Australian Government

NDIS Review

Working together to deliver the NDIS

The role of pricing and payment approaches in improving participant outcomes and scheme sustainability

May 2023

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Overview

The NDIS was established to empower participants to engage directly with their chosen providers on what services they receive, and what price they would pay.

Done well, this market based approach would allow providers to receive signals from participants about what supports they value. Providers would compete and have flexibility to implement innovations that could best meet participants' needs and preferences.

The NDIS market, however, is not yet working for all participants.

An over-reliance on competition has seen some participants face persistent service gaps (including those in remote and First Nations communities) and a loss of social capital. Competition in the NDIS market will not always be possible. For some NDIS services, participants and communities, contestable arrangements could better support access while ensuring providers are responsive to the needs of participants.

Poor market outcomes are also being driven by a lack of accessible and timely information coupled with difficulties in navigating and coordinating supports. The effectiveness of market intermediaries is unclear. Poor market design also means the incentives for providers are not aligned to participants' and governments' interests.

Governments cannot manage government-funded 'social markets' – such as the NDIS – in the same way as they would manage 'private markets'. For social markets to function well, governments need to monitor and, when necessary, intervene using a mix of market-based tools. In the NDIS, however, only a very limited number of market-based tools are currently actively used by governments.

Governments have relied on price caps to incentivise providers to operate 'efficiently' in the NDIS market.

Around 80% of NDIS payments between October and December 2022 were subject to a price cap. Price caps are applied bluntly in the scheme, which has limited the development of a responsive and innovative market.

Current price caps aim to encourage providers to operate 'efficiently'. However, some stakeholders suggest current price caps do not support the supply of services to participants with more complex needs. Some providers also suggest they are unable to invest in the capability of their workforce under current pricing arrangements and where workers can leave and set up as independent contractors or join online platforms. This exacerbates workforce retention challenges.

Providers also have little incentive to compete on price or quality. Price caps act more as a 'price anchor' than a 'price ceiling'. Participants purchase supports using their NDIS funding, and may be less sensitive to prices than they would be in a 'private market'.

Price caps and other price controls are therefore an important constraint on how much participants are charged and will continue to be needed over the short and medium term. There are, however, significant opportunities to improve how price caps are set.

Fee-for-service payments in the NDIS are easy to administer and understand, but reward providers for each hour of service they deliver, regardless of the 'value' for participants.

Considering different approaches to the current fee-for-service payments (such as, outcome payments) could better align incentives for providers with the interests of participants and governments to promote the delivery of 'value-based' supports.

Approaches where participants 'enrol' with a provider for a period could strengthen the focus on providers' relationship with participants and encourage them to invest in participants' capability. Enrolment approaches also have the potential to stabilise the demand profile for providers and assist providers to rely less on a casual workforce.

But different payment approaches need to be considered carefully to avoid introducing perverse incentives for providers and to maintain participant choice.

Previous reviews suggested in the long-term replacing price caps with 'light touch' price monitoring and greater transparency on prices and quality

Improved transparency on prices and quality is critical. However, on its own this will not provide the competitive pressure needed to improve supply and competition. Price deregulation risks a potential 'ratcheting effect' where providers increase the price of, and volume of, supports. This could adversely affect scheme sustainability and affordability.

Foundational reforms are needed to realise the benefits of a market-based approach. This could include ensuring participants are supported to be active consumers in NDIS markets and providers are incentivised to improve outcomes for participants. Governments have a clear and transparent strategy for the NDIS market. Using contestable approaches could also help achieve better outcomes in some NDIS sub-markets.

This paper identifies a number of focus areas for further consultation. Over the months ahead, we will continue to consult participants, providers, workers, unions, disability representative and carer organisations, disability service providers and other disability sector stakeholders. This will help us better understand these focus areas and how the overarching market approach and pricing and payment approaches may improve participant outcomes and scheme sustainability.

Findings and focus areas for further consultation

Finding 1: There are opportunities to improve NDIS pricing arrangements over the short- to medium-term

Price caps are set based on poor quality and incomplete data, and are applied bluntly in the NDIS.

Price caps are not supporting the development of a responsive and innovative market. Providers have little incentive to compete on price or quality, with price caps acting more as a ‘price anchor’ than a ‘price ceiling’. Without normal competitive market pressures from participants, price caps and other price controls provide an important constraint on how much participants are charged; and will continue to be needed over the short and medium term.

That said, there are significant opportunities to improve how price caps and price controls are set. The use of different pricing approaches could also be more effective than the current price controls.

Focus areas for further consultation

To improve NDIS pricing arrangements over the short to medium term, there may be benefits in exploring options such as:

- Ensuring that the setting of price caps is transparent, including greater use of market data and independent price monitoring and/or price setting. This could ensure NDIS price caps better reflect efficient prices, strengthen confidence in the price setting process, and support ongoing investment in the sector.
- Further differentiating price caps to reflect the additional costs involved in delivering services to participants with more complex needs and in regional areas. If this can be achieved without creating excessive administrative burden, it could improve supply and access to quality supports for participants.
- Implementing ‘preferred provider’ panel arrangements – where providers agree to supply supports at an agreed price and on agreed terms – as a possible alternative to price cap arrangements for certain NDIS supports. The NDIA could leverage its ‘buying power’ to negotiate prices with providers. This could provide a simplified option for participants in accessing supports, without limiting their choice.

We want to hear from you about the above and other options to improve the NDIS pricing arrangements.

Finding 2: The fee-for-service payment approach rewards NDIS providers for the volume of supports they deliver, rather than for supporting participants to achieve outcomes

Fee-for-service payment approaches are easy to administer and understand, but also have drawbacks. For most NDIS supports, providers are paid for each hour of service they deliver, regardless of the 'value' for participants.

This means there are perverse incentives for providers to maximise the volume and types of supports they deliver, in order to maximise the total payment they receive. This, in turn, does not reward providers to support participants to be more independent and can place pressure on scheme sustainability.

Focus areas for further consultation

Other payment approaches (such as, outcome, enrolment and blended payments) could be used to better align incentives for providers with the interests of participants and governments and promote the delivery of 'value-based' supports in the NDIS.

However, it is important to carefully consider the advantages and disadvantages of different payment approaches to avoid introducing perverse incentives for providers and maintain choice.

We want to hear from you about opportunities to use other payment approaches in the NDIS along with complementary measures (such as, improved market monitoring).

We are interested in what approaches could be considered for different types of supports, including daily living supports, therapy supports and others.

We are also interesting in how these approaches may potentially be implemented in the scheme.

Finding 3: A lack of transparency around prices, volume, quality and outcomes is restricting the effectiveness of NDIS service delivery

Participants can find it difficult to compare providers or negotiate prices as they cannot readily access the information they need to make informed decisions. The NDIA has limited visibility of whether the supports participants purchase help to achieve outcomes.

Increased transparency of NDIS transactions – including on prices, volume, quality and outcomes – would support:

- participants to become more informed and empowered consumers
- providers to compete on price and quality and deliver outcomes for participants
- governments, as market stewards, to better monitor pricing and market outcomes, and set prices more effectively (in line with *Finding 1*).

Focus areas for further consultation

Options to improve transparency in the NDIS market could include strengthening:

- Market monitoring through systematically collecting transaction data supported by near real-time payment systems. This would include collecting more transaction data for the self-managed market.
- Requirements for providers to disclose their prices, such as through an online marketplace similar to the My Aged Care website.
- Measuring and reporting on provider performance – that is, the extent to which they provide quality supports that achieve outcomes for participants. This should be reported in an accessible format for participants, such as a star rating system, which are used across several social services.

We want to hear from you about the above and other options to improve transparency in the NDIS market, including how these options could be implemented without adding to administrative and compliance burden.

Finding 4: Removing price caps could place pressure on scheme costs. Instead, the focus should be on foundational market reforms that help align incentives for participants, providers and governments

Over time, replacing price caps with more 'light touch' pricing arrangements as currently intended – including improving price monitoring with greater transparency on prices and quality – could encourage greater competition.

However, improved price monitoring and transparency alone would not be sufficient to address the lack of competition on price and quality across the NDIS market. Price deregulation risks a potential 'ratcheting effect' where providers could increase the price and volume of supports, adversely affecting the sustainability and affordability of the NDIS.

Realising the benefits of a market-based approach for the NDIS should instead focus on foundational market reforms. These reforms should better reflect the nature of participants, supports and providers in its design. These could also consider whether the goal of competition is optimal or whether contestable arrangements would better deliver outcomes for the NDIS – achieving a good life for participants and a sustainable scheme.

Focus areas for further consultation

Foundational market reforms to align incentives for participants, providers and governments could look at ways to ensure:

- participants have the information and capability to make informed choices on the value and quality of supports, including the help they need to do this
- participants' budgets support them to be active consumers in the NDIS market
- providers are incentivised to compete on price and quality, and deliver the volume and mix of supports that improve outcomes for participants
- a range of contestable approaches are used in NDIS sub-markets when they would achieve better outcomes
- governments have clear roles and responsibilities with a coherent and transparent strategy for stewarding the NDIS market – including the approach for the overall market and for different sub-markets (such as regional and remote markets).

We want to hear from you about when and how these foundational reforms could be achieved.

We are also interested in other reforms to ensure we have the right overall architecture and incentives in the NDIS market.

1. NDIS markets are not delivering on responsive and innovative service delivery

Prior to the NDIS, Commonwealth, state and territory governments were responsible for determining what services were provided, and for how much, under different disability support programs.

People with disability had very little visibility or control over these decisions.[1]

The NDIS was established in part to change this. The aim is to empower participants to engage directly with their chosen provider on what services they receive, and what price they would pay. If done well, this new market-based approach would allow providers to receive signals from participants about what supports they value. Providers would compete and have flexibility to implement innovations that could best meet participants' needs and preferences.

For many participants, having choice and control over who and what services are delivered has led to better participant outcomes.[2]

There is no doubt that the market-based approach has achieved a transformational change and that innovation has emerged in how services are delivered for many NDIS participants.

> *'… a young person with Down's Syndrome who used to receive services from specialist disability providers, being picked up by a bus for people with disabilities and taken to activities that might or might not interest them. When given a budget for services, the person learned how to take public transport, to go the cinema and to buy her favourite meal from McDonald's, which she loved.* ***Best practice was not the achievement of the most efficient allocation of resources within an enterprise, but the meeting of the preferences of the person****.'*
>
> *– Productivity Commission*[3]

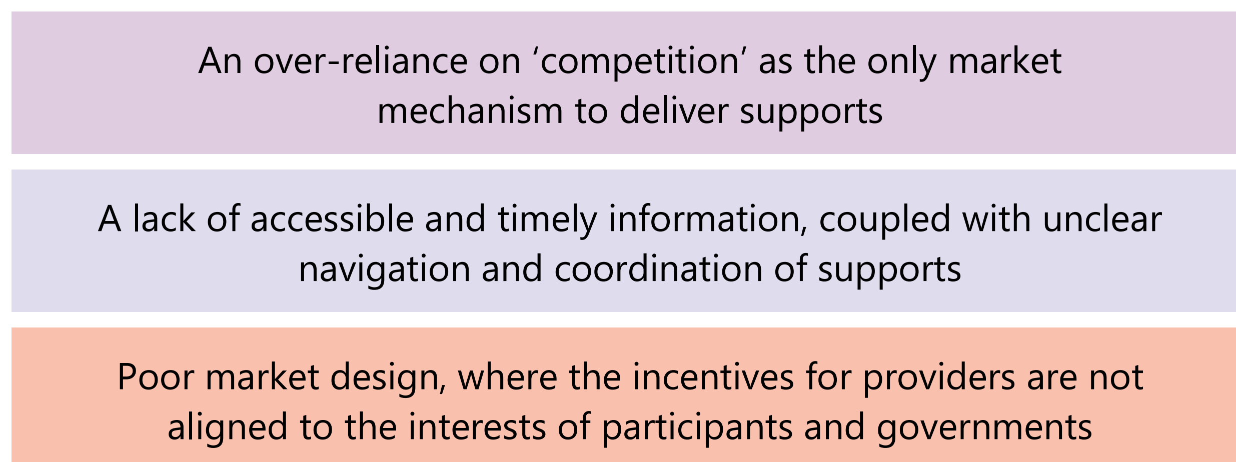
However, the NDIS market is still maturing. Not all participants have been able to exercise choice and control effectively. Some participants are not empowered to negotiate with providers to access supports that meet their needs and preferences.

