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# **National Disability Insurance Scheme**

## **Cost Model for Disability Support Workers**

**June 2019**

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## Terms that we use

|           |  |
|-----------|--|
| DSW       | Disability Support Worker  |
| CM        | Cost Model   |
| NDIA      | National Disability Insurance Agency                                   |
| NDIS      | National Disability Insurance Scheme                                   |
| NDIS Q&SC | National Disability Insurance Scheme Quality and Safeguards Commission |

## Further information

Further information on pricing in the National Disability Insurance Scheme can be found at the [NDIS website](#)

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# 1 Introduction

One of the principal objectives of the National Disability Insurance Scheme (NDIS) is for people with disability to exercise choice and control over how, and with which providers, they spend their available budgets. The role of pricing in the NDIS is therefore very important. Prices, or more precisely participants' choices in response to the prices they face in the market, reflect the preferences and relative values that different participants place on different types of supports. The aggregation of these individual responses in turn signals to providers the quantity and mix of supports to supply. Prices also affect the purchasing power of participants. Higher prices reduce the supports participants can purchase within a given support budget. Prices also affect the total costs of the NDIS and therefore its financial sustainability, and the allocation of resources to the NDIS (and therefore possible production), relative to other sectors. Pricing can also affect providers' choices, including by providing incentives: for entering the market; for upskilling and right-skilling; for innovation; and for improvements in service quality and outcomes.

As the markets for disability goods and services develop and operate more effectively, it is expected that the National Disability Insurance Agency (NDIA), as market steward for the NDIS, will be less interventional. However, deregulation will necessarily occur at different points in time for different markets and may not be feasible in some cases. Currently, the NDIA varies its approach to the regulation of prices between:

- **No regulation** (deregulated markets): this is typically used in cases where markets are highly competitive – for example, transport.
- **The imposition of price limits:** these represent a maximum allowable price payable by participants for types of supports. This approach is used in a significant number of markets, which are still developing and growing, such as those for attendant care.
- **Quotable supports:** in which participants are expected to obtain quotations from suppliers to provide to the NDIA as part of verifying that prices are fair and reasonable. This approach is typically used in the case of highly specialised, differentiated supports that may not have a high level of competition – for example, assistive technology. They are also used in cases, such as supported independent living, where a bundle of supports or quasi-outcome is being purchased. In these situations, providers have greater flexibility to adjust how they achieve the required outcomes in response to the input costs they face.

The purpose of this document is to set out the Cost Model (CM) that the NDIA uses to inform its pricing decisions for those supports delivered by Disability Support Workers (DSWs) on which it imposes price limits.

The methodology used to inform the NDIA's pricing decisions for those supports delivered by therapists on which it imposes price limits are set out in the *Review of Therapy Pricing Arrangements*.

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## 2 Disability Support Worker Cost Model

This Chapter sets out the assumptions and methodology of the Cost Model (CM) that the NDIA uses to estimate the costs to disability service providers of employing Disability Support Workers (DSWs) to deliver supports through the NDIS. The CM estimates the cost of delivering a billable hour of support taking into account all of the costs associated with every billable hour, including: base pay; shift loadings; holiday pay; salary on costs; supervision costs; utilisation (non-billable activities); corporate overheads and margin.

The NDIA recognises that providers have to employ DSWs with different skill levels and levels of experience to meet the different needs of participants. It therefore has different sets of cost assumptions for three types of workers, referred to as:

- Standard or Level 1 DSWs;
- High Intensity or Level 2 DSWs; and
- Very High intensity or Level 3 DSWs.

### 2.1 Applicable Industrial Award

The national award for DSWs is the *Social, Community, Home Care and Disability Services Industry Award 2010*.<sup>1</sup> The NDIA recognises that some DSWs are employed under Enterprise Bargaining Agreements (EBAs). However, these EBAs have to leave the worker no worse off overall than they would be under the relevant Award and, in general, any additional benefits offered by EBAs over the Award have been voluntarily agreed to by providers and are often offset by productivity gains. The NDIA therefore considers the conditions set out in the SCHADS Award to be the appropriate foundation for the CM.

