National Disability Insurance Scheme (NDIS) Costs: Submission to the Productivity Commission

27 March, 2017

House with No Steps (HWNS) has been a strong supporter of the National Disability Insurance Scheme since the early days of the “Every Australian Counts” campaign. We still are. The NDIS is a vital social reform that will enable many Australians with a disability, along with their families and carers, to achieve an acceptable quality of life and increased inclusion in their local communities and mainstream Australian society.

In July 2013, HWNS was one of the first organisations to support people to enter the NDIS, in the Hunter region of NSW. Today, HWNS supports over 900 people with NDIS plans across NSW, Qld, the ACT, Victoria and Tasmania.

We welcome the opportunity to provide brief comments in response to the February 2017 Productivity Commission Issues Paper on National Disability Insurance Scheme (NDIS) Costs. We note at the outset that we have reviewed a late draft of National Disability Services’ submission to the Commission. We have drawn on that submission and endorse most its comments and conclusions.

General Comments

It is vitally important that the NDIS is implemented in a sustainable and impactful manner, with each taxpayer dollar leveraged efficiently and effectively for maximum positive impact. We do not want to end up with a more expensive but still broken service delivery system that is, as the Productivity Commission famously reported in 2011, “inequitable, underfunded, fragmented, inefficient and [giving] people with disability little choice and no certainty of access to appropriate supports”.

The National Disability Insurance Agency’s current focus on driving a transactional, disaggregated, commoditised market model is flawed. Left unchecked, it will lead to fragmented service delivery, a lack of investment, a lack of innovation (other than in lower-cost business models), higher-than-necessary total Scheme costs, a loss of social capital, an inadequate and poorly trained workforce and reduced choice and control for participants. This list of descriptors is disturbingly similar to the adjectives used by the Commission in 2011.

The disability support “market” is not a normal or “perfect” market in classical economic terms. It is about providing a range of customised supports, human and technological, paid and unpaid, to meet complex and often poorly-defined human needs and wants. Outcomes are often hard to measure and report. Information is unbalanced. Regional, rural and remote markets are “thin”. The “buyers” of services and their local situations are diverse and heterogeneous, not homogeneous. Many are vulnerable.

Rather than creating an environment where individual scheme participants make (or are supported to make) personally-optimising decisions about the nature, price and source of supports they receive within agreed parameters, choice and control is being taken away from participants by a combination of centralised planning processes that disregard the importance of employment, mandatory service disaggregation and an input-based price list that restricts investment and innovation and is driving existing NFP service providers either out of the market or towards low-skill, casualised labour force models.

We submit that this approach will reduce the average quality of future outcomes and increase their cost. Incentives and the capacity to invest in skill development and technical innovation are essential ingredients in the creation of an efficient and effective future disability support market, but are noticeably absent from the current market design.

A lower-cost “labour hire” model of support may be an important element of the future disability services market, but it should not be the only viable game in town. A “one size fits all” approach to service delivery is inadequate.

We wish to flag four areas of particular concern:

1. Commoditised input pricing
2. Transition issues
3. Unfunded pre-planning support
4. Lack of employment support and future employment model clarity.

Commoditised input pricing

Unfortunately, the NDIA has tended to disaggregate support services into transactional components and cap prices for the most common components at unrealistically low levels, in the apparent hope that competitive market forces will cause sufficient low-cost suppliers to enter the market, bypass Award provisions and keep prices low. This transactional approach is flawed and will destroy social capital.

For example, the Interchange Host Program is predicated on host families supporting children with autism over many years on a voluntary basis. This gives families and children a much-needed break and builds social connections and social capital for all concerned. HWNS provides this service in Victoria. This low-cost, high-value program only requires volunteer recruitment, training, safeguarding and matching costs to be funded. The standard NDIA response to such a scheme is that it should be converted to a series of individual paid transactions, with participants purchasing supports on a transactional basis out of their funding packages. This approach costs far more in total than the volunteer-based scheme and destroys much of the relational benefit and social capital the program creates. A similar argument applies to transport, where individualised approaches typically cost more than shared models.