At the same time, service providers have struggled to be responsive to meet the needs of all participants. Some service providers have also reported concerns around financial viability. The 2022 State of the Disability Sector Report found '… pessimism about the operating conditions facing the non-government disability sector has been increasing for a

number of years' [4] – with 36% of organisations expecting to make a loss or deficit in 2022-23, up from 23% in 2021-22.[5]

The challenges faced by participants and service providers are symptomatic of underlying issues in the current approach to delivering NDIS supports (Figure 1).

Figure 1. Poor outcomes for NDIS participants reflect three key underlying issues



Over-reliance on competition as the only market mechanism

Choice and control has been foundational to the design of the NDIS.

The first decade of the NDIS has been characterised by the assumption that pure competition alone could deliver choice in quality services that are fit for individual participant needs and wants. It was also assumed that the market for disability services would function well once mature, providing all participants with a choice of high-quality services. In practice, this has not happened for many participants and supports.

Thin markets – where the number of providers or participants is too small to support the competitive provision of services, or to support any provision at all – have left some participants with limited, or no, access to supports or certain types of supports.

Under the current market-based approach, some participants across Australia are not accessing supports despite having the budget to do so. This is most stark in remote and very remote communities where over one in three mature participants (who have been in the NDIS for over a year) are not accessing daily activity supports, and over one in four are not accessing therapy supports that assist with building skills and independence.

Competition between multiple service providers is not always possible and may not provide participants with real choice in quality supports. There can be high 'switching

costs' for participants to change providers. Participants may be slow to switch between providers when dissatisfied. In this case, market 'competition' will be less effective. Other mechanisms (including reliable, timely and effective information provision, effective navigation and coordination support, and proportionate safeguarding) may be needed to ensure the delivery of safe and quality supports.

The NDIS also needs contestable arrangements to ensure providers are responsive to participants in remote and First Nations communities where the conditions for strong competition are not met. Contestable markets (including one with a single active provider) can help ensure providers are responsive to participants where there is a credible threat of replacement. Contestable can be applied at different levels in the market:

- at the 'service level' for a group of participants
- for a 'bundle' or 'wrap around' supports for an individual or group of participants
- at the 'whole of market' level for a community (such as, in remote communities).

Some markets for group supports (such as, transport[6] or community participation) may require governments to help participants pool their funding to meet their collective needs. When done well, delivering supports to meet the needs of the group could also help build the social capital of participants and benefit the broader community.

The focus on competition, however, has not supported a systematic approach to coordinating or 'pooling' demand across multiple participants to attract providers who are willing to deliver a service for that market.

> *'If a provider needs to travel a distance, they should try and see other participants in the area too to share the cost.'*
>
> – *Anonym*ous, Carer of NDIS participant & NDIS provider[7]

While the NDIA has recently started to explore ways to pool participant funding through Coordinated Funding Proposals (CFP),[8] much more needs to be done.

The focus on competition also appears to be eroding the collaboration between disability service providers who often need to work together to provide care coordination. The current approach is hindering knowledge sharing and collaborative working.

> *'... in this early stage of NDIS roll out service providers still perceived that the historical collaborative relationships of the past were largely being maintained. However there was also acknowledgement that* ***a competitive environment was emerging and that this was already having some negative impacts on the ways in which information was being shared between organisations and the way staff were able to manage their***

time. *These impacts have the potential to effect care coordination as this has traditionally relied upon integrated services which are able to collaborate and share information on clients.'*

– Centre for Social Impact, UNSW Sydney[9]

While a few communities of practice have emerged, they have not been enough to drive quality or innovative service provision.

A lack of accessible and timely information coupled with unclear navigation and coordination of supports

For NDIS markets to function well, participants need clear and accessible information to act as informed consumers. Information on what supports are available, what these cost, and what good looks like is critical.

NDIS providers also need sufficient information to respond appropriately to what participants need and want. Information is needed for providers to:

- compare and benchmark their service offerings with others'
- learn from each other for ongoing improvement and innovation
- develop an evidence base for what works and what doesn't work.

Information on what, and how, supports can be delivered and how they are paid for is hard to find and understand

'Overwhelming amount of information on website. ***Not easy to try to understand if you are able to purchase something*** *… there often seems to be conflicting information and I don't want to live in fear of being audited and having to repay or have self-managed revoked which is what some people are claiming.'*

– Anonymous, Carer of NDIS participant[10]

Currently, most participants and their families are not supported to make decisions as informed consumers.

It is difficult to access and understand information on what supports can be purchased, along with the prices and quality of these supports (*Figure 2*). Participants and providers are required to make sense of information in individualised NDIS plans alongside navigating complex guidance, policies and rules.

Information on the NDIS and NDIS Quality and Safeguards Commission (NDIS Commission) websites is difficult for participants, providers and the general public to navigate, find and understand.[11] This makes it difficult for participants and others to access and compare information about the prices of supports and quality of providers in the market.

Much of the information currently available – through governments and broader sector-driven initiatives (such as online forums) – provides little help to participants to determine what services should be delivered, what good services look like, or what they should cost.

Reliable, timely and accessible information is also unlikely to be sufficient, noting that many NDIS participants and their families and carers are time poor. For others, there can be language, educational and cultural barriers so tailored advice and capacity building from trusted independent sources are an essential adjunct to good quality information.

Figure 2. Current information is lacking on what supports can be purchased, how much this should cost participants, and what good looks like[12]

Understanding how NDIS funding can be used is too confusing and complicated

'How confusing it is … it baffles me that it is so hard for us to use and access because we have troubles with the things we need to do to get help. No one informs you what things are … [including] what you can use those allocated things for.'

– Anonymous, NDIS participant

It takes a lot of time and effort for participants to find providers

'[It is] too clumsy for participants and too hard to find providers easily - all the info is dumped into complicated documents and [Australia] wide rather than State based and sector based. How are disabled people and their stressed carers supposed to navigate this?'

– Anonymous, Carer of NDIS participant

Governments do not have the information to effectively steward markets

The NDIA and NDIS Commission capture limited data on the experiences of participants, workers and providers. This is not systematically shared with the market to generate incentives to compete on price and quality, or to drive innovation.

For both agency-managed and plan-managed supports, transaction data gives some indication of who is getting, and providing, what services. However, little information is captured on how, where and how well services were delivered.

Even less information is captured where participants are self-managing their supports (*Figure 3*). For the quarter ending 31 December 2022, the market for self-managed supports made up 12% of the NDIS market in terms of payments.[13]

Figure 3. At the end of 2022, around 30% of participants self-manage all or part of their plans. This increases to 40% for early childhood supports, where parents and carers self-manage on their child's behalf[14]

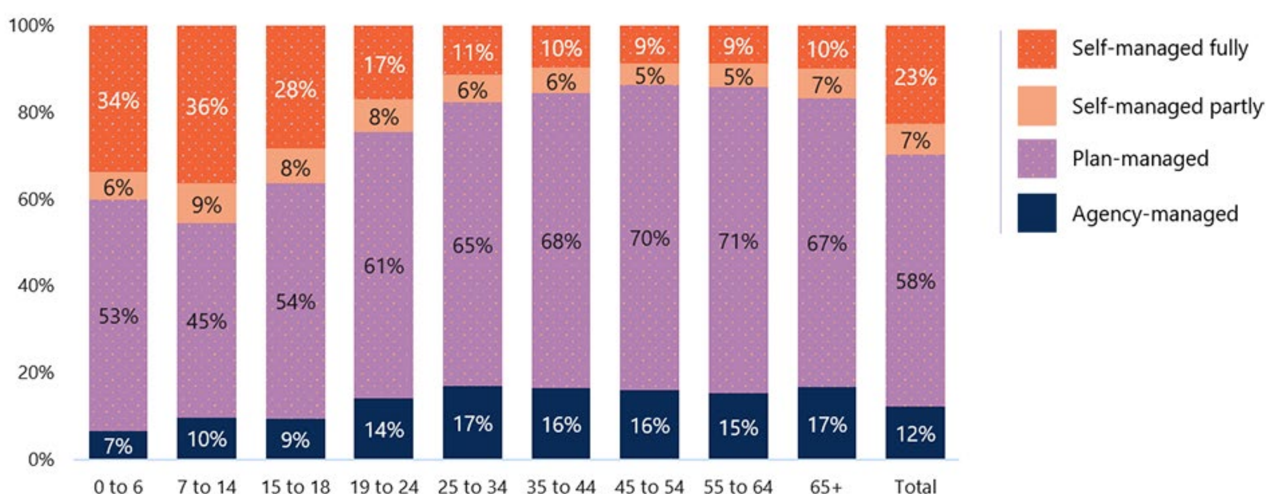


Figure 3 text description

Feedback about service providers is typically collected on a complaint basis across different government agencies. This includes through the NDIA, NDIS Commission, Australian Competition and Consumer Commission (ACCC), and state and territory governments. Each can collect different pieces of feedback – for example, the NDIS Commission deals specifically with complaints relating to the compliance of NDIS providers.

Even when collected, feedback is not widely shared across the NDIS market. This makes it near impossible to effectively understand, let alone monitor, how the market is working.

Altogether, the currently available forecasts of participant demand for NDIS supports[15] and existing NDIS market information[16] are not enough for governments to effectively monitor and intervene in the NDIS market. Currently available information and data is not sufficiently accessible, detailed or frequent enough for governments to identify emerging issues or gaps in the market. It is also not enough to identify whether trends in market dynamics and behaviours are consistent with delivering outcomes for participants and a sustainable scheme.

Currently available tools provide little information for NDIS providers to respond to participants' needs in an effective and timely manner. So market information asymmetries exist between participants and providers as well as providers and governments.

Participants can find it difficult to navigate the market and find the right providers and supports

Increased transparency of what is happening in the market can help drive better participant and scheme outcomes. But this alone is not enough.

For instance, a carer for an NDIS participant told us that one of the main problems with the scheme is that it is difficult to find providers:

> *'**It's a full-time job for someone who is supposed to have a disability. … It's too much. Especially when we want to find the right one for the right price we should be getting**. Those providers who provide one solution stop, cost too much for the funding we get. But finding different ones takes too much time to shop around. It is hard for family member who also need to work and earn a living to provide at the same time.'*
>
> *– Anonymous, Carer of NDIS participant*[17]

Under current arrangements, some participants may be able to seek help from a local area coordinator (LAC) or a support coordinator to find and connect with funded and mainstream supports. In some instances, their plan manager can also help to find and connect with service providers.[18]

How well this currently works for participants is highly variable.

> *'**Huge amount of stress and time experienced when dealing with the NDIS ….** Difficulty accessing services because LACs won't recommend them, only provide a long list of possible providers when the person with the disability can't read/contact people.'*

– Naomi, Carer of NDIS participant[19]

Some providers have adopted online-based or technology-backed solutions to reduce 'search costs' for participants.[20]

Some online platforms help participants find and match with support workers or service providers, while others include forums for participants to share their experiences. Some of these platforms also capture and share information on prices and participant feedback on the quality of services, to allow for easier comparison. How quality and safeguarding arrangements apply to providers (including platform providers) will be explored as part of the broader Review.

