



Australian Government
Productivity Commission

National Disability Insurance Scheme (NDIS) Costs

Productivity Commission
Issues Paper

February 2017

The Commission has released this issues paper to assist individuals and organisations to prepare submissions.

It contains and outlines:

- the scope of the study
- the Commission's procedures
- matters about which the Commission is seeking comment and information
- how to make a submission.

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- the scope of the study
- the Commission's procedures
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- how to make a submission.

Participants should not feel that they are restricted to comment only on matters raised in the issues paper. The Commission wishes to receive information and comment on issues which participants consider relevant to the study's terms of reference.

Key study dates

Receipt of terms of reference	20 January 2017
Due date for submissions	24 March 2017
Release of position paper	May 2017
Final report to Government	20 September 2017

Submissions can be lodged

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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

1 What is this study about?

The National Disability Insurance Scheme (NDIS) is a new scheme designed to change the way that support and care is provided to people with profound or severe permanent disability. The scheme is currently being rolled out across Australia.

The NDIS is based on the premise that individuals' support needs are different, and those participating in the scheme should be able to exercise choice and control over the services and support they receive. The scheme is distinguished from previous approaches in a number of ways:

- it adopts a person-centred model of care and support
- it applies insurance principles to costs
- funding is determined by an assessment of individual needs (rather than a fixed budget)
- it is a national scheme.

This study is a review of NDIS costs and is to help inform the final design of the full scheme. The study will examine factors affecting scheme costs in light of the benefits and impacts of the scheme on the lives of people with disability, and Australians more generally.

Some background

In 2011, a Productivity Commission (the Commission) inquiry into the state of disability care and support services found that Australia's system of disability supports was inequitable, underfunded, fragmented, inefficient and gave people with disability little choice and no certainty of access to appropriate supports (PC 2011). The Commission recommended a new national scheme that provided insurance cover to all Australians in the event of significant disability. The recommendation was based on the finding that such a scheme would generate substantial benefits, including:

- improved wellbeing of people with disability (and their families and carers)
- better options for people with disability for education, employment, independent living and community participation
- efficiency gains and cost savings in the disability support system and savings to other government services.

The Commission's recommendations on the national scheme were largely accepted by Australian Governments. A number of agreements between the Commonwealth and State and Territory Governments allowed for the transition from the old system of disability care and support to the new NDIS. The *Intergovernmental Agreement for the NDIS Launch* was signed by the Commonwealth and all States and Territories at the Council of Australian Government meeting in December 2012 (NDIA 2013).

The NDIS was trialled from 2013 in different jurisdictions across Australia. The transition to the full rollout of the scheme began in all states and territories in July 2016, with the exception of Western Australia (which will transition from July 2017). The full scheme is scheduled to be rolled out by 2020, with the timeframes for the transition to differ across jurisdictions (figure 1). When fully implemented, the NDIS is expected to cover 460 000 people with disability (currently there are about 40 000 scheme participants) at an estimated cost of \$22 billion per year (NDIA 2016f, p. xiv, 2016l, pp. 2–3).

Figure 1 **NDIS transition arrangements by jurisdiction**

	Trial Period			Transition to Full Scheme			Full Scheme
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
NSW	Hunter area trial			Transition to Full Scheme (by region)			Full Scheme
		Early Transition in Nepean Blue Mountains area (children aged 0–17 years)					
Vic	Barwon area trial			Transition to Full Scheme (by region)			Full Scheme
Qld				Transition to Full Scheme from July 2016 (by region) Early Transition from January 2016 in Townsville, Charters Towers and Palm Island			Full Scheme
SA	Statewide trial (children aged 0–14 years)			Transition to Full Scheme (by age and region)		Full Scheme	
Tas	Statewide trial (people aged 15–24 years)			Transition to Full Scheme (by age)			Full Scheme
NT		Barkly region trial		Transition to Full Scheme (by region)			Full Scheme
ACT ^a		Territorywide trial		Transition to Full Scheme			
WA ^b	Perth Hills area trial			Transition to locally-administered NDIS			Full Scheme
	MyWay trial						

^a The Bilateral Agreement for the NDIS launch between the Australian Government and the ACT Government notes that from 2016-17 the ACT will be in ‘transition to Full Scheme’. This transition has been categorised as ‘Full Scheme’ because all residents who meet the eligibility criteria will have access to the scheme. ^b In February 2017, the Australian Government and Western Australian Government signed a bilateral agreement for a nationally consistent but locally administered NDIS.

Sources: NDIA (ndb); ANAO (2016).

About the NDIS

The NDIS operates under the *National Disability Insurance Scheme Act 2013* (Cwlth) (NDIS Act). The Act also establishes the National Disability Insurance Agency (NDIA), which has responsibility for administering the NDIS.

The NDIS funds ‘reasonable and necessary’ supports for Australians with permanent and significant disability (a disability that substantially reduces their functional capacity or psychosocial functioning). Reasonable and necessary supports are those that help participants live an ordinary life, including care and support to build skills and capability, so that they can engage in education, employment and community activities.

The NDIS also funds supports to people who meet early intervention criteria. This covers cases where early intervention can significantly improve outcomes and is cost effective. The focus on early intervention reflects the lifetime approach of the scheme (which is consistent with insurance principles).

Individuals eligible for the scheme are assessed, and individualised support packages are developed and funded for them. Access, planning and payments are managed by the NDIA. (In Western Australia, arrangements will be different to reflect a recently announced bilateral agreement with the Commonwealth, but are intended to be consistent with the NDIS (Porter, Barnett and Faragher 2017).)

Information, linkages and capacity building (ILC) services will also be provided under the NDIS from July 2017 to help all people with disability (and their families and carers) with information and referrals to community and mainstream services (including in the areas of health, education, employment, transport and housing).

Funding for the NDIS is shared by Commonwealth, State and Territory Governments.

A new approach to disability care and support

The NDIS is designed to benefit all Australians. It provides assurance to both those with a permanent disability that substantially reduces their functional capacity, and those who may acquire a similar disability in the future, that they will receive the support they require.

The NDIS is a major reform (the largest social reform since the introduction of Medicare). As the Australian Disability Discrimination Commissioner said:

The NDIS is a major social reform in Australia. ... The NDIS is about ensuring people with disability can get out and about in the community — it's about getting them to work, to school and to cafes and restaurants so they can catch up with family and friends. It's about getting people with disability being able to be part of the workforce, getting an education and spending money on food and drinks — in other words, being part of the economic, social and cultural fabric of our lives. It isn't just making life equitable for people with disability. It's also making it possible for them to participate in every-day life with their families. (McEwin 2016)

The new scheme is designed to change the way that participants and disability support providers interact, and the way that supports are funded. These changes are aimed at overcoming many of the shortcomings of the old system by taking a market-based approach (table 1). A market-based approach aims to create incentives that better provide participants with the quantity, quality and variety of services they desire in an efficient way.

Table 1 Intended effects of the NDIS in the disability services market

<i>Features of Disability Services Market pre-NDIS</i>	<i>Features of a Mature Disability Services Market</i>
<ul style="list-style-type: none"> • Largely 'block funded', with funding provided in advance of service delivery and little freedom to innovate.^a 	<ul style="list-style-type: none"> • Predominantly fee-for-service paid on invoice. In principle, prices for services are set by the competitive market, and there is innovation by service providers attracting and retaining consumers.
<ul style="list-style-type: none"> • Services often limited and priorities for families in immediate crisis, rather than for early intervention. Consumers have little control over the services they receive and limited choice of provider. 	<ul style="list-style-type: none"> • Funding to meet the reasonable and necessary support needs for each NDIS participant. Consumers have choice and control regarding the services received and providers used.
<ul style="list-style-type: none"> • The primary relationship is between the service provider and the funder, with consumers often described as 'passive' recipients of services. 	<ul style="list-style-type: none"> • The primary relationship is between the consumer and service provider. Intermediaries and access to information about provider quality, performance and pricing help consumers exercise choice.
<ul style="list-style-type: none"> • Providers are subject to various statutory provisions (at all levels of government) regarding quality. The system is complex, difficult to navigate and not well integrated nationally. 	<ul style="list-style-type: none"> • Compliance with a national quality framework. A nationally consistent and navigable system.
<ul style="list-style-type: none"> • High transaction costs for both consumers and providers. 	<ul style="list-style-type: none"> • Lower transaction costs for consumers and service providers. There is adequate depth and resilience in the market to underpin financial sustainability.

