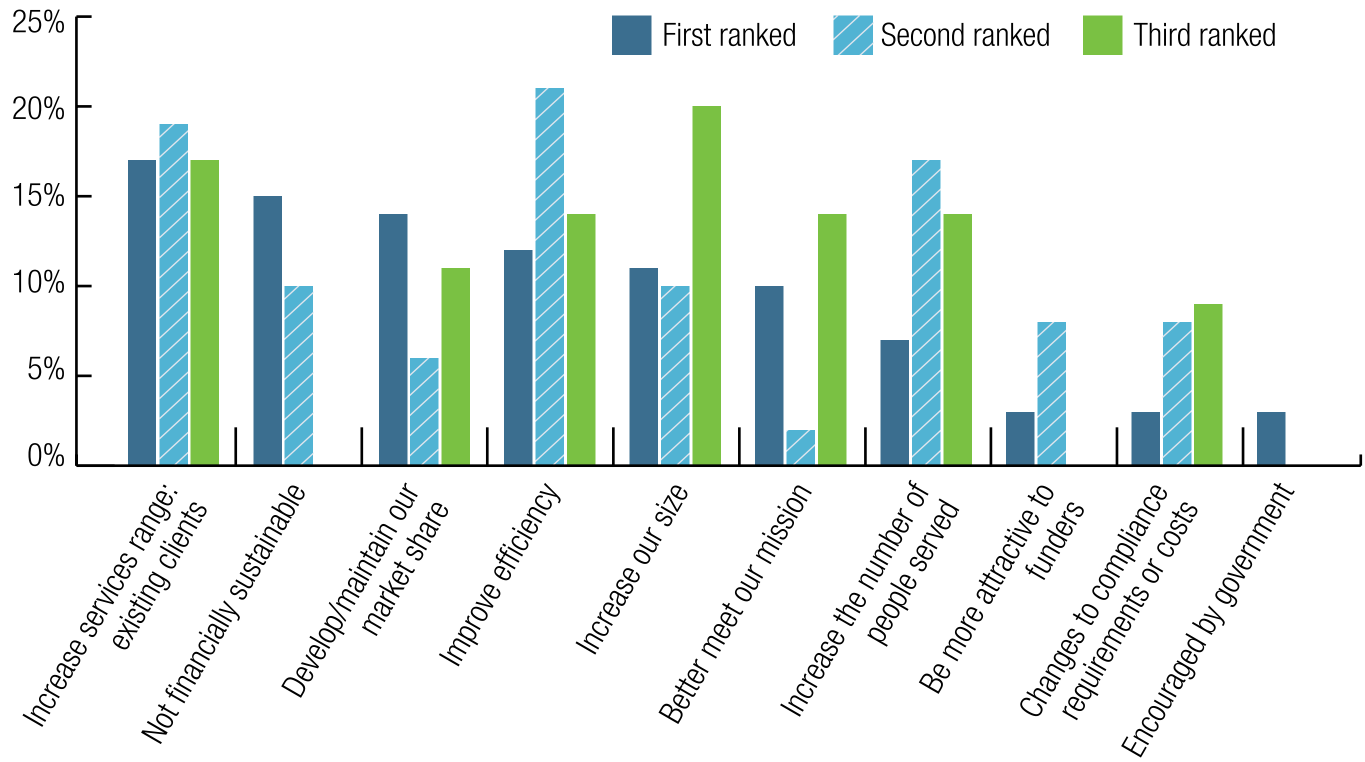

Figure 27: *Reasons cited for merger activity.*

The characteristics of their merger partner

The organisations that have or are considering merger were asked to provide a profile of the type of organisation (or organisations) with which they are, or are most likely to, merge.

In terms of size, half expect to merge with an organisation smaller than themselves, 16% with one the same size and 28% with a larger organisation.

Forty-four per cent expect to merge with an organisation in the same sector, and 37% expect that they will be merging with an organisation that they have not had a relationship with.

A significant majority (83%) expect to be merging with an organisation within their same state or territory.