Participants need to get the mix of supports that are right for their needs

> *'There is* ***no consistency and I get a different answer every time I ask a different person****. Your LACs are not trained properly … The NDIS is so overly complicated that I need to pay a Plan Manager (way too expensive) and a support coordinator (also expensive) to help me navigate.'*
>
> *– Anonymous, Carer of NDIS Participant*[21]

The biggest challenges for participants are knowing what supports could be purchased and arranging these supports.

Even self-managing participants, or the people who self-manage on their behalf, find this difficult. In early 2022, the two biggest challenges for self-managing participants surveyed were 'Knowing what can be purchased' (reported by around four in five participants) and 'Finding / arranging supports' (reported by around three in four participants).[22]

Less than half of NDIS participants receive funding for support coordination to help them arrange supports.[23] While not all participants will require support coordination, the basis on which participants are funded for support coordination is unclear.

Funding for plan management may also be included in participants' budgets if they wish to use a plan manager to help them pay for services and monitor their budgets. Some plan managers have used their visibility over the unregistered providers in the NDIS market to develop platforms (such as Kinora and Hey Hubble) that help participants find and connect with suitable service providers.

However, there is confusion about the roles and responsibilities of different market intermediaries in helping participants navigate the NDIS and access supports.[24] This is further exacerbating participant confusion about how their NDIS funding can be used.

'… LACs do not seem to have the time, inclination or skill to support people to build capacity to understand their NDIS plans, the scheme, how to work with providers (safeguarding). It is not unusual for a participant or nominee without support coordination funding to come to me for plan management services halfway through their plan, having not engaged with anyone, because they have no idea what to do, or where to go, and have not received any support from the LAC or ECEI coordinator.'

– Anonymous, NDIS Provider[25]

Some participants, providers and other stakeholders have also raised concerns around the potential conflict of interests for support coordinators[26] and, to a lesser extent, plan managers. This includes concerns about 'provider capture' which may increase participants' vulnerability to potential harm, abuse, neglect or exploitation.[27] Other participants value the choice and benefit of being able to choose a single provider who can deliver their supports.

Poor market design means that incentives for providers are not aligned to participants' and governments' interests

When well-designed, market-based approaches for social services – where participants have choice and providers compete – can foster innovation, lower the cost of service delivery, and improve the quality of supports and participant outcomes. Realising the benefits of a market-based approach, however, requires that the scheme settings align incentives for participants, providers and government. The implementation of the NDIS market has not seen these incentives align to support a well-functioning market.

As the NDIS is fully government-funded, it does not operate as a private market

Markets for social services that are largely funded by governments (including the NDIS) are best described as 'social markets' or 'quasi-markets'. In a social market, service providers often include not-for-profit and government providers. Choice of provider may be exercised on behalf of the consumer, and/or the size of the market is determined in part or fully by the size of government funding.

In the NDIS, participants purchase supports using their allocated NDIS budgets. This means that participants may be less sensitive to prices than if they were purchasing supports using other sources of funding, such as personal income. At the same time, prices of

supports are critical for service providers, and affect providers' willingness and ability to supply supports.

Participants may seek increases to their budgets if they run out of funds. This can be encouraged by provider behaviour, which has the potential to increase plan costs without a substantial change in participant need nor an improvement in participant outcomes. Participants do not receive any benefits from 'saving' funds in their budget. There actually may be concerns from some participants if they do not spend their funds, they may risk future cuts to their budget. Participants have told us they are afraid that their budget will be cut in the future if they don't spend the full amount of their current budget, even if they do not need it. This is therefore creating a perverse incentive.

Providers have little incentive to compete on price or quality

Price caps act as an 'anchor' but mostly do not adjust for quality or complexity. As such, providers have little incentive to charge below the price cap.

Providers also have little incentive to innovate and consider quality beyond the minimum requirements in the *NDIS Quality and Safeguarding Framework*, or the standards set through professional and registration bodies – such as, the Australian Health Practitioner Regulation Agency (AHPRA) for therapy providers.

It has also been suggested that providers are not sufficiently incentivised to invest in the quality of their workforce. Some providers noted challenges with investing in training when workers can leave their organisations to set up as independent contractors or join online platforms.

Registration is the only consistent measure of quality and provider performance that participants can use when selecting their providers. However, the correlation between quality and registration is not clear. Some participants have suggested to us that their non-registered providers are their highest quality, most innovative and best value-for-money supports.

Participants cannot easily compare services or negotiate prices without easily accessible, complete and accurate information. Providers have limited incentives and incomplete information to foster competition on price or quality of services. The lack of accessible and comparable information on provider performance works against competition and makes it difficult for participants to purchase on quality and price.

The large reliance on fee-for-service payments can get in the way of delivering ‘value-based’ supports

Inherent friction exists between the fee-for-service payment approach and the investment principles of the scheme. The fee-for-service payment approach rewards higher levels of activity, usually support hours. This approach encourages short-term transactional relationships in service delivery rather than rewarding providers for investing in the capability of participants to reduce their ongoing needs for formal supports.

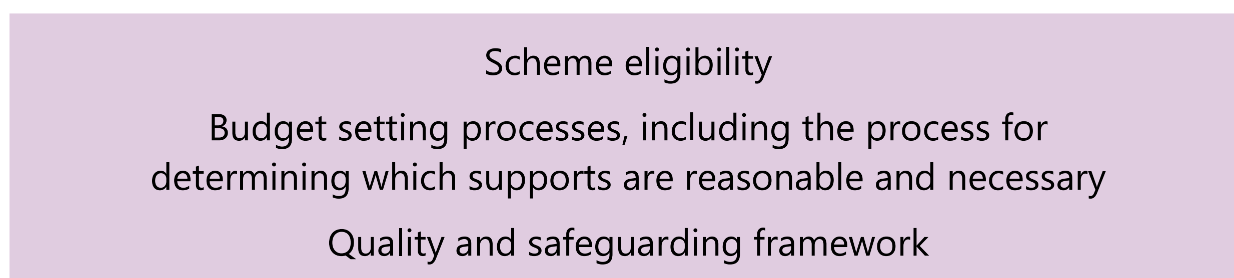
Providers may also act to increase demand for their supports, even when these do not represent value for money or improve participant outcomes. This incentive for providers is exacerbated in the NDIS, as participants’ budgets are fully government-funded. This may also be compounded in cases where participants rely on the professional opinions of their providers about the level of servicing that is beneficial.

Providers, therefore, have a financial incentive to increase the volume of supports delivered and recommend additional supports that may not be essential to participant outcomes.

2. What tools do governments have to address market challenges?

Markets are not the only (or necessarily the most important) tool available to governments. Rather, NDIS markets should be designed to complement, and not replace, the underlying scheme design elements (*Figure 4*).

Figure 4. Design elements that underlie the NDIS



The role of markets in the NDIS

The development of the NDIS market is not an end in itself. Rather, the NDIS market – if appropriately designed – is a tool that can encourage service providers to be more effective in achieving outcomes for participants (*Figure 5*).

Figure 5. A responsive and well-functioning NDIS market ensures

To achieve these objectives, governments should monitor NDIS markets and intervene when necessary using a range of market tools (*Figure 6*). They need to monitor outcomes and carefully balance considerations of efficiency, effectiveness and equity.

Figure 6. An overview of the range of market tools government can use to ensure the effective delivery of supports and, ultimately, outcomes for participants

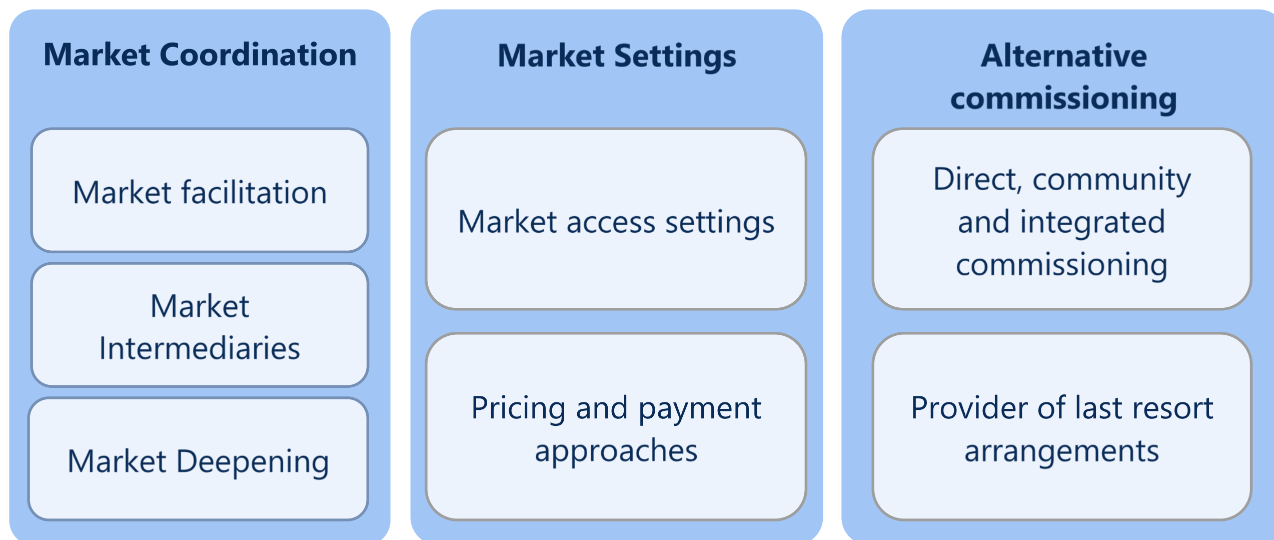


Figure 6 text description

However, our work on improving access to services for remote and First Nations communities found that NDIS markets are not functioning well. We found governments need to take an active and flexible approach to market stewardship.

The poor market outcomes in the NDIS (outlined in *Section 1*) reflect in part a lack of a clear, coherent and transparent strategy to steward the NDIS market. Governments – the NDIA, NDIS Commission, Department of Social Services and states and territories – have not implemented clear roles and responsibilities to develop the NDIS market.

Governments must understand the nature of participants, supports and providers and apply a mix of market tools when designing market approaches

The NDIS is not one market, but a complex system of 'sub-markets'.

The approach to service delivery and market stewardship needs to reflect the nature of participants, supports and providers in each sub-market (including, for example, in remote and very remote communities) (*Figure 7*). For example, governments may take a different approach when setting out the rules and procedures across:

- Core supports – these supports (particularly for personal care) depend heavily on relationships. Support needs can vary across participants (for example, between children and adults). Typically these are ongoing, need to be delivered face-to-face

and, ideally, are provided by stable staff who deeply understand the participant and their needs.

- Capacity building supports – these supports depend heavily on trusted relationships and professional opinions and should be based on evidence of best practice. Providers are also likely to have opportunities to deliver in other sectors, such as health and aged care.
- Capital supports (such as, assistive technology) – these supports are often one-off in nature. Participants and regulators, therefore, may need professional advice given a huge range of alternatives and the often specialised nature of these supports.

