



National Disability Services Submission:  
Australian National Audit Office  
Effectiveness of the Board of the National  
Disability Insurance Agency

## **About National Disability Services**

National Disability Services (NDS) is Australia's peak body for disability service organisations, representing more than 1000 service providers. Collectively, NDS members operate several thousand services for Australians with all types of disability. NDS provides information and networking opportunities to its members and policy advice to State, Territory and Commonwealth governments. We have a diverse and vibrant membership, comprised of small, medium and larger service providers, employing 100,000 staff to provide support to half a million of people with disability. NDS is committed to improving the disability service system to ensure it better supports people with disability, their families and carers, and contributes to building a more inclusive community.

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## **1.0 Scope of submission**

National Disability Services (NDS) welcomes the opportunity to provide a submission to the Australian National Audit Office (ANAO) Inquiry: Effectiveness of the National Disability Insurance Agency (NDIA) Board. NDS is particularly interested in the audit criteria:

- Are the Board's arrangements consistent with legislative requirements and principles of effective governance?
- Does the Board have fit-for-purpose arrangements to support sufficient oversight of the entity's operations?

### **1.1 Focus on pricing**

While NDS acknowledges the broad focus of the inquiry, this submission will concentrate on the implications of the NDIA Board's arrangements on the effectiveness of pricing within the NDIS. Effective pricing and pricing governance are essential for both the sustainability of the Scheme and the provision of high-quality supports to participants.

For the ANAO's consideration, this submission will address key areas regarding the impact of the NDIA Board's arrangements on pricing effectiveness within the NDIS. These areas include: the lack of transparency in how pricing decisions are made and communicated; conflicts of interest; inadequate reviews; and a short-term focus that may overlook long-term sustainability and quality considerations in support delivery.

Additionally, we propose the following targeted recommendations to improve the transparency, fairness and effectiveness of the pricing framework and better support the NDIS's sustainability and service quality:

- establish an Independent Pricing Authority in alignment with NDIS Review findings
- implement a cost-reflective pricing model within the new NDIS pricing and payments framework
- implement a supplement for NDIS registered providers
- create a suite of structural adjustment measures to support industry transformation, including an industry transformation fund
- clarify accountability for sustainability and governance of the NDIS.

## 2.0 What role does the NDIA Board play in pricing?

Examining pricing is crucial when evaluating the effectiveness of the NDIA Board. By assessing how the NDIA Board manages pricing, the ANAO can gauge their effectiveness in governing the NDIS and fulfilling their responsibilities.

Effective pricing directly impacts the NDIS's long-term sustainability, service quality, availability and participant choice in the following ways.

- **Sustainability of the NDIS:** Pricing is a core element of the Scheme's financial health. If prices aren't set effectively or accurately, the Scheme becomes unsustainable, affecting everyone who relies on it.
- **Quality of NDIS supports:** Pricing directly affects the quality of supports participants receive. If prices are too low, providers struggle to attract and retain qualified staff or invest in resources such as staff training, supervision, technology for better service delivery, and accessible infrastructure, ultimately impacting the quality of care.
- **Availability of NDIS services:** Pricing influences the availability of services, particularly in underserved areas or for specific support types. Unattractive prices may discourage providers from operating in certain regions or offering specialised services; in particular, for participants with the most complex support needs.
- **Participant choice and control:** Pricing can limit participant choice and control over their NDIS plan. If certain support options are priced too high, participants may be forced to choose less effective or desirable options to stay within budget.
- **Board's role in effective governance:** The NDIA Board is responsible for effective NDIS governance, which includes ensuring the Scheme is financially sustainable, delivering quality services and empowering participants. Pricing plays a critical role in achieving these goals.

## 3.0 Approach to pricing

The NDIA's approach to pricing is a key component in managing the NDIS and ensuring its sustainability. The NDIA Board plays a pivotal role in shaping and overseeing the pricing framework within the Scheme.

## **Pricing arrangements and price limits**

The NDIA sets pricing arrangements and price limits to ensure that participants receive value for money in the supports they access. Price limits define the maximum amounts that registered providers can charge for specific supports. Participants and providers have the option to negotiate lower prices within these limits. The Support Catalogue details the available supports, price limits and applicable claim types. This system aims to promote fairness and consistency in the pricing of supports and services.

The NDIA Board is responsible for setting the strategic direction of the NDIA, which includes overseeing the pricing arrangements for NDIS supports. The Board ensures that pricing policies align with the NDIS Pricing Strategy, which seeks to balance market supply, growth and financial sustainability. The NDIA Board, supported by the Pricing Arrangement Reference Group (PARG), makes critical decisions on price caps and adjustments, reflecting the need for a functional and equitable market.

## **Mechanisms for pricing decisions**

The NDIA employs various mechanisms to inform pricing decisions, including financial benchmarking surveys and annual pricing reviews. The financial benchmarking surveys, conducted independently, collect data on provider costs and performance, helping to set evidence-based price limits. Annual pricing reviews assess the effectiveness of pricing arrangements and make adjustments based on market conditions and feedback. The PARG provides advice to ensure that pricing decisions support optimal outcomes for participants and promote a sustainable market.

## **Challenges and transparency**

Despite these mechanisms, challenges remain. The pricing process has faced criticism for a lack of transparency and insufficient consideration of participant or provider input. The reliance on historical data and the opacity of decision-making processes have led to calls for greater transparency and the establishment of an independent pricing regulator to improve market confidence and ensure fair pricing.

## **4.0 Review of NDIS pricing strategy and its impacts**

The dilemma of pricing human and social services is not unique to the NDIS. In fact, there have been a range of reforms to sister systems, such as aged care and health. Consequently, we have an opportunity to learn from these reforms (and other Australian and international systems) and take a best-practice approach.

However, prices within the NDIS are fixed. Unlike other business sectors, registered NDIS providers are not able to increase prices in response to inflationary pressures or increased regulation and compliance measures. Therefore, they have little choice but to absorb these costs or cease services.

The effectiveness of the NDIA Board in overseeing and implementing NDIS pricing strategies is pivotal to the Scheme's overall performance and sustainability. This submission will examine critical aspects of the NDIS pricing strategy, highlighting the Board's role in ensuring transparency and fairness in pricing decisions. We will examine the Disability Support Worker Cost Model and its alignment with market realities. We will address the conflicts of interest in setting equitable prices while managing Scheme costs, and we will evaluate the adequacy of pricing reviews. And we will explore the impact of the Board's short-term focus on pricing outcomes and its broader effects on service provision. Through this examination, we will identify key areas for improvement in the NDIA's pricing approach and its governance, which will improve the Scheme's effectiveness and provider viability.

### **4.1 Transparency in pricing decisions**

The NDIS pricing process lacks transparency and predictability. The NDIA Board, with final authority on price caps, relies on advice from the PARG, which is chaired by a NDIA staff member and includes independent members. This arrangement has been criticised for not providing sufficient transparency and for using limited data, which undermines confidence in the pricing process. Our key concerns include the unclear nature of pricing decisions and the lack of independent oversight. We call for a more transparent approach and an independent pricing body to ensure evidence-based, fair pricing.

