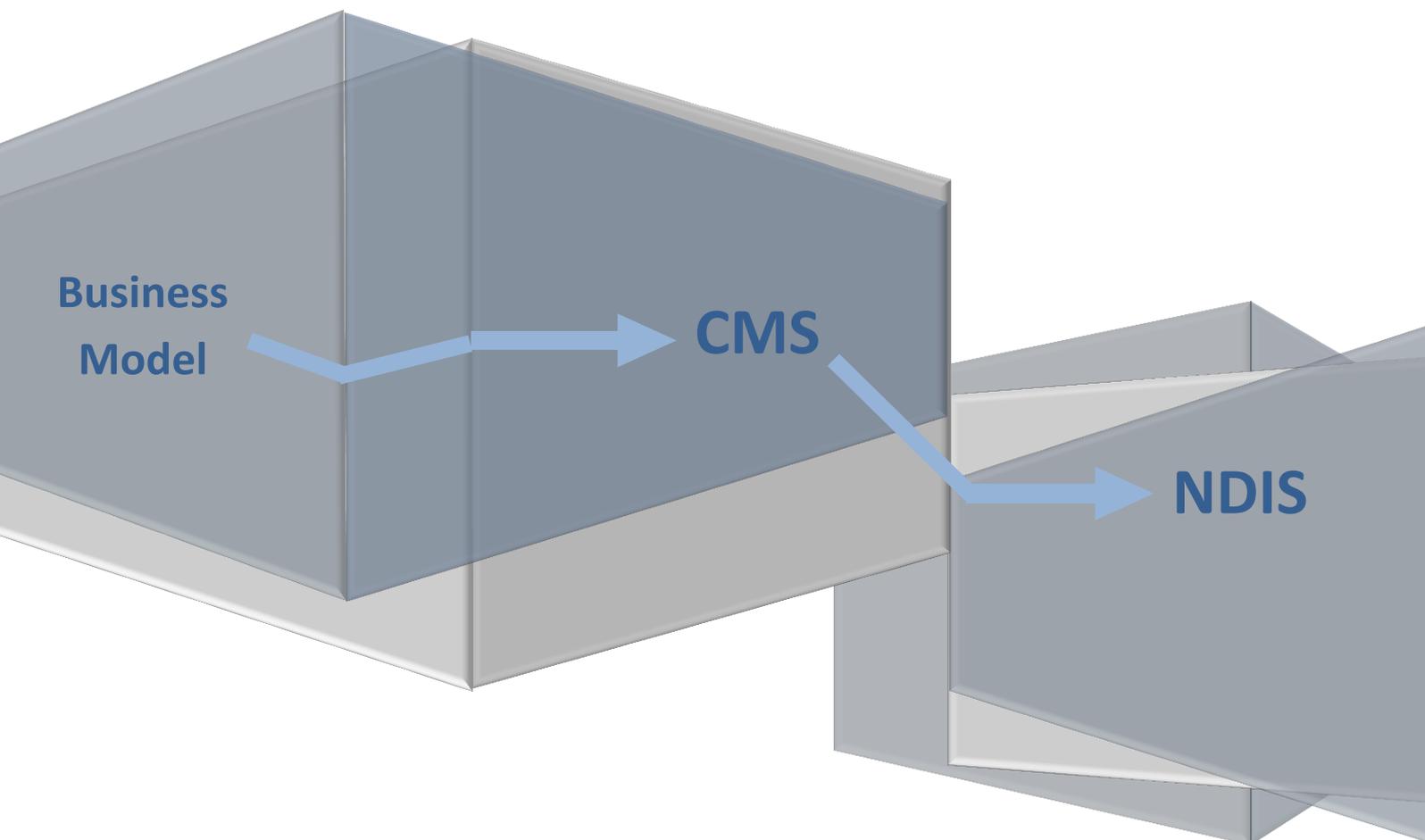


# **CMS Project: Stage 1 Report**

**Existing Business Analysis, NDIS Review, Gap Analysis and NDIS  
Business Model Design for CMS Vendor Review Purposes**

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## Executive Summary

All disability service providers are engaged in a transition process that will enable them to move from the funded contractual arrangements they currently enjoy with Government to the NDIS fee for service model. The environment in which small service providers operate is changing and their business models must adapt to meet the challenges that the NDIS presents.

Recommendations for CMS solutions can only follow a thorough examination of the NDIS and its impact on current business models. The CMS Project seeks to establish the business processes required for an NDIS service provider and then identify CMS solutions that will accommodate these requirements.

Two reports will issue from the findings of the CMS project. This first report documents the results of the business analysis, NDIS requirements review and the gap analysis undertaken in the first stage of the project. This information is used to produce an NDIS business model which will form the basis for scoping the software requirements. A second report will detail the findings of the software vendor research process, making recommendations on appropriate vendors.

### Analysis of Current Business Processes

The analysis of current business processes was facilitated by visiting and surveying a number of small service providers operating in regional and metropolitan settings.

The four organisations visited and surveyed are well positioned to transition to the NDIS. Each has an installed person centred culture and each is accustomed to providing flexible individualised supports to participants.

Each organisation has a relatively strong customer base that can be leveraged to increase their scope of services. As flexible respite providers, the organisations have been able to develop a close working relationship with participants and their carers. This relationship often commences when the participant is young and most maintain a relationship with the participant well into their adult years.

All providers surveyed indicated that they intend to continue running value driven services rather than cost driven services. The business model to be developed therefore falls clearly within the class of business referred to as customer relationship management businesses.

*Customer relationships are a key asset for small service providers and managing these relationships will continue to be a small provider's core business.*

### NDIS Environment Impact on Key Activities

A review of NDIS principles and broader disability policy changes contained in the National Disability Strategy shows that the resulting external impacts are driving the need for change at the service provider level. Socioeconomic trends are driving economic infrastructure improvements in supporting service systems such as transport, health, housing, employment, education, ageing and community. The increasing capacity and capability of these systems to cater for the needs of people with disabilities is allowing people with disabilities to actively participate in their community.

Other key environmental changes are the changing attitudes in the community towards disability, technology improvements that are presenting new ways of undertaking business activities and providing support and the changing market with new competitors being invited to join the once protected system.

*The environment in which NDIS service providers operate is changing – service providers have to change in response to these environmental changes.*

### Intensifying Business Activities

The introduction of the NDIS will require service providers to increase the intensity of certain business activities. Product development, customer acquisition through marketing efforts, retention of customers through customer account management processes, and back office transaction processing will all require an increased focus. These activities will result in additional transaction requirements and therefore additional costs for an NDIS service provider.

### Increased Revenue Streams

The NDIS pricing formula delivers a competitive advantage to larger service providers through their economies of scale and economies of scope advantages.

Small service providers will need to employ initiatives to grow their revenue streams as the ability to obtain increased margins from premium service provision will be difficult. Current price regulation by the NDIA is an initiative to drive prices down to what a “mature market” will pay. To maintain quality service delivery above what the NDIA will fund may require the small service provider to supplement value added services with alternative revenue streams.

### Cost Considerations

Small service providers will need to remain vigilant on all costs and seek to reduce them wherever possible. In particular, labour costs will require close managing as they represent a large percentage of the total costs incurred and are therefore the most sensitive element to future financial viability in the NDIS world.

### Business Model Analysis

To develop the business model requirements for an NDIS service provider, the principles used in a business modelling tool called Business Model Canvas were used. This tool is being used in academic circles to guide entrepreneurs and executives as they analyse new business opportunities and organisational change requirements. Taking this greenfield approach is considered appropriate due to the paradigm shift in service delivery that the NDIS requires.

Business Model Canvas begins by looking at the Value Proposition for a new product or service, it then considers the market and how the entity will get the products or services to this market. It considers what the key resources will be and the best way to price the product or service. It then considers who the key suppliers will be and what network partnerships need to be established as an organisation cannot be all things to all people. The final element of the model is to consider expenditure and what needs to be done to ensure the business is running efficiently and remains viable.

The following link to a short YouTube video will provide a visual representation of the key elements used in the Business Model Canvas tool.

<https://www.youtube.com/watch?v=qoaozmtlp5s>

Other YouTube clips can be accessed that explain how different industries have transitioned their businesses using the simple Business Model Canvas tool. **Appendix 1** provides a canvas that has been prepared to present the key business elements of an NDIS service provider.

