



# NDIS Pricing & Payments Reform: NDIS Review Submission

Final Report  
August 2023

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# Executive Summary

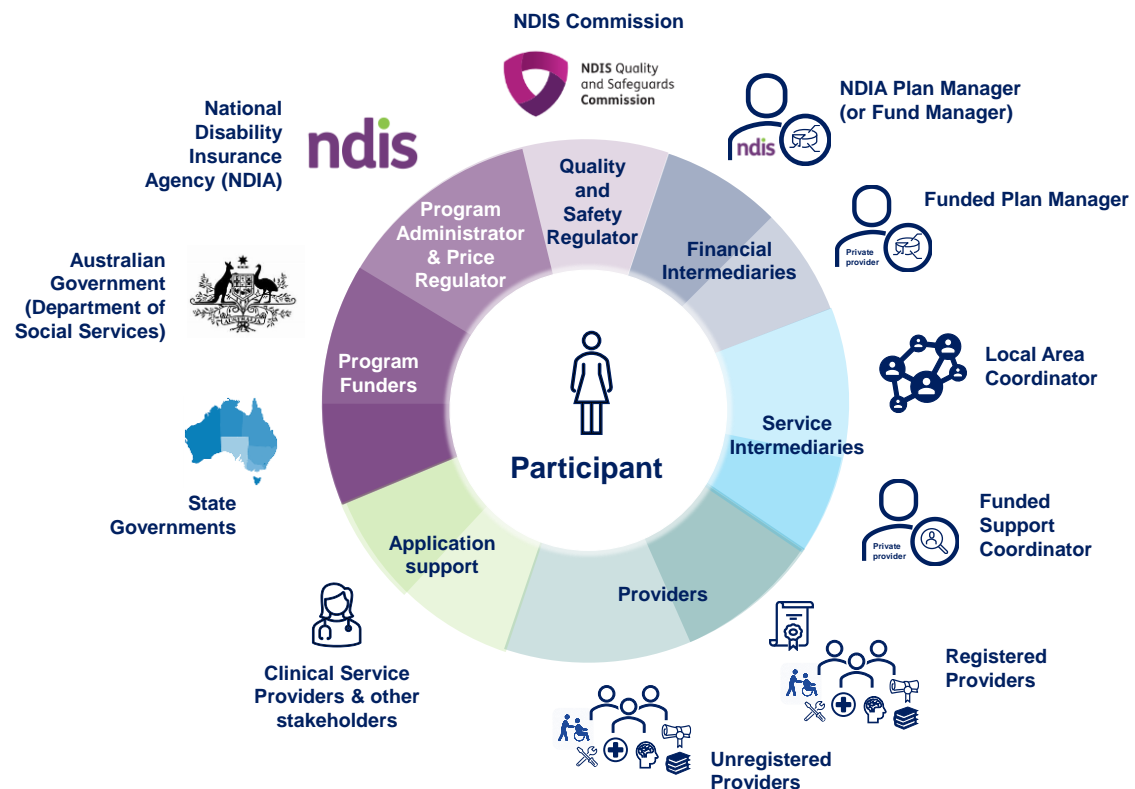
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# Executive Summary

Established in 2013, the National Disability Insurance Scheme (NDIS) is an ambitious, world-leading program designed to support people with disability and their families to gain greater independence and enjoy a higher quality of life.

Through the NDIS, participants are supported to access services and groups in their local communities, including better access to health and social care services and increased participation in sporting clubs, support groups, school and library programs. This enables participants to build new skills, secure new jobs, contribute through volunteering, and enjoy more time with family and friends. The NDIS supports more than 590,000 people across Australia today.

FIGURE ES1. NDIS MARKET PARTICIPANTS



## The NDIS Review and this report

Ensuring the NDIS is sustainable and underpinned by strong incentives for innovation and quality in care is foundational to its continued success. Thus, 10 years on from its establishment, it is timely to evaluate the performance of the scheme and identify opportunities for improvement. To this end, the Government has commenced a [Review of the NDIS](#), which is due to report in October of this year.

This high level scoping paper identifies preferred pathways for reform in response to the NDIS Review's paper: [The role of pricing and payment approaches in improving participant outcomes and scheme sustainability](#) (the Discussion Paper).

Rather than 'jumping to a solution', this paper seeks to diagnose the challenges in the NDIS system today, ranging from goal and plan development through fund management and support coordination, through to price regulation and potential payment model reform. It identifies the impacts of potential pricing and payment reforms against this backdrop of challenges and opportunities and identifies a preferred reform direction based on alignment to NDIS objectives.

## Challenges in the NDIS

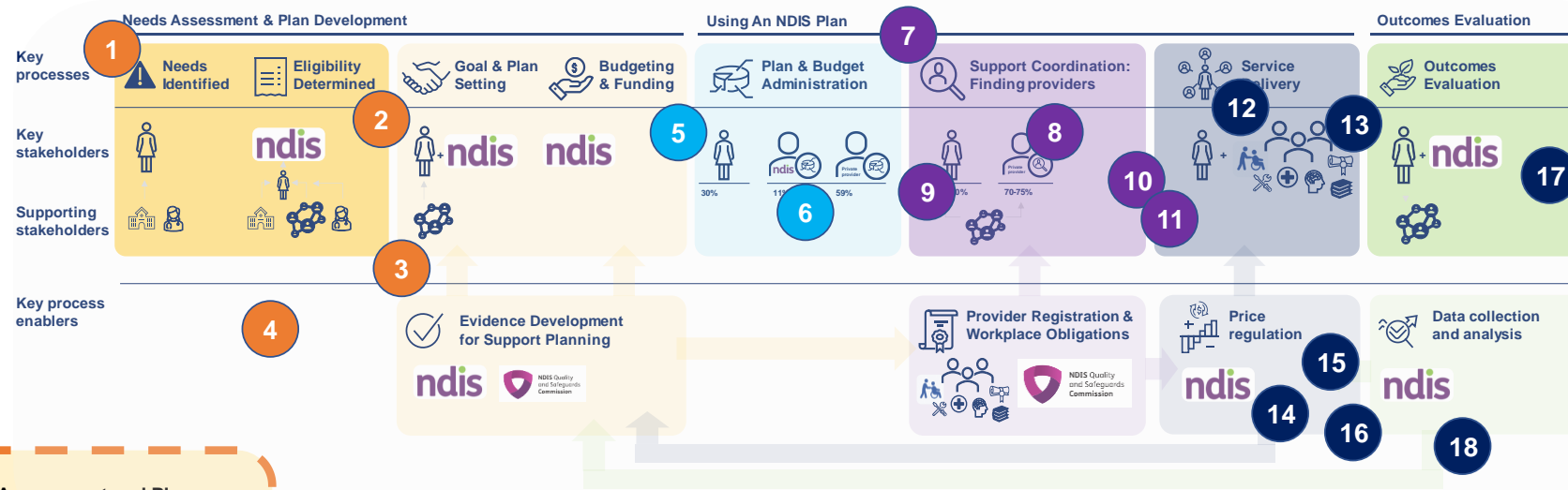
Analysis of the issues and incentives in the NDIS system today reveals that some of the most significant threats to the sustainability of the NDIS stem from challenges beyond the scope of pricing and payment models (Figure ES2). These include:

- Poor processes for participant goal definition and plan development
- A lack of public, evidence-based guidance for best practice supports and failure to assess opportunities for capital supports to improve independence
- Poor role definition, training and accountability for support coordination.