"... despite the flattening of the downward trend in the 2022-23 FY, the pricing decisions taken by the NDIA Board have not been sufficient to ensure the ongoing viability of participating organisations over the long term ... assuming costs and other revenue don't fundamentally change, more than 76% of the group will operate at a loss [in 2023-24 FY]. For more than 50% of the group this would mean three years trading at a loss."

The Ability Roundtable

Improving NDIS pricing and payment approaches offers significant opportunities. When effectively designed, market-based approaches to social services—where participants have choice and providers compete – can drive innovation, reduce service delivery costs, and enhance the quality of supports and participant outcomes.

The blunt and obscure way in which the NDIS pricing and payment approach has been set and applied has not effectively aligned incentives for participants, providers and governments to support well-functioning NDIS markets. The NDIA Board should urgently address these issues to ensure that pricing and payment frameworks are transparent, evidence-based and designed to incentivise positive outcomes across the system. The Board's strategic role in overseeing these arrangements is crucial in realigning incentives and fostering a more effective and sustainable NDIS marketplace.

### **Appropriate price settings are critical for market development and participant outcomes**

Appropriate pricing settings are critical for both NDIS market health and positive participant outcomes. The settings establish the maximum amounts providers can charge for supports. They balance the prevention of price inflation by larger providers while ensuring that services deliver value for money. Despite these objectives, the methodology for setting and applying price caps has created significant challenges. The lack of transparency and the inflexible application of these caps impede providers' ability to address participants' needs effectively, invest in workforce development and foster market confidence and innovation. The result is unintended market distortions.

Most NDIS supports are subject to a price cap, with around 83 per cent of payments in 2022–23 falling under this system. Initially, price caps were introduced to stabilise the market during the development phase of the NDIS. The intention was to prevent



inflation, improve efficiency and ensure that participants received value for money as the market for disability supports matured.

However, a decade into the Scheme's implementation, these caps have remained the primary tool for market regulation. This approach has not effectively supported providers in meeting participants' evolving needs. Nor has it promoted confidence or innovation within the market. Moreover, the use of price caps has not adequately addressed other critical market development priorities, such as quality improvement, the adoption of evidence-based care models, accountability for outcomes, and the achievement of participant goals over time. It's also important to note that price caps can realistically only be enforced on registered providers, who represent just 10% of the market.

### **Disability Support Worker Cost Model**

The Disability Support Worker (DSW) Cost Model is a critical component in NDIS pricing. It is the basis for determining price limits for various supports provided by disability support workers. This model calculates the fully loaded cost of a billable hour of support by integrating numerous cost factors. These include the base pay rates derived from the Social, Community, Home Care and Disability Services (SCHADS) Award, shift loadings for various times and days, leave entitlements (such as annual and sick leave), salary on-costs (like superannuation and workers' compensation), and employee allowances for roles with additional skills or responsibilities. The model also accounts for operational overheads, including supervision costs, non-billable activities, such as training and compliance tasks, and corporate overheads.

As the foundation for setting most prices within the NDIS, the DSW Cost Model faces several criticisms:

- **Inaccurate base pay assumptions:** Critics argue that the base pay rates used in the model are too low and do not reflect the complexity and varied nature of disability support work. The model often classifies support workers at lower SCHADS Award levels, underestimating the skills and responsibilities required for many support roles.
- **Limitation on hiring skilled staff:** The model restricts providers' ability to recruit and pay higher-skilled or more experienced staff. The price limits assume that supports are delivered by workers at specific levels, which means providers

cannot charge more for services delivered by higher-level, more skilled workers. This creates a contradiction with industrial instruments that require providers to pay skilled workers at higher rates, essentially incentivising providers to hire lower-skilled workers to remain financially sustainable.

- **Unrealistic utilisation rates:** The model assumes high utilisation rates, meaning it expects that a large portion of support workers' time is spent on billable, client-facing activities. This fails to account for necessary, non-billable activities, such as training, supervision, reflective practice and compliance tasks.
- **Insufficient leave entitlements:** The model does not adequately incorporate all leave entitlements, such as additional annual leave for shift workers or jurisdiction-specific leave requirements. This can lead to the underestimation of the actual costs of providing supports.
- **High span of control:** The model assumes a high span of control for supervision, which can limit effective supervision and support for workers. This is particularly problematic for services involving complex support needs, where more intensive supervision is necessary.
- **Lack of detailed overheads:** The model's calculation of operational overheads is criticised for being vague and not providing for essential employer-funded training or enterprise bargaining costs. It also does not include specific allowances, such as first aid or travel allowances, which are critical for support workers, especially in regional and remote areas.
- **Market limitation:** By using the SCHADS Award as a ceiling rather than a floor for wages, the model restricts providers' ability to offer competitive wages that could attract and retain skilled workers, thereby affecting the quality and stability of the workforce.

NDS believes that the DSW Cost Model employed by the NDIA is fundamentally flawed. The pricing strategy underpinning it is designed to be viable for only the most efficient 25 per cent of providers; it effectively accepts that 75 per cent of providers may operate at a loss. The intention is to incentivise efficiency, encouraging less efficient providers to improve their efficiency to reach the 25th percentile. However, this expectation is impractical and disconnected from the realities faced by providers. External cost factors, such as cost-of-living pressures, inflation, adjustments to NDIA billing systems, increased obligations imposed by the NDIS Commission and rising insurance costs, lie beyond the control of providers. These render it nearly impossible

for struggling providers to improve efficiency. Consequently, fewer than one in four providers have costs below the established price cap.

The NDIA's methodology establishes an 'efficient' cost for disability support workers that is lower than some other social services. For example, the Nationally Efficient Price for public hospitals is based on the average cost of care. The 2023–24 DSW Cost Model assumes a corporate overhead cost of 12 per cent and a profit margin of 2 per cent, irrespective of participant outcomes. In contrast, a 2022 report by Social Ventures Australia and the Centre for Social Impact found that the average overhead cost for not-for-profit providers was 33 per cent of total costs.

“The NDIA Cost Model that informs the pricing of core supports is fundamentally flawed. A number of the original assumptions that underpin the NDIA Cost Model do not reflect market data (e.g. overheads/operating expenses, salary, workers compensation costs), or make projections about performance which are, at best, based on estimates drawn from a broad service and client base which are not comparable. Consequently, the sector is forced to fund the gap to cover the full cost of an hour of support.”

The Ability Roundtable

“The price model does not recognise the time needed to deliver quality services to NDIS participants. DSW's have inadequate time to build relationships with participants, follow up on participants' needs, coordinate and communicate with supervisors and other workers, complete paperwork, debrief and handover between shifts. This results in low quality of care.”

Australian Services Union

Price caps set too low can undermine provider viability, making it challenging for providers to adapt to market changes. Insufficient price caps may compel providers to either reduce the quality of services or increase the volume of supports delivered to maintain financial stability, negatively affecting both participants and the NDIS.

Numerous service providers and peak provider organisations have said that the sector is approaching a crisis, with inadequate pricing threatening providers' sustainability within the NDIS.