### CMS Considerations

The criticality of the relationship between NDIS participants and service providers means that client relationship management tools will be essential. A well designed client management function with the ability to integrate with other software and flexibility to adapt and grow will form the foundation for the CMS vendor review process. Functionality that supports communication with participants about their plans, budgets and support options will be essential to maintaining existing participants and attracting new participants.

Tools for human resource management will be equally critical as the NDIS pricing model is extremely sensitive to unnecessarily inflated labour costs. Incorrect classification of support workers, inefficient recovery of face to face billable time and incorrect span of control ratios have the potential to severely impact the ongoing viability of service providers. A roster solution that incorporates an Award interpreter will be essential for resource planning purposes and maintaining control over labour costs.

Increased transaction requirements will demand a CMS solution that captures source data efficiently and migrates this information with minimal human touch points to other software applications for processing. The cost of mobile solutions to deliver the source data efficiently will need to be assessed against the cost of additional labour with return on investment considerations factoring strongly in any decision to purchase such solutions.

Finally, the CMS system will need to have the ability to extract and report on key performance data efficiently and with minimal intervention.

The NDIS pricing model is based on a mathematical formula with high sensitivity to labour classifications, utilisation rates and span of control ratios. Equally, the pricing formula applies a percentage for overhead costs that is lean by current industry standards. The NDIS demands that a measure, monitor and manage approach be undertaken for all of these key indicators.

*Small NDIS service providers will remain viable in the competitive NDIS market if they grow revenue streams and reduce the unit cost of labour and overheads through the application of time saving CMS based processes.*

## Business Model Elements

### Customer Segments

Business Model Canvas begins by considering who the NDIS customers are likely to be. Customers are all the people for which an NDIS provider will be creating value. People with disability are the primary customers and are referred to as participants under the NDIS.

Whilst an underlying principle of the NDIS is that choice and control belongs to the participant, carers remain a key stakeholder in the lives of many participants. Depending on the extent of reliance upon them by the participant, carers will be a key influencer of the choices made and their communication and management needs will need to be considered in the design of the CMS.

The four businesses surveyed for this project are predominantly involved in the delivery of flexible respite services. They are providing services to an average of 200 families with a participant age range that spans from age 0 and up. The providers do not specialise in service delivery to particular disability types, their services being offered to participants with a range of disabilities.

Historically, the providers have focussed on the section of their local disability market requiring respite services. Whilst generating a relatively small amount of revenue, the number of families serviced represents a significant portion of disability impacted families in their regions.

*Small flexible respite services have an installed customer base*

The NDIS, with its insurance model design, classifies the Australian market for disability insurance purposes into three tiers. The providers surveyed have been providing services to people with disability who are likely to be eligible for a Tier 3 package.

*Small flexible respite service providers will be providing support to Tier 3 NDIS participants*

The providers surveyed also indicated an intention to maintain a focus in their current regions. Opportunities to merge within their region or

broader do not currently have a priority focus in strategic plans.

The NDIS removes any regionally based barriers that exist in current funding agreements providing opportunities for these providers to expand their horizons if the right opportunities present themselves in the future.

### **CMS Design Considerations – Customer Segments**

At the core of a good CMS system is a database structure that has been well engineered and has the capacity to cope with the multiple relationships with business support functions that exist within a typical business model.

The CMS system starts with a healthy database of information about the existing customer. This database has the traditional fields to help identify and service the customer such as their name and contact details, associated supports contact details, essential support information such as details of the participant's disability and medical details etc.

Under the NDIS, CMS database design and engineering also needs to be able to support matching resources to participant requests; participant personal preferences and expectations being captured to facilitate appropriately matched support workers, services and facilities.

Service providers in metropolitan centres are more likely to operate across multiple regions despite their size. The CMS system therefore needs to support multi region management requirements.

### **Value Proposition**

Value proposition is the bundle of products and services offered by the service provider that will create value for NDIS participants.

The NDIS pays for services on the basis of products and references them as supports. Currently most service providers deliver a mix of supports organised into programs. NDIS service providers will need to identify each of the supports within these programs and align them to the NDIS classification system. To gain a clear match, some product re-engineering and even new product design may be required.

NDIA policy and corresponding actions in the launch sites needs to be monitored carefully as the NDIA will influence the market. If the NDIA does not fund a support even though it exists in their price list, there will be no market for that support.

### **Market Influences**

The newly designed or re-engineered supports will need to be polished and presented in such a way that their value proposition sits above the rest of the market. It will be difficult for registered NDIS providers to differentiate their products in the market place. Quality of support could be a significant differentiator; however, the pricing model restricts product design to very base levels of service delivery. Any value added services offered to differentiate the product in the market place may need to be funded from alternate revenue streams.

### **Products**

The flexible respite services offered by the providers surveyed include in-home respite (including daily task supports if requested), community activities, group activities, vacation support and family managed allocations. Customer feedback to the providers indicates that current services delivered by the surveyed providers are highly valued.

The primary respite activities delivered are expected to continue to be funded by the NDIA, albeit the terminology for respite services may change. Many activities currently delivered fit within the Community Participation cluster under either group activities or individual support sub

classifications. The primary change will therefore concern the choices made by potential NDIS participants as to whether they will continue to purchase group and/or one on one support services from these providers.

Providers have also recently commenced providing State Government Stronger Together packages. Managing these individual supports has been a relatively easy transition for the surveyed providers as their block funding allocations methodology and subsequent budget management techniques align with the requirements for individualised funding packages.

All but one provider indicated that they did not intend to move into vocational support services; vocational support services are expected to be a primary growth area under the NDIS with its drivers for greater economic outcomes for participants. No service provider indicated an intention to move into accommodation support, another large growth area for the NDIS.

Customer demand may eventually influence future strategic direction resulting in these providers reassessing their scope of supports offered, especially as their younger participants reach key transition points in their lives and want to maintain a relationship with the provider.

### **National Disability Strategy Impact on New Products**

The NDIS is just one element of the broader National Disability Strategy. An understanding of the broader strategy and its impact on the environment in which an NDIS service provider will need to operate helps to better understand the key drivers of the NDIS and the corresponding services that will be in demand.

The National Disability Strategy has an impact on all major service systems such as Health, Education, the VET system, Transport, Employment, Housing and Community. Each of these service systems have been charged with responsibility for catering for the needs of people with disability within their service and funding models. Some of these systems have made progress whilst others are lagging well behind.

With an understanding of the responsibilities that the supporting service systems have been charged

with, we can better appreciate why one of the primary drivers for the NDIS is to provide a system that supports participants to live a life in the community. New and re-engineered products will need to align with this strategy.

### **NDIA Influences on Product Delivery**

The NDIA, through its assessment, planning and funding allocation activities, will ensure that the system is producing individuals who are interacting with all external elements of society. Reasonable and necessary funding tests will provide the encouragement to ensure that participant choice and control is leading towards ever improving social and economic outcomes for people with disabilities.

Centre based options and supported work environments, with their more institutional design, may only be available to those with absolute need for such services rather than being a choice available on the basis of preference. Further policy work currently underway and the experiences in the launch sites will continue to provide light on the NDIA's influences on the future for these more institutionalised services.

Due in large part to a general misalignment with their business ethos, no provider surveyed currently runs disability funded centre based services or supported employment programs. All but one provider indicated a reluctance to move into these service provision areas even though the traditional barriers to entry will be removed under the NDIS.

### **Impact of Choice & Control on Products Delivered**

One of the foundation building blocks of the NDIS is the requirement for a system to provide choice and control to the participants. As in most markets, choice can result in purchases being made for a variety of factors beyond the cheapest price. Quality of service delivery and the strength of the trust bond inherent in the relationships between provider and participant/carer will be key factors in the new market. All organisations surveyed indicated an understanding of the value of the trust relationship. Their business ethos will ensure that quality and relationship remain at the core of their business culture going forward and

this will be reflected in the products they offer under the NDIS.

### **Flexible and Nimble**

The relatively small size of the providers surveyed allows them to respond quickly to the needs of the participants and carers and the outcome expectations of the NDIA. This is an important factor in a model where planning service provision is subject to so many variables. Market research may establish the desires of participants now; however, such desires may change as the market matures and offers new and innovative products and the NDIA begins to provide clear indications of their interpretation of “reasonable and necessary” for funding purposes.