^a Block funding refers to the process where governments purchase a 'block' of services from a provider, which is to be delivered to clients who meet certain criteria, or are referred to those providers as part of an individualised plan.

Sources: Adapted from ANAO (2016, p. 20), which is based on analysis of PC (2011); NDIS (2015) and NDIA presentations on the market transition.

What has the Commission been asked to do?

In the Heads of Agreement signed by the Commonwealth and the States and Territories in 2012 and 2013, it was agreed that the Productivity Commission would review NDIS costs in 2017 to inform the final design of the full scheme, prior to its commencement.

The terms of reference for this study (attachment A), received on 20 January 2017, ask the Commission to look at:

- the sustainability of scheme costs, including current and future cost pressures, and how to manage any potential cost overruns
- whether jurisdictions have the capacity to deliver disability care and support services as the scheme expands
- how the NDIS impacts on, and interacts with, mainstream services
- whether efficiencies have been achieved within the scheme

-
- whether there are any issues with scheme design, including the application of market and insurance principles, in ensuring the best possible outcomes for people with profound or severe permanent disability
 - funding and governance arrangements, including financial contributions, risk-sharing, and the ‘escalation parameters’, which define the annual increase in funding required by different jurisdictions.

The importance of financial sustainability

The objective of the NDIS is to improve the lives not only of current scheme participants, but also future participants. This will only be the case if the scheme is financially sustainable.

Financial sustainability is also essential if scheme participants are to consistently receive reasonable and necessary care while they remain in the scheme. Cost overruns could jeopardise the level of care and support participants receive, or result in a return to some of the less desirable features of the previous system (including, for example, an inequitable rationing of support services). Cost overruns could also lead to pressure to reduce the scope and certainty of care and supports provided under the NDIS, or require governments to provide more funding at the expense of other programs.

Assessing whether or not the NDIS is financially sustainable involves examining a number of aspects of the scheme. These include:

- trends in costs and whether there are cost pressures emerging
- how the eligibility criteria and the scope of supports funded through the scheme affect costs
- how planning and assessment processes affect the quantum and quality of supports participants receive
- market responses to the NDIS, especially as the sector expands to meet the increased demand from the scheme rollout
- governance and administrative arrangements of the NDIS
- how the NDIS is paid for.

Each of these aspects is discussed (and questions are posed) in sections 2 to 7.

How can you contribute to this study?

This issues paper is intended to assist stakeholders to prepare a submission to the study. It sets out some of the issues and questions the Commission has identified as relevant at this early stage. There is no need to comment on every issue raised in this paper and participants are welcome to submit material on other issues, provided they are directly relevant to the study’s terms of reference.

The rollout of the scheme can make it difficult to separate out transitional (short term or ‘teething’) issues from the more structural (systemic) issues that could affect the financial sustainability of the scheme over the longer term. The primary focus of this study is on the structural issues.

Submissions should be provided to the Commission by **Friday 24 March 2017**. Attachment B provides further details on how to make a submission. Submissions provided to the Commission will inform a position paper that will be released in May 2017. The position paper will outline the Commission’s early thinking on the terms of reference and seek further comment. The final report will be provided to the Australian Government by 20 September 2017 and released shortly after.

2 Scheme costs

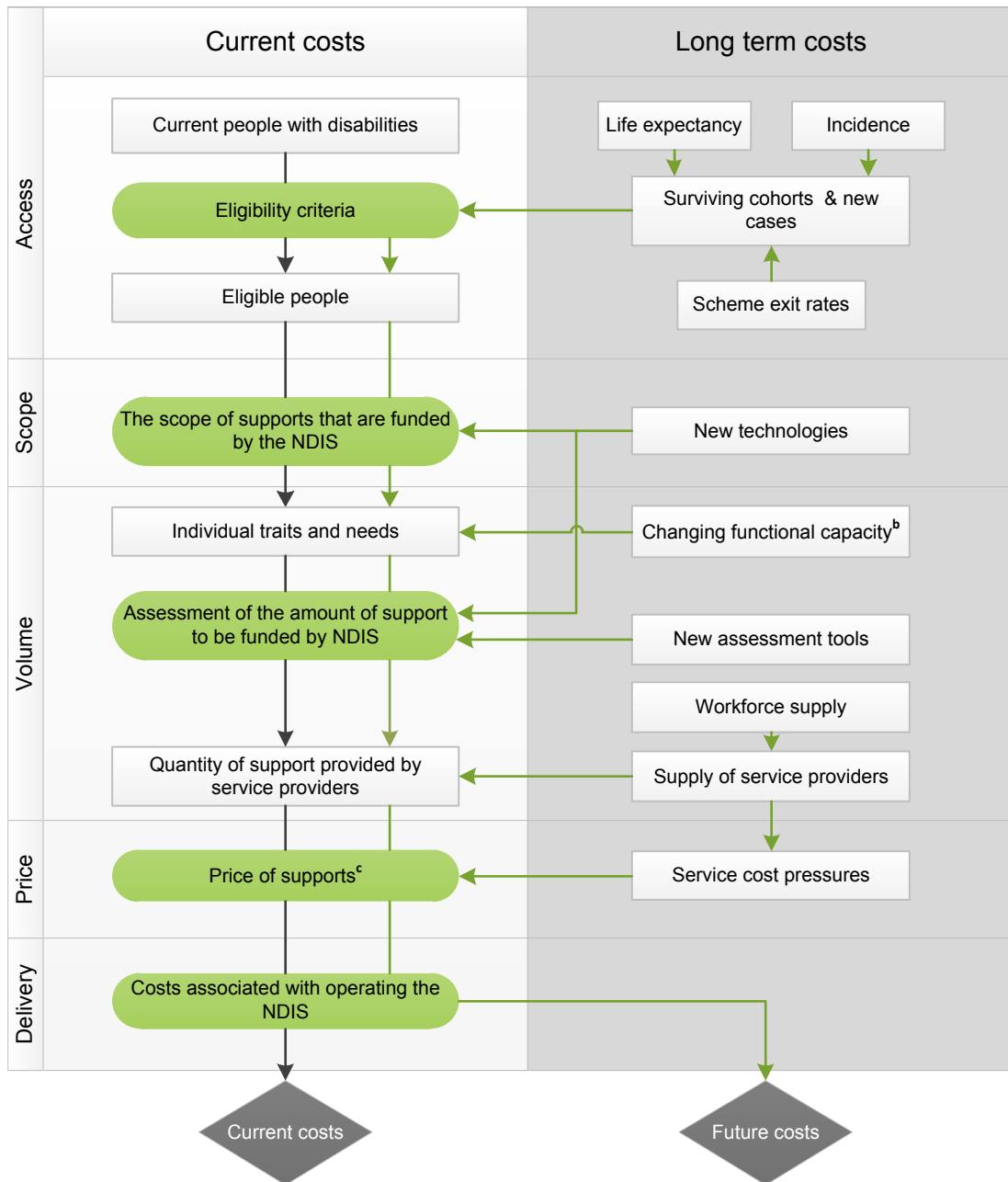
Ongoing monitoring of the drivers of scheme costs is vital for ensuring that the NDIS remains financially sustainable. It helps to identify cost pressures early so that management responses can be put in place.