The Ability Roundtable has shown the financial strain on service providers by analysing data from 40 organisations with approximately \$5 billion in revenue, over 35,700

employees and nearly 57,000 NDIS participants. It revealed that 68 per cent of these organisations reported a loss for 2021–22, with a median loss of 2.6 per cent, and 64 per cent reported a loss during the first half of 2022–23, though with a median profit of 0.8 per cent. The nine per cent increase in disability support worker pricing from the 2021–22 Annual Price Review, which provided temporary financial stabilisation, proved inadequate for long-term viability. Projections indicate that more than 76 per cent of the group will likely operate at a loss in 2023–24, with over 50 per cent experiencing three consecutive years of losses.

Similarly, the StewartBrown Disability Services Financial Benchmark Report noted that 61 per cent of organisations reported an operating loss in 2021–22, an increase from 47 per cent in 2020–21. The average operating margin was a loss of 2.6 per cent, with the bottom quartile experiencing an average loss of 12.6 per cent, while the top quartile reported an average profit of 5.8 per cent. The report highlighted that such persistent operating losses are unsustainable and detrimental to both sector investment and provider viability.

The NDIS price-setting process has a lack of transparency, predictability and confidence. The absence of independent advice and evidence in pricing decisions generates uncertainty for providers and deters investment in the sector. For example, prices for certain supports, such as support coordination and therapy, have remained unchanged since 2019–20 and are not supported by any detailed cost modelling. The lack of transparency undermines confidence. Providers and practitioners have little way of knowing whether the NDIA sufficiently considered evidence and data presented during Annual Pricing Review consultations.

Although the NDIA has established a Pricing Arrangement Reference Group, it lacks the independence and transparency to build trust in the pricing process. Providers are concerned about fairness and must rely on limited explanations for decisions, which have prompted their calls for an independent pricing regulator. The Productivity Commission and the NDIS Review have both recommended the implementation of independent price monitoring and regulation by a government body. This will ensure evidence-based, transparent pricing that fosters investment and high-quality support provision.

These criticisms highlight the need for more flexible and realistic cost modelling that better captures the true costs and complexities of delivering disability support services.

The NDIA should reconsider and revise their pricing approach. Failure to do so could result in significant falls in quality within service provision. It is already undermining the viability of many providers.

## 4.2 Conflict of interest

### Setting fair prices while containing Scheme costs

The NDIA Board's dual responsibility for setting prices and managing Scheme sustainability creates a conflict of interest. The Board's focus on short-term cost control can conflict with setting fair, sustainable prices. The tension between managing immediate financial pressures and ensuring long-term viability often results in pricing decisions that may not align with the needs of providers or participants, leading to market inefficiencies and dissatisfaction among stakeholders.

The NDIA's role in the NDIS market presents a potential conflict of interest that hinders effective market stewardship. This conflict arises from the NDIA's dual responsibility:

- **Delivering the NDIS within the funding allocated:** The NDIA Board is responsible for ensuring that the NDIS is delivered within the budget allocated by government. More broadly, it is responsible for setting policies that aim to ensure its long-term financial sustainability.
- **Market stewardship:** The NDIA oversees the functioning of the NDIS market, aiming to foster competition, service quality and participant choice.

Effective pricing directly impacts the NDIS's long-term sustainability, service quality, availability and participant choice. Recent market developments show up potential conflicts of interest when the NDIA Board sets prices, because budgetary pressures might influence decisions that should prioritise participant needs. For instance, the government has projected \$14 billion in savings from addressing intra-plan inflation. This may lead to planning decisions that have more to do with cutting costs than any formal policy decision.

Moreover, controlling budgets has an influence on decisions about service quality and availability. Unattractive pricing may discourage providers from operating in certain regions or offering specialised services, limiting participant choice and control over their NDIS plan.

Such examples illustrate the dual role of the NDIA Board, ensuring effective governance through pricing strategies that balance financial sustainability with participant needs.

This duality creates conflicts:

- **Price setting and budgetary pressure:** The NDIA sets price caps for NDIS services. If the NDIA prioritises budget control, they might set price caps that are too low and prioritise provider cost cutting over quality service delivery. This could lead to providers of high quality to leave the market.
- **Data bias:** Metrics used to assess market health, such as provider payment activity, might be heavily influenced by the NDIA's own budget framework. This could lead to a situation where the NDIA prioritises metrics that reflect a low-cost market, even if it comes at the expense of participant well-being and service quality.
- **Limited incentives for innovation:** With a focus on financial sustainability, the NDIA might be less likely to support innovative service models or price structures that could benefit participants in the long run, even if these models require upfront investments.
- **Unregistered market incentives:** The lack of differentiation in pricing between registered and unregistered providers creates a perverse incentive for some providers to remain unregistered and unregulated. This situation undermines the Commission's goal of monitoring and ensuring the delivery of quality and safe services, as it allows unregistered providers to operate without the same scrutiny and standards as their registered counterparts.
- **Lack of transparency in pricing arrangements:** The issue extends beyond the price limits themselves to include the transparency of the rules governing how providers can claim these prices. For instance, recent changes, such as the removal of high-intensity support claiming in the price guide, were not communicated effectively to providers and were buried in fine print without explanation. This lack of transparency can leave participants with complex needs at risk, potentially resulting in less experienced staff providing their supports. If the government believes that independent pricing alone will address transparency issues, it overlooks the critical need for clear guidelines on how

pricing can be claimed. The agency and Board's continued control over claiming rules necessitates greater transparency in decision-making beyond just setting the prices.

Participants ultimately bear the brunt of the NDIA's potential conflict of interest. Tight budget controls might lead to lower price caps, discouraging investment in qualified staff and ultimately reducing service quality. There is limited choice if price caps restrict new providers from entering the market or from entering only to provide certain services. This can leave participants with fewer options and limited access to specialised services. Most importantly, changes in pricing in order to reduce costs, such as the removal of a particular support in the price guide, may override what has already been assessed in a participant's plan as a reasonable and necessary level of support – lending credibility to the perception that the NDIA prioritises finances over participant wellbeing and eroding trust in the entire NDIS system.

The question arises: Are there robust processes in place for the Board to oversee periodic price reviews and ensure they accurately reflect the cost of delivering quality NDIS supports? The evidence suggests no — their mechanisms are insufficient. The NDIA Board's failure to address the real costs of supports points to a lack of comprehensive and responsive review processes. The pricing models and review practices do not adequately capture the spectrum of costs, nor do they adjust for inflationary pressures and operational challenges. This shortfall compromises the ability of providers to maintain service quality and financial stability, thereby jeopardising the overall sustainability of the NDIS.

For the NDIA Board to fulfill its role as an effective steward of the NDIS, there must be more robust processes for periodic price reviews. These processes must ensure that pricing adjustments are timely, reflective of actual service delivery costs and responsive to market changes. Improving oversight mechanisms will better align the pricing framework with the true financial pressures faced by providers, thereby supporting the delivery of high-quality NDIS supports and ensuring the long-term viability of the Scheme.

