

NDIS Green Paper 3: Proxies for Risk – A First Line of Defence

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First Published: 6 October 2020

Context:

This Green Paper contributes to the broader discussion surrounding the rollout and management of the NDIS within the Australian Disability Services System. It supports the Not-for-profits UWA White Paper “Six Years and Counting: The NDIS and the Australian Disability Services System”² and seeks to build on its own and others’ research activities to contribute to the creation of an efficient and effective, as well as a sustainable and innovative, Australian Disability Services System.

Summary:

The National Performance Benchmarking Project undertaken by Not-for-profits UWA personnel produced three annual sustainability reports analysing service providers working in the Australian Disability Services Sector, each published in 2016, 2017 and 2019. This work also contributed to the National Disability Services Annual State of the Sector Reports.³ The data collected, and which continues to be collected, does not assist analysts in identifying prospective causes of service breakdown. However, the findings in these reports highlighted a number of areas which can be indicators of vulnerability in the context of the roll out of the NDIS—this document discusses these indicators and we have referred to them as “Proxies for Risk”. We consider them to be the first line of defence in the context of avoiding a breakdown in sustainability of service delivery as the NDIS rolls out and experimentation leads to learnings. The purpose of this Green Paper is to examine the proxies for risk identified out of the project and to provide a short-form analysis of the extent to which these proxies suggest that potential risks are being faced by service users in the NDIS. We also suggest that these proxies should be reviewed bi-annually or annually.

Of Note:

Adequate resources are not being effectively applied to the marshalling of evidence regarding which things are going well with the NDIS; to working out what risks are manifesting; and especially, in developing mitigations. Because data assets are poor, we use proxies for risk that help to identify areas where additional and deeper review is required.

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² See: <http://www.research.uwa.edu.au/not-for-profits-uwa#ndis-disability-services>

³ For instance, see: Gilchrist, D. J. and P. A. Knight, (2018), Disability Services Market Report 2018. A Report for National Disability Services, Canberra. https://www.research.uwa.edu.au/__data/assets/pdf_file/0018/3451113/2018-NDS-State-of-the-Sector-Report.pdf

Paper:

The National Disability Insurance Scheme (NDIS) is an important part of the Australian Disability Services System. It has been in a roll-out phase for about seven years now. However, analysing outcomes achieved to date and the risks associated with the Scheme has become increasingly difficult due to the lack of essential data assets—despite the proposition that data collection and utilisation was seen as a fundamental support to the Scheme’s inherent benefits at conceptualisation. The dearth of rich data largely inhibits the capacity for useful analysis especially in the context of risk identification and assessment. In turn, this situation reduces transparency to the detriment of the positive development of this important Scheme. We have reported on the challenges of creating and analysing data assets and the disability services system in Green Paper No. 1 of this series.ⁱ

In this context, the Not-for-profits UWA research team have previously undertaken a series of research pieces—under a research program called the National Disability Benchmark Project—examining financial, service delivery, human resources and other data provided by a recruited panel of disability service providers over three operating years and with the intention of assessing the longitudinal development of the sector more broadly. The results of these studies were reported in 2016, 2017 and 2019ⁱⁱ. This research was funded by industry peak National Disability Services Ltd and the Commonwealth Government in various combinations. Readers should consult these reports for information pertaining to methodology, funding detail, ethics, panel dropout rates, limitations and individual report findings; as well as for fuller commentary. We refer to the information in these reports in developing this Green Paper, which is necessarily briefer.

Proxies for Risk

As a result of the development of these reports, together with ancillary report findings developed out of the data,ⁱⁱⁱ a number of proxies for risk were identified and predictions were made regarding their prospective movement. Because the data assets necessary for deep risk analysis are not extant, we identified these risk proxies to highlight areas where risk is likely to be faced by service users. These proxies for risk relate to the overall sustainability of the sector in aggregate—an important consideration given that those vulnerable people who rely on services and supports from the Australian Disability Services System, including the NDIS, ultimately bear the risk related to service failure. The proxies are just that, they indicate where risk may lie and seek to provide focus on where additional and more specific analysis might be fruitful should further data be collected.

