# Workshop with Secretaries on the NDIS
# Background briefing

## Brief History

In July 2011 the Productivity Commission recommended that governments introduce a National Disability Insurance Scheme (NDIS). It described the old disability welfare model, as 'underfunded, unfair, fragmented and inefficient, and gives people with a disability little choice and no certainty of access to appropriate supports'.

The Productivity Commission also concluded that the economic benefits of the NDIS would exceed its costs and that the NDIS would add 1% to GDP, making it an economic reform as well as a social policy reform.

Prior to the introduction of the NDIS, from the early 1990s, government spending on disability had been increasing by 7-8% a year, in real terms. At the same time, there were few positive outcomes for recipients. The reason is that the increased funding was largely absorbed by crisis support as the propensity of the community to provide informal care declined and people with disability were living much longer.

Before the NDIS about 80% of care for people with disabilities was provided informally, so a one percentage point drop in informal care translated into a 5% increase in demand for services from governments. The Productivity Commission described this as a 'death spiral': the old system was literally collapsing under the weight of its own inefficiencies and was financially unsustainable.

In 2012 PricewaterhouseCoopers (PwC) built on the wok of the Productivity Commission, utilising modelling it had undertaken for NSW and which led NSW to increase disability spending very significantly under a program called 'Stronger Together'. PwC estimated that in the absence of the NDIS, the cost of disability services nationally would increase to $35-45 billion (in 2010 dollars) by 2035. This is two to three times the expected cost of the NDIS, which aims to achieve a stable cost as a proportion of GDP, and is estimated to cost approximately $22 billion (in 2019/20 dollars) at full Scheme.

Essentially, the NDIS is designed to get ahead of these demographic and social trends, which are ongoing. Taking an insurance approach and increasing short-term investment are designed to mitigate overall cost escalation and achieve more sustainable and improved long-term outcomes, which will be better for people with disability, their families and carers and the nation's finances.

In just two years, since the trials began, we are already seeing anecdotal evidence that these benefits are beginning to be realised, through greater independence of participants, and hence lower future support needs, and increased community and economic participation.

Another key aspect of the Scheme is that it is based on 'control and choice'. Participants in the Scheme receive individualised funding tailored to their 'reasonable and necessary' needs, rather than the government procuring designated services from disability support providers. The participants are then able to purchase the services that best meet their needs. Each participant is therefore able to maximise their utility from the funds they receive, while over time this market-based approach will drive increased effectiveness and efficiency. The NDIS is therefore closely aligned and in fact is leading the Harper Review and its principles of contestability.

Following the Productivity Commission Report, the Commonwealth and States spent two years debating, refining, testing and ultimately introducing the NDIS. As part of this very careful and detailed process, the cost projections were reviewed and confirmed by the Australian Government Actuary (AGA), who is now the Scheme Reviewing Actuary.

To commence the task of building the NDIS, the NDIS Transition Authority was established as a division of the Department of Social Services (DSS, then FaHCSIA) in late 2012. The legislation, the *National Disability Insurance Act 2013* (the NDIS Act) and the Scheme Rules were agreed in May 2013.

On 1 July 2013 the Transition Authority evolved into the National Disability Insurance Agency (NDIA), when the NDIS trials commenced and the NDIA Board was appointed for three years from that date.

There are now seven trial sites (the Hunter region of NSW, the Barwon region of Victoria, 0-14 year olds in SA, 15-24 year olds in Tasmania, the ACT (all of the Territory), Perth Hills in WA and the Barkly region of the NT. In addition, on 1 July 2015, commencement of transition to full scheme commenced in NSW in Nepean-Blue Mountains.

These trials are very important. They provide an opportunity to test the Scheme design and operations; inform the optimal transition path as the old systems are different in each jurisdiction; and, verify the actuarial estimates of full scheme costs, as the Productivity Commission and AGA estimates were based on sample data.

The trials so far have been very successful. They are on time, on budget and generating a very high level of participant satisfaction and as at 30 June 2015:

- 19,817 participants were eligible for the scheme (107% of the bilateral target) and 17,303 participants had an approved plan (94% of the bilateral target).
- Considering the number of participants who have entered the scheme and distribution of packages committed to these participants, the scheme is within the full scheme funding envelope.
- Participant satisfaction is high at over 90% (1.63 on a scale of -2 to +2).