*Value Proposition - small service providers will remain service orientated organisations providing custom tailored disability support services to people with disabilities*

### **CMS Design Considerations – Value Proposition**

Providers will need to undertake a process of defining their supports and the resulting key information on the what, how, where, why and how much of each product needs to be captured in the CMS system and eventually be at the fingertips of every staff member. In the product re-engineering/design process, providers also need to record promotional aspects of the product; how to describe it in marketing material, what outcomes can be expected by the participant and the NDIA and what the pathway options for the participant are once they have met the outcomes of the current support.

There will also be legal and risk management considerations that attach at a product level – what will happen in the case of persistent no shows, are there prerequisites and assessment processes that need to be undertaken before a participant can purchase a product, what risks such as use of staff vehicles impacts the way the product is delivered.

From the resulting database of product information, providers will then be able to articulate the activities that underpin each product, the services that are needed to fulfill these activities and the facilities required to

deliver the services. Typical service considerations that need be catered for by the CMS will be the skills and classification level of staff or volunteers, whether there is a need for transport services and whether any particular supplies are required.

Once the services are known, providers will be able to determine the facilities required such as buildings, vehicles and equipment. Each of these facilities traditionally has bottleneck considerations such as maximum occupancy levels and the CMS will need to understand and be able to provide support for these resource management requirements.

Staff will need access to information in the CMS that guides them through the negotiation phase; what margins are inherent in each product, how much of this margin can be given away and by who, will be critical data that needs to be readily available.

The NDIS demands a lot of flexibility in the way that products are sold and accounted for in the accounting function. The ability to negotiate prices once the market matures means that the same supports may be sold with different terms to different participants. The product setup in the CMS needs to cater for the flexibility of individually negotiated terms and needs to align this data with the accounting system and the way that it imports the data.

*The CMS needs to manage the relationship between the customers and the supports that are available for sale.*

## Channels to Market

Channels to market describes through which touch points NDIS providers will be interacting with participants and delivering value. It describes how the service provider communicates with its customers to gain the opportunity to deliver more supports and improve relationships with existing customers.

The manner in which customers are accessed is critical in the competitive NDIS market. The providers surveyed have gained access to their current customer base by nature of the services they provide. Flexible respite has been a niche service delivered to a broad base of the existing market. The communication channels between families and providers that have been forged over many years of regular interaction are now the envy of many larger providers who realise the value of strong bonds with participants and carers under the NDIS model.

Achieving this customer base has required minimal to no marketing spend; word of mouth being the primary form of promotion to date. The existing communication channels, if leveraged successfully will open further opportunities to grow the scope of services and as this scope grows, so does the opportunity for further word of mouth promotion.

The providers surveyed indicated a preference to continue with a primary focus on word of mouth promotion supported by quality service delivery. Low level marketing strategies are expected to be employed, including the development of marketing collateral, a sales kit, an improved web presence and improved social media capabilities.

Increasing the touch points with existing participants will also be necessary under the NDIS. The providers surveyed indicated a need to improve customer relationship management processes and tools, recognising the value of their current customer base and its referral potential.

*The existing base of customers and its broad coverage of the disability sector provide excellent opportunities to direct market newly developed products.*

## Enquiries and Referrals

The first touch point with a new participant or carer may be via an enquiry or referral. Each provider is currently fielding prospective participant enquiries and referrals at varying levels of detail and sophistication. The size of these organisations will restrict the ability to fund an in-house sales force. This function will therefore need to continue to be undertaken by existing staff.

Typically, an enquiry is currently fielded by the administration staff member answering the phone at the time. Staff members will have varying degrees of knowledge about the services on offer, more complex enquiries being escalated to appropriate operational or executive management levels.

Under the NDIS, enquiries and referrals will need to be captured to facilitate growth opportunities and to guide future product development. Trends in requests for particular supports will highlight movements in the market and movements in the “reasonable and necessary” funding strategies employed by the NDIA.

Such trend analysis should be the trigger for product development leading to growth in the scope of services or re-engineering of the current product mix. This will require staff who field enquiries to know the right questions to ask and, more importantly, the right answers to give to an enquiry. A response of “we don’t sell ABC services” will limit opportunities for future growth in scope of services, cross selling opportunities and the opportunity to gain intelligence on competitor activity.

## Waitlists

Providers indicated a need to manage waitlists as part of the enquiry process. Some providers indicated that they are already managing waitlists for some of their programs and due to the flexible nature of their operations, these waitlists are fairly dynamic, often requiring last minute communication with waitlist participants to maximise the utilisation of these programs.

The NDIS poses additional waitlist management challenges due to the potential for a participant to nominate a particular support worker to provide their support requirements. Limited time

available for a popular worker may require prioritising on the basis of need, prioritising on the basis of first in first supported or even prioritising based on participant willingness to pay a premium to obtain the in demand resource. This will all need policy consideration and be factored in to the waitlist management functionality of a CMS.

*Small service providers will need to improve the capture and management of enquiries and referrals as well as improving sales techniques to survive in the NDIS environment.*

Existing and new products will need to be tested in the market and the responses captured to guide further or future product re-engineering or development. Without an easy to differentiate product offering, providers will need to capture every sales opportunity that presents to the organisation. Capturing enquiries and referrals, managing the sales process, managing intake and assessment processes and managing possible waitlists will all be critical to ensuring that the full value of the provider's marketing spend is captured.

*Small service providers have strong channels to market through personal networks developed over time.*

#### **CMS Design Considerations – Channels**

The CMS will need to capture enquiries from multiple sources such as face to face communication, phone contact, email contact, website responses, social media responses and marketing events. The enquiry record created will be a source of data for future follow up purposes and product development and marketing opportunities. Well-structured enquiry forms will guide the staff on the right questions to ask so as to gain relevant information for enquiry response purposes, negotiation intelligence and even competitor intelligence.

On the successful conversion of an enquiry into a sale, the CMS will convert already captured data into customer information. For efficiency purposes, this data will be pushed to the accounting system, avoiding inefficient

duplication of data entry time and reducing the potential for transposition errors. The challenge for this project will be to identify a system that provides an automated customer reconciliation function within an affordable price range.

The small and personal nature of the providers will allow enquiries and referrals to be assigned to a limited number of people in the organisation allowing a consistent message and follow up process to be delivered to prospective customers.

The assigning of enquiries will need to be supported by an automated alerts system where enquiries and referrals have not been actioned. Additionally, CMS referral management will need to provide recognition processes to support strengthening network relationships as these will prove to be a significant source of future opportunity under the NDIS.

## Customer Relationships

Customer relationships outline the type of relationships that a service provider will want to establish with NDIS participants and their carers.

By nature, coordinating the requirements for flexible respite requires regular interaction with participants and their carers. This allows the providers to build strong relationship bonds; service providers are often invited into the daily living activities of the family, sometimes even participating in the financial and personal affairs of the family.

Under the NDIS, the value of a quality relationship with the participant and their carers cannot be overstated. Carers are key influencers of choice and each provider's personalised approach to business has already resulted in customers nominating them to deliver other individual funding packages. Such growth opportunities should escalate in the NDIS environment.

In addition to this, the quality of existing relationships will be invaluable as every provider in the sector fumbles with a system in its development phases that is subject to regular change. A mistake made by a provider with a pre-existing good relationship will be more easily forgiven than a mistake made by a provider where a pre-existing adversarial or fledgling relationship exists.

*Small service providers maintain intimate personal relationships with their customers that should maximise retention under the NDIS and provide growth opportunities in the NDIS market.*

Forms for intake and assessment purposes will need to be designed so that accurate information is captured; in particular, the expectations of customers will need to be captured, automated documentation generated that marries these expectations to the terms and conditions for each product purchased and delivers these for signing in easy to read formats. Intake processes will also need to cater for the information required to deliver an increased scope of products.

## CMS Design Considerations – Customer Relationships

The CMS will need to cater for Customer Relationship Management functions. A well constructed service agreement with pricing and other terms clearly stated will provide a healthy start to managing the relationship with the participant and carer. This will also provide a valuable support when addressing future customer complaints or expectation concerns.

Being able to pull together a suite of products for a participant based on their enquiries, provide "what if" scenario analysis that ultimately aligns products offered with NDIA funding levels in the participants plan and then produces an automated service agreement based on the negotiated suite of products will be a goal of the CMS project but will be subject to the ready availability of such functionality and the associated costs.