The NDIA groups cost drivers into five high-level categories (figure 2):

- *access* — the number of participants in the scheme
- *scope* — the scope of supports provided to participants in the scheme
- *volume* — the quantity of supports received by scheme participants
- *price* — the price paid for supports under the scheme
- *delivery* — the costs associated with operating the scheme (NDIA 2016g).

Some cost drivers — like the assessment processes used — affect costs now, while others — such as changes in life expectancy for scheme participants or future technological advances — influence costs in the longer term. Cost drivers can also be grouped into those that governments can directly influence (for example, eligibility criteria) and those it cannot influence (prevalence of disability).

Figure 2 What drives scheme costs?^a



^a Green cells denote cost drivers that the NDIA and/or governments have direct control over. Grey cells are cost drivers that can only be *indirectly* influenced by governments. ^b This includes changes in participants' functional capacity attributable to early intervention. ^c Prices of disability supports are currently set by the NDIA. The NDIA intends to deregulate prices as the 'market matures' (NDIA 2016g).

QUESTIONS

- *Are there any cost drivers not identified above that should be considered in this study? If so:*
 - *how do they impact costs in the short and long term?*
 - *how, and to what extent, can government influence them?*
-

The experience so far

The trial phase of the NDIS — which concluded on 30 June 2016 — broadly met NDIA expectations regarding participant numbers and costs. At the end of the trial phase:

- 30 281 participants had (or have had) an approved plan
- the average annualised package cost was \$36 049 (NDIA 2016)¹
- participant numbers were 98 per cent of those anticipated (NDIA 2016f).

According to the NDIA (2016f), the scheme came in under budget — there was a surplus of around 1.5 per cent of the funding envelope over the three years of trial (NDIA 2016m). However, not all committed supports were used — the utilisation rate (the actual payments for supports as a proportion of committed support) in 2015-16 was about 70 per cent (NDIA 2016m).

In the first quarter of the transition phase, an additional 28 684 people were deemed eligible to enter the scheme (however only 7440 of these received an approved plan in the period due to delays linked to the transition to a new ICT system) (NDIA 2016f).

Future estimates — some pressures emerging

Estimating future scheme costs presents some challenges. There is information available on the number of potential participants who are currently receiving support from existing State and Territory Government programs. However, there is only survey data (which is subject to sampling error) on the number of potential participants who are not currently receiving support from government programs. Detailed data on the cost of support required by potential participants is also only available for some conditions.

The NDIA projects that by 2019-20 the NDIS will include 460 000 participants and cost about \$22 billion each year (NDIA 2016f). These projections originate from work undertaken by the Commission for its 2011 report on *Disability Care and Support*. At that

¹ This figure excludes the cost of three large residential centres — Stockton and Kanangra (in the Hunter area trial site) and Colanda (in the Barwon area trial site) — which bring together a high concentration of high-cost participants in one geographical area. The average annualised package cost rises to \$39 065 when they are included (NDIA 2016f, p. 42).

time, the Commission projected that the scheme would cover 411 000 participants and would cost \$13.6 billion (gross) at maturity. The estimates have been updated by the NDIA to include: inflation and population changes; costs associated with participants aged over 65 years (who enter the scheme prior to 65 years); and additional epidemiological data on incidence and mortality rates for different disabilities.

According to the NDIA (2016f), the projection of total scheme costs based on updating the Commission's 2011 projections remain the most reliable available. That said, the NDIA has identified some cost pressures from the trial sites that need to be managed for the full scheme going forward. They include:

- higher than expected numbers of children (especially in South Australia, Victoria and the ACT trial sites)
- increasing package costs over and above the impacts of inflation and ageing (as participants move onto their second and third plans)
- potential participants continuing to approach the scheme — the number of people approaching the scheme in some of the trial sites that have been operating since 2013 is more than would be expected if only people with newly acquired conditions were approaching the scheme
- lower than expected participants exiting the scheme (particularly children who entered the scheme under the early intervention requirements)
- a mismatch between benchmark package costs and actual package costs. There is a greater than expected level of variability in package costs for participants with similar conditions and levels of function (NDIA 2016f).

The NDIA have put in place initiatives to address these cost pressures including the Early Childhood Early Intervention (ECEI) approach, and the reference package and first plan process (NDIA 2016f) (box 1).

Box 1 **Measures to reduce cost pressures**

The NDIA has responded to cost pressures emerging from experience with the NDIS by putting in place two specific initiatives — the Early Childhood Early Intervention (ECEI) approach, and the reference package and first plan process.

The ECEI approach

The ECEI approach is designed to be a ‘gateway’ to the NDIS for children aged 0 to 6 years old. It aims to ensure that only those children who meet the eligibility criteria of the NDIS become participants of the scheme. Under the ECEI approach, families meet with an early childhood intervention service provider to discuss the needs of their child. The provider then identifies appropriate supports for the child and family, and whether the supports should be provided through the NDIS or through mainstream services.

The ECEI approach is being implemented in line with the full rollout of the NDIS.

The reference package and first plan process

Reference packages have been developed based on age, disability type and level of function. They are designed to assist with monitoring scheme experience and assessing cost pressures.

The first plan process builds on reference packages by asking participants questions across eight domains. This is used to refine the reference package and form a participant’s plan.

Sources: NDIA (2016f, 2016h).

QUESTIONS

- *Why are utilisation rates for plans so low? Are the supports not available for participants to purchase (or are there local or systemic gaps in markets)? Do participants not require all the support in their plans? Are they having difficulty implementing their plans? Are there other reasons for the low utilisation rates?*
- *Why are more participants entering the scheme from the trial sites than expected? Why are lower than expected participants exiting the scheme?*
- *What factors are contributing to increasing package costs?*
- *Why is there a mismatch between benchmark package costs and actual package costs?*

3 **Scheme boundaries**

Access to the scheme and the scope of services provided under the scheme are key components of scheme costs. These costs are driven by:

- how many people are eligible for and/or use the scheme
- the type of services that are funded through the scheme and those provided outside the scheme by mainstream services.

These considerations can be broadly described as ‘scheme boundaries’. They define who is covered by the NDIS and the nature of the supports they receive.

Eligibility for the NDIS

The eligibility criteria for the NDIS are set out in ss. 21–25 of the NDIS Act. To be eligible, a participant must meet age and residence requirements, along with either disability or early intervention requirements (figure 3).

For the most part, the eligibility criteria set out in the NDIS Act matches the recommendations of the Commission (PC 2011). However, there are two key differences:

- the extension of the disability requirements criteria to include substantially reduced functional capacity to undertake the activities of learning or social interaction (the activities proposed by the Commission were mobility, self-care, self-management, communication)
- the inclusion of children with a developmental delay under the early intervention requirements.

To access NDIS support, an individual must make an access request, either over the telephone or through submitting a form. An individual will typically need to provide evidence of their disability, which may include evidence of diagnosis from a doctor or specialist, and — depending on the condition — evidence of the condition’s impact on the functioning of the individual across the activities specified in the Act.

To streamline the process of accessing the NDIS, people receiving support under specified state and territory disability programs are generally assumed to meet the disability requirements specified in the Act.

Figure 3 An overview of the NDIS eligibility requirements

Age requirements	Residence requirements
Aged under 65	<ul style="list-style-type: none"> • Australian citizen • Permanent resident • Hold a protected special category visa
Disability requirements	
<p>Disability attributable to one or more:</p> <ul style="list-style-type: none"> • Intellectual • Cognitive • Neurological • Sensory • Physical impairments <p>Or</p> <ul style="list-style-type: none"> • a psychiatric condition 	<p>Impairments substantially reduce functional capacity or psychosocial functioning in undertaking one or more of the following:</p> <ul style="list-style-type: none"> • Communication • Social interaction • Learning • Mobility • Self-care • Self-management
The impairments are likely to be permanent	
Or	
Early intervention requirements	
<ul style="list-style-type: none"> • Has one or more identified intellectual, cognitive, neurological, sensory or physical impairments, and likely to be permanent • Has one or more identified psychiatric conditions, and likely to be permanent • Is a child who has developmental delay 	<p>The early intervention support is likely to benefit the person by:</p> <ul style="list-style-type: none"> • Mitigating or alleviating the impact of the person's impairment on their functional capacity • Preventing the deterioration of such functional capacity • Improving functional capacity • Strengthening the sustainability of informal supports available to the person, including through building the capacity of the person's carer
The early intervention support is likely to benefit the person by reducing the person's future needs for supports in relation to disability	

Source: NDIS Act.

