

**Australian Unity**

**Submission to the  
Productivity  
Commission Issues  
Paper on NDIS Costs**

**April 2017**

## Foreword

Australian Unity is pleased to provide its submissions to the Issues Paper on NDIS Costs.

Our organisation is a strong and ongoing supporter of the NDIS vision and its realisation. The opportunity to reimagine and reshape the delivery of vital services to vulnerable individuals on the basis of investment (not entitlement), dignity and agency (not paternalism) and on reasonable and necessary individual requirements—is a project worth delivering. And particularly given the Commission’s originating view that such an approach would ultimately yield both human amenity and financial dividends when fully realised—compared to the inequitable, fragmented and inadequate programs it would replace.

Today, however, this vision is threatened. Faced with the real world complexities of execution and implementation we are in danger of retreating from the challenges of bringing a new “business model” into existence and instead lurching towards the familiar props and habits associated with traditional welfare or entitlement programs.

Australian Unity makes these submissions to the Commission on the basis of an existing provider of state-funded services and from its practical experience of the NDIS so far. In doing so, we also bring to bear the organisation’s significant experience in aspects of service delivery, funding, capital formation and operations across other areas of what can be termed the social infrastructure and human services arena. Our experience to date does indicate that some cost settings within the NDIS should be reconsidered and we set out our submissions on these matters in the following pages.

Here at the outset, however, we make these foundational submissions—our community will not manage the costs of the NDIS effectively without managing its value. And managing the value of the NDIS will require ongoing high order policy attention, persistence, and investments to secure long term returns.

The NDIS is seeking to realise a new “business model” in a new marketplace, at large scale. Many of the ingredients necessary to the proper functioning of this marketplace are nascent or do not yet exist. And this is not to be some marketplace for some undifferentiated good, like for example, electricity.

Instead we are talking about a market for differentiated services for an extraordinarily heterogeneous population of participants. The dimensions of heterogeneity include different catchment and geographic aspects; workforce needs and skills; service mix; personal capacity of recipients; socio-economic and cultural specifics of recipients; and provider maturity—to call out just a few.

In this context and in the context of hundreds of thousands of participants and individual service providers the primacy of the market stewardship agenda should not be lost.

Stewarding the market design for the NDIS and governing its development is a huge task, as the NDIS is not being implemented in isolation. The demographic shift, policy agendas and reform in adjacent sectors, fiscal pressures faced by the Commonwealth and States and Territories, and our system of siloed program delivery across human services—are all influencing decision making about funding, timing and design of the NDIS. Any of a rushed implementation, the undermining of informal supports and social capital, or the creation of gaps, duplication or artificial competition within welfare sectors could compromise the scheme's success.

This is why Australian Unity believes it should be expected that the development of functioning NDIS market will take some time. People cannot be expected to engage and grow as confident consumers, and providers cannot be expected to innovate and compete without the essential components of any healthy market. The need for active market design, governance and stewardship to ensure such a market emerges, and in an orderly fashion, has only just begun—and that this should be expected to take a decade of effort.

It is on this basis that participant, provider and community expectations should be set.

## Submission Summary

Australian Unity has been a provider of “social infrastructure” for Australians for 177 years. We seek to enable millions to enjoy wellbeing, in its broadest sense. Australian Unity’s businesses exist to respond to the social challenges Australia faces. The Australian community’s strong support for the National Disability Insurance Scheme (NDIS) has shown that improving the lives of people with disability is one of Australia’s pressing social infrastructure challenges.

Australian Unity notes the Productivity Commission’s integral role in the original conception of the NDIS, and that it has now been entrusted by the Commonwealth, State and Territories to review NDIS costs to inform the final design of the full scheme. Australian Unity agrees that the NDIS must be financially sustainable in order to meet its objective for people currently living with disability and those who will live with disability in the future.

Australian Unity supports the NDIS model of consumer-directed care to deliver health and wellbeing outcomes for individuals and value for communities and taxpayers. Further, Australian Unity considers this model can be emulated across the human services sector, and as such the NDIS becomes an important test case for how to structure, establish and govern person-centred service systems.