Figure 7. Market stewards can use a mix of the following market-based tools to achieve the following objectives for the NDIS market:

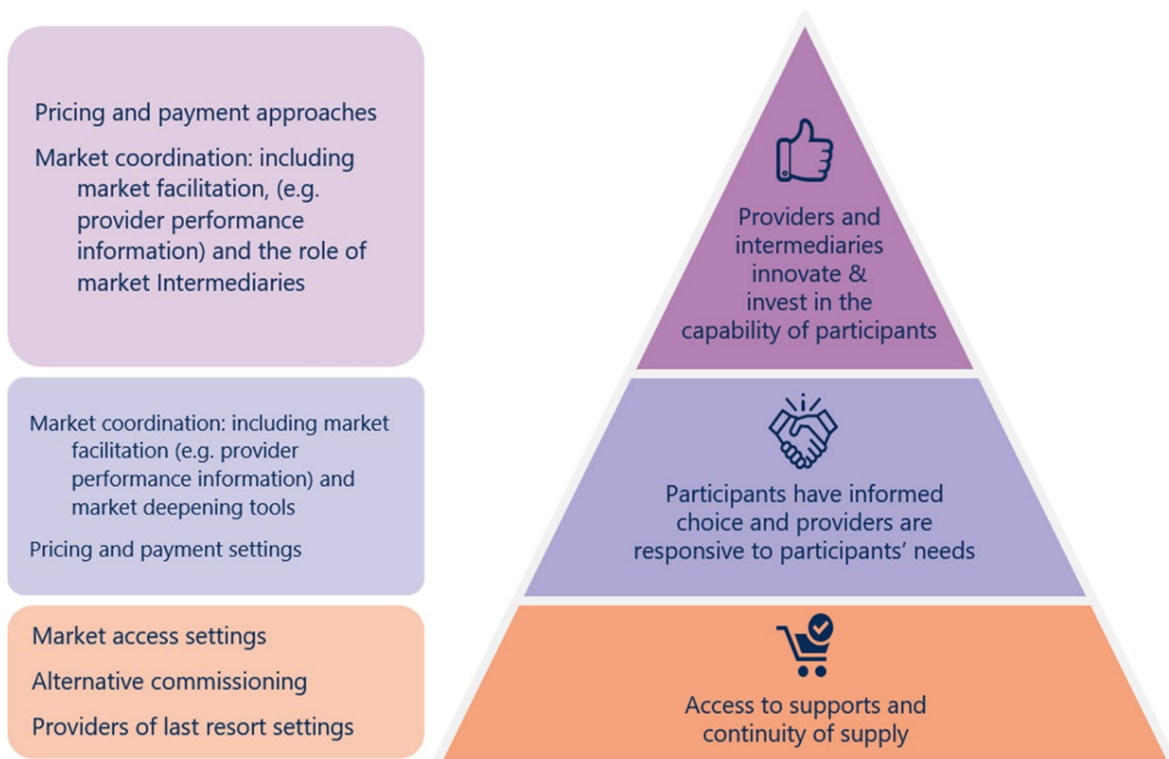


Figure 7 text description

3. Price caps remain the primary market tool actively used by the NDIA

Around 80% of NDIS payments between October and December 2022 were subject to a price cap.[28]

Price controls also include billing rules as well as limits on 'quotable supports'. 'Quotable supports' is where a participant is required to submit quotes to the NDIA for approval rather than using a published price cap (*Figure 8*).

Price caps were meant to support the scheme during the early stages of market development. The intention was to prevent any large providers from using their market power to drive up prices, while also improving efficiency and ensuring scheme sustainability.

> *'**During transition, price controls are in place to ensure that participants receive value for money in the supports that they receive**. In the short to medium term, price controls are required for some disability supports because the markets for disability goods and services are not yet fully developed. The longer-term goal of the NDIA is to remove regulatory mechanisms from the markets for disability supports.'*
>
> *– NDIA*[29]

Ten years on, price caps have continued to be the primary tool used by the NDIA to steward the market and drive a measure of 'cost efficient' service delivery. That said, there are a few places where the NDIA is exploring different approaches to pricing (such as, by establishing a continence provider list).[30]

Figure 8. Where are price controls applied in the NDIS?[31]

Price caps

80.1% of total value of supports

For agency- and plan-managed participants, price caps apply to most supports and represent the maximum allowable price payable by participants for these supports.

Supports subject to price caps include therapy, Assistance with Daily Living, Community Participation, SIL and SDA.

Quotes

1.9% of total value of supports

For agency- and plan-managed participants, quotes are required for most high value, highly differentiated supports.

Quotes are subject to approval by the NDIA on the basis of ‘fair and reasonable’.

Supports that require quotes include assistive technology (AT) and home modifications.

Note that quotes are only required for AT items valued at $15,000 and over.

No price caps or quotation requirements

5.6% of total value of supports

For agency- and plan-managed participants, low cost, highly variable supports offered in well-developed markets are not subject to price caps or quotation requirements.

Instead, the provider and participant agree on the reasonable price for the support.

Supports include consumables, transport and some capacity building supports.

No price regulation on self-managed participants

12.4% of total value of supports

No quotes or price caps for self-managed participants when using registered or unregistered providers – where participants or their delegate is assumed to have the capacity to act as an informed consumer.

How are price caps set in the NDIS?

The NDIA has authority for setting price caps for NDIS supports (*Figure 9*).

In setting price caps, the NDIA has stated its intent has been to encourage growth in supply while driving efficiency, and ensuring participants receive value-for-money supports.[32]

A lack of independent advice and evidence around pricing decisions has added to uncertainty for providers, and can potentially discourage investment in the sector. For example, prices for some supports have been frozen over recent years (such as, for therapy supports, which have been frozen since 2019-20). While the NDIA has established a *Pricing Arrangement Reference Group* to provide advice to the NDIA Board,[33] this alone has not been sufficient to deliver transparency and certainty for providers.

Figure 9. How are prices set in the NDIS?

Who sets price caps?

- The NDIA's Board has authority for setting price caps. The Pricing Arrangement Reference Group, including five independent members, provides advice to the NDIA board on price regulation arrangements for the NDIS.
- Price limits are published in the NDIS Pricing Arrangements and Price Limits document. The NDIA conducts an Annual Pricing Review (APR) to set the prices for different supports.
- Price caps are identified for a specific unit of supports – such as per hour of Assistance with Personal Domestic Activities, Assistance with Self Care Activities, or Household Tasks.

How are price caps structured?

- Prices caps differ based on the day of the week (weekday or weekend), time of day (during the day or overnight) and public holidays.
- Some also differ based on whether the provider is eligible for a 3% Temporary Transformation Payment (TTP).
- Additional price loadings apply for:
  - Approximately 8% loading for high intensity supports for participants with complex needs
  - 40% loading for supports delivered remote areas
  - 50% loading in very remote locations.

The approach used in the NDIS contrasts with price setting arrangements in aged care, which is moving toward independent price monitoring. From July 2023, the Independent Hospital and Aged Care Pricing Authority (IHACPA) will provide independent advice to government on pricing for residential aged care, residential respite care and in-home care. The Minister for Health and Aged Care will retain authority for price setting.

In 2017, the Productivity Commission noted its concern that while '… the price-setting mechanism is held within the NDIA, there is an incentive for it to be used to offset budget pressures'.[34] The Productivity Commission emphasised the need for prices to be set with market development as the primary focus.

In practice, setting prices for NDIS supports is complex. Price caps need to balance many objectives including promoting cost efficiency, stimulating innovation, encouraging the supply of quality supports, maintaining and building safeguards, and ensuring scheme sustainability.

Most price caps are set based on an estimate of the ‘cost of service provision’ for the lowest-cost providers

Each year, the NDIA undertakes an annual Financial Benchmarking Survey, where it collects information on providers’ operating costs.

The survey provides only a limited and potentially biased understanding of prices and costs. The 2021-22 NDIS Financial Benchmarking Survey had a response rate of around 15%.[35] Previous surveys were limited to providers who claimed the Temporary Transformation Payment (TTP) since responding to the survey was a requirement to receive the payment. From 2019-20, the survey has been opened to all NDIS relevant providers. However, responses continue to be dominated by TTP recipients (83% of respondents received a TTP).[36]

For supports delivered by disability support workers, price caps are informed by the survey and the estimated cost for the lowest-cost 25th percentile of providers in each of the four metrics plus a margin (*Figure 10*).[37] (Note, eligible providers can also apply for the TTP.)

This means, for a given price cap, fewer than one in four providers may incur costs less than the price cap.

The approach used by the NDIA sets the ‘efficient’ or ‘benchmark’ cost at a lower point than some other social services. For example, the ‘efficient cost’ for funding public hospitals, or the Nationally Efficient Price, is based on the average cost of an episode of care provided in public hospitals.[38]

The design of NDIS price caps was largely intended to help shape the NDIS market by rewarding the most efficient providers while the market developed and stabilised in the short term. Over time, competition was expected to drive provider efficiency.

Evidently, price caps play a significant role in controlling short-term scheme costs but can have adverse long-term consequences.

Figure 10. Price caps and the DSW Cost Model

When setting price caps, the NDIA makes a bottom-up estimate of cost for a Disability Support Worker (DSW) to estimate the 'fully-loaded cost' of delivering an hour of support based on the following factors:

Time spent with participants

The time spent with participants, or 'utilisation rate' is the assumed wages for the time workers spend with participants relative to the time spent on non-billable activities – including time spent on training, breaks and client related administration.

Supervision ratio

The 'span of control' is the ratio of workers per supervisor.

Share of casual workers

'Permanent employment rate' is the proportion of workers employed on a permanent basis.

Corporate Overheads

Administrative costs including the accounting, human resources, legal, marketing, and technology functions.

Profit margin

Price caps act more as a 'price anchor' than a 'price ceiling'

> *'Providers [are] always charging the full NDIS rate even though it's just a guide.'*
>
> *– Anonymous, Carer of NDIS participant*[39]

Setting an efficient or benchmark price itself can have sustainability benefits.

Getting the level of this 'efficient' price right is hard but vital for encouraging supply.

A price level that is too low may not incentivise providers to join the scheme and prevent participants from having access to adequate supports.[40] The NDS *State of the Disability Sector Report 2022* found that almost three out of five (59%) of surveyed providers said they were worried they would not be able to provide NDIS services at current prices.[41]

Price caps can also create unintended service gaps where they do not take into account differences in 'market' price at which providers are willing to supply services – such as, for participants with more complex needs.

In the NDIS, most transactions occur at the price cap. Of those supports subject to a price cap, 82% of the total value for supports between March 2022 and March 2023 were charged at or close to the price cap.[42]

Price caps appear to be acting more as a 'price anchor' than a 'price ceiling'. A lack of price responsiveness from participants (*Section 1*) may be a contributing factor. In the NDIA's 2020-21 Financial Benchmarking Survey, over four in five providers (83%) reported always setting prices at the price cap. A small share of providers (16%) said that they 'sometimes' set prices below the price limit. The top reasons for doing so included: participants' budgets having limited funds and needing to be reviewed; and providers wanting to remain competitive.

