

Final Report of Pricing Joint Working Group

Foreword

The price used to construct a person's package of the National Disability Insurance Scheme (NDIS) supports is a critical matter. National Disability Services (NDS) is concerned that if the price is too low, disability service providers will be unable to provide the choice and quality of supports that NDIS participants require and expect. If the price is too high, value for public money won't be achieved and the NDIS will not be financially sustainable.

Since the launch of the NDIS in four trial sites in July 2013, NDS has raised concerns over hourly rates set for two of the highest volume supports – in particular, one-to-one support for assistance with self-care activities and assistance to access the community.

In May 2014, the National Disability Insurance Agency (NDIA) and NDS agreed to establish a joint working group to tackle the pricing issue. Assisting the group were independent experts with knowledge of cost structures in the not-for-profit disability sector. The group also had access to earlier pricing work that the NDIA had undertaken or commissioned. The group worked intensively over six weeks and met regularly with us, the CEOs of the Agency and NDS, to test their assumptions and conclusions.

Given the contention around prices and the relative paucity of data, the group achieved remarkable progress in a short time. The final report of the working group presents a method to construct price – the reasonable cost model - and recommends transitional prices. It presents the concept of an efficient price and proposes sector development strategies to help drive efficiency. On the question of an efficient price, NDIA and NDS did not agree. We did agree, however, on the methodology of the reasonable cost model and that further data is required to inform future price-setting.

To contextualise pricing, the group outlined key characteristics of the future disability support market. The NDIA is undertaking further work on the future market and will consult with NDS on this. The group also considered the timing of lifting the temporary price restrictions. Both NDS and the NDIA support deregulation of maximum prices in principle, but the NDIA will not implement deregulation until the market is more mature.

The revised prices which the NDIA published at the end of June 2014 reflect some of the recommendations in the report, but not others. The published prices did entail increases significantly above inflation in the Victorian, NSW and Tasmanian trial sites, but fell short of the transitional prices which the report considered – an outcome which disappointed NDS. As a result of the pricing project, some costs to providers which were previously unrecognised or included in the hourly rate (travel, unreasonable cancellations and intake) will now be dealt with outside the hourly price.

The discussion on prices has not concluded. There will be further data collected to test assumptions in the reasonable cost model and further negotiations between the NDIA and NDS about future price setting. The purpose of the NDIS trial phase is to test and refine the Scheme's design. That includes testing prices and market design.

Both NDS and the NDIA are strongly committed to the successful implementation of the NDIS and learning from the experience of all stakeholders in the trial sites. We look forward to continuing to work together to understand and resolve design and implementation issues as they arise.

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Summary of recommendations

This report will recommend that:

- any prices derived from the individual rates – such as group-based activities – reasonably reflect any adjustments made through this pricing project
- the National Disability Insurance Agency (NDIA) continue to increase the information to planners to improve consistency of funded supports in a plan;
- an interim pricing strategy be developed that includes transitional prices to support the move to a competitive market, and a range of activities implemented to assist market development;
- work be commenced to ensure an appropriate cost data collection to inform future price reviews;
- the NDIA determine the simplest possible way to manage provider travel between participants and publish this with the prices for the 2014/15 year;
- the reasonable cost model be reviewed and refined as improved, reliable data becomes available;
- jurisdiction-specific price lists be maintained to appropriately reflect the Modern Award transition over the trial period;
- the details of the reasonable cost model be published;
- the interim pricing strategy begin from 1 July 2014 and continue until the transition to the full National Disability Insurance Scheme (NDIS) begins in July 2016;
- further discussion take place about the step-down in pricing;
- the reasonable cost model approach in this report be complemented with adjacent pricing changes;
- as a decision on pricing has not been agreed, neither has the timing on deregulation;
- in any event, deregulation be accompanied by a risk management strategy.

Contents

Summary of recommendations	4
Introduction	6
Project description	6
What are the features of a future market of disability support?	8
The reasonable cost model	10
Modelled prices based on existing cost assumptions.....	11
Table 1 Transitional cost model	12
Future value for money price in an competitive market.....	13
Table 2 Efficient price - Assistance self-care	14
Table 3 Efficient price - Assistance in community support.....	15
Interim pricing strategy	15
Timing of a transitional price	17
Other recommended pricing changes	18
Other transition activities	19
Deregulation of maximum prices	19
Timing of deregulation	20
Conclusion	21
Attachment A Pricing working group – Terms of Reference	22
Attachment B – Some suggested transition activities	26

Introduction

The NDIA sets the value for funded supports in participant packages. At present it also limits the price a provider may charge to that value. The NDIA will continue striving to increase flexibility for participants by encouraging vibrant and responsive markets for disability supports. The more the market for disability supports matures, the more choice participants will have over how they spend their individualised budget, consistent with the vision of the Productivity Commission.