Every organisation has a responsibility to manage and invest to improve effectiveness and efficiency. We do not shy away from this obligation and do not believe that taxpayer funds should be used to prop up inefficient operations or practices. This is especially the case in disability services, where the NDIS, technical and social advances are rendering existing business models, processes and practices obsolete. But optimal efficiency and effectiveness does not automatically equate to a stripped-down business model with minimal management, administration, quality systems and staff development.

HWNS is investing to reengineer its business models and improve productivity. Despite these initiatives, at current NDIS pricing we lose money on every hour of flexible support and most hours of centre-based support we provide. By contrast, we are typically able to provide more intensive supported accommodation services sustainably at the current prices negotiated with the NDIA (not necessarily benchmark prices), as long as we minimise vacancies in shared supported accommodation settings. Service Providers now carry the significant financial risk of vacancies under the NDIS. This risk was previously carried by governments.

Our conversations with other organisations and our peak body NDS suggest that many service providers are in a similar position regarding flexible supports and centre-based services. Our frustration is that this pricing is relatively easily and transparently modelled in an Award environment. Such modelling, if publicly shared, would move the discussion from the inadequacy of a “black box” number to an informed discussion around cost drivers such as staffing mix, management spans of control and overhead levels. We understand such modelling has been carried out by the NDIA and independent actuaries and, if so, do not understand why the output of those modelling exercises has not been made public or reflected in NDIA pricing. Our analysis suggests that the current one-to-one support base price of $42.79 in NSW is about 10% below a sustainable level for an efficient organisation that invests in a permanent/casual mixed workforce with adequate quality management, safeguarding, systems and training.

This financial drain is impacting NFP service providers like HWNS, at the same time as they are seeking to build working capital to support customer and NDIA payments in arrears and invest in business process and systems renewal.

In the search for viability, many existing organisations are considering adopting a casualised or sub-contract, low-skilled (or previously-trained) workforce model in lieu of a permanent workforce. This transfers the cost and risk of non-billable hours, illness, training and the like to the employee or subcontractor. While this approach suits some participants and workers, it has clear negative implications for the level of skill applied to support activities and the longevity of participant and support worker relationships. In the longer term, it will result in a lower-skilled, lower-paid workforce and an unattractive disability services labour market. Employees wanting permanent roles and ongoing careers will seek substitute employment options. Employers wanting to invest in a skilled workforce will be driven out of business. The gap between labour supply and the demand for services will widen.

HWNS has chosen not to pursue the subcontractor approach. Instead, we are maintaining a balance of permanent full-time, part-time and casual employees and continuing to invest in staff training. We are confident many current and prospective customers will choose us, but are not yet permitted to charge a fair price that reflects our investments in excellence and outcomes measurement, irrespective of customer choice and preference. This position is not sustainable.

We call on the NDIA to urgently adopt reasonable fact-based benchmark prices; sensibly deregulate pricing; introduce safeguards to protect the very small number of participants who may be disadvantaged by poor supplier behaviour; and give NDIS participants greater choice and control over the services they access within their agreed funding envelope. Genuine consumer empowerment and choice is a more effective antidote to poor service practice than centralised, expensive constraints applied across the board.

Given the NDIA’s slow engagement on pricing, the suggestion of an independent pricing authority has merit.

As NDS states in its draft submission:

> *"The NDIS needs to be delivered within a $22 billion per annum budget, but it can't be delivered on current pricing. Inadequate pricing threatens to erode service quality, cause market failure and reduce consumer choice. While Government needs to retain control over the total budget, centrally determining prices that adequately reflect the diversity and complexity of circumstances in which services are provided is inherently difficult.*
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> *In NDS's view, the solution requires: setting individualised NDIS budgets based on realistic (evidence-based) prices and allowing providers and participants to negotiate and agree on the actual prices charged. This is already the practice in community aged care and for NDIS participants who self-manage; it should be extended more broadly across the NDIS."*

We concur.

Transition issues

A broad range of transition issues is negatively impacting Scheme participants and NFP service providers and further stretching scarce service provider resources. Whilst problems are inevitable given the scale and pace of the NDIS implementation, the number of road humps and the slow progress in rectifying them is deeply frustrating, particularly as many of the issues were flagged in advance as potential problems by the service provider community.