Unfortunately, due to the poor state of data assets in this area, we are only able to use the movement in proxies for risk as markers of risk over time and further, more specific investigation is required in order to:

- (a) assess the level of real risk faced by service users;
- (b) to determine effective mitigations; and
- (c) evaluate the outcomes associated with those mitigations over time.

We recognise that the collection of data costs time and money for those providing it and for those analysing it. However, without appropriate data assets, the real level of risk and its potential impact is not able to be evaluated and acted upon in order to prevent poor outcomes, especially for those

participants unable to sufficiently advocate on their own behalf. Additionally, while disability service providers are not the focus of this discussion—in the sense that they are not our primary concern; service users are—without a sustainable service provider sector the end user is placed in an invidious position. Again, disproportionately negative effects are likely to be experienced by those most vulnerable: regional and remote communities, CALD participants, lower socio-economic populations, and those with the most complex needs. Additionally, the collapse and subsequent rebuilding of service delivery or the development of service delivery where there was previously none are also costly processes and leave service users at high risk in the (often lengthy) interim while tax payers foot the bill for possibly avoidable service reductions.

The proxies for risk for ongoing and closer assessment are outlined in table one below. These markers are able to be assessed by utilising the data collected via the National Disability Benchmark Project in the context of disability-specific service providers and more generally in relation to human services providers more broadly^{iv}. So that, as the NDIA collects data for instance, the data can be applied against these proxies to give a transparent and cogent description of potential changes in supply sustainability and, therefore, inherent risk faced by service users. Importantly, because they are proxies, they are also what might be described as being created out of headline data so that the collection and analysis of these proxies for risk can be as efficient as possible. Overall, the proxies for risk are indicators of likely change in service mix.

The service mix is shorthand for the type, geographical location, timing and quantity of services provided by individual disability service providers. Each service provider delivers a combination of services which make up their service mix. Historical arrangements, pricing, staffing, location and demand will impact the nature of the service mix. Any contraction in one or more of the proxies for risk will likely result in the mix being changed with commensurate likely detriment to the service user relying on the provision of supports and services. The relevance of service mix in the context of risks faced by users can also be considered in the context of complexity. That is, different users face a differing level of risk depending on the complexity of their care needs. Changes in service mix that occur in response to demand changes are positive while changes in response to pricing, staffing capacity and/or other risk indicators may signal negative outcomes for the service user.

Unfortunately, we have very limited means to be able to evaluate the service mix of providers and to close gaps between the provider service mix and the level of demand for services—indeed, change in the proxies likely represents change in the service mix which might be positive or negative—they may increase service gaps or close them, it is not possible to say without more granular data. However, utilisation assists us to appreciate the extent of such gaps.^v We can identify likely indicators of service mix change with reference to:

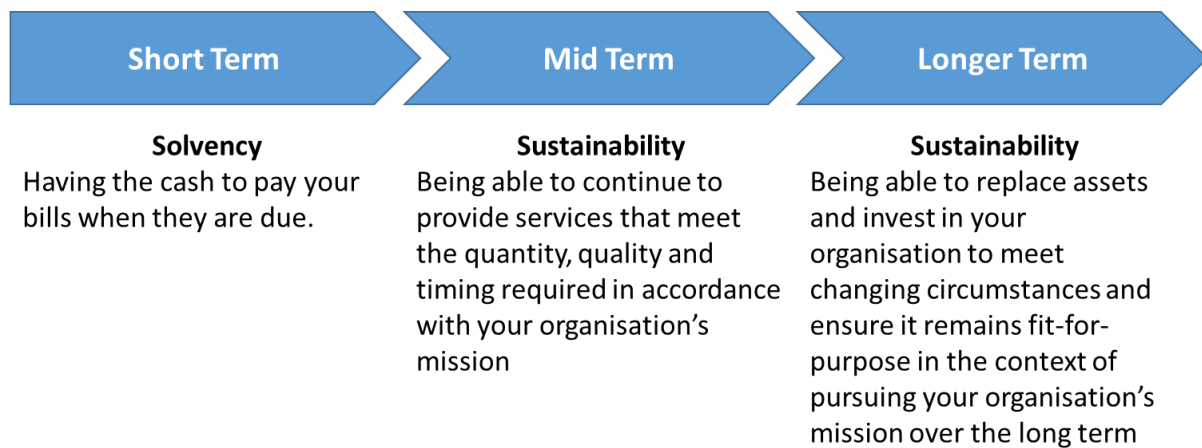
- Profitability spread in cohort: i.e. extent of polarisation between well-performing and less well-performing service providers (service mix is likely related to profitability)
- Utilisation
- Net service provider numbers
- Significant staffing changes across cohort

By and large, these proxies emphasise the inherent risk faced by service users in the context of service sustainability. That is, if service quality, quantity, timing and location is not sustainable (or

available) those people relying on these services bear the brunt of the negative outcomes generated.

Thus, profitability is a critical aspect of sustainability because service providers must invest to replace their capacity over time, to expand services to meet the NDIS-led demand and to maintain their working capital in order to support reliability in services. For Not-for-profits especially this is an important consideration—these organisations do not dividend their profits to shareholders but build their resilience, sustainability and capacity with them. This conception is represented in figure 1 below reproduced from the “Not-for-profit Balance Sheet”.^{vi} However, if they do not have the capacity to sustain their services in a clinically appropriate way the risk to service users is enhanced greatly.

Figure 1: Building resilience, sustainability and reliability in Not-for-profit disability service providers



Importantly, we are not advocating that any charity or Not-for-profit (or For-profit for that matter) operating in this area should be prevented from exiting service delivery (setting aside the reason) but, rather, that we should use these proxies for risk to identify areas where further investigation should be undertaken in order to ensure the controlled exit of service provision in such a way as to reduce or eliminate risk to service users where ever possible.

The reduction or elimination of risk to service users may mean that financial and other support needs to be given to new or other existing service providers to ensure a controlled and orderly retreat from service delivery, that support needs are properly identified and service providers encouraged to invest to develop replacement supply capacity and/or that pricing or some other aspect of the NDIS model is modified to achieve the same outcome—all to ensure the establishment of the appropriate service mix. It is clear that the early identification of risk combined with timely investment and change can significantly reduce costs of rectification at a later date in the instance that these proxies for risk are ignored.

The three reports referred to above and forming the basis for this discussion help us to assess the likely movement in risk related to the proxies. Positive and/or negative movement over time has been identified and this movement should be investigated more closely in order to prevent the realisation of risk impacts on those service users who rely on sustainable and reliable services and supports in order to live their lives.

Table one below provides a rationalisation for the proxies of risk chosen and table two evaluates these proxies by reference to the National Disability Benchmark Project findings. Of course, it would be very beneficial to test these proxies for risk against new data including that currently being collected by the NDIA.

Importantly, these proxies can be taken together or analysed separately.