The NDIA has set these support item prices believing they are similar to prices of equivalent supports in comparable schemes existing in trial site markets. This ensures that the NDIA does not compete with other purchasers, avoiding inadvertent market disruption. However, concerns have been raised by NDS over hourly rates for two of the highest-volume supports, assistance with self-care activities and assistance to access the community. NDS is concerned that pricing support below the real cost of delivery will reduce choice of the available providers for participants and lower service quality.

Project description

The NDIA and NDS agreed to a six-week joint project to examine these concerns and recommend solutions (Terms of Reference at [Attachment A](#)). The working group comprised staff from NDS and the NDIA, assisted by experts in pricing, accounting and economics from Seward Dawson Charter Accountants and Curtin University's Not-for-profit Initiative.

The objectives of the working group were:

- Establish a partnership between NDS and the NDIA to review and make recommendations on pricing and market transition.
- Define the optimal features of the future disability support market.
- Propose measures to assist with the transition to the future disability support market.

- Recommend sector development activities that address the market and purchaser challenges while ensuring positive outcomes for NDIS participants.
- Identify the mechanism or process for determining unit prices – as well as a recommended range of unit prices – for personal care, in-home and community support, that represent value for money/an efficient market price (including for the delivery of more complex or highly skilled supports).
- Recommend appropriate timing for deregulation of the disability support market, at which point participants may choose between various price/quality options.
- Develop agreed communication and engagement activities in relation to the project.
- Produce a final report agreed by the NDIA and NDS, with the intention of making it public.

The pricing working group was asked to advise the NDIA Executive on the interim pricing strategy that achieves the above objectives.

The supports that are in scope for the joint working group are the individual prices of:

- assistance with self-care activities;
- assistance to access community, social and recreational activities; and
- higher intensity supports of the same.

The joint working group recommends that any prices derived from the individual rates – such as group-based activities – reasonably reflect any adjustments made through this pricing project.

During the course of the project, the joint working group identified that the following prices were out of scope but require further work:

- Remote and very remote support
- Mental health pricing
- Individual high cost packages due to exceptional complexity
- Assistance in shared supported accommodation

- Thin and failed markets (in terms of geography, small-demand offerings and unavailable supports).

The joint working group acknowledges that some of these types of support may require alternative funding arrangements and this should be explored as part of an overall review of the NDIA catalogue of supports.

NDS has raised concerns over inconsistency in decisions about levels of support in plans for participants. Areas for improvement include:

- Greater guidance to planners about who needs higher intensity support
- Greater guidance to planners for consideration of adequate hours for staff handover and reasonable introduction of new support staff through 'shadow shifts' for an agreed participant cohort
- Where a person has an identified support need for assistance to coordinate their supports, and there is no informal support available to undertake this, fund appropriate support coordination, or equivalent, in the plan.

The joint working group recommends that the NDIA continue to increase the information supply to planners.

What are the features of a future market of disability support?

Implementing the NDIS will have far-reaching implications for all stakeholders; people with disability, families and carers, disability organisations, governments and the broader community. Reform of this magnitude presents challenges, as well as opportunities, and it is not achieved quickly.

In preparing for the full implementation of the NDIS, the road ahead for service providers is steep and uncertain and navigation will be aided by knowledge of the destination. In 2011, the Productivity Commission report on Disability Care and Support¹ envisaged that the destination for service providers was built around a

¹ Productivity Commission 2011, *Disability Care and Support*, Report no. 54, Canberra
Joint Working Group Final Report

competitive market for disability supports. The NDIA is developing a comprehensive market design strategy and this project has provided input to this plan.

The NDIA and NDS agree that the future market of disability supports will:

- be contestable (with barriers to entry sufficient to protect minimum standards but not poor performance);
- be diverse (with respect to organisational size, structure, degree of specialisation and how supports are delivered);
- respond to the reasonable needs, choices and control of NDIS participants in all regions of Australia;
- facilitate access to reliable information to support consumer choice and service development;
- deliver effective social and economic outcomes for people with disability;
- allow providers to be flexible, innovative and relatively unencumbered by red tape;
- value the social capital creation of not-for-profit organisations;
- encourage local connections and local responsiveness;
- foster collaboration between stakeholders, including with mainstream services;
- individualise most funding while acknowledging a role for other innovative funding arrangements;
- provide safeguards for participants based on risk;
- deliver high-quality supports (and strengthen the nexus between price and quality); and
- guard against the abuse of market power and anti-competitive practices.

Creating this ambitious vision requires commitment to the principles and strong collaboration between stakeholders to determine the way forward.

The joint working group recommends an interim pricing strategy. This includes interim prices to support the move to a competitive market and implementing a variety of activities to assist market development.

The reasonable cost model

The joint working group, with the consultants, reviewed the existing NDIA/NDS pricing work and other available information to assist in this project. As there was considerable variation in the available information on provider costs, the working group decided that a sound framework would be to use a 'bottom up' reasonable cost model. This method provides transparency about the assumptions in a unit price.