At the same time, there are challenges with the current approach to NDIS price regulation and payments that merit reform (Figure ES2).

# Executive Summary

FIGURE ES2. CHALLENGES IN THE NDIS SYSTEM TODAY



## Issues in Needs Assessment and Plan Development

- 1 Under-representation of at-risk and disadvantaged groups
- 2 Poor goal definition – Participants incentivised to set goals as broadly as possible
- 3 Failure to assess alternatives and opportunities for assistive technologies to increase independence
- 4 Lack of public, evidence-based recommendations for optimal support

## Issues in Plan Management (Fund Management)

- 5 System overly complex and confusing
- 6 Limited accountability for quality plan administration and budget administration

## Issues in Support Coordination

- 7 Poor role clarity, conflict of interest risk, diffuse accountability, poor training and lack of data for support coordination
- 8 No incentive to optimise support coordination
- 9 Participants lack bargaining power to negotiate prices with providers.
- 10 Incomplete information and information asymmetries create barriers to identifying quality and appropriate providers.
- 11 Poor linkages to mainstream and community providers.

## Issues in Pricing and Payments

- 12 Incentives for providers to charge maximum allowable price regardless of participant complexity & 'cherry pick' least complex clients
- 13 No mechanism for measurement of provider value or incentives for innovation
- 14 Lack of independence for pricing regulator
- 15 Lack of transparency in pricing, with reports of inadequate pricing for complexity, training and industrial agreement obligations
- 16 Missed opportunities to improve value for money in equipment and consumables procurement
- 17 Participant incentive to use entire budget to avoid future funding cuts, muted incentives to exit program.
- 18 Vague participant goals are difficult to measure and meet, resulting in lower rates of program exit than expected.

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The NDIS system and payments model today was premised on the idea that markets were fundamentally more competitive than they are, and that participants would 'act rationally' to minimise prices for supports. In practice, there are a number of market barriers that prevent the efficient functioning of the market and the 'rational' actions of NDIS participants. Addressing these market barriers will require a combination of pricing and payments reform as well as investment in key enablers to improve market function.

## Lessons from other sectors and international markets

Like any social insurance scheme, the NDIS is vulnerable to unintended consequences, including over-provision of services, excessive cost escalation, and poor service quality, particularly when coordination of services across providers and systems is needed to achieve an outcome.

To better understand how reforms to pricing and payments systems can deliver improvements in the performance of health and social insurance systems, a series of Australian and international case studies were reviewed to identify key features of best practice and potential lessons for the NDIS.

### *Pricing models – key takeaways*

Two case studies in pricing were considered: the approach of the Independent Hospital and Aged Care Pricing Authority as well as pricing principles and reforms in the water sector by the Essential Services Commission. These two case studies both highlighted:

- Independence, transparency, fairness, enhanced consumer engagement and accountability as best practice governance requirements for price regulators. The NDIS, by contrast, currently lacks independent price regulation. There are concerns among stakeholders with respect to price transparency and fairness. The NDIA aggregates administrative items that would ideally be separate.
- Current best practice pricing has seen a shift to include consumer perspectives and outcomes to inform pricing decisions. In the case of the Essential Services

Commission, a focus on consumer outcomes has been made explicit, with providers delivering better outcomes to consumers able to reap higher rates of regulated return. Incomplete information limits opportunities for NDIS pricing today to more explicitly incorporate consumer perspectives in NDIS pricing.

- Appropriate adjustment for risk and service complexity is best practice in health and social care service pricing. While the NDIS incorporates a number of risk and service complexity considerations in pricing today, such as remoteness weightings and some differentiation of high-level service complexity (e.g., standard and complex classifications), issues remain. For example:
  - Currently high intensity pricing only applies where a participant has a complex *health-related* support or requires behaviour supports; it doesn't account for higher service needs related to complex psychosocial disability.
  - Participants with spinal cord injury requiring specialist physiotherapy and exercise physiology support in a centre with specialised gym equipment involves not only more hours of standard 'physiotherapy' but also specialised practitioner skills and access to appropriate equipment.
  - Current geographical classification fails to address challenges in delivering services to regional areas, as distinct from remote and very remote, which receive much higher weightings. This is particularly relevant in some jurisdictions such as WA and QLD, and in small population regions like Tasmania.
- Price disclosure requirements can improve the understanding of the market efficient price and support evidence-based decision making in price regulation. Improving data collection and stratification of payments and pricing should allow for the realisation of the market efficient price for more services, eliminating scope for inappropriate charging. Where appropriate, price ranges should be narrowed or removed in mature markets delivering generalised services with low scope for innovation to improve participant or scheme outcomes.

Optimising price regulation depends as well on the payment model adopted.

# Executive Summary

## *Payment models – key takeaways*

A range of case studies in payment or funding models were also considered, including lessons from the Medical Benefits Scheme (MBS) and Pharmaceutical Benefits Scheme (PBS) here in Australia, as well as international approaches to payments and pricing in the Netherlands, Sweden, France, the US and other OECD countries.

Most of these countries have implemented some form of capitation, bundling and performance incentive reforms, often together and often with mixed results. This highlights that tradeoffs are inherent to all funding models, with no one single reform likely to meet all reform objectives. Reform is iterative and critically must be enabled by stakeholder engagement and systems. Other key takeaways included:

- Careful analysis of incentives and market barriers is essential to minimise risk of unintended consequences. Depending on market characteristics, providers may not respond to incentives as expected. Alignment of provider and customer incentives are needed to deliver improvements in performance linked to client outcomes. Moreover, if a performance incentive represents a relatively small proportion of a market agent's total revenue, or is costly in administration, it may be insufficient to induce the desired behaviour change.
- Best practice is to stratify populations for payment reform, encouraging competition and price efficiency in generic market segments with little scope for innovation and rewarding innovation in market segments with high complexity, scope for innovation and socio-economic return. This has delivered substantial improvements in outcomes for PBS reform, where the creation of multiple formularies allowed for aggressive price savings from off-patent medicines and more differentiated prices of innovative medicines.
- Payment models based on 'outcomes' are theoretically ideal, but in practice can be difficult and impractical to implement due to the lag in outcomes realisation and challenges of attribution. In the context of the NDIS, for example, it can be difficult to attribute participant outcomes to a single provider; often multiple providers contribute to the outcome. France's approach to incentivise care coordination (as well as incentives for quality for primary care providers) provides

an interesting alternative for consideration in the context of the NDIS. Support coordinators (importantly with improved role clarity, training and clear independence from providers) could be funded in a way that is more aligned to the achievement of participant outcomes. European case studies show it is possible to develop a performance framework to incentivise support coordination and that this can deliver significant improvements in quality and value.