The CMS will need to cater for Waitlist management requirements. By breaking programs down into products, waitlist requirements have the potential to escalate. The NDIS pricing model drives the need for capacity utilisation efficiency. Funding based on support worker ratios, accommodation occupancy ratios, and face to face and span of control ratios used in the NDIA pricing formula all demand sophisticated capacity utilisation management tools. Waitlist management will form an important component of the CMS for maximising capacity utilisation.

The providers surveyed also indicated the need for their staff to have easy access to all customer related documents. The CMS will therefore need to incorporate document management functionality. This functionality will also assist in meeting the compliance requirements for service providers by improving the management of their controlled documents such as policy and procedures and other legal documents.

## Revenue Streams

Revenue streams consider how an NDIS service provider will capture value for the supports they provide and the mechanisms that they employ to do this.

### Revenue Source

Current revenue streams are predominantly from State and Federal Government block funded programs and individual packages. These funding sources are generally paid quarterly in advance and are set according to contractual arrangements with the funding provider.

The NDIS allocates the funding to the individual and a revenue stream will only be forthcoming to the service provider after the service has been delivered to the participant. Current expectations are that the service will be delivered at the price specified by the NDIA and these prices will influence the mature market once prices have been deregulated.

### Revenue Stream Mechanisms

The choice as to the nominated fund manager by the NDIS participant will determine where future revenue streams are coming from and the mechanisms that need to be put in place to recover this revenue.

Experience to date suggests that the majority of participants will nominate the NDIA as their plan manager. Service delivered under this mechanism will result in a claim being made to the NDIA through their on-line portal. The NDIA has indicated that a 48 hour payment period will result for appropriately processed claims. This has considerable cash flow benefits compared to instances where the participant chooses to self-manage and is not as proficient at making the claims; and possibly even tardy paying bills once they have received their payment from the NDIA.

Where the participant nominates the service provider as plan manager, greater control will be in the providers' hands to ensure cash is better managed.

In addition to the cash management implications, the self-management scenario introduces the requirement to run additional accounts receivable management procedures, including issuing statements, managing credit limits and

implementing debt recovery processes. This represents an additional overhead cost to the business that can only be recovered from the already lean overhead component of the price paid by the NDIA.

### Revenue Growth Forecasts

Current revenues for the providers surveyed range between \$1.8 million and \$4 million and is primarily sourced from State and Federal funding, activity fees, grants, fundraising and investment income.

The NDIS has forecast a growth in the disability market of up to 40%, predominantly coming from an estimate of eligible people with disabilities who are currently not accessing a service. Funding is forecast to rise nationally from \$8 billion to \$22 billion, providing more people with access to more funded supports.

The opportunity also exists to gain additional revenue streams from the remaining 60% of people with disability who are currently accessing a service from a competitor provider. The NDIS provides choice and control to participants providing for a potentially dynamic and fluid market. Those providers that meet the needs of the market will have the opportunity to grow their revenue streams exponentially.

### Increased Scope of Services Barriers Removed

The barriers to entry and quotas/capping that have been a feature of current funded contractual arrangements with Government will be removed under the NDIS, offering an opportunity for providers to grow their scope of services unhindered.

The willingness to venture into a broader scope of services under current funding arrangements was limited to one surveyed provider delivering aged care supports. Recent initiatives by the State Government that provide individual packages to participants have allowed some expansion into a broader scope of services; however, these currently represent a small percentage of the total support provided.

*The NDIS will deliver the opportunity for small NDIS providers to increase their revenue streams by selling a broader*

*scope of custom tailored services to a larger market.*

### **Impact of the NDIS Pricing Formula**

The NDIS pricing formula, with its bottom up approach applying percentage factors to business costs to arrive at a price, will have an influence on future revenue streams. The statement at a recent NDS conference by the NDIA CEO, David Bowen, that sector cost structures were inflated by up to 40% compared to other like industries implies that due to its bottom up approach, the revenue generated from equivalent service provision to that currently being undertaken could fall by as much as 40%.

### **Other Revenue Streams**

Early Government statements about the NDIS, after the Productivity Commission released its reports into the Disability System and the Not-for-Profit sector, provided indications that the not-for-profit sector remained the preferred vehicle for delivering NDIS services due to its ability to generate additional revenue streams from alternate sources. These sources include donations, fundraising, investment income and social enterprise revenues.

Each service provider surveyed enjoyed additional, but not significant, revenue streams from such sources. No service provider indicated that they had strategies to invest in initiatives that would significantly increase these revenue streams and this may need to be reviewed in the future.

### **CMS Design Considerations – Revenue Streams**

The manner in which revenue streams are managed changes under the NDIS and this needs to be given consideration when designing an appropriate CMS. Where NDIS revenue streams come from will vary depending on who the participant nominates as their plan manager.

Where the participant chooses the NDIA or another entity as plan manager, a head-account/subaccount relationship is established for accounting purposes. The NDIA and other plan managers are the head-account and agents responsible for paying the bills on behalf of the sub-account. Claims for payment will be made at the subaccount level and budgets will need to be managed at this level because the NDIA will not

pay for over servicing oversights. Managing debtors at head-account level will also be necessary, especially when dealing with a plan manager who may not have the financial security of the Government backed NDIA.

Some accounting systems provide for this head-account/sub-account functionality, being a common requirement where a holding/subsidiary company structure exists. Unfortunately, MYOB does not provide this level of functionality (but they indicate they have plans to do so).

Where the product delivered incorporates an activity fee or transport fee, the responsibility for any debt arising from unpaid fees sits directly with the participant and will require accounting for through the accounts receivable module of the accounting package.

The functionality for accounting for different revenue streams already exists within most accounting packages. However, rather than the revenue streams coming from programs, the revenue streams will be coming from individual products and even common products may have different unit prices attached depending on what has been negotiated with the participant. The provider will need to decide the level at which it wants to capture information for management accounting purposes and how common products are grouped together for reporting and analysis purposes.

A target for the CMS will be to capture the source data for the transactions that record revenue streams through more automated time and attendance devices, have this data processed through to head office for analysis as to accuracy against other data captured in applications such as the roster application and then utilise the amended data for generating the revenue stream transactions in the accounting system through an automated import function.

## Key Resources

An NDIS service provider will have to consider the resources it needs to create and deliver the supports demanded by the market. In addition to the installed customer base and the strength of relationships with these customers, the staff and the industry knowledge and expertise they have are a key resource and will continue to be so under the NDIS model.

An NDIS provider will also need to consider what facilities, such as buildings, vehicles, and IT infrastructure and software will be essential resources for delivering the key activities undertaken.

## Staff

The providers surveyed all indicated a healthy relationship with their staff; most having long term loyal staff who were supportive of their organisation's Vision, Mission and Values. For the majority, staff were considered to be the key resource in the organisation

Whilst providing similar services, each provider varied in the manner in which they managed their labour requirements. This can in part be attributed to the external environment that they operate in. For example, a service provider operating in a regional area with unemployment challenges will have a ready pool of flexible labour to call on. A service provider in a metropolitan setting will be competing for quality labour resulting in employees seeking employment arrangements that offer job security and/or maximising the number of work hours through arrangements with multiple providers or agencies.

In addition to paid workers, some providers have successfully built a volunteer labour pool that they can roster. The volunteer labour resource is utilised differently by providers; some seeing this as a resource that adds value to the experience of the participants whilst others were utilising this resource for direct service provision, representing a labour cost saving.

## External Labour Market Influences

The ready availability of labour resources to support the NDIS will be a key consideration. NDIS forecasts suggest that an additional 25,000 support workers will need to enter the sector.

Current unemployment levels suggest that this can be accommodated; however, there are other demographic factors that need to be considered.

The first of these concerns general demographic forecasts where baby boomers are progressively retiring from the workforce with numbers of younger generations entering the workforce not being sufficient to offset the exits. The second concerns the additional demand for support workers in the aged care and health sectors. The wealthy baby boomers are already showing an inclination towards premium aged care facilities and this could convert to a willingness to pay a premium for quality support workers. The lower socio economic disability sector is unlikely to be able to match any premium paid for quality support workers resulting in a possible migration of employees to these better paying sectors.