Practically, Australian Unity is invested in the introduction and rollout of the NDIS. Australian Unity participated in the Hunter Trial, provides services to people under existing state-funded schemes in Victoria and NSW and now provides a range of services for clients looking for NDIS support. Australian Unity is therefore in a position to use this commercial experience to offer the Commission a “real time, on the ground” perspective of NDIS costs and related value drivers and risks.

In this submission Australian Unity will provide the Commission with practical insights on the emerging cost implications of the introduction of the NDIS and ideas about how to refine the implementation of the NDIS to ensure material costs are well-managed while the scheme’s value for participants, both clients and providers, is appropriately maintained.

As a member-governed mutual organisation run on commercial principles, Australian Unity occupies a different position in the economy from the not-for-profit and charitable sector. It also sits apart from publicly-listed companies and considerations of shareholder dividends. Australian Unity's profits are re-invested in products and services for members and customers. While Australian Unity's businesses have the objective of providing "community value" beyond pure profit, a commercial return is required to ensure their sustainability. That said, Australian Unity's corporate form allows it a longer term investment horizon. Australian Unity believes its experience in the NDIS system to date is instructive for the Commission's consideration of the appropriateness of the current cost structures.

At a threshold level, Australian Unity is concerned that even businesses such as itself (with a deep commitment to disability service delivery and a capacity for longer term investment horizons) may be driven to opt out of the sector during the upcoming critical transition years as they find themselves unable to sufficiently fund, let alone grow, their businesses under the current policy approach to funding, and associated support definitions and price settings. Already Australian Unity's experience in the sector gives pause as to elements of the business' long term sustainability.

Australian Unity's submission focuses on these threshold concerns about the market design (structural) work required to achieve long term sustainability for the NDIS, the immediate priorities that will facilitate a successful transition period, and observations about the following particular issues, which are driving specific costs and risk:

1. Industrial relations settings
2. Workforce training, growth and retention risks
3. Price settings and controls, including minimum service duration
4. Thin markets
5. Funding eligibility – gaps between State and NDIS funding
6. Access for Special Needs Groups including Aboriginal and Torres Strait Islanders with a disability
7. Accommodation – security of tenure

## **Introduction to Australian Unity**

Australian Unity is a national healthcare, financial services and independent and assisted living organisation providing services to nearly one million Australians including over 280,000 members nationwide. Australian Unity's history as an independent mutual organisation dates back 177 years to 1840.

Australian Unity has responded to the changing social challenges Australia has faced throughout the 19<sup>th</sup>, 20<sup>th</sup> and now the 21<sup>st</sup> century. As a provider of health insurance, Australian Unity protects almost 200,000 Australians against the risks of costly and unexpected medical bills. Australian Unity's Remedy Healthcare program helps people to stay healthy and out of hospital in their own homes. Australian Unity's Independent and Assisted Living business assists over 50,000 Australians to continue to live as independently as possible in both intentional and local communities with friends and other supports. And the financial services and trustee services businesses gives Australian families the information and support they need to plan for a financially secure future.

Australian Unity seeks to play a significant and positive role in reforming Australia's health and wellbeing service systems. Australian Unity is active in its advocacy for better policy and market design across a range of sectors, including health and aged care. In recent years Australian Unity has contributed submissions and advice to the Productivity Commission in the areas of Human Services, on Data Availability and Use and on Housing for Older Australians.

In terms of the NDIS, Australian Unity offers clients looking to access the NDIS assistance to secure the best service offering for their particular needs. This may be to develop new skills, to re-join the workforce, to access community connections or services. Always mindful of the client-directed nature of the NDIS system, Australian Unity provides clients with the full spectrum of support, from the most basic through to complex and high care needs.

## **Scope of the Submission**

Australian Unity notes that the Commission's Issues Paper poses a range of questions regarding NDIS costs. While recognising the importance of these broad considerations

(and being available if the Commission requires additional specific information), Australian Unity will focus this submission on the threshold issue of the NDIS' financial and operating sustainability generally. More specifically the submission will focus on supply side issues and market readiness, particularly emerging systemic issues that need to be addressed during the transition to market deregulation. These are the areas in which Australian Unity considers it can best inform the Commission based on its expertise and experience in the emerging NDIS service market. Australian Unity believes that considerations on the supply side of the NDIS are somewhat underdeveloped in legislation and policy to date.