- Pay for 'performance' models can be relatively easier to implement (including 'blended' with a traditional fee for service model and/or bundling for key market segments) and can be linked to shorter term consumer experience and surrogate or intermediate outcomes. Even so, the size and structure of the incentive matter.
- Bundled payment models can improve the coordination of care, which, like alternative commissioning for thin markets or markets with highly specialised needs, such as supports in First Nation communities, could improve participant outcomes for selected markets. In this case, bundled markets could offer some of the benefits of previous 'shared supports' models, such as in early childhood intervention services which have been lost to a certain extent in the more individualised model created by the NDIS.
- Capitation models can be useful tools to deliver improvements in cost efficiency and the coordination of care. Significant design considerations affect outcomes under this model, and this model would likely drive significant restructuring of the market with larger providers benefitting. The extent to which such an approach delivers cost savings back to the scheme would depend on whether a savings-risk sharing approach was adopted (a blended payment approach). If no such sharing approach is adopted, providers would realise the benefits of cost efficiencies. Quality standards are required for such a model.

## *Enabling capabilities – key takeaways*

The case studies further highlight the need for implementation planning and leadership, with strong stakeholder engagement essential to implementation success. The MBS and Aged Care Taskforces, for example, have brought together experts from across the health and aged care sectors over multi-year periods to identify pathways for reform and plans for implementation.

# Executive Summary

## Options for pricing and payments reform & key market enabling capability

Based on the NDIS review papers and case study reviews, the following reform options (Figure ES3) were identified as potential conceptual opportunities for change (noting there are detailed considerations for each options that would need to be further considered and evaluated):

- An enrolment / capitation payment model
- A bundled payment model for selected services
- Outcomes incentive model for support coordinators
- Outcomes incentive model for providers
- Outcomes incentive model for support coordinators and providers
- Performance incentive model for support coordinators
- Performance incentive model for providers
- Performance incentive model for both support coordinators and providers
- Competitive tendering or preferred provider panels for equipment and consumables (links to improved pricing for capital supports and consumables in shared accommodation settings)
- Alternative commissioning or competitive tendering for thin markets
- Blended payment models combining some or all of the above models for different segments of the NDIS market, including:
  - Blended Payment Model 1, which would retain the major market features of the NDIS in a fee for service model but adds in bundled payments for selected services (such as early childhood intervention), performance incentives and alternative procurement models for thin and at-risk markets
  - Blended Payment Model 2, which would reform the current payments model to an enrolment or capitation-style payment model, combined with performance incentives aimed at creating incentives for quality and innovation.

- Price regulation reform to bring NDIS governance and price regulation into line with best practice principles, including:
  - The creation of an independent price regulator
  - Greater stratification of participants by complexity with differentiated pricing and payment models by service and/or market
  - Increased coherence between price regulation and quality and safety regulation, with improved pricing for compliance and workforce development
  - The introduction of pricing for quality, depending on the payment model adopted (considered through incentive payment model options, however)
  - Reform of pricing for capital supports and consumables in shared accommodation settings (considered through payment model options).
- Key enablers, including:
  - Improved engagement with at-risk persons, including from low socioeconomic backgrounds, regional areas and culturally and linguistically diverse and First Nations communities
  - Improved processes for goal definition and plan development, informed by evidence-based support pathway guidance
  - Improved training and accountability for support coordination
  - Improved systems for streamlined service navigation and plan management (fund management)
  - Performance reporting at a provider level, including participant experience, participant experience and price data able to be accessed through interactive digital service navigation tools
  - Workforce development, with a strong focus on expanding the supply of skills in Australia
  - Quality and safety regulation reform.



