Ability Roundtable Financial and Workforce Benchmarking 2022-23 Financial Year Results

the ability roundtable

Summary

White Paper

Contents

Key Observations

Ability Roundtable represents the largest benchmarking data set of NDIS sector experience available in Australia.

- The Ability Roundtable Financial and Workforce benchmarking activity for the 2022-23 financial year represents $6.04 billion in revenue, nearly 70,000 NDIS participants and more than 55,000 workers – covering a range of services including core supports, therapy supports and support coordination.
- It represents Australia's largest disability sector benchmarking activity and provides unique insights for the sector, Government, and policymakers, that would otherwise not be available.
- Sector benchmarking plays an important role in supporting the disability support services market to develop, innovate and mature under the NDIS. It does so by showing providers how they are performing relative to their peers on key cost structures and highlighting opportunities for improved efficiency.

Financial results show the viability of the provider sector is at risk.

- The Ability Roundtable data presented in this report highlights the significant financial stress of the NDIS provider sector, and the very real potential for market failures and a loss of skills and expertise.
- The median profitability of participating organisations in the 2022-23 financial year was -2.1%, which follows a - 2.6% median result in the 2021-22 financial year.
- In the 2022-23 financial year 63% of participating organisations reported a loss, which follows 68.4% of organisations reporting a loss in the 2021-22 financial year.
- The 2022-23 financial year results follow the 9% increase for core supports pricing announced as part of the 2022-23 NDIA Annual Price Review (APR), including a 2% Temporary loading – the financial results demonstrate the urgency with which these increased prices were needed, but also highlights that this has only masked systemic and longer-term pricing issues.

The NDIA Cost Model that informs the pricing of Core Supports continues to be fundamentally flawed.

- The Ability Roundtable 2023-24 end of financial year projections indicate that financial performance for the benchmarking group, as a proxy for the broader registered provider sector, will be worse than for FY22-23.

- The Ability Roundtable data continues to show an increasing gap between what provider members are paying their staff and what the NDIA pays under the NDIA Cost Model. In the 2022-23 financial year we have seen the gap increase from -$0.58 (a gap of 2%) in the previous financial year to -$1.15 (a gap of 3.6%) for each hour of services being delivered. This is compounded for organisations paying their staff under an EBA, which are typically above Award rates.

- The median group Operating Expenses was 26.2% which is an increase for participating organisations, following efficiencies achieved in previous years. This upward trend may be a result of several factors including the effects of inflation or delayed investments and systems implementation to reduce or avoid losses. Members also report the increased cost of doing business under the NDIS, particularly the regulatory cost for registered providers, as a contributor to operating expenses.

- Providers should continue to look at ways to deliver more efficient business models, while ensuring safe and quality supports. However, the NDIA's assumed efficient[1] overhead/operating cost rate of 12.5% (as a proportion of direct costs) does not reflect the contemporary evidence of what is an efficient level of overheads/operating expenses for a significant proportion of the NDIS service provider market, at least in the short to medium term.

- The FY22-23 benchmarking data shows the median workers compensation premium at 2.5%. While this shows a slight drop in the median over the last 12 months, it is still tracking higher than the assumptions within the NDIA Cost Model. The data shows that 20% of members are paying premiums of 5% or higher and the premiums in NSW/ACT are significantly higher than other jurisdictions, with 75% of NSW/ACT providers paying above what the NDIA is willing to pay.

---

1 The NDIA's cost parameters are informed by 'efficient' assumptions (i.e. the 25th percentile1 of all providers). The purpose of using efficient assumptions is to drive providers towards more efficient operating models. However, the NDIA acknowledges that the rate of 12.5% as a cost parameter for overheads is not based on an assumed "efficient" rate, as its own benchmarking data over several years has identified an efficient overhead rate (25th percentile) of around 30%, a rate supported by subsequent Ability Roundtable benchmarking results. The 12.5% rate is derived from the NDIAs assessment of "similar" service sector overhead rates, which it argues are a better guide to an achievable rate.

Structural change to the NDIA's pricing approach is needed.

- The same structural issues remain within the Cost Model, as critiqued by Ability Roundtable in the 2021-22 Financial and Workforce White Paper – Telling the Sector's Story.
- The NDIS Independent Review's deep consultation with the provider sector has seen promising signals that they have understood the realities on the ground, particularly that the 'one size fits all' approach to pricing must be addressed.
    - It does not account for services provided to clients with complex or specialised needs, or
    - It does not address the differences between registered and unregistered providers with clearly different cost structures (i.e regulatory and quality costs).
- Until such time as the flaws in the Cost Model and the freeze in CPI increases to Therapy Supports and Support Coordination are addressed, many efficient providers will likely exit the market entirely, or withdraw from already thin markets, compromising the choice and control of participants.
- For members who deliver therapy supports specifically, the data continues to indicate more significant losses at a whole of organisation and service level. The NDIA has not developed a therapy-specific cost model and continues to benchmark the price against allied health markets that are not comparable to the complex needs of NDIS participants – this flawed approach is coupled with a 5-year freeze on indexation and is driving significant losses for registered providers.
- The Ability Roundtable continues to call for a NDIS Independent Pricing body to review and redesign of the NDIA Cost Model and ongoing price setting to ensure the ongoing viability of the NDIS market.
- Using the 2022-23 financial year benchmarking data, and drawing on five years of longitudinal data, the Ability Roundtable has a body of data and sector insights that can assist the NDIA in designing a fit for purpose DSW Cost Model and Allied Health cost model, based on market experience to ensure the ongoing viability of the NDIS market.

Background

Background

Established in 2013, the Ability Roundtable is Australia's largest and most trusted national platform for disability service providers to benchmark their services across Australia and fosters innovation and service improvement through our successful communities of practice approaches.

We have a "by industry, for industry" model with deep knowledge of the disability sector. Our Purpose is to achieve better outcomes for people with a disability by supporting our members to share knowledge, innovate, and discover best practice.

Currently, we have over 70 of Australia's most established and well-regarded NDIS providers benchmarking with the Ability Roundtable, representing around $6.3 billion in revenue.

Each benchmarking activity collects, analyses, and publishes information comparing organisations to identify ways to improve operational practice. This enables powerful and nuanced analysis of service performance. By focusing on positive and significant differences across peers, members gain insight into the drivers of service success, which they can then incorporate into their operations. Aggregate information from the Roundtable is also beneficial for government policymakers, particularly the National Disability Insurance Agency (NDIA), whose primary role as a market steward is to create an efficient and sustainable National Disability Insurance Scheme (NDIS) marketplace.

Context of this report

This report presents the summary aggregate results from the Ability Roundtable's Financial and Workforce benchmarking activity for the 2022-23 financial year and presents longitudinal analysis across the 5 years of continuous Ability Roundtable financial and workforce data. This allows us to tell the story of the sector to Government, policymakers and providers with the ultimate goal of providing better outcomes for people with disability.

