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Assessing the impact of increasing wage costs on Australian Disability Enterprises

National Disability Services

September 2015

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Executive Summary

Purpose and scope of this engagement

KPMG was engaged to assess the impact of:-

- increased wage costs for supported employees and;
- the on-going viability of ADEs.

To identify the above scenarios the following activities were undertaken;

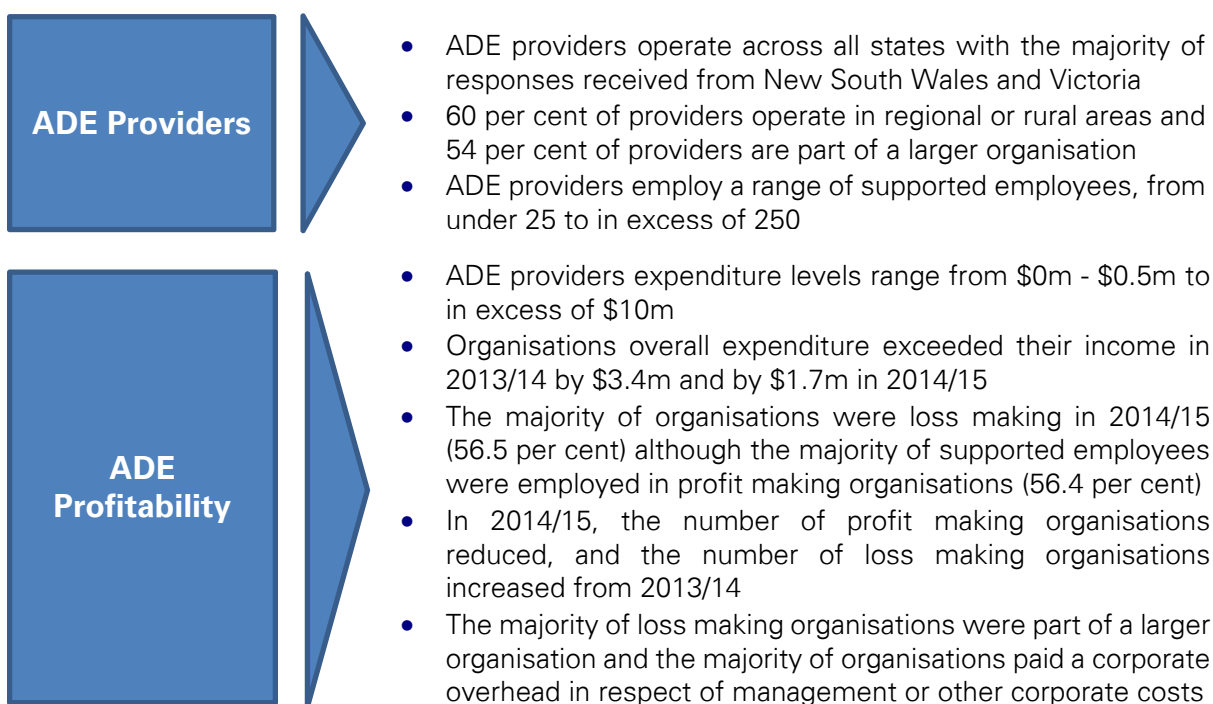
- collection of data relating to the number of supported employees, wage rates and associated costs, wage assessment tools, overall ADE expenditure, revenue and profitability.
- analysis of wage, cost and profitability data to determine the impact of an increase in wage costs on the ADE viability, number of supported employees and hours of work.

The engagement focussed on understanding current wage rates and costs under the different wage assessment tools and to identify the potential impact on the number of supported employment positions and changes in hours of work as a result of wage increases.

A range of scenarios were used to test the impact of 20 per cent, 40 per cent, 60 per cent, 80 per cent and 100 per cent increases in supported employee wage costs on ADE's profitability and viability. Data and information specific to ADE providers will remain anonymous and will not be disclosed in this report.

Key findings

85 organisations, employing a total of 11,692 supported employees, provided information to enable four principal areas of assessment and analysis to be undertaken. A summary of the key findings in relation to ADE providers, ADE profitability, supported employees and results of the wage pressure testing analysis are detailed below:



Supported Employees

- The majority of supported employees are reported as DMI level 4 employees (53.4 per cent) with the least number identified as DMI level 1 (7.0 per cent)
- The median hours worked per week by supported employees is 20 - 24 hours
- A range of hours per work are worked across the principal wage assessment tools with 77.9 per cent of supported employees being employed by the six most utilised tools

Wage Pressure Testing

In the event of a 20 per cent increase or by doubling supported employee wage costs:

- Total supported employee wage costs would increase from \$74.96m to \$89.25m for a 20 per cent increase and to \$146.42m in the event of doubling supported employee wages
- The average loss per organisation would increase from \$20.0k to \$188.1k for a 20 per cent supported wage increase and to \$860.7k by doubling wage costs
- The number of loss making organisations would increase from 56 per cent to 74 per cent for a 20 percent increase and up to 93 per cent in the event of a doubling of wages
- The ADE providers average loss per supported employee would also increase considerably in the event of doubling supported employee wages
- The number of employees in loss making organisations would increase from 41 per cent to 77 per cent for a 20 per cent increase in supported wage costs and up to 97 per cent if supported wages doubled

Conclusion

It is evident that the majority of ADE providers are currently reporting losses and increases in supported employee wages would likely have a significant impact on the profitability of such organisations. Average supported employee wage costs have increased over recent years and this trend may be expected to continue as provider's transition from the BSWAT assessment tool to other wage assessment tools.

There is a direct relationship between supported employee wage costs and organisational profitability and with increased wage costs being likely in the future, ADE providers will need to successfully manage this by examining aspects of their business models, including examining their costs and cost structures to improve efficiency (costs of support and supervision, and costs of production) and examining their revenue sources and pricing of the goods and services they provide with a view to maximising revenues from a range of different sources. Broader examination of the profitability and sustainability of the suite of goods and service they offer to market may also be necessary with a view to moving to higher value

and more sophisticated production. Any changes resulting from this examination may have implications for employment of people with disability, including the types of jobs that may be available, and the level of employment ADEs are able to offer.

1. Introduction

1.1 Context

Australian Disability Enterprises (ADE's) provide supported employment for people with disability who might not otherwise be able to obtain or maintain a job in the open labour market. There are currently around 20,000 people with disability working in supported employment settings across Australia.¹

ADE's operate under federal and state industrial relations regulations, and are required under the *Disability Services Act 1986* to pay supported employees award based wages that are adjusted using a wage assessment tool. The Business Services Wage Adjustment Tool (BSWAT) was the most commonly used assessment tool in supported employment.

In 2012 the Federal Court found that in using the BSWAT assessment tool, two Australian Disability Enterprises (ADE's) had discriminated against two of their employees with intellectual disability. In response the Commonwealth has put on hold wage assessments using BSWAT while a new productivity wage tool is being developed.²

1.2 Methodology

The data collection tool and associated instructions were issued to all ADE providers on 17 July 2015 and they were asked to complete their specific information by 5 August 2015. A copy of the initial electronic communication provided to all organisations is detailed in Appendix A.

The data collection tool was electronically distributed to 193 ADE provider organisations across Australia. A total of 85 fully completed data assessment tools were received from organisations, representing a 44 per cent response rate. The sample response rate considered alongside the geographical and industry spread of organisations and number of supported employees indicates that it was a representative sample of organisations included for analysis purposes. A detailed analysis of the nature of organisational responses is included within section two.

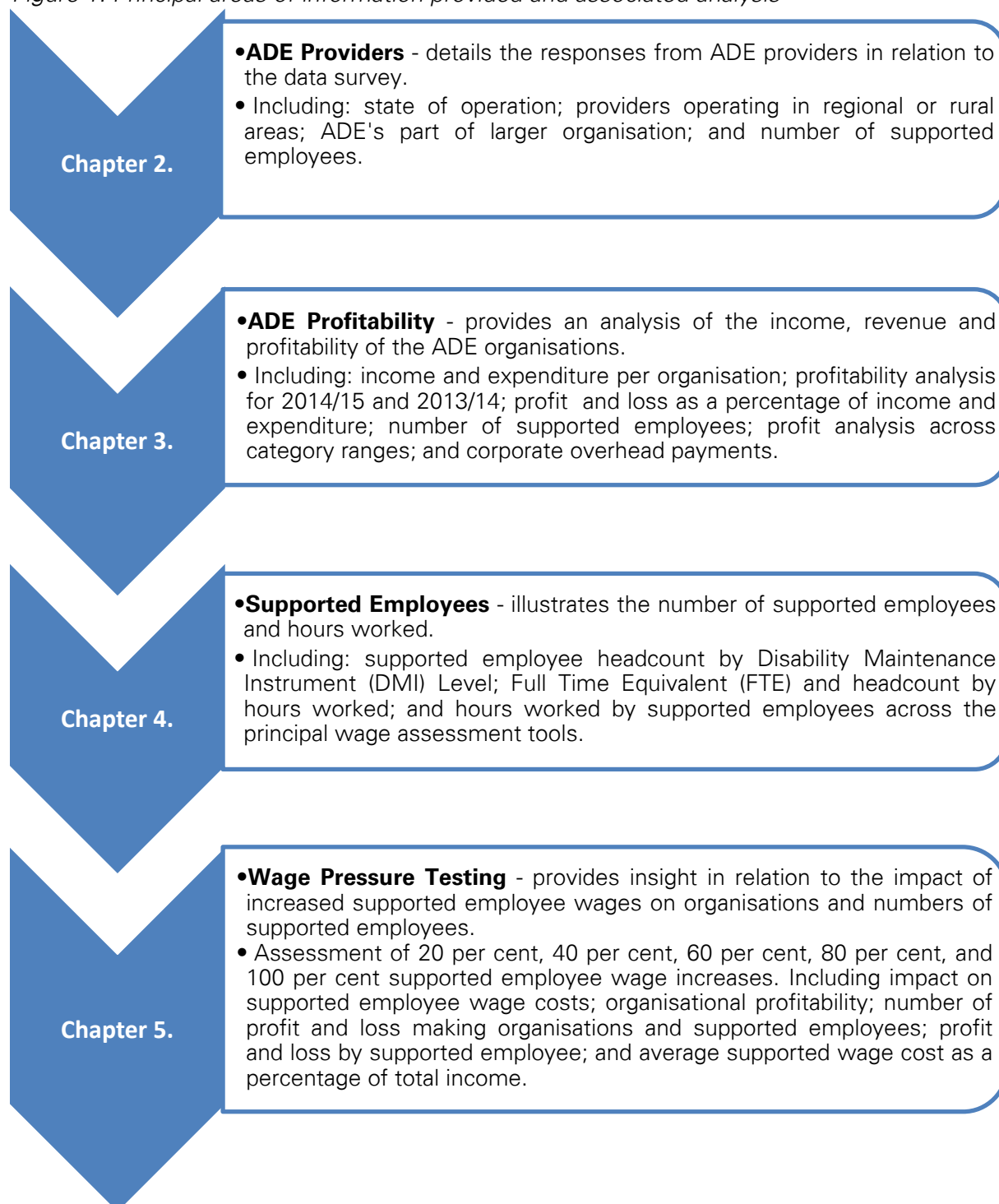
¹ Australian Government, (2013) Inclusive Employment 2012-2022: A Vision for Supported Employment Future wage setting arrangements: a discussion guide

² Australian Government, (2013) Inclusive Employment 2012-2022: A Vision for Supported Employment Future wage setting arrangements: a discussion guide

1.3 Report structure

This report is structured as follows:

Figure 1: Principal areas of information provided and associated analysis



2. Analysis and findings – ADEs

2.1 Introduction

ADE providers were asked to complete a series of questions in relation to their current location, if their service operated in a regional or rural area, if they formed part of a larger organisation and details of their supported employee numbers. A summary of the findings is presented in the following tables.

2.2 ADE responses

Table 1: ADE provider's principal state of operation

State of Operation	Number of Organisations	% of Organisations
New South Wales	40	47.1%
Victoria	25	29.4%
South Australia	6	7.1%
Western Australia	4	4.7%
Queensland	6	7.1%
Tasmania	4	4.7%
Total Organisations	85	100.0%

Source: KPMG – Wage Assessment Tool Survey – September 2015

Completed data collection tools were received from all states across Australia with the majority of the 85 responses originating from New South Wales (40 organisations) and Victoria (25 organisations). The geographical spread includes responses from all states included within the initial survey distribution.

Table 2: ADE providers operating in regional/rural areas

Operations in Regional/Rural Areas	Number of Organisations	% of Organisations
Yes	51	60.0%
No	34	40.0%
Total Organisations	85	100.0%

Source: KPMG – Wage Assessment Tool Survey – September 2015

Organisations were asked if they operated in regional or rural areas with the majority of ADE providers (60.0 per cent) indicating they currently provide a service within such areas.

Table 3: ADE provider's part of a larger organisation

Part of a Larger Organisation	Number of Organisations	% of Organisations
Yes	46	54.1%
No	35	41.2%
Unspecified	4	4.7%
Total Organisations	85	100.0%

Source: KPMG – Wage Assessment Tool Survey – September 2015

The majority of ADE providers (54.1 per cent) advised that they also formed part of a larger organisation, with a number of the remaining organisations (41.2 per cent) indicating that they were not linked to larger organisations. Four participants did not disclose the information within their responses.

Table 4: ADE provider's number of supported employees

Supported Employee Numbers	Number of Organisations	% of Organisations
Very Large - 250 employees and over	9	10.6%
Large - 100-249 Employees	18	21.2%
Medium - 50-99 Employees	19	22.4%
Small - 25-49 Employees	22	25.9%
Very Small - Under 25 Employees	17	20.0%
Total Organisations	85	100.0%

Source: KPMG – Wage Assessment Tool Survey – September 2015

The organisation's number of supported employees varied considerably, with 17 providers (20.0 per cent) employing fewer than 25 supported employees compared to nine providers (10.6 per cent) employing over 250 supported employees. Most ADE's (69.4 per cent) employed between 25 to 249 supported employees.

3. Analysis and Findings - Profitability

3.1 Introduction

The profitability section of the wage assessment collection tool requested organisations provide information relating to their financial performance for the 2014/15 and 2013/14 financial years. Organisations were asked to provide data in terms of their income, expenditure, profit, corporate overheads paid and number of supported employees. The following tables illustrate the findings.

3.2 Profitability analysis

Table 5: Total Expenditure Analysis

Expenditure (\$ in millions) per Organisation	Number of Organisations	% of Organisations
over \$10m	10	11.8%
\$5m to \$10m	8	9.4%
\$3m to \$5m	5	5.9%
\$2m to \$3m	15	17.6%
\$1m to \$2m	24	28.2%
\$0.5m to \$1m	13	15.3%
\$0 - \$0.5m	10	11.8%
Total Organisations	85	100.0%

Source: KPMG – Wage Assessment Tool Survey – September 2015

ADE providers ranged considerably across their levels of reported expenditure from ten organisations (11.8 per cent) in the \$0 to \$0.5m range and ten organisations (11.8 per cent) spending in excess of \$10m for 2014/15. The majority of organisations, 28 in total, (represented 28.2 per cent of all organisations) spent between \$1m to \$2m in 2014/15.

Table 6: Income, Expenditure and Profitability Analysis

Category	Total	Average	Total	Average
	2014/15 (\$)	2014/15 (\$)	2013/14 (\$)	2013/14 (\$)
Income	423,902,287	4,987,086	337,119,562	3,966,112
Expenditure	425,598,260	5,007,038	340,515,461	4,006,064
Profit / (Loss)	(1,695,973)	(19,953)	(3,395,899)	(39,952)

Source: KPMG – Wage Assessment Tool Survey – September 2015

For the 85 organisations, overall total expenditure exceeded their total income for 2013/14 and 2014/15, although the level of overall loss reduced from \$3.4m to \$1.7m respectively. The average loss per organisation reduced from \$40k in 2013/14 to \$20k in 2014/15. It should be noted when reviewing the above table that direct comparisons between 2013/14 and 2014/15 total and average income levels are not advisable. Although income levels appear to have risen considerably in 2014/15 this is principally due to a large organisation who were not in existence until December 2014 and have therefore not provided 2013/14 data.

Table 7: Average Profit / (Loss) as a % of Income and Expenditure

Profit / (Loss)	2014/15	2013/14
Average Profit / (Loss) as a % of Income	(0.4%)	(1.0%)
Average Profit / (Loss) as a % of Expenditure	(0.4%)	(1.0%)

Source: KPMG – Wage Assessment Tool Survey – September 2015

The organisations average loss as a percentage of income and expenditure for 2013/14 (1.0 per cent) and for 2014/15 (0.4 per cent) remained relatively consistent, despite the average losses for organisations reducing as identified in Table 6.

Table 8: Analysis of Profit / (Loss) Making Organisations and Supported Employees

Category	2014/15				2013/14	
	Number of Organisations	% of Org's	Number of Supported Employees	% of Employees	Number of Organisations	% of Org's
Profit	36	42.4%	6,597	56.4%	42	49.4%
Unspecified/Breakeven	1	1.2%	302	2.6%	3	3.5%
Loss	48	56.5%	4,793	41.0%	40	47.1%
Total Organisations / Supported Employees	85	100.0%	11,692	100.0%	85	100.0%

Source: KPMG – Wage Assessment Tool Survey – September 2015

The 85 respondents identified that they currently employ 11,692 supported employees, which equated to an average of 138 per organisation, although this varies considerably across providers. The survey responses also accounted for over half of the supported employees across Australia and is therefore deemed to be a reliable and representative sample. Of those organisations, 42 (49.4 per cent) were profit making and 40 (47.1 per cent) were loss making in 2013/14. The number of profit making organisations reduced in 2014/15 to 36 (42.4 per cent) with 48 (56.5 per cent) recording a loss for the financial year. A small percentage achieved a breakeven position or did not specify their financial position.

Table 9: Analysis of Profit / (Loss) Making Organisations and Supported Employees

Category	2014/15				2013/14	
	Number of Organisations	% of Org's	Number of Supported Employees	% of Employees	Number of Organisations	% of Org's
Profit - \$500k or over	4	4.7%	3,452	29.5%	4	4.7%
Profit - \$250k to \$499k	8	9.4%	1,245	10.6%	1	1.2%
Profit - \$1 to \$249k	24	28.2%	1,900	16.3%	37	43.5%
\$0 or unspecified	1	1.2%	302	2.6%	3	3.5%
Loss - \$1 to \$249k	36	42.4%	1,982	17.0%	28	32.9%
Loss - \$250k to \$499k	6	7.1%	619	5.3%	7	8.2%
Loss - \$500k or over	6	7.1%	2,192	18.7%	5	5.9%
Total Organisations / Supported Employees	85	100.0%	11,692	100.0%	85	100.0%

Source: KPMG – Wage Assessment Tool Survey – September 2015

Table 9 illustrates a further breakdown of the 85 providers and 11,692 supported employees, categorised by the level of profit and loss reported in 2013/14 and 2014/15. It is evident from the financial information provided that the majority of organisations achieved either a profit between \$1 to \$249k or a loss between \$1 and \$249k, for both financial years.

It is apparent that an increasing number of organisations (representing 1.2 per cent to 9.4 per cent) made a profit in the range of \$250k - \$499k, from 2013/14 and 2014/15 respectively. The number of organisations in the profit range \$1 to \$249k reduced during the financial years and the organisations recording a loss in the range \$1 to \$249k increased from 32.9 per cent to 42.4 per cent.

In 2014/15 it is evident that the majority of supported employees are employed in those organisations reporting the profits in excess of \$500k (29.5 per cent of supported employees) or losses in excess of \$500k (18.7 per cent of supported employees).

Table 10: Analysis of Profit / (Loss) Making Organisations and if Part of a Larger Organisation

Category	Number of Organisations	Number of Supported Employees	Part of a Larger Organisation		
			Yes	No	Not Specified
Profit - \$500k or over	4	3,452	0	3	1
Profit - \$250k to \$499k	8	1,245	2	4	2
Profit - \$1 to \$249k	24	1,900	10	13	1
\$0 or unspecified	1	302	0	1	0
Loss - \$1 to \$249k	36	1,982	25	11	0
Loss - \$250k to \$499k	6	619	5	1	0
Loss - \$500k or over	6	2,192	4	2	0
Total Organisations / Supported Employees	85	11,692	46	35	4

Source: KPMG – Wage Assessment Tool Survey – September 2015

The above table illustrates the organisations that indicated whether they were part of a larger organisation or not. It is evident that the majority of providers that are part of a larger organisation (representing 54.3 per cent) made a loss of in the range of \$1 to \$249k in 2014/15. The majority of organisations that were not linked to larger organisations either made a profit between \$1 to \$249k (representing 37.1 per cent) or a loss between \$1 to \$249k (representing 31.4 per cent).

Table 11: Analysis of Organisations Paying Corporate Overheads in 2014/15

Range of Corporate Overheads Paid in 2014/15	Number of Organisations	Number of Supported Employees
Over \$5m	2	3,242
\$3m to \$5m	2	1,297
\$1m to \$3m	6	2,018
\$500k to \$1m	6	625
\$250k to \$500k	13	1,381
\$125k to \$250k	11	628
\$1 to \$125k	21	731
No Corporate Overhead	24	1,770
Total Organisations / Supported Employees	85	11,692

Source: KPMG – Wage Assessment Tool Survey – September 2015

Table 11 highlights the provider organisations in accordance with the corporate overheads that were paid during 2014/15. Corporate overheads relate to amounts levied to parent organisations for management and other corporate costs. There appears to be a wide variety of corporate overheads being paid by organisations, ranging from payments made in excess of \$5m by two organisations (2.4 per cent) to 24 organisations (28.2 per cent) who have not made corporate overhead payments during the financial year. The majority of organisations making corporate overhead payments appeared in the range of \$1 to \$125k, with this accounting for 24.7 per cent of all providers completing the data collection exercise.

4. Analysis and Findings – Supported Employees

4.1 Introduction

ADE providers were also asked to provide information in relation to the number of supported employees in their organisations according to specific headcount, Full Time Equivalent (FTE) and Disability Maintenance Instrument (DMI) levels. Organisations also provided information concerning the average hours worked by supported employees and the total amount paid in supported employee wages using the BSWAT tool during the period 2011/12 to 2014/15. The summary information is illustrated in the following tables.

4.2 Supported employee analysis

Table 12: Total Supported Employees Headcount by DMI Level

DMI Level	Total Supported Employees Headcount	Headcount %
DMI Level 1	824	7.0%
DMI Level 2	1,953	16.7%
DMI Level 3	2,667	22.8%
DMI Level 4	6,248	53.4%
Total Supported Employees	11,692	100.0%

Source: KPMG – Wage Assessment Tool Survey – September 2015

Organisations provided details of their supported employees by headcount and DMI level. ADE providers receive case based funding and elements of this are assessed on a case-by-case basis and are determined by administering the DMI tool. The computer based administration tool is used to assess the amount of support a supported employee requires and translate this into a funding level. The tool is based around nine domains (i.e. social and behavioural, cognitive, vocational, physical and personal care, communication, and workplace environment, special, other and variable elements) and within each domain is a series of questions relating to the level of assistance a supported employee requires. The data is assessed over a three month period and includes 126 questions that result in a generated score to inform the level of funding to be provided for each supported employee. DMI Level 1 is the lowest funding level with DMI 4 being the highest funding level, representing an increased level of required assistance³.

The table above highlights that the majority of supported employees have been assessed as DMI level 4 (representing 53.4 per cent of supported employees) whereas the least number have been identified as DMI level 1 (representing 7.0 per cent of supported employees).

³ Australian Government, Department of Families, Housing, Community Services and Indigenous Affairs, Disability Maintenance Instrument: Frequently Asked Questions

Table 13: Total Supported Employees FTE by Hours Worked

Hours per Week	Total Supported Employees FTE*	FTE %
8 hours or less/week	113	1.5%
9-14 hours/week	581	7.8%
15-19 hours/week	698	9.3%
20-24 hours/week	1,148	15.4%
25-29 hours/week	973	13.0%
30-34 hours/week	1,593	21.3%
35+ hours/week	2,362	31.6%
Total Supported Employees	7,469	100.0%

* Based on approximate FTE from completed returns
Source: KPMG – Wage Assessment Tool Survey – September 2015

Table 13 illustrates the approximate FTE by hours worked for supported employees. It is generally apparent that greater numbers of supported employees work an increased number of hours per week. It is evident that the majority of supported employees by FTE (31.6 per cent) work 35 or more hours per week with the next cohort (21.3 per cent) working between 30 to 34 hours per week. It is also noted that less than 9.5 per cent of supported employees work less than 14 hours per week.

Table 14: Total Supported Employees Headcount by Hours Worked

Hours per week	Total Supported Employees	Hours %
8 hours or less/week	530	4.6%
9-14 hours/week	1,815	15.7%
15-19 hours/week	1,539	13.3%
20-24 hours/week	1,957	16.9%
25-29 hours/week	1,352	11.7%
30-34 hours/week	1,867	16.1%
35+ hours/week	2,531	21.8%
hours unspecified	101	0.9%
Total Supported Employees	11,692	100.0%
Median Supported Employee Hours	20-24 hours	

Source: KPMG – Wage Assessment Tool Survey – September 2015

Table 14 above highlights the supported employee headcount across hours worked categories. The median hours worked across all supported employees is in the range of 20-24 hours worked per week with the least number being categorised under eight hours per week (representing 4.6 per cent of supported employees). It is apparent that 21.8 per cent of supported employees work 35 or more hours per week.

Tables 15 and 16: Analysis of average hours worked by supported employees across the six most widely used wage assessment tools

Wage Assessment Tool	Greenacres Association		BSWAT		FWS WAT	
	Total Supported Employees	Hours %	Total Supported Employees	Hours %	Total Supported Employees	Hours %
8 hours or less/week	132	2.6%	94	7.6%	21	2.2%
9-14 hours/week	773	15.2%	275	22.2%	113	11.7%
15-19 hours/week	711	14.0%	177	14.3%	102	10.6%
20-24 hours/week	784	15.4%	225	18.1%	161	16.7%
25-29 hours/week	697	13.7%	117	9.4%	154	16.0%
30-34 hours/week	848	16.7%	176	14.2%	220	22.9%
35+ hours/week	1,137	22.4%	176	14.2%	191	19.9%
Total Supported Employees	5,082	100.0%	1,239	100.0%	962	100.0%
Median Supported Employee Hours	25-29 hours		20-24 hours		25-29 hours	

Source: KPMG – Wage Assessment Tool Survey – September 2015

Wage Assessment Tool	The SkillsMaster		Supported Wage System		Mai-Wel Ltd	
	Total Supported Employees	Hours %	Total Supported Employees	Hours %	Total Supported Employees	Hours %
8 hours or less/week	89	10.5%	45	10.3%	18	2.5%
9-14 hours/week	118	13.8%	134	30.7%	125	17.3%
15-19 hours/week	111	13.0%	52	12.0%	82	11.4%
20-24 hours/week	157	18.4%	90	20.8%	146	20.2%
25-29 hours/week	99	11.6%	37	8.5%	66	9.2%
30-34 hours/week	139	16.2%	31	7.2%	111	15.4%
35+ hours/week	141	16.5%	46	10.6%	173	24.0%
Total Supported Employees	854	100.0%	435	100.0%	721	100.0%
Median Supported Employee Hours	20-24 hours		15-19 hours		20-24 hours	

Source: KPMG – Wage Assessment Tool Survey – September 2015

The tables above illustrate the hours worked by supported employees across the principal wage assessment tools used by ADE providers. The sample taken across the six providers, accounts for 77.9 per cent of all supported employees detailed within the survey. It is apparent that supported employees work a wide variety of hours per week under the various wage assessment tools.

The median hours per week under the majority of wage assessment tools and for the total supported employees are 20-24 hours per week. It is evident however, the median hours per week for the Supported Wage System and FWS WAT assessment tools are 15-19 and 25-29 hours respectively.

5. Analysis and Findings – Wage Pressure Testing

5.1 Introduction - wage pressure testing

In order to assess the impact of supported employee wage costs potentially increasing in the future, a 'pressure test' was undertaken for all ADE providers. The test highlighted the impact of 20 per cent, 40 per cent, 60 per cent, 80 per cent and 100 per cent supported wage cost increases on a range of scenarios. The tests used the 2014/15 current total supported wage costs as a base and the findings are identified in the following tables.

The pressure test exercise does include all organisations and assumes increases affect all wage assessment tools with the exception of organisations using the Supported Wage System. For this particular wage assessment tool, supported employee wages have been assumed to remain constant from the 2014/15 levels.

5.2 Wage pressure test analysis

Table 17: Pressure Test – Impact on supported employee wage costs for all organisations⁴

Category	Salaries and Wages Supported Employee Costs (\$)	20% Increase on Supported Employee Wage Costs (\$)	40% Increase on Supported Employee Wage Costs (\$)	60% Increase on Supported Employee Wage Costs (\$)	80% Increase on Supported Employee Wage Costs (\$)	100% Increase on Supported Employee Wage Costs (\$)
Total Supported Employee Wage Costs	74,956,361	89,248,921	103,541,481	117,834,040	132,126,600	146,419,160
Increased Supported Employee Costs	-	14,292,560	28,585,119	42,877,679	57,170,239	71,462,798
Average Supported Employee Wage Costs	881,840	1,049,987	1,218,135	1,386,283	1,554,431	1,722,578

Source: KPMG – Wage Assessment Tool Survey – September 2015

The total supported salary and wage costs for all organisations in 2014/15 totalled \$74.96million, with an average figure per organisation of \$881.9k. Table 17 above illustrates the increase in total and average supported employee wage costs for the various percentage scenario increases.

⁴ All wage pressure test exercises assume percentage wage increases with the exception of those organisations using the Supported Wage System tool. The wages for supported employees under this tool are assumed to remain constant.

Table 18: Pressure Test – Impact on Profit / (Loss) from Supported Employee Wage Cost Increases

Category	Profit / (Loss) 2014/15 (\$)	20% Increase on Supported Employee Wage Costs (\$)	40% Increase on Supported Employee Wage Costs (\$)	60% Increase on Supported Employee Wage Costs (\$)	80% Increase on Supported Employee Wage Costs (\$)	100% Increase on Supported Employee Wage Costs (\$)
Total Profit / (Loss) for all Organisations	(1,695,973)	(15,988,532)	(30,281,092)	(44,573,652)	(58,866,211)	(73,158,771)
Average Profit / (Loss) per Organisation	(19,953)	(188,100)	(356,248)	(524,396)	(692,544)	(860,691)
Average Profit / (Loss) per Supported Employee	(145)	(1,367)	(2,590)	(3,812)	(5,035)	(6,257)

Source: KPMG – Wage Assessment Tool Survey – September 2015

Table 18 illustrates the effect of the supported employee wage cost increases on the total and average loss for the ADE providers and average profit per supported employee. The total loss for all organisations would increase from \$1.7m to \$16.0m in the event of a 20 per cent rise to \$73.2m if supported employee wage costs were doubled. The average loss per organisation was \$20.0k for 2014/15 and it is estimated that this would increase to \$188.1k in the event of a 20 percent rise or \$860.7k if supported employee wage costs were doubled. It is also evident that the average loss per supported employee would increase from (\$145) to (\$6,257) across the range of supported wage rise scenarios. The analysis also assumes that the organisations do not make any adjustments in relation to business operations as a response to the wage increases.

Table 19: Pressure Test – Impact on Number of Profit / (Loss) Making Organisations

Category	No of Organisations	20% Increase on Supported Employee Wage Costs	40% Increase on Supported Employee Wage Costs	60% Increase on Supported Employee Wage Costs	80% Increase on Supported Employee Wage Costs	100% Increase on Supported Employee Wage Costs
Current Profit Making 2014/15	37	22	14	8	7	6
Current Profit Making 2014/15 (%)	44%	26%	16%	9%	8%	7%
Current Loss Making 2014/15	48	63	71	77	77	79
Current Loss Making 2014/15 (%)	56%	74%	84%	91%	91%	93%
Total Organisations	85	85	85	85	85	85

Source: KPMG – Wage Assessment Tool Survey – September 2015

Table 19 illustrates the impact of supported employee wage increases on the number of profit or loss making organisations, from their current 2014/15 levels. The number of profit making organisations would reduce from 37 (representing 44 per cent) to 22 organisations (26 per cent) in the event of a 20 per cent supported wage increase. If supported employee wages were doubled, six organisations (representing 7 per cent) would remain profit making. The number of loss making organisations would increase from their current level of 48 (representing 56 per cent) to 63 organisations in the event of a 20 per cent supported employee wage increase. This number would increase to 79 (representing 93 per cent) in the event of doubling supported employee wage cost increase.

Table 20: Pressure Test – Impact on Number of Profit / (Loss) Making Organisations

Range of Profit / (Loss) Organisations	No of Organisations 2014/15	20% Increase on Supported Employee Wage Costs (\$)	40% Increase on Supported Employee Wage Costs (\$)	60% Increase on Supported Employee Wage Costs (\$)	80% Increase on Supported Employee Wage Costs (\$)	100% Increase on Supported Employee Wage Costs (\$)
Large Profit - \$500k and over	4	2	2	2	1	1
Medium Profit - \$250k to \$499k	8	3	2	2	2	2
Small Profit - \$1 to \$249k	24	17	10	4	5	3
Breakeven - \$0	1	0	0	0	0	0
Small Loss - (\$1) to (\$249k)	36	46	40	38	31	25
Medium Loss - (\$250k) to (\$499k)	6	7	18	18	17	20
Large Loss - (\$500k) and over	6	10	13	21	29	34
Total Organisations	85	85	85	85	85	85

Source: KPMG – Wage Assessment Tool Survey – September 2015

Table 20 analyses the profit and loss making organisations into further categories and demonstrates the movement of ADE providers in accordance with the percentage supported employee wage cost increases. The number of profit making or breakeven organisations would reduce from 37 to 22 as a result of a 20 per cent supported employee wage increase. This figure would reduce further in the event of supported employee wages doubling, with those in the \$1 to \$249k profit category reducing from 24 to 3 organisations. The number of loss making organisations would markedly increase in the \$250k to \$499k and \$500k and over categories.

Table 21: Pressure Test – Impact on Number of Profit / (Loss) per Supported Employee on Organisations

Range of Profit / (Loss) per Supported Employee	No of Organisations 2014/15	20% Increase on Supported Employee Wage Costs (\$)	40% Increase on Supported Employee Wage Costs (\$)	60% Increase on Supported Employee Wage Costs (\$)	80% Increase on Supported Employee Wage Costs (\$)	100% Increase on Supported Employee Wage Costs (\$)
Large Profit - \$25k and over	4	2	2	1	1	1
Medium Profit - \$10k to \$25k	9	4	2	3	3	2
Small Profit - \$1 to \$10k	23	16	10	4	4	3
Breakeven - \$0	1	0	0	0	0	0
Small Loss - (\$1) to (\$10k)	36	45	37	36	29	23
Medium Loss - (\$10k) to (\$25k)	6	9	21	25	22	26
Large Loss - (\$25k) and over	6	9	13	16	26	30
Total Organisations	85	85	85	85	85	85

Source: KPMG – Wage Assessment Tool Survey – September 2015

Table 21 categorises the profit and loss per supported employee for ADE providers and demonstrates their movement in accordance with the percentage supported employee wage cost increases. It is apparent that the number of small profit per supported employee organisations (\$1-\$10k) decreases markedly from 23 to 3 in the event of wage costs doubling. The number of medium loss (\$10k to \$25k) and large loss (25K and over) organisations increase significantly however, in the event of supported employee wage costs increasing from 40 per cent.

Table 22: Pressure Test – Impact on Number of Supported Employees per Profit / (Loss) Making Organisations

Range of Profit / (Loss) Organisations	No of Supported Employees Affected	20% Increase on Supported Employee Wage Costs	40% Increase on Supported Employee Wage Costs	60% Increase on Supported Employee Wage Costs	80% Increase on Supported Employee Wage Costs	100% Increase on Supported Employee Wage Costs
Large Profit - \$500k over	3,452	210	210	210	51	51
Medium Profit - \$250k to \$499k	819	1,306	183	183	183	183
Small Profit - \$1 to \$249k	2,326	1,211	493	137	182	104
Breakeven - \$0	302	0	0	0	0	0
Small Loss - (\$1) to (\$249k)	1,982	3,104	1,944	1,603	1,196	788
Medium Loss - (\$250k) to (\$499k)	619	1,176	2,385	1,607	940	997
Large Loss - (\$500k) and over	2,192	4,685	6,477	7,952	9,140	9,569
Total Supported Employees	11,692	11,692	11,692	11,692	11,692	11,692

Source: KPMG – Wage Assessment Tool Survey – September 2015

The table above illustrates the number of supported employees across the various organisations as supported employee wage costs increase under each scenario. In 2014/15, supported employees were employed within a range of profit and loss making organisations and with increasing wage cost rises the majority of employees would be employed in loss making organisations. In the event of a 20 per cent supported wage increase, the majority of supported employees would be employed within loss making organisations, whereas the majority are currently employed within profit making organisations. If supported employee wage costs were doubled, the majority of supported employees, 9,569 (81.8 per cent) would be employed within organisations forecast to make losses of \$500k and over. The number of supported employees employed in loss making organisations would increase from 41.0 per cent to 97.1 per cent.

Table 23: Impact on average supported wage cost as a % of total income

Average Supported Employee Wage Cost as a % of Total Income	Current Employee Wage Costs as a % of Total Income 2014/15	20% Increase on Supported Employee Wage Costs	40% Increase on Supported Employee Wage Costs	60% Increase on Supported Employee Wage Costs	80% Increase on Supported Employee Wage Costs	100% Increase on Supported Employee Wage Costs
Average Supported Wage Cost as a % of Total Income	17.7%	21.1%	24.4%	27.8%	31.2%	34.5%

Source: KPMG – Wage Assessment Tool Survey – September 2015

ADEs were also asked to provide wage cost information for all supported employees and the above table demonstrates the average supported wage costs as a percentage of total income for all organisations. In the event of supported employee wages increasing by 20 per cent the average would rise to 21.1 per cent, and for wage costs to double the proportion of wage costs to income would rise from 17.7 per cent to 34.5 per cent for all ADE providers.

5.3 Conclusion

It is evident that an increase in supported employee wage costs would have a significant impact on the profitability of organisations currently operating in the ADE sector. The 'pressure test' has identified that the average loss per organisation would increase significantly, if providers did not make any other adjustments to business operations. A rise of 20 per cent in supported employee wage costs would have a significant effect on organisational profitability and the number of employees currently working in profit making organisations would reduce from 59.0 per cent to 23.3 per cent.

In the event of supported wage doubling, the number of supported employees in loss making organisations would rise from 41.0 per cent currently, to 97.1 per cent.

There is a direct relationship between supported employee wage costs and organisational profitability and with increased wage costs being likely in the future, ADE providers will need to successfully manage this by examining aspects of their business models, including examining their costs and cost structures to improve efficiency (costs of support and supervision, and costs of production) and examining their revenue sources and pricing of the goods and services they provide with a view to maximising revenues from a range of different sources. Broader examination of the profitability and sustainability of the suite of goods and service they offer to market may also be necessary with a view to moving to higher value and more sophisticated production. Any changes resulting from this examination may have implications for employment of people with disability, including the types of jobs that may be available, and the level of employment ADEs are able to offer.

Appendix A Data collection tool correspondence

Extract of the electronic communication issued to all ADE providers on 17 July 2015.

For all Australian Disability Enterprises (ADEs)

KPMG has been engaged by National Disability Services (NDS) to assess of the impact on ADE profitability and viability of increasing supported employee wages. As part of this, we are seeking your assistance to provide us with some valuable data to conduct this assessment.

In particular, we are seeking your assistance to provide data relating to high-level ADE costs, revenues, supported employees and their wages. We are also seeing responses to some specific questions relating to wage assessment tools used and the impact of transitioning from the Business Services Wage Assessment Tool (BSWAT) to other wage assessment tools.

The attached data collection template contains a number of questions that we hope you will be able to complete. Completion of the template is entirely voluntary, and we request that you complete as many questions as you can.

If you require assistance with completing this template, you can contact us via the following:

Email: wadcreview@kpmg.com.au

Phone: 1800 823 353

Please note that all information reported to KPMG will be confidential, and no information will be reported on an individual ADE basis.

Once you have completed the template, please save it with your organisation in the file name, and email it to wadcreview@kpmg.com.au by close of business on **Wednesday 5th August 2015**.

If you require further information on this project, please contact the KPMG review team at wadcreview@kpmg.com.au, or Kerrie Langford, National Employment Manager at NDS (kerrie.langford@nds.org.au) or Paul Musso, NDS Policy Advisor (paul.musso@nds.org.au).

Thank you for your assistance with this.

Regards

KPMG wage assessment review team

wadcreview@kpmg.com.au

1800 823 353