# Executive Summary

FIGURE ES3. REFORM OPTIONS AND ENABLERS CONSIDERED

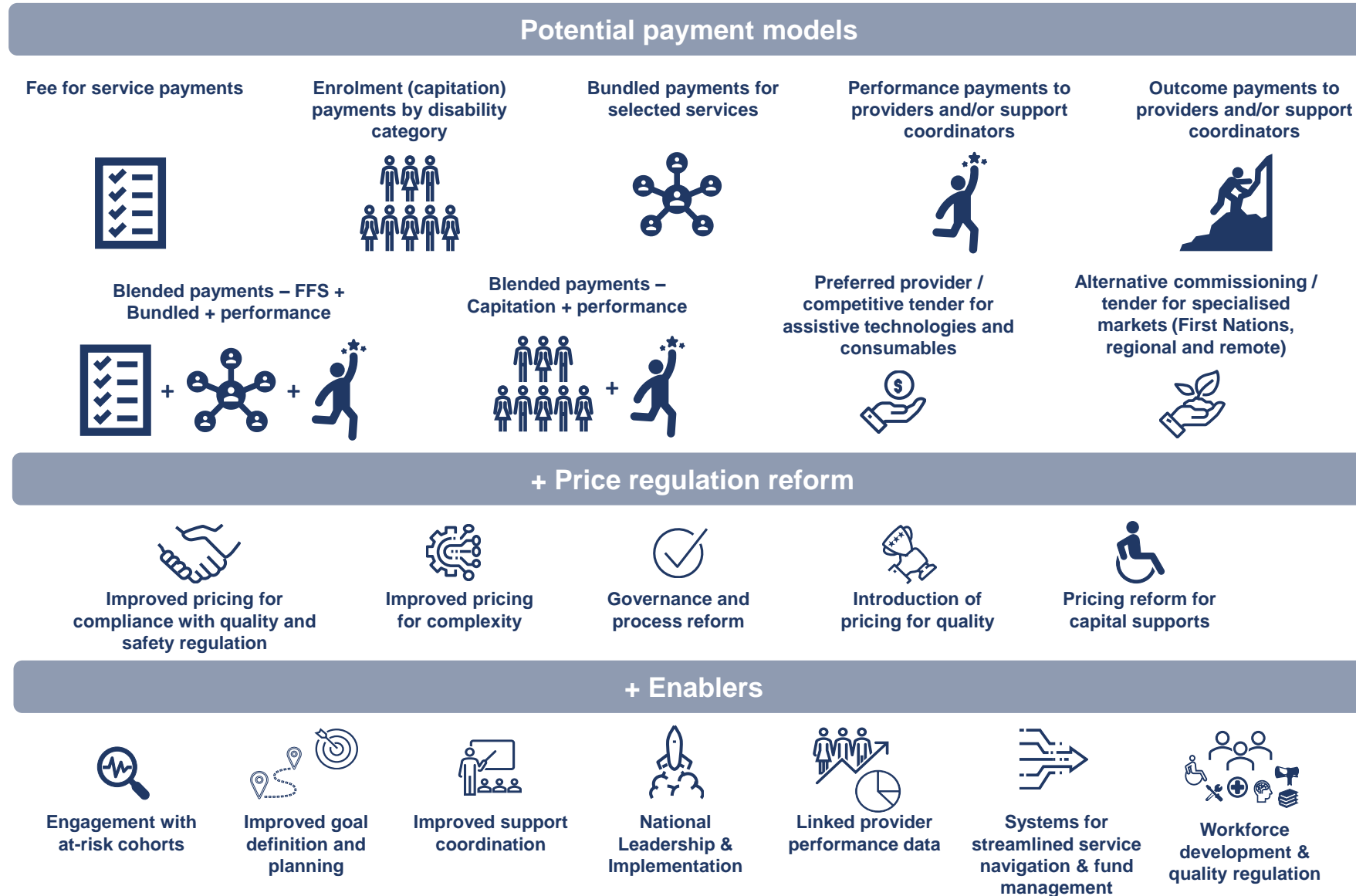


TABLE ES1. PAYMENT REFORM OPTIONS: DEFINITIONS AND KEY ASSUMPTIONS








| Payment model  | How would it work in practice?  |
|--|---|
| <p><b>Fee for service</b></p>              | <p>In the (current) fee for service funding model participants are provided a budget based on expected costs for services (assumed to be a bottom-up estimate based on typical support packages (unpublished)).</p> <p>Participants choose individual services with support available. Funded coordination is available for participants requiring more assistance to navigate services. Prices are regulated by the NDIA through allowable price ranges.</p>   |
| <p><b>Capitation model</b></p>             | <p>An enrolment (capitation) funding model in the context of the NDIS would involve the provision of a prospective lump sum payment to a provider to coordinate the supports of a participant. The payment would reflect the expected costs per person by disability category, taking into account participant complexity. It is assumed that the payment would be determined by the price regulator. The enrolment payment would cover all services to be accessed by participants; similar to a participant's current budget. Participant choice would shift from selecting providers for individual services to selecting providers with which to enrol. There would be competition among providers to enrol participants. Providers may be required to take any applicants to prevent 'cherry picking' of low complexity participants.</p> <p>If a provider can deliver the supports for less than the payment (budget amount), they retain this as additional profit. In this model, the NDIA would need to specify minimum quality standards to ensure the safety and quality of services was maintained. Savings and risk could be shared between providers and government depending on the model developed (this is considered explicitly in Blended Payment Model 2).</p>  |
| <p><b>Bundled services model</b></p>       | <p>A bundled payment funding model in the context of the NDIS would see selected services with high scope for innovation, impact and improvement through continuity of services delivered through a single bundled payment. Opportunities to improve service delivery through bundling would be determined by the NDIA rather than the market (based on evidence reviews) in this model. Other services would be delivered through a fee-for-service model. The price for the bundled service would be determined by the price regulator, taking into account participant complexity.</p> <p>While there are options for how the service would be commissioned, it was assumed there would be a lead commissioning provider that would coordinate services across settings for participants.</p>  |
| <p><b>Pay for outcomes model</b></p>      | <p>In a pay for outcomes model, some proportion of the payment or an incentive would be tied to the realisation of participant outcomes and/or value for money in supports. For example, improved outcomes for children and young people could include improved independence, feeling welcomed, and stronger relationships with friends and family, as well as longer term outcomes such as completing school and employment. For adult cohorts, outcomes could be improved quality of life (life satisfaction), improved independence, improved inclusion, sense of safety, or self-rated health outcomes.</p> <p>The outcome payment would be paid to a provider, an intermediary (support coordinator) or both based on participant and/or scheme outcomes realisation. In this model, the provider or the intermediary would work with the participant to evaluate and select support options to maximise participant and scheme outcomes.</p>  |
| <p><b>Pay for performance model</b></p>  | <p>In a pay for performance model, some proportion of the payment or an incentive would be tied to the realisation of intermediate performance metrics that may be relevant to the achievement of long run participant and/or scheme outcomes but which are more readily measurable in the short run. These performance metrics could include plan utilisation or the realisation of a participant plan goals (such as enrolment or completion of post-school education/training or working in a paid job or number of hours per week). It could also include measures of participant experience with a provider or the realisation of overall value for money (cost efficiency), relative to service or cohort benchmarks.</p> <p>The performance payment could be paid to a provider or intermediary, such as a support coordinator, or both.</p> <ul style="list-style-type: none"> <li>• In the provider performance incentive model, providers would be incentivised to improve participant experience and outcomes in services with high scope for innovation and impact.</li> <li>• In the support coordinator incentive model, the support coordinator would determine the optimal configuration of services to achieve performance metrics.</li> </ul> <p>A combination of incentives would see providers incentivised for improved experience and outcomes for specific services alongside support coordinator incentives for overall impact.</p> |

TABLE ES1. PAYMENT REFORM OPTIONS: DEFINITIONS AND KEY ASSUMPTIONS (CONT'D)