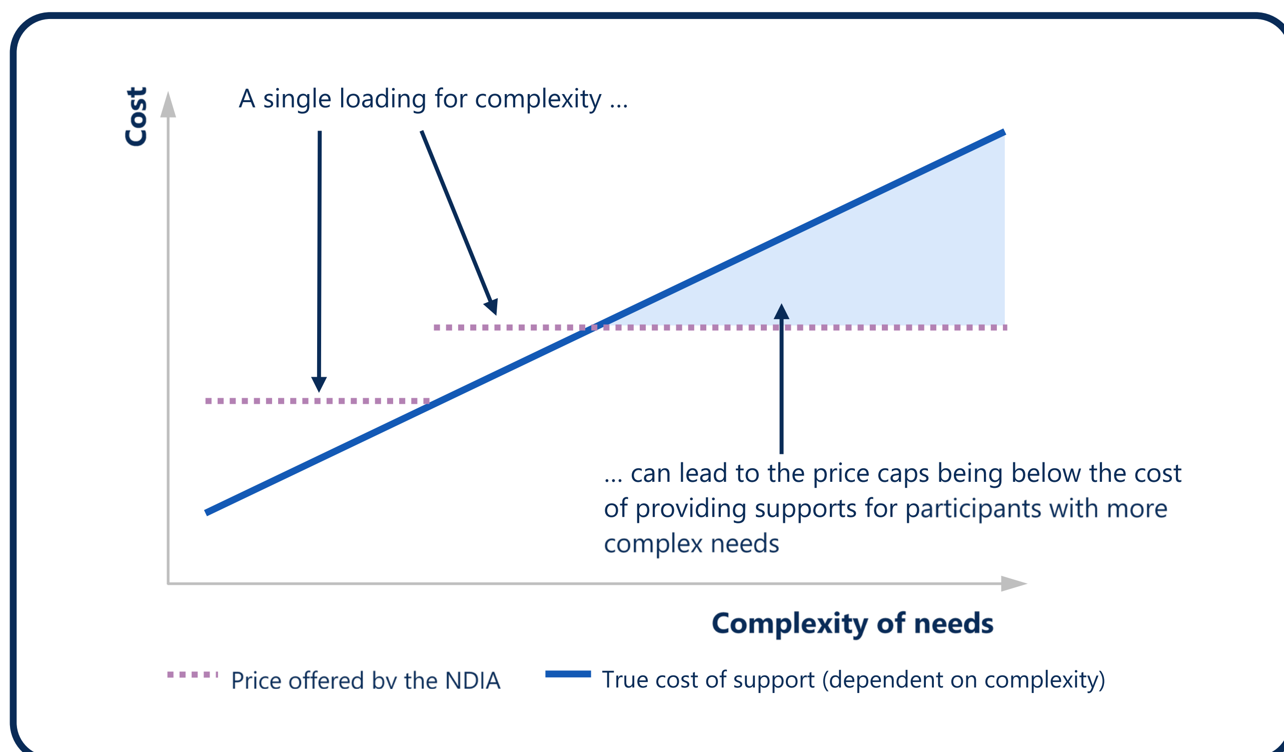
Other jurisdictions have had similar experiences of price caps anchoring prices to a fixed point that reduces price dispersion.[43]

Price caps can have unintended consequences

> *'The current pricing model used by the NDIS is flawed … **This approach creates incentives for providers to cut costs rather than improve quality, leading to homogeneity rather than innovation and poorer outcomes for people with disabilities**. In the long run, this approach is not only harmful to those who need high quality services, but also unsustainable for the NDIS itself.'*
>
> *– Aaron, NDIS Provider*[44]

The current price caps can also lead to 'cream skimming' where providers only take on participants who present the 'highest profit margin'. In this way, price caps can create unintended service gaps where they do not take into account differences in the 'market' price at which providers are willing to supply services (*Figure 11*). There are reports that some participants with complex needs are having difficulty accessing supports.

Figure 11. A highly stylised example of a single loading for complexity



> *'The committee has heard on many occasions that the **NDIS pricing framework is not working for participants with high and complex needs. ...** Indeed, the committee has heard evidence that **some service providers are 'cherry picking' clients and potentially leaving some of the most vulnerable NDIS participants with no access to adequate services**.'*
>
> *– Joint Standing Committee on the NDIS (NDIS JSC), Inquiry into Market Readiness*[45]

Price-caps for plan- and agency-managed participants may also provide an incentive for participants to shift to self-management when they would not otherwise do so, effectively 'side-stepping' price caps.

On this same basis, without competitive market pressure, price caps may create a disincentive for providers to register. In its submission to the NDIS Review, the platform provider Hireup argued there is a need to '... remove the significant financial incentives that are driving up the prevalence of inexperienced independent contractors who are attracted to the sector based only on massive hourly rates, and beyond the reach of proper protections from the regulator or an employer.'[46]

Another challenge arising from price caps acting more as a price anchor is that the same corporate overheads and supervisory costs are built into the price caps irrespective of the

delivery approach. Hireup recommended that NDIS pricing arrangements be '… adjusted to create differentiation between providers with different degrees of overheads due to extra costs of employment and registration.'[47] However, price differentiation that is based on 'how' services are delivered, rather than the underlying 'market' rate, is likely to limit innovation in the NDIS.

Some providers have also suggested that they are unable to invest in the capability of their workforce under current pricing arrangements and where workers can leave and set up as independent contractors or join online platforms. This exacerbates workforce retention challenges. Disability support workers and unions have also raised issues with workers not necessarily being paid wages that reflect the complexity or difficulty of the work.[48]

These examples of the unintended consequences of price caps highlight the need for more detailed information on the 'true' cost of service delivery. For example, governments do not visibility on the full operating and overhead costs of sole traders and platform workers.

The NDIA does not take advantage of its buying power to get a good price, even in well-established markets

Price caps for therapy supports are informed by prices in the large and well-established private market for therapy supports. For therapy supports, the NDIA sets price caps with reference to available information on the top 75th percentile of private market prices.

As part of the 2021-22 Annual Pricing Review, the NDIA collected some data on the advertised rates of therapy supports delivered in the private market. This suggested the average hourly cost of therapy supports was $172 in the private market,[49] compared with the NDIS price limit of $194 per hour for most therapy supports.[50]

The NDIA is a reasonably large purchaser of therapy supports in what is a well-established market. In 2021-22, over 530,000 participants (98%) had therapy supports in their plans.[51] In the same year, agency- and plan-managed participants spent over $2.6 billion on therapy supports.[52]

Despite this, participants and disability representative and carer organisations report that participants pay more for therapy supports than non-NDIS participants, with some calling this 'price gouging'.

> *'When we go to therapies we* ***pay the maximum price of the pricing arrangements when I could go in under my private health and not pay anywhere near the same costs****.'*
>
> *– Britt, NDIS Participant*[53]

> *'I try to use mainstream services and products rather than go to disability specific market due to the ridiculous prices charged by providers. As has been stated time and again,* ***an able bodied person can go to an allied health professional and be charged $90, but I go for the same service and because I am NDIS funded I get charged more than $200*** *… Not only is it discriminatory but also costs the government more dollars, and the person with disability gets less support.'*
>
> *– Anonymous, NDIS Participant*[54]

> *'Because the NDIS Pricing Arrangements and Price Limits covering particular therapy supports far exceed the fees charged by these providers to non-Participants,* ***there is an inherent incentive for these providers to charge more than they might otherwise if the NDIS will write the cheque****.'*
>
> *– Physical Disability Australia*[55]

Similar concerns have been raised for assistive technology.

> *'Too many people see it as easy money, at the expense of the disabled community. Legislating to prevent companies* ***charging a private individual $2,000 for a wheelchair and the NDIS $8,000 for the same product****.'*
>
> *– Trish, Carer and person with disability*[56]

'Price gouging' or setting excessively inflated prices are not on their own illegal.[57] However, under Australian competition laws, businesses must not engage in anti-competitive behaviour that misleads consumers about what they'll be charged or why, and must not collude with their competitors in setting prices.

That said, there is a high prevalence of providers charging at the price cap. In 2021-22, just under three in four (72%) therapy sessions delivered to agency- and plan-managed participants were charged at or close to the price cap.[58] The NDIA does not systematically collect data on therapy supports delivered to self-managed participants.

There may be valid reasons why prices are higher for some participants.

Providers may face additional regulatory and administrative costs when delivering services to NDIS participants. For example, while the range of audit costs vary according to provider size and scope, registered NDIS providers face a median cost of $935 for verification audits, which must be conducted every three years.[59] Registered NDIS providers who deliver more complex supports face a median cost of around $3,000 for certification audits.

These audits must be conducted every three years, with mid-term certification at the 18-month mark.[60]

Price differences may reflect differences in participant complexity or delivery method and, in these cases, may be appropriate if they improve participant outcomes.

Price differences, however, are also likely to represent in part a lack of incentives for providers and participants to provide and seek supports below the price cap.

> *'My planner complained about the charge our physio charges us, but it is in line with NDIS price guidelines. When I explained this to my planner, she advised that was only a ceiling and no one should be charging that much.* ***If you are going to put high prices in your price guidelines, you have to expect to be charged those prices****.'*
>
> *– Anonymous, Carer of NDIS participant*[61]

Re-thinking how participants and providers are incentivised through the scheme settings will therefore be critical in designing the long-term price settings (*Section 5*).

Price caps are not well aligned across the care and support sector

Price caps are also used in the broader care and support sector, including in Commonwealth-funded aged care and veterans' care sectors.

However, there is no coordinated approach to setting prices across these sectors, and prices vary across programs. These differences can create a situation where the Government is effectively 'competing' with itself on prices across the care and support sector.

There could be benefit in considering whether prices could be more closely aligned across the care and support sector, drawing on governments 'buying power'. This could support scheme sustainability, more efficient use of government funding and ensure that providers and workers are not deterred from offering services to different sectors, on the basis of different pricing.

Finding 1: There are opportunities to improve NDIS pricing arrangements over the short- to medium-term

Price caps are set based on poor quality and incomplete data, and are applied bluntly in the NDIS.

Price caps are not supporting the development of a responsive and innovative market. Providers have little incentive to compete on price or quality, with price caps acting more as a 'price anchor' than a 'price ceiling'. Without normal competitive market pressures from participants, price caps and other price controls provide an important constraint on how much participants are charged; and will continue to be needed over the short and medium term.

That said, there are significant opportunities to improve how price caps and price controls are set. The use of different pricing approaches could also be more effective than the current price controls.

Focus areas for further consultation

To improve NDIS pricing arrangements over the short to medium term, there may be benefits in exploring options such as:

- Ensuring that the setting of price caps is transparent, including greater use of market data and independent price monitoring and/or price setting. This could ensure NDIS price caps better reflect efficient prices, strengthen confidence in the price setting process, and support ongoing investment in the sector.
- Further differentiating price caps to reflect the additional costs involved in delivering services to participants with more complex needs and in regional areas. If this can be achieved without creating excessive administrative burden, it could improve supply and access to quality supports for participants.
- Implementing 'preferred provider' panel arrangements – where providers agree to supply supports at an agreed price and on agreed terms – as a possible alternative to price cap arrangements for certain NDIS supports. The NDIA could leverage its 'buying power' to negotiate prices with providers. This could provide a simplified option for participants in accessing supports, without limiting their choice.

We want to hear from you about the above and other options to improve the NDIS pricing arrangements.

4. Providers change their service offerings in response to payment approaches

*'**Currently providers are paid based on the services they provide, rather the benefits of those services to participants**. Providers should be rewarded for helping to achieve participant goals. This would benefit the providers who provide high-quality services, and it increases the focus for Government, the NDIS and providers on building the long-term capabilities of participants.'*

– Get Skilled Access[62]

While price caps and controls are important, how we pay providers also matters. The interplay between pricing and payment approaches has a critical role in what supports are supplied to the market and the outcomes achieved for participants.

The pricing and payment approach used in the NDIS is centred on a market-based model, which includes fee-for-service payments and capped prices for supports (*Figure 12*).

Figure 12. The NDIS pricing and payment approach

Fee-for-service and alternative payment approaches

The NDIS operates largely through a fee-for-service payment model. Providers are paid for each unit of service delivered, rather than the benefits of those services to participants.

This approach is easy to administer and understand. However, it rewards providers for the volume of service they deliver, regardless of the 'value' for participants. Providers have a financial incentive to provide more and more services and/or increase staff ratios regardless of the benefit.

There could be benefits from shifting away from the one-size-fits-all, fee-for-service payment approach in the NDIS.

While fee-for-service is a common way to pay providers of social services, there are alternative payment approaches, which are used across different social markets (*Figure 13*).[63] Each payment approach has advantages and disadvantages and rewards different sorts of behaviour by providers.

For example, activity-based payments are used to pay public hospital and aged care providers under the Australian National Aged Care Classification (AN-ACC) (introduced in October 2022). While a form of fee-for-service, activity-based payments cover a bundle of services provided rather than each individual service. For example, for public hospitals this may include the accommodation, surgery, pathology, nursing and medicines costs for an episode of care. When compared to a fee-for-service payment, activity-based payments strengthen incentives for providers to reduce costs. Activity-based funding, however, can be more complex to administer and requires more detailed data.

Beyond variations on fee-for-service, introducing different payment approaches could help ensure the service offering of providers better reflect the nature of supports. For example, enrolment payments could be used where support needs are more predictable and less episodic in nature.