**Note: the nomenclature of Level 1 DSW, Level 2 DSW and Level 3 DSW used in the CM should not be confused with the classification of workers under the SCHADS Award.**

### 2.2 Base Pay

Table 1 sets out the CMs assumptions with respect to the base pay of DSWs.<sup>2</sup>

**Table 1: NDIS DSW Levels, Assumed SCHADS Classifications and Pay Rates**

|                                   | Assumed SCHADS Classification | Award pay<br>1 December 2018 |
|-----------------------------------|-------------------------------|------------------------------|
| Level 1 (Standard) DSW            | 2.3                           | \$27.61                      |
| Level 2 (High Intensity) DSW      | 2.4/3.1                       | \$28.63                      |
| Level 4 (Very High Intensity) DSW | 3.2                           | \$29.74                      |

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<sup>1</sup> <http://awardviewer.fwo.gov.au/award/show/MA000100>

<sup>2</sup> <https://www.fairwork.gov.au/ArticleDocuments/872/social-community-home-care-and-disability-services-industry-award-ma000100-pay-guide.pdf.aspx>

## 2.3 Shift Loadings

Table 2 sets out the CM's assumptions with respect to shift loadings. These assumptions are in line with the SCHADS Award and are applied to all DSWs and supervisors in the CM. In line with SCHADS Award, the CM also provides a 17.5% loading for annual leave to compensate workers for the shifts they would have otherwise taken. The CM does not provide for any other allowances payable to DSWs.

**Table 2: SCHADS Shift Loadings**

| Shift           | Permanent Loading | Casual Loading | Difference |
|-----------------|-------------------|----------------|------------|
| Weekday         | 0.0%              | 25.0%          | 25.0%      |
| Saturday        | 50.0%             | 50.0%          | 0.0%       |
| Sunday          | 100.0%            | 100.0%         | 0.0%       |
| Public Holiday  | 150.0%            | 175.0%         | 25.0%      |
| Afternoon Shift | 12.5%             | 37.5%          | 25.0%      |
| Night Shift     | 15.0%             | 40.0%          | 25.0%      |

## 2.4 Days Worked Versus Days Paid

The CM recognises that a permanent worker works on 220 days a year, but is also paid for:

- 20 days of annual leave and 10 days of public holidays;
- Up to 10 days of personal leave – the CM assumes all workers utilise all of their personal leave entitlement each year;
- 4½ days of long service leave (if they have qualifying service) – the CM assumes 18% of permanent workers and 10% of casual workers qualify for long service leave.<sup>3</sup>

As Table 3 shows, leave costs increase the costs per billable hour of a permanent DSW on a weekday by 20.1% over the base salary rate.

**Table 3: Impact of Leave on the Cost per Billable Hour of a Permanent DSW**

|                                       | Level 1<br>DSW | Level 2<br>DSW | Level 3<br>DSW |
|---------------------------------------|----------------|----------------|----------------|
| <b>Standard Hourly Rate</b>           | <b>\$27.61</b> | <b>\$28.63</b> | <b>\$29.74</b> |
| <b>Allowance for Annual leave</b>     |                |                |                |
| a. No. hours leave in a year (hrs/yr) | 152            | 152            | 152            |
| b. Loading                            | 17.5%          | 17.5%          | 17.5%          |
| c. Proportion of leave taken          | 100.0%         | 100.0%         | 100.0%         |
| <b>Cost</b>                           | <b>\$2.95</b>  | <b>\$3.06</b>  | <b>\$3.18</b>  |
| <b>Allowance for Personal leave</b>   |                |                |                |
| a. No. hours leave in a year (hrs/yr) | 76             | 76             | 76             |
| b. Loading                            | 0.0%           | 0.0%           | 0.0%           |
| c. Proportion of leave taken          | 100.0%         | 100.0%         | 100.0%         |
| <b>Cost</b>                           | <b>\$1.26</b>  | <b>\$1.30</b>  | <b>\$1.35</b>  |

<sup>3</sup> Australian Bureau of Statistics. (2019). *Participation, Job Search and Mobility, Australia, Feb 2019*.

|  | Level 1<br>DSW | Level 2<br>DSW | Level 3<br>DSW |
|--|----------------|----------------|----------------|
| <b>Allowance for Public Holiday leave</b>          |                |                |                |
| a. No. hours leave in a year (hrs/yr)              | 76             | 76             | 76             |
| b. Loading   | 0.0%           | 0.0%           | 0.0%           |
| c. Proportion of leave taken                       | 100.0%         | 100.0%         | 100.0%         |
| <b>Cost</b>  | <b>\$1.26</b>  | <b>\$1.30</b>  | <b>\$1.35</b>  |
| <b>Allowance for Long Service leave</b>            |                |                |                |
| a. No. hours leave in a year (hrs/yr)              | 32.93          | 32.93          | 32.93          |
| b. Loading   | 0.0%           | 0.0%           | 0.0%           |
| c. Proportion of leave taken                       | 18.0%          | 18.0%          | 18.0%          |
| <b>Cost</b>  | <b>\$0.10</b>  | <b>\$0.10</b>  | <b>\$0.10</b>  |
| <b>Cumulative cost per hour, after leave costs</b> | <b>\$33.17</b> | <b>\$34.39</b> | <b>\$35.73</b> |
| Increase from permanent standard hourly rate       | 20.1%          | 20.1%          | 20.1%          |