### **Sustainability and Market Design**

Australian Unity strongly supports the founding principle of the NDIS, consumer directed care (CDC). The CDC model, which envisages consumer preferences generating value, facilitating innovation and delivering better outcomes is, if effectively delivered, a potential driver of valuable individual amenity and economic efficiencies in a sector where costs are a high and pertinent concern (given the public funding of the NDIS). Indeed, the NDIS can represent a vital proof of concept for wider consideration regarding the application of consumer directed care.

For the NDIS to achieve a sustainable CDC system a number of market conditions must be met, including empowered (or at least well-supported) consumers, efficient market infrastructure (including transaction and information systems), clear governance (both legislative and institutional) and appropriate funding and incentives for outcomes. In such circumstances, the NDIS would operate as a functioning market.

At this early stage of its existence, the NDIS unfortunately falls short of this benchmark. In Australian Unity's view, one of the principal reasons for this is a seeming lack of clarity about how to design and implement the NDIS in a way that respects and accommodates the heterogeneity of the NDIS participant population. For every participant capable of tailoring their package of support to deliver an optimum outcome Australian Unity fears there is another for whom this task is simply beyond them today, or perhaps will always be beyond them. It is hard to conceive, even in the long term, of an NDIS market which, without active government stewardship and regulation, would adequately support this second group. It also highlights the role of trusted

organisations and institutions that can serve as service brokers for clients needing additional support.

Another reason the system is struggling for sustainability is the failure to take into account all service delivery costs (including the cost of capital required to establish and grow NDIS services) in setting the prices for many core services. Australian Unity's experience is that the current rates for NDIS services do not adequately cover providers for a range of unavoidable costs, such as recruitment and training of carers, legacy industrial relations arrangements, and the costs of working capital itself. This is discussed in greater detail later in the submission.

While Australian Unity believes its scale and corporate form as a mutual leaves it better positioned than many providers in the sector to take a longer term view of the sustainability of NDIS service provision, it continues to battle with economics of the early stages of the scheme's transition. Australian Unity is looking to be in the business of providing supports for people with disability for the long haul, and understands that the market will take time to develop. However, Australian Unity believes there are system-wide costs associated with the transition from the old system to the new system and believes these need to be better understood and provided for in foundational and implementation arrangements (including market design and pricing regulations), at least while the market is established and developed in order that a sustainable system ultimately develops.

### **NDIS Service Delivery Cost Drivers in Transition**

Australian Unity is cognisant of the challenges of introducing the NDIS. In particular, the change from block funding to CDC will take time, particularly in the areas of price transparency, competition, peer support and consumer negotiating power. Australian Unity accepts that while the market matures, there needs to be some price regulation for core NDIS services.

But there is a danger that existing disability service providers and their substantial client bases are marooned within existing inflexible pricing, industrial relations and other regulations, and past practices. Through the pace of the ramp-down of state funded schemes, and NDIS pricing schedules, providers are finding themselves torn between a duty of care to their existing clients and financial imperilment.



On the pathway to market maturity, it would seem an unintended consequence that established providers are unable to effectively transition and that only new entrants, without such legacy issues, are provided the opportunity to offer the service settings that the NDIS is looking for.

Australian Unity will examine a number of these issues in more detail in the remainder of the submission.

### **1. Industrial Relations Settings**

A range of workplace arrangements in the disability sector are self-evidently incompatible with the NDIS' vision of a market-based, flexible approach to service delivery. These incompatibilities, fuelled by the multiplicity of awards and Enterprise Bargaining Agreements (**EBAs**), currently add complexity and costs into the NDIS system that are not reflected in the pricing scheme. Reducing complexity would undoubtedly hasten consumers' capacity for self-directed services and may permit an increase in base-pay for carers.

There are many examples of industrial award conditions or EBAs running against the core NDIS principles of consumer choice and control, just two of which are outlined below as examples.

