



## **1. Introduction & Methodology Overview**

The 2021 NDIS Pricing Review and Western Australian Pricing Review constitutes an opportunity for the Disability Services Sector to demonstrate the cost pressures impacting their operational sustainability and to inform the NDIA with respect to the nature of those pressures.<sup>1</sup>

In developing this contribution to the Western Australian provider sector's response to the NDIS Pricing Review, an analysis of the experience of nine service providers over the 2019, 2020 and 2021 financial years was undertaken. The primary aim of this analysis was to gain insight into the cost pressures that are exposing Western Australian providers to unsustainable operation under the current NDIS pricing and operational model. As such, we focused on four key service types and sought data from selected organisations that we felt were representative of these service types.

The nine providers selected provided data specific to the following service types:

- 3 from disability support work (DSW);
- 3 from supported independent living (SIL);
- 1 from regional and remote (R&R); and
- 2 from therapy

Our selection of these service areas in particular was prompted, firstly, by the fact that they represent a significant component of all NDIS services and incurred Scheme costs. Secondly, issues related to provider and service sustainability, as well as participant outcomes within these areas, have been noted in previous reviews and studies conducted (for instance, see: (Carey, Weier et al. 2019, Carey 2020, Gilchrist 2020).

All statistical analysis has been undertaken accounting for cost increases net of provider service growth.

## **2. Key Indicators Demonstrated**

- Per client labour costs have increased by 9% between 2019-20 and a further 15.96% between 2020-21 across the cohort.
- Having accounted for growth in service activity it is apparent that the ERO and other awards increases were outpacing package value and service hours suggesting that these increases were not supported by pricing levels.
- Due to employee vacancy rates, agency staffing costs increased by 33.82% and 39.83% between 2019-20 and 2020-21 respectively. As a result, the proportion of agency costs to direct labour costs rose from 3.76% to 5.57% over the period.
- Recruitment costs across the cohort have increased by 12% and 27.6% respectively in each period, while the employee turnover rate has remained high, especially in the

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DSW and SIL service areas causing increases in agency costs, recruitment costs and pre-deployment training costs.

- Mandatory training and professional development costs increased by 11.77% and 27.60% for each period. This increase adding further pressure to the development of new and existing staff.
- NDIS-specific clerical staffing costs have increased by 20.64% and 32.80% respectively across the cohort.
- Quality control and compliance costs have risen by 20.5% since 2019 placing greater regulatory strain across the cohort.

**3. Synopsis – Increased Costs**

The following are the key areas where material cost increases have been identified negatively impacting the sustainability of providers. Importantly, these cost increases are not the only increases impacted but represent material increases. Key costs analysed are:

- Labour increases – increased wage rates (Equal Remuneration Order & annual increments), increased administration requirements to meet the NDIS system requirements, reporting requirements, higher technical capacities required.
- Facilities costs rising significantly into 2021 after a decline - possibility from reduced necessity due to COVID shock/transition to remote working for corporate staff
- Significant rise in marketing costs potentially to resume competition for participants and labour in tight/thin market environment.
- Increases in compliance and quality control requirements including the requirement to hire additional personnel and undertake additional control processes
- Audit processes have imposed a notable financial burden on sector
- Total costs increased by 2.61% in 2019-2020 and 5.65% in 2020-21.

**Table 1: Cost Change Across Nine Cases (Adjusted for Service Growth)**

<b>Cost Areas</b>	<b>2019-20</b>	<b>2020-21</b>	<b>Proportion Total Costs 2021</b>
<b>Labour</b>	12.02%	10.40%	59.87%
<b>Labour On-costs</b>	8.43%	-0.13%	10.51%
<b>Facilities</b>	-6.01%	21.20%	4.80%
<b>Marketing</b>	-30.14%	151.95%	0.38%
<b>Quality Control/Compliance</b>	6.45%	8.36%	2.28%
<b>Audit</b>	30.09%	7.99%	0.19%
<b>Motor Vehicle</b>	-9.80%	6.19%	1.11%
<b>All other costs</b>	-15.01%	-7.14%	20.86%
<b>Total Cost Increases</b>	2.61%	5.65%	



#### **4. Cases Utilised**

The information of each service provider examined has been provided in confidence. As such, each provider will be referred to as cases 1 through to 9, with cases 1 to 3 being focused on DSW, cases 4 to 6 focused on SIL, cases 7 to 8 focused on therapy service area, and, lastly, case 9 which is focused on remote/regional area.

Although the majority of observed cost drivers from each case was consistent across all cases, which is understandable considering the administrative and regulatory requirements are largely consistent across the NDIS, the below commentary accounts for service-specific challenges. That said, the objective of the analysis provided is to identify the primary drivers of costs in those providers, with a pertinent concern for financial sustainability. Therefore, to properly understand the unique challenges across all activity areas and the entire sector, a more thorough investigation would be required, one that considers the diversity in market conditions, actors, participants population and region within the sector.