Size (revenue)	Smaller than us **50%**	Same size **16%**	Larger than us **28%**	Other **1%**	Don't know **5%**
Service sector/ type	Same sector **44%**	Mostly similar sector **28%**	Some similar services **23%**	Completely different sector **4%**	Don't know **1%**
Client type	Serves our clients **15%**	Same types of clients, but not our clients **64%**	New client base **16%**	Other **1%**	Don't know **4%**
Previous relationships	None **37%**	Supplier or buyer of services **3%**	Previously collaborated but no joint projects **34%**	Previously undertaken joint venture projects **17%**	Don't know **9%**
Location of merger partner	Within same state/territory **83%**	Another state or territory **11%**	Outside Australia **0%**	Other **1%**	Don't know **5%**

Profile of organisations discussing stopping provision of disability services or closing

In total, 8% (37 organisations) reported they had discussed winding-up and 16% (75 organisations) discussed discontinuing the provision of disability services. Of these, 18 organisations had discussed both. Table A shows how these organisations compare with others on number of key attributes. Overall, the results show that organisations discussing reduction of services or closure are showing slightly weaker financial performance, but are not smaller, experiencing significantly lower demand, nor exclusively not-for-profit or for-profit. However, there is a slightly higher ratio of organisations providing services in regional and remote areas in this group.

Organisations discussing closing – key findings:

- A quarter (27%) are mid-sized organisations with income of between $5M and $10M. That is, those discussing closing are not all small organisations.
- Just less than half (46%) are exclusively disability services providers.
- One in five (22%) are for-profit organisations.
- Seventy per cent operate in regional areas and 41% in remote areas, compared with 55% and 21% respectively for all providers.
- Eighty-one per cent are registered to provide services under the NDIS and 54% have provided services for which they made a claim for payment to the NDIS. As such, compared with the overall sample they have the same experience of operating under the NDIS.
- Not surprisingly, these organisations were more likely to state that their overall financial performance was weak (22%) or satisfactory (46%).

- The proportion reporting making a profit (46%) was lower, but not substantially lower than the overall population.
- Nearly a quarter (24%) reported that their net assets had decreased, compared with 15% for the total.
- Their forecasts for demand growth were less optimistic.
- They are a little less likely to be pursuing new markets.

Organisations discussing exiting the disability services market, but continuing to supply other services – Key findings:

- One in five organisations (21%) had income of between $10M and $20M, but otherwise their distribution of income reflected that of all respondents.
- Based on income, 55% receive less than half their income from the provision of disability services. As such, their barriers to exit are low.
- A quarter are for-profit organisations
- Just over a quarter rated their financial performance as satisfactory, compared with more than half (53%) for all organisations.
- Sixty-five per cent reported demand for services had increased.
- Nearly three quarters (73%) are planning to expand into new markets, particularly aged and community care, and childcare.

Table A: *Comparison of organisations discussing exiting or discontinuing services with all others.*

	Discussed closing (n = 37)	Discussed discontinuing disability services (n = 75)	All (Samples sizes vary)
Income			
$1 to less than $250,000	16%	15%	14%
$250,000 to less than $1M	16%	16%	15%
$1M to less than $3M	14%	23%	22%
$3M to less than $5M	16%	5%	10%
$5M to less than $10M	27%	9%	13%
$10M to less than $20M	8%	21%	13%
$20M to less than $50M	3%	7%	7%
$50M or more	0%	4%	7%
	100%	100%	101%

Percent activities in disability			
Less than half	19%	55%	28%
About half	14%	13%	9%
More than half	22%	13%	19%
All	46%	19%	43%
	101%	100%	99%
Location of service provision			
Regional	70%	51%	55%
Remote	41%	24%	21%
Entity status			
Not-for-profit	70%	66%	78%
For-profit	22%	25%	19%
Other (please specify)	7%	10%	3%
	99%	101%	100%
NDIS registration			
Registered under the NDIS	81%	67%	77%
Provided services under the NDIS	54%	49%	51%
Overall financial strength			
Very weak	5%	3%	1%
Weak	22%	12%	10%
Satisfactory	46%	43%	34%
Strong	16%	25%	34%
Very strong	11%	17%	19%
Don't know	0%	0%	1%
Prefer not to say	0%	0%	1%
	100%	100%	100%
Demand for service			
Decreased	11%	9%	5%
Remained the same	22%	24%	22%
Increased	68%	65%	71%
Don't know	0%	2%	2%