First, under the NSW Copied State Award, if a carer undertakes 50 per cent or more of work in a fortnight that is above the carer's "grade", the carer is required to be paid at that higher grade for all of the work undertaken in the entire fortnight. The question for providers is, if it is at all possible, whether to pass on to clients a higher cost for a service, or to bear the cost in a market where margins are already thin and based upon a more efficient award which, because of the Better Off Overall Test, is unable to be implemented for existing providers.

In the mature market of the future, how does a provider explain to a client that, because of award arrangements and an unknowable-in-advance set of circumstances, no price certainty for a service can be struck?

Second, Awards may require work to be offered to existing staff members over newer staff. This workplace requirement runs counter to the philosophy of consumer choice

and control over the what, when, where, who and how of their service needs. How does a provider explain to a client that their choices about who might provide their personal, and potentially intimate care needs, will be overridden by Award considerations? Where is CDC in this model?

#### **CASE STUDY**

“Alice” is a NSW care worker in a Grade 2 position under the NSW Copied State Award. Alice is on a guaranteed minimum 50-hr fortnightly contract with Australian Unity. She regularly works around 55 hours per fortnight, providing services to 15-20 clients, involving a range of Grade 2 and some Grade 3 tasks (for which she is duly trained and qualified). This fortnight Alice loses two of her regular aged care clients and one disability client due to hospitalisations and respite placements. Alice loses 15 hours of care work bringing her working hours for that fortnight to 40. The Award requires Australian Unity to replace at least 10 of these hours with other clients or pay Alice regardless. If these new clients have more complex service needs, Alice may end up with more than 50 per cent of her work as higher grade (Grade 3) work. If this occurs Australian Unity is required under the Award to pay Alice’s entire 50-hour fortnightly wage at the higher Grade 3 rate.

In the future, what costs should Alice’s Grade 2 clients bear for the Grade 3 case-mix change? If the reasonable answer is none, how can the system achieve competitive neutrality between existing providers and their workforces and alternate entrants? Should existing providers be prevented from adapting in order to compete?

**Suggested Action:** The Productivity Commission recommend a comprehensive review of industrial relations impediments to support a best-fit service for NDIS participants. This would include assessing minimum engagement hours, higher duties allowances and penalty rates, travel, hierarchy of new work offered and other IR provisions that are inimical to consumer choice and the exercise of important preferences as to controlling the provision of personal, often intimate, services.

## **2. Workforce training, growth and retention risks**

Australian Unity agrees with the Commission’s statement that “the full rollout of the NDIS will require substantial growth across all areas of the disability care and support workforce in the coming years”. This is in addition to (and at times in competition with)

growing demands on the aged care workforce, driven by the ageing demographic and older consumers' desire to remain in their home for as long as possible.

In practice, Australian Unity's experience confirms that attracting and retaining appropriately skilled and qualified carers has been more challenging than initially expected. As the Commission noted, workforce readiness for the full NDIS rollout over the coming period could be patchy. It is suggested the negative sentiment around the broader rollout of the NDIS may be concerning potential carers.

The potential workforce shortfall for the NDIS requires significant policy thought, including consideration of how to attract workers from non-traditional workforces (including students) into the sector but keep the overall costs of the NDIS within budget. This may involve reviewing some of the industrial relations regulations in the sector (see above).

### **3. Price settings and controls, including minimum service duration**

In Australian Unity's experience, and despite the NDIA setting prices for community participation and personal care services above what the Agency considers the efficient price, the current price caps fail to take into account a range of transitional provider costs. As noted earlier, upfront costs such as training, recruitment, IT and the cost of working capital, along with embedded costs such as maintenance and return on capital aren't sufficiently priced in to enable sustainability, especially for providers working to reorientate their operations for the NDIS. A notable omission for providers in the ramp-up of the NDIS participant numbers are the rules regarding travel payments, where travel only between NDIS participants is funded.

As the Commission can see from the case study below, services in the areas of self-care and household cleaning services are proving to be financially unsustainable for Australian Unity in the medium term. The NDIA-set, flat fee for domestic assistance-type (DA) service of \$37.70 covers only the direct cost of a care worker at a 98 per cent utilisation rate. Clearly this does not offer a pathway to a commercially viable service.