To do this, the Ability Roundtable collects financial and workforce data that allows a comparison of organisations' performance against the NDIA's Disability Support Worker (DSW) Cost Model, as well as benchmarking of therapy and support coordination services.

Opportunity to Participate in Ability Roundtable benchmarking

Following the significant interest in our first round of financial and workforce benchmarking period this year, which saw 55 organisations participate and representing $6.04 billion in revenue, the Ability Roundtable's next data collection window for our financial benchmarking which will run between December 2023 to February 2024.

With the growth in participating organisations, our members continue to gain substantial further insights into performance against peers and across a large segment of the market. The reports will be available in early 2024, prior to the sector's cycle of strategic planning and budgeting for the next FY.

Ability Roundtable: Service Benchmarking for Excellence
www.abilityroundtable.org

If you would like to participate in the next round of benchmarking, please contact Ability Roundtable for further information.

Contact us michael.bink@abilityroundtable.org garry.Simpson@abilityroundtable.org

Re-cap of Previous White Paper – Telling the Sector's Story

This summary report follows the release of the Ability Roundtable 2021-22 Financial Year White Paper – Telling the Sector's Story, which highlighted the increasing financial stress of the NDIS provider sector and provides a critique of the NDIA DSW Cost Model. The 2021-22 Financial Year White Paper provided several key observations:

1. Benchmarking tells an important story about the performance of the sector historically, and into the future.
2. Many providers are under significant financial stress.
3. The NDIA's Cost Model assumptions are flawed and do not reflect provider realities.
4. Independent Pricing is required.
5. The significant financial pressures look to only grow worse in FY24. However, some providers could also benefit from improved efficiency by learning from exemplars.

The summary findings for the 2022-23 financial year support the observations made in the previous White Paper.

Characteristics of the benchmarking group

55 organisations
participated in FY23

$6.04 billion
combined revenue in FY23

40% increase
in members over 12 months

68,600 clients
20% increase over 12 months

55,300 workers
25% increase over 12 months

27% regional services
73% predominantly metro

Of the $6.04 billion, NDIS revenue represented $4 billion (or 65%) of total revenue.

All participating organisations were NDIS registered providers.

Ability Roundtable members represent 11% of all NDIS revenue[2].

The Ability Roundtable data represents 11% of all NDIS participants[3].

[2] NDIA Total Payments of $35.1 billion as at 30 June 2023 _ Quarterly Reports | NDIS
[3]There were 610,502 NDS participants as at 30 June 2023 _ Quarterly Reports | NDIS

About the Benchmarking Organisations

All participating organisations were NDIS-registered providers, with most being NFP's that were also registered charities. Nearly all provided two or more core supports, with a significant number also providing therapy and/or support coordination services. Around a third of the group also delivered non-NDIS services.

The breakdown of organisations by revenue (Figure 1) continues to see a spread of organisations from smaller through to very large members. This distribution is reflective of the distribution of participating organisations in previous years, allowing for useful year-on-year comparisons in overall performance.

There was a 40% increase in members for FY22-23. This growth was predominantly driven by organisations with revenue of less than $50 million, and particularly by organisations with less than $25 million revenue.

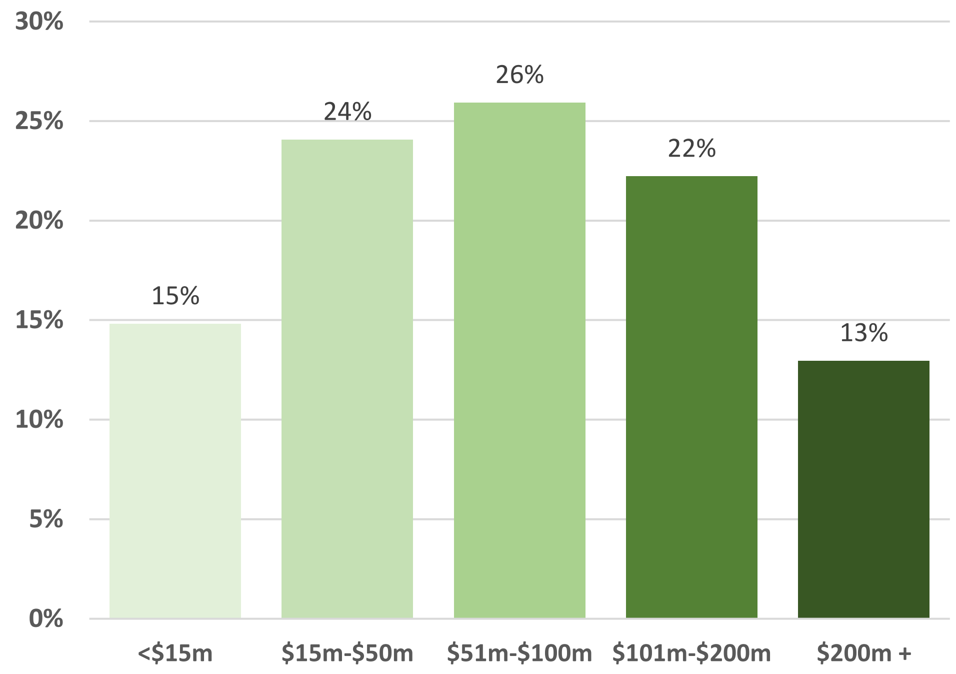

Figure 1 – Breakdown of organisations by revenue

Other Key Characteristics

- Of the $4.01 billion in NDIS Revenue of Ability Roundtable members, Supported Independent Living (SIL) represents the highest proportion of revenue (65%), yet only 10% of clients within the data, which is typical of Scheme experience.
- The Ability Roundtable dataset represents one third of all NDIS participants living in SIL.
- The representation of Therapy Supports and Support Coordination in the Ability Roundtable data continues to grow, representing a large proportion of clients, but also the smallest % of revenue in the benchmarking group - consistent with Scheme experience where they generally represent a lower amount of plan funding.
- The data more closely reflects the distribution of revenue expended across jurisdictions at a whole-of-Scheme level than in previous years.

Financial Results

Profitability

Participating organisations in FY22-23 saw a median profitability result of -2.1%.

This sees consecutive years of a median profitability loss, following a -2.6% median result in the 2021-22 FY.

Figure 2, below, shows the trend for financial benchmarking organisations' profitability from FY18-19 to FY22-23, with a projection for FY23-24. The Roundtable's longitudinal data shows there has been a consistent downward trend in profitability since FY18-19, to the point where a significant majority of providers were operating at a loss throughout FY21-22 and FY22-23.