Note: Columns may not sum due to rounding.

## 2.5 Salary On-costs

The CM recognises that providers incur other costs related to the salaries, including:

- Superannuation at the statutory 9.5% of base salary, including leave,<sup>4</sup> and
- Workers compensation insurance at 3% of base salary, including leave, which is higher than the national average for the Health and Community Services Sector of 1.5%.<sup>5</sup>

The CM does not provide for payroll tax as most jurisdictions exempt not for profit and smaller organisations from payroll tax.

As Table 4 shows, salary on-costs and the costs discussed above increase the costs per billable hour of a permanent DSW on a weekday by 35.1% over the base salary rate.

**Table 4: Impact of Salary On-costs on the Cost per Billable Hour of a Permanent DSW**

|   | Level 1<br>DSW | Level 2<br>DSW | Level 3<br>DSW |
|---|----------------|----------------|----------------|
| <b>Cumulative cost per hour, before on-costs</b>        | <b>\$33.17</b> | <b>\$34.39</b> | <b>\$35.73</b> |
| <b>Superannuation</b>                                   |                |                |                |
| Superannuation Rate (%)                                 | 9.5%           | 9.5%           | 9.5%           |
| Superannuation (\$)                                     | \$3.15         | \$3.27         | \$3.39         |
| <b>Workers Compensation</b>                             |                |                |                |
| Premium Rate (%)  | 3.0%           | 3.0%           | 3.0%           |
| Premium Cost (\$)                                       | \$1.00         | \$1.03         | \$1.07         |
| <b>Cumulative cost per hour, after on-costs</b>         | <b>\$37.31</b> | <b>\$38.69</b> | <b>\$40.19</b> |
| Cumulative increase from permanent standard hourly rate | 35.1%          | 35.1%          | 35.1%          |

<sup>4</sup> <https://www.ato.gov.au/Business/Super-for-employers/How-much-to-pay/>

<sup>5</sup> Safe Work Australia: [www.safeworkaustralia.gov.au/workers-compensation/comparing-workers-compensation-scheme-performance](http://www.safeworkaustralia.gov.au/workers-compensation/comparing-workers-compensation-scheme-performance)



## 2.6 Supervision costs

The CM recognises that DSWs require support and supervision and assumes that supervisors have the same shift loadings, leave entitlements and salary on-costs as the workers they manage, and that higher skilled workers require higher skilled supervisors. The CM also assumes a span of control (ratio of workers per supervisor) of 11 to 1. The average for the sector is reported in the most recent AbleInsight Benchmarking Survey as 9.5 to 1.<sup>6</sup>

As Table 5 illustrates, supervision costs together with the costs discussed above increase the costs per billable hour of a permanent Standard (Level 1) DSW on a weekday by 48.4% over the base salary rate.

**Table 5: Impact of Supervision on Cost per Billable Hour of a Permanent DSW**

|   | Level 1<br>DSW | Level 2<br>DSW | Level 3<br>DSW |
|---|----------------|----------------|----------------|
| <b>Cumulative cost per hour, before supervision</b>     | <b>\$37.31</b> | <b>\$38.69</b> | <b>\$40.19</b> |
| <b>Supervisor</b>                                       |                |                |                |
| Level of supervisor (SCHADS Equivalent)                 | 3.2            | 4.2            | 4.2            |
| Base Salary   | \$29.74        | \$33.92        | \$33.92        |
| Leave costs   | \$5.99         | \$6.83         | \$6.83         |
| Salary-on costs   | \$4.47         | \$5.09         | \$5.09         |
| <b>Span of control</b>                                  |                |                |                |
| Span of control   | 11             | 11             | 11             |
| Cost of supervision (\$)                                | \$3.65         | \$4.17         | \$4.17         |
| <b>Cumulative cost per hour, after supervision</b>      | <b>\$40.97</b> | <b>\$42.86</b> | <b>\$44.36</b> |
| Cumulative increase from permanent standard hourly rate | 48.4%          | 49.7%          | 49.2%          |

Note: Columns may not sum due to rounding.