The consultants presented the reasonable cost methodology that was agreed by the working group. This framework was used to predict estimated costs currently borne by providers and also to give a 'best estimate' of a future efficient, value-for-money price. The main difficulty of this exercise was attempting to estimate the costs based on inconsistent data.

The joint working group recommends commencing work to ensure there is an appropriate cost data collection across the sector to support future price reviews.

With the consultants, the joint working group discussed a range of assumptions that form the unit price:

- Use of the SCHADS Modern Award SACS stream for support workers
- Impact of the equal remuneration order (ERO)
- Client-facing time
- Reasonable corporate overheads and supervision of employees
- Return on capital (profit margin) should be included
- Provider travel between participants is not costed in the hourly rate
- High intensity requires additional experience, risk management and supervision
- Other NDIA pricing changes could relieve associated provider cost pressures.

The joint working group emphasises that the reasonable cost model will need to be reviewed as improved, reliable data becomes available to better support any decisions on price. As an example, higher intensity support in the model is built from

the same support worker paypoint with lower utilisation, but this mix may not reflect the actual reality of the cost of providing these supports.

The joint working group, with the consultants, has come to a view that the costs of providing supports in the community are generally greater than providing support in a person's home. This is likely to result from the extra risk assessment, pre-planning, staff utilisation and higher level of supervision required. The support worker also requires the specific skills to engage other community members, not just the person with disability, to achieve the desired participation outcomes. To better identify how these costs are borne by the provider, however, the cost differences associated with support delivery location should be a focus of the data collection.

The prices in the reasonable cost model do not account for the cost to the provider of travel between participants. The NDIA agrees to publish information on how these costs will be managed.

The joint working group recommends the NDIA determine a more effective way to manage provider travel and publish this alongside the prices for the 2014/15 year. and
The joint working group recommends that the future reasonable cost model be reviewed and refined as improved, reliable data become available.

Modelled prices based on existing cost assumptions

The joint working group, supported by the expert consultants, drew on their experience and the available data to inform decisions on the assumptions in the reasonable cost model. The information available was variable. Acknowledging this, the joint working group agreed to use the assumptions set out in Table 1 to inform a transitional price that better reflects current costs borne by providers.

Table 1 Transitional cost model

	Assistance self-care – individual		Community support – individual	
	Standard	High intensity	Standard	High intensity
Drivers				
SACS	SACS 2.3	SACS 2.3	SACS 2.3	SACS 2.3
Direct salary	\$21.30	\$21.30	\$21.30	\$21.30
Client-facing time inc leave	85%	80%	80%	76%
Client-facing time exc leave	95%	90%	90%	85%
Supervision – span of control	1:15	1:15	1:15	1:15
Corporate overhead	15%	15%	15%	15%
Return on capital (margin)	5%	5%	5%	5%
Key costs				
Salary costs including client-facing time	\$22.56	\$23.96	\$23.96	\$25.52
On-costs	\$8.76	\$9.11	\$9.10	\$9.44
Corporate overhead	\$5.53	\$5.53	\$5.83	\$5.83
Return on capital (margin)	\$1.93	\$2.02	\$2.05	\$2.15
Total per hour price	\$38.78	\$40.62	\$40.94	\$42.94

Other factors taken into consideration for these prices are:

- SCHADS Modern Awards SACS stream is used (does not reflect jurisdictional differences)
- Assistance with self-care supervision is paid at SCHADS Modern Award SACS stream Level 3 paypoint 2
- Community access supervision is paid at SCHADS Modern Award SACS stream Level 3 paypoint 3
- High intensity requires additional experience, risk management and supervision.
- Travel between participants is separate
- Cancellation policy is to be reviewed to allow charging participant packages in some circumstances
- ‘Shadow shifting’ for new staff is to be separately accounted for a particular cohort

- Establishment fee is to be introduced
- Reimbursement of participant transport is to be increased and aligned to Modern Award (currently 76c).

The prices in [Table 1](#) use 2013/14 SCHADS Modern Award SACS stream rates (therefore not showing jurisdictional differences) and do not reflect any increases, such as the Fair Work Australia national minimum wage increase/indexing, which came into effect on 1 July 2014.

Due to the transition to the Modern Award, the joint working group recommends maintaining jurisdiction-specific price lists to appropriately reflect the transition over the trial period.

NDS wants differential prices established for assistance with self-care and community support (standard and higher intensity). The NDIA recommends to keep the pricing the same as it does not presently have the data available to model the specific impact of the other price changes such as participant travel, introduction of an establishment fee, changes in cancellation policy and the direct impact on the community support costs.

The joint working group recommends the details of the reasonable cost model are published.

Future value for money price in an competitive market

The tables below give an indication of a future value-for-money, efficient price in a competitive market. These tables reflect various assumptions discussed, but not agreed, within the joint working group and with the consultants. With the recommended data collection exercise, the accuracy of these assumptions will be refined over time. The purpose of indicating these prices is to flag how a competitive market might be expected to look.