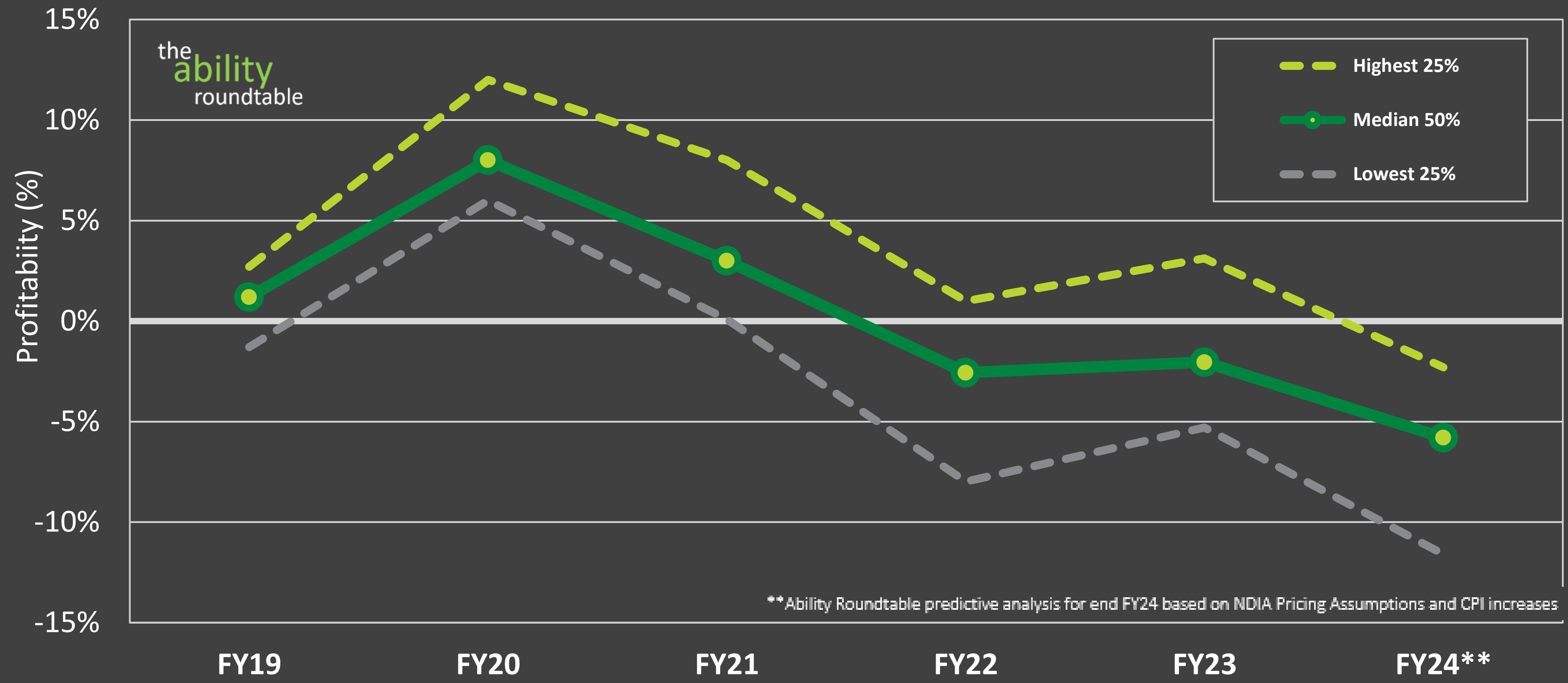

Figure 2 – Median Profitability of all Organisations FY19-20 to FY22-23, with a projection for FY23- 24

It is worth noting that the FY22-23 financial results follow the 9% increase for core supports pricing the FY22-23 financial year announced as part of the FY22-23 Annual Price Review (APR), including a 2% Temporary loading. (For organisations claiming the Temporary Transformation Payment (TTP) the net price increase was 7.5%, as the TTP decreased as scheduled by 1.5%)[4].

The similarities between the 2021-22 and 2022-23 financial year results suggests the urgency with which these increased prices were needed, but also highlights that this has only masked systemic and longer-term pricing issues.

We believe this data is particularly important, as it shows that a significant segment of the sector is in financial distress at the moment. The forward projection to FY23-24 factors in the price cap in the most recent pricing guidelines together with a conservate estimate of CPI increases. This indicates that financial performance for the benchmarking group, as a proxy for the broader registered service provider sector, will be worse than for FY22-23.

Despite this, the benchmarking group has seen an improvement in the financial performance of the lowest quartile of organisations, which has seen the reported loss move from -8.0% to - 5.2%, no doubt driven by the existential threat of deep deficits. Organisations representing the highest quartile saw a median 2.3% improvement to their profit over the last 12 months.

Proportion of providers reporting operating loss

The data shows that 63% of members reported an operating loss in FY22-23, This is a slight reduction from FY21-22 (68.4%).

	Proportion reporting an operating loss	Median loss of loss-making organisations
2021-22 FY	68.4%	-5.9%
2022-23 FY	63.0%	-4.9%

The result would have been significantly worse if not for the 9% price increase for core supports. For those organisations providing therapy and/or support coordination services, the fourth consecutive year without a price increase, which in FY 22-23 was effectively an 8%+ price cut, appears to be on the verge of catastrophic for many providers. For reference, a statistical analysis of FY21-22 data, yet to be repeated for FY22-23, showed a statistically significant correlation between provision of therapy or support coordination services and recording a loss at a whole of organisation level. Despite the slight year-on-year decrease in the number of loss-making organisations, nearly two thirds of the market reflected in the data still operated at a loss. Those that made a loss had an average loss of -4.9% of revenue.

[4] For FY22-23, 89% of organisations participating in the Roundtable's benchmarking claimed the TTP.

the ability roundtable

Operating Expenses as a % of Revenue

The median group overheads, or Operating Expenses[5], as a percentage of Revenue, was 26.2%.

Figure 3 shows the year-on-year trend in operating expenses. This data shows that the median result for FY22-23 represents a **7% increase in operating expenses as a % of revenue** compared to FY21-22.

This result is in line with the FY20-21 result, which suggests that the FY21-22 result may have been driven by service providers implementing short-term reductions to non-direct service costs to reduce or avoid losses, such as delayed investment in systems, delaying recruitment and other cost-cutting efforts that were unlikely to be sustained in the longer term.

This upward trend may also be a result of the effects of inflation, or as members report, the increased cost of doing business under the NDIS, particularly the regulatory cost for registered providers, as a contributor to operating expenses.