QUESTIONS

- *To what extent have the differences in the eligibility criteria in the NDIS and what was proposed by the Productivity Commission affected participant numbers and/or costs in the NDIS?*
 - *Are there other aspects of the eligibility criteria of the NDIS that are affecting participation in the scheme (to a greater or lesser extent than what was expected)? If so, what changes could be made to improve the eligibility criteria?*
 - *To what extent is the speed of the NDIS rollout affecting eligibility assessment processes?*
-

As noted in box 1, in response to the higher than expected number of children participating in the NDIS under early intervention requirements, the NDIA has developed the ECEI approach.

QUESTIONS

- *Is the ECEI approach an effective way to ensure that those children with the highest need enter into the NDIS, while still providing appropriate information and referral services to families with children who have lesser needs?*
 - *What impact will the ECEI approach have on the number of children entering the scheme and the long-term costs of the NDIS?*
 - *Are there other early intervention programs that could reduce long-term scheme costs while still meeting the needs of participants?*
-

The intersection with mainstream services

The NDIS is intended to meet people's disability support needs, not to replace other mainstream services (including, for example, health care, aged care, education and transport). The ability of the NDIS to effectively interface with mainstream services is critical to ensuring both good outcomes for participants and the long-term financial sustainability of the scheme.

The Australian Government has entered into bilateral agreements with the State and Territory Governments to delineate the types of services to be provided and funded through the NDIS and those to be funded through mainstream services. However, poorly defined boundaries between the NDIS and mainstream services can raise the risk of gaps in services, duplication of services, and cost shifting (between agencies or governments).

QUESTIONS

- *Is the current split between the services agreed to be provided by the NDIS and those provided by mainstream services efficient and sufficiently clear? If not, how can arrangements be improved?*
 - *Is there any evidence of cost-shifting, duplication of services or service gaps between the NDIS and mainstream services or scope creep in relation to services provided within the NDIS? If so, how should these be resolved?*
 - *How has the interface between the NDIS and mainstream services been working? Can the way the NDIS interacts with mainstream services be improved?*
-

While there is the potential for service gaps to emerge at many points along the intersection between the NDIS and mainstream services, particular concerns have been raised about the interface between the NDIS and mental health services.

QUESTIONS

- *How will the full rollout of the NDIS affect how mental health services are provided, both for those who qualify for support under the scheme and those who do not?*
 - *What, if anything, needs to be done to ensure the intersection between the NDIS and mental health services outside the scheme remains effective?*
-

As discussed earlier, an important interface between the scheme and mainstream services will be the ILC component of the NDIS. The ILC aims to provide a bridging service linking people with or affected by disability to appropriate services, as well as building the capacity of the community and mainstream services to create greater inclusivity and accessibility of people with disability (NDIA 2015a). ILC will begin to be rolled out in mid-2017 and when fully rolled out will have funding of around \$132 million (NDIA 2016f).

Under the ILC, organisations will be able to lodge an expression of interest for funding for a particular activity, which may or may not be funded after a full assessment process. The ILC has five identified focus areas:

- specialist or expert delivery
- cohort-focused delivery
- multi-regional activities
- remote or rural delivery
- delivery by people with disability for people with disability (NDIA 2016c).

Local area coordinators (LACs) also act as an interface between people with disability, the NDIS and mainstream services. The role of LACs include providing information and linkages to mainstream services for all people with disability, and helping NDIS scheme

participants develop and implement their plans. LACs are available where the scheme has been rolled out.

QUESTIONS

- *Is the range and type of services proposed to be funded under the ILC program consistent with the goals of the program and the NDIS more generally?*
 - *What, if anything, can be done to ensure the ILC and LAC initiatives remain useful and effective bridging tools between services for people with disability?*
 - *Is the way the NDIS refers people who do not qualify for support under the scheme back to mainstream services effective? If not, how can this be improved?*
-

The intersection with the National Injury Insurance Scheme

In its 2011 report, the Commission also recommended the establishment of a National Injury Insurance Scheme (NIIS) to provide lifetime care and support to people who suffer catastrophic injury from a motor vehicle accident, workplace accident, medical treatment or general accident.

The development of the NIIS has been agreed to by all States and Territories and is proposed to provide fully-funded care and support for all new catastrophic injuries on a no-fault basis.

While a national initiative, the NIIS is proposed to be an amalgam of State and Territory schemes. Progress operationalising the NIIS varies across the States and Territories. Currently no jurisdiction operates NIIS in full as envisaged by the Commission (PC 2011).

Once fully operational, the NIIS is to operate separately to the NDIS and be fully funded through premiums, levies and other contributions. Until the NIIS is fully established, the needs of some individuals who acquire a disability through a catastrophic accident will be met through the NDIS, with cost implications for the scheme. These can be reasonably expected to recede once the NIIS is fully operational.

QUESTIONS

- *How will the NIIS affect the supply and demand for disability care services?*
 - *What impact will the full establishment of the NIIS have on the costs of the NDIS?*
 - *Are sufficiently robust safeguards in place to prevent cost shifting between the NIIS and the NDIS?*
-

4 Planning processes

The quantity of supports received by participants is another key driver of costs. These are driven by the planning process. Robust planning processes and assessment tools, and sufficiently skilled and impartial planners, are therefore important for the ongoing financial sustainability of the scheme.

For each NDIS participant, a plan is prepared in conjunction with the participant and approved by the NDIA (box 2). The planning process involves:

- preparing a statement of the participant’s goals and aspirations
- assessing how the participant is performing in different areas of their life and identifying areas where the participant requires support
- putting together a plan, including a support package, to help the participant progress towards their goals.

Plans also specify when or under what circumstances they will be reviewed.

Each plan is prepared through conversations between the participant (or their nominee) and an NDIA representative. For most people, their first plan is completed over the phone (NDIA 2016b).

Box 2 What is included in a participant’s plan?

A participant’s plan must include:

- a statement of goals and aspirations, prepared by the participant, that specifies:
 - the participant’s goals, objectives and aspirations
 - information about the participant, including their living arrangements, informal and other community supports, and social and economic participation
- a statement of participant supports, prepared with the participant and approved by the NDIA, that specifies:
 - the general supports (such as coordination, strategic or referral services or activities) that will be provided by the NDIA
 - the reasonable and necessary supports that will be funded under the NDIS
 - information about the review and management of supports and the plan.

Sources: NDIS Act; NDIA (2016a).

QUESTIONS

- *Is the planning process valid, cost effective, reliable, clear and accessible? If not, how could it be improved?*
 - *How should the performance of planners be monitored and evaluated?*
-

Assessment tools

As part of determining a support package, the NDIA must identify the participant's strengths and capacity, and assess their 'activity limitations, participation restrictions and support needs arising from [the] participant's disability' and the 'risks and safeguards in relation to the participant' (*National Disability Insurance (Supports for Participants) Rules 2013* (Cwlth) r 4.1). In considering these matters, the NDIA is to use appropriate tools, as specified in the NDIA's operational guidelines (rr 4.2, 4.4).