Table One – Risk Indicators

Risk Proxy	Description
Profitability	<p>Disability service providers need to remain profitable in order to ensure they are able to retain solvency, continue to meet demand and invest to respond to changing needs over time. Indeed, they need to build their balance sheet in order to achieve sustainability as defined below.^{vii}</p> <p>Charitable and Not-for-profit disability service providers should not survive just because of their status as charities and NFPs but should be efficient and effective in the pursuit of their mission.</p> <p>However, if these organisations cannot maintain short-, medium- and longer-term sustainability, for whatever reason, and subsequently leave disability service provision, the inherent risk faced by service users increases as the service mix potentially changes reducing the reliability and nature of services and supports received.</p> <p>Therefore, profitability and profit spread across the supply side are sound proxies for risk related to reducing sustainability with impacts on service mix.</p>
Sustainability	<p>Sustainability for any human services organisation relates to the capacity of that organisation to continue to provide services and supports at an appropriate level of quality, in the necessary quantity, in the right locations and within the necessary timing; over the short-, medium- and longer-term. The survival of the Not-for-profit and/or charitable corporation is a secondary issue to the sustainability of services given the risk borne by people with disability who need reliable, appropriate quality services and supports in order to live their lives.</p> <p>Therefore, sustainability is a logical proxy for risk as data that identifies reductions in sustainability across the supply side will also likely inform as to potential risks faced by service users as the sector-wide service mix alters.</p>
Service Provider Entries	<p>The number of new service providers entering into the industry is a key component of the risk assessment and should be considered in the context of the number of service provider exits in a period. New service providers may enter the disability services system because they can see opportunities for meeting their mission, because they identify unmet need and also because they may be able to perform more effectively and efficiently than those providers in situ. However, in the context of the service mix on offer to service users, it is not necessarily the case that new entrants will replicate the service mix left unsupported by exiting service providers. As such, assessing numbers of new</p>

Risk Proxy	Description
	entrants at a macro level does not necessarily provide understanding as to the net impact of entrants and exits on service users.
Service Provider Exits	The service providers exiting service delivery in any human services area are making decisions in response to a range of issues including sustainability, profitability, workforce capacity and demand. They may respond to one element or they may respond to a combination of elements, including that they reasonably assess their service capacity and capability as being better directed elsewhere. The exit of service providers impacts the supply side service mix and so, in combination with service provider entrants, service provider exits are also a sound proxy for risk. Of course, the entry of new providers does not mean that the service mix capacity of exiting providers is replaced/replicated.
Staffing	Human services, including disability services provision, is a staff-intensive activity. The level of staffing, an organisation’s staff experience and training, and an organisation’s capacity to provide PD and training for staff are all critical aspects of the sustainability of service delivery and clinical risk reduction. Additionally, staff turnover—recruitment and induction—are significant costs for service providers. High staff turnover, changes in staffing structures and poor pricing are all indicators of risk here. Again, a change in staffing capacity is also likely connected to a change in service mix and so an examination of movement in this area is a logical proxy for risk.
Job Quality	Together with staffing numbers, job quality (e.g. pay rates, surety of hours etc) is also an indicator of risk as the lower the quality of jobs in a sector, the higher the potential turnover and the higher the cost to employers, while risk increases for service users as competence and reliability are threatened. Additionally, job quality may also be an indicator of active service mix management by service providers. As such, job quality, combined with staffing levels identified above, is a sound proxy for risk.
Service Capacity Forecasts	The perceptions of disability services providers in relation to their capacity to meet demand in the near future is an important forecasting tool and risk indicator. Where service providers predict that they will be able to meet growing demand, risk is arguably reduced in terms of the forecast impact of service mix changes and/or capacity in providers. However, where service providers have concerns about their likely ability to meet expected demand, there is a need for evaluation and mitigation development in order to avoid risk to service users.
Utilisation	This represents that amount of available funding that is notionally set aside for NDIS approved plans and is, in part, an indicator of service availability—there are other reasons for underutilisation including that users do not want to access services. However, a proportion of underutilisation is explained by the fact that service users cannot access the services they need. Service mix is a critical aspect of ensuring service availability and reducing underutilisation. Therefore, the regular reporting of utilisation levels by the NDIA is a logical proxy for the appropriateness of the extant service mix and geographical and service type

Risk Proxy	Description
	underutilisation—i.e. more granular investigation—will allow policy makers to identify areas where mitigations are required.