| Payment model  | How would it work in practice?  |
|--|---|
| <p><b>Blended payments – FFS + bundled payments + performance (Blended Model 1)</b></p>    | <p>In a blended model bringing together bundled payments and performance incentives participants would retain full choice over providers for services. General market services with low scope for innovation would be delivered through the market efficient price determined by the price regulator (potentially progressing to an unregulated pricing arrangement through time). Performance incentives could be provided to providers, support coordinators or both.</p> <p>Key assumptions include:</p> <ul style="list-style-type: none"> <li>• Participants, supported by intermediaries, would choose providers for services including bundled services.</li> <li>• The NDIA would determine the optimal bundling of services based on evidence reviews.</li> <li>• Prices and incentives would be set by the price regulator.</li> <li>• Performance metrics would be tied to realisation of plan goals based on evidence-based support guidelines, achievement of value for money and/or participant experience.</li> <li>• In the provider performance incentive model, providers would be incentivised to improve participant experience and outcomes in services with high scope for innovation and impact.</li> <li>• In the support coordinator incentive model, the support coordinator would determine the optimal configuration of services to achieve performance metrics.</li> <li>• A combination of incentives would see providers incentivised for improved experience and outcomes for specific services alongside support coordinator incentives for overall impact.</li> </ul> |
| <p><b>Blended payments model – capitation plus performance (Blended Model 2)</b></p>   | <p>In a blended model bringing together capitation and performance incentives providers would be paid a prospective, lump sum payment to coordinate the supports of a participant. In addition, the provider could receive an additional payment if key performance metrics – particularly focused on quality and innovation were met.</p> <p>Key assumptions include:</p> <ul style="list-style-type: none"> <li>• Participants would choose the provider with which they would enrol.</li> <li>• Providers would be required to take any applicants to prevent 'cherry picking' of low complexity participants.</li> <li>• The NDIA would specify minimum standards for safety and quality across all services.</li> <li>• Prices and incentives would be set by the price regulator.</li> <li>• Performance metrics would be tied to realisation of plan goals based on evidence-based support guidelines, achievement of value for money and/or participant experience.</li> </ul>  |
| <p><b>Competitive tender or preferred provider panel arrangements for assistive technologies and consumables</b></p>           | <p>For high volume equipment and consumables, government could purchase supplies in bulk to achieve volume discounts. Participants would access listed equipment and prices at negotiated rates.</p>  |
| <p><b>Competitive tender or alternative commissioning for selected markets (e.g., First Nations, regional and remote)</b></p>  | <p>In markets with significant security of supply risks, government could pursue alternative procurement approaches to improve security of supply through multi-year agreements with one or more providers for a range of services.</p>   |

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## Evaluation framework for evaluating pricing and payment reform options

To assess the current pricing and payment model against alternative approaches, an appropriateness, effectiveness and efficiency framework was applied (Figure ES4).

This framework allowed for the differentiation in outcomes that would arise from alternative pricing and payment models and sought to make clear that ensuring minimum safeguards *was not the same* as competing on quality, which in turn is not precisely the same as the stimulation of innovation in supports. For example, quality is not ‘the absence of complaints’; rather, it is the improvement of participant experience and outcomes relative to minimum standards. Innovation is about

delivering supports in new ways for better outcomes than is currently understood to be best practice. Cost innovation or efficiency improvements were measured through the allocative and dynamic efficiency criteria, which assessed the extent to which an approach would deliver value for money today and through time, respectively.

Each policy option was assessed against each criterion within the evaluation framework, with the potential for weak, good or very strong alignment as well as weak, moderate or significant misalignment with each criterion using a multi-criteria scorecard approach.

FIGURE ES4. EVALUATION FRAMEWORK FOR NDIS PRICING AND PAYMENTS AND SCORECARD ASSESSMENT METHOD



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## Performance of the current scheme against the Evaluation Framework

Evaluating the current system against the objectives of the NDIS scheme set out in the evaluation framework underscores the need for the NDIS Review and areas for improvement (Table ES.2).

### *Appropriateness: coherence with government policies and alignment with best practice governance*

As noted by the *What We Have Heard* interim report, the NDIS was designed to be a strengths-based system connecting participants to disability, community and mainstream services. The current system has seen an expansion in uptake beyond the original mandate, poor participant goal definition and, as a result, poor goal realisation and referral to other services where appropriate. There is also poor evidence of current plans consistently delivering best practice supports for all participants. For example, the current system fails to align with wider government policies for early childhood intervention delivered through a shared support model in community settings rather than clinical settings.

The case studies highlight that best practice governance calls for price regulation functions to be independent of program funding and delivery. This is seen with the Independent Hospital and Aged Care Pricing Authority and in pricing for other essential services in Australia. It is also the model employed in several leading

international markets, with the Dutch Health Care Authority offering a salient example. As both the program administrator and price regulator, the NDIA lacks independence. There are also issues with respect to the processes for price regulation today. There is inadequate stratification of participants by risk and complexity, inadequate cost control through pricing strategies (allowing providers to price up to the top of the price range independent of complexity), failure to account for employment obligations (such as minimum shift requirements) and insufficient transparency in price determination.

### *Effectiveness: Extent to which current pricing and payments model meets the objectives for the NDIS*

The current scheme has also produced mixed results with respect to the objectives for the NDIS in terms of the delivery of participant choice and control for safe, sufficient, quality and innovative supports by responsive and sustainable intermediaries and providers.

In line with the *NDIA Pricing Strategy (2019)*, current settings have encouraged strong market participation in most markets and through the NDIS Commission-developed safeguards for quality and safety in support delivery. Offsetting this, thin markets and markets with unique challenges remain, including in particular access to supports by First Nations, low socioeconomic status and regional communities.

TABLE ES2. SCORECARD ASSESSMENT OF CURRENT SYSTEM AGAINST SCHEME OBJECTIVES

|                | Appropriateness                  |   | Effectiveness                                  |                          |   |   |                       | Efficiency                                    |   |               |
|----------------|----------------------------------|---|--|--------------------------|---|---|-----------------------|---|---|---------------|
|                | Coherence with government policy | Alignment with best practice governance | Ensures Sufficient and Safe Supply of Supports | Promotes Support Quality | Enables Informed Participant Choice and Control | Supports Industry Sustainability & Responsiveness | Stimulates Innovation | Value for money today (Allocative Efficiency) | Value for money through time (Dynamic Efficiency) | Ease of admin |
| Current system | x                                | ✓                                       | ✓  | x                        | x   | x   | x                     | x   | x x   | ✓             |

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The current pricing and payments settings and wider NDIS system do not provide strong incentives for market agents to deliver quality and innovation:

- *Promotes quality* – Because providers receive the same payment regardless of performance or outcome, incentives for quality are muted. Incomplete information and information asymmetries prevent providers from competing on quality.
- *Enables informed participant choice and control* – A lack of bargaining power and poor incentives for funded support coordinators to optimise supports erodes participant choice and control. Incomplete information and information asymmetries further impede participants' capacity to optimise supports and negotiate prices.
- *Supports industry sustainability and responsiveness* – The current price regulation approach results in both poor cost control of services and underpricing of some highly specialised services. The current system allows for inconsistent regulation of providers, with variable compliance and industrial obligations that are not consistently reflected in current pricing approaches. Through time, this could see high quality, specialised providers exit the market, eroding participant choice and service quality.
- *Stimulates innovation* – Because providers receive the same payment regardless of performance or outcome, incentives for innovation are muted. This is further compounded by requirements for participants to select providers for individual services that may benefit from bundling and the lack of incentives for quality support coordination to optimise the coordination of supports.

*Efficiency: Extent to which current pricing and payments model achieve objectives efficiently both today and through time*

Current pricing and payments settings in the NDIS also produce some unintended consequences with respect to efficiency objectives:

- *Value for money today (allocative efficiency)* – Providers have an incentive to price up to the maximum allowable price, regardless of participant complexity. At the same time, poor information at a provider level with regards to performance – such as participant experience and outcomes with a particular provider (as

opposed to *population level* outcomes) – further frustrates the optimal allocation of scarce monies to their highest and best use.