To ensure the sustainability of scheme costs, it is important that assessment tools are:

- *valid* — the tools should test what they purport to and provide a basis for accurately identifying the nature, frequency and intensity of a person's support needs. Assessment tools that are not appropriate could threaten scheme sustainability.
- *reliable* — the tools should yield consistent measures across time, individuals and situations; results should not be influenced by when or where the assessment is undertaken, who is undertaking the assessment, and the identity of the individual *per se*.
- *accurate* — the tools should reduce the risk that assessors and individuals overstate or understate their support needs.
- *efficient* — an efficient tool is one which collects sufficient information to assess support needs in the least costly manner (PC 2011).

Assessment tools also need to be continually monitored and refined to ensure they remain in line with scheme objectives and keep pace with evolving best practice and community expectations.

QUESTIONS

- *Do NDIA assessment tools meet these criteria? What measures or evidence are available for evaluating the performance of assessment tools used by the NDIA?*
 - *What are the likely challenges for monitoring and refining the assessment process and tools over time? What implications do these have for scheme costs?*
-

Creating a support package

As part of their plans, participants may be provided with general supports (such as strategic or referral services or activities that will be provided by the NDIA) as well as the reasonable and necessary supports that will be funded under the NDIS. Clear and effective criteria for determining participant supports is essential not only for regulating the value of support packages across participants and managing scheme costs overall, but also for ensuring equity between participants and maintaining the credibility of, and community support for, the scheme as a whole.

A new approach to planning

Increasing package amounts (over and above the impacts of inflation and ageing) have been identified by the NDIA as a source of cost pressures in the scheme (NDIA 2016f).

To better align support packages with participants' level of function and need, the NDIA has adopted the 'first plan process', which is a top-down or budget-based approach to developing support packages (NDIA 2016e). The value of each participant's support package is developed using reference packages (box 1), which are adjusted to meet the individual support needs of participants (NDIA 2016f).

Other criteria for supports

The NDIS Act (s. 34) specifies criteria for determining whether a support (including general supports and reasonable and necessary supports) may be included in a participant's plan. This includes whether the support:

- will assist the participant in achieving their stated goals and aspirations
- will facilitate the participant's social and economic participation
- represents good value for money
- will (likely) be effective and beneficial for the participant
- is most appropriately funded or provided through the NDIS.

The *National Disability Insurance Scheme (Supports for Participants) Rules 2013* (Cwlth) provides additional rules and guidance for deciding what supports may be included.

Reasonable and necessary supports

Reasonable and necessary supports are funded under the NDIS. The NDIS Act (s. 4) states that reasonable and necessary supports should:

- support people with disability to pursue their goals and maximise their independence
- support people with disability to live independently and be included in the community as fully participating citizens
- develop and support the capacity of people with disability to undertake activities that enable them to participate in the community and in employment.

The types of supports that the NDIS may fund include: assistance with daily personal activities and household tasks; therapeutic supports; mobility equipment; home and vehicle modifications; and services that enable employment and participation in community and social activities (NDIA ndc).

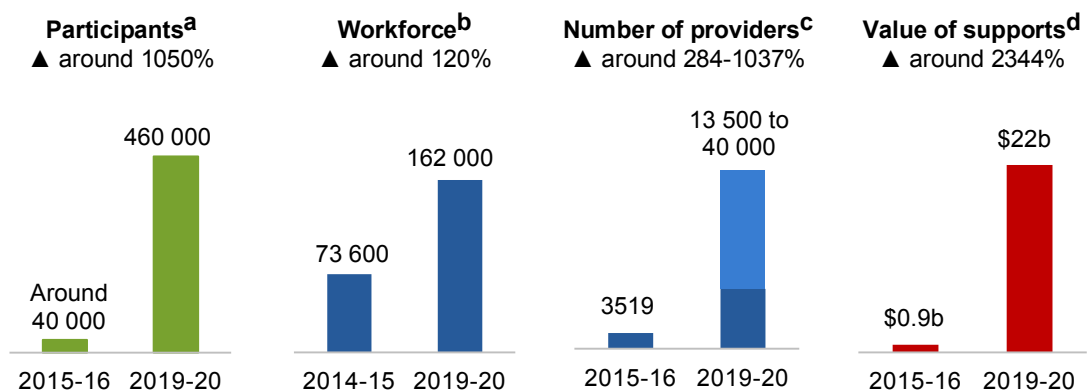
QUESTIONS

- Are the criteria for participant supports clear and effective? Is there sufficient guidance for assessors about how these criteria should be applied? Are there any improvements that can be made, including where modifications to plans are required?
- To what extent does the NDIA’s budget-based approach to planning create clear and effective criteria for determining participant supports? To what extent does it lead to equitable outcomes for participants? What improvements could be made?
- What implications do the criteria and processes for determining supports have for the sustainability of scheme costs?
- Are the avenues for resolving disagreements about participant supports appropriate? How could they be improved?

5 Market readiness

Scheme costs will also depend, in large part, on the readiness of the disability care and support sector to meet the demand for supports as the scheme expands to full rollout. Figure 4 shows the scale of expansion expected in overall (or ‘gross’) terms — it is, however, important to note that many participants and providers will be transitioning from existing disability care and support programs into NDIS-funded supports. A better understanding of the challenges that the disability care and support workforce, providers and participants may face as the NDIS is rolled out will assist the Commission in its review of scheme costs.

Figure 4 Demand, supply and funding are to grow significantly



^a Scheme participants with an approved plan. ^b On a full-time equivalent basis. ^c Providers registered with the NDIA. ^d Committed supports.

Sources: Commission estimates based on ANAO (2016), NDIA (2016I) and NDIS (2015).

Will the workforce be ready?

The disability care and support workforce is broad-ranging — covering in-home carers to allied health professionals. The full rollout of the NDIS will require substantial growth across all areas of the disability care and support workforce in the coming years. As put by the former Chairman of the NDIA board:

The workforce opportunities and challenges as a result of the introduction of the NDIS are very significant. It is expected that the NDIS will generate between 60,000 and 70,000 new jobs on a full-time equivalent basis over the next three years. This represents about 20 per cent of the total number of new jobs forecast to be created in Australia over this period. (Bonyhady 2016, p. 5)

Understanding the nature of the challenges that will affect the expansion of the workforce, and how they will affect wages, costs and service delivery, is particularly important for this study.

Some of these challenges include:

- *Difficulties in recruiting staff for disability care and support roles.* There is some evidence that providers are finding it more difficult to recruit staff. For example:
 - 26 per cent of firms specialising in disability support surveyed by the Department of Employment in 2014 stated that they would often employ staff considered not to be qualified or experienced (Department of Employment 2014).
 - Nearly half of the firms surveyed by National Disability Services (NDS) in 2015-16 stated that it was extremely or moderately difficult to attract disability support workers in general (NDS 2016). And more than half of the firms said that they had difficulty recruiting speech therapists, occupational therapists and psychologists — a theme that is consistent in qualitative interviews undertaken in a separate evaluation of NDIS services (Mavromaras, Moskos and Mahuteau 2016; NDS 2016).
- *Some jurisdictions have greater capability to meet workforce targets than others.* For example, Northern Sydney and Eastern Adelaide already have more than 80 per cent of the expected workforce needed for the full operation of the NDIS, whereas South-Western Sydney, Southern Melbourne and Beenleigh in Queensland presently have less than 40 per cent of the expected workforce needed (NDIA 2016j, 2016n, 2016o, 2016p). This could suggest that workforce readiness for the full NDIS will be patchy, and that some regions may struggle to be ready even over the long term.
- *Reducing the burden on informal carers will affect the need for formal carers.* The value of care provided by informal carers is significant, with the replacement value in 2015 estimated to be about \$60 billion (Deloitte Access Economics 2015). To the extent that the caring load of informal carers is reduced, the NDIS may have to pay for additional formal carers to make up the shortfall, which will have a bearing on costs. This also raises questions about whether other means to encourage and support informal carers would help to maintain the financial sustainability of the scheme.