## 2.7 Permanent v Casual Workers

The CM assumes that 80% of the DSW workforce is permanently employed. As Table 6 illustrates, casual loadings and the other costs discussed above increase the costs per billable hour of employing a Standard DSW on a weekday by 49.5% over the base salary rate. The impact is slightly higher for a Level 2 (High Intensity) DSW at 50.9% and for a Level 3 (Very high Intensity) DSW at 50.3%.

**Table 6: Impact of Casual Loading on the Cost per Billable Hour of a DSW**

|   | Level 1<br>DSW | Level 2<br>DSW | Level 3<br>DSW |
|---|----------------|----------------|----------------|
| <b>Cumulative cost per hour, at 100% permanent</b>      | <b>\$40.97</b> | <b>\$42.86</b> | <b>\$44.36</b> |
| Cumulative cost per hour, at 80% permanent              | \$41.28        | \$43.19        | \$44.70        |
| <b>Effect of casual loading</b>                         | <b>0.8%</b>    | <b>0.8%</b>    | <b>0.8%</b>    |
| Cumulative increase from permanent standard hourly rate | 49.5%          | 50.9%          | 50.3%          |

<sup>6</sup> AbleInsight. (2019). *Sector Summary Report: National Disability Service Providers Benchmarking Survey – Collection 3 (2017/18)*.

## 2.8 Utilisation

The CM recognises that not all working hours are billable. For example, the SCHADS Award provides that a DSW should have a ten minute paid break from work every four hours. DSWs also need to undertake training and attend to other issues. The CM assumes that higher skilled workers with more responsibilities may require more non-billable hours, to maintain their skills and deal with other issues.

The CM assumes that supervisors have the same rate of non-billable hours as DSWs.

As Table 7 illustrates, utilisation costs together with the costs discussed above increase the costs of employing a permanent Standard DSW on a weekday by 62.5% over the base salary rate. The impact is higher for a Level 2 (High Intensity) DSW at 69.5% and for a Level 3 (Very High Intensity) DSW at 71.4%.

**Table 7: Impact of Utilisation on the Cost per Billable Hour of a DSW**

|  | Level 1<br>DSW | Level 2<br>DSW | Level 3<br>DSW |
|--|----------------|----------------|----------------|
| <b>Cumulative cost per hour, before utilisation adjustment</b> | <b>\$41.28</b> | <b>\$43.19</b> | <b>\$44.70</b> |
| <b>Utilisation rates</b>                                       |                |                |                |
| Breaks   | 4.17%          | 4.17%          | 4.17%          |
| Training   | 3.29%          | 6.58%          | 7.89%          |
| Other  | 0.54%          | 0.25%          | 0.24%          |
| <b>Total Utilisation (%)</b>                                   | <b>92.0%</b>   | <b>89.0%</b>   | <b>87.7%</b>   |
| <b>Cost of utilisation (\$)</b>                                | <b>\$3.59</b>  | <b>\$5.34</b>  | <b>\$6.27</b>  |
| <b>Cumulative cost per hour, after utilisation</b>             | <b>\$44.87</b> | <b>\$48.53</b> | <b>\$50.97</b> |
| Cumulative increase from permanent standard hourly rate        | 62.5%          | 69.5%          | 71.4%          |

Note: Columns may not sum due to rounding.

## 2.9 Overheads

The CM assumes that corporate overheads are 10.5% of direct costs (all those above).

As Table 8 illustrates, overhead costs together with the costs discussed above increase the costs of employing a permanent Standard DSW on a weekday by 79.6% over the base salary rate. The impact is higher for a Level 2 (High Intensity) DSW at 87.3% and for a Level 3 (Very High Intensity) DSW at 89.4%.

**Table 8: Impact of Overheads on the Cost per Billable Hour of a DSW**

|   | Level 1<br>DSW | Level 2<br>DSW | Level 3<br>DSW |
|---|----------------|----------------|----------------|
| <b>Cumulative cost per hour, before overheads</b>       | <b>\$44.87</b> | <b>\$48.53</b> | <b>\$50.97</b> |
| <b>Overhead</b>   |                |                |                |
| <b>Overheads as a share of direct costs (%)</b>         | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   |
| <b>Cost of overheads (\$)</b>                           | <b>\$4.71</b>  | <b>\$5.09</b>  | <b>\$5.35</b>  |
| <b>Cumulative cost per hour, after overheads</b>        | <b>\$49.58</b> | <b>\$53.62</b> | <b>\$56.32</b> |
| Cumulative increase from permanent standard hourly rate | 79.6%          | 87.3%          | 89.4%          |

Note: Columns may not sum due to rounding.