What the data tells us regarding the proxies for risk

In evaluating the evidence provided by the data collected during the National Disability Benchmark Project, we identified the proxies for risk and made some predictions as to possible outcomes. As the rollout of the Scheme has progressed, these predictions have been realised to a considerable extent, and go some way to expressing the potential risk being faced by service users. Additionally, we reiterate that these are proxies only and further investigation is required in order to fully assess the impacts caused by a realisation of these elements. Table two below provides an overview of the proxies for risk and what the data has told us in relation to them. As such, this table sets out the proxies, their potential impacts and the nature of higher risk movement (i.e. if the indicator moves up is it good or bad?). It is populated with the condensed evidence from the National Disability Benchmark Project. Readers should review the National Disability Benchmark Reports in order to ensure they have an understanding of the nature of the data reported on and to gain a fuller picture of the reported outcomes.

Table Two: Proxies for Risk – Movement 2016, 2017 & 2019

Proxy	Impacts	High Risk When	Evidence of Risk Realisation From 2016, 2017 & 2018 Reports
Profitability	Sustainability – short-, medium- and longer-term	↓	↓ Aggregate profitability of panel fell year-on-year from 4.4% to 3.5% ↓ Aggregate profitability of organisations earning 20% or more income from NDIS was 1.6% compared to those earning less than 20% of their income from NDIS which aggregated to 4.1% ↓ Profit distribution (polarisation): service providers that broke even in 2019 report ↓ to 8% as compared to 14% in the previous report
Sustainability	Relates to service provider capacity to continue to provide services of appropriate quality, in the appropriate numbers, in the appropriate location and within the needed timeframe.	↑	↑ Net assets identified in 2019 report were \$817.6m compared to \$655.9m in 2016 report. Predominantly this change related to current assets where cash resources and debtors are likely to be increasing with the change in business rules associated with the roll out of the NDIS; i.e. working capital changes.

Proxy	Impacts	High Risk When	Evidence of Risk Realisation From 2016, 2017 & 2018 Reports
Service Provider Entrants	Potential indicator of a change in service mix as new entrants move into service delivery but do not necessarily replicate contribution of current service providers. This can be a positive and/or negative change from a user’s perspective.	---	We have insufficient data to report on this category. However, registered provider numbers and location could be a proxy here.
Service Provider Exits	Potential proxy for a change in service mix as per above.	---	We have insufficient data to report on this category. However, registered provider numbers and location could be a proxy here. ABN comparative checks could be used to identify the movement in and out of the industry.
Staffing	Changes in staffing can be indicators of increased turnover and cost risk, increased capacity and changes in service mix. Generally, reductions in staff numbers are interpreted as representing negative changes in service mix but must be considered in the context of expansion and/or contraction in the potential demand.	↑	<p>↑ Number of staff employed: in 2019 FTE reported were 18,151 compared to 15,885 in 2016 report. Up by 14.3%</p> <p>↓ Volunteers deployed numbered 2,750 for disability services alone compared to 6,107 in the previous report.</p>
Job Quality	Changes in job quality are usually reflections of change in the business rules impacting a provider, of pricing impacts (good or bad) and of prospective recruitment and retention cost changes as well as changes in terms of staff competence and	↓	<p>↓ Job quality is likely to have reduced between the 2017 report and the 2019 report with the ratio of full- to part-time staff increasing from 1.9 in the 2017 report to 2.5 in the 2019 report. This is commensurate with work also completed in 2020 relating to the Northern Territory human services sector where job quality was also reported as reduced.^{viii}</p>

Proxy	Impacts	High Risk When	Evidence of Risk Realisation From 2016, 2017 & 2018 Reports
	capacity.		
Service Capacity Forecasts	Service mix into the future especially for new service users	↓	↓ in the 2019 report, 48% of service providers reported that they were unable to meet demand, up from 35% in 2016. ↓ In the 2019 report, 90% of service providers considered that they would not be able to meet demand in the following year.
Utilisation	Those service users with a NDIA approved plan but who cannot or will not access a service	↓	↓ Utilisation shrank from a high of 75% in 2015/16 to 69% in 2018/19. ^{ix}

Concluding Remarks

In examining the proxies for risk and results reported in the National Disability Benchmark Study it is clear that there is a strong case for building better and more timely data assets that can assist in delving more deeply into the causes and potential impacts of the issues identified above.