View of NDIA assumptions modelled as efficient, value-for-money prices

Table 2 Efficient price - Assistance self-care

	Assistance in self care - individual (9% corporate overhead and 1:18 supervision ratio)		Assistance in self-care – individual (12% corporate overhead and 1:15 supervision ratio)	
	Standard	High intensity	Standard	High intensity
Drivers				
SACS	SACS 2.3	SACS 2.3	SACS 2.3	SACS 2.3
Direct salary	\$21.30	\$21.30	\$21.30	\$21.30
Client-facing time inc leave	85%	90%	85%	90%
Client-facing time exc leave	95%	80%	95%	80%
Supervision – span of control	1:18	1:18	1:15	1:15
Corporate overhead	9%	9%	12%	12%
Return on capital (margin)	5%	5%	5%	5%
Key costs				
Salary costs including client-facing time	\$22.56	\$23.96	\$22.56	\$23.96
On-costs	\$8.37	\$8.69	\$8.74	\$9.08
Corporate overhead	\$3.06	\$3.06	\$4.27	\$4.27
Return on capital (margin)	\$1.78	\$1.87	\$1.86	\$1.96
Total per hour price	\$35.77	\$37.58	\$37.43	\$39.27

*Prices above are pre July 1 2014 indexation.

Table 3 Efficient price - Assistance in community support

	Assistance in community - individual (9% corporate overhead and 1:18 supervision ratio)		Assistance in community – individual (12% corporate overhead and 1:15 supervision ratio)	
	Standard	High intensity	Standard	High intensity
Drivers				
SACS	SACS 2.3	SACS 2.3	SACS 2.3	SACS 2.3
Direct salary	\$21.30	\$21.30	\$21.30	\$21.30
Client-facing time inc leave	85%	90%	80%	76%
Client-facing time exc leave	95%	80%	90%	85%
Supervision – span of control	1:18	1:18	1:15	1:15
Corporate overhead	9%	9%	12%	12%
Return on capital (margin)	5%	5%	5%	5%
Key costs				
Salary costs including client-facing time	\$22.56	\$23.96	\$23.96	\$25.52
On-costs	\$8.37	\$8.69	\$9.08	\$9.41
Corporate overhead	\$3.06	\$3.06	\$4.50	\$4.50
Return on capital (margin)	\$1.78	\$1.87	\$1.97	\$2.08
Total per hour price	\$35.77	\$37.58	\$39.51	\$41.51

*Prices above are pre July 1 2014 indexation

Interim pricing strategy

The joint working group has identified a gap between costs currently borne by providers and what can be achieved in a more mature market. The next two years will see rapid change, where providers transition from previous funding arrangements, the market emerges and the NDIA needs to make administrative changes as part of the trials. During this time there will be market-wide challenges that carry risks for participants, providers and the NDIS. These strategic risks include:

- The NDIA fails to build the capacity of people with disability to exercise choice and control.
- Providers do not respond with innovative supports.

- Providers will not have time to make the transition to a competitive market.
- The NDIS fails to support the independence and social and economic participation of people with disability.
- The administrative requirements cannot be implemented by providers.
- There will be insufficient competent providers to meet the new and expanded demand for services.

Predicting the detail of the future market of disability support is difficult; we do not know how it will take shape as people with disability make choices about delivery of their supports. However, we would expect that into the long term, there should be a place for enterprises of different types, shapes and sizes.

Until further into the roll-out, it is proposed that NDIA prices adequately address current costs with a temporary 'transition price' that reduces gradually as the market adapts. This needs to be clearly communicated.

The joint working group explored two ways to deal with this transition period.

1. Agree or propose a range for the future efficient price, based on estimations of how the market could look, then add a transition levy with an ongoing data collection to help support future direction of the efficient price; or
2. Publish transitional prices, then decrease them incrementally to get to a competitive market price by 1 July 2016. (This price may be adjusted in accordance with further data collection.)

The second approach recognises that the working group has not agreed the future efficient price, given the variability of current cost information and an unknown future market. NDS does not support the first approach as the assumptions that underpin the future price have not been agreed.

The joint working group proposes this interim pricing strategy be used as a way to:

- minimise the likelihood of market failure in the trial sites;
- improve sector sustainability and ensure that significant transitional issues are dealt with at an appropriate pace with the right resources;
- maximise the visibility of the NDIA's long-term definition of an efficient cost frontier to both trial and non-trial suppliers;

- establish a more transparent approach to the long-term pricing strategy; and
- make allowance for other transitions, such as the ERO and transition from old awards.

Timing of a transitional price

The joint working group recommends that the interim transitional pricing strategy begin from 1 July 2014 and continue until the transition to the full NDIS begins in July 2016.

A key recommendation in this report is that access to improved cost data is essential to better inform the efficient price.

NDS will continue to monitor the impact of prices on providers during the transition period.