### 4.3 Inadequate pricing reviews

The Annual Pricing Review (APR) conducted by the NDIA has faced criticism for not adequately addressing market conditions and provider concerns. NDS's [submission](#) to the 2023–24 APR outlined a clear roadmap for a sustainable NDIS, prioritising quality service provision. The submission described a disability sector at breaking point.

The review outcomes did not acknowledge the true cost of service provision, nor did it foster market confidence. The lack of comprehensive, transparent data from the NDIA and the decision to forego the 2022–23 Financial Benchmarking Survey have compounded these issues, leading to an unclear and potentially flawed pricing model that fails to support provider viability.

The effectiveness of the NDIS pricing strategy has come under scrutiny, particularly the inadequacy of pricing reviews conducted by the NDIA Board. Recent findings from the [Ability Roundtable](#) reveal a critical misalignment between the NDIA's DSW Cost Model and the actual costs incurred by providers, indicating systemic flaws in the pricing methodology and substantial financial stress within the sector. These gaps indicate a failure to align pricing with the financial realities of providers, causing entrenched sector-wide losses and escalating financial stress.

According to the Ability Roundtable's analysis, there is a 10.9 per cent discrepancy between the DSW Cost Model assumptions and the actual cost of delivering an hour of support for the 2023–24 financial year. This gap is projected to widen to 11.6 per cent in the 2024–25 financial year and extend to 13.3 per cent when accounting for the proposed Reform and Transition Loading. Even when using the NDIA's "efficient" pricing model, the projected difference is 9.3 per cent. These discrepancies are a failure to align the pricing framework with the real financial pressures on providers.

The Ability Roundtable's data underscores the entrenched financial losses across the NDIS registered provider sector. While a minority of organisations are managing to operate profitably, it is insufficient to sustain the overall marketplace. The pricing framework, which presumes a two per cent profit margin, is increasingly disconnected from the realities of rising costs and inflationary pressures. The misalignment threatens the sector's stability and risks causing market failures, potentially leading to a loss of essential skills and expertise.



The situation is further exacerbated by recent policy changes, such as the removal of the Temporary Transformation Payment (TTP) and Temporary Loading. It effectively means a 2.5 per cent reduction in prices. Simultaneously, providers face greater administrative costs from the implementation of recommendations from the NDIS Review and the Disability Royal Commission.

The rollout of the NDIA's PACE system has introduced further financial burdens, including the need for staff training and system updates. The time, expense and inconvenience of dealing with the Agency over the system's many bugs have added to the financial strain on the sector.

We expect passage of the NDIS legislation currently before federal parliament will lead to further major reforms in the near future, particularly around what supports participants can access and how plan budgets are set and used. This will lead to further time, expense and change management for participants and providers to manage, including more unfunded and unbillable work for providers to try and absorb in an already difficult budget situation.

### **Insufficient responsiveness to data and urgent pricing issues**

The NDIA 2023–24 Annual Pricing Review Report notes:

- **Market growth and challenges**
  - The NDIS market is experiencing significant growth, with both registered and unregistered providers seeing increases in numbers and claim amounts. This indicates a market that is adapting to meet rising demand.
  - However, a potential concern arises from the decline in registered providers despite their increased claim amounts. This suggests a shift towards unregistered providers, which may raise questions about quality control and consistency.
- **DSW Cost Model scrutiny**
  - The DSW Cost Model, used to set price limits for DSW services, faces criticism for potentially underestimating provider costs. Stakeholders point to factors like underestimated corporate overheads, lack of differentiation for complex needs, and setting efficiency levels that may not reflect current market realities.

- In response, the NDIA seeks to improve the model by incorporating data from recent surveys and mandated reporting from not-for-profit organisations. However, challenges remain in accurately capturing costs across diverse provider structures and differentiating NDIS-specific activities from broader organisational functions.
- **NDIS pricing reform on the horizon**
  - The Australian Government acknowledges the need for reform in NDIS pricing structures. This aligns with initiatives like the Department of Social Services' Pricing and Payments Framework and the Independent Health and Aged Care Pricing Authority's (IHACPA) planned work for 2024–25. These initiatives aim to improve efficiency, effectiveness and data-driven decision-making.
- **Support coordination in flux**
  - The NDIS Review highlighted inconsistencies in support coordination delivery. While the number of providers, particularly Level 2 providers, has significantly increased, there are concerns with cost pressures and maintaining service quality under the current financial model.
  - Acknowledging the upcoming reforms proposed by the NDIS Review, the report advises against developing a specific cost model for support coordination at this time. This aims to minimise disruption during the transition to a potentially revamped intermediary service structure.

Despite the number of submissions received from providers and peak bodies and the presentation of independent benchmarking data; the APR failed to understand the needs of the sector:

- **Financial stability:** Our submission highlighted the financial crisis gripping providers. Many reported their worst year ever, with deficits rising and reserves dwindling. Despite acknowledging the need to address these issues, the NDIA's response lacked the urgency required.
- **Quality over quantity:** We emphasised the importance of pricing that incentivises quality care. This includes fair wages, staff development and robust quality assurance measures. Unfortunately, the NDIA's approach prioritises quantity of services over the quality of services.

- **Cost-reflective pricing:** NDS proposed adjustments to reflect rising costs across the Board, including CPI, wages and overhead expenses. The NDIA's minimal price increases fail to cover these rising costs, putting further strain on providers.

The results of the recent pricing review are a missed opportunity to invest in a sustainable disability support sector:

- **Limited price increases:** NDS called for full CPI and WPI adjustments, but the NDIA only implemented a partial increase. This leaves providers struggling with inflation and rising wages.
- **Rejection of quality incentives:** NDS proposed supplements for registered and intermediary providers to incentivise high standards. The NDIA's rejection of these proposals sends a worrying message about their commitment to quality.
- **Stagnant pricing for crucial services:** The 5-year freeze on prices for therapy, plan management and support coordination creates a growing funding gap, jeopardising access to these vital services for participants with complex needs.

This inadequate funding ultimately results in:

- **Loss of quality providers:** High-quality providers, unable to absorb rising costs, may be forced to leave the NDIS. This creates a double whammy for participants — reduced access to essential services and a potential increase in unregulated or unqualified providers.
- **Deterioration in service quality:** Without proper funding, service quality inevitably suffers. This jeopardises participant safety and well-being.

### **Recent NDS survey shows most providers are reconsidering their future**

Following the release of the APR, NDS conducted a survey to assess the impact that the decision would have on providers and the participants that they support. The survey revealed a shift in thinking — from finding ways to cut budgets without cutting corners to seriously considering cutting services entirely.

Unhappiness and anger over pricing was unmistakable in many responses: “The NDIS price system is a cruel joke that is putting the most vulnerable at the most risk and slow[ly] crushing the quality providers to death” [multi-state provider].

The survey drew responses from small to large operators from every state. Of the 1258 responses to the question, **Are you actively reconsidering your organisation's future as a result of the new price limits?** 84 per cent (1062) said yes and just 10 per cent said no.