Figure 13. Payment approaches and their characteristics[64]

Options	Advantages	Disadvantages
Block funding Lump sum payments covering specific services for a set period of time	• Expenditure is predictable • Easy to administer • Adopting innovations does not impact providers' budgets	• Incentive to underprovide services to reduce workloads • More limited incentive to improve quality of service • Limited accountability in how payments are spent • Better providers attract more work but not necessarily more resources • Limited support for user choice • Reduced incentives for efficiency over time
Fee-for-service Reimbursement for each unit of service provided	• Can support user choice • Incentive to provide services to more people • Incentive to provide services regardless of costs	• Incentive to increase activity and over-service users • Incentive to limit or reduce resources allocated to users • Few incentives to work with other providers • Funder bears financial risk of increased demand
Enrolment (capitation) Period lump-sum payments for each enrolled user	• Expenditure is predictable • Incentive to provide preventative services • Incentive to reduce costs and innovate services • Can encourage coordination between providers	• Incentive to decrease activity and under-service users if quality is not well monitored and enforced • Incentive to shift service delivery to other providers • Incentives to cherry-pick participants if not risk weighted • Little incentive to increase quality/quantity of services
Outcomes payments Rewards or penalties based on meeting certain metrics	• Incentive to undertake beneficial services that would otherwise not be remunerated • Can aid consistency in meeting quality standards	• Significant monitoring effort required • Indicators hard to define and/or may not link to outcomes or be in provider's control • Can be high compliance costs for providers • Risk of unintended provider behaviour in order to achieve an outcome • May be little incentive to improve beyond targets

Outcome payments can be effective when well designed

Paying for outcomes in the NDIS, when well designed, could strengthen incentives to deliver evidence-based and timely services.

The NDIA's 2018 Independent Pricing Review, conducted by McKinsey & Company, suggested that over the long term the development of a competitive marketplace should enable changes to the scheme's current model of using price caps and fee-for-service. The report recommended trialling outcomes-based pricing in the NDIS.

> *'Firstly, the **NDIA should conduct a trial of outcomes-based pricing**. This is an appealing alternative to input-based pricing as it encourages providers to maximise outcomes, rather than the volume of services provided. However, it is **significantly more complex and requires strong baseline data and measurement systems**. A trial would provide valuable learnings on how this approach might be implemented in some supports.'*
>
> *– McKinsey & Company, NDIA Independent Pricing Review*[65]

Outcome payments have been used in other social services.

For example, employment service providers are paid in part for supporting people to achieve employment outcomes. Participants in mainstream and Disability Employment Services can also choose their provider on the basis of the provider's past outcomes or performance via a 'star rating'. In addition, under the previous jobactive scheme, every 18 months, higher performing employment providers were allocated a larger market share, while poorer performing providers lost market share.

Experience in other social services has shown that providers can be responsive to outcome payments, which can drive benefits for participants.

The New South Wales Family Preservation Service has highlighted some of the benefits of payment-by-result. The program supports children at risk of entering out-of-home-care by proving a range of supports including therapy, social work and personal care services. A 2020 independent evaluation of the program found the payment-by-results approach reduced entry to acute settings. The evaluation also found material cost savings with higher uptake of preventative actions. Clients with high and complex needs were found to benefit most.[66]

However, it can be difficult to link outcomes to providers' performance. Providers may not want to supply the market where too much of the payment is at risk. Providers also require the necessary scope to drive positive outcomes for participants. To affect an outcome, providers may need to be able to offer a 'bundle' or 'wrap around' supports.

‘Enrolment’ approaches

Approaches where participants ‘enrol’ with a provider for a period can strengthen the focus on a provider’s relationship with participants and encourage them to invest in participants’ capability (*Figure 14*). Enrolment approaches also have the potential to stabilise the demand profile for providers. In turn, this may assist providers to shift away from a more casual workforce.

Careful design would be required to mitigate the risk of poor outcomes under enrolment approaches. This includes careful monitoring and feedback loops to address the risk of provider’s limiting access to services required to meet the needs of participant, or under servicing.

Providers may also ‘cherry-pick’ participants if enrolment payments are not risk-weighted for the additional costs of supporting participants with complex support needs. Importantly, any adjustment for risk needs to be based on factors that cannot be manipulated by the service providers. Otherwise it is possible for providers to focus more on capturing the payments than improving outcomes for participants.

‘Blended’ payment approaches

Paying providers a ‘blended’ payment’ – that is, based on a mix of payment approaches – could help balance the advantages and disadvantages of particular payment approaches and better align incentives between participants, providers, and governments.

Well-designed blended payment approaches could put a greater focus on participant outcomes without relying wholly on a pure outcome payment. For example, enrolment arrangements, when blended with outcome payments, can incentivise providers to reduce costs through providing fewer, or less costly, supports and investing in cost-effective preventive and early intervention services.

> *‘Blended payment models would allow participants to pay providers in another way instead of only fee-for-service, for example paying more for a provider who can demonstrate high quality service delivery, or paying a provider for meeting a participant’s needs for trust, stability, and relationships over a period of time instead of service-by-service.’*
>
> *– Get Skilled Access*[67]

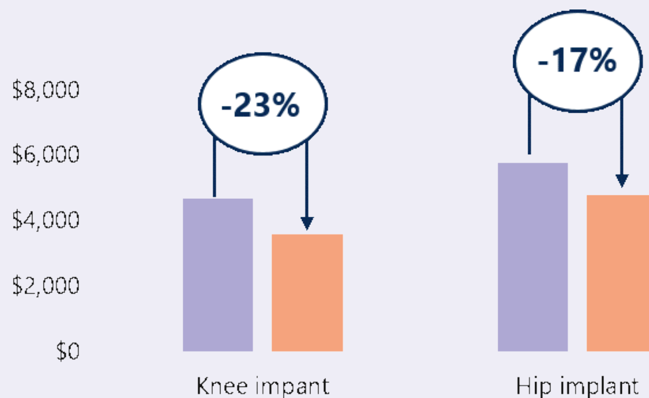
Any such approaches would benefit from an outcomes framework that measures whether providers are delivering positive outcomes for participants. This would take considerable time to ‘get right’.

Figure 14. Overseas experience suggests enrolment models can promote the delivery of 'value based' supports

An enrolment 'matrix' system for a knee and hip arthroplasty[68]

A 'matrix' of enrolment payments was introduced in a United States community hospital system, with procedures categorised based on technological sophistication and cost. In the first year after the implementation of the matrix system, implant costs for the hospital decreased by 23% per implant for knee procedures and 17% per implant for hip procedures.

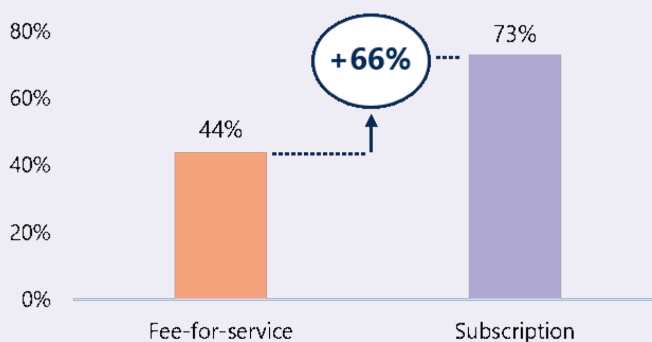
Change in target average price before and after introduction of capitated system



Improved preventive care for Swedish public dental subscription agreements[69]

Patients were given the option to enter a risk-weighted subscription (capitation) plan with a three year enrolment period as an alternative to fee-for-service plans. Those who chose to enter a subscription agreement received 66% more preventive care; and had on average better oral health, than those who entered a fee-for-service plan.

Proportion of clients receiving additional preventive care



Enrolment approaches have been found to reduce healthcare costs and improve outcomes[70]

For instance, researchers in the United States evaluated the cost of care for Medicaid patients with severe mental illness. The end result found that an enrolment model with a for-profit element was more cost-effective than the fee-for-service model or the not-for-profit enrolment group.[71]

Finding 2: The fee-for-service payment approach rewards NDIS providers for the volume of supports they deliver, rather than for supporting participants to achieve outcomes

Fee-for-service payment approaches are easy to administer and understand, but also have drawbacks. For most NDIS supports, providers are paid for each hour of service they deliver, regardless of the 'value' for participants.

This means there are perverse incentives for providers to maximise the volume and types of supports they deliver, in order to maximise the total payment they receive. This, in turn, does not reward providers to support participants to be more independent and can place pressure on scheme sustainability.

Focus areas for further consultation

Other payment approaches (such as, outcome, enrolment and blended payments) could be used to better align incentives for providers with the interests of participants and governments and promote the delivery of 'value-based' supports in the NDIS.

However, it is important to carefully consider the advantages and disadvantages of different payment approaches to avoid introducing perverse incentives for providers and maintain choice.

We want to hear from you about opportunities to use other payment approaches in the NDIS along with complementary measures (such as, improved market monitoring).

We are interested in what approaches could be considered for different types of supports, including daily living supports, therapy supports and others.

We are also interested in how these approaches may potentially be implemented in the scheme.

5. A new overarching approach to the NDIS market and pricing and payments may be needed

Clearly there is a need to move away from the past over-reliance on pure competition and the current pricing and payments approach, which is not transparent and applied bluntly.

When designing market-based service delivery approaches, governments must understand the nature of participants, supports and providers. A mix of market tools should be applied (*Section 2*).

We are considering how market coordination, settings and alternative commissioning can be better used to achieve a responsive and well-functioning NDIS market. Even so, pricing and payment approaches will remain central to the functioning of the NDIS market.

The current price caps were planned to be a transitionary measure

There has been a long held view that prices should be deregulated once the NDIS market is mature.

> *'Prices should only be regulated as narrowly and for as short a time as possible.'*
>
> *– Productivity Commission*[72]

The NDIA's 2019 Pricing Strategy lays out a four-step transition approach for pricing '… aimed at maintaining and increasing market supply, assisting in the transition of the NDIS to full roll out and helping markets grow to a more mature state in the future, while recognising the need for financial sustainability' (*Figure 15*).[73]

The NDIA's approach seeks to decrease the level of pricing intervention – moving from the current 'heavy handed' price setting and approval to more 'light touch' price monitoring and information provision. However, this transition process has not progressed, and it is not clear that price deregulation should be prioritised at this time.

Figure 15. NDIA's transition steps for removing price caps … has barriers hindering progress at each step

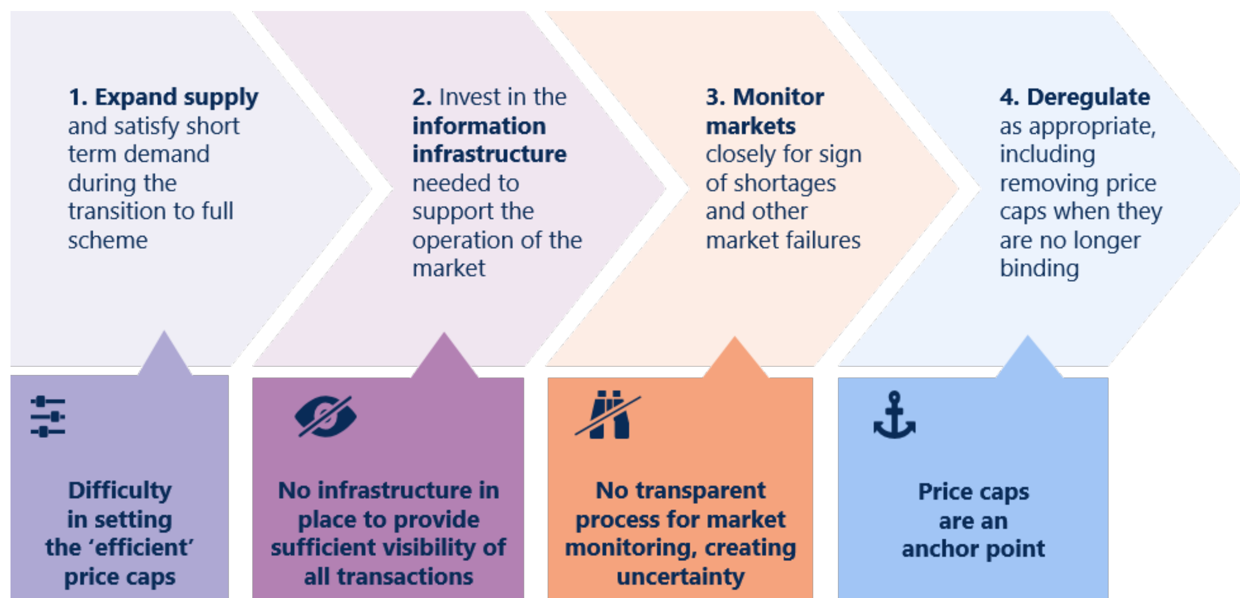


Figure 15 text description

Price monitoring and comparisons in the NDIA is limited due to incomplete information and systems (outlined in *Section 1*).