- *Value for money through time (dynamic efficiency)* – Imperfect competition, arising from incomplete information and asymmetric information, mean providers have little incentive to compete on price and improve system efficiency through time.
- *Ease of administration* – Because performance is assessed at a population level, the current system is not excessively complex to administer.

Taken together, this analysis suggests there are opportunities for pricing and payment reforms – combined with other enabling policies and investments – have to improve the performance of the NDIS against the goals of the scheme.

## Price regulation reform: performance against Evaluation Framework

Pricing and payment reform will be interdependent; the identification of a preferred funding or payment model will have implications for price regulation.

Independent of payment model reforms, however, some core reforms to price regulation related to governance and process merit consideration, which would see disability services follow reforms implemented in health and aged care reform; these include:

- *Governance and process reform to improve independence and transparency of pricing* – Best practice governance principles for price regulation include independence, transparency, administrative efficiency and harmonisation, as well as the promotion of equitable access, quality, fairness (to account for unavoidable complexity), and consumer or person-centred services. The creation of a price regulator independent of the NDIA and DSS would bring NDIS price regulation in line with the approach adopted by the IHACPA, essential services price regulators and international market leaders (such as the Dutch Health Care Authority). Process improvements to increase the transparency of pricing decisions should also be contemplated as part of these governance reforms, including enhanced transparency and pricing of administrative costs.

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- *Improved pricing for complexity, compliance and workforce development* – Consideration should also be given to improved stratification of participants and services by risk and complexity (enhanced service classification), which is again in line with best practice approaches in health and aged care pricing both in Australia and overseas. Price ranges could be narrowed or eliminated for general services with low scope for innovation (depending on the payment reform adopted). For highly specialised services, the pricing framework should better map to quality and safety regulatory standards as developed by the NDIS Commission with payments to meet regulatory obligations funded by the scheme.

Improved pricing for quality is another potential consideration for price regulation reform. The literature review and case studies demonstrated a significant shift in best practice to outcomes based pricing and ‘person-centredness’ of pricing decisions. Pricing for quality is a core component of price regulation reform observed across health, aged care and social services. In the context of the NDIS Review, however, this opportunity is considered as a payment model reform through

the introduction of incentives embedded in the payment model. Opportunities to improve outcomes through pricing and payment reform for capital supports are also considered through payment model reform opportunities.

These ‘core’ governance and process reforms in price regulation would improve the alignment of the NDIS system with best practice governance, and would in turn support long run industry sustainability and improvements in allocative efficiency. Table ES3 summarises the scorecard assessment of outcomes against the evaluation framework for the price regulation options.

Beyond these core price reforms, there is scope for more to be done through payments reform and other enablers to improve performance against the full suite of Scheme objectives. For example, adding enabling policy reforms and investments to price regulation reform would be expected to substantially improve outcomes against Scheme objectives independent of payment model reforms by addressing key barriers to market competition and improving market function (Table ES3).

TABLE ES3. SCORECARD ASSESSMENT OF CORE PRICE REGULATION REFORM OPTIONS AGAINST SCHEME OBJECTIVES

|   | Appropriateness                  |   | Effectiveness                                  |                          |   |   |                       | Efficiency                                    |   |               |
|---|----------------------------------|---|--|--------------------------|---|---|-----------------------|---|---|---------------|
|   | Coherence with government policy | Alignment with best practice governance | Ensures Sufficient and Safe Supply of Supports | Promotes Support Quality | Enables Informed Participant Choice and Control | Supports Industry Sustainability & Responsiveness | Stimulates Innovation | Value for money today (Allocative Efficiency) | Value for money through time (Dynamic Efficiency) | Ease of admin |
| Price regulation reform – governance                            | x                                | ✓✓                                      | ✓  | x                        | x   | x   | x                     | ✓   | x   | ✓             |
| Price regulation reform – governance, complexity and compliance | ✓                                | ✓✓✓                                     | ✓✓   | ✓                        | x   | ✓   | x                     | ✓   | x   | ✓             |
| Price regulation reform + enablers                              | ✓✓                               | ✓✓✓                                     | ✓✓   | ✓✓                       | ✓✓  | ✓✓  | ✓                     | ✓✓  | ✓   | ✓             |

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## Payment model reforms: impact on incentives and performance against Evaluation Framework

Payment model reforms have the potential to change incentives for market agents and in turn, the performance of the NDIS against its objectives (as articulated through the evaluation framework). By understanding the different incentives each market agent faces under alternative scenarios (Table ES4), it is possible to think through how behaviours will change and in turn how the NDIS system will perform against its objectives (Table ES5).

### *How might incentives change across different payments models?*

In the current fee for service model there are few incentives for providers and intermediaries to compete on quality or value for money. Support coordinators and providers receive the same payment regardless of participant or scheme outcomes. Added to this, incomplete and asymmetric information with respect to provider value increases search costs and weakens participant bargaining power. This makes the costs to switch providers high, even as the number of providers in many regions and markets has increased. Due in part to very high complexity cases being poorly priced within the system today, and in part because providers cannot compete on quality or value to win additional volumes to maximise their payoff (profit), providers have an incentive to price up to the upper bound.

In a capitation or bundling payment model alone (excluding other non-price market enabling reforms), these incentives would not be significantly changed – although the devil is in the detail of the payment model design. Based on the assumptions in Table ES2, neither providers nor intermediaries would have either incentives to compete on quality or value if the market remains challenged by incomplete and asymmetric information. In a capitation model, for example, participants would enrol with a provider, which would coordinate their services. Providers would have an incentive to refer to their own supports, which could produce substantial market consolidation. Given incomplete information and high switching costs, participants may become very ‘sticky’ to the provider with which they enrolled. If participants are not active in the market, then providers will revert to maximising profit by reducing costs. These gains would be captured by the provider in the main (unless a savings-

risk share arrangement was agreed, as in a blended model).

Quality may improve through improved coordination of services in a capitation or bundling model. Incentives to innovate, however, would remain somewhat muted as market agents would receive the same payment regardless of participant outcomes. In the absence of other enablers, such as provider performance reporting and/or support coordination reform, it is unlikely underlying conditions for competition would improve.