## 2.10 Margins

The CM currently assumes a 2% margin on other costs. This equates to a rate of return of 8% against working capital equivalent to three month's wages and entitlements.

As Table 9 illustrates, margin costs together with the costs discussed above increase the costs of employing a permanent Standard DSW on a weekday by 83.2% over the base salary rate. The impact is higher for a Level 2 (High Intensity) DSW at 91.0% and for a Level 3 (Very High Intensity) DSW at 93.2%.

**Table 9: Impact of Margins on the Cost per Billable Hour of a DSW**

|   | Level 1<br>DSW | Level 2<br>DSW | Level 3<br>DSW |
|---|----------------|----------------|----------------|
| <b>Cumulative cost per hour, before margin</b>          | <b>\$49.58</b> | <b>\$53.62</b> | <b>\$56.32</b> |
| <b>Margin</b>   |                |                |                |
| <b>Margin as a share of other costs (%)</b>             | 2.0%           | 2.0%           | 2.0%           |
| <b>Cost of margin (\$)</b>                              | \$0.99         | \$1.07         | \$1.13         |
| <b>Cumulative cost per hour, after margin</b>           | <b>\$50.57</b> | <b>\$54.69</b> | <b>\$57.45</b> |
| Cumulative increase from permanent standard hourly rate | 83.2%          | 91.0%          | 93.2%          |

### 3 Pricing Model

In order to set price limits for 2019-20, the NDIA indexed the results of the Cost Model for costs on 30 June 2019 for the expected results of wage inflation over 2019-20.

The assumptions underpinning this indexation are set out in Table 10.

**Table 10: Indexation arrangements**

| Component   | Value       |
|---|-------------|
| <b>Labour costs</b>   |             |
| Fair Work Commission Increase to Minimum Wage (1 July 2019) | 3.0%        |
| Equal Remuneration Order (1 December 2019)                  | 2.2%        |
| <b>Total expected increase to labour costs</b>              | <b>5.3%</b> |
| <b>Capital costs</b>  |             |
| CPI   | 1.3%        |
| <b>Labour Share of costs</b>                                | <b>80%</b>  |
| <b>Total indexation (weighted average)</b>                  | <b>4.5%</b> |

Table 11 shows the CM results for the cost of supports by each DSW level and shift, and the indexed price limits for 2019-20 (without the Temporary Transformation Payment).

**Table 11: Indexed Price Limits**

| Shift           | DSW Level | Efficient Cost<br>2018-19 | Indexed Base Price<br>Limit<br>2019-20 |
|-----------------|-----------|---------------------------|--|
| Weekday         | Level 1   | \$50.57                   | \$52.85                                |
| Saturday        | Level 1   | \$69.56                   | \$72.69                                |
| Sunday          | Level 1   | \$90.45                   | \$94.52                                |
| Public Holiday  | Level 1   | \$113.24                  | \$118.34                               |
| Afternoon Shift | Level 1   | \$55.80                   | \$58.31                                |
| Night Shift     | Level 1   | \$56.84                   | \$59.40                                |
| Weekday         | Level 2   | \$54.69                   | \$57.15                                |
| Saturday        | Level 2   | \$75.24                   | \$78.63                                |
| Sunday          | Level 2   | \$97.83                   | \$102.24                               |
| Public Holiday  | Level 2   | \$122.46                  | \$127.97                               |
| Afternoon Shift | Level 2   | \$60.34                   | \$63.06                                |
| Night Shift     | Level 2   | \$61.47                   | \$64.24                                |
| Weekday         | Level 3   | \$57.45                   | \$60.04                                |
| Saturday        | Level 3   | \$79.02                   | \$82.58                                |
| Sunday          | Level 3   | \$102.75                  | \$107.37                               |
| Public Holiday  | Level 3   | \$128.63                  | \$134.42                               |
| Afternoon Shift | Level 3   | \$63.38                   | \$66.23                                |
| Night Shift     | Level 3   | \$64.56                   | \$67.47                                |