The trial phase is due to be completed on 30 June 2016, when transition to full scheme will commence. This will be a further major undertaking, because it is expected that about 430,000 participants will enter the NDIS during transition, compared with about 30,000 in the trial period.

In addition to the NDIA Board, the governance arrangements include the COAG Disability Reform Council, the Commonwealth Board chaired by the Secretary of DSS, the NDIS Group in DSS and the Joint Standing Committee (JSC) plus numerous scheduled reviews.

Clearly risks remain, especially for the Commonwealth Government which is on risk for cost over-runs. However, considerable comfort should be taken from the very extensive and detailed work over a period of 6 years by the Productivity Commission, governments and now the Agency; the results of the trials to date; and the culture of performance and learning which is now embedded in the Agency.

The NDIS has met every challenge to date and is being well managed, well governed and is on-track to being implemented successfully.

## Part 1 – Scheme Cost Drivers and Controls

### Key design principles

Key objectives and design principles for the Scheme include:

1. Choice and Control
   - The NDIS provides each participant with an individualised package which is flexible in choice of supports and providers.
   - The design of the scheme is consistent with the move to consumer directed services as recommended by the Harper Review (Competition Policy Review).
     - Control and choice means that we satisfy individual utility functions.
   - The NDIS is the major stimulus for a competitive, diverse and innovative services market (broader than just disability).
   - Evidence from other jurisdictions (and limited Australian experience) demonstrates that people with Individual Support Packages (ISPs):
     - overall make good choices
     - achieve better outcomes, and
     - take more responsibility for prudent fund management.

2. Community Connection –Information Linkages and Capacity Building (ILC)
   - ILC provides support to people with disability outside of individualised funding through sustaining informal support, linking to mainstream support and building community support.
   - ILC is a key foundation on which the scheme sustainability is being built. If ILC supports are too weak then people will become more disabled and enter the Scheme at a later point, at a higher cost. A weak ILC will also undermine the equity of the NDIS between those 'just in' and 'just out' and also the culture of the NDIS, if it forces people to prove how disabled they are to get the supports they need.
   - ILC helps to manage costs by reducing the overall number of people who receive funded packages in the medium to long term (noting that the Productivity Commission estimated a long tail of potential participants with low support needs with 55% of participants expected to be in the three lowest support categories representing 12% of the costs and who might receive an individual package or be more efficiently supported through the ILC).

3. Learn-Build Approach

- To ensure both sustainability and quality, the NDIS is being built to be agile, flexible and able to respond to the changing needs and life circumstances of participants.
- It is therefore important the Agency is accordingly responsive, which is why the platform of "learn, build" has been developed.
- The "learn-build" approach sees evidence inform design. This is a key principle which governs the evolution of the scheme.

### Financial sustainability and insurance principles

The NDIS is underpinned by an insurance-based approach which is supported by robust actuarial data and analysis to ensure financial sustainability. The insurance approach is embedded in both legislation and key Agency operational documentation.

4. The Insurance Approach
    - Invests in people to achieve outcomes that increase independence, economic participation and community participation.
    - Good outcomes lead to fiscal benefits from:
        - reduced future care cost (balance sheet effect)
        - reduced income support, Disability Support Pension, carer pension, carer allowance
        - increased taxation revenue
        - reduced expenditure in primary, acute and sub-acute health care where people with disability are over represented
        - reduced expenditure in the criminal justice system where people with intellectual and cognitive disability are significantly overrepresented
    - The McClure investment approach is being tested through the NDIS and early results are positive. The welfare reform arrangements will draw on this experience.