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- *An ageing population will reduce supply and increase demand for carers.*
 - The incidence of disability increases with age, and so an ageing population will require more disability carers. The aged care sector is also likely to demand more carers as the population ages. This will lead to greater competition with the disability care sector and potentially lead to higher wages, and greater scheme costs.
 - Carers — both formal and informal — are older than the general population, on average (Deloitte Access Economics 2015; Martin and Healy 2010). Many formal carers are approaching retirement age and will need to be replaced. Similarly, increasing numbers of informal carers, as they age, may be unable to provide care for family members or friends with a disability, and will need to be replaced by formal carers (PC 2011, p. 705). In either case, additional carers may be needed *beyond* those anticipated by the scheme, which may increase costs.

While the required expansion of the workforce is considerable, there are a number of factors that could help the workforce to be ready. These include:

- improving the attractiveness of caring occupations
- extending existing part-time and casual carers hours
- making greater use of technology to fill roles/tasks undertaken by workers, or making workers more productive
- making greater use of skilled migration to fill persistent workforce gaps.

QUESTIONS

- *What factors affect the supply and demand for disability care and support workers, including allied health professionals? How do these factors vary by type of disability, jurisdiction, and occupation? How will competition from other sectors affect demand (and wages) for carers? What evidence is there from the NDIS trial sites about these issues?*
 - *How will an ageing population affect the supply and demand for disability carers (including informal carers)?*
 - *Is increasing the NDIS workforce by 60 000-70 000 full time equivalent positions by 2019-20 feasible under present policy settings? If not, what policy settings would be necessary to achieve this goal, and what ramifications would that have for scheme costs?*
 - *How might assistance for informal carers affect the need for formal carers supplied by the NDIS and affect scheme costs?*
 - *To what extent is the supply of disability care and support services lessened by the perception that caring jobs are poorly valued? If such a perception does exist, how might it best be overcome?*
 - *What scope is there to expand the disability care and support workforce by transitioning part-time or casual workers to full-time positions? What scope is there to improve the flexibility of working hours and payments to better provide services when participants may desire them?*
 - *What role might technological improvements play in making care provision by the workforce more efficient?*
 - *What are the advantages and disadvantages of making greater use of skilled migration to meet workforce targets? Are there particular roles where skilled migration would be more effective than others to meet such targets?*
-

Will providers be ready?

Transition to the full rollout of the NDIS depends partly on the ability of disability providers to supply the goods and services demanded by scheme participants. The ability of providers to supply the supports demanded will affect the quantity, price, quality and responsiveness of supports, and therefore the costs (and benefits) of the scheme. While the development of the sector has been described as being ‘on track’ (JSCNDIS 2015, p. 77), stakeholders have identified issues that may present a risk to readiness, including:

- *The price cap set by the NDIA may not be attractive to providers — currently, the NDIA sets maximum and benchmark prices for some supports and services, which are intended to be value for money for participants and to reflect the efficient price in a competitive market (NDIA 2016k). These prices will be gradually deregulated in the full scheme as the market matures. However, there are questions about the adequacy of prices to reimburse existing providers for the costs of providing supports (NDS 2016).*

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- *The small size of many providers* — providers may find it difficult to maintain or increase the scale/range of supports to match expected demand in the full scheme. Their long-run financial viability may also be affected (Martin and Healy 2010; Mavromaras, Moskos and Mahuteau 2016; NDS 2016).
 - *The move from block-funding to fee-for-service* — previously, providers received government funding *before* providing certain supports in ‘bulk’ to participants (table 1). Now, providers must claim reimbursement from the NDIA *after* providing individualised supports to scheme participants. The NDS (2015, p. 17) stated that ‘the majority of not-for-profit disability service providers report insufficient cash flow required to transition to the NDIS’. Providers may also incur transition costs to restructure and adapt their business to the market (such as expenses relating to pricing, IT, accounting, marketing and individualised supports).
 - *Barriers to entry* — some of the increased supply will need to come from new providers entering the disability market before the full scheme rollout (NDIA 2016i; NDIS 2015). However, the NDIA (2016i, p. 9) noted that there are ‘high costs to enter the marketplace’, which may include regulatory costs (such as registration costs for a working with children check) and require investment in infrastructure. Concerns have also been raised about the quality of services provided by new entrants (NDS 2016).
 - *In-kind services*² — Commonwealth and State/Territory Government programs under existing block-funding arrangements will continue to exist until the full scheme rollout, at which time state and territory-funded services will be withdrawn. It is unclear how these arrangements will affect the transition by existing providers, market entry (NDIA 2016i), the quality of supports (Mavromaras, Moskos and Mahuteau 2016) and scheme costs.
 - *Thin markets* — markets with insufficient demand and high costs of supply may result in an under- or a complete lack of supply of supports, which leads to unmet demand. Thin markets may arise in a number of circumstances, including:
 - rural and remote areas
 - scheme participants with costly, complex, specialised or high intensity needs
 - scheme participants with culturally and linguistically diverse needs, and Aboriginal and Torres Strait Islander Australians.
 - *Effect of competition on not-for-profit providers* — some supports were previously supplied in collaborative and co-operative arrangements (as well as via volunteering or fundraising); however, these may be reduced, provided less efficiently or withdrawn in a market.

² Before the NDIS was established, States and Territories paid for providers to deliver services to people with disabilities. In some situations, States and Territories continue to pay for these services directly and NDIS participants will continue using these services. These pre-paid supports and services are called ‘in-kind’. (NDIA 2016d, p. 1)

QUESTIONS

- *Are prices set by the NDIA at an efficient level? How ready is the disability sector for market prices?*
 - *How do 'in-kind' services affect the transition to the full scheme and ultimately scheme costs?*
 - *What is the capacity of providers to move to the full scheme? Does provider readiness and the quality of services vary across disabilities, jurisdictions, areas, participant age and types/range of supports?*
 - *How ready are providers for the shift from block-funding to fee-for-service?*
 - *What are the barriers to entry for new providers, how significant are they, and what can be done about them?*
 - *What are the best mechanisms for supplying thin markets, particularly rural/ remote areas and scheme participants with costly, complex, specialised or high intensity needs? Will providers also be able to deliver supports that meet the culturally and linguistically diverse needs of scheme participants, and Aboriginal and Torres Strait Islander Australians?*
 - *How will the changed market design affect the degree of collaboration or co-operation between providers? How will the full scheme rollout affect their fundraising and volunteering activities? How might this affect the costs of the scheme?*
-

Will participants be ready?

For many participants entering the NDIS, the ability to exercise choice and control over the quantity and scope of supports will be a new experience that will provide them with freedom, dignity and a better quality of life. For some, entering the scheme, determining a plan of supports, finding providers, and negotiating services will be daunting and difficult, and perhaps especially for self-managed participants.

The response to these challenges could have a bearing on scheme sustainability, both in terms of costs and the wellbeing of participants. If participants find it difficult to negotiate the right individualised supports, then the insurance approach of the NDIS will be undermined — if participants get the wrong supports at the wrong time, scheme costs would be expected to increase. Alternatively, if participants find it difficult to find providers and negotiate services, then this could lead to underutilised supports, which would improve the bottom line of the scheme, but could have ramifications for the wellbeing of participants and future scheme costs.

QUESTION

- *How well-equipped are NDIS-eligible individuals (and their families and carers) to understand and interact with the scheme, negotiate plans, and find and negotiate supports with providers?*
-

6 Governance and administration of the NDIS

Hundreds of thousands of Australians will use the NDIS at any one time when it is fully rolled out, at a projected cost of tens of billions of dollars. With so much at stake, the governance arrangements, and the way the scheme is administered, matter (even small improvements in the scheme's administration could deliver better outcomes for participants and substantial savings). As the Commission said in its 2011 report:

Measures to underpin good governance will be critical to the ability of the NDIS to provide services to people with disabilities over the long term. (PC 2011, p. 401)

The governance model for the NDIS is outlined in the NDIS Act. As a nationally based scheme with governance and funding shared amongst all governments, oversight of the NDIS is comprehensive.