<b>Are you actively reconsidering your organisation's future as a result of the new price limits?</b>	<b>Number</b>	<b>Per cent</b>
Yes	1,062	84 per cent
No	124	10 per cent
Don't know	72	6 per cent
<b>Total</b>	<b>1,258</b>	<b>100 per cent</b>

The second question dealt more directly with service delivery: **Are you considering stopping some or all of your disability services as a result of the new price limits?** Three-quarters of respondents said that they were thinking about cutting services, 14 per cent said they didn't know, and just ten percent said no.

<b>Are you considering stopping some or all of your disability services as a result of the new price limits?</b>	<b>Number</b>	<b>Per cent</b>
Yes	940	75 per cent
No	137	11 per cent
Don't know	181	14 per cent
<b>Total</b>	<b>1,258</b>	<b>100 per cent</b>

The third question was a free text response asking those who are considering cuts to services for more detail about the types of services they might cut, when they might cut them, the effects of their cuts to regional and remote services, and how many participants might be affected.

Their responses gave a complex picture of service delivery, with financial and other pressures coming from all sides and a range of strategies under consideration for survival.

For one WA provider, the APR decision was just one more reason to stop supporting NDIS participants altogether, citing “lack of clarity, additional time requirements, no stable supports, poor NDIS staff training, payment limits below other funding ... and the seemingly very dodgy push to move to large providers...”

For most providers, costs rising faster than prices is the crucial issue. One Victorian organisation claiming a loss of \$870,000 in the last financial year, said that price increases did not cover the 1 July wage increases for long-term staff, “without beginning to consider insurance, energy bills, Workcover, etc ... If we don’t turn things around in the next 12 months, we will likely close before end of FY24–25...”

One regional NSW provider, who is considering its options, admits that closing its doors is one of them: “This [would] impact significantly not only [our] participants and their families but also the staff that would be out of a job.”

As we have seen in previous surveys, unrealistic pricing unfairly affects registered providers, who have extra compliance costs: “I am being forced to de-register my business as I can no longer afford the costs associated with this expense.” [Vic. provider].

In the past, many organisations have cross-subsidised services, moving funds from one area with profits to NDIS services that are making a loss. The survey shows that financial juggling of this type has reached its limit: “While in previous years the slight margin we receive through SIL was able to subsidise other services, this year shrinking funding has meant we can no longer rely on this” [NSW provider].

As narrow margins turn into losses, providers look to cut travel to support participants: “Will no longer travel further than what is billable. Used to absorb this expense” [SA provider]. Many rightly pointed out that limiting travel will hit regional and remote services most.

Another solution being considered is downsizing — “To save the business [we] will need to reconsider size of business, moving to smaller premises” [Qld provider]. Laying off staff is now an option for many organisations: “[We] will need to reduce hours for all staff, if not make them redundant, with no price increase for capacity-building supports” [NSW provider].

Other providers are moving their businesses away from disability to aged care, where “[t]he wages are higher so it's easier to attract staff, pricing is higher, and the margins are better. And there is less red tape and less likelihood of unreasonable fines being imposed” [Multi-state provider].

Responses indicated that those participants at gravest risk of cuts include those needing the most support. One NSW provider will be telling participants who depend on complex, high intensity supports that they will soon “cease any unfunded supports ... reduce unfunded nursing support, reduce ratios in SIL that have previously been covered and now not funded in plans, [and may make] ... changes to staffing (use of agency, etc.).”

For participants with complex behaviours, the pricing does not recognise the specialist skills to support them: “Given the inability to claim high-intensity support for participants with complex behaviours, we will be looking to cease servicing these existing participants and refusing to accept new participants with complex behaviours” [Tas. provider].

And participants in regional, remote and rural areas will feel the brunt of withdrawn services: “Sixty-five per cent of our clients are rural and remote ... If we close our doors there aren't any other local providers to fill the gap. [Five] years of price freeze with current inflation is killing us” [SA provider].

Many providers, however, are determined to keep providing high-quality services, even if it means losses. While this approach is admirable and in keeping with the ethos of the sector, it is not sustainable.

The NDIA Board’s oversight in addressing these inadequacies in pricing reviews reflects a broader failure in ensuring the financial sustainability of the NDIS. The pricing models and review processes do not adequately capture or address the increasing costs and operational challenges faced by providers. This failure has significant

implications for the sector's ability to deliver quality supports and to adapt to ongoing reforms.

To try and rectify these issues, a thorough reassessment of the pricing strategy is necessary. The NDIA Board must address these discrepancies by implementing more accurate and responsive pricing reviews that reflect the true cost of service provision. This will be crucial in ensuring the long-term viability of the sector and in supporting the effective implementation of necessary reforms. Improved pricing mechanisms will also help maintain provider engagement and ensure the continued delivery of high-quality care to participants, thus reinforcing the integrity and sustainability of the NDIS.

#### **4.4 Short-term focus and monitoring of pricing outcomes**

The NDIA's pricing approach has been criticised for its short-term focus on cost control rather than long-term sustainability. This approach has not effectively addressed broader market development priorities, such as quality care and participant outcomes. The pricing model does not align well with market dynamics or the diverse needs of participants, and it fails to promote innovation and provider investment in the sector.

##### **Business dynamism: A sign of a healthy market?**

Effective market stewardship is essential for the NDIS to achieve its goals. While the NDIA has tried to regulate the market, challenges persist. This section delves into one of the NDIA's measures of market health: business dynamism of registered providers. While valuable, this metric has limitations in fully capturing the market's condition.

Key metrics from the [2023–24 Annual Pricing Review report](#) include:

- **High continuity among key providers**
  - A significant portion (38 per cent) of registered providers have consistently received payments over a three-year period, indicating market stability.
  - These consistent providers account for a substantial share (75 per cent) of total payments, suggesting they are crucial players in the market.
  - This high continuity allows the NDIA to focus on established providers with a proven track record, simplifying market oversight.

- **Shift towards larger providers**

- The data shows a trend towards registered providers serving more participants.
- This suggests a consolidation in the market, with a smaller number of providers.
- The NDIA needs to ensure larger providers maintain quality service delivery while managing a larger client base.
- This might require the NDIA to implement regulations or incentives that encourage quality care despite growth.

- **Limited provider exit**

- The rate of inactive providers claiming zero DSW payments suggests many exit from the DSW market altogether, rather than just offering other NDIS services.
- Low exit rate (0.2 per cent) indicates a relatively stable market composition, which can be positive for continuity of care.
- While stability is good, the NDIA should monitor if this low exit rate hinders new provider entry or market innovation.
- The NDIA might need to explore reasons for provider exits to understand if any market barriers exist.

- **Focus on smaller providers**

- The data reveals a significant number of inactive providers previously received low DSW payments (under \$10,000 per half-year).
- This suggests smaller providers might struggle to compete or find sustainability in the market.
- The NDIA needs to consider policies that support smaller providers, especially those serving niche needs or regional areas.
- This could involve exploring alternative funding models or simplifying administrative processes for smaller providers.



Business dynamism data, while informative, gives a limited perspective on the health of the NDIS market. It tracks provider activity through payments rather than assessing service quality or participant outcomes. This focus on overall market exits overlooks challenges within specific service categories. New entrants might not represent innovation, and established providers might innovate without frequent market churn. And national data can mask regional issues with provider availability or competition. For effective market stewardship, the NDIA needs a more comprehensive approach.