Outcomes and performance payment models, by contrast, would be expected to shift incentives by putting some payoffs at risk by tying payments to participant or scheme outcomes. The impact of performance incentives would depend a great deal on the detail of their design – who receives the payment, for what outcomes or impact, and how significant the bonus is relative to other income sources:

- Performance incentives *provided to support coordinators* for participant and scheme outcomes would have the effect of creating incentives for support coordinators to optimise supports for participants and for the program. Even in the absence of provider incentives, this could have the effect of improving conditions for competition. Knowing that support coordinators are incentivised to realise the best outcome for participants, providers, too, have indirect incentives to improve quality and value. This would create the basis for competition that was originally envisioned in the design of the NDIS.
- Performance incentives could also be directly offered to providers for selected services through a regulatory pricing approach. Depending on the structure and size of the incentive, this could also improve quality and innovation. If participants and support coordinators have poor information or weak incentives to switch outcome improvements may be more limited than might be observed in a more competitive market.
- Incentives could be provided to *both support coordinators and providers*. This could create incentives for a more active market and improve participant outcomes in supports where the scope for innovation is high and the long run economic and social return from support improvements is also high.



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TABLE ES4. INCENTIVES FOR QUALITY AND VALUE FOR MONEY UNDER ALTERNATIVE PAYMENT OPTIONS (EXCLUDING ENABLERS)

● Strong incentives for improving quality and participant outcomes  
 ● Moderate incentives for improving quality and participant outcomes  
 ● Weak incentives for improving quality and participant outcomes  
 ○ Strong incentives for improving Scheme sustainability / cost efficiency  
 ○ Moderate incentives for improving Scheme sustainability / cost efficiency  
 ○ Weak incentives for improving Scheme sustainability / cost efficiency

|  | Participants | Government | Plan Managers | Support Coordinators (including LACs) | Providers | Rationale  |
|--|--------------|------------|---------------|---------------------------------------|-----------|--|
| Fee for service payment model                                  |              |            |               |                                       |           | Providers have limited ability to compete on quality and so maximise profit by maximising volume and minimising cost of service delivery.  |
| Enrolment (capitation) payment model                           |              |            |               |                                       |           | Providers have limited ability to compete on quality and so maximise profit by maximising volume and minimising cost. Cost efficiencies are captured by providers, not payers unless savings / risk shared (e.g., in a Blended Payment Model). |
| Bundled payments   |              |            |               |                                       |           | Bundled payments can improve quality by improving coordination, but providers still have limited incentives or capability to compete on quality or value.  |
| Performance payments – support coordination                    |              |            |               |                                       |           | Support coordinators' capacity to engage with market creates incentives to compete on quality. Providers have limited incentives to compete on value.  |
| Performance payments – providers                               |              |            |               |                                       |           | Providers have incentives to improve quality and value (depending on structure and size of incentives) through a regulatory approach.  |
| Performance payments – support coordination + providers        |              |            |               |                                       |           | Providers have incentives to compete on quality and value (depending on structure and size of incentives), with market further facilitated by support coordinators.  |
| Blended payment – Model 1 (FFS + Bundled + Perform + Alt Proc) |              |            |               |                                       |           |  |
| Blended payment – Model 2 (Capitation+ Perform + Alt Proc)     |              |            |               |                                       |           |  |

# Executive Summary

Adding performance incentives to a capitation or bundling model – that is, creating a ‘blended payment model’ would also shift incentives among providers and support coordinators to deliver quality and value improvements.

## *Scorecard assessment of alternative options*

The analysis (Table ES5) finds that many of the payment reforms would improve the performance of the scheme against the evaluation criteria relative to the current system. The analysis also highlights that the ‘devil is in the detail’ and further analysis would be needed to be applied – *for any proposed reform direction* – to specific design considerations to understand how incentives and outcomes may change under alternative approaches.

While each option involves trade-offs, on balance, a blended payment model that seeks to retain participant choice and control (Blended Payment Model 1) but provide incentives to support coordinators would appear to be best aligned with the objectives of the NDIS for quality, safety, choice, sustainability, innovation and value for money. This model would incorporate a fee for service payment model for a majority of NDIS services, but would be complemented with improved and incentivised support coordination, provider performance data, bundled payments for selected services (e.g., early childhood intervention) and alternative procurement approaches for capital supports and thin markets.

Importantly, providing incentives *to support coordinators* (that do not have any conflict risks with existing providers) would allow for the Scheme to be explicitly focused on the realisation of participant outcomes. Support coordinators could be incentivised, for example:

- To improve plan utilisation (alignment to best practice support pathways)
- To deliver value for money – such as through a cohort benchmark approach
- To increase quality and innovation with intermediate performance incentives tied to participant completion of key goals (potentially through both absolute and relative performance incentives).

This is similar to some European payment model reforms, which structured

incentives to improve quality and value. These case studies show that an incentives framework can be developed that will shift outcomes, and that properly structured, participant outcomes can be made the primary goal followed by improvements in value for money.

Support coordination should be reformed to improve independence and provide clear accountability in role design. A participant’s support coordinator would have responsibility for identifying potential providers, coordinating supports, negotiating price where appropriate and tracking budget utilisation.

In the context of the NDIS, incentives would need to be structured to reflect expectations for participant and scheme outcomes, which links to recommendations for improved goal definition and optimal support pathway enablers. For many long-term NDIS participants, performance would be measured through *capacity maintenance* metrics. These metrics would be quite different to *capacity building* metrics that may apply to other NDIS participants, such as participants receiving early childhood intervention support or school leavers. Support coordinators may develop specialisations for different types of participants, further improving the effectiveness and efficiency of the system.

Complementing these incentives with performance data at a provider level would help to activate competition and the performance of the scheme. Performance data at a provider level that could be provided includes volume data as well as participant *experience* outcomes and intermediate performance data where relevant. In the Blended Payment Model 1 it would not be necessary to directly pay providers a performance incentive because the combination of improved information at a provider level and incentivised support coordinators would activate buyers in the market as originally intended by the scheme and enable providers to compete on quality. Providers are therefore indirectly incentivised in this model.

Like Australia’s approach to PBS reform and payments reform by the IHACPA, a blended payment approach would allow government to realise cost efficiencies in parts of the market with low scope for innovation and with relative market depth and maturity while utilising other payment models such as bundling and incentives to drive quality improvements in other subsets of the system.