Transparency in collating and reporting in these areas will assist all players to ensure the NDIS is the success that it should be as a result of the realisation of its inherent opportunity. Such transparency would require the industry, government and service user advocates to work together to identify data priorities and to agree on mitigations.

Overall, stronger collaboration and transparency will likely build confidence for all concerned. The focus should be on participant outcomes; far and above any competition for organisational or institutional accolades.

Notes

ⁱ Gilchrist, D. J., P. A. Knight & T. Emery, 2020, “Green Paper 1: Data Assets, Efficiency and the NDIS”, A Report of Not-for-profits UWA, Perth, Australia

ⁱⁱ See: (1) Gilchrist, D. J. and P. A. Knight, (2016), *Australia’s Disability Sector 2016: Report One - Financial Sustainability and Summary of Key Findings*, A Report for the Research Data Working Group, Sydney.

(2) Gilchrist, D. J., and P. A. Knight, (2017), *Australia’s Disability Services Sector 2017: Report 2—Financial Performance—Summary of Key Findings (National Benchmarking Study)*, A Report for National Disability Services, Canberra.

(3) Gilchrist, D. J. and P. A. Knight, (2018), *Australia’s Disability Sector 2018: Report 3 - Financial Performance: Summary of Key Findings*, A Report for National Disability Services, Melbourne.

All of these reports are available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#ndis-finance-reports-markets-reports>

ⁱⁱⁱ For instance, see: Gilchrist, D. J. and P. A. Knight, (2018), *Disability Services Market Report 2018*. A Report for National Disability Services, Canberra. Available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#ndis-finance-reports-markets-reports>

^{iv} For instance, see: Gilchrist, D. J. and T. Emery, (2020), *Value of the Not-for-profit Sector 2020: The Second Examination of the Economic Contribution of the Not-for-profit Human Services Sector in the Northern Territory*. A Report for the Northern Territory Council of Social Service, Darwin, Australia. Available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics>

^v A research team including Not-for-profits UWA personnel has been working on using a Market Capacity Framework for evaluating this gap. See: Reeders, D., Carey, G., Malbon, E., Dickinson, H., Gilchrist, D., Duff, G., Chand, S., Kavanagh, A. and Alexander, D., (2019), *Market Capacity Framework*, Centre for Social Impact, Sydney. Available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#ndis-policy-reports>

^{vi} This figure is sourced from: Gilchrist, D. J., and D. Etheridge, (2020), *The Not-for-Profit Balance Sheet: A Resource for Directors and CEOs*, A Report for the Not-for-Profit Sector Banking Team at the Commonwealth Bank of Australia Ltd, Sydney, Australia. Available here: <https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances>

^{vii} For further discussion relating to this point, see: Gilchrist, D. J., and D. Etheridge, (2020), *The Not-for-Profit Balance Sheet: A Resource for Directors and CEOs*, A Report for the Not-for-Profit Sector Banking Team at the Commonwealth Bank of Australia Ltd, Sydney, Australia. Available here: <https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances>

^{viii} Gilchrist, D. J. and T. Emery, (2020), *Value of the Not-for-profit Sector 2020: The Second Examination of the Economic Contribution of the Not-for-profit Human Services Sector in the Northern Territory*. A Report for the Northern Territory Council of Social Service, Darwin, Australia. Available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics>

^{ix} See: <https://www.ndis.gov.au/about-us/publications/quarterly-reports/archived-quarterly-reports-2019-20#second-quarter-2019-20-q2> and <https://www.ndis.gov.au/about-us/publications/quarterly-reports/archived-quarterly-reports-2018-19#nd-quarterly-report-2018-19-q2>