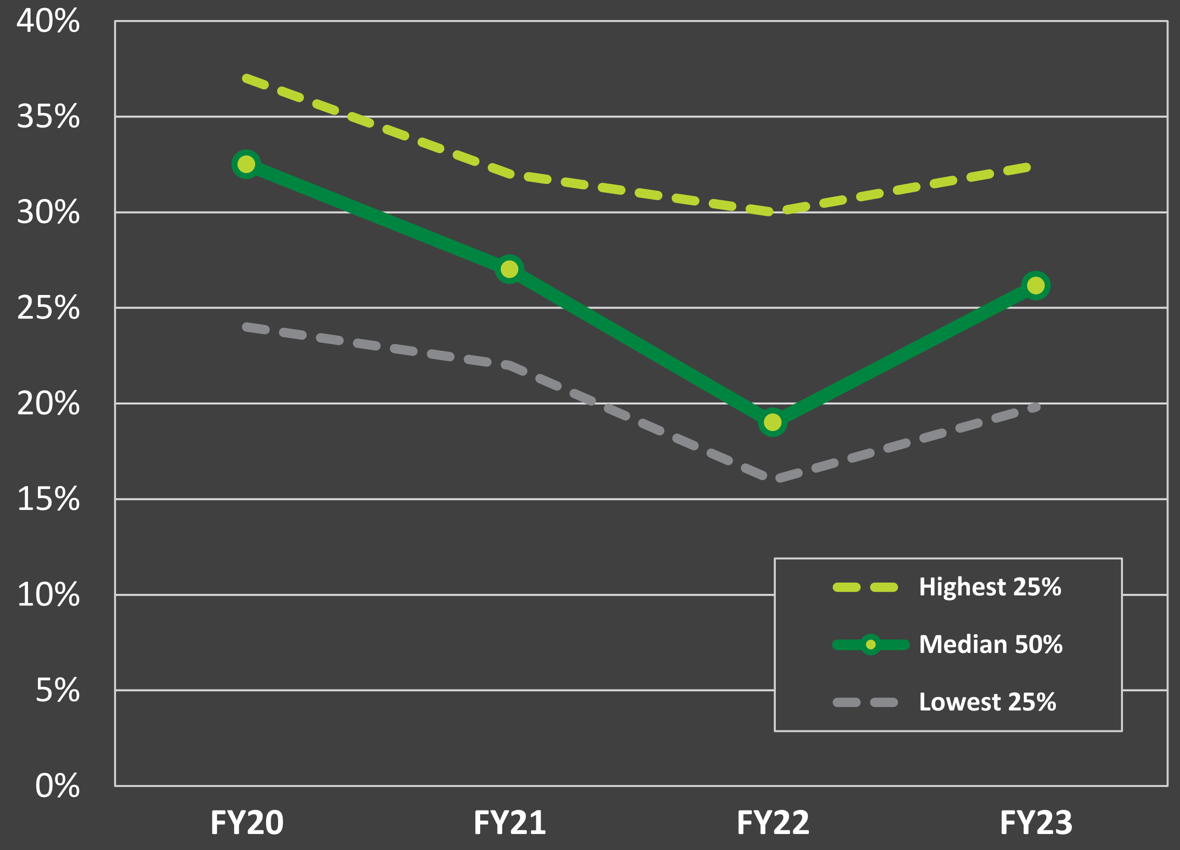

Figure 3 –Operating Expenses as a % of Revenue FY20 - FY23

[5] The Ability Roundtable follows the NDIS DSW Cost Model definition of operating expenses, which is all expenses other than support worker and their front-line leader costs plus service-related consumables. This is different to corporate expenses, which refer to the traditionally understood concept of "back office" expenses.

Operating Expenses as a % of Direct Costs

Using the NDIA's definition, there has been a 6% increase in median Operating Expenses as a % of direct costs compared to FY21-22.

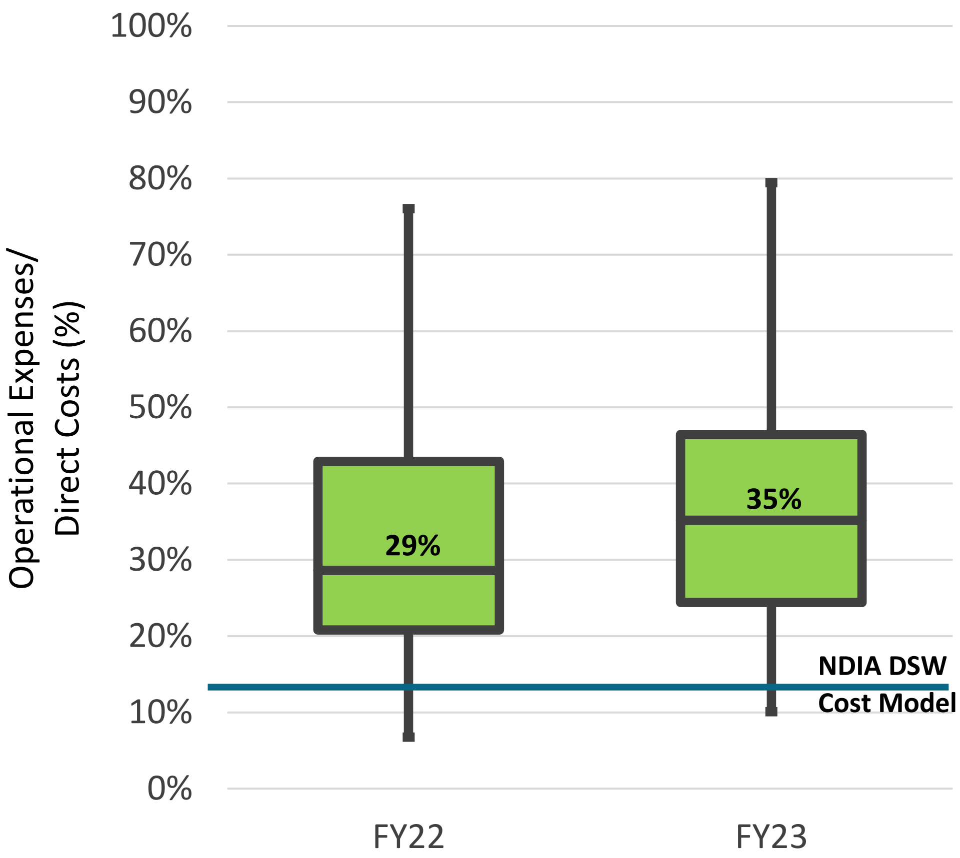

Figure 4 – Operational Expenses as a % of Direct Costs – FY22- FY23

Note that the calculation of Overheads/Operating Expenses used above (% of revenue), which is typically how businesses measure such expenses, is different to that used by the NDIA in its Disability Support Worker (DSW) Cost Model[6]. The NDIA uses Overheads/Operating Expenses as % of Direct Costs (direct staff, front line supervisors and consumables).

The Roundtable has previously highlighted the problem of using Direct Costs as a denominator for operating expenses, particularly for multi-service organisations, as it produces significant anomalies that are often difficult to control for. Nevertheless, the NDIA continues to assume an "efficient" overhead (operating expenses) rate in the DSW Cost Model of 12.5% without having clear insight to what the true costs are for service providers[7].