The NDIA will continue to publish prices used to cost participant packages and identify ways to improve flexibility for participants by encouraging vibrant and responsive markets for disability supports.

It is proposed that prices will be stepped down each time the cluster is adjusted for ERO or annual wage reviews (1 July and 1 December) to minimise the impact on providers. This step-down process will take effect on 1 December 2014, 1 July 2015, 1 December 2015 and 1 July 2016.

Any adjustments will be affected by results of improved data collection.

The joint working group recommends further discussion on how the step-down process will be implemented.

Other recommended pricing changes

The reasonable cost model requires assumptions about other costs associated with the delivery of support.

The joint working group discussed the following adjacent pricing changes:

- **Changing the cancellation policy** to permit charging the participant package a fee for inadequate notice of cancellation of a support, or for not 'showing up' as arranged under the participant's service agreement. This will require adequate safeguards for participants and special considerations for particular cohorts.
- **Introducing an establishment fee** to help address the upfront costs of making a new support arrangement with a participant.
- **Raising the travel reimbursement rate from 75 to 76 cents per kilometre** (the rate required under the SCHADS Modern Award SACS stream)
- **Refining the treatment of provider travel between participants.** To achieve the best outcome, this needs to be taken into account without unduly complicating the hourly rate, planning or reporting framework. The four key variables that appear to be important are:
 - Length of shift
 - Distance to be travelled between client sites
 - Time taken to travel between client sites
 - Location of the journey – predominantly metropolitan or rural.

The approach preferred by the working group is to allow up to 10 minutes in the first hour of service for provider travel between participants. The working group expects the NDIA to publish further information on this.

The joint working group recommends:

Change the cancellation policy to allow charging for inadequate notice of cancellation

Introduce an establishment fee

Reimburse participant transport at 76 cents per kilometre

Allow up to 10 minutes of the first hour of service to be used for provider travel, where required.

Other transition activities

A competitive market will emerge over time. The NDIA will target activities to facilitate this through a comprehensive market design strategy.

As noted above, the development of an appropriate data collection method would help the sector benchmark costs as well as inform future price reviews.

The joint working group has identified additional priority activities around pricing, capital requirements, service development and market development that best facilitate the pricing transition proposed above. These are at [Attachment B](#).

Deregulation of maximum prices

It is the clear and established objective of the NDIS to move to a choice-driven, open approach across all markets, but it is prudent to test participant and market readiness, as well as processes and systems.

The NDIA is interested in understanding whether lifting the price restriction for high-volume supports achieves flexibility in the selection and management of supports and innovation in service delivery. This lifting of maximum prices is sometimes referred to as deregulation.

At the First Standing Council on Disability Reform, the NDIA CEO said the agency would remove price restrictions when there were indications of a viable market, as it

was felt that current restrictions prevent innovation for participants in the use of their package and limit providers' ability to innovate.

The NDIA has always intended to work towards increased market flexibility. There are some signals from participants and the market that it is an appropriate time to test increased flexibility for participants, to determine the make-up of and the prices to be paid for their supports.

The NDIA has also said it would be seeking indications from participants and providers about the appropriate time to proceed with deregulation. The NDIA has indicated that it does not believe this should occur until the appropriate factors are present in the market.

In any 'deregulation', the NDIA will continue to develop a plan with a participant and cost the plan in accordance with published prices. The participant will negotiate the delivery of the funded services with providers of their choice, who will be required to deliver those services in accordance with the participant's needs and within the available budget for that support item.

Timing of deregulation

NDS shares the NDIA's commitment to deregulation for reasons that include:

- It responds to the diversity in how, where and to whom supports are provided (price-setting that accommodates this diversity is very difficult).
- It is consistent with participant choice (enabling participants to weigh price against the quality and quantity of supports).
- It can assist organisations to maintain viability where NDIA prices are set below the cost of support.

NDS has said that providers expect to be able to negotiate on the price, quantity and quality of assistance with daily activities and access to community activities from July 2014 – particularly if the NDIA support prices continue to be set below the cost of delivery. One difficulty is that it transfers any pricing conflict between the NDIA and provider to the relationship between participant and provider. Conflict will be

minimised if deregulation is undertaken in the context of fair price-setting by the NDIA.

The joint working group notes that agreement on timing of deregulation will not be resolved separately to the outcome of new prices.

In any event, the joint working group recommends deregulation be accompanied by a risk management strategy.

Conclusion

The joint working group considered the available pricing information, the optimal features in the future disability market and the short-term associated risks of the market failing to emerge to meet the new and expanded demand for supports.

The joint working group agreed to a reasonable cost model approach as the mechanism to demonstrate transparency about price assumptions.

With the deficiencies in the available information about the costs of providers and the expectations of delivery of NDIS-funded supports, a key recommendation of this project is to independently collect reliable cost data to inform future price reviews.

The joint working group proposes an interim pricing strategy as a response to the available information. The strategy recognises the rapid changes required for participants, providers and the NDIA. The strategy considers three areas of measures – future market and expected efficiencies, current provider costs and sector development activities to support providers in the transition.

The competitive market envisaged by the Productivity Commission will emerge over time. The NDIA will target activities to facilitate this through a comprehensive market design strategy.

Attachment A Pricing working group – Terms of Reference

Introduction and Background

The NDIA sets the value for funded supports in participant packages. At present it also limits the price a provider may charge to that value. The NDIA has set these values in the belief that they are similar to prices of equivalent supports in comparable schemes existing in trial site markets. This approach ensures that the NDIA does not become a competitor to other purchasers in that market and to avoid inadvertent market disruption. However, concerns have been raised by NDS and some providers in relation to hourly rates for personal care and community access, the two highest volume supports. NDS is concerned that prices that are set too low will reduce choice for participants and lower service quality.

The NDIA and NDS have agreed to a joint project to examine this concern and recommend solutions. The NDIA and NDS agree that the aim is to establish unit prices that represent value for money / an efficient market price and enable service providers to deliver the best outcomes to participants including, where possible, increased independence and social and economic participation. It is also agreed that the pricing strategy and associated activities will be transparent to participants and providers in order to assist negotiation on the delivery of supports.

The NDIA and NDS agree to share pricing review work already completed or underway to assist in this project.

The interrelationship of pricing, provider financial stability, workforce capacity and Scheme sustainability are understood by both the NDIA and NDS. The joint working group will recommend an efficient unit price to inform the NDIA pricing strategy and address the market-wide challenges as providers transition from funded contractual arrangements to fee-for-service payments in the NDIS.

Terms of Reference

Objectives

The objectives of the working group are to:

- Establish a partnership between NDS and the NDIA to review and make recommendations on pricing and market transition;
- Define the optimal features of the future disability support market;
- Propose measures to assist with the transition towards the future disability support market;
- Recommend sector development activities that address the market and purchaser challenges whilst ensuring positive outcomes for Scheme participants;
- Identify the mechanism or process to be used to determine unit prices – as well as a recommended range of unit prices - for personal care, in home and community support, that represent value for money / an efficient market price (including for the delivery of more complex or highly skilled supports);
- Recommend the appropriate timing to deregulate the disability support market, when participants may choose between various price/quality options;
- Produce agreed communication and engagement activities in relation to the project; and
- Develop a final report that is agreed by the NDIA and NDS with the intention of making it public.

The pricing working group will advise the NDIA Executive on the interim pricing strategy that achieves the above objectives, in accordance with the following principles.

Principles

1. All supports funded by NDIS must demonstrate how they will assist a participant to attain their goals and must represent “value for money / efficient market price” in that the costs of the support are reasonable, relative to both the benefits

achieved and the cost of alternative support” [s34 (c)] National Disability Insurance Scheme Act 2013]

2. The market that can respond will be achieved through individualised funding and associated activities that enable choice for participants in how their funds are expended and their individual plans administered. Bulk purchasing may be used in the NDIS to support important functions that are more efficient to be utilised than unit pricing.
3. The NDIA is committed to assisting not-for-profit disability service providers to make a successful transition to operating in a market for disability supports.
4. Providers are accountable for the use of public funds. This is most likely to be achieved by effective but not onerous systems of compliance, quality and a commitment to improving service delivery.
5. The delivery of supports to participants in the NDIS must recognize the need for a workforce that is responsive to participants’ needs, trained, skilled and appropriately remunerated.

Requirements of the Working Group

- Establish a project plan and schedule that will map the current concerns in the sector, determine an efficient price and describe the path towards an efficient and responsive market;
- Establish a stakeholder communication and engagement protocol with agreed roles and responsibilities;
- Report on progress against the agreed project plan; and
- Provide the mechanism for communicating commencement and progress of this project within the sector to ensure ongoing sector engagement and validation.

Governance and Timeframe

The pricing working group will report on a regular basis to the NDIA and NDS executives.

A draft written report will be completed six weeks after signing and considered by the NDIA Executive and NDS prior to finalisation.

Members

To be assigned by each organisation.

David Bowen
CEO
National Disability Insurance NDIA
Date:

Ken Baker
CEO
National Disability Services
Date:

Attachment B – Some suggested transition activities

Risk/Problem	Priority ²	Organisations impacted ³	Proposed Actions	Expected benefits	Timeframe
Pricing					
1. Inadequate industry knowledge of how to perform activity-based costing⁴	High	All disability service providers	i. NDS will implement a program of learning activities based on the NDS/Curtin Costing and Pricing Framework	<ul style="list-style-type: none"> Improve understanding of unit costing, direct costs, fixed costs and variable costs and how they should be analysed to construct the cost of NDIS supports Providers will develop foundation for participating in financial benchmarking 	Jul – Dec 2014
2. NDIS prices do not correspond with actual cost of delivering supports for many providers	High	All disability service providers	ii. The NDIA will establish a transparent approach to reviewing prices iii. NDS will design an approach to cooperative financial benchmarking to	<ul style="list-style-type: none"> The NDIA will obtain better quality cost data for informing price reviews Providers will be able to benchmark cost of support with similar organisations Providers will develop a better understanding about potential cost savings and where economies of 	Jul 2014 – Jun 2016

² Priority is based on likelihood and severity of risk

³ Small, medium and large disability service providers are not consistently defined. The definition used to analyse the results of the NDIS Organisational Readiness Toolkit Project was less than \$1 million (small), \$1 million to less than \$10 million (medium), \$10 million or more (large).

⁴ Of the 31 issues identified in the NDIS Organisational Readiness Toolkit Project (NDS 2014), costing and pricing practice received the lowest average rating of provider readiness. In addition, organisations with less than \$1 million turnover were less likely to be satisfied they were NDIS-ready on costing and pricing.

Risk/Problem	Priority ²	Organisations impacted ³	Proposed Actions	Expected benefits	Timeframe
			enable pooled, de-identified data to be collected, focusing initially on personal and community support ⁵	scale are possible (including use of shared back office services) ⁶	
3. Some existing industrial agreements do not align with Modern Award conditions	High	All disability service providers	iv. NDS works with industry to determine whether industrial agreements are consistent with the NDIS model and NDIS price-setting	<ul style="list-style-type: none"> Providers are able to align their costs structures with NDIS published prices 	Jul 2014 – Jun 2019
Capital requirements					
4. Providers have insufficient	High	Small to medium disability	v. The NDIA and NDS will explore hosting of an Enterprise	<ul style="list-style-type: none"> Providers obtain access to suitable IT that can interface with the NDIA portals 	Jul 2014 – Jun 2016

⁵ The ADHC funded NDS NSW Productivity Tool permits back-of-house benchmarking and will provide a cost-effective basis for developing a national approach to financial benchmarking.

⁶ Benchmarking of back-of-house services in NSW revealed that medium-sized organisations were benchmarked as the most cost-effective in several areas, suggesting that they could be doing 'more with the same' back-of-house as smaller organisations (NDS, 2013, Disability Service Provider Back-Of-House Services, NDS Productivity Tool: Inaugural Benchmarking Report)

Risk/Problem	Priority ²	Organisations impacted ³	Proposed Actions	Expected benefits	Timeframe
specialist knowledge and capital to invest in IT software and hardware		service providers ⁷	Management System, and shared back-office arrangement vi. NDS will support providers to work with vendors to develop software solutions that are fit for purpose	<ul style="list-style-type: none"> Support staff obtain necessary information when they need it Staff utilisation increases through use of mobile devices Other systems (e.g. rostering, finance, HR) can be integrated 	
5. Providers have insufficient capital to invest in service innovation	High	Predominantly small service providers ⁸	vii. The NDIA will evaluate the best incentives to encourage investment in technology, including assistive technology	<ul style="list-style-type: none"> Providers develop models of support that foster independence and decrease the need for direct supports where possible Providers develop new approaches to business practice and service models 	Jul 2014 – Jun 2017
		All disability service providers	viii. The NDIA will consider funding establishment of Support Redesign		

⁷ Benchmarking of back-of-house services in NSW confirms that median ICT investment was low, particularly for small and medium organisations that spent 0.9% and 0.4% of turnover on ICT and heavily relied on contractors (NDS, 2013, Disability Service Provider Back-Of-House Services, NDS Productivity Tool: Inaugural Benchmarking Report)

⁸ The review of key financial ratios in the NDIS Organisational Readiness Toolkit Project (NDS 2014) suggests providers of varying sizes have insufficient working capital to invest in innovation and systems.

Risk/Problem	Priority ²	Organisations impacted ³	Proposed Actions	Expected benefits	Timeframe
			Demonstration Projects ⁹		
6. Investment in staff training is inadequate to respond to skills shortages and growing job role complexity	Medium	All disability service providers with financial contribution based on size ¹⁰	ix. The NDIA will review a Training Subsidy Program for self-managing participants and providers ¹¹	<ul style="list-style-type: none"> Providers are able to meet training costs for skilling workers Staff provide quality individualised support 	Jul 2016 – June 2019
7. The flow of finance into the sector is insufficient to support ongoing expansion of the market of	Medium	All disability service providers	x. NDS and the NDIA will work with social finance providers, as well as mainstream finance providers, to develop suitable products ¹²	<ul style="list-style-type: none"> Providers with loan potential are ready for commercial finance Providers can predict their future cash flows under the NDIS and evidence this to lenders Providers strengthen their financial, governance, leadership and decision-making capability 	Jul 2014 – Jun 2019

⁹ Support Redesign Demonstration Projects are the subject of a recent Sector Development Fund Proposal.

¹⁰ The industry co-contribution to the cost of training should be based on the size of the organisation taking into account the profile of the disability sector

¹¹ Employers will be eligible to apply for funding for training if they can demonstrate they have already invested in the percentage of payroll that is reflected in the unit price

¹² The pilot results of business confidence survey of the disability services sector indicate that the amount of debt/loan finance over the past 6 months is a driver of business confidence for the next six months (BMG Research, 2014, NDS Business Confidence Survey of the Disability Services Sector – Pilot).

Risk/Problem	Priority ²	Organisations impacted ³	Proposed Actions	Expected benefits	Timeframe
disability supports				<ul style="list-style-type: none"> The market of disability support is able to meet growing demand 	
Service development					
8. Disability research is not cohesive and fails to improve disability support delivery¹³	Medium	All disability service providers	xi. The NDIA will work with industry to ensure research responds to trends in provision of disability support xii. The NDIA will work with industry to enhance and expand the limited existing translational research and dissemination strategies	<ul style="list-style-type: none"> The sector obtains access to a dynamic and growing knowledge about ‘what works’ Providers develop capability to undertake small scale research and evaluation integrated with service delivery Participants are engaged in co-production of research Providers access useful and timely information through a clearing house, conferences, and communities of practice 	Jul 2014 – Jun 2019
Market development					
9. Too few opportunities for smaller organisations	Medium	Small to medium providers disability	xiii. The NDIA works with the sector to trial different models of partnership (e.g.	<ul style="list-style-type: none"> Providers increase capacity or expand scope of operations to meet growing demand for disability 	Jul 2014 – Jun 2017

¹³ The DPRWG commissioned Audit of Disability Research undertaken by University of Sydney (2014, unpublished) found that “the current disability research base is not ‘fit for purpose’ to the reform agenda and is fragmented and diversified across topics and study designs. There is not a critical mass on research topics of priority to the National Disability Strategy, the National Disability Research and Development Agenda and the National Disability Insurance Scheme” (p6 of final draft report)

Risk/Problem	Priority ²	Organisations impacted ³	Proposed Actions	Expected benefits	Timeframe
to grow in a sustainable manner		service providers ¹⁴	shared back office)	supports <ul style="list-style-type: none"> • The NDIA develops better intelligence about the changing composition of the market 	
10. Failure of niche providers that maximise social value leads to constrained choice for participants¹⁵	Medium	Micro to small disability service providers	xiv. The NDIA works with the sector to trial provider and consumer cooperatives and other ownership structures	<ul style="list-style-type: none"> • Participants have greater choice range and quality of supports • Employees are more engaged and negative effects of casualisation are reduced • Providers benefit from desirable collaborative behaviour and delivering outcomes that depend on joint action • The market is more resilient to volatile conditions because of greater diversity • The market is able to better respond to thin markets 	Jul 2014 – Jun 2017
11. Providers and	Medium	Disability	xv. NDS will expand the	<ul style="list-style-type: none"> • Providers intending to operate in 	Jul 2014 –

¹⁴ Qualitative findings from the NDS (2014) Draft Report on the NDIS Organisational Readiness Toolkit Project suggest that small to medium-sized providers require support to explore strategic alliances to create a variety of cross-sector partnerships.

¹⁵ A full exploration of the topic is available through the forthcoming Business Council of Co-operatives and Mutuals and Net Balance; 2014, Green Paper: The case for an expanding public service role for co-operatives and mutuals in Australia.

Risk/Problem	Priority ²	Organisations impacted ³	Proposed Actions	Expected benefits	Timeframe
new entrants outside of trial sites cannot obtain good information on how to operate under the NDIS	m	service providers outside trial site areas	<p>NDIS Organisation Readiness Toolkit Project to facilitate maximum reach¹⁶</p> <p>xvi. NDS and the NDIA will work together to provide information to a range of potential new entrants</p>	<p>the NDIS are ready to transition when staged rollout begins</p> <ul style="list-style-type: none"> • The NDIA achieves greater value for money by building on existing sector development initiatives¹⁷ 	Jun 2017
12. Lack of reliable, independent information on supports that can be purchased	Medium	All stakeholders	xvii. The NDIA will encourage the emergence of independent online and information websites	<ul style="list-style-type: none"> • Participants will be able to exercise choice through access to quality information • Providers will be able to access information about consumer preferences and the types of services that are in demand 	July 2014 – June 2019
13. Participant choice and capacity to	High	Disability service providers in	xviii. The NDIA will develop, trial and evaluate an approach to	<ul style="list-style-type: none"> • Participants will be able to negotiate on price, quality and quantity of support 	Jul 2015 – Jun 2016

¹⁶ Extension of the current NDIS Organisational Readiness Toolkit Project is the subject of a recent Sector Development Fund Proposal. The current project is limited to providers in trial sites.

¹⁷ A further action is to ensure all SDF funded projects managed by state governments are disseminated for the benefit of the sector in general.

Risk/Problem	Priority ²	Organisations impacted ³	Proposed Actions	Expected benefits	Timeframe
obtain value-for-money support are limited		trial sites	deregulation		