	101%	100%	100%
Profit last year			
Break-even or be close to break-even	32%	31%	22%
Make a Loss/deficit	22%	29%	20%
Make a profit/surplus	46%	27%	55%
Don't know	0%	13%	4%
	100%	100%	100%
Net assets			
Not changed	38%	37%	31%
Decreased	24%	20%	15%
Increased	38%	39%	50%
Don't know	0%	4%	4%
	100%	100%	100%
Intended changes to scale of service			
Decrease	14%	24%	5%
Remain the same	32%	31%	42%
Increase	49%	39%	53%
Don't know	5%	4%	0%
Not applicable	0%	3%	0%
	100%	101%	100%
Plans to add services in other sectors			
No, we are not planning to expand outside disability services	46%	27%	52%
Yes, aged care services	30%	41%	21%
Yes, childcare services	5%	12%	5%
Community care	16%	30%	17%
Yes, mental health service	8%	14%	13%
Yes, other (please specify all types of service)	27%	22%	14%
Don't know	3%	5%	7%

There is strong support for the NDIS, but providers are very concerned about the approach being taken by the NDIA

Service providers feel left 'outside the tent' while decisions are being made by the NDIA.

Only 8% of respondents agreed that government is anticipating or responding well to the needs of organisations, and 13% that the NDIA is working well with providers. Less than one in five organisations (18%) agreed that 'the NDIA has a high level of respect for current service providers'. In their comments, providers expressed views that the NDIA is dismissive of their years of experience in delivering disability services and does not recognise their commitment to both adapt to and support the implementation of the NDIS.

Many providers are worried that the NDIA's low level of sector engagement will result in implementation errors across a number of areas. In particular, providers are concerned they will not be able to provide services at the prices being offered under the NDIS (67%) and that they may have to reduce the quality of services in order to deliver at the prices specified (46%).

"If the NDIA embraced the knowledge available from the sector across all areas such as employment, aides, and a clear understanding of the complexities involved in provision of services, a consistent and adequate approach to planning will result in better quality plans being provided."

"Our funding is being incrementally reduced every month this financial year and will cease on 30th June 2017, but no client has transitioned to NDIS. I doubt many of our clients will be eligible for NDIS as they are generally lower needs clients, but no one seems to be in contact with them to tell them this."