Despite efforts to regulate the market and monitor business dynamism, the NDIA's focus on metrics, such as provider continuity and market stability, does not capture the nuances of service quality and participant experience. For instance, while high continuity among key providers and a shift towards larger providers might indicate market stability, these factors do not necessarily reflect whether pricing decisions are leading to workforce issues or constraining participant options. The low rate of provider exits and the trend toward consolidation do not reveal the underlying pressures faced by smaller or regional providers, nor do they address potential barriers to entry or market innovation.

The NDIA's reliance on broad indicators without a robust mechanism to track and address the direct impacts of pricing decisions on service quality and provider sustainability is a significant oversight. A more comprehensive approach is required to ensure that pricing reviews are not only financially viable but also support a dynamic and effective service delivery system that meets the diverse needs of participants and maintains a robust workforce.

In conclusion, the NDIA Board's approach to pricing strategy, as seen in the opacity of pricing decisions, conflicts of interest, inadequate pricing reviews, and short-term focus on monitoring outcomes, shows a large failure in effective governance. The Board's communication on pricing methodologies and rationale has been insufficiently clear and transparent, failing to adequately engage with stakeholders, including participants and service providers. This lack of transparency not only undermines trust but also impedes stakeholders' ability to understand and adapt to pricing decisions that directly affect their operations and service delivery.

## 4.5 What is the impact on service providers?

Service providers are under great financial stress from low price caps that do not cover the full costs of service provision. Many providers are operating at a loss, with some facing multiple years of financial difficulties. The pricing model has led to reduced service quality and limited provider investment, impacting their ability to deliver effective and innovative supports. Financial instability among providers threatens their long-term viability and the overall effectiveness of the NDIS.

The [NDS 2023 State of the Disability Sector](#) annual survey and report, in collaboration with the Centre for Disability Research and Policy at the University of Sydney, sheds light on the challenges faced by disability providers. The findings depict a sector teetering on the brink.

The report found:

- 72 per cent of not-for-profit providers and 67 per cent of for-profit providers are worried that they will not be able to provide NDIS services at current prices.
- 34 per cent of providers made a loss in FY 2022–23; 18 per cent broke even.
- 82 per cent of respondents received requests for services that they could not fulfil.
- 78 per cent reported extreme to moderate difficulty finding support workers, with availability of allied health professionals ranging from low to non-existent.

As the provider sector responds to the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability (the Royal Commission) and NDIS Review recommendations, the State of the Disability Sector Report points to the urgency and significance of addressing the issues in ways that foster and build a sustainable sector for people with disability.

### **Organisation finances and general operating environment**

Worries about future financial conditions that were expressed in past surveys were realised in this year's survey: fewer respondents broke even (18 per cent) and far more made a loss (34 per cent). Only 43 per cent reported a profit, down from 46 per cent last year. Once again, this is consistent with past projections, with the largest difference being that slightly more organisations (46 per cent) projected a surplus than the 43 per cent that ended up achieving one.

**Table 1:** In its most recent full financial year (year ending 30 June 2023) did this organisation make a loss, break-even or make a profit (surplus) for its disability services?

<b>Year</b>	<b>Broke even or close to break-even</b>	<b>Made a loss and or deficit</b>	<b>Made a profit and or surplus</b>	<b>Don't know or new entity</b>
2016	20 per cent	21 per cent	55 per cent	4 per cent
2017	20 per cent	23 per cent	53 per cent	3 per cent
2018	18 per cent	28 per cent	48 per cent	6 per cent
2019	17 per cent	24 per cent	54 per cent	5 per cent
2020	12 per cent	19 per cent	67 per cent	2 per cent
2021	10 per cent	19 per cent	68 per cent	4 per cent
2022	28 per cent	23 per cent	46 per cent	3 per cent
2023	18 per cent	34 per cent	43 per cent	6 per cent

**Table 2:** Do you expect your organisation will make a loss (deficit), break-even or a profit (surplus) on its disability services in this current financial year (year ending 30 June 2024)?

Year	Break-even or be close to break-even	Make a Loss and or deficit	Make a profit and or surplus	Don't know or new entity
2015	20 per cent	22 per cent	55 per cent	4 per cent
2016	35 per cent	17 per cent	40 per cent	7 per cent
2017	29 per cent	24 per cent	43 per cent	4 per cent
2018	25 per cent	23 per cent	43 per cent	9 per cent
2019	25 per cent	13 per cent	56 per cent	6 per cent
2020	23 per cent	16 per cent	58 per cent	4 per cent
2021	26 per cent	23 per cent	45 per cent	6 per cent
2022	16 per cent	36 per cent	46 per cent	1 per cent
2023	27 per cent	26 per cent	43 per cent	4 per cent

This is the lowest rate of respondents to report a profit (surplus) since this question was first asked in 2015.

Discounting the two COVID–19 years of 2020 and 2021, when pandemic funding created an anomaly, there is a consistent downward trend in the rate of providers achieving profits or surpluses over the past eight years, and a corresponding trend of more providers reporting losses. This year was the highest recorded rate of respondents reporting a loss since 2015.

No significant differences emerge between states and territories. However, respondents who provide services in metropolitan or larger centres are more likely to report a loss and less likely to report a profit. Also, not-for-profit organisations, larger organisations and organisations established before the set-up of the NDIS are all more likely to report

a loss than for-profit organisations, smaller organisations and organisations established after the NDIS came in.

Fewer respondents project a loss or deficit for the current financial year (26 per cent), resulting in an increase in organisations projecting that they will break even (27 per cent) and the proportion of organisations projecting a profit or surplus remained relatively stable (43 per cent). In past reports, projections have often proved accurate. If this holds true, then this change from over a third of organisations predicting a loss to approximately one quarter would be positive news for the sector.

However, data from the NDS pulse survey, held a week after the Pricing announcement, shows that the latest price limits and arrangements are likely to negate this potentially positive result.

Not-for-profit organisations, larger organisations and organisations established before the implementation of the NDIS are more likely to predict a loss for the current financial year compared to for-profit organisations, smaller organisations and organisations established after the implementation of the Scheme. Large not-for-profit organisations often have long histories of community support and, if their market shrinks, it will not only impact the participants that they support (often at scale) and the significant number of workers that they train and employ, but also diminish the social capital that they have built up over many years.

Despite some of the positive projections noted above, many of the free-text responses still paint a bleak picture, with respondents doubting their long-term viability:

“If you take out the one-off payment from the National Disability Insurance Scheme, we made a loss of \$200,000.”

Western Australia large not-for-profit

“The National Disability Insurance Scheme price guide 2023 to 24 has not kept pace with the cost of doing business — Fair Work increases, superannuation, insurances, consumables and transport costs have increased significantly. With the small increase (5.3 per cent average) the National Disability Insurance Scheme prices make [it] difficult to remain viable.”

New South Wales medium not-for-profit

“The general running of a business has become unsustainable.”

Victoria large for-profit

Opinions about general operating conditions remain poor, with 70 per cent saying that they have worsened in the last 12 months. Though year-on-year changes are minor, when viewed across the last ten years, the situation does appear to be worsening.