These transition issues include:

- Poor and variable planning processes, resulting in acknowledged poor plan quality
- Lengthy delays in plan finalisation
- High plan rework rates
- A failed portal implementation (still not effectively addressed)
- Delays in the development of a consistent national quality and safeguarding framework (announced, but still nowhere near implementation). This leaves organisations like HWNS managing multiple quality, compliance and accreditation requirements and systems across multiple jurisdictions
- Lack of clarity about the boundaries between health, education, justice, child protection and NDIS supports
- Lack of real consultation by the NDIA with service providers (we have never been formally consulted on any matter, despite being one of the largest providers nationally)
- Confusion over the role and value-add of Local Area Coordinators (slowly improving)
- Communication barriers around finalised plans (we may not know for weeks or even months that someone we support now has a plan)
- Lengthy delays in finalising non-standard and complex plans, particularly around supported accommodation
- Lengthy delays (potentially months) with NIDA-made service bookings for supported accommodation

- Complexities around the withdrawal of state-based funding (often block funding) at the commencement of a participant's NDIS plan
- The lack of an overarching data architecture governing information access, ownership, security and transparency to support the new disability "marketplace".

We do not wish to dwell on these transition issues here, other than to note their cumulative negative impact on service provider costs and resources and hence the importance for them to be addressed quickly and well.

Unfunded pre-planning support

As noted above, the Scheme has aggressive ramp-up targets. These are putting pressure on the NDIA's capacity to develop quality plans for participants. Unfortunately, the need to achieve high growth in participant numbers appears to be outweighing considerations of plan quality and consistency.

In our experience, most prospective Scheme participants with an intellectual impairment (and their family members, when involved) do not feel confident engaging with the NDIA planning process and are not well prepared to do so. Without pre-planning support, the incidence of inappropriate and inadequate "First Plans" is high, with consequent negative impact on participant outcomes.

Hence, participant pre-planning support is vital, but is a further unfunded cost burden on NFP service providers.

Effective pre-planning is time-intensive. It involves developing a deep understanding of a person's circumstances, needs and desired life outcomes; and then working to document those needs and outcomes, often with supporting evidence from independent experts such as medical practitioners, psychologists and behavioural specialists.

HWNS has chosen to support many prospective participants in this way, leveraging our "About Me" tool, at a significant cost. As a For-Purpose organisation, we see this as a necessary investment in the wellbeing of people with a disability, but not as a good financial investment. Low service delivery margins mean that the costs of pre-planning support (and if necessary plan appeal support) are often not recovered if and when service delivery commences.

Lack of Employment support and future employment model clarity

The economic justification for the NDIS is predicated on an increase in the employment participation of people with disability and carers.

Disturbingly, this economic underpinning is at risk. According to the NDIS 2015/16 Annual Report, the pilot of the Outcomes Framework indicated that only 13% of respondents felt the NDIS had helped with employment; and according to the January 2017 NDIS COAG Disability Reform Council Quarterly Report only 2% of committed supports were for employment in the first two quarters of the 2016/17 financial year.

Our experience at HWNS is consistent with this data. NDIS planners and Local Area Coordinators (LACs) in general appear to have little knowledge about the available employment options and little interest in assisting participants to include employment supports in their NDIS plans. We are seeing very few plans with employment support components, other than employment in an ADE, which is in itself declining as some planners actively discourage participants from including ADE employment in their plans and instead encourage greater social and recreational activity support.

The reluctant conclusion we draw from this data and our experience is that many planners are ill-equipped to help participants with employment support, or disinterested in doing so. The former suggests systemic failure, the latter reflects implicit discrimination against people with a disability who are able to work but apparently aren't considered worthy to do so. Either is unacceptable.

We submit that people with a disability who are able to work should be subject to the same level of participation requirements as other Australians of working age. The NDIS should not fund social and recreational activities for someone who is able to work productively but chooses not to as a matter of personal preference.

The broader policy settings around employment supports for people with a disability require clarification. For example, it is problematic for HWNS to invest in plant and equipment upgrades for its ADE businesses when the future shape and level of funding is unknown once the transitional NDIA funding arrangement based on the Department of Social Services' Disability Maintenance Index (DMI) concludes. Clearer employment pathways are required, from school-based vocational training support, work experience and work skills development onwards.

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