#### **5. Direct Labour Costs**

Despite noteworthy development in service activity and average package value among DSW providers, direct labour costs rose in excess of organisational growth. In Case 1, client numbers rose 9 % between 2019 and 2020, with a further 13.85% during 2020-21 while the average package value and hours of support provided rose by similar increments. However, direct labour costs increased by 11.11% over 2019-20 and 24.21% from 2020 to 2021. The direct labour costs per client serviced increased from \$97,985 in 2019 to \$108,918 in 2021, a total percentage change of 11.2%.

Case 3 showed more significant disparities having experienced sizable declines in package value over the 2020-21 period—this case showed an increase in direct labour costs of 13.97% beside a 17.18% decline in average package value. Granted client numbers and service hours provided did rise incrementally with direct costs, per client direct labour costs increasing by 5.19%. Concerningly, cases 4 and 5, both SIL providers, experienced decline in average package values, alongside direct labour costs, without the benefit of a growing client base. Case 4 showed the proportion of direct labour costs to total SIL package value was steadily increasing over the period rising from 39% to 43.5%.

Having accounted for the proportion of direct labour costs attributable to increases in service hours and client numbers, other drivers of direct labour costs can be considered. Perhaps the most obvious is the Equal Remuneration Order (ERO) and increments in the rates included in the Social, Community, Home Care and Disability Services Industry Award (SCHADS). Although the award provides a wage incentive for prospective sector employees, the annual pay points appear to misalign with the fiscal experiences of service providers. This discrepancy has exposed providers to wage rises that are inconsistent with operating conditions and uncompensated in the current costing model. Case 4 illustrates this impact with a 3% average percentage increase in labour costs as a result of the ERO and an additional 2% average pay increment not attributable to the ERO.



## **6. Agency Staff Costs**

Another driver of rising direct labour cost is the prominence of agency staff costs. This was particularly relevant to the DSW service area where the employee vacancy rate and turnover rate were highest. For example, Case 1 had an average vacancy rate of 27% and an average DSW turnover rate of 24%. Agency staff costs were observed to increase in Case 1 by 98.86% between 2020 and 2021. This increased the proportion of agency staffing costs to direct labour costs from 3.25% to 5.21% - a similar experience was reported by Case 9 as well.

Additionally, agency staff costs in Case 4 increased by 120% in 2019-20 and 225.36% in 2020-21, thus agency staff accounted for 11.78% of total direct labour costs in 2021. It can be inferred from these cases that the increases in service activity over the period has required the increased use of agency staff, at a premium cost, to meet demand predominantly due to provider inability to attract and retain workers.

Current market conditions in WA could be driving this dependence on agency staff, as well as an absence of a long-term labour force strategy for the sector. Restricted migration, in addition to government incentives for prospective or current sector employees to enter comparable sectors, such as aged care, have tightened WA's labour market. That said, the current NDIS pricing model's emphasis on a 70:30 ratio of FTE to casual staffing has driven increased casualisation within the sector. The resultant deterioration of job quality and security which is only exacerbated by persistent employment vacancy and turnover rates (Gilchrist and Emery 2020).

It is noteworthy that as well as being an expensive staffing option, and therefore financially undesirable for providers, the prevalence of agency staffing potentiates a discontinuity of care among participants.

## **7. Staff Development and Retention**

A common theme across the cases examined was the cost increases caused by mandatory training and professional development (PD), quality compliance protocols and other recruitment costs. While there is evidence of this in all cases examined, Cases 1, 3 and 5 provide valuable insights into these cost drivers because the vacancy rate and staff turnover rates in both have been relatively high and constant across the period. This implies cost increases related to training, compliance and recruitment are not wholly attributable to the staff pool expanding from service growth.

Between 2020-21, Case 1 experienced a cost increase in mandatory training and PD of 102.46%, in other training and PD of 64.92%, quality control and compliance of 44.69% and recruitment costs of 22.22% (the previous year this increase was 62.65%). These increases being in excess of the approximately 13% increase in activity experienced in this case. Similar increases in recruitment and training costs are observed in Cases 3 and 5 (Increases of 29.63% and 28.70% and 26.98% and 37.39% respectively between 2019-20, which continued to increase by 29.37% and 22.04% and 23.11% and 9.14% respectively between 2020-21).

When these cost increases in staff recruitment and training are considered alongside the high employee turnover rate, they highlight a sizable base cost for the provider. Service providers are having to devote more resources to preparing new workers for deployment



while potentially being unable to recover those costs due to low employee retention rates. A noteworthy example is in Case 8 in relation to the recruitment and deployment preparation of new therapists. Recruitment cost increases of 94.34% in 2019-20 and 53.98% in 2020-21 coincided with a 68.77% increase in quality control and compliance costs and already high sector-specific training and PD costs. Case 8 highlight how these costs are outpacing service activity with client numbers increasing by 2.43% and average package value by 4%. Although not a unique problem of the therapy sector, the competitiveness of the therapist labour market—especially with the public sector—makes these growing costs particularly problematic. It is important that therapy providers can create viable incentives to attract and retain new therapists while properly supporting their development for deployment.