Ability Roundtable data for "pure" NDIS core-support service providers, where the measurement of operating expenses as a proportion of direct costs provides a less distorted picture of sector performance against this metric, the "most efficient" quartile is 24%. That represents a significant difference between the NDIA's assumption and the "efficient" sector result. Based on the long-term trend in Ability Roundtable data, it appears that this gap will not be bridged – it is structural, rather than a result of inefficiency.

[6] The NDIA's Disability Support Worker Cost Model is the main tool used by the NDIA to price Core Support services. The Model uses a formula to factor in all costs related to the delivery of Core Supports. The NDIA has used benchmarking data to understand the actual costs of service delivery borne by service providers and then set price limits for Core Supports based on the cost of services in the market. In many instances, particular elements of the Cost Model are aligned to the 25% least expensive ("most efficient") benchmarked results on a number of dimensions (such as Overheads/Operating Expenses, Utilisation, Span of Control and others). In effect, this means that the 25% of service providers that meet or exceed these results should be profitable. The assumption is that this incentivises less "efficient" providers (the 75% that have higher costs) to improve their efficiency in those areas. The Ability Roundtable's benchmarking data gives us a unique insight into how well the NDIA's Cost Model assumptions align with service providers' reality.

[7] The Social Ventures Australia and the Centre for Social Impact – Paying what it takes Report -March 2022 found that in the not-for-profit sector 'overheads' or 'indirect costs' far exceed the amount they are funded with the average indirect costs of the not-for-profits analysed was 33% of the total costs

Performance Results

Utilisation Rates[8] - Disability Support Workers

The average utilisation rate of DSWs has remained steady over the last 12 months – at 87% billable time.

Figure 5 shows there has been a slight increase in productivity over the 4 years, however the data suggests this is starting to flatten out. It may be that productivity for DSWs at a sector level has reached an upper threshold. It is hard to see how further improvements can be achieved, given some non-billable time is "baked in" (e.g. training, breaks, non-client-related administration).

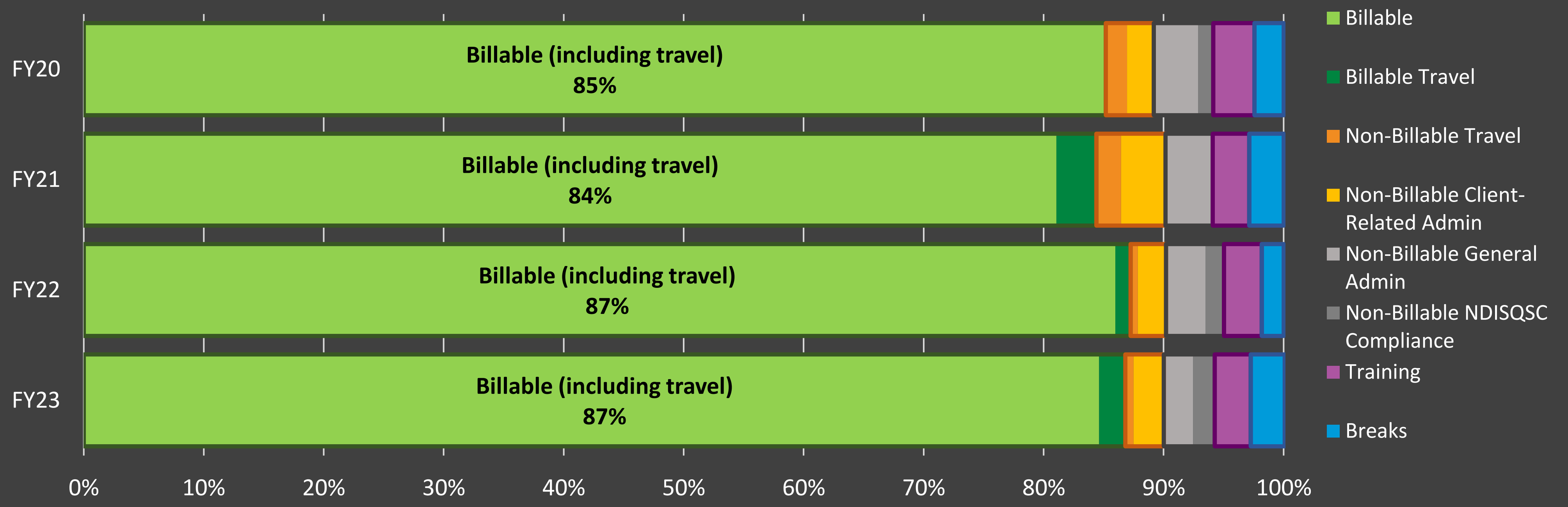

Figure 5–Utilisation Rates of DSWs – FY20-FY23

[8] Utilisation rates refer to the proportion of staff time spent undertaking billable activities. The benchmarking results for FY23 shows, on average, relatively consistent utilisation rates across Service Types.

Allied Health Professionals Utilisation

Ability Roundtable data shows the average utilisation rate of Allied Health professionals for FY23 was 57% (Figure 6). This indicates there was no material difference in the average utilisation rate of Allied Health professionals over the last 12 months. However, the data continues to show up to 21% differences between the utilisation rate of therapy providers operating at the highest quartile compared to the utilisation rate of therapy providers operating at the lowest quartile.

While for several providers there will be legitimate operational reasons for this difference, it suggests that there is room for others to further lift productivity: there is significant upside in revenue generation per employee for these organisations.