### CASE STUDY – DOMESTIC ASSISTANCE (DA)

Based on financial data of a metropolitan service for the only NDIS client of that care worker for that day, the following table shows the breakdown of costs for a Grade 1 DA service. It deals with all direct field costs as listed but includes no administrative and compliance costs, supervision costs, infrastructure costs, or the costs of capital to Australian Unity apart from learning and development inputs.

#### Care Worker Costs for 1 hour of House Cleaning

Direct Field Wages (Minutes)	60	\$21.68
Travel Wages (minutes)	10	\$3.61
<b>Total Direct Wages</b>		<b>\$25.29</b>
Leave accrual	12.10%	\$2.89
Indirect Wages (eg sick leave)	6.80%	\$1.62
<b>Total Direct Wages and Leave</b>		<b>\$29.80</b>
Superannuation	9.50%	\$2.40
Workers Comp	5.75%	\$1.45
Payroll Tax	5.45%	\$1.38
Travel	3km	\$1.98
<b>Total Direct Costs</b>		<b>\$37.01</b>
Contribution to Learning and Development	2%	\$0.48
<b>Total Care Worker Costs</b>		<b>\$37.49</b>
<b>Total DA Provision</b>		<b>\$37.70</b>
Gross Margin before operating support costs		\$0.21

While it may seem somewhat tangential to the broader philosophical purpose of the NDIS, on the ground Australian Unity is experiencing a lot of requests from NDIS participants for DA services. Australian Unity's expectation on entering the NDIS market was that there would be very few NDIS approved plans providing only DA services, but a significant number of clients have been approved for this type of service only. Around 50 per cent of all Australian Unity's current NSW Disability funded clients receive only a DA service.

Australian Unity notes the NDIS model includes a gradual price deregulation in the full scheme as the market matures, but remains concerned that this service is currently, and will continue to be, inadequate to reimburse accredited service providers for the cost of providing support to clients.

As a result of its experience during the first stage of the NDIS rollout, Australian Unity has made a commercial decision to review its approach to offering household assistance services to clients. It is Australian Unity's understanding (gleaned through referrals from other service providers registered to provide domestic assistance) that a number of service providers are experiencing the same issue with such packages. As mentioned previously, this is a significant component of the approved service requests coming from NDIS participants.

This is not just an issue for service providers. It will make the task of NDIS participants more difficult as they are required to manage a range of different service providers or simply not receive the service they need.

**In terms of minimum service duration,** Australian Unity's experience as a service support for NDIS clients is that disability services with a duration of less than one hour are not financially viable. This is because the support and unfunded travel costs required to offer a service shorter than one hour become too high.

The result of this experience is that Australian Unity has made a commercial decision to offer one hour minimum services. This has been a difficult decision, as some clients require multiple, shorter services in one day (eg administration of eye drops) and clients receiving existing state funded services were looking to maintain services that may have been as short as 15 minutes.

Australian Unity notes that the one hour minimum duration is the NSW industry standard that has applied since 2012.

Further, Australian Unity accepts that under the NDIS' client-directed care model, its commercial decision may see clients seek other service providers. But such are the costs associated with shorter service offering that there are limited, viable alternative financial options.

A potential compromise may be for the NDIA to consider a supplementary payment component for shorter services until the mature market allows for the relevant type of arms-length negotiations between client and providers.

**Suggested Actions:** The Productivity Commission recommend NDIA deregulate pricing for commodity services such as domestic assistance packages. The Productivity Commission recommend NDIA receive support to establish quality national benchmarking to build the evidence base for better regulatory decision-making.

The Productivity Commission examine feasibility of an alternate payment methodology for some NDIS services of less than an hour's duration.

#### **4. Thin Markets**

Australian Unity notes the Commission's concern that thin markets – "markets with insufficient demand and high costs of supply" – may result in a shortage of supports for NDIS participants, and concur that this is a practical issue that has arisen in the early months of the NDIS rollout.

In Australian Unity's experience, this has been borne out in regional and remote areas. Clients who are living between 20-50km outside town limits and those who are located in remote areas (but which fall outside that category on the NDIS online tool) are in need of services that simply become uncommercial for providers under current NDIS settings (see case study below).

Without attention to this issue, Australian Unity is concerned that there is the potential for NDIS eligible clients to have no service option available.