5. Dealing with a Demand Driven Scheme
    - The framework legislation and NDIS Rules mean that cost controls are highly reliant upon NDIA Operational Guidelines. A risk which requires close monitoring is if these are ever found to be outside of legislative power. So far reviews by the Administrative Appeals Tribunal have been very few in number and reaffirmed Agency decisions.
    - The Agency guidelines impose controls on:
        - Access
        - Scope
        - Volume
        - Delivery
        - Price
    - Cost risks are currently being managed, but exposure is ever present. Key areas to monitor include:
        - Workforce and supply shortages that could drive up costs and impact on scheme price
        - Scope creep arising from cost shifting by State/Territory services (eg health)
        - Increasing prevalence for autism and development delay
    - Costs are currently based on 100% utilisation of packages. Actual utilisation will be lower. The Agency predicts around 95%.

6. Monitoring and managing financial sustainability
    - A number of tools have been developed to monitor and manage scheme financial sustainability based on an insurance principles approach.
    - The prudential control cycle:
        - Sets baseline assumption and projections
        - Monitors of experience compared with expectations
        - Investigates emerging trends and experience, and
        - Adjusts scheme parameters including operational guidelines and resets assumptions and projections going forward.
    - New tools built by the NDIA include:
        - Reference packages which provide an expected annual funding level for participants with similar support needs and characteristics (for example characteristics include age, disability and severity of disability). Reference packages assist with equitable resource allocation at an individual and sub-group level.
        - Benchmarking the incidence and severity of disabilities against the WHO Disability Assessment Schedule 2.0 (WHODAS), which provides a framework to investigate divergences, especially the distribution of severity and hence costs.
        - Outcomes framework that measures the outcomes of NDIS participants (and their families/carers) compared with other Australians, and how this changes over time. The outcomes framework is specific to different age groups. The adult domains are choice & control, daily activities, relationships, home, health and wellbeing, lifelong learning, work, and social, civic & community participation.
        - The lifetime cost estimator which allows Agency staff to compare the impact of different models of support on the lifetime cost of the participant. For example, investing to assist a participant to get a job, or increase their independence can result in lower care and support costs in the future and hence a lower overall lifetime cost.
    - Other analysis:
        - Trial site comparison - a detailed comparison of trial sites is undertaken including comparison of the prevalence of participants in trial sites by age group and disability, and the types and quantity of supports in participant packages.
        - Full scheme cost projection - trial site experience is used to develop analysis which considers participants in the scheme to date and their costs, and potential participants who might still enter the scheme using other sources of data. This information is then used to estimate what the cost of the trial site would be at full scheme.
        - Planner portfolio tool - detailed operational reporting is undertaken at the individual participant plan level. Outliers are flagged and sent to trial sites for clarification. This also allows variables to be reviewed regularly by senior management. For example, the Agency is currently reviewing delays in plan implementation, differences between first and second plans, deviation from the reference packages.

## Part 2 – Governance and Transition

### Current governance arrangements

The Productivity Commission recommended the NDIS be a national model, because people with disability wanted an end to the "post-code" lottery arrangements of the previous welfare model and certainty of portability of benefits throughout Australia. As with health and other key services, people with disability should be able to broadly expect to get access to the same supports irrespective of where they live. This was not the case in the old system, which was federated, disparate and inequitable.

The NDIS Act establishes the NDIA, which has statutory responsibility for delivering the NDIS. The function and powers of the Agency are prescribed by the NDIS Act.

The Agency is overseen by a Board, and is governed by *the Public Governance, Performance and Accountability Act 2013*. The Board has responsibility for ensuring the proper, efficient and effective performance of Agency functions, and determining objectives, strategies and policies to be followed by the Agency. The Agency's governance structure also includes an Independent Advisory Council which provides advice to the Board on how the Agency is delivering the scheme.

The Board is required to ensure the sustainability of the scheme, and there are many of references to this in the legislation. This is also reflected in the Strategic Plan and Corporate Plan.

The Board reports to Commonwealth and state and territory government shareholders through the Council of Australian Governments (COAG) Disability Reform Council (CDRC).

1. Managing transition risks
   - There are a number of key risks during the transition period. These include:
     - Inflation as demand outstrips supply
     - Outsourcing of Local Area Coordination
     - ICT system implementation
     - Insufficient flexibility between Tier 2 and Tier 3
     - Too much focus on driving down administration costs which are projected to be world best-practice at 7%
   - The Agency is managing risk through:
     - Designing a strong service delivery operating model which triages intake and assessment of support needs
     - Delivery of an eMarket model which will facilitate an informed market, efficient transactions and assist with fraud control
     - Market stewardship, including mapping of demand and supply and intervention strategies, and innovative service responses which ensures participants are not totally reliant on traditional service responses
     - Development of best practice and research
     - Encouraging smart use of assistive technology to enhance participant independence
   - Administratively, there are multiple lines to manage risk, including:
     - Board Audit and Risk Committee
     - Strategic Risk Report and Framework
     - Monitoring and reporting on key priorities and projects through the Enterprise Project Management Office, and

    - Development of an assurance map which is aligned with the Australian Prudential Regulation Authority's 'three lines of defence' model and is consistent with ANAO better practice.
- Scheme costs are continuously monitored, closely controlled and there is clear accountability up to the Board of the Agency. There are three key levels of cost control:
    - A quality assurance process within the Operations team
    - Monitoring by the Scheme Actuary and actuarial team. Under the NDIS Act the Scheme Actuary must report directly to the Agency CEO.
    - Oversight and control through the Sustainability Committee of the NDIA Board and the Board. The AGA is a member of the Sustainability Committee, as well as reviewing and reporting to the Board on each annual financial sustainability report.

2. Western Australia
    - In WA the NDIS is operating in a trial site in Perth Hills and the WA Disability Services Commission is trialling its version which is called *My Way.* The two approaches are being formally evaluated over two years, which is a relatively short period to accurately compare long term arrangements.

Section 47B

Section 47C

3. The Northern Territory
    - Solid progress is being made in the Northern Territory in the Barkly, which is now being acknowledged by the NT Government. However, this is a very challenging environment and in fact is more than one trial site as what will work best in one location will not necessarily be optimal in another.
    - The Agency is therefore taking a community capacity building and development approach, as well as seeking to coordinate closely with other Commonwealth and Territory initiatives.

Section 47B(b)

- More recently, at the hearing of the Joint Standing Committee in Darwin on 21 July the NT Disability Minister, who is also the Health Minister, suggested that outside the main towns the NT Government should be the only disability service provider Section 47C

Section 47C

## Part 3 – Cost projections and strengthening cost control

To be sustainable at full scheme, the NDIS will need to operate within agreed annual funding sufficient to meet the reasonable and necessary support needs of people with disability, to be supported by a strong and diverse market and expectations will need to be realistic.

Further, it is possible that full scheme costs will emerge more slowly than is implied by the transition timetable, because it generally takes many years for long term schemes like the NDIS to fully mature.

1. Cash flow sensitivity analysis
    - Trial experience to date suggests that reasonable and necessary supports in both the Hunter and Barwon trials are close to, but slightly lower than those expected in the NDIS actuarial model. Likewise, plan utilisation has been lower than 100% in trial to date. However, there are a number of factors that may explain this delay in plan utilisation and the proportion of plans utilised continues to rise. As such, it is difficult to justify a lower estimate of overall plan utilisation at this stage.
    - The Scheme Actuary and NDIS actuarial team monitor these assumptions continuously and do not propose assumptions other than 100% for either scheme costs or utilisation be adopted.

Section 47B & 47C

Note: these figures are illustrative only.

Section 47C

Section 47B & 47C

2. Transition to Full Scheme Communications - Key Messages
   - The proposed transition to full Scheme is very fast.
   - The Agency will be able to mitigate some of these risks through its market stewardship and development roles.
   - However, the messaging around transition will be critical to ensuring that expectations are more realistic than today.
   - Key messages should include:
     - Some participants will not enter the Scheme until 2019, depending on the bilateral schedules, and
     - All governments and the Agency are committed to delivering the scheme as fast as possible, consistent with available funding and long term sustainability.

3. Statement of strategic guidance
   - A Statement of Strategic Guidance is issued by the Commonwealth Minister responsible for the NDIS in accordance with section 125 of the NDIS Act 2013. The Statement of Strategic Guidance sets out the objectives and principles under which the NDIA Board and the NDIA are expected to operate.
   - The Board is still using the current statement of strategic guidance from 2013. Section 47C

Section 47C

4. Increased administrative flexibility
   - Sustainability of the NDIS requires:
     - diverse, efficient and innovative markets of providers who offer a range of supports to participants based on quality and an efficient price, alongside mainstream services delivering necessary supports,
     - well informed and active consumers who determine what supports they require and how these are provided,
     - strong ILC services to support people who are at risk of becoming participants in the Scheme, and
     - sufficient administrative capacity within the NDIA and its out-sourced services to manage package costs effectively.

- This would be greatly facilitated if within the agreed funding envelope:
    - The existing target for administration costs of 7%, which represents world-best efficiency and much of which will be out-sourced and therefore contestable, could be maintained as a goal until the Scheme is fully operational.
    - There is flexibility, at the margin, between ILC costs and package costs, because in the absence of robust ILC supports more people will enter the scheme at higher costs than is necessary or optimal for the NDIS or participants.

## Attachments

Attachment A: NDIA Strategic Overview
Attachment B: June Quarter 2015 Key Data

Attachment A

## NDIA Strategic Plan

The Agency's vision, mission and goals support the positive transformation of Australia's disability sector and are underpinned by our dedicated culture and the effective use of technology.

### Vision

Optimising social and economic independence and full participation for people with disability.

### Mission

Building and managing a world leading National Disability Insurance Scheme for all Australians.

### Goals

- People with disability are in control and have choices, based on the UN Convention on the Rights of Persons with Disabilities
  - Build the capacity of people with disability to exercise choice and control in the pursuit of their goals
  - Promote the independence and social and economic participation of all people with disability and especially those who are vulnerable or marginalised
  - Recognise, nurture and uphold informal support and care arrangements, especially for children and vulnerable adults
- The National Disability Insurance Scheme is financially sustainable and governed using insurance principles
  - Base governance and operations on strong insurance principles using comprehensive and reliable data
  - Invest, including early intervention in a lifetime approach
  - Drive support services and workforce to be high quality, effective, efficient and responsive to the diversity of Scheme participants, so as to create a new dynamic and non-inflationary market for disability supports
- The community has ownership, confidence and pride in the National Disability Insurance Scheme and the National Disability Insurance Agency
  - Respect and actively seek the views of people with disability, their families, carers and the community
  - Work constructively with governments
  - Raise community awareness and knowledge of how to support people with disability

### Culture

The Agency values assurance, empowerment, responsibility, learning and integrity

### Technology

Our work is underpinned by a modern technological approach

Attachment B

## June Quarter 2015 Key Data

As at 30 June 2015:

- Participant satisfaction: Participant satisfaction remains high. On a scale of very poor (-2) to very good (+2), with neutral being 0, participant satisfaction is at 1.63.
- Participant numbers: 19,817 participants were eligible for the scheme (107% of the bilateral target). This is an increase of 3,168 participants over the quarter. 17,303 participants had an approved plan (94% of the bilateral target), which is an increase of 3,693 participants over the quarter.
- Total scheme costs: Considering the number of participants who have entered the scheme and distribution of packages committed to these participants, the scheme is within the full scheme funding envelope.

$952.8 million has been committed in plans since scheme inception. Some of this support has been provided to participants and some will be provided in the future as plans are in place past 30 June 2015.

The average annualised package cost across all trial sites at the end of June 2015 is approximately $38,423 including large residences (Stockton, Kanangra and Colanda)[1], and approximately $33,597 excluding Stockton, Kanangra and Colanda. Note: the benchmark average annualised package cost for 2014-15 is $36,750.

Detailed analysis of the Barwon trial site and Newcastle Local Government Area (two all age geographical areas) indicates that the predicted ultimate cost of trial sites are within full scheme costs. The analysis considers the number of participants in the areas to date, along with their packages, and also considers potential participants yet to enter the scheme and their costs.

Detailed work continues in developing and implementing a monitoring framework which considers reference packages (that is, participants with similar characteristics receive similar support packages, noting that there is still variation due to individual circumstances), and a participant outcomes framework to track performance over time and target investment in participants to increase their independence, and social and economic participation.

[1] Stockton and Kanangra are large residences in the New South Wales trial site and Colanda is a large residential centre in the Victorian trial site.