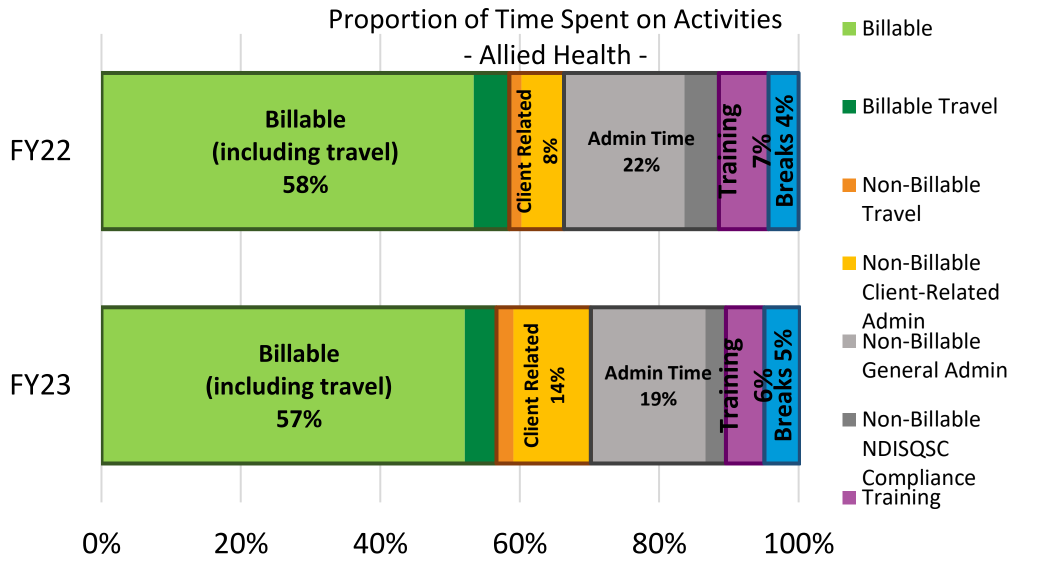

Figure 6 – Utilisation Rates of Allied Health – FY22-FY23

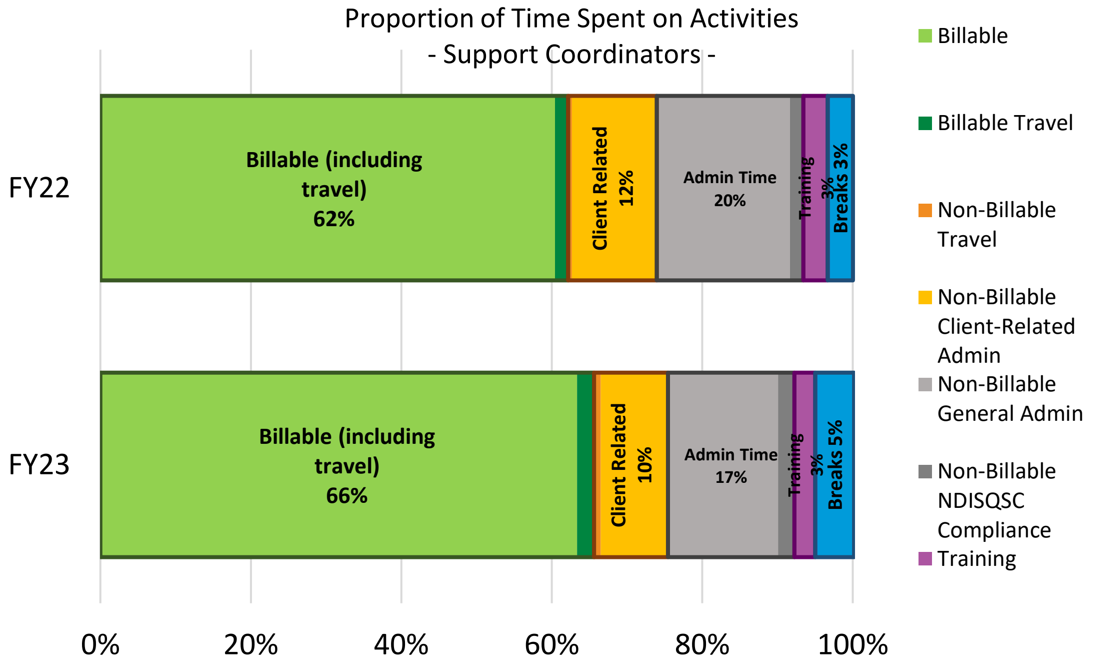

Figure 7 – Utilisation Rates of Support Coordination – FY22-FY23

Support Coordination Utilisation

Ability Roundtable data shows the average utilisation rate of Support Coordinators for FY23 was 66% - a 4% increase in the average utilisation rate of Support Coordinators over the last 12 months – rising from 62% to 66% billable time (Figure 7). There is also a 23% gap between the utilisation rate of Support Coordinators operating at the highest quartile compared to the utilisation rate of Support Coordinators operating at the lowest quartile. **– which suggests that there is room for others to further lift productivity**

Further analysis is required to understand the drivers of the difference. For example, it is possible that higher or lower utilisation rates may be driven by scale, with some providers having very small staff teams (2-3 staff) while others are operating at scale.

Pay Distribution

The 2022-23 Financial and Workforce data continues to show an increasing gap between what provider members are paying their staff and what the NDIA pays under the NDIA DSW Cost Model[9].

In FY22-23 we have seen the gap increase from -$0.58 (a gap of 2%) to -$1.15 (a gap of 3.6%) for each hour of services being delivered.

	NDIA DSW Cost Model	Ability Roundtable Median	Difference
2019-20 FY	$27.61	$28.60	-$0.99
2020-21 FY	$29.56	$30.79	-$1.23
2021-22 FY	$30.94	$31.52	-$0.58
2022-23 FY	$32.36	$33.51	-$1.15

Over the last four financial years the median salary rates of participating members have remained well above the assumed base rate of the NDIA DSW Cost Model. What this means is that, for many, the cost to employ a worker to support a NDIS participant is greater than what can be claimed (see Figure 8).

Specifically, the data shows that nearly 70% of the benchmarking organisations are paying at least half their staff above the NDIA's pricing assumption, with 50% or more of the group paying at least half their staff 3.6% above the NDIA's assumption. As argued in the Ability Roundtable White Paper for FY21-22, *Telling the Sector's Story*, and reflected in the FY22-23 data, more than half of the disability support workforce are paid according to an enterprise bargaining agreement (EBA). Most of these EBAs (or their precedents) were in place prior to the NDIS and typically have higher salary and/or entitlements built in, making it challenging for providers to transition to the SCHADS Award. This means that these higher costs are effectively 'baked in' for these service providers.