**Table 3:** Operating conditions in the non-government disability sector

Year	Improved	Worsened
2014	10 per cent	45 per cent
2015	14 per cent	40 per cent
2016	22 per cent	36 per cent
2017	19 per cent	46 per cent
2018	11 per cent	55 per cent
2019	22 per cent	38 per cent
2020	12 per cent	61 per cent
2021	9 per cent	65 per cent
2022	8 per cent	67 per cent
2023	8 per cent	70 per cent

When asked about the wider Australian economy, 68 per cent say that conditions have worsened, while seven per cent think that they have improved.

This underscores the challenging financial situation faced by many disability providers. Organisations must make tough decisions about whether they can continue offering services. They speak of the need for strategic interventions to ensure the sustainability and financial well-being of service providers in the disability sector.

Most providers would place the root of this problem in pricing, especially with the rising cost of doing business. Seventy-two per cent of not-for-profit providers and 67 per cent

of for-profit providers said they worry that they will not be able to provide NDIS services at current prices.

Yet demand for services keeps rising. Eighty-two per cent of respondents said they had received requests for services that they could not fulfil. The reasons they gave for turning down services include having not enough staff (45 per cent), not enough qualified staff (21 per cent) or not enough organisational resources or money (15 per cent).

Additionally, the pricing structure of the NDIS exacerbates workforce shortages and deters investment in service quality. The sector faces chronic workforce shortages and low wages that make it harder to attract and retain qualified staff. The result is high staff turnover that can compromise the quality of care provided to participants. The price regulation system fails to adequately reflect the true costs of delivering high-quality services, leading to insufficient compensation for essential operational expenses.

When price caps are set too low, providers are discouraged from investing in staff training, innovation and service excellence. A misalignment between pricing and actual costs can force providers to cut corners, prioritising cost reductions over quality improvements. It is a race to the bottom. Such conditions jeopardise the sustainability of services and can detract from the overall quality of support provided to NDIS participants.

## **5.0 The NDIS Review: A call for reform**

The [NDIS Review](#) has been clear: the Australian Government needs to clarify the roles of relevant agencies for administration market stewardship, pricing, policy, regulation, commissioning and legislation.

The NDIS Review identified limitations in the approach to market stewardship, particularly price caps. Analysing the Review's recommendations on pricing reform can provide valuable insights.

The NDIS Review highlighted the need for a comprehensive reform of pricing and payment approaches and called for governments to play a more active role in overseeing the NDIS market. This means governments should act as stewards to ensure the market functions effectively and benefits everyone.

The Panel acknowledged that different government agencies have varying roles in market stewardship. While the Department of Social Services sets market policy, other agencies like the NDIA and the Quality and Safeguards Commission play a role in:

- providing information and guidance to market participants
- implementing NDIS policy
- monitoring the market's performance
- acting when the market malfunctions.

### **Pricing and payments**

Urgent action to increase pricing across the sector is required.

The NDIS Review proposes a comprehensive approach to address shortcomings in the market, with a focus on reforming pricing and payment structures to incentivise quality service delivery. The key recommendation is **Recommendation 11: Reform pricing and payments frameworks to improve incentives for providers to deliver quality supports to participants**. This recommendation includes several action items:

- **Action 11.1:** The Department of Social Services should develop a new NDIS pricing and payments framework, administered by the National Disability Insurance Agency and the Independent Health and Aged Care Pricing Authority. This framework should include better ways to pay providers, promoting efficient and high-quality supports with a focus on continuity of supply.
- **Action 11.2:** The National Disability Insurance Agency should progressively implement preferred provider arrangements for capital supports. This leverages the government's buying power and streamlines access for participants.
- **Action 11.3:** The Australian Government should transition responsibility for advising on NDIS pricing to the Independent Health and Aged Care Pricing Authority (IHACPA). This strengthens transparency, predictability, and alignment with best practices in other sectors.
- **Action 11.4:** The Australian Government should continually review and refine the pricing and payments framework as market conditions evolve, ensuring its effectiveness in a dynamic environment.



## Clarify accountability for sustainability and governance

The key recommendation is **Recommendation 21: Clarify accountability for sustainability and governance of the disability ecosystem**. This recommendation includes several action items:

- Action 21.1: National Cabinet should be accountable for the sustainability of the unified disability ecosystem, including the NDIS.
- Action 21.2: The Department of Social Services, in consultation with state and territory governments, should review existing National Disability Insurance Agency operational guidelines to identify and prioritise opportunities to strengthen the National Disability Insurance Scheme Act 2013 and Rules.
- Action 21.3: The Australian Government should ensure that the Minister responsible for the NDIS remains a Cabinet Minister.
- Action 21.4: The Australian Government should clarify roles of relevant agencies for administration market stewardship, pricing, policy, regulation, commissioning and legislation

The accountability arrangements for the NDIS's sustainability are fragmented and unclear. Under the NDIS Act, both the Disability Reform Ministerial Council (DRMC) and the Minister for the NDIS have a mandate to consider the Scheme's sustainability. However, the NDIA Board is primarily responsible for managing, advising on and reporting the NDIS's financial health. This places the NDIA Board in a crucial position, yet the broader context of governance involves multiple stakeholders and decisions that affect the Scheme's sustainability.

The NDIA Board's role is pivotal in identifying and addressing financing and sustainability challenges within the NDIS. It is essential for the Board to regularly report these issues to the DRMC, which will integrate this information into its broader assessment of the disability ecosystem. This reporting mechanism is vital to ensure that the DRMC can effectively oversee and support policy reforms, aligning with the new Disability Intergovernmental Agreement (IGA) and its Action 20.1, which encompasses the disability sector, not just the NDIS.

Action 21.1 further underscores the need for National Cabinet to take joint accountability for the sustainability of the unified disability ecosystem, including the NDIS. This joint accountability should involve the DRMC in prioritising and coordinating

disability policy reforms, supported by a forecaster who will provide insights into total disability spending, including NDIS expenditure. This will ensure a comprehensive approach to assessing sustainability by considering both costs and benefits.

For the NDIA Board, this means focusing on producing an Annual Financial Sustainability Report (AFSR) that offers a holistic view of the NDIS's financial health, incorporating whole-of-system costs and benefits. The report should be informed by accurate forecasting models, with an independent review of the Scheme Actuary's methodology every three years to ensure reliability and relevance. By doing so, the NDIA Board will support improved decision-making and accountability, aligning pricing strategies with broader sustainability goals and fostering confidence in the Scheme's financial management. This approach is essential for the Board's effectiveness in overseeing and guiding the NDIS's pricing and governance.

By implementing these recommendations, the NDIS can create a market that incentivises quality care, fosters sustainability and delivers better outcomes for all participants.

## 6.0 NDS recommendations

### **Recommendation: Establish an Independent Pricing Authority in alignment with NDIS Review findings**

The NDIS Review highlighted the need for a reformed pricing framework to incentivise quality care and ensure a sustainable NDIS market. NDS recommends moving the responsibility for advising on NDIS pricing to the Independent Health and Aged Care Pricing Authority (IHACPA), echoing Action 11.3 of the NDIS Review.