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TABLE ES5. SCORECARD ASSESSMENT OF PAYMENT MODEL REFORMS

|   | Appropriateness                  |  | Effectiveness                              |                          |  |   |                       | Efficiency                                    |   |               |
|---|----------------------------------|--|--|--------------------------|--|---|-----------------------|---|---|---------------|
|   | Coherence with government policy | Alignment with best practice governance principles | Ensures Sufficient Supply of Safe Supports | Promotes Support Quality | Enables Informed Consumer Choice and Control | Supports Industry Sustainability & Responsiveness | Stimulates Innovation | Value for money today (Allocative Efficiency) | Value for money through time (Dynamic Efficiency) | Ease of admin |
| <i>Price regulation reform plus:</i>                    |                                  |  |  |                          |  |   |                       |   |   |               |
| Enrolment (capitation) payment model                    | x                                | ✓✓✓  | ✓✓✓  | x                        | xx   | ✓   | x                     | ✓   | ✓   | ✓             |
| Bundled payments  | ✓                                | ✓✓✓  | ✓✓   | ✓✓                       | ✓  | ✓   | ✓                     | ✓   | ✓   | ✓             |
| Performance payments – support coordination             | ✓✓                               | ✓✓✓  | ✓✓   | ✓✓                       | ✓✓   | ✓✓  | ✓✓✓                   | ✓✓  | ✓✓  | x             |
| Performance payments – providers                        | ✓                                | ✓✓✓  | ✓✓   | ✓✓                       | ✓✓   | ✓✓  | ✓✓✓                   | ✓   | ✓✓  | x             |
| Performance payments – support coordination + providers | ✓✓                               | ✓✓✓  | ✓✓   | ✓✓✓                      | ✓✓✓  | ✓✓✓   | ✓✓✓                   | x   | ✓✓  | xx            |
| Outcome payments – support coordinators                 | ✓✓                               | ✓✓✓  | ✓✓   | ✓✓                       | ✓✓   | ✓✓  | ✓✓✓                   | ✓✓  | ✓✓✓   | xx            |
| Outcome – providers                                     | ✓                                | ✓✓✓  | ✓✓   | ✓✓                       | ✓✓   | ✓✓  | ✓✓✓                   | ✓   | ✓✓✓   | xx            |
| Outcome payments – support coordinators + providers     | ✓✓                               | ✓✓✓  | ✓✓   | ✓✓✓                      | ✓✓✓  | ✓✓✓   | ✓✓✓                   | x   | ✓✓✓   | xxx           |

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TABLE ES5. SCORECARD ASSESSMENT OF PAYMENT MODEL REFORMS (CONT'D)

|   | Appropriateness                  |  | Effectiveness                              |                          |  |   |                       | Efficiency                                    |   |               |
|---|----------------------------------|--|--|--------------------------|--|---|-----------------------|---|---|---------------|
|   | Coherence with government policy | Alignment with best practice governance principles | Ensures Sufficient Supply of Safe Supports | Promotes Support Quality | Enables Informed Consumer Choice and Control | Supports Industry Sustainability & Responsiveness | Stimulates Innovation | Value for money today (Allocative Efficiency) | Value for money through time (Dynamic Efficiency) | Ease of admin |
| <i>Core price regulation reform plus:</i>   |                                  |  |  |                          |  |   |                       |   |   |               |
| Preferred panel or competitive tendering for assistive technology and consumables   | ✓✓                               | ✓✓✓  | ✓✓   | ✓                        | ✓  | ✓   | ✓                     | ✓✓  | ✓✓  | ✓             |
| Alternative commissioning or competitive tender for thin markets  | ✓✓                               | ✓✓✓  | ✓✓   | ✓                        | ✓  | ✓   | ✓                     | ✓   | ✓✓  | ✓             |
| Blended payment Model 1 – FFS + bundling + performance incentives for support coordination + alternative procurement for technology and thin markets                        | ✓✓✓                              | ✓✓✓  | ✓✓✓  | ✓✓✓                      | ✓✓✓  | ✓✓  | ✓✓✓                   | ✓✓✓   | ✓✓  | ✘             |
| Blended payments Model 1 + Enablers – FFS + bundling + performance incentives for support coordination + alternative procurement for technology and thin markets + enablers | ✓✓✓                              | ✓✓✓  | ✓✓✓  | ✓✓✓                      | ✓✓✓  | ✓✓  | ✓✓✓                   | ✓✓✓   | ✓✓✓   | ✓             |

# Executive Summary

TABLE ES5. SCORECARD ASSESSMENT OF PAYMENT MODEL REFORMS (CONT'D)

|   | Appropriateness                  |  | Effectiveness                              |                          |  |   |                       | Efficiency                                    |   |               |
|---|----------------------------------|--|--|--------------------------|--|---|-----------------------|---|---|---------------|
|   | Coherence with government policy | Alignment with best practice governance principles | Ensures Sufficient Supply of Safe Supports | Promotes Support Quality | Enables Informed Consumer Choice and Control | Supports Industry Sustainability & Responsiveness | Stimulates Innovation | Value for money today (Allocative Efficiency) | Value for money through time (Dynamic Efficiency) | Ease of admin |
| <i>Core price regulation reform plus:</i>   |                                  |  |  |                          |  |   |                       |   |   |               |
| Blended payment Model 2 – Capitation + performance incentives for providers + alternative procurement for technology and thin markets                       | ✓✓✓                              | ✓✓✓  | ✓✓✓  | ✓✓✓                      | ✓✓   | ✓✓✓   | ✓✓✓                   | ✓✓  | ✓✓  | x             |
| Blended payment Model 2 + Enablers – Capitation + performance incentives for providers + alternative procurement for technology and thin markets + enablers | ✓✓✓                              | ✓✓✓  | ✓✓✓  | ✓✓✓                      | ✓✓   | ✓✓✓   | ✓✓✓                   | ✓✓  | ✓✓  | ✓             |

# Executive Summary

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Significant improvements could be achieved by investing in key enabling capabilities and non-price market reforms such as:

- Improved engagement with at-risk persons
- Improved processes for goal definition and plan development, informed by evidence-based support pathway guidance
- Improved role definition, training and accountability for support coordination
- Improved systems for streamlined service navigation and plan management
- Improved systems performance reporting at a provider level with respect to participant experience and intermediate outcome measures where appropriate
- Workforce development, with a strong focus on expanding the supply of skills in Australia
- Quality and safety regulation.

At the same time, there are opportunities to improve outcomes for participants and Scheme sustainability through pricing and payments reform.

## *Price regulation reform is needed*

Core price regulation reform, in the form of improved governance, processes and pricing for complexity, compliance and workforce development is needed at a minimum. Government should create an independent price regulator and improve pricing process transparency, fairness, harmonisation and accountability in line with best practice governance. There should be greater stratification of services to allow for more efficient pricing of general services with limited scope for innovation that improves participant outcomes and the application of more innovative pricing and payment models to services, such as bundling and/or provider performance incentives, that are highly specialised and/or have high scope for innovation and long run economic returns through improved supports. There should also be improved coherence between the pricing framework and the wider quality and safety framework as well as workforce development considerations.

## *Blended payment model reform with support coordination incentives is the preferred reform direction*

With respect to payment model reforms, the primary challenges relate to improving the coordination of supports – particularly for complex cases – and increasing incentives for quality, innovation and value for money.

A blended payment model (complemented by investment in non-market enablers and price regulation reforms) that seeks to retain participant choice and control but incentivises support coordination (Blended Payments Model 1) with improved approaches for bundling of services and procurement for capital supports and thin markets has been identified as the preferred reform direction.

The preferred model recommends the introduction of incentives for support coordinators as the optimal market agