Annual Funded Sector Report
2010-2011

Curtin University
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Annual Funded Sector Report 2010-2011

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1. Introduction

The Disability Services Commission (the Commission) provides services directly to people with disability and funds services provided by non-government organisations. In 2010-11, the Commission allocated the majority of its budget – 64 per cent or $348.2m - to purchase services from 116 Disability Service Organisations that provide services to Western Australians living with disability. As such, the capacity of these organisations to provide high quality services in an efficient, effective and sustainable manner is essential to the State Government’s ability to meet its statutory requirements and policy objectives to support people with disability.

This report provides an overview of the group of 116 Disability Service Organisations (DSO) that are collectively called the “Funded Sector”. It is the fourth report of its kind, and as in previous years, this report has been adapted and improved based on the information available and feedback from users. However, it should be read in the context of other information published by the Commission including the Annual Report.

Overall, the report aims to inform Parliament, DSOs and the broader community and to build an understanding of what is happening in the sector. To enhance this objective, a number of innovations have been included in this year’s report. Firstly, the report has been simplified and shortened, removing any information that was repeated. Secondly, the presentation of the data has been reworked such that users can better follow the thread of discussion and to remove, as far as possible, the industry nuances that may reduce clarity for readers less familiar with the sector. Finally, “Questions for Good Governance” have been added to each section with a view to providing reference points for those charged with the governance of DSOs, particularly when reviewing the data and applying it to their DSO. These consider points are not intended to be exhaustive and there are highly likely to be other questions and issues that should be addressed by those charged with governance beyond what is included here.

Once again, this report has been developed by Curtin University using data provided by the Commission. The Curtin School of Accounting Not-for-profit Initiative was formed in 2011 to focus on developing an understanding of the not-for-profit Sector and to develop industry-ready research. The NFP Initiative team led the development of this edition of the report, thereby leveraging the expertise of the research group and their recent work in other projects and enabling analysis and contextualisation of the data for the benefit of this report.

Throughout this document, readers are reminded that the information provided is of a high level summary nature and should not be considered, applied or evaluated in isolation. This report is not intended to be an exhaustive rendition of the performance of the funded sector over the 2010-11 financial year, but rather an overview and general assessment. Therefore, users who might want to consider the contents of this report and make comparisons with their DSO are strongly advised to evaluate the applicability of the ideas, calculations and other detail, to ensure that they are relevant to their DSO and to take advice or seek the services of an appropriate professional should they feel it necessary.

The data used for this report is obtained through a number of sources, some of which take many months to confirm, evaluate and consolidate. Therefore, the use of lag data means
that the timeliness of the publication of this report is less than satisfactory. To provide a point-in-time perspective, this report summarises information from the 2010-11 reporting period. In some cases more recent data is included where it is available and supports the reader’s understanding of the sector. Opportunities to access more recent and further information are being investigated to continually improve the timeliness and scope of the report. Despite the time lag, by and large, the issues raised and the commentary are considered to be highly relevant to the sector today.

The report is structured under five headings. These are carried forward from previous editions of the report in order to develop and maintain a longitudinal view of DSOs funded by the Commission.

The headings are:

1. Overview of the WA Disability Services Sector: Overall funding, the size and growth of the sector.
2. Customer: Data on the quantity and quality of services provided.
3. Finances: Key financial indicators of DSOs.

Overall, the results, information and analysis provided in this report are pleasing as they confirm that the majority of DSOs are positioned relatively well for future service delivery. There are very few funded DSOs that are under review by the Commission as a result of the information returned by them as part of their acquittal or as a result of the oversight activities of the Commission itself. These DSOs represent a very small minority of the sector. The results and discussion do relate to the 2010-11 operating year and, of course, things are likely to have changed in the intervening period between then and now. However, given the general trend toward improvement in all areas combined with the significant majority of DSOs reporting good positioning or returning positive results from the Commission’s oversight activities, it is reasonably likely that the DSOs will continue to build on their position in subsequent years.

The context within which this report is developed is also important and, while it relates to the 2010-11 financial year, there are a number of environmental changes occurring that may also affect readers’ consideration of the information provided.

Principle among these environmental changes is the West Australian Government’s development of the Delivering Community Services in Partnership Policy that has been developed and implemented via the Partnership Forum. This is a major reform introduced in Western Australia and includes significant changes to procurement and service delivery. Principally, the procurement reforms revolve around key areas such as: a greater focus on identifying service outcomes; the costing and pricing of service delivery to ensure sustainability; and a move towards increased flexibility in contract design and innovation in the community.
sector. The service delivery reforms centre on individualised funding. Both of these reforms are likely to have a considerable effect on the capacity and operations of DSOs.

At the national level, the Commonwealth Government established the Australian Charities and Not-For-Profits Commission (ACNC) on 3 December 2012. Amongst other things, this body will regulate charities in Australia and introduce changes to financial reporting and governance arrangements. As most of the funded DSOs considered in this report are registered charities, the implementation of the ACNC regulatory requirements over the 2013 operating year and onwards will likely have a significant effect on the governance and financial reporting practices of the DSOs considered here.

The final significant reform that is well documented and discussed in other places is the Commonwealth’s National Disability Insurance Scheme (NDIS) that is still in the development stage. While it is not possible to judge whether or not this structure will ultimately be implemented or, what it will look like, there is no doubt that it will have a considerable effect on DSOs and the activities included in this report if it does come to fruition.

Overall, the development and publication of this report is an important element in the Commission’s communications strategy. It supports the Commission’s objective to use and share acquittal and other data provided to the Commission by DSOs and to use and disseminate findings resulting from the Commission’s oversight activities. It is hoped that users continue to find in it a useful source of discussion and information and that it builds on other sources available.
2. WA Disability Services expenditure

To provide context in relation to the findings, information and discussion provided in this report, this section provides a short summary of key expenditure, demand, supply and cost information.

2.1 Total Commission expenditure

In 2010-11, the total expenditure of the Commission (including expenditure on departmental operations and services) was $541.15m. Total expenditure had grown at an average rate of approximately 12 per cent per year for the previous five years.

2.2 The number of service users and average funding per user

Over the past five years, the average funding per individual has increased (in nominal terms) by 57 per cent.

22,207 people with disabilities received services funded by DSC in 2010-11, which is 555 or 2.6 per cent more than in the previous year. The average cost per service user increased by 8.5 per cent to $24,368 per person. These changes are shown in figure 2.

In 2005-06 the number of service users was 19,632, therefore funded user numbers have increased by 13 per cent in five years. Interestingly, ABS population data shows that over this period, WA’s population increased by approximately 13.9 per cent. While not conclusive in itself, the increase in funded service users has been only very slightly below the overall population increase.

Growth in the number of service users has been highest in the years since 2009-10 and data from 2011-12 (not shown) indicates this trend is continuing.
In 2005-06 the average funding or cost per service user was $15,558 and therefore the cost per person has increased 57 per cent over five years in nominal terms.

**Number of service users and average cost per customer**

![Graph showing the total number of service users and average cost per service user from 2003 to 2010.](image)

**Figure 2**
2.3 Source of funds

The Commission’s income is sourced from the Western Australian Government, the Commonwealth Government and other sources, such as user charges and fees. The WA Government provides just over 80 per cent of funding and the Commonwealth about 16 to 17 per cent. Other sources of funding contribute two to three per cent to Commission income representing the balance. The rate of growth and therefore the relative contribution from each funding source has been very similar for the last eight years.

**Total funding and sources of funding 2003 to 2011**

![Bar chart showing total funding and sources of funding from 2003-04 to 2010-11.](image_url)

*Figure 3*
2.4 Application of funds

In 2010-11, 64 per cent of the Commission’s funds, or $348m, was allocated to DSOs. In addition to this, 2.3 per cent of funds were also spent on other grants. All of these grants are used to directly support both the sector and people with disabilities. It is also important to note that the proportion of total funds allocated to DSOs has increased since 2007-08 by 58 per cent.

Application of funds to 2010-2011

Figure 4
2.5 Distribution of Funding to DSOs

There has been a steady increase in average funding per DSO over the past five years. The number of DSOs receiving over $5m in funding has increased from nine per cent in 2007-08 to 19 per cent in 2010-11. There has been similar growth in the proportion of DSOs receiving $1m to $5m from 18 to 32 per cent. The number of DSOs receiving less than $1m has declined from 66 per cent to 49 per cent.

Number of DSO’s receiving funding in each funding band

- >$5m funding
- $1m - $5m funding
- $50,000 - $1m funding
- <$50,000 funding

Figure 5
In 2010-11, just over half of funding allocated to DSOs was distributed between ten DSOs. Funding has become a little less concentrated in recent years. In 2008-09 (two years prior) 58 per cent of funding was allocated to the ten financially largest DSOs.

In 2010-11, the median level of funding was $746,000, up from $700,000 in 2009-10. However, the average amount of funding was $3M (up from $2.6M in 2009-10) indicating a concentration of funding in a small number of DSOs. 20 of the 116 DSOs account for 73 per cent of the funding and 10 of these organisations received 52 per cent of total funding.

The 10 highest funded DSOs and the proportion of just over half of total funding received are shown in Figure 6. It must be remembered that there are many reasons for the allocation of funding, not least of which is the fact that not all DSOs have the same client profile. For instance, DSOs serving clients with complex needs are often likely to receive a larger proportion of funding than DSOs serving clients with less complex needs.

**Funding distribution 2010-2011

**ten highest funded DSO’s**

![Pie chart showing the distribution of funding among ten DSOs.](image-url)
2.6 A profile of funded DSOs 2010-2011

The median annual turnover in the sector was about $2.4m. One third of funded DSOs are small, with a turnover below $1m per annum.

DSOs range in turnover from $24,000 to $240m per year. The median turnover for the sector was $2.4m per year. Just under half (45 per cent) of funded DSOs are small; with a turnover of less than $2m per year. There were 13 DSOs with a turnover of over $20m per year. As indicated above, turnover of an organisation includes both Commission funding and other sources which might include Commonwealth funds, philanthropic contributions and self-generated income.

**Distribution of DSO's by turnover (excludes 3 largest DSO's)**

![Graph showing distribution of DSO's by turnover](image.png)

- 22 DSOs had a turnover of over $100m
- Median turnover: $2.4m
- 32 DSOs had a turnover of less than $1m

**Figure 7**
2.7 Percentage of DSC funding to total turnover

The Commission is the primary source of funding for 54 per cent of DSOs. The percentage of a DSO’s total income received from the Commission has a significant impact on the risk to a DSO’s sustainability, its opportunity for growth and its independence. Commission driven policy and service delivery changes are likely to have a bigger impact on DSO’s that rely on the Commission for a large percentage of their income. The data from the last three years shows that about 38 per cent of DSO’s received more than 80 per cent of their funding from the Commission and are therefore likely to be significantly affected by any changes in funding or funding arrangements. A further 16% in 2010-11 received over 50% of their income from the Commission.

DSO’s by percent of turnover received from the Commission

![Pie chart showing distribution of DSOs by percentage of turnover received from the Commission.]

Figure 8
Further analysis of this data shows that the average percentage of income from the Commission has increased from 59 to 65 per cent of turnover since 2008-09. At the same time, the percentage of DSOs receiving more than 90 per cent of funding from the Commission has grown from 12 to 21 per cent. Some of this increase appears to have been the result of a decline in the total number of DSOs that are receiving between 50 and 80 per cent of income from the Commission – they are increasing their reliance.

A high degree of reliance on a single funding source also has implications for the capacity of a DSO to determine its own strategic direction. In particular, if there is limited alignment between a DSO's mission and that of the government funder this can cause conflict.
3. Customer

The primary focus of the Annual Funded Sector Report is to ensure that all indicators related to direct service delivery are linked with other non-direct service delivery and then contextualised. In essence, this section provides information regarding the outcomes that have been achieved for those people living with disability during the year. It attempts to link both the quantum of service provided with the quality of that service. The data for this section is sourced from information about the quantity of service provided to individuals, consolidates information on awareness of complaints channels and satisfaction with complaints handling, as well as the results of the Commission’s Quality Management Framework (QMF) activities and the annual customer survey.

Overall, this section seeks to examine the extent to which the right services are provided in the right quantity and in the most efficient manner possible. It is a high level analysis and the section does not necessarily report on all of the nuances associated with the service delivery process. However, the indicators used are macro indicators relating to which data is able to be collected, are constant from period to period, and they consist of information provided by DSOs or collected via the Commission’s QMF activities. Therefore, the Commission’s objective of using collected information to support evaluation and decision making processes is reflected here.

3.1 Disability customer service standards

In 2010, the Commission introduced the Quality Management Framework (QMF) and all DSOs have a contractual obligation to meet the Disability Service Standards and comply with the QMF. The QMF is intended to be both a quality framework for service delivery and a framework against which service delivery provided by DSOs can be assessed and identified short-falls mitigated. External evaluators assess each DSO’s services against these standards every three to four years. Although restructured in 2010, compliance with the Disability Services Standards underpin the QMF. These Standards have been monitored by the Commission and presented in the Commission’s annual report since 2004. Therefore, the fundamental framework for quality has been in place for nearly a decade. This longevity has allowed DSOs, the Commission and other stakeholders to become well acquainted with the standards and how to meet them. Additionally, the DSOs and the Commission pursue these standards assiduously and there is evidence that the standards have become acculturated within the operations of each DSO.

Importantly, the 2010-11 operating year saw a change in the way quality data was collected by the Commission. In line with its introduction of the Quality Management Framework, the Commission commenced evaluating service points funded for service delivery instead of evaluating individual service outlets. A service point is comprised of one or more service outlets. For small organisations this may represent the whole organisation, while for large organisations a service point can include multiple service outlets. This methodology is similar to that of previous years, as the evaluations under the current Framework frequently encompass a broader suite of services. Therefore, under the new methodology, while there appears to be fewer iterations of monitoring outcomes reported, they represent the results of a wider suite of Commission purchased services.
3.1.1 The disability service standards

This framework consists of nine service standards each with a set of supporting standards.

Standard 1: Service access.

Standard 2: Individual needs

Standard 3: Decision making and choice

Standard 4: Privacy, dignity and confidentiality

Standard 5: Participation and integration

Standard 6: Valued status

Standard 7: Complaints and disputes

Standard 8: Service management.


Of these, Standards 2, 3, 5 and 7 relate specifically to services received by individuals and are summarised in this section along with other information on complaints management. Service Standard 1, together with Standard 8, also relate to organisational governance and these standards are examined in that light in the Governance and Operations section of this report below. Standards 4, 6 and 9 are not included in this report at this time. However, they remain critical components of the Commission’s QMF.

Additional to the above discussion, a further issue needs to be identified in reviewing this data. Over the period leading up to the 2010-11 operating year, an increased focus has been placed upon the attainment of outcomes rather than outputs in terms of service delivery quality. This refocus has been articulated in the Government’s Delivering Community Services in Partnership Policy that is the central plank of subsequent procurement reform.

3.2 Customer-focused standards and monitoring indicators

3.2.1 Standard 2: Individual needs

Standard 2 aims to ensure “that each person with disability receives a service that is planned, reliable and meets his or her needs in the least restrictive way”. This standard builds upon the focus of Standard 1 and includes the personal goals and lifestyle choices of individuals living with disability. Therefore, the standard seeks to focus on individually identified outcomes management. The achievement of this Standard is likely to improve with further implementation of person-centred planning and it should be enshrined in the normal processes of the funded DSO. Indeed, the WA Government’s Delivering Community Services in Partnership Policy includes significant focus on the area of individualised funding and planning as well as on people having greater choice and control.
The Standard states that:

‘Each person with a disability receives a service that is designed to meet, in the least restrictive way, his or her individual needs and personal goals.’

This is underpinned by 10 Supporting Standards that outline the key practices that the funded DSO should have in place to achieve outcomes for individuals. These sub-standards are available for review at www.disability.wa.gov.au/disability-service-providers-/for-disability-service-providers/guidlines-and-policies/disability-services-standards/.

As indicated previously, the 2010-11 operating year saw a change of methodology introduced with the Quality Management Framework. Therefore, while table 1 compares each year of operation from 2007-08 to 2010-11 in relation to the number of services evaluated, only the percentage of those services that met the standards and the percentage of those services that did not meet the standards are reasonably comparable.

Notwithstanding the difficulty inherent in comparing 2010-11 results with previous years due to the change in evaluation method, clearly there is a continuing trend of improvement in terms of the proportion of services that adhere to the standards. While we cannot focus on the percentage of required actions recorded against the standard, as this is limited to the DSOs reviewed, there has been a slight increase in services that meet the standard.

Table 1

<table>
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<tr>
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<td>207</td>
<td>215</td>
<td>197</td>
<td>61</td>
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<tr>
<td>Percentage of services monitored that met the Disability Services Standard</td>
<td>95.88%</td>
<td>94.49%</td>
<td>96.45%</td>
<td>96.72%</td>
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<td>Percentage of required actions recorded against the Standard</td>
<td>13.98%</td>
<td>16.04%</td>
<td>33.33%</td>
<td>6.67%</td>
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</tbody>
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3.2.2 Standard 3: Decision making and choice

The ideal of person-centred planning is that the identification of needs and goals, the development of services and the implementation of services are all undertaken with as much input as possible from those living with disability and/or their guardians. The standards seek to describe services such that they meet the objectives of those receiving the services and also such that the DSO can provide services efficiently and effectively.

The Standard states that:

‘Each person with a disability has the opportunity to participate as fully as possible in making decisions about the events and activities of his or her daily life in relation to the service he or she receives’.

This Standard is underpinned by nine (9) supporting Standards that outline the key practices that the service provider should have in place in order to achieve this outcome for individuals.

As stated previously, the change in methodology prevents readers from directly comparing the 2007-08 years onwards with data provided for the 2010-11 operating year. However, it is useful to consider that the standards evaluation activity of the Commission confirmed that all services reviewed complied with Standard 3 in 2010-11. See Table 2 below for information regarding previous history.

### Table 2

<table>
<thead>
<tr>
<th>Standard 3: Decision making and choice</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
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<tbody>
<tr>
<td>Number of services monitored</td>
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<td>117</td>
<td>177</td>
<td>61</td>
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<tr>
<td>Percentage of services monitored that met the Disability Services Standard</td>
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<td>99.53%</td>
<td>98.31%</td>
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<td>Percentage of required actions recorded against the Standard</td>
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<td>1.43%</td>
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</tr>
</tbody>
</table>

#### 3.2.3 Standard 5: Participation and integration

Standard 5 of the Disability Services Standards is aimed at supporting people with disability to be involved in the broader community. Involvement in the community is an important part of building quality of life and ensuring that those living with disability are able to not only access their requirements from a care and accommodation perspective, but they are able to participate in the activities that are important to them and their perspective of a full life.

The Standard states:

‘That each person with a disability is supported and encouraged to participate and be involved in the community.’

This standard is underpinned by four (4) supporting Standards that outline the key practices that the funded DSO should have in place to achieve outcomes for individuals. These sub-standards are available for review at www.disability.wa.gov.au/disability-service-providers-/for-disability-service-providers/guidlines-and-policies/disability-services-standards. Table 3 below provides a summary overview of the findings of monitoring undertaken by the Commission in relation to Standard 5.

Notwithstanding the limitations of comparability between previous years and 2010-11, monitoring results presented in relation to standard 5 are very encouraging as this standard has
been identified to have been met by monitored service across the board for the second year running.

Table 3

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<tbody>
<tr>
<td>Number of services monitored</td>
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<td>104</td>
<td>114</td>
<td>61</td>
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<tr>
<td>Percentage of services monitored that met the Disability Services Standard</td>
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<td>99.38%</td>
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<td>0.71%</td>
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</table>

3.2.4 Standard 7 – Complaints and disputes

The purpose of Standard 7 is:

‘To ensure that each consumer has access to fair procedures for dealing with complaints and disputes.’

Not everyone gets everything right all of the time. Therefore, it is a fundamental of good service delivery that there is an accessible avenue available for individuals and their guardians to make complaints and to pass on comments about any aspect of service delivery.

Standard 7 not only seeks to ensure that people living with disability can make complaints about their services if they need to, but they can also provide feedback to funded DSOs in a positive way. Upholding this standard helps to ensure services remain relevant and responsive to the needs of people living with disability and their families and carers. It helps to ensure that DSOs are both receptive to the needs and objectives of individuals and that organisational reflection and critical but positive analysis is part of every-day operations. It assists in ensuring that complaints and complaints management are an integral and useful part of the DSO’s processes and management arrangements. Such a complaints process is also a very important governance element and indicator of organisational maturity in a funded DSO.

The Standard states that:

‘Each service recipient is encouraged to raise and have resolved without fear of retribution, any complaints or disputes he or she may have regarding the disability sector organisation or the service.’

This Standard is underpinned by 10 Supporting Standards that outline key practices that the service should have in place to achieve outcomes for individuals.

Table 4 below provides summary data gathered via the Commission’s QMF. It shows a positive outcome in that the apparent trend identified in previous years appears to have reversed in
2010-11. Readers need to consider the fact that the methodology changed in terms of the Commission’s focus, however, this remains a positive outcome.

Table 4

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<td>108</td>
<td>105</td>
<td>61</td>
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<tr>
<td>Percentage of services monitored that met the Disability Services Standard</td>
<td>100.00%</td>
<td>94.64%</td>
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<td>1%</td>
<td>5.45%</td>
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3.3 Customer awareness and use of complaints channels

In addition to evaluating DSOs via the QMF, from 2010, the Commission began undertaking a customer satisfaction survey annually (previously the survey was undertaken every second year).

The results from the most recent surveys are summarised in table 5 and figure 10. In order to focus on the most current information, we have included data from the 2011-12 survey as well as that from the years 2009-10 and 2010-11. As can be seen in table 5, the number of respondents to the questionnaire has risen from 548 in 2010-11 to 733 in 2011-12. While this represents an increase of just under 34 per cent in terms of responses, it is still shy of the high of 841 in 2009-10. The respondent numbers do not necessarily represent an interpretable result. However, given the improvement in awareness indicated by this larger figure, there does seem to be some cause for satisfaction here.

Overall, the results are positive in relation to the awareness of carers, their knowledge of their right to complain and their knowledge of the complaints process itself. Both of these areas have either returned a slightly improved result or have maintained the same result.

In relation to complaints made, there has been a slight improvement across the board. While a one per cent drop was reported in terms of the proportion of those wishing to make a complaint, the proportion of respondents who felt unable to complain fell by five per cent and an increase on the 2010-11 result of 1% in terms of satisfaction relating to outcome was also reported.

Key areas where there was a slight decline in satisfaction related to an increase in the number of complaints – jumping markedly from a combined eight per cent of respondents in 2010-11 to 15 per cent in 2011-12. Satisfaction with regard to the handling of complaints (i.e. the complaints management process) also declined by 12 per cent in the period from 2009-10 to 2011-12. These areas may need to be considered by DSOs as areas needing watching and,
perhaps, directors need to consider this area in the light of the consider points provided in section 1.5 below.

Table 5

<table>
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<tr>
<th>Question</th>
<th>2009-10</th>
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<td></td>
<td>n: 841</td>
<td>n: 548</td>
<td>n: 733</td>
</tr>
<tr>
<td>Carers have been provided with information regarding how to make a complaint in the past 12 months</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>61%</td>
<td>62%</td>
<td>67%</td>
</tr>
<tr>
<td>No</td>
<td>39%</td>
<td>38%</td>
<td>33%</td>
</tr>
<tr>
<td>Carers aware of the right to complain</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>84%</td>
<td>84%</td>
<td>84%</td>
</tr>
<tr>
<td>No</td>
<td>16%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Carer complaints made</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Did not wish to make a complaint</td>
<td>81%</td>
<td>80%</td>
<td>79%</td>
</tr>
<tr>
<td>Wished to make a complaint but felt unable to do so</td>
<td>10%</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Made one complaint</td>
<td>6%</td>
<td>6%</td>
<td>15%</td>
</tr>
<tr>
<td>Made more than one complaint</td>
<td>3%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Customer satisfied with complaint handling</td>
<td>72%</td>
<td>63%</td>
<td>60%</td>
</tr>
<tr>
<td>Customer satisfied with complaint outcome</td>
<td>58%</td>
<td>54%</td>
<td>55%</td>
</tr>
</tbody>
</table>
Figure 10 illustrates the changes in complaints data over time. It shows steady improvement in the distribution of complaints information, a consistently high level of awareness of the right to complain and that over half of those surveyed were satisfied with the outcome of the complaint. However, it also shows a decline in satisfaction with complaints handling. This data on its own cannot be used as a measure of the effectiveness of complaints handling, as other factors such as changes in expectations (which can be triggered by a number of things including increased survey frequency) may have influenced responses.
3.4 Questions for good Governance

For directors of DSOs, the following points are questions to ask or items to examine when considering the quality of services delivered and the extent to which your DSO meets the standards. Remember, it is up to the board of directors of each DSO to determine the extent to which they should respond to any information obtained as a result of raising the questions identified below. Key consider points for this section:

a) What information is provided to the board with regard to reviews undertaken by the Commission on the services that we provide?

b) Did we meet all of the standards that were reviewed?

c) Did we receive any “not met” or “required actions” for any services?

d) Have we revised practices and/or implemented processes designed to meet previously unmet standards or to complete required actions?

e) When is our next service evaluation review?

f) How do we ensure that the standards are monitored internally and what constitutes compliance in our DSO?

g) Are instances of non-compliance routinely reported to the board?

h) How many complaints have we received during the last reporting period?

i) How many complaints were of significance? Identified risks not previously identified?

j) How many complaints have been closed?

k) What types of complaints should the board be informed about and which should the board only receive in statistical form?

l) How do we know what difference we are making?

m) How do we monitor our progress towards meeting outcomes with regard to our customer base?
4. Financial management

Each funded DSO provides acquittal data to the Commission and this data is used for a range of purposes in internal decision making. Additionally, the data is also used in this report to provide feedback to the Sector, the Parliament and for the Commission’s use in relation to a number of key risks. Specifically, the Commission provides funding to DSOs in order for those DSOs to provide services to those living with disability. A major risk for the Commission in that regard relates to the extent to which the DSOs that receive funding are financially sustainable in the short, medium and longer term. Sustainability is important from a financial perspective but unsustainable organisations can have significant ramifications for those receiving services. The purpose of this section is to provide feedback in that regard, identify key measurements of sustainability and to provide DSOs, their directors and executives with points for consideration relative to the data provided. All data is discussed at a summary, high level and the DSOs should consider points raised herein in a general way and think about the extent to which the results, discussion and conclusions relate directly or indirectly to their organisation.

Data related to financial management provides information that supports the Commission’s evaluation of the risk of contracting to individual DSOs. When consolidated, this data enables assessment of risk levels within sub-groups of the funded sector, such as small DSOs, as well as for the whole portfolio of WA funded DSOs. Individual DSO data is used by the Commission to better focus resources and is therefore a starting point rather than an end point in relation to individual DSOs.

There are three key financial elements investigated by the Commission in deciding how to deploy review resources. These elements are:

• Net Assets: Proxy for long-term viability
• Working Capital: Proxy for short & medium term viability and financial efficiency
• Liquidity: Proxy for solvency.

These elements are measured using financial ratios. The ratios used are not unique to the Not-for-Profit sector or DSOs and are widely used by accountants and analysts to assess performance and position. The ratios are calculated using the DSOs’ Audited Annual Financial Statements. As such, the data analysed in this section is provided by funded DSOs themselves and is assured independently of the Commission. In other words, those using this information should be aware that the Commission has not verified the data provided by DSOs and that the independent audit opinion provided as part of the annual financial report is taken at face value by the Commission. Therefore, it is reiterated that readers should consider the extent to which the commentary and consider points developed in this section may or may not apply to their DSO.

Additionally, while ratio analysis is an accepted and popular method of analysing the financial performance and position of DSOs, the results from such calculations are only pointers used to focus the user’s attention in relation to the areas where there is likely to be concern. Therefore,
the calculations made and the results gained need to be considered within the context of the Commission’s remit, the operating environment of each DSO included in the catchment and the financial position of each DSO as it stood at the time of calculation. Users should consider broader issues not just the results of ratio analysis. Therefore, when viewing each of these ratios, it is also important to consider the size and nature of service delivery to understand the most appropriate financial position each unique DSO should take. For example, certain service models require more investment in infrastructure than others.

Additionally, not one single ratio is sufficient to express the level of prospective risk inherent in a particular DSO’s financial position. For instance, a DSO can have strong liquidity but a mix of assets and liabilities such that it has longer-term financial risk (e.g. a loan is required for repayment in two years’ time). Equally, a DSO might have immediate solvency issues but a strong balance sheet in terms of Net Non-current Assets (e.g. insufficient cash to meet immediate requirements but an unencumbered building asset). Therefore, in reviewing the financial capacity of DSOs, users need to consider all three elements presented here within the context of the caveats expressed above. Users should also consider the information provided in section 4.4 below; the output reconciliation section. All of these things should be considered together and it may also be wise for individual DSOs to seek advice from accountants and other professionals as to their particular performance and circumstances.

Overall, the financial position of the sector has improved since 2006/07. The majority of DSOs are now positioned in either the ideal or satisfactory range for all three indicators. This indicates not only the improved financial viability of the sector, but more effective use of financial assets. Directors and executives of DSOs need to make the call as to whether or not they consider their DSO to fall within acceptable parameters including whether the parameters used in this report are appropriate for their purpose.

4.1 Net assets

In 2010-11 only one DSO had a Net Asset ratio of less than 0.5. Fourteen DSO’s had Net Asset ratios above five, however after investigation, these DSOs were not considered to be a significant risk to the reliability of service delivery.

The Net Asset Ratio is an important financial ratio. It provides an indication of funded DSO’s long-term solvency but this can also depend on the type of assets they hold compared to the type of liabilities they have incurred. In short, the Net Asset Ratio seeks to assess a DSO’s longer-term financial stability and consequently their ability to deliver ongoing service in a reliable manner.

The Net Asset Ratio is calculated by the Commission as follows:

\[
\text{Net assets} = \frac{\text{Total assets}}{\text{Total liabilities}}
\]

The ratio result equates to an expression of the number of dollars worth of cash and other assets there is available as against total liabilities. Typically this is expressed as Total Assets: Total Liabilities, as a percentage or as a number of dollars per dollar of liability. For instance, a
DSO that has $150 in assets and $100 in liabilities would have a Net Asset Ratio of 1.5 : 1 or $1.50 : $1. The Commission applies the following benchmarks in analysing the Net Asset Ratios of funded DSOs:

- Less than 0.5 – these disability sector organisations are of critical concern and pose the greatest risk to the Commission as their liabilities to other parties exceed their entire asset base.
- Between 0.5 and 0.9 – these disability sector organisations require additional monitoring and contract management to assess the impact of their financial position as their capacity to pay their longer term liabilities is weak.
- Between 1.0 and 1.9 – disability sector organisations with this ratio are considered to be satisfactory.
- Between 2.0 and 5.0 – disability sector organisations with this ratio are considered to be in the ideal range.
- Over 5.0 – disability sector organisations with a high Net Asset ratio may not be utilising their assets in the most effective manner.

Remember, the above ranges expressed are arbitrary and based on the Commission’s experience. Individual organisations might take a differing view and should consider what constitutes financial strength in their view. Figure 11 demonstrates the number of funded DSOs that fall into each Net Asset Ratio benchmark over a five year period ending in 2010-11.
In 2010-11 only one DSO had a Net Asset ratio of less than 0.5. This was a relatively new service provider that delivered only minimal Commission funded services. Ongoing assessment and monitoring of this DSO has been undertaken and appropriate controls have been implemented to mitigate any risk to service delivery.

The number of DSOs with a ratio of between 0.5 and 0.9 remained at one during 2010-11 but this DSO’s Net Asset ratio has remained between 0.7 and 1.0 for the past eight years. This DSO remained at the high end of the band (0.8), but is still subject to monitoring. It can be seen from the black trend line that the number of DSOs in this range has reduced since 2006/07.

The number of DSOs in the satisfactory range (1.0 to 2.0) remained at 32. The number in the
ideal range (2.0 to 5.0) improved again in 2010-11 with an increase from 44 to 51. Combined, these two bands represented 84 per cent of DSOs (up from 78 per cent in 2009/10). The trend upwards in this range is demonstrated by the blue trend line in figure 11.

The number of DSOs with a high net asset ratio decreased again in 2010-11 from 19 to 14. Of these DSOs, seven are DSOs whose support models require a high level of physical infrastructure. Seven DSOs’ ratios are skewed due to the small size of the DSOs and the ratio does not indicate a significant risk at this point in time.

The review of this ratio needs to be undertaken in the context of the type of services being provided and the infrastructure being deployed. For instance, it is important for directors and executives to consider whether they are able to realise assets that may have been funded by external providers and have caveats or other restrictions on their realisation - that is, you often cannot sell an asset that has been provided by a funder without, at least, their permission. However, sometimes DSOs cannot sell but have to transfer the asset at no cost to another provider. Clearly, such a scenario can reduce the net asset position of the DSO and its capacity to realise assets with a view to extinguishing liabilities.

Therefore, DSOs considering this issue might also undertake the ratio calculation described above but, for instance, include only those assets that the DSO can realise without any external permission being required or the prospect for transfer of assets.

Additionally, where assets are not going to be able to be realised (that is, turned into cash) DSOs might consider recalculating their Net Asset ratio but removing those assets from their calculations. This will allow directors and executives to appreciate a more specific ratio outcome and react accordingly. Examples of such assets include prepayments, where expenses have been paid in advance but cannot be recovered in cash terms.
4.2 Working capital

In 2010-11 there were three DSOs that had working capital ratio outcomes that were a cause of concern for the Commission. While the total number of DSOs with working capital ratios of less than 0.5 was five, two DSOs’ ratio calculations were affected by the accounting treatment of current assets that was required in order to meet the Australian Accounting Standards.

The Working Capital ratio measures the capacity of a funded DSO to meet its short term financial commitments (that is, within 12 months). It is also a measure of efficiency: higher ratios show that a greater proportion of a DSO’s assets are being used to maintain day-to-day operational requirements and it may be more efficient for better operating methods and processes to be found in order to channel the DSO’s cash away from working capital and into other assets or expanding operations.

The ratio is calculated by the Commission as follows:

\[
\text{Working capital} = \frac{\text{Total current assets}}{\text{Total current liabilities}}
\]

As with the Net Assets Ratio in the previous section, the result of the calculation of the Working Capital Ratio is expressed as a percentage or a number of dollars of current assets versus the total current liabilities.

Generally, DSO’s should manage their working capital such that liquidity is not jeopardised but that a minimum of funds is required to maintain the DSO’s operations. Generally, the Commission considers a ratio of between 1.0 and 5.0 to be considered ‘normal’. Ratios outside this range raise a ‘red flag’ and warrant further investigation. Indeed, the Commission applies the following benchmarks in relation to Working Capital and Liquidity Ratios:

- Less than 0.5 – these disability sector organisations are of significant concern as their capacity to pay both their short and medium term liabilities is poor.
- Between 0.5 and 0.9 – these disability sector organisations may require additional monitoring and contract management to assess the impact of their financial position as their capacity to pay their short and medium term liabilities is compromised.
- Between 1.0 and 1.9 – disability sector organisations with this ratio are considered to be satisfactory dependent on the size of the organisation and level of outstanding liabilities (for example, level of employee entitlements).
- Between 2.0 and 5.0 – disability sector organisations with this ratio are considered to be in the ideal range.
- Over 5.0 – disability sector organisations with a high Working Capital or Liquidity ratio and a low level of debt may not be utilising their assets effectively.

In 2011, the number of DSOs with a current working capital ratio in the ideal or satisfactory range was 78, that is 79 per cent (compared to 68 per cent in 2009-10). There was evidence a higher number of DSOs are now in the ideal, rather than satisfactory category, compared to the previous year.
The number of DSOs in the high-risk category (less than 0.5) increased from three to five during 2010-11. The results from two of these DSOs were due to an accounting treatment issue, while a third had satisfactory liquidity and net assets ratios despite its poor working capital ratio. The remaining two are being closely monitored by the Commission.

Figure 12 shows the percentage of funded DSOs falling into each working capital ratio benchmark over a five year period.
There was an increase by one DSO in the 0.5 and 1.0 range – from 11 to 12. Of these DSOs, six are at the higher end of the range sitting on 0.9. It is important to note that combined, the number of DSOs with ratios between 0 and 0.9 has increased from 14 to 17 in 2010-11 (a rise from 14 to 17 per cent of total relevant DSOs). The trend for DSOs with a ratio of between 0.5 and 1.0 is represented by the black line. Overall this has remained relatively stable during this time.

The number of DSOs with a ratio greater than 5.0 has dropped from seven to four. Those DSOs with less current assets than current liabilities (i.e. in the range from 0 to 0.9) need to consider their financial position and performance. In the short term, while cash flows might have been sufficient for meeting liquidity requirements up to this point, the changing environment and increasing costs might mean that in future solvency becomes an issue. Additionally, in the longer term, DSOs with ratio outcomes of less than one (or, indeed, of one or only slightly above) need to consider what they might do to alleviate this problem.

Those DSOs with a significant excess of current assets over current liabilities might consider the need for establishing an investment policy, reviewing their debtor collection periods if appropriate and consider reviewing their purchasing policies.

Additionally, both of these ratio outcomes might be changed by considering the effects of any non-cash current assets (e.g. prepayments) and non-cash current liabilities (e.g. provisions for elective expenditure). Making adjustments for these items may give a better view of the net current asset position.

**4.3 Liquidity**

The overall position of the funded disability sector, in terms of liquidity, improved slightly in 2010-11. The number of DSOs with a liquidity (Quick) ratio in what the Commission considers the satisfactory range or ideal range increased from 73 in 2009-10 to 81 in 2010-11. This continues the upward trend from 57 in 2007-08. One DSO in the high-risk category will continue to be monitored closely by the Commission.

The Liquidity Ratio is commonly used to indicate the capacity of a DSO to meet its immediate financial commitments. The Commission considers that the normal ratio for a healthy DSO is better than 1:0; that is, all short term amounts owing or to likely be owed are covered by amounts received or receivable at least in the ratio of dollar for dollar.

The Commission uses the following calculation in determining organisational liquidity:

\[
\text{Liquidity} = \frac{\text{Current assets}}{\text{Current liabilities (excluding any bank overdraft)}}
\]

Figure 13 shows the percentage of DSOs in each Liquidity (Quick Cash) Ratio band for each year over a five year period ending in 2010-11.

The 2010-11 financial year saw a continuation of the prior period’s trend relating to those DSOs in the satisfactory range (1.1 to 1.9), with the number dropping in 2010-11 because they moved into the ideal range. While in 2010-11 the number in the satisfactory range (1.1 to 1.9) dropped to 42 (from 44 in the prior period), the number in the ideal range (2.0 to 5.0)
increased significantly from 29 to 39 (representing 39 per cent of all DSOs as opposed to 30 per cent in the prior period). However, this is a general trend and does not indicate the specific circumstance of each of the DSOs. The overall trend represented by the blue line shows that the number of DSOs in this range is increasing. This overall trend is positive in the short term.

In 2010-11 there were three DSOs in the high risk category (less than 0.5) down from four in 2009-10. Of these, two are related to accounting treatment issues and therefore not considered a major risk by the Commission. The third DSO has been closely monitored by the Commission since 2009. Interestingly, the number of DSOs in the range of 0.5 to 1.0 decreased during 2009–10 from 14 to 11.
The number of DSOs with a ratio over 5.0 reduced from seven to four in 2010-11. This indicates the continued effective use of liquid assets (such as cash) by the funded disability sector especially as two of these DSOs were funded for less than $400,000 by the Commission. In reviewing the figure, it can be seen that both risk groups at either end of the spectrum have reduced in size and the ideal group has been the beneficiary.

The reduction in the number of DSOs in the high risk category (less than 0.5) and the next risk area of (0.50 -1.0) demonstrates that generally, based on this measure alone, the sector effectively utilises its liquid assets. It is important to note that of these 14 DSOs, six have a liquidity ratio of 0.9 and three of the DSOs’ ratio results are due to accounting treatment issues. Of the remaining five DSOs, only one demonstrates a risk to the continuity of services for the Commission but the services provided by the DSO are not of a high volume.

Again, DSOs considering these results against their particular position should ensure they are examining the position in the context of their situation and, particularly, they should consider what types of assets should be included and what types excluded from the calculation.

4.4 Output Reconciliation

DSO’s are currently funded to provide an amount or level of service during a specified period. The Commission provides funds in advance and at the end of each financial year DSO’s are required to report to the Commission on the amount of service actually provided, to provide acquittal statements and to provide a set of accounts.

In determining the extent of under-delivery of outputs, Commission staff communicate with DSOs directly to ascertain the cause of under delivery and the effect that this has upon the person accessing the service. Ideally, all services purchased are delivered during the specified period, but for a number of reasons - such as ramping up time taken when a new service is introduced, in periods of staffing recruitment and retention difficulty and when an individual is not allocated to the service - the funded DSO may not be able to deliver the agreed services. It may also provide more services than it was contracted to deliver in times when demand is acute and the funding arrangements cannot keep up with it. Active contract management allows for each individual circumstance to be reviewed on a case by case basis. Where there has been a deficit in services delivered, the Commission may require funds to be returned so they can be re-allocated to meet other client needs. However, this is always considered in the context of present circumstances relating to the individual and their funding plan. Over delivery also represents a risk to recipients as it can result in poor service quality, stretched resources and the hiding of service needs in terms of resource allocation.

In addition to fulfilling acquittal obligations, output reconciliation data can identify possible problems, such as ineffective forecasting, service delivery liabilities accruing in DSOs (e.g. unearned income) and ongoing service delivery short-falls.

The data for this section is based on the annual individual service reconciliation. It is possible for a DSO to have a surplus on one service and a deficit on another. As such, each reported element in table 6 below needs to be read in isolation in the sense that DSOs can be double counted as they may fall into several categories. Therefore, the numbers of DSOs reported in each section do not add to the total.
The results show that the proportion of output reconciliations received has fallen slightly from 99/100 (99 per cent) to 100/103 (or 97 per cent). (Note: only organisations contracted to deliver hours of service are required to complete and submit an output reconciliation.)

As can be seen in table 6, $2.05m of surplus funds was available for redistribution at the end of the 2011 financial year as compared to $1.9m in 2010. Importantly, the Commission has allowed funded DSOs to retain $7.66m in surplus funds (created by DSO efficiencies where they have met their contracted outcomes) compared to $5.6m in 2010. This retention assists in building financial sustainability and service capacity.

Equally importantly, the number of DSOs incurring a deficit for the 2011 financial year has increased from 39 to 41 in relation to Commission funded programs only and from 24 to 27 for the same period for all activities. This data should be considered in the context of the ratio analysis data above.

A commensurate reduction in DSOs reporting surpluses in relation to Commission funded programs and across the board is also reported here and this is possibly partly caused by rising prices generally in WA and increasing acuity with regard to services required.

The number of DSOs that met or did not meet contracted outputs all increased during the 2010-11 financial year. While those exceeding contracted outputs reduced in the same period compared to the previous year. These figures, especially the not met statistics, are also reflected in the financial results reported above in the output reconciliation table and are represented by both the funds possibly able to be recovered by the Commission and those surplus funds able to be retained by the DSOs. The reduction in the number of DSOs that exceeded contracted outputs as compared to the 2009-10 financial year may have partly been the result of generally increasing operational costs in WA and generally increasing average acuity of individuals being anecdotally reported.

As noted previously, the funding surplus generated as a result of unmet contracted outputs will not necessarily be resumed by the Commission. However, consistently under-performing DSOs will be monitored and assessed during the course of the coming period.
## Annual Funded Sector Report 2010-2011

<table>
<thead>
<tr>
<th>Contractual funding for services as at 30 June 2011</th>
<th>Number of Funded Organisations</th>
<th>Total Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009-10</td>
<td>2010-11</td>
</tr>
<tr>
<td>Number of funded DSOs required to report</td>
<td>100</td>
<td>2</td>
</tr>
<tr>
<td>Number of completed output reconciliation reports</td>
<td>99</td>
<td>97</td>
</tr>
<tr>
<td>Surpluses (where reported)</td>
<td>59</td>
<td>62</td>
</tr>
<tr>
<td>Number of funded DSOs with a surplus Commission funded program/s</td>
<td>72</td>
<td>76</td>
</tr>
<tr>
<td>Number of funded DSOs with a whole of organisation surplus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficits (where reported)</td>
<td>39</td>
<td>41</td>
</tr>
<tr>
<td>Number of funded DSOs with a deficit in Commission funded program/s</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>Number of funded DSOs with a whole of organisation deficit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission surplus funds possibly able to be recovered or redistributed</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>Commission surplus funds to be retained by funded organisations</td>
<td>56</td>
<td>52</td>
</tr>
</tbody>
</table>

Table 6

1 Excludes non-recurrent grant funding and
2 Excludes State and Local Government providers
4.5 DSOs operating within funding benchmarks

As readers will be aware, the Commission funds DSOs to deliver services. In the period up to the 2010-11 financial year, the Commission calculated the funding for service delivery based on benchmarks of costs for each program. The Commission then applied these benchmark funding levels to cost service delivery where new services were purchased.

One effect of this process has been the development of a variation between the annually calculated “new” service delivery cost versus the historically identified cost implemented in previous years. DSOs will have a proportion of individuals who attract the “newest” benchmark rate. They are also likely to have a higher predominance of existing individuals attracting funding at historically set levels. This situation will then create a gap between the average rate for purchasing each iteration of service from DSOs and the benchmark rate struck for each year.

Usually, there would be a gap between the two where the average rate achieved by each DSO is less than the annually struck benchmark rate because of the historical effect of carried forward prices. However, there can be instances where DSOs report an average rate that is higher than the benchmark struck for the year. This may be because the DSO has considerable cost increases associated with service delivery; for example because it operates in a rural or

---

### Table 7

<table>
<thead>
<tr>
<th>Schedule/ program area</th>
<th>Year</th>
<th>ASP</th>
<th>Respite</th>
<th>IFS</th>
<th>Individual DPS</th>
<th>ATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Met contracted outputs</td>
<td>2009-10</td>
<td>26</td>
<td>19</td>
<td>19</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>2010-11</td>
<td>30</td>
<td>22</td>
<td>22</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Did not meet contracted outputs</td>
<td>2009-10</td>
<td>7</td>
<td>7</td>
<td>19</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>2010-11</td>
<td>9</td>
<td>11</td>
<td>19</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>Exceeded contracted outputs</td>
<td>2009-10</td>
<td>16</td>
<td>17</td>
<td>8</td>
<td>14</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>2010-11</td>
<td>9</td>
<td>10</td>
<td>6</td>
<td>11</td>
<td>13</td>
</tr>
</tbody>
</table>

Code:
- **ASP** – Accommodation Support Program
- **Respite** - Respite services
- **IFS** – Individual and Family Support
- **DPS** – Disability Professional Services
- **ATE** – Alternatives to Employment
regional area. As a result, the costs of operations might fall outside of the benchmark.

Table 8 provides benchmark rates for each of the financial years 2008-09, 2009-10 and 2010-11. The table compares these benchmark rates with the average rates which are collected from DSOs in relation to the services purchased by the Commission. It can be seen that, largely, the majority of DSOs operate at an average cost somewhat lower than the Benchmark rate and this is explained as discussed above. However, it can also be seen that there is a considerable rise in the proportion of DSOs operating within cost structures that are over the benchmark rates. This could indicate that they are delivering more services than are purchased, that they are not managing costs well or that they are operating in an environment where costs are escalating. However, DSOs that are operating above the benchmark costs may need to review their operations to ensure they are not heading toward financial difficulty.

It should also be noted that the total operating income and expenditure of the DSO is not represented here. Our analysis is only focused upon the services purchased by the Commission. As such, it could also be that other sources of income are being applied to the services to balance the income and expense elements.

As ever, these statistics should be considered by DSOs in the context of their operating environment, the full set of operations they undertake and the effects of cost increases.
<table>
<thead>
<tr>
<th>Program</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASF</td>
<td>33.00</td>
<td>34.33</td>
<td>$27.37</td>
</tr>
<tr>
<td>IFS</td>
<td>33.00</td>
<td>34.33</td>
<td>$25.42</td>
</tr>
<tr>
<td>Respite</td>
<td>33.00</td>
<td>34.33</td>
<td>$20.82</td>
</tr>
<tr>
<td>ATE</td>
<td>31.7</td>
<td>33.00</td>
<td>$34.35</td>
</tr>
<tr>
<td>PSO</td>
<td>31.75</td>
<td>33.00</td>
<td>$34.35</td>
</tr>
<tr>
<td>DPS</td>
<td>63.90</td>
<td>68.65</td>
<td>$71.63</td>
</tr>
</tbody>
</table>

**Table 8**

ATE/PSO in 2010-11 were calculated using minimum hours only.
4.6 Questions for good governance

For directors of DSOs, the following points are questions to ask or items to examine when considering the position of their DSO. Remember, it is up to the board of directors of each DSO to determine the extent to which they should respond to any information obtained as a result of raising the questions identified below or how they should interpret and use the information included in this report. It is also important to consider that the information in this report is general, high level and focused on a few key elements only. It may be that the context, position and activities of your DSO are not well served by uniform application of the ideas included herein. Additionally, the consider points below are only relevant to the discussion in this section. It might be that your DSO needs to consider broader financial issues going forward. Some consider points for this section are:

a) If we calculated the above ratios for our DSO, how do the results compare with the thoughts expressed in this report?

b) If we calculate the above ratios for our DSO, what should we include and what should we exclude from the calculation?

c) Are there other ratios, compilations of financial information or other data that we should consider in reviewing our DSO’s financial performance and financial position?

d) What action points should be implemented out of our review of financial position and performance?

e) Are there particular points of data required for directors and should there be further information provided to the board relating to the ideas introduced in this section?

f) Do we need to get advice from an accountant or other professional in terms of the position of our DSO or how we might consider the information and ideas in this report?
5. Governance and operations

The quality of DSO governance has a direct impact on the quality of service provided to service users and affects organisational effectiveness, efficiency and risk levels. The Commission monitors a range of aspects of governance at an individual DSO level and also collects information that can provide an overview of governance activity at the sector level.

This section considers data on governance attributes obtained using direct and proxy measures including an assessment of the Quality Evaluation Data and a review of the submission timeliness and content of Annual Reports.

At the highest level, the key aspects of governance assessed in this report are:

- The legal framework under which each DSO is incorporated;
- The timeliness of acquittal, financial and annual reporting, the extent of explanatory information in reports, the number of qualified audit reports and other governance data; and
- DSO’s compliance with the service standards and the number of remedial actions issued.

DSOs which are identified through these processes as likely to present business, operational or financial risk are contacted by the Commission and either monitored or asked to undertake certain remedial measures. It must be remembered though, that the Commission’s interest in relation to the governance maturity of DSOs relates to risk in terms of continuity and quality of service not in relation to the DSO per se. Therefore, those charged with governance need to consider the contents of this section but also look beyond the points of emphasis here to any governance issues and processes appropriate for each particular DSO.

5.1 A profile of governance in the funded sector

This section summarises some key data collected from Annual Reports and Schedule 5 reports. Some of this data is being reported for the first time this year and reporting of this data over subsequent years will enable the Commission to undertake a more detailed longitudinal analysis in future.
5.1.1 Entity Type

Of the 116 DSOs funded in 2010-11, the majority (88/116 or 75 per cent) were Incorporated Associations. Seven DSOs were Companies Limited by Guarantee and a further ten were structured as Proprietary Limited Companies. Additionally, there were ten for-profit entities funded by the Commission in 2010-11. Entity type impacts the DSO’s reporting requirements, auditing requirements and the extent to which regulators supervise the particular DSO. For example, Incorporated Associations in Western Australia have no particular reporting or audit requirements under statute and the regulator’s role is fairly restrictive. Whereas companies incorporated under the Companies Code are more rigorously supervised by the Australian Securities and Investments Commission (ASIC) and have more substantial reporting requirements.

Table 9

<table>
<thead>
<tr>
<th>Entity Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorporated Association</td>
<td>88</td>
</tr>
<tr>
<td>Proprietary Limited Company</td>
<td>10</td>
</tr>
<tr>
<td>Government or Local Authority</td>
<td>10</td>
</tr>
<tr>
<td>Limited by Guarantee</td>
<td>7</td>
</tr>
<tr>
<td>Not stated</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>116</td>
</tr>
</tbody>
</table>

It must also be noted that the establishment of the Australian Charities and Not-for-profits Commission (ACNC) in December 2012 will have a significant effect on the governance arrangements of charities in Australia. The majority of DSOs are charities regardless of the legislation under which they are incorporated and so the ACNC’s financial reporting standards and governance standards will most likely tighten the governance arrangements for the majority of DSOs during the course of 2013. This will provide a significant boost to risk management arrangements within the DSO sector and provide an interesting point of analysis for the 2012-13 report and onwards.

5.1.2 Timeliness of reporting

The Commission monitors the date of submission of Form 5(a) and annual reports to identify DSOs that have not submitted reports by the required date. In addition to monitoring acquittal compliance itself, this data can be used as an indicator of the quality and maturity of governance.

Timely submission of reports suggests the presence of appropriate processes for report development and submission, which in turn suggests the presence of processes for the activities which precede report submission – recording transactions, compiling data, preparing reports, subjecting reports to a review and approval cycle and so on. It is a predictor of report
### Timeliness of report and review of Annual Reports

<table>
<thead>
<tr>
<th>Reporting Attribute</th>
<th>Size of Disability Service Organisation</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small 2009-10</td>
<td>Medium 2009-10</td>
<td>Large 2009-10</td>
<td>Small 2010-11</td>
<td>Medium 2010-11</td>
<td>Large 2010-11</td>
</tr>
<tr>
<td><strong>Timeliness of reports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>By 31 October (DSC deadline)</td>
<td>21 (36%)</td>
<td>15 (27%)</td>
<td>9 (30%)</td>
<td>14 (44%)</td>
<td>8 (57%)</td>
<td>18 (100%)</td>
</tr>
<tr>
<td>By 30 November</td>
<td>21(36%)</td>
<td>-</td>
<td>12 (40%)</td>
<td>-</td>
<td>5 (36%)</td>
<td>-</td>
</tr>
<tr>
<td>By 31 December</td>
<td>9 (16%)</td>
<td>37 (69%)</td>
<td>3 (10%)</td>
<td>18 (56%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>After December 31</td>
<td>6 (10%)</td>
<td>1 (2%)</td>
<td>6 (20%)</td>
<td>-</td>
<td>1 (7%)</td>
<td>-</td>
</tr>
<tr>
<td>Did not provide information</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>58</td>
<td>54</td>
<td>30</td>
<td>32</td>
<td>14</td>
<td>18</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Qualification by Auditor</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified - Minor</td>
<td>10</td>
<td>10</td>
<td>2</td>
<td>4</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Qualified - Other</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commentary on Non-financial indicators</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaningful and or relevant information</td>
<td>23</td>
<td>17</td>
<td>10</td>
<td>8</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Little or no comment</td>
<td>34</td>
<td>34</td>
<td>20</td>
<td>32</td>
<td>1-</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 10

---

Note: The number of DSOs quoted above is less than totals reported elsewhere in this report as organisations that receive less than $35,000, are State Government Agencies or have ceased operation are not required to provide Annual Reports.
quality for two reasons: because the consistent application of rules (suggested by a focus on process) is a prerequisite for quality, and a respect for report deadlines suggests the presence of a respect for compliance across other aspects of reporting (e.g. accuracy, consistency). Of course, timing is an indicator only and not conclusive proof of governance maturity and capacity. However, this process of assessment allows the Commission to focus its review resources where they are most likely to be useful.

The data shows that large DSOs are most likely to report by the due date (100 per cent, compared to 34 per cent for medium and small DSOs) and that late reporting is strongly correlated with DSOs receiving a qualified audit report. In total 40 per cent of DSOs received a qualified audit opinion of which one was a large DSO.

Table 10 above provides information regarding the key aspects of reporting reviewed by the Commission for the 2009-10 and 2010-11 financial years. When considering the contents of this table, it is important to remember that the classifications of small, medium and large are arbitrary and likely to be allocated differently by other commentators. There is no set universal definition of small, medium and large.

Considering table 10 in terms of timeliness, it can be seen that smaller DSOs are less likely to meet the Commission’s requirements with an increase of 44 per cent of smaller DSOs but a decrease of medium DSOs missing the 31 October deadline for submission to the Commission. Displaying a marked improvement, all of the large entities reported on time in 2011.

Only one DSO failed to submit any information in 2011 and this is commensurate with the 2010 period. The Commission continues to monitor this DSO.

In terms of audit reports, no large DSOs received a qualified report for the 2011 financial year. In terms of medium DSOs, there was an increase of two DSOs receiving a qualified report making a total of five as compared to three in 2009-10. Of these, four qualifications were related to the collection of donations in door-to-door or street collection activities. It is common practice for auditors to qualify the audit reports of their clients where the client undertakes this type of activity. This is simply because the DSO has no control over sums collected until it is banked.

14 smaller DSOs submitted qualified audit reports for the 2010-11 financial year, 10 of which were related to the collection of donations while four - an increase of one from the previous year - had other qualifications. These DSOs will be reviewed by the Commission on an ongoing basis.

In terms of the quality of non-financial commentary included in the annual reports, there was a general decrease in the quantity of non-financial information being provided. While there is no standardised assessment tool for determining how meaningful the quality of the non-financial information can be rated, a reduction in the amount of information indicates a reduced focus in this area.

The provision of high quality commentary in an annual report is often used as a proxy for governance maturity within a DSO. Quality commentary is an indicator of transparency, accountability and can give a sense of the interplay between strategy, operations and the results being reported. It gives the reader a sense of the major events and contextualises financial and other statistical data.
5.2 Assessment of service standards applicable to governance

Standards 1 and 8 of the Disability Service Standards assess attributes of governance. The findings from monitoring these standards are summarised below.

5.2.1 Standard 1: Service access

The purpose of Standard 1 is ‘to ensure that each consumer seeking a service has access to a service on the basis of relative need and available resources.’

Standard 1 is underpinned by nine (9) Supporting Standards that outline the key practices that the funded DSO should have in place to achieve outcomes for individuals. This Standard is protected and achieved by good governance processes and systems that follow due diligence. This standard has also been reviewed in section 3 above.

As can be seen in table 11, the results from the Commission’s evaluation activities show that there has been a 100 per cent compliance rate with Standard 1. This is up from 98.29 per cent reported in the previous year. Notwithstanding the inability to directly compare the data as discussed variously above due to the changed methodology, this is a very positive result. It returns to 100 per cent as reported in each year prior to 2009-10.

<table>
<thead>
<tr>
<th>Number of services monitored against Disability Services Standard 1 (based on reports sent)</th>
<th>2007–08</th>
<th>2008–09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service access</td>
<td>99</td>
<td>107</td>
<td>117</td>
<td>61</td>
</tr>
<tr>
<td>Percentage of services monitored that meet the Standard</td>
<td>100.00%</td>
<td>100.00%</td>
<td>98.29%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Percentage of required actions recorded against each Standard</td>
<td>0.00%</td>
<td>0.00%</td>
<td>3.33%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
5.2.2 Standard 8: Service management

Standard 8 of the Disability Services Standards monitors the overall operational practices of funded DSOs to ensure that people receive services efficiently and effectively. This Standard focuses on governance in terms of the policies and the procedures of the DSOs. It includes supporting Standards focused on such areas as the legal and human rights of people with a disability and the provision of a safe physical environment with all relevant staff having Working with Children cards and National Police Clearances. Disability Service Standards objectives include having appropriately skilled, competent and supported staff in DSOs. They also include aspects such as the promotion of affirmative action with regard to the employment of people with a disability.

Additionally, the supporting Standards consider resource management by requesting annual reports that demonstrate individual, service and financial outcomes. These standards also highlight the need for good information to be available regarding the roles and responsibilities of the board or committee of management and for staff.

The Standard requires that:

‘Each service adopts sound management practices which maximise outcomes for consumers.’

Standard 8 is supported by underlying Standards that outline key practices the DSO should have in place to support the achievement of outcomes for individuals. The Commission considers these elements in its assessment of funded DSOs’ performance in this regard.

Notwithstanding the methodology change that prevents direct comparison against the previous years’ data, it can be seen that there has been a general deterioration in the proportion of reviewed organisations that meet this standard.

Table 12

<table>
<thead>
<tr>
<th>Number of services monitored against Disability Services Standard 8 (based on reports sent)</th>
<th>2007–08</th>
<th>2008–09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard 8: Service Management</td>
<td>206</td>
<td>212</td>
<td>190</td>
<td>61</td>
</tr>
<tr>
<td>Percentage of services monitored that meet the Standard</td>
<td>80.64%</td>
<td>77.45%</td>
<td>89.06%</td>
<td>73.33%</td>
</tr>
<tr>
<td>Percentage of required actions recorded against each Standard</td>
<td>62.35%</td>
<td>62.86%</td>
<td>35.00%</td>
<td>26.23%</td>
</tr>
</tbody>
</table>
6. Growth, learning and service development

6.1 DSO growth

Analysis of turnover shows an increase in the proportion of funded DSOs in the over $5m turnover category and a decline in funded DSOs with a turnover below $1m. This suggests a maturing of the sector and has implications for the development of more sophisticated governance requirements among the larger DSOs. The larger DSOs may also be better resourced to handle external change.

A review undertaken for the Commission by Stantons International in 2009 identified key characteristics of DSOs that require differing risk management strategies. In that report, the primary differentiating factor for DSOs was the annual turnover and the amount of funding received from the Commission.

DSOs with a turnover of between $1m and $5m are often beginning to deliver multiple service types, have a more diversified service base and workforce, more complex management and governance structures and multiple sources of funding. Anecdotally, at a turnover of $3m most DSOs require more formal management of risk, usually specifically relating to such areas as cash flow and the establishment of suitable support structures, including dedicated finance, human resources, occupational health and safety and training functions. Leadership is more widely shared among an executive team with increasingly specialised functions.

When a DSO has a turnover of $5m or more, it has usually developed support structures and may access outsourced expertise when required. The major risks for DSOs in this stage of development are the management of investments and building sufficient reserves for future growth, as well as maintaining workable case management ratios as they attempt to leverage during the growth phase. At this stage, many DSOs try to find the correct balance between autonomy and bureaucratic process. This is often resolved through establishing collaborative systems, development of strategic plans, values alignment, restructuring, more formal communications with staff and through more formal use of teams.

The percentage of total DSO income received from the Commission is discussed in Section 2 of this report. In summary, the Commission is the primary source of funding for 54 per cent of DSOs with 38 per cent receiving more than 80 per cent of total income from the Commission. Importantly, the Commission is increasingly the primary source of income for DSOs.
6.2 Investment in training

Well-governed DSOs have a philosophy and practice of continuous improvement and development. Investment in staff, volunteers and organisational skills and knowledge is fundamental to a DSOs’ long-term sustainability and reduces the risks associated with staffing, service delivery capacity and strategic management. The Commission is keen to see the funded sector have systems in place to continually improve service delivery, human resources and governance capacity.

A DSOs’ investment in training is an important indicator of maturity and sustainability. At the individual organisational level, this type of investment is not always continuous, particularly in smaller DSOs, and it has a cumulative effect. However, collectively across the sector and over time, trends in training provide information to help assess the extent to which the sector is investing in future capacity.

Information on training is sometimes provided by DSOs in their annual reports and is voluntary. The costs included can vary and may not include the cost of replacement staff, travel or incidental costs. In 2010-11 only 37 DSOs provided this data. In total, these DSOs reported spending over $735,000 on training, with the median investment at $8,500. As a proportion of income, the DSOs responding were spending either less than 0.5 per cent or between one and two per cent of income on training staff. The median investment in training from the respondent group was 0.76 per cent of income.

1 organisation was excluded from analysis as its reported expenditure of training was significantly greater than others and could not be verified for this report.
The level of this investment is likely to underrepresent the level of training undertaken as training is often subsidised or accessed free of charge. Reviewing figure 14 above, it can be seen that there has been a shift in terms of numbers of DSOs investing between one and two per cent of turnover in development.

6.3 Questions for good governance

In reviewing the information and commentary in this section, Directors might be inclined to consider their DSO’s reporting arrangements. Some consider points for directors undertaking this process include:

a) How do our stakeholders find out what we have done and how we did it during the reporting year? Are we being transparent?

b) Are we presenting a balanced view of the position and performance of the DSO? That is, not presenting a view that is liable to lead readers into false conclusions about the DSO.

c) Are we presenting information in a timely manner such that people who are interested can read it and act on it within a meaningful period?

d) Are we balancing the costs of undertaking this reporting against the benefits being accrued – for management, stakeholders and the board?