The scheme is administered by the NDIA (except in Western Australia). The NDIA accepts and manages all funds contributed by the Commonwealth and States and Territories, administers access to the scheme and approves the payment of individualised support packages. Any disagreement with a decision of the NDIA can be pursued through the Administrative Appeals Tribunal.

The NDIA summarises its performance (and its plans for the future) in a series of quarterly reports, annual reports and Corporate Plans to an independent Board appointed by the Commonwealth Government. This Board is advised by the National Disability Insurance Scheme Independent Advisory Council (NDIA nda).

The relevant Commonwealth Minister is responsible for administering the NDIS Act, and exercises statutory powers (with the agreement of the States and Territories), including the power to set the NDIS Rules and direct the NDIA. However, more broadly, policy issues are determined by the Standing Council on Disability Reform — a Ministerial Council consisting of the Treasurers and Ministers for Disability from the Commonwealth, States and Territories (NDIA nda).

Independent of the NDIA's formal chain of oversight, there is also a Joint Standing Committee on the National Disability Insurance Scheme tasked with examining the implementation, performance, governance, administration and expenditure of the NDIS as well as any other aspects of the scheme referred to it by the Parliament.

While many Commonwealth and State and Territory programs will be incorporated into the NDIS (along with their funding), there are other sources of support for people with disability. The Department of Social Services (DSS) and a range of departments from the States and Territories augment the NDIS (and the work of the NDIA) in a number of ways. DSS administers the disability support pension and offers some complementary services such as the Carers' Gateway and disability employment services. As noted above, State and Territory governments provide mainstream services and offer support to those unable to access the NDIS. They also play a role in regulating, and ensuring the quality of, the suppliers that enter the market.

QUESTIONS

- *Do existing administrative and governance arrangements affect (or have the potential to affect) the provision of services or scheme costs? What changes, if any, would improve the arrangements?*
 - *To what extent do the reporting arrangements help to achieve the financial sustainability of the scheme? Are they too onerous or do they need to be expanded?*
 - *Does the way that the NDIA measures its performance affect the delivery of the NDIS?*
 - *To what extent do the existing regulations provide the appropriate safeguards and quality controls? Can these arrangements be improved?*
 - *Are there appropriate and effective mechanisms for dealing with disputes with the NDIA?*
-

The NDIA uses a small percentage of the funds allocated to the NDIS to cover the costs of administering the scheme. According to Bruce Bonyhady:

... [t]he Agency has been set an operating cost target of 7 per cent of total scheme costs at full scheme. This would represent an administrative cost that is well below usual insurance scheme benchmarks of around 10 per cent. (2016, p. 6)

The risks associated with devoting too many or too few resources to the administration of the NDIS may not be symmetric. While a generous operating budget could be wasteful, insufficient funds could curtail the NDIA's ability to deliver the scheme efficiently (and result in higher package costs).

QUESTIONS

- *Is the NDIA's target for operating costs (as a percentage of total costs) achievable? Is it practical? Should it vary over the life of the scheme?*
-

One of the roles of the NDIA is to provide market stewardship (oversight of the development of the NDIS marketplace). According to the NDIA's *Market Approach Statement of Opportunity and Intent*, this involves:

- enabling existing and emerging suppliers to mature at an appropriate and sustainable rate
- providing an environment for innovation in planning and delivery of supports
- building strong business integrity systems and processes and capability (NDIA 2016i).

NDIA's market stewardship role is also supported by other Commonwealth and State and Territory Government initiatives. For example, the DSS administers the Sector Development Fund — a \$149 million grant program for initiatives aimed at developing markets in the sector (among other things).

While the NDIA typically does not supply any supports (participants deal directly with their supplier of choice, sometimes with the guidance of a LAC or a disability service organisation), it has been suggested that, as the scheme scales up, the NDIA might need to act as a provider of last resort for communities where the market is thin (NDIA 2016f).

QUESTIONS

- *How appropriate, effective and efficient are the market stewardship initiatives?*
 - *Is there likely to be a need for a provider of last resort? If so, should it be the NDIA? How would this work?*
-

7 Paying for the NDIS

The Heads of Agreement between the Commonwealth and State and Territory Governments outline how the jurisdictions will work together to deliver the NDIS. These agreements typically include the amounts each government will contribute. During the transition, the Commonwealth Government will cover 40.6 per cent of the costs for participants under 65 years, and 100 per cent for non-Indigenous participants 65 years and over (and, in some cases, for Indigenous participants over 50 years) who decide to remain in the scheme (NDIA 2017). The state or territory covers the remainder. For the full scheme, each agreement puts a value on what each state or territory will contribute, with the Commonwealth responsible for the balance, including 100 per cent of the cost overruns (NDIA 2017).³ The agreements also typically state that administrative costs of the scheme will be borne in their entirety by the Commonwealth government.

³ While the Heads of Agreement notes that the Productivity Commission will undertake a review of scheme costs in 2017 and acknowledges that this may result in changes to the way that this risk is apportioned, it also states that the Commonwealth is committed to accepting a minimum of 75 per cent of the cost overruns (NDIA 2017).

State and Territory contributions to the full scheme can include in-kind services. These sometimes take the form of large capital investments (like large residential centres or group homes) made prior to the NDIS. The State or Territory usually retains policy and administrative control over these services, including any decision to replace them with a financial contribution. (Over time, and as these assets age, there is an expectation that they will be phased out.)

The agreements also specify how the contributions to the full scheme will vary over time in response to changes in economic conditions and demographics. Every year after the commencement of the full scheme, the State or Territory's contribution will be increased by 3.5 per cent — a figure derived from a combination of several macroeconomic indicators or 'escalation parameters' (NDIA 2017).

Western Australia's transition agreement with the Commonwealth differs substantially from those of the other States and Territories. While it is intended to provide similar supports as the national scheme, the Western Australian version of the NDIS will be run by a local agency (rather than the NDIA). This agency will bear the administrative costs of the scheme in Western Australia and share any underspends with the Commonwealth. Responsibility for cost overruns will also be shared (with the Commonwealth picking up 25 per cent). The details of the full scheme arrangements are not yet available.

Funding for the Commonwealth's NDIS obligations comes from a number of sources. Some funds were redirected from the Commonwealth disability service programs supplanted by the NDIS. This is augmented by a 0.5 per cent levy on taxable income imposed by the Commonwealth Government from 1 July 2014. Some of the proceeds of this levy are returned to the States and Territories, with the balance used to fund the Commonwealth Government's obligations. Surpluses in the early years of the scheme are directed into a special fund — the DisabilityCare Australia Fund — for the purpose of partially offsetting future funding shortfalls.⁴

Estimates from DSS suggest that, from 2019-20, the 0.5 per cent increase in the Medicare levy will cover around 30 per cent of the Commonwealth's NDIS obligations, raising the possibility that in the subsequent years, the NDIS may increasingly rely on general revenue for it to be fully funded (SCALC 2016).

The Commission (PC 2011), examined a number of ways of paying for the NDIS and concluded that one of the major risks with the hypothecation of a tax (or levy) was that most were too small to cover the NDIS's outlays over time. The Commission argued that the scheme was best funded out of general revenue and according to an agreed formula entrenched in legislation.

⁴ A bill establishing a second fund — the National Disability Savings Fund — is currently before the Parliament. The purpose of this fund is to quarantine any underspends on the early years of the NDIS and any hypothecated budget savings. Currently underspends are returned to general revenue.