The NDIA's Pricing Arrangement and Price Limits document is the only comprehensive price list that is publically available. But it is not easy for participants to understand, and only outlines what the price caps and rules are. There is no requirement for providers to publish a price list for the full set of services they offer – the only exception is providers claiming TTP for certain supports.

This contrast with other social services, where price information is more readily available to consumers and governments. For example, the aged care *Home Care Package Program* requires providers to publish a price list on the *My Aged Care* website for the full set of services they offer.[74] The NDIA has suggested that neither the NDIA nor NDIS Commission are able to require providers to publish their prices.

More than a decade ago, in 2007, price disclosure arrangements were introduced in the Pharmaceutical Benefits Scheme (PBS).[75] Suppliers of certain medicines on the PBS were required to disclose the actual prices at which their medicines were sold – including both their sales revenue and volume. Critically, the arrangements included a feedback loop that allowed the prices of PBS-listed medicines to be adjusted to better reflect the average actual prices paid by pharmacies.

Finding 3: A lack of transparency around prices, volume, quality and outcomes is restricting the effectiveness of NDIS service delivery

Participants can find it difficult to compare providers or negotiate prices as they cannot readily access the information they need to make informed decisions. The NDIA has limited visibility of whether the supports participants purchase help to achieve outcomes.

Increased transparency of NDIS transactions – including on prices, volume, quality and outcomes – would support:

- participants to become more informed and empowered consumers
- providers to compete on price and quality and deliver outcomes for participants
- governments, as market stewards, to better monitor pricing and market outcomes, and set prices more effectively (in line with *Finding 1*).

Focus areas for further consultation

Options to improve transparency in the NDIS market could include strengthening:

- Market monitoring through systematically collecting transaction data supported by near real-time payment systems. This would include collecting more transaction data for the self-managed market.
- Requirements for providers to disclose their prices, such as through an online marketplace similar to the My Aged Care website.
- Measuring and reporting on provider performance – that is, the extent to which they provide quality supports that achieve outcomes for participants. This should be reported in an accessible format for participants, such as a star rating system, which are used across several social services.

We want to hear from you about the above and other options to improve transparency in the NDIS market, including how these options could be implemented without adding to administrative and compliance burden.

Past reviews have suggested progressing towards a 'light touch' price monitoring approach with greater transparency …

Removing price caps would help to address unintended supply gaps and allow providers to compete on quality as well as price (*Section 3*).

> *'Setting inappropriate price caps can affect access to supports and the sustainability of support provision, create uncertainty that can deter investment, and impede the development of new forms of supports.'*
>
> *– Queensland Productivity Commission*[76]

Past reviews (*Figure 17*) have identified two common reforms of NDIS pricing arrangements to progressively:

- move away from price caps and controls
- introduce a 'light touch' price monitoring approach (*Figure 16*).

Figure 16. Level of intervention by government on pricing

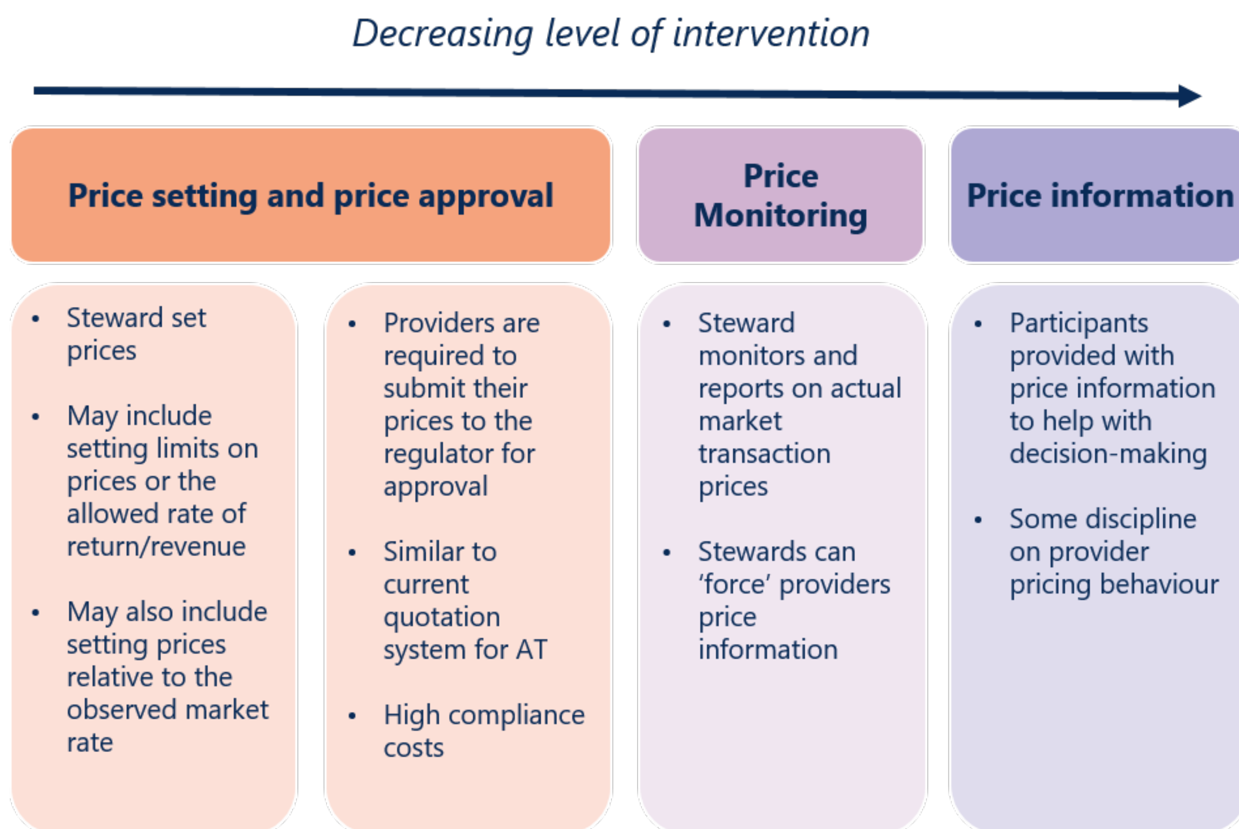


Figure 16 text description

Figure 17. Previous work on pricing and payments in the NDIS

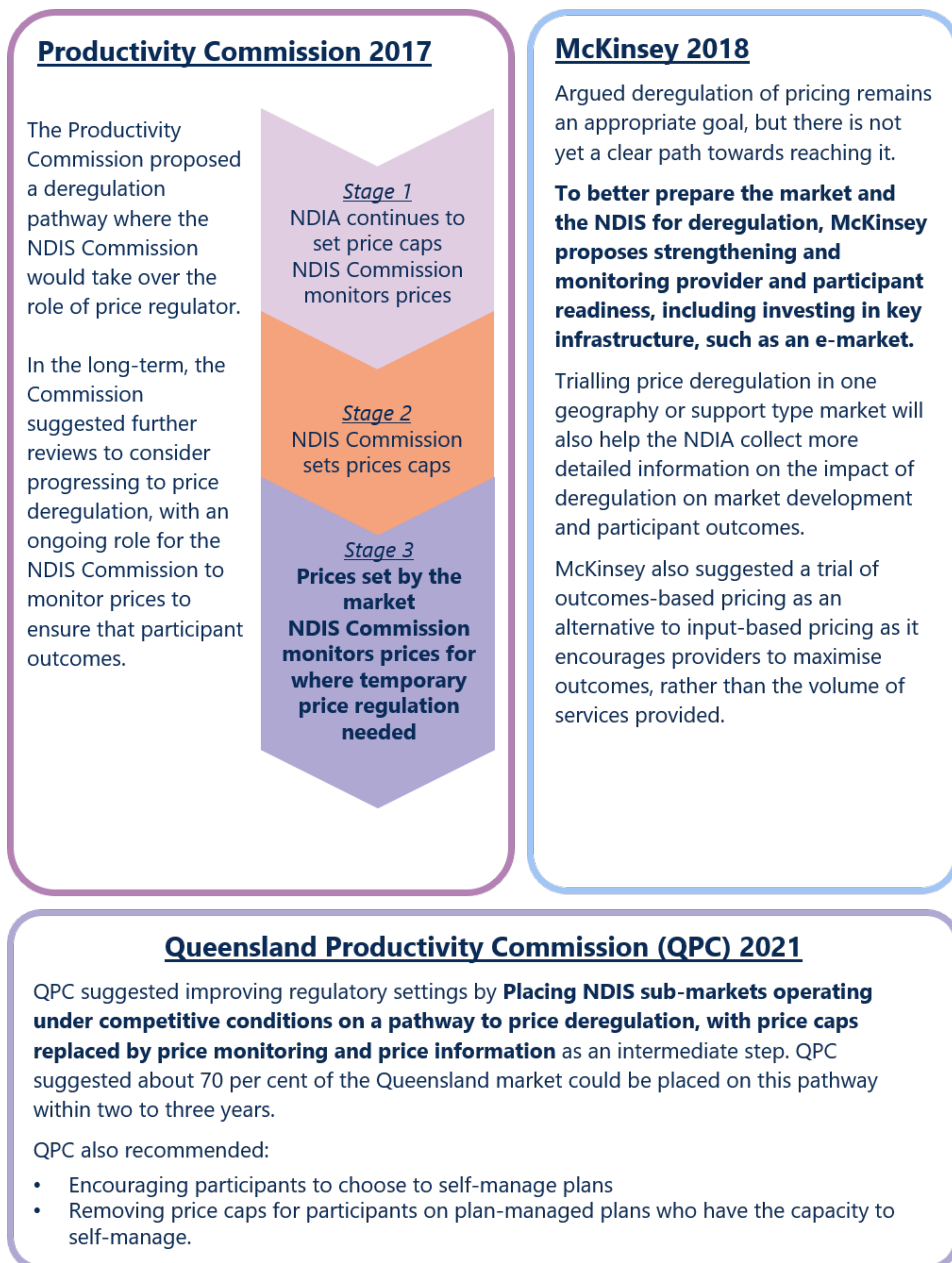


Figure 17 text description

… but price monitoring, on its own, may not be sufficient

Under current settings in the NDIS, removing price caps could place substantial pressure on scheme costs.

As outlined in *Section 1*, participants are likely to be less responsive to prices in a social market (like the NDIS) than in the private market. Providers may act to increase demand for their supports, even when these do not represent value of money or improve outcomes. This could be particularly true when participants rely on the professional opinions of providers.