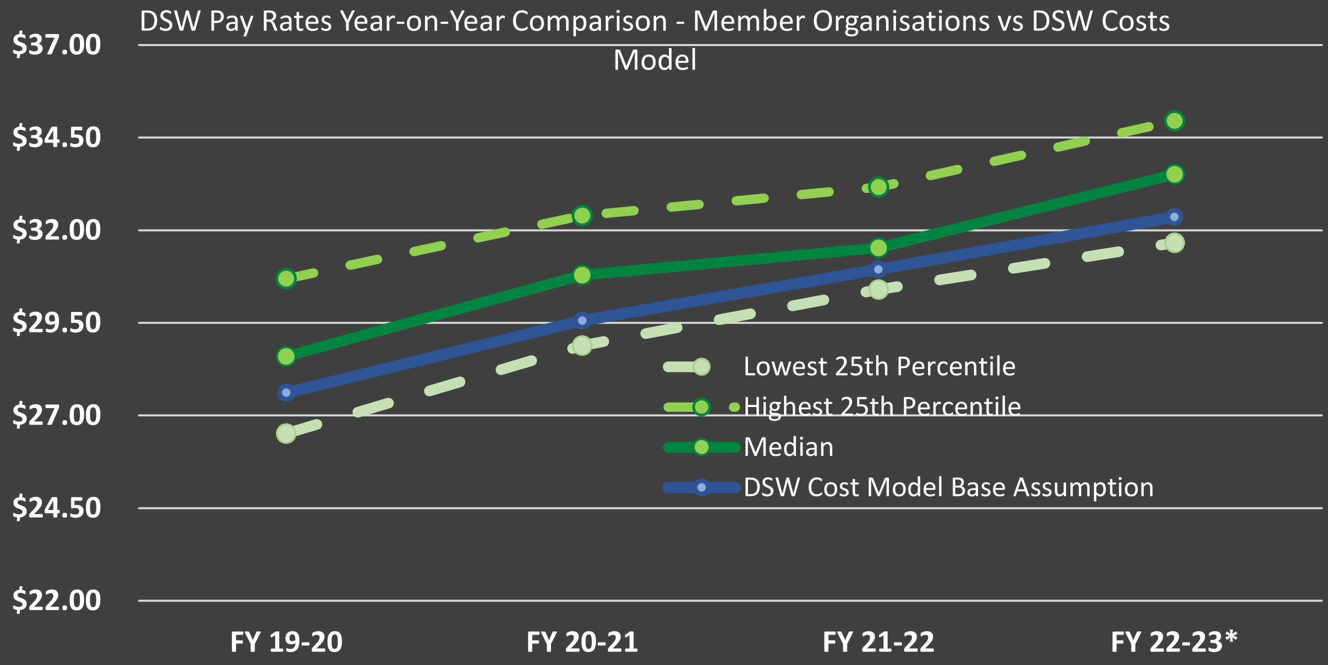

Figure 8 - DSW Pay Rates Year-on-Year Comparison - Member Organisations vs DSW Costs Model

[9]The figure used relates to the NDIA Cost Model DSW Level 1, which is the assumed SCHADS Award Classification 2.3 as at 1 July 2022 Pricing arrangements archive | NDIS

Workers Compensation

The FY22-23 benchmarking data shows the median workers compensation premium at 2.5%. This is a 0.3% drop from FY21-22.

20% of all members have workers compensation premium of 5% or higher.

This is contrary to the general observation from members on the upward trend for all forms of insurance costs. This variation may be caused by several factors, including the member-observed increases to workers compensation premiums primarily impacting providers in the 2023-24 FY and newer Ability Roundtable members which may have different organisational characteristics.

	FY22	FY23
Lowest Quartile	2.0%	1.8%
Median	2.8%	2.5%
Highest Quartile	3.9%	3.9%

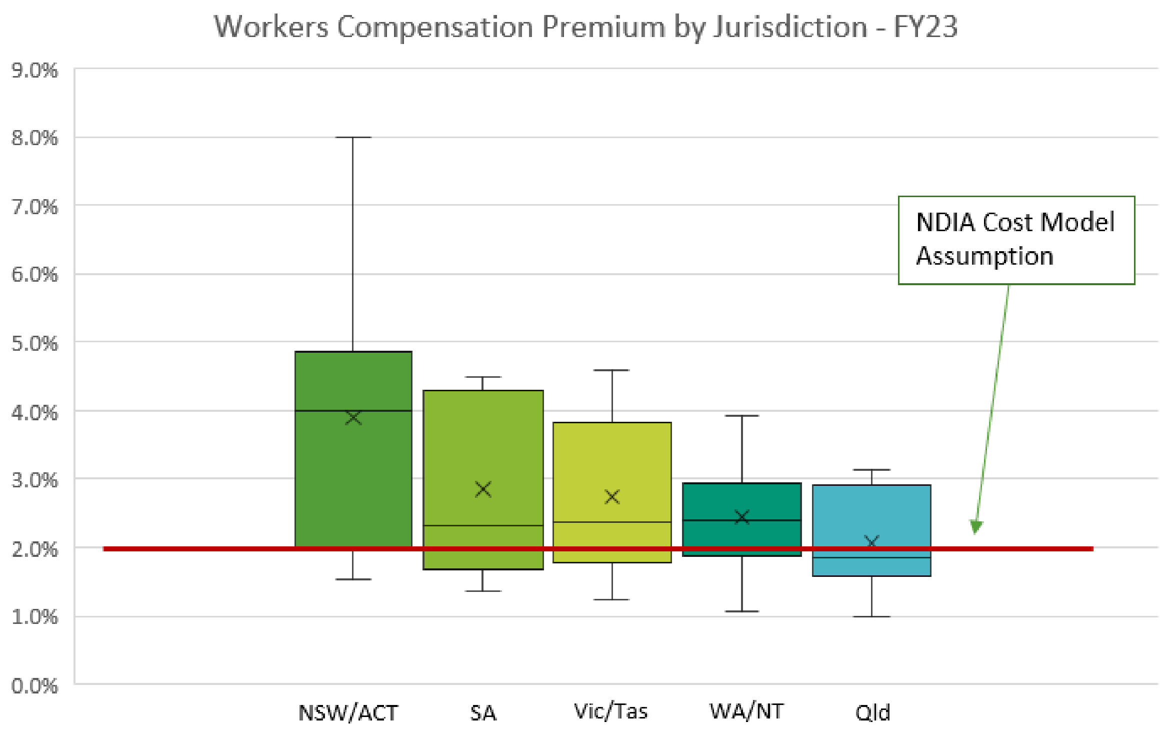

Figure 9 – Median Workers Compensation Premium by Jurisdiction – FY23

The data for 2022-23 financial year shows some trends across jurisdictions and service types that are problematical for the NDIA's Cost Model:

- Worker Compensation Premiums in NSW/ACT are significantly higher than other jurisdictions, with 75% of NSW/ACT providers paying above what the NDIA is willing to pay.
- The median premium for SIL providers was 3.33%, while for providers with no or relatively small SIL services the median premium was 2.25%.

It is clear that jurisdictional differences in the way industry premiums are calculated are not accommodated by the 'one size fits all' approach of the NDIA's Cost Model (Figure 9). As a result, the NDIA's Cost Model assumptions effectively "punish" providers financially for operating in certain jurisdictions. It is also clear that this 'one size fits all' approach significantly disadvantages SIL providers, who are exposed to higher premiums that come with residential service models and clients with complex needs.

Workforce Results

DSW Workforce Turnover

The median workforce turnover in FY22-23 for Permanent DSWs was 19%, which has fallen from 21% in FY21-22.

This is the first drop in the workforce turnover rate in the past four years. The data also shows that those at the lowest quartile have seen workforce turnover remain steady at 12%. When comparing the highest quartile, the data shows a 13% reduction in workforce turnover over the last 12 months.

For the casual workforce, the turnover has remained relatively steady over recent years, a 1% increase to 32%.