## Quality of Staff

Quality of support workers is another NDIS consideration. The expectation for participants to have their nominated support worker and the fact that a support worker gets to interact with a participant on a regular and fairly intimate basis means that the quality of support worker and their ability to relate to the participant is of paramount importance under the NDIS.

Flexible employment arrangements provide for ease of management of situations where a participant tires of a support worker; however, there is a strong likelihood that should a popular support worker move to another provider, the participant could follow, taking with them the associated NDIS revenue stream.

This brings into question the impact of competitor activity in the market. Competitor providers who recognise the relational bond between the participant and the support worker may adopt strategies that cherry pick the best support workers, taking the calculated gamble that they may also come with a revenue stream. For many support workers, job security may be all that is required to attract them across to a competitor provider. Providing job security to an employee may prove to be critical in a labour market environment where quality staff are in high demand.

Developing and managing a workforce through initiatives that strengthen the participant/support worker relationship and the support worker/provider relationship are likely to be better facilitated through a permanent workforce strategy than a flexible workforce strategy. Meeting the support workers needs for job security, work flexibility, professional development, career progression etc. will be as important a management function as that of customer relationship management.

The relatively low classification for support workers forming the pricing model foundation indicates that the skills expectations for a support worker are low, their job not requiring expertise beyond basic disability support skills. Gone will be the need for planning and assessment skills as these will be a function of the NDIA.

### **Buildings**

The providers surveyed all own or lease office premises to undertake their back office administration functions. One provider occupies two additional premises, one as a secondary admin/program facility and the other for vacation support services. Another provider operates aged care services from the same building as their head office.

The ethos of each business aligns with the NDIS objectives to integrate participants into the community. For most service provision opportunities, this alleviates the need for any buildings beyond the requirements of an administration function. Community based activities requiring building facilities are likely to be sourced at low prices and recovered from the funding provided or as activity fees.

### **Vehicles**

Providers currently provide a variable range of transport supports to participants and this is facilitated through a range of strategies including maintaining a fleet of vehicles and reimbursing staff and volunteers for use of their personal vehicles.

The NDIS pricing model, with its minimal provision for any funded transport supports will make it difficult to maintain a vehicle fleet without the cost of running the fleet being supplemented by

other revenue sources, including participant contributions.

### **IT - Hardware**

All providers surveyed supported their own internal servers with each provider expressing different levels of satisfaction with their current IT hardware. One organisation recently upgraded its server hardware and software and is operating a thin client solution. Another provider was in the process of preparing a submission to their Board for a similar external server thin client solution whilst another acknowledged that their server infrastructure was due for an upgrade soon. The providers were cognisant that their server hardware requirements may need to change to facilitate the needs of a new NDIS capable CMS. This may also include increasing cloud licencing arrangements.

### **CMS Design Considerations – Key Resources**

#### **Accounting Software**

All but one provider is utilising MYOB to provide its financial and management accounting requirements. The other provider is using Attache to deliver this function, and despite it being considered to be a more sophisticated application than MYOB, the provider expressed dissatisfaction with the product, including its modular design and associated expensive pricing model.

All data transaction processing is still being undertaken manually and there are opportunities for efficiency and accuracy gains by importing transaction data directly from the bank and from the mobile solutions that have been discussed below.

An in-depth review of alternative accounting applications was originally considered to be a low priority for this project due to the initial indications of provider satisfaction with their current accounting solutions. This changed as a result of the review process with most providers indicating a willingness to consider alternative solutions where it facilitated improved efficiency; especially in data capture, data export and reporting functionality. An assessment will need to be made on the suitability of existing accounting applications once all aspects of the CMS and the required integration has been assessed.

### Payroll Software

Payroll is currently being processed on linked MYOB and Attache payroll packages. The providers indicated the ability for these packages to cope sufficiently with current payroll requirements. Other than possible increases in transaction volumes, the NDIS is unlikely to require an increase in the functionality of current payroll applications. Improvements in source data capture efficiency and accuracy will provide the greatest benefit to payroll processing and this is considered under the mobile solutions heading below.

### Client Information Management

To facilitate client information management requirements, including individual budget management, the service providers have relied predominantly on Excel spreadsheet solutions. Spreadsheets have provided an acceptable solution during the start-up phases of individual service support; however, most providers complained about the growing burden that these solutions were creating for administration staff as the number of individual packages grows.

Multiple spreadsheets exist to cover budgeting, scheduling, rostering, time and attendance and other service related functions. This requires entry of the same data into each spreadsheet as well as re-entering some of this data into payroll and accounting applications. This administration function, not to mention providing facilities and equipment for the growing administration team, is a significant overhead cost to service providers.

*The NDIS will demand an “enter once, output many” system for overhead efficiency purposes as the organisation grows; the use of spreadsheets will need to transition to an efficient and integrated CMS.*

### Rostering Software

Service providers currently employ staff roster solutions ranging from Excel spreadsheets through to specialist roster applications. The roster solutions are not integrated into the payroll application and will not provide an integration solution under the NDIS for participant invoicing purposes; this will result in duplication of data

entry with its inherent inefficiencies and potential for inaccuracy.

*The increase in custom tailored supports, the likelihood that participants will want to nominate support workers and the staff face to face maximisation requirements of the NDIS, all prioritise the need to source a robust roster solution.*

Providers indicated the need for a roster solution that provides an easy to read interface with built in controls and rules that will avoid roster conflicts, will have leave impact capabilities and will provide roster costing analysis support through an Award interpretation function. The roster solution will also need to have volunteer rostering capabilities and have basic staff communication functionality.

### Mobile Solutions

The providers surveyed do not currently utilise a mobile data capture solution; however, one organisation has commenced trials with a solution.

Most providers expressed the likely need to move to such solutions; however, when further explanation was provided about the surveillance nature of these devices, one staff member of a provider expressed support for it for staff management and payroll data capture purposes but had an objection to tracking devices and mechanisms used for participant data capture purposes.

Surveillance of staff and participants is a policy issue that providers will need to give careful consideration to. It is recommended that existing customers be surveyed to gauge their opinion on these surveillance based systems being installed. Organisations will also need to ensure that they have complied with relevant Legislation that regulates electronic surveillance including the Surveillance Devices Act 2007 and the Workplace Surveillance Act 2005.

Mobile data capture tools provide time saving and accuracy improvements by recording data such as the time of arrival at an activity, the duration of the appointment, the location of the activity, the

staff member in attendance, outcomes achieved during the activity and case notes.

Applications employed to interpret this information will import the captured source data and the output reports for scheduling, rostering, management accounting, financial accounting, acquittal, accountability to the participant etc purposes with minimal human intervention required.

Another saving provided by mobile solutions is the ability for Support Workers to incorporate data capture and entry into their daily responsibilities; time spent on this function falling within the billable face to face component of their working day. Support workers will be able to capture data on the go and have this information relayed back to head office for automatic transaction processing for payroll, invoicing, rostering, scheduling, outcome management etc. purposes.

Administration staff roles will shift from having data entry responsibilities to managing the quality of information coming through and troubleshooting any abnormalities in the data or processing of it. The savings from this increased efficiency will need be assessed against the cost of the mobile solution and increased participant satisfaction due to the information transparency that can be offered.

The quality of information coming from each data source will be dependent on the rules and controls incorporated into the data capture applications and the applications employed to interpret this data. An example of a control will be where staff will not be able to enter the code for delivery of a service that has not been negotiated with the service provider or has not been approved by the NDIA for funding. An example of a rule will be where normal invoicing will occur to the participant and normal payroll arrangements will be paid even though the employee has arrived 5 minutes early to an appointment with the participant.

The low staff skill base discussed above also provides the impetus to upgrade business systems and supportive technology. Business methodologies and policies that provide clear guidelines to low skilled staff will be essential as

will business systems and supportive technology that incorporate rules and controls that compensate for the lower skills of these support workers.

## Key Activities

The key activities of a service provider will describe the most important things that need to be done to make the business model work.

### Disability Support

Disability support is the key operational activity undertaken by the service providers and the disability support provided is currently primarily flexible respite. Flexible respite requires the design of activities that are customised to the participant's needs and requests. Planning activities need to be flexible including scheduling and rostering processes that make sure that participants, staff and volunteers are in attendance at the varying locations and staff have the requisite resources and information to manage the participants' needs.

The activities are akin to event management; one provider commenting that they are basically project managers. These activities are expected to escalate under the NDIS. Many of the activities are based around problem solving; coming up with new solutions to individual customer challenges.

A key activity currently provided by the surveyed providers is the support they provide to carers. Some providers expressed concern about the lack of ongoing support provided to carers under the NDIS.

Some providers had a concern that some of their more flexible funding programs, such as Family Managed Allocations, will be subject to more bureaucratic processes making its serviceability difficult or even unviable.

### Funding Allocation Activities

The service providers each have funding allocation techniques that allocate a portion of block funded amounts to each participant. Allocation policies range from fairly rigid allocation of amounts to families at the beginning of the year through to a more flexible allocation basis based on demand as it arises throughout the year. Some service providers make their customers aware of budget allocations whilst others don't; some advise participants of allocations made but also maintain some funds in reserve for abnormal funding

support requirements that may arise throughout the year.

### Minimum Data Set

All service providers indicated that they had met their MDS reporting requirements; however, for those providers with a policy of providing a set allocation amount to families, there was the additional need to manage funding utilisation at an individual level.

Under the NDIS, the requirement to allocate block funding on an individual basis will cease as the allocation function will be undertaken by the NDIA. The learnings in regard to individual budget management will however prove invaluable in the NDIS environment, especially in regard to understanding how participants are likely to spend their funding and the patterns in service use that eventuate based on family need. Such knowledge and experience will also prove valuable for negotiating purposes and for resource planning purposes.

The need to provide MDS database collection and reporting will also cease under the NDIS. Accountability for service delivery will shift to the participant who will demand value for money. The Government's accountability requirements will shift from the outputs focus of the MDS to an outcomes focus under the NDIS.

### Product Design and Development

An increasing activity for NDIS service providers will be product design and development. The NDIS principle of choice and control and the resulting customer controlled market will drive the need for innovation in service design.

Innovation will come from small service providers as they are more likely to attract low cost passionate people who have the necessary talent for service design. The NDIA pricing model does not separately provide for service design in its pricing formula so design talent and time will need to be sourced at a low cost. Small service providers can often access this talent from supporters prepared to offer their time at no or low cost. These people usually sit on provider boards and committees and their drive often comes from having been impacted by disability in their own lives.

The strong relationships that small providers have with their customers will also help in the design process. Successful innovation will require an understanding of the participants and carers needs, their environments and life circumstances and how these are impacted by disability. They will also need knowledge of their daily routines, their concerns and anxieties and their life plans and goals.

*Small service providers generally develop a deeper understanding of the participants rather than just asking what they want.*

#### **Customer Acquisition Activities**

Marketing with the aim of customer acquisition will be a key activity for NDIS service providers in the future as there will be a need to grow revenue streams in order to remain sustainable. The old funded contractual arrangements model with its barriers to entry protections will disappear and be replaced by a competitive market. Increased marketing activities will result in additional significant cost to the provider. The sister marketing project that runs parallel to this project will provide key knowledge and resources to increase organisational capability in this area.

#### **Customer Retention Activities**

Customer relationship management focussed on customer retention will need to become more structured as retaining existing customers and increasing the scope of innovative services offered to them will prove more economical than acquiring new customers. Structured enquiries and referral processes, sales processes, waitlist management and communication processes will all form an important element of the NDIS business model.

#### **Transaction Processing Activities**

Transaction processing activities will increase exponentially under the NDIS and the criticality of customer retention to the provider will demand that these transactions are processed accurately, reflect negotiated agreements and deliver informative reports to them for budget management purposes.

Anecdotal evidence exists to suggest that most participants and their carers are unaware of the current cost of service delivery. Perceived large

lump sums of money now available to them under the NDIS will come with heightened service expectations. Accountability for time spent and invoicing accuracy will be closely scrutinised by participants and their carers; unsubstantiated variations and/or errors in invoicing will have the potential to quickly destroy the trust relationship established over many years of prior service delivery.

The NDIS claims process operates such that evidence of service delivery is not required at the time of making the claim. This self-assessment style system will likely mirror the current Disability Employment Services system and it can be expected that the NDIA will employ a desk audit process; failure to substantiate service delivery or equipment supply documentation resulting in a demand to return unsubstantiated claims made.

#### **Outcomes Management Activities**

The NDIA and participants/carers will progressively focus on the achievement of learning outcomes. Tracking progress towards milestones and targets will be critical under the NDIS and staff will need continual prompting on looming deadlines. A reactive approach to meeting outcome deadlines will quickly become obvious to the participant/carer and will likely fail them and the service provider when the participant fronts the NDIA for their next planning review (and funding approval) meeting.

#### **Customer Interaction Activities**

The NDIS model will require regular communication with participants and their carers, supported by strong Customer Relationship Management tools and processes. With increasing provision of one on one support, and the criticality of the relationship between participant/carer and support worker, all communication between the parties needs to be captured and managed.

Relationship issues that are allowed to fester without intervention will result in exits from the service and impacts on provider branding. Acquiring a reputation within the close knit disability community for being uncaring or untrustworthy could have severe financial viability consequences for a provider.

### **Labour Pool Management Activities**

Managing the labour pool to ensure that capacity utilisation is maximised will be a key activity of an NDIS service provider.

Analysis of current labour management practices highlighted two main strategies being adopted; a fixed labour pool that requires capacity utilisation management and those who have taken advantage of a more flexible labour resource being either through use of a readily available casual labour pool, agency labour or volunteer labour. The NDIS pricing model will make it difficult to continue to pay the premium that attaches to paying casual labour and agency staff rates.

Equally, maintaining a fixed labour pool will pose its own challenges under the NDIS. The increased flexibility available to participants and the current trend to request support from nominated staff members means that capacity maximisation becomes paramount. The NDIS pricing model requires a 95% capacity utilisation rate which means that any gaps between service to participants will heavily penalise those maintaining a fixed labour pool. Each organisation will have to have access to tools that allow sales staff to confidently negotiate vacancies at an individual staff level, ensuring that any gaps available are easily identifiable and the participant is steered towards these services.

Providers with a more permanent labour pool manage the utilisation of each support worker through the matching of staff time availability with service delivery times. This is accommodated fairly effectively through the employment of part-time employees; the relatively fixed time slots that programmed activities generally occupy supporting this employment initiative. Some organisations are also able to accommodate part-time/full-time employment agreements by organising participant respite utilisation into patterns of usage that are fairly consistent week in week out.

Providers with more flexible labour pools were currently happy to pay the premium that attaches to the use of casual or agency supplied labour. Such casual labour supply arrangements result in their own management challenges including

matching the availability of a support worker to the requests of the participant; relevant providers reported to have minimal issues with this as both the casual and agency labour were very accommodating and prepared to manage their own affairs to suit the needs of the provider.

*The cost of labour will continue to be a significant cost for any future NDIS provider and getting the mix of staff wrong will severely impact the ongoing viability of providers.*

### **Human Resource Management**

Under the NDIS, Human Resource management systems employed will need to adopt strong performance management and recognition and reward programs for staff. Evidence from the trial sites suggests that the stronger relationship exists between the participant and their support worker rather than the current system where the stronger relationship is between the participant and service provider. It is possible that if a staff member chooses to leave a service then the participant may follow. Poor performing staff will become a liability to an organisation as it will be difficult to achieve 95% capacity utilisation. Equally, staff members who are popular with participants will be in a strong position to negotiate premium wages. As the NDIS pricing model does not recognise such premiums, it will be incumbent on the employer to support such premiums from their overhead or surplus budgets or negotiate a premium from the participant who wants the 'premium support worker'.

### **Cash Management**

The NDIS post service delivery payment model will place a greater emphasis on the importance of managing cash. The change from a quarterly prepayment system to a post service delivery payment system means that cash resources will be challenged if a service does not have efficient time and attendance data capture processes that support regular claims made from the NDIA.

### **CMS Design Considerations – Key Activities**

Managing the key activities for a provider is the most complex and challenging element for a provider under the NDIS; in particular, workforce management including roster management and scheduling.

Key relationships exist between the customer database, the product database and the staff database that need to be designed into the CMS. As mentioned previously, the participant may be choosing the product as well as choosing the staff member. This creates a scenario where the staff member may actually become the product being purchased. This creates capacity management challenges, not to mention the industrial relations issues surrounding managing staff when some support workers are more popular than others.

The decision to purchase based on relationship rather than the staff member's ability to deliver successful outcomes could become an issue with the NDIA. Failed outcome performance by a support worker will be difficult to manage without jeopardising the participants support whilst failed outcomes are likely to result in the NDIA eventually intervening by amending funding offered. Managing the tension between the competing requirements of provider, participant and funder will be delicate and will need to be supported by the CMS.

The roster and activity scheduling requirements of the NDIS model becomes the central management tool required. Labour costs are by far the highest cost for these providers and any inefficiency in labour utilisation will be felt substantially on the bottom line. Managing this function well provides the greatest opportunity for cost savings and operational efficiency improvement.

The data captured through human resource management applications is used to provide source data for transaction recording in the accounting software and payroll software. The roster software will need to capture data from time and attendance processes that verify the roster; exceptions being noted for transaction processing purposes. Mobile data capture solutions, such as smart phones or tablets with specifically designed apps, will provide even greater administration efficiency as rekeying of time and attendance information will not be necessary.

Service flexibility inherent in the NDIS design, especially for products that resemble flexible respite services, creates challenges for traditional roster solutions. Rosters that cater to program

service delivery with consistent time slots are easier to manage. Identifying a roster solution that caters for more dynamic NDIS service provision will be a challenge; the functionality obviously exists in the market but the efficiency in which changes can be made to the roster will prove critical.

To be an effective management tool, the roster application will need to have the functionality to identify when a staff member is unavailable, interpret awards to alert when penalty rates are being incurred and alert when staff members or participants are constantly breaking the terms of their respective agreements.

### **Service Planning and Scheduling**

Service planning and scheduling functionality will also need to be catered for in the CMS. Facilities such as buildings, vehicles and specialised equipment have limited capacities and create bottlenecks in service delivery capabilities. This is especially true in the disability sector with wheelchair accessibility having to be considered when determining whether a particular product can be delivered to a participant. Even where it can be, and the product requires a transport solution, a van that carries multiple passengers may be restricted to carrying two or three passengers in a wheelchair. This may be further limited where the passenger has a larger than normal custom made wheelchair. All of these variables will need to be considered when scheduling service capabilities and the bottleneck information will need to be readily available to staff charged with the negotiation process.

### **Managing Incidents and Complaints**

Managing incidents and complaints will be an activity that the CMS needs to cater for. The source data needs to be captured efficiently and a workflow escalation process available to ensure that the critical customer relationship is being managed effectively. Reporting functionality that maps trends in complaints, incidents and compliments will provide the manager with the easy to use tools for managing staff performance and risk.

### **Substantiation of Activity Delivery**

Early indications are that the NDIS relies on the participants to manage the accountability for

services delivered to them. This does not mean that the NDIA will be totally reliant on this and the proposed quality framework for the NDIS is likely to include desktop audit verification processes similar to that which exists in the Disability Employment Services model. Where source documentation is not available to verify the service delivery that was claimed, then the provider can expect to have to refund the unsubstantiated amount. The CMS needs to be able to capture this information in a document repository system with effective archiving and search functionality available.

### Outcome Measures

An underpinning activity of the NDIS is the managing of participant outcomes. The CMS needs to be able to easily transpose the outcome expectations contained in the participant's NDIA plan into a function contained within the CMS that provides a monitor and management function tracking progress against agreed milestones. Alerts communicated automatically and directly to support workers and managers will ensure that staff remain focused on the purpose for the funding and will not end up with a reactive approach to meeting looming deadlines.

*The outcomes performance of organisations may end up in a performance framework similar to that used in the Disability Employment System, with provider star ratings readily being made available to the public.*

### Key Partnerships

Key partners are the network of suppliers and partners that help make the business model work. The term partnership covers strategic alliances between non-competitors (similar to the manner in which CMS project participants have worked together to improve their prospects of identifying an appropriate CMS solution), strategic partnerships between competitors (eg mergers), Joint ventures to develop new opportunities, and buyer-supplier relationships such as brokerage arrangements.

Currently, the providers are involved in various forms of partnerships, including general supplier procurement arrangements, agency arrangements for the supply of labour and the brokerage of services to other organisations.

The most significant change in partnership arrangements that occurs under the NDIS is the change in contractual arrangements with Government Agencies. The underlying principles of the NDIS change the relationship with Government dramatically; the Government remaining a key stakeholder primarily for quality and compliance purposes only.

The NDIS pricing model, with its cost driven focus, will also change the manner in which service providers interact, even if another provider is a competitor. Some economies of scope may be achieved by spreading fixed costs across a larger scope of services; however, providers will struggle to be a one stop shop service as it will be almost impossible to have the necessary expertise and efficiency in every service provided. The NDIS service provider registration process will also restrict service provision opportunities to those providers with the requisite experience, facilities and expertise to provide a quality service.

Participants will normally have a stronger relationship with one or two providers and these providers are likely to be adopted into a case management type role. The NDIS appears to provide for this role through its Coordinated Supports line item, and regardless of any additional revenue stream that this may represent, the provider will be keen to maintain the strength of this primary relationship in the competitive market environment that will exist.

This is likely to require regular interaction between the provider and a competitor who can provide the support that the participant wants rather than leaving the participant to interact directly with the competitor.

### **CMS Design – Key Partnerships**

The CMS will need to cater for the management of key partnerships. Where services are brokered, including the use of agency staff providers, these arrangements will need to be closely managed.

Besides the normal key supplier information to be captured, information that helps to manage their performance and keep them accountable will be critical for protecting the brand of the provider.

### **Cost Structure**

The cost structure describes all costs incurred to operate a business model. The design of the NDIS pricing model will drive service providers towards a cost-driven business model rather than the desired value-driven model.

The old block funding arrangements, with their zero surplus acquittal requirements, have resulted in business models where substantial improvements in efficiency were not critical if expenditure came within budget. The providers surveyed have all been successful in managing their expenditure levels, so much so, that, despite the zero surplus expectations, they have been able to generate a relatively healthy net asset position in their balance sheets.

Despite their business ethos to maximise service value, the quality of service provision will be influenced by the prices being offered in the market by more aggressive competitors. The price that participants are prepared to pay in the market will be a function of cost; the market eventually weeding out those services taking a premium for operating inefficiency reasons rather than value added service provision.

Providers will also need to be able to counter the actions of competitors who will be willing to take a market share through the provision of loss leading services. The more ruthless operators will have the financial resources to weed the less efficient providers out of the market through sustained loss leader activity. Anti-competitive behaviour will be monitored by the NDIS but this is difficult to police in any system; especially a system focussed on achieving a mature market position ie price reductions.

### **Fixed Cost Coverage**

Every organisation incurs fixed cost such as management salaries, rents and equipment costs. These costs do not vary directly with the volume of services being provided; however, with the potential for rapid growth under the NDIS, providers will need to understand the impact of stepped increases in such costs (ie a larger head office facility, new manager etc.) and the manner in which growth accounts for these sudden increases through economies of scale and economies of scope.

Block funding by nature accounts for fixed costs by providing an immediate bulk of funds sufficient to cover fixed costs, whereas NDIS service providers will need to be more entrepreneurial; making growth decisions based on market research, risk assessment processes and well analysed financial data produced from their accounting application.

The providers surveyed had a basic understanding of their current cost structures but there was little evidence that these costs had been factored into the calculation of prices charged for individual services being delivered. Most providers indicated an intention to gain a better understanding of their current costs but were also aware that these will only be valuable for guiding future NDIS cost considerations due to the significant change that the NDIS requires.

Reducing some costs such as marketing and sales costs will be counter intuitive in the competitive NDIS market. For flexible respite services who have gained the primary share of their market in the past from low cost word of mouth promotion, sales and marketing costs will be additional overhead costs.

### **Labour Cost Structures**

Direct labour costs are award based and as such do not vary with the size of the organisation. Small providers do not suffer any disadvantage as a result of their size and the NDIS' drive for customised and tailored supports limits opportunities for large providers to continue supplying large volume institutional style services.

Under the NDIS it will be difficult for any provider to gain a labour cost advantage through high participant to support worker ratios. However, the NDIS pricing model will create significant challenges for all NDIS service providers. The pricing model, and its underlying formula components as published by the NDIA, provides for the bulk of funding to be available for direct support labour costs. This bulk, and the starting point for the formula, is the cost to employ a support worker; the staff classification allowance for assistance in the community supports being for a classification 2, price point 3 employee.