#### **Why an Independent Pricing Authority?**

- **Transparency and objectivity:** IHACPA, independent of the NDIA's budget pressures, would set prices based on objective data. This includes the true cost of delivering high-quality services (staff wages, training, quality assurance) and regional variations. This transparency fosters trust within the NDIS market.
- **Fairness and predictability:** IHACPA would ensure fair and predictable pricing for providers, eliminating the potential for underfunding of quality services. This allows providers to invest in their workforce and resources, ultimately benefiting participants.

- **Alignment with best practices:** Like models in healthcare and aged care, an IHACPA aligns with best practices for price setting in social service sectors. This fosters a more efficient and sustainable market.
- **Focus on quality and efficiency:** IHACPA can consider factors beyond just cost, such as quality benchmarks and service efficiency. This incentivises providers to invest in staff training, quality assurance measures and innovative practices that improve participant outcomes.

### **The case for urgent change**

The NDIS Review emphasises the need for immediate action. While the establishment of an independent pricing mechanism may take time, the NDIS can implement interim measures to ensure fairer pricing and incentivise quality care. These could include:

- **Cost modelling transparency:** Increase transparency in the NDIS cost modelling process, allowing providers to better understand how prices are set.
- **Piloting outcome-based funding models:** Explore pilot programs that reward providers for achieving positive participant outcomes, not just service delivery.
- **Upfront payments for providers:** Consider implementing upfront payments for providers, based on participant plans, to improve cash flow and reduce financial strain.

### **Recommendation: Implement a cost-reflective pricing model within the new NDIS pricing and payments framework** (as outlined in Action 11.1 of the NDIS Review)

This framework, co-administered by the NDIA and IHACPA, should incentivise providers to deliver high-quality supports to participants.

The pricing system often fails to account for the full cost of delivering quality care. This financial strain on providers can lead to:

- **Staff shortages:** Difficulty attracting and retaining qualified staff due to under-competitive wages.
- **Reduced training:** Lowered investment in staff development, potentially impacting service quality.
- **Compromised service quality:** Limited resources lead to a decline in service delivery standards.

Adopting a cost-reflective pricing model has three benefits. Firstly, financial stability for providers allows them to invest in their staff, resources and quality assurance measures. This creates a sustainable market environment where providers can deliver high-quality services consistently.

Secondly, competitive pricing attracts and retains reputable providers, fostering a wider range of service options for participants.

Finally, a financially healthy network of providers able to achieve efficiency over time ensures the long-term viability of the NDIS itself, benefiting participants for years to come.

### **Recommendation: Implement a registration supplement for NDIS providers**

Underfunded NDIS pricing creates a vicious cycle. Providers struggle financially, leading to staff shortages and reduced training. This ultimately results in compromised service quality for participants who rely on the NDIS.

To address financial strain on NDIS providers, we propose a registration supplement. This fixed percentage increase on claims would be paid directly to providers, boosting their finances without affecting participant plans. Two payment methods are suggested: payment from verified claims from providers or an automated NDIA system. The supplement percentage needs careful analysis to avoid unintended consequences. A sunset clause could be implemented for review after a set period.

Benefits of the supplement include:

- improved provider sustainability, allowing investment in staff, training and quality assurance
- enhanced market attractiveness, bringing in more providers and driving innovation
- NDIS market stability, fostering a healthy environment for participants.

This proposal is one piece of a broader reform jigsaw, alongside cost-reflective pricing and an independent pricing authority.

## **Recommendation: Invest in a suite of structural adjustment measures to support industry transformation**

In addition to policy measures, establish a fund to support structural adjustments required for a sustainable market, prioritising workforce development, infrastructure investments for service providers and innovation in service delivery models.

## **Recommendation: Clarify accountability for sustainability and governance of the NDIS**

In response to findings from the independent panel of the NDIS Review, we put forth the following recommendations to improve the effectiveness of the NDIA Board in managing pricing and ensuring the sustainability of the NDIS:

- **National Cabinet accountability:** National Cabinet should assume responsibility for the overall sustainability of the disability ecosystem, including the NDIS. This overarching accountability will promote a more integrated approach to sustainability, ensuring that policy and financial decisions address the broader system rather than the NDIS in isolation.
- **Review operational guidelines:** The Department of Social Services, in collaboration with state and territory governments, should review the NDIA's operational guidelines. This review should identify and prioritise opportunities to strengthen the National Disability Insurance Scheme Act 2013 and associated rules, thereby enhancing the clarity and effectiveness of the governance framework.
- **Ministerial role:** The Australian Government should ensure that the Minister responsible for the NDIS remains a Cabinet Minister. Maintaining high-level oversight will align NDIS policy with broader government priorities and reinforce the importance of the Scheme within the national policy agenda.
- **Clarify Agency roles:** The Australian Government should clearly define the roles of relevant agencies involved in administration, market stewardship, pricing, policy, regulation, commissioning, and legislation. Clear delineation of responsibilities will enhance coordination and accountability across the disability sector.

The NDIS Review, conducted by an independent panel, showed that the accountability arrangements for the NDIS's sustainability are fragmented and unclear. While the NDIA

Board is primarily responsible for managing and reporting on the Scheme's financial health, the broader governance structure involves multiple stakeholders whose decisions impact the Scheme's sustainability.

To address this, the NDIA Board should continue to identify and address financial challenges, reporting these issues to the Disability Reform Ministerial Council (DRMC). This will allow the DRMC to integrate this information into a comprehensive assessment of the disability ecosystem, in line with the new Disability Intergovernmental Agreement (IGA) and its Action 20.1.

The independent panel's recommendation emphasises the need for National Cabinet to ensure joint accountability for the sustainability of the disability ecosystem. The DRMC should prioritise and coordinate disability policy reforms, supported by a forecaster who provides insights into total disability spending and projections. This comprehensive approach will ensure that sustainability is assessed in a holistic manner, considering both costs and benefits.

Additionally, the NDIA Board should produce an Annual Financial Sustainability Report (AFSR) that offers a detailed view of the NDIS's financial health, including system-wide costs and benefits. This report should be informed by accurate forecasting models and undergo independent reviews of the Scheme Actuary's methodology every three years. Implementing these recommendations will improve decision-making, align pricing strategies with broader sustainability goals, and foster confidence in the NDIS's financial management, ultimately enhancing Board effectiveness in overseeing the Scheme's pricing and governance.

## **7.0 Conclusion**

The financial sustainability of the NDIS is under threat. At the same time, viability continues to be a major concern for the sector. Recent financial benchmarking reports have revealed a sector struggling to make ends meet. However, NDIS pricing recommendations and approaches have not adequately responded to these signals.

It is time to acknowledge that the issues with NDIS pricing are systemic, structural and felt across the sector.

NDS believes that a strong and well-governed NDIA Board, with a focus on effective pricing, is critical for the long-term sustainability and success of the NDIS. NDS

encourage the ANAO to consider these issues within the broader context of the inquiry. NDS is prepared to provide further information and participate in discussions with the ANAO as needed.

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