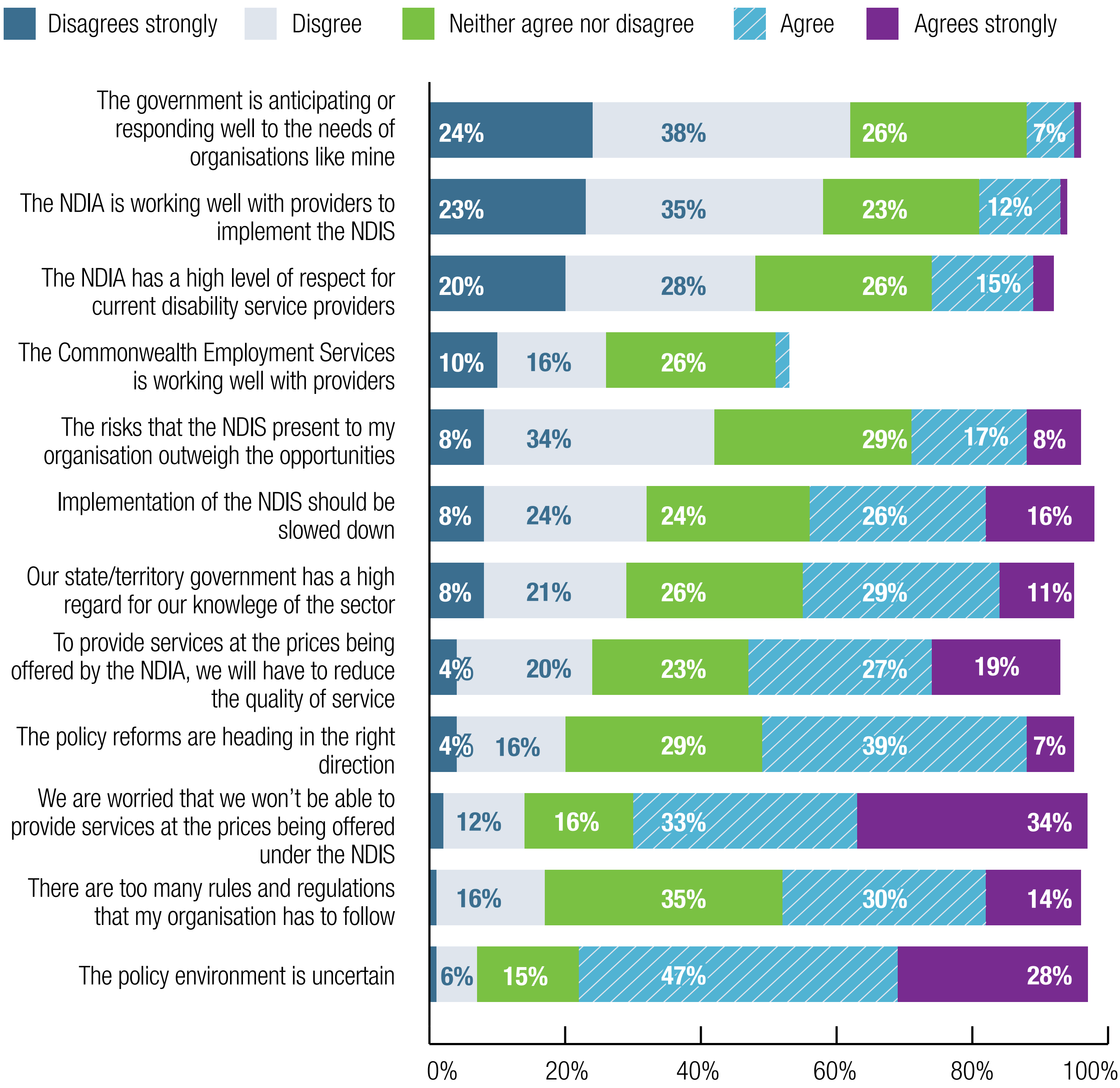

Figure 28: *Service providers' opinions on operating environment (n= 449).*

Disability Service providers have a clear and consistent message for government – ensure that prices are aligned with the cost of supply

Consistently, respondents to the 2016 survey have reiterated the critical importance of effective pricing. When asked to identify the one thing that would have the most impact on their capacity to supply services in the next year, by far the highest ranked was the need to ensure that prices are aligned with the actual cost of supply, with 58% of respondents ranking it first. Organisations are not seeking pricing that results in strong profits, but enough to ensure that they can continue to provide services to existing clients and be able to meet the needs of new clients. Sustainability in the short, medium and long term requires pricing that reflects the comprehensive cost of service delivery.

Other than realistic pricing, they also ask for practical advice and support in order to make the transition to the NDIS (10% ranked first) and want the Modern Award aligned with contemporary work requirements (29% ranked first or second). Data on the expected demand and supply in their services and areas would assist with planning, and they ask for a disability sector industry plan to support the transition.