QUESTIONS

- *Does the current funding split between the Commonwealth and the States and Territories have implications for the scheme's sustainability? Does it affect the NDIA's capacity to deliver disability care to scheme participants at the lowest cost? Are there any changes that could be made to the funding split that would either improve the financial sustainability or the efficiency of the scheme?*
 - *What proportion of a state or territory's contribution to the NDIS are in-kind services? Are there risks associated with in-kind service contributions?*
 - *What are the implications of the current risk sharing arrangements? Do they encourage either cost shifting or overruns? What, if any, improvements could be made to the current risk sharing arrangements?*
 - *How is the 3.5 per cent increase in a state or territory's contribution to the full scheme calculated? Is this reasonable? Will it skew the balance of the funding over time? If so, what are the implications? Is there a better way to index contributions?*
 - *How will Western Australia's agreement with the Commonwealth Government affect scheme costs?*
 - *Is there a better way of paying for the NDIS? For example, would it be better to fully fund the NDIS out of general revenue?*
-

Towards a financially sustainable future

The financial sustainability of the NDIS has been at the forefront of policy makers' minds, including at the scheme's conception (PC 2011), inception (NDIS Act) and implementation (NDIA 2016f). According to the NDIA's *Insurance Principles and Financial Sustainability Manual*, a financially sustainable scheme is one in which:

- the scheme is successful on the balance of objective measures and projections of economic and social participation and independence, and on participants' views that they are getting enough money to buy enough goods and services to allow them reasonable access to life opportunities — that is, reasonable and necessary support; and
- contributors think that the cost is and will continue to be affordable, under control, represents value for money and, therefore, remain willing to contribute. (NDIA 2015b, p. 23)

Based on this definition, achieving financial sustainability requires continuous monitoring of both participants' outcomes and costs.

As is the case for insurance schemes more generally, in order to achieve financial sustainability, actuarial analysis — ensuring that long-run scheme revenues are aligned with scheme costs — plays an important role in monitoring and managing the financial sustainability of the scheme. This is the purview of the NDIA's Scheme Actuary, in accordance with the standard set by the Board. To provide an external and independent

check on this process, the NDIS Act also provides for a Reviewing Actuary (currently the Australian Government Actuary).

An important part of managing risks to the scheme's sustainability is acting early. However, the fact that the Agency is funded on an annual basis may constrain its ability to make the substantial investments necessary to defray costs in the future.

In looking at the costs of the NDIS and the financial sustainability of the scheme, the Commission is mindful that these must be considered in the context of the substantial benefits that the scheme provides — including the welfare of people with disability and their carers, and insurance for the broader population. Many of the benefits are non-monetary and therefore not easily weighed against the costs. But they make a significant difference to the lives of many Australians and their importance should not be understated.

QUESTIONS

- *How should the financial sustainability of the NDIS be defined and measured?*
 - *What are the major risks to the scheme's financial sustainability? What insights do the experiences from the trial sites provide on potential risks in the context of financial sustainability? How might the NDIA address these risks?*
 - *Does the NDIA's definition of financial sustainability have implications for its management of risk? Are there risks that are beyond the NDIA's remit?*
 - *How does the NDIA progress from identifying a risk to managing it through changes in the delivery of the scheme? Are there any barriers to the NDIA doing this effectively?*
 - *Are there changes that could be made to improve the NDIA's management of risk? Should more details about the NDIA's risk management practices be publicly available?*
 - *Does funding the NDIA on an annual basis affect its management of risk?*
 - *Are there other ways the scheme could be modified to achieve efficiency gains and reduce costs?*
 - *What are the likely longer-term impacts of any cost overruns? How should any cost overruns be funded?*
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Attachment A: Terms of reference

REVIEW OF NATIONAL DISABILITY INSURANCE SCHEME COSTS

I, Scott Morrison, Treasurer, pursuant to Parts 2 and 4 of the Productivity Commission Act 1998, hereby request that the Productivity Commission (the Commission) undertake a study into the National Disability Insurance Scheme (NDIS) costs.

Background

The Heads of Agreement between the Commonwealth and the States and Territories (States) on the NDIS stated that the Commission would undertake a review of scheme costs in 2017. This review is intended to inform the final design of the full scheme, prior to its commencement.

Scope of the study

The Commission should address the following issues identified in the Heads of Agreement for the review of scheme costs:

- the sustainability of scheme costs;
- jurisdictional capacity;
- cost pressures (including wages pressures);
- changes in the agreed escalation parameters;
- if efficiencies have been achieved within the scheme;
- whether there has been any impact on mainstream services; and
- examine the most appropriate levers to manage any potential cost overruns.

In addressing these issues, the Commission should consider:

- a) Commonwealth and State funding and governance arrangements for the NDIS, including financial contributions and risk-sharing;
- b) the interaction with, and role of, other services in meeting reasonable and necessary support for people with severe and profound disability; and
- c) whether there are any issues with the scheme's design, including the application of market and insurance principles, in ensuring the best possible outcomes for people with severe and profound disability.

In conducting the analysis, the Commission should take into account its 2011 report into disability care and support and subsequent agreements between governments for the implementation of the NDIS. The Commission will be provided with all the data on scheme rollout it considers necessary for the analysis.

Process

The Commission is to consult broadly, including with the Australian, State and Territory Governments.

The Commission will report within eight months of receipt of the terms of reference, or by 15 September 2017, whichever is later.

Scott Morrison
Treasurer

[Received 20 January 2017]

Attachment B: How to make a submission

How to prepare a submission

Submissions may range from a short letter outlining your views on a particular topic to a much more substantial document covering a range of issues. Where possible, you should provide evidence, such as relevant data and documentation, to support your views.

Generally

- Each submission, except for any attachment supplied in confidence, will be published on the Commission's website shortly after receipt, and will remain there indefinitely as a public document.
- The Commission reserves the right to not publish material on its website that is offensive, potentially defamatory, or clearly out of scope for the inquiry or study in question.

Copyright

- Copyright in submissions sent to the Commission resides with the author(s), not with the Commission.
- Do not send us material for which you are not the copyright owner — such as newspaper articles — you should just reference or link to this material in your submission.

In confidence material

- This is a public review and all submissions should be provided as public documents that can be placed on the Commission's website for others to read and comment on. However, information which is of a confidential nature or which is submitted in confidence can be treated as such by the Commission, provided the cause for such treatment is shown.
- The Commission may also request a non-confidential summary of the confidential material it is given, or the reasons why a summary cannot be provided.
- Material supplied in confidence should be clearly marked 'IN CONFIDENCE' and be in a separate attachment to non-confidential material.
- You are encouraged to contact the Commission for further information and advice before submitting such material.

Privacy

- For privacy reasons, all **personal** details (e.g. home and email address, signatures, phone, mobile and fax numbers) will be removed before they are published on the website. Please do not provide a these details unless necessary.
- You may wish to remain anonymous or use a pseudonym. Please note that, if you choose to remain anonymous or use a pseudonym, the Commission may place less weight on your submission.

Technical tips

- The Commission prefers to receive submissions as a Microsoft Word (.docx) files. PDF files are acceptable if produced from a Word document or similar text based software. You may wish to research the Internet on how to make your documents more accessible or for the more technical, follow advice from Web Content Accessibility Guidelines (WCAG) 2.0<<http://www.w3.org/TR/WCAG20/>>.
- Do not send password protected files.
- Track changes, editing marks, hidden text and internal links should be removed from submissions.
- To minimise linking problems, type the full web address (for example, <http://www.referred-website.com/folder/file-name.html>).

How to lodge a submission

Submissions should be lodged using the online form on the Commission's website. Submissions lodged by post should be accompanied by a submission cover sheet.

Online* <http://www.pc.gov.au/inquiries/current/ndis-costs>

Post* Review of NDIS Costs
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2600

* If you do not receive notification of receipt of your submission to the Commission, please contact the Administrative Officer.

Due date for submissions

Please send submissions to the Commission by **24 March 2017**.