It is observed that the level of preparedness required of NDIS workers is not recognised in the current pricing model. Neither are the broader costing impacts derived from poor job quality causing staff turnover and the lack of financial capacity for providers to invest in and incentivise a stable and well-trained staff body.

### **8. Administrative and Compliance Costs—The Operating Environment**

With the introduction of more demanding quality control, compliance and NDIS plan support requirements, the costs related to these activities have outpaced the pricing structure. The burden created by these regulatory and administrative requirements is observable across all the cases examined. Firstly, providers are required to increase administrative staff counts to manage compliance and clerical responsibilities. In Case 5, 8 additional administrative staff were employed over 2020-21 in order to manage the NDIA's systems, increasing base costs by 604.24% and 25.97% respectively.

Considering Case 6 as well, this cost driver is prominent in SIL services with NDIS administrative support costs increasing by 76% over 2020-21. Alternatively, this equates to a rise in per client support costs from \$3,845 to \$6,121. Further evidence of these cost drivers is observable in Case 1 with administrative and regulatory costs per client (this including audit and NDIS compliance costs) rising significantly from \$833.56 in 2019 to \$2,155.14 in 2021 or by 158%.

Concomitant cost drivers have emerged from the necessity for IT capacities to effectively facilitate the collation and management of client data and information required for audit compliance and other reporting commitments. A significant example was Case 5 which required a \$280,000 IT system installation over the 3 years examined. Most concerning was the reported increases in IT subscription costs experienced across the sector. The change in IT application charging arrangements from one-off capital payments to monthly subscription arrangements has impacted the sustainability of providers negatively.

For example, Case 6 experienced a doubling of IT subscription costs from \$252,050 to \$493,532 in 2019-20 which translated to a per client IT costing from \$3,190.51 to \$6,327.34. Since SIL was demarcated as an essential service and thus did not move to remote services, the COVID-19 lockdown period in 2020 would not adequately explain such an increase. IT subscription costs for DSWs, which may have transitioned some internal processes to an online environment, in addition to services, rose in Case 1 by 36.67%, as well as Case 3 by 79.61% in 2019-20 and a further 21.38% in 2020-21.



Overall, it is observed that the IT infrastructure required to provide services within the NDIS regulatory framework exposes providers to base costs that are outpacing the average package value, as well as the growth in service activity.

The last cost driver associated with operating environment changes unrecognised in the current pricing model are those of OH&S Worksafe compliance and general insurance costs.

Firstly, Western Australian Worksafe (government department) compliance costs rose considerably in Cases 1, 2 and 4, with percentage changes in these costs experienced of 92.67%, 39.79% and 20.60% respectively.

Although the 2020 public health ordinances drove a proportion of these cost increases, the updated NDIS safety regulations and concomitant audit compliance would better explain such a sizable impost.

Secondly, general insurance costs increased in excess of activity growth. For instance, despite decreases in client numbers and average package value, general insurance costs increased in Case 2 by 16.54% in 2019-20 and 39.79% in 2020-21. These base increases equated to the per employee cost rising from \$281.39 to \$391. Assigning the driver of these cost increase is difficult given the wide array of insurance required by NDIS service providers. Potentially these costs increases are an insight into insurance coverage required for NDIS registration or the influx of inexperienced employees pressuring liability and accident insurance types.

### **9. SIL Rental Property Sourcing**

Unique to SIL, the lack of rental properties in WA have prompted increased costs associated with searching rental markets to access properties for clients. The strong resources sector and housing recovery are credited with the paucity of available rental properties. Case 6 posited these costs as \$100,880 in 2021 which was a 7.78% increase from 2019.

The transaction costs imposed on providers when sourcing properties is not recognised in the pricing model yet reportedly constitutes an average cost of \$1,212.61 per client package. However, a key concern with this process is the potential for these transactions costs to be cross-subsidised from high needs participants with larger funding packages to the lower needs participants. It is also likely that these costs are causing ancillary pressure on NDIS support staff workloads and/or supervision staff workloads.

### **10. Regional and Remote—Costs and Regulatory Burden**

The experience of the regional and remote service provider in Case 7 was largely consistent with the cost issues commonly associated with service delivery in these regions. The costs related to service facilities, other direct costs and travel costs increased by 36%, 42% and 35.19% respectively.

Further major cost drivers were related to training, quality control/compliance and the reporting IT infrastructure. IT subscription costs increased by 37.79% and quality control/compliance required an investment of \$250,000 in 2021 along with staffing costs of



\$85,000. Although a portion of these costs is attributable to increased service support hours over the period, plan utilisation remained constant at 55% between 2019-2021. This suggests that the compliance burden and incremental costs associated with increased service are insufficient in fostering the capacity to extend service delivery across more of each participant's plan.





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