	Permanent – FY23	Casual - FY23
Lowest Quartile	12%	25%
Median	19%	32%
Highest Quartile	26%	51%

Figure 10 shows the first decrease in turnover for permanent DSW's across the last four financial years.

The turnover rate for the casual DSWs workforce is typically higher, with a median of 32%, which has remained relatively consistent over the last few years.

These results suggests that recruitment and retention strategies have been effective in addition to an easing of the workforce turnover crisis we have seen in recent years.

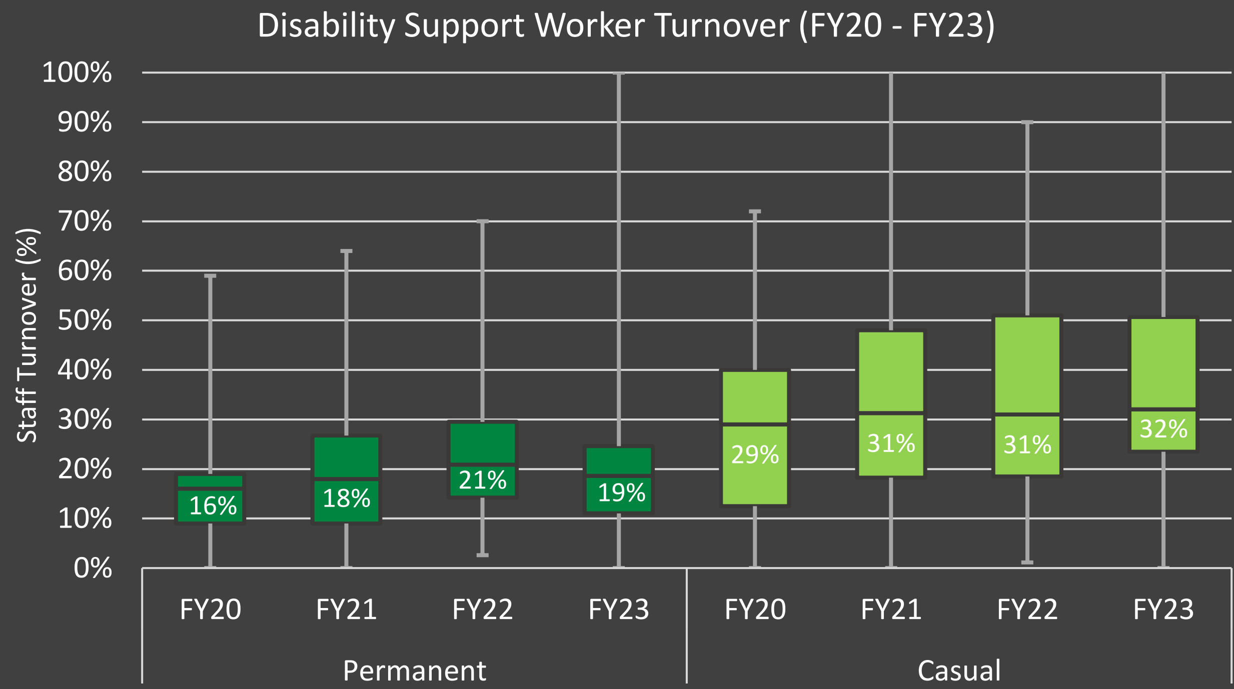

Figure 10 – Workforce Turnover FY19-20 - FY22-23 - Disability Support Workers

Allied Health and Support Coordination Workforce Turnover

Allied Health Workforce Turnover

The median workforce turnover in FY22-23 for Permanent Allied Health practitioners was 27% which is a 4% increase in median turnover from FY21-22 – which was 23%. The data also shows that those at the lowest and highest quartiles have also seen the permanent Allied Health workforce turnover increase slightly over the past 12 months. reduce by 10% since, and a reduction at the highest quartile from 67% in FY21-22 to 46% in FY22-23 – a 21% decrease. The median turnover rate for the casual Permanent Allied Health practitioners was 39% which is a 6% increase since FY21-22.

Permanent Workforce Turnover

	Allied Health – FY23	Support Coordination - FY23
Lowest Quartile	20%	28%
Median	27%	34%
Highest Quartile	46%	50%

Retention of Allied Health staff has been a consistent pressure for therapy providers for several years, and the data suggests it continues to present challenges for participating members in FY22-23.

Support Coordination Workforce Turnover

The median workforce turnover in FY22-23 for Permanent Support Coordination practitioners was 34% - a 3% increase over 12 months. There was also a 4% increase in the median permanent Support Coordination workforce turnover for providers operating at the highest quartile.

Retention of Support Coordinators has also been a consistent pressure for providers, with the data (Figure 11) suggesting an increase in the median permanent workforce turnover rate by 3% compared to FY21-22. Providers at the 25th percentile have also seen a 4% increase in turnover.

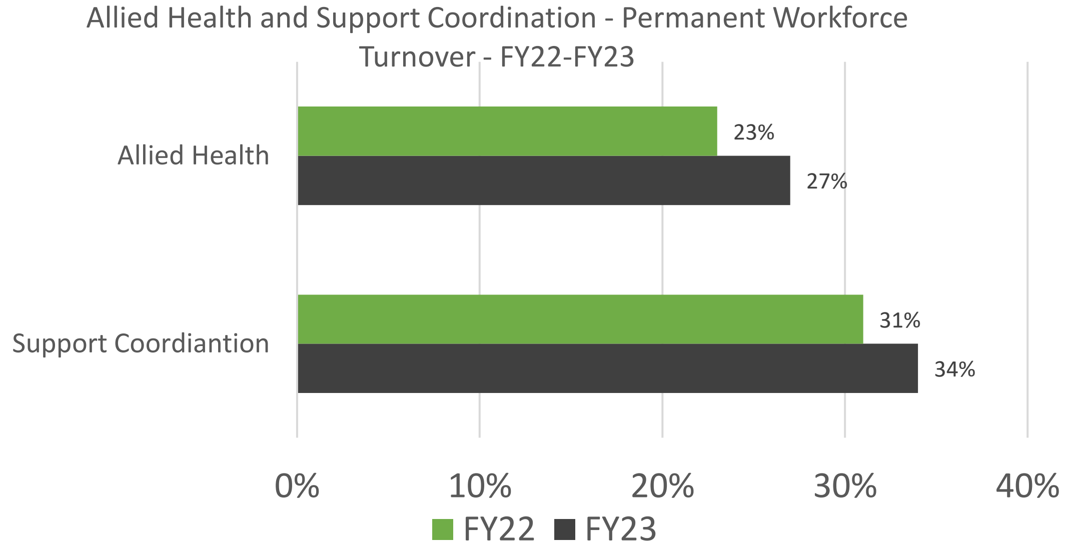

Figure 11 – Workforce Turnover Allied Health and Support Coordination – FY21-22 to FY22-23