**Suggested Action:** The Productivity Commission encourage the NDIA to develop a mechanism for the review of regional and rural service delivery cases, in particular provider travel allowances, to ensure financial viability.

#### **CASE STUDY – ARMIDALE, NSW**

Australian Unity has a client living 40km outside Armidale in northern NSW. In the morning, the client currently receives a 1.5 hour service provided by two staff. The client has requested additional services later in the day. Australian Unity is the closest available service provider.

The client's service is the first of the day for these two staff. As such, Australian Unity cannot claim Provider Travel in accordance with the NDIS Price Guide.

Under Australian Unity's award, both a travel wage and mileage costs are payable to care workers. Each day Australian Unity pays around one hour of travel wage costs to each worker. The mileage costs equate to around \$40 per day. Australian Unity tries where possible to utilise one vehicle, but there are occasions where one care worker travels from Armidale and another travels from a different town which incurs two mileage charges (around total \$80).

The total worker travel cost (inclusive of on-costs: superannuation, leave, payroll tax, etc.) is approximately \$114 if one vehicle is used or \$154 if two vehicles are used.

Under the NDIS Guidelines Australian Unity can claim \$128.37 for the 1.5 hour service with two staff. As is clear the total cost of the service, including travel, exceeds the payment that can be claimed.

Even if Australian Unity was able to claim for Provider Travel in this case the net cost of the service would increase because the care workers would, under the Award, be paid for the full travel time and distance. Travel costs would increase by \$38 (one vehicle) or \$51 (two vehicles) offset by an additional amount claimed of only \$29.

Australian Unity estimates it has at least 20 clients who live in the standard pricing areas but 40km or more away from population centres. Most of these will be in areas where Australian Unity is currently the only service provider.

#### **5. Funding eligibility issues – NDIS and State funding**

At a practical level, Australian Unity has seen the potential for people and their families to fall between the cracks of state government support and the NDIS. One example in NSW is a client with cystic fibrosis moving from State-funding to the NDIS who was denied support for the percussion therapy they had been receiving for a decade, with the NDIA deeming the matter a health service issue.

Other scenarios have included families where multiple, lower level disabilities exist, which while on an individual level may not meet NDIS thresholds, but taken together see the family in clear need of service support.

**Suggested Action:** The Productivity Commission note the practical issue of vulnerable Australians falling through the cracks between state funding support and the NDIS as a concern for the design of the scheme.

#### **6. Access for Special Needs Groups including Aboriginal and Torres Strait Islanders with a disability**

The Productivity Commission's original report on the NDIS made specific recommendations around overcoming barriers to service delivery in the NDIS for Indigenous people with a disability through the use of block funding from suitable providers; fostering small community-based operations with support from larger experienced service providers; employing and developing Indigenous staff and developing the cultural competency of non-Indigenous staff.

Australian Unity recognises the NDIA's attention to these issues, including its NDIS Aboriginal and Torres Strait Islander Engagement Strategy. But it is Australian Unity's on-the-ground experience through its Aboriginal Home Care Services operations, that there are numerous examples of clients that would be eligible for NDIS support, but through a combination of social, economic, cross-cultural and geographic reasons have low understanding of the availability of a support system, let alone the capacity to begin trying to navigate it.

**Suggested Action:** The Productivity Commission support NDIS efforts to build a specific program of support for Aboriginal and Torres Strait Islander people with disability.

#### **7. Accommodation – Security of Tenure**

Supported accommodation (covering both the capital related costs associated with specialist accommodation and also the support services received in a person's home) is unarguably a costly component of disability care and support. Many people with disability manage only with a program of support built around accommodation



provided by their carer parents. But as these parents age and become incapable of providing that daily support, those in need of care require suitable housing and security of tenure in supported accommodation. This transition should be in place before the parents become unable to care for them.

While all people with disability are deserving of such consideration, it is Australian Unity's experience that people with an intellectual disability have less capacity than those with a physical disability to negotiate arrangements to move from home to supported accommodation, and to find new or more suitable accommodation in the absence of their parent carer. Security of tenure akin to that provided under the *Aged Care Act 1997* (Cth) for residential aged care would more suitably support such participants than residential tenancy provisions.