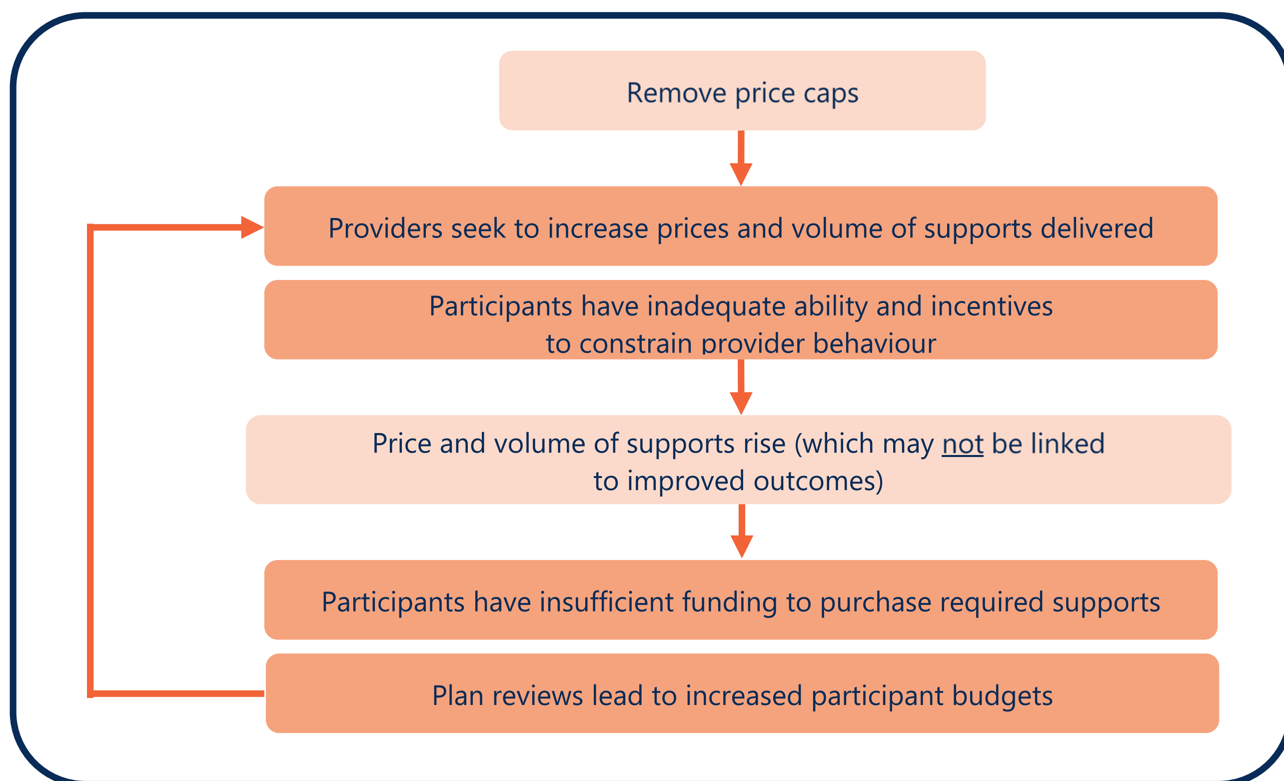
> *'The bureaucracy of NDIS and its outrageous and free-wheeling price guide increases have allowed service providers to charge optimal rates without any obligation to adjusting their support services to the needs of their clients.* ***NDIS has become a business model for service providers to take advantage of the never-ending funding from client, without having to answer for whether or not they are improving services to the benefit of the participant****.'*
>
> *– Carolyn, Carer of NDIS participant*[77]

While improved transparency on prices and quality is critical to improve market functioning, these reforms will not provide the competitive pressure needed to address the financial incentives without price caps.

Where providers and participants can seek an increase to budgets, removing price caps is likely to lead to increased costs, without an associated improvement to outcomes for participants. Without competitive pressures in the scheme, this risks a potential ratcheting effect where providers bid up the price of supports (*Figure 18*).

As supports become more profitable for providers, under a fee-for-service approach, price deregulation could also have a volume ratcheting effect. Providers would face even greater financial incentives to deliver more supports, regardless of outcomes or benefits to participants, than they do currently.

Figure 18. The risk of a price and volume ratchet effect [78]



Extended text description for figure 18

Finding 4: Removing price caps could place pressure on scheme costs. Instead, the focus should be on foundational market reforms that help align incentives for participants, providers and governments

Over time, replacing price caps with more 'light touch' pricing arrangements as currently intended – including improving price monitoring with greater transparency on prices and quality – could encourage greater competition.

However, improved price monitoring and transparency alone would not be sufficient to address the lack of competition on price and quality across the NDIS market. Price deregulation risks a potential 'ratcheting effect' where providers could increase the price and volume of supports, adversely affecting the sustainability and affordability of the NDIS.

Realising the benefits of a market-based approach for the NDIS should instead focus on foundational market reforms. These reforms should better reflect the nature of participants, supports and providers in its design. These could also consider whether the goal of competition is optimal or whether contestable arrangements would better deliver outcomes for the NDIS – achieving a good life for participants and a sustainable scheme.

Focus areas for further consultation

Foundational market reforms to align incentives for participants, providers and governments could look at ways to ensure:

- participants have the information and capability to make informed choices on the value and quality of supports, including the help they need to do this
- participants' budgets support them to be active consumers in the NDIS market
- providers are incentivised to compete on price and quality, and deliver the volume and mix of supports that improve outcomes for participants
- a range of contestable approaches are used in NDIS sub-markets when they would achieve better outcomes
- governments have clear roles and responsibilities with a coherent and transparent strategy for stewarding the NDIS market – including the approach for the overall market and for different sub-markets (such as regional and remote markets).

We want to hear from you about when and how these foundational reforms could be achieved.

We are also interested in other reforms to ensure we have the right overall architecture and incentives in the NDIS market.

6. Next steps

Throughout the NDIS Review, we will explore the overarching market approach, and the role of pricing and payments in improving outcomes for participants and scheme sustainability.

This includes considering market architecture, pricing and payment approaches and transition paths. Equally, we are looking at how and when market access, coordination and alternative commissioning can be better used to achieve a responsive and well-functioning NDIS market.

Over the months ahead, we will consult participants, providers, workers, unions, disability representative and carer organisations, disability service providers and other disability sector stakeholders. Among other things, we will consult on the focus areas identified in this paper. This will help us better understand these focus areas, and how pricing and payment approaches may improve participant outcomes and scheme sustainability.

Appendix 1 – Alternative text

Figure 3 - At the end of 2022, around 30% of participants self-manage all or part of their plans. This increases to 40% for early childhood supports, where parents and carers self-manage on their child's behalf.

Graph showing the proportion of participants by plan management status and by age group at the end of 2022

- For participants aged 0 to 6 years, 34% are fully self-managed, 6% are partly self-managed, 53% are plan-managed and 7% are agency managed.
- For participants aged 7 to 14 years, 36% are fully self-managed, 9% are partly self-managed, 45% are plan-managed and 10% are agency managed.
- For participants aged 15 to 18 years, 28% are fully self-managed, 8% are partly self-managed, 54% are plan-managed and 9% are agency managed.
- For participants aged 19 to 24 years, 17% are fully self-managed, 8% are partly self-managed, 61% are plan-managed and 14% are agency managed.
- For participants aged 25 to 34 years, 11% are fully self-managed, 6% are partly self-managed, 65% are plan-managed and 17% are agency managed.
- For participants aged 35 to 44 years, 10% are fully self-managed, 6% are partly self-managed, 68% are plan-managed and 16% are agency managed.
- For participants aged 45 to 54 years, 9% are fully self-managed, 5% are partly self-managed, 70% are plan-managed and 16% are agency managed.
- For participants aged 55 to 64 years, 9% are fully self-managed, 5% are partly self-managed, 71% are plan-managed and 15% are agency managed.
- For participants aged 65 years and over, 10% are fully self-managed, 7% are partly self-managed, 67% are plan-managed and 17% are agency managed.
- Across all age groups, 23% are fully self-managed, 7% are partly self-managed, 58% are plan-managed and 12% are agency managed.

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Figure 6 - An overview of the range of market tools government can use to ensure the effective delivery of supports and, ultimately, outcomes for participants

Infographic showing three categories of market tools that governments, as market stewards, can use to better ensure effective delivery of supports and outcomes for participants

1. Market coordination which can include: market facilitation; market intermediaries; and market deepening.

2. Market settings which can include: market access settings, and pricing and payment approaches.
3. Alternative commissioning, which can include: direct, community and integrated commissioning; and provider of last resort arrangements.

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Figure 7 - Market stewards can use a mix of market-based tools to achieve the following objectives for the NDIS market

Infographic showing three objectives for the NDIS market, and the market-based tools that can be used to achieve them.

1. Access to supports and continuity of supply. This objective is impacted by market access settings, alternative commissioning and provider of last resort settings.
2. Participants have informed choice and providers are responsive to participants' needs. This objective is impacted by: market coordination (including market facilitation and market deepening tools); as well as pricing and payment approaches.
3. Providers and intermediaries innovate and invest in the capability of participants. This objective is impacted by pricing and payment approaches; and market coordination (including market facilitation and the role of market Intermediaries).

Return to Figure 7

Figure 15 - NDIA's transition steps for removing price caps … has barriers hindering progress at each step

Infographic outlining NDIA's four transition steps for removing price caps, and the barriers hindering progress for each step of this transition.

Step 1: Expand supply and satisfy short term demand during the transition to full scheme. Step 1 barrier: Difficulty in setting the 'efficient' price caps.

Step 2: Invest in the information infrastructure needed to support the operation of the market. Step 2 barrier: No infrastructure in place to provide sufficient visibility of all transactions.

Step 3: Monitor markets closely for sign of shortages and other market failures. Step 3 barrier: No transparent process for market monitoring, creating uncertainty is a barrier to this.

Step 4: Deregulate as appropriate, including removing price caps when they are no longer binding. Step 4 barrier: Price caps are an anchor point is a barrier to this.

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Figure 16 - Level of intervention by government on pricing

Infographic outlining different decreasing levels of intervention by government on pricing.

Most intervention – involves price setting and price approval:

- Price setting:
  - Steward set prices
  - May include setting limits on prices or the allowed rate of return/revenue
  - May also include setting prices relative to the observed market rate.
- Price approval:
  - Providers are required to submit their prices to the regulator for approval.
  - Similar to current quotation system for AT
  - High compliance costs.

Less intervention – price monitoring:

- Steward monitors and reports on actual market transaction prices
- Stewards can 'force' provider's price information.

Least intervention – price information:

- Participants provided with price information to help with decision-making
- Some discipline on provider pricing behaviour.

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Figure 17 - Previous work on pricing and payments in the NDIS

Three boxes outlining previous analysis of pricing and payments for NDIS

1. Productivity Commission's 2017: proposed deregulation pathway in three stages:
   - Stage 1: NDIA continue to set price caps and monitor prices
   - Stage 2: NDIS Commission sets price caps
   - Stage 3: Price set by market, NDIS Commission monitors this
2. McKinsey's 2018: Argued deregulation of pricing remains an appropriate goal, but there is not yet a clear path towards reaching it. Proposed strengthening and monitoring provider and participant readiness, including investing in key infrastructure, such as an e-market.
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Return to Figure 17

Figure 18 - The risk of a price and volume ratchet effect

Flowchart indicating the risk of a price and volume ratchet effect through six steps

Steps:

1. Remove price caps
2. Providers seek to increase prices and volume of supports delivered
3. Participants have inadequate ability and incentives to constrain provider behaviour
4. Price and volume of supports rise (which may not be linked to improved outcomes)
5. Participants have insufficient funding to purchase required supports
6. Plan reviews lead to increased participant budgets

Step 6 loops back up to Step 2 – where providers seek to increase prices and volume of supports delivered.

Return to Figure 18

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