From this base cost for labour, allowances are made for face to face utilisation of labour (not

every hour can be on-charged but the NDIA expects up to 95% can be), span of control (1 coordinator for every 15 support workers – moving to 1 to 18 when the market matures), traditional labour cost on-charges (leave, superannuation, workers compensation etc) and the cost of overheads (15% reducing to 9% when the market matures). After all such costs have been provided for, the NDIA formula makes an allowance for the service provider to generate a surplus of equivalent to 5% of revenue.

By using a flexible labour source, organisations may have a better chance of meeting the 95% face to face expectations built into the formula. By matching casual labour to service requests, a provider will be able to almost fully eliminate any gaps in service delivery times allowing them to focus on administration efficiency initiatives that ensure that the majority of time spent on the job is billable time.

Where the challenge will lie for casual labour pool models will be in paying the premiums inherent in these labour sources. Initial analysis undertaken on the on-cost component of the pricing formula reveals that the percentages used for calculating the on-costs in the NDIS formula do not appear to support such premiums, especially the premium generally paid for agency labour (an assessment may however be required on an individual provider basis as on-costs rates are subject to variances ie workers compensation rates).

Prior to committing to a flexible or fixed labour pool strategy for the NDIS, an analysis should be undertaken by each provider that considers the potentially lower amount of human resource management required for a flexible labour pool compared to managing a fixed labour pool.

In the pricing formula, getting the base labour cost component right is critical to the ongoing financial viability of service providers. This will be difficult for some organisations to achieve as it may require role adjustments and possible wage cuts for some individuals. Service providers are not likely to have the luxury of being able to continue to pay a premium for unwanted planning and assessment expertise.

Any adjustment to roles and pay rates will not engender a strong provider/support worker

relationship and providers will need to give strong consideration to their change management tactics to avoid significant staff dissatisfaction and the flow on impact on the participant/support worker relationship.

### **Employee Churn Costs**

Employee turnover, with its costs for recruitment, induction, training and industrial relations management is often significant for large providers compared with small providers. This is due to the small providers generally enjoying a more intimate relationship with their staff and this should provide a cost advantage to small providers under the NDIS where significant change could result in increased staff exits.

### **CMS Design Considerations – Cost Structures**

The service flexibility expectations of participants, the expectations to be able to nominate support workers and the criticality of managing staff expectations all mean that sophisticated HR Policies and supporting management tools within the CMS are critical to the success of a provider operating under the NDIS.

Eliminating all inefficient practices in operations and business support functions will be vitally important. Technology is widely acknowledged in commercial circles as providing the solution for reducing operational and business support costs. The investment required in this technology must provide a positive return on investment; the cash flows for the capital investment and ongoing licence and incidental costs of the CMS solution must be less than the reduced cash flows gained from reducing operational and business support costs.

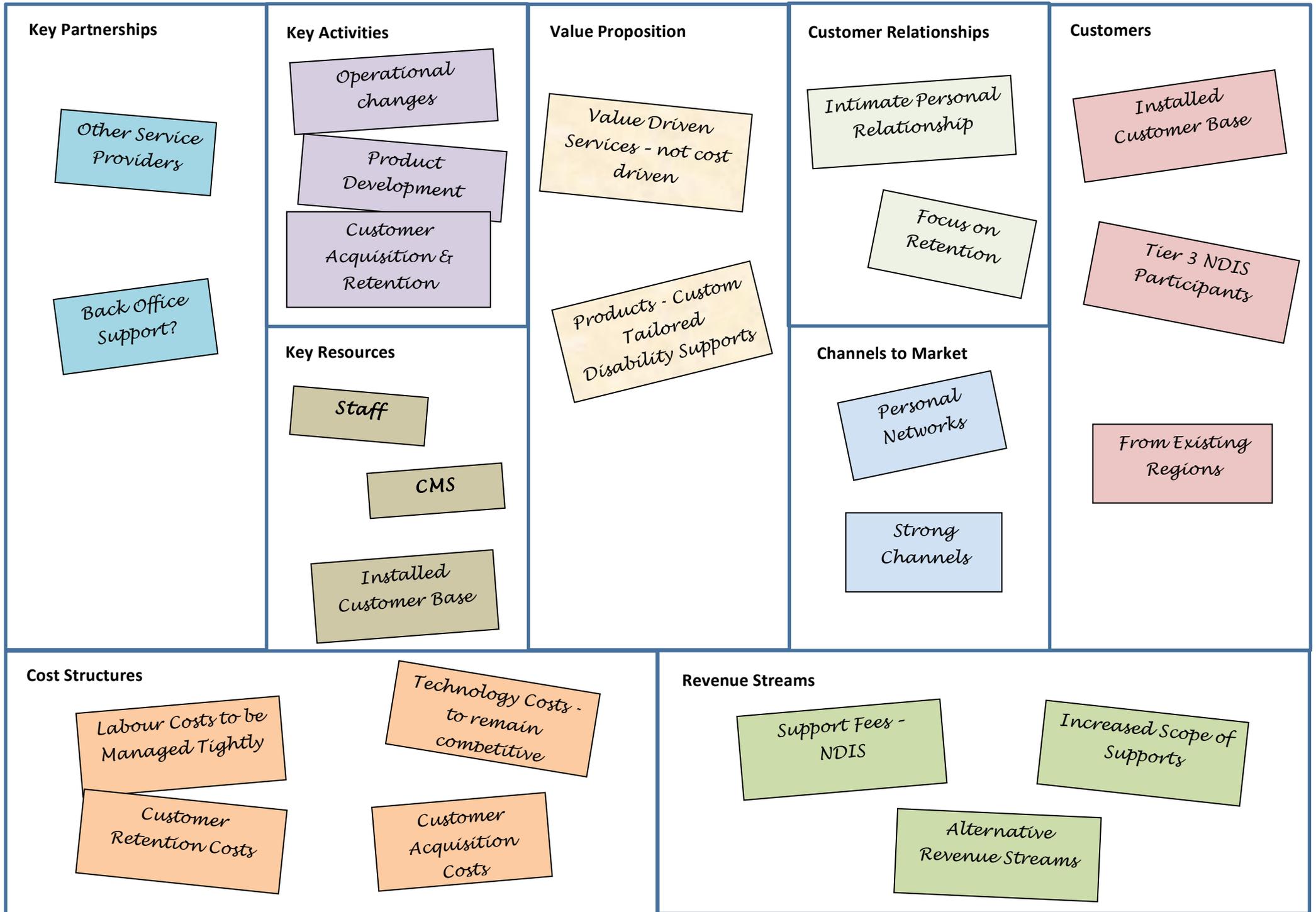
Technology investments will be primarily focussed on reducing labour costs. Technology can also enhance the service experience of participants and the work experience of employees; both important factors in supporting marketing initiatives to grow the revenue base of the provider.

Reduced costs can also be achieved through an appropriately designed measure, monitor and manage process. Appropriately designed KPIs that capture the key financial metrics, a system of reports and meetings that monitor actual results against targets and the installing of an

accountability culture where adverse variations in performance are managed appropriately will lead to costs being appropriately managed.

The CMS will interact with the accounting application to provide the important service delivery performance and financial reporting data required for the measure, monitor and manage function. Readily available reporting modules may need to be acquired that support the extraction of key data from the CMS and accounting application and deliver the information in an easy to read dashboard style of reporting.

Appendix 1 - Small Service Provider Business Model Canvas



Key Partnerships

Other Service Providers

Back Office Support?

Key Activities

Operational changes

Product Development

Customer Acquisition & Retention

Key Resources

Staff

CMS

Installed Customer Base

Value Proposition

Value Driven Services - not cost driven

Products - Custom Tailored Disability Supports

Customer Relationships

Intimate Personal Relationship

Focus on Retention

Channels to Market

Personal Networks

Strong Channels

Customers

Installed Customer Base

Tier 3 NDIS Participants

From Existing Regions

Cost Structures

Labour Costs to be Managed Tightly

Customer Retention Costs

Technology Costs - to remain competitive

Customer Acquisition Costs

Revenue Streams

Support Fees - NDIS

Increased Scope of Supports

Alternative Revenue Streams