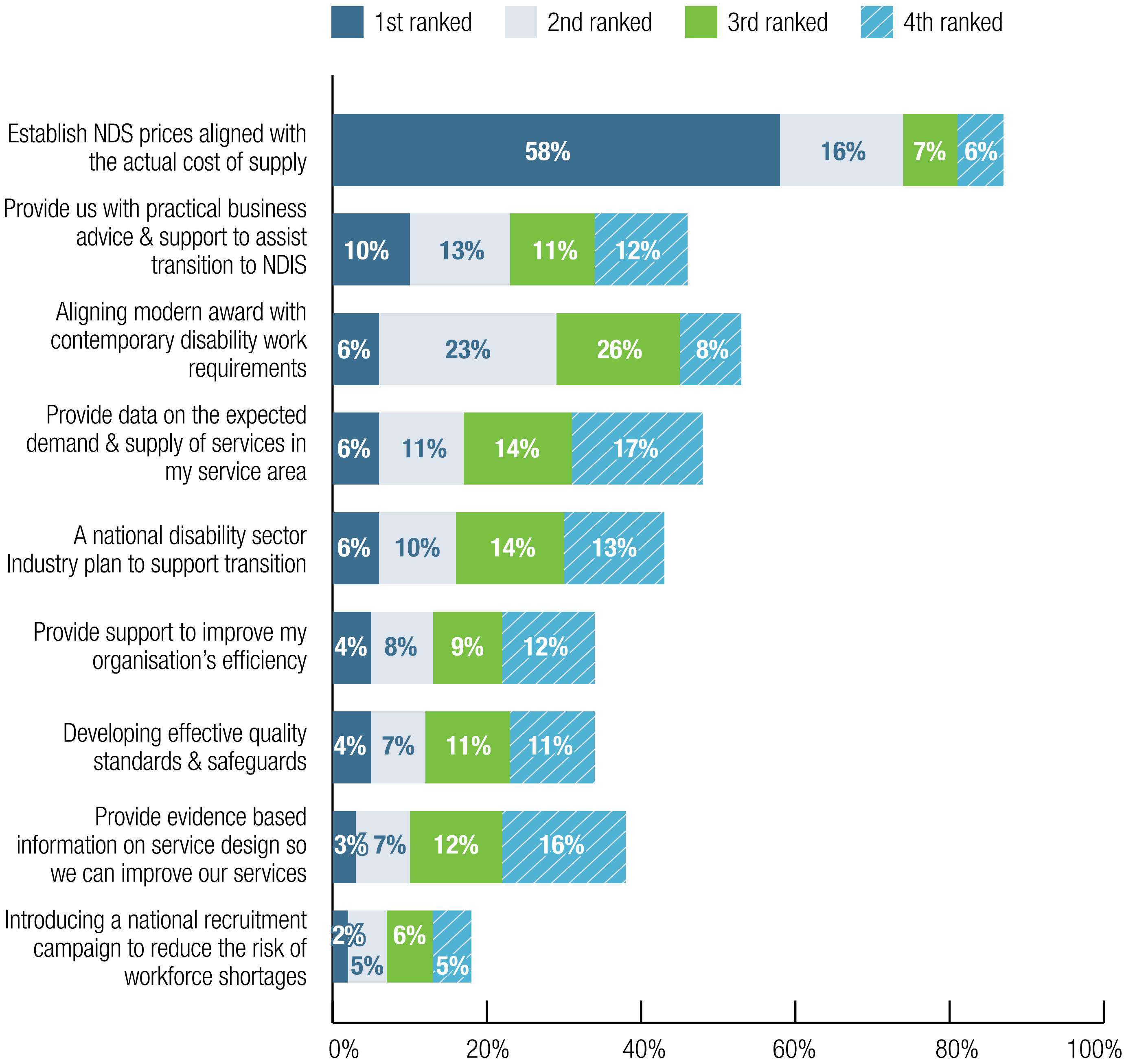

Figure 29: *Government actions that would have the greatest impact on your organisations capacity to deliver services in the next year (n=431).*

Confidence barometer

The table below presents key measures of business confidence over time, noting that in some cases three years data is not available for additional measures introduced since early 2014.

	Wave 1 (2014)	Wave 2 (2014)	Wave 3 (2015)	Wave 4 (2016)
Last financial year				
Met or exceeded expectations	47%	50%	53%	51%
Sufficient or more than sufficient financial resources	59%	61%	67%	77%
Overall operating conditions in non-govt disability sector have improved	N/R	10%	14%	22%
Business conditions in the Australian economy have improved	N/R	7%	6%	13%
This financial year				
Will meet all or exceed most expectations	62%	62%	64%	54%
Will have sufficient or more than sufficient financial resources	51%	5%	55%	67%
Labour costs will grow faster than income	N/R	N/R	N/R	43%
Average costs per client will grow faster than income	N/R	N/R	N/R	40%
Staff will increase	31%	45%	53%	59%
Overall operating conditions in non-govt disability sector will improve	N/R	16%	24%	28%
Business conditions in the Australian economy will improve	N/R	8%	11%	20%
Overall financial strength (strong and very strong)	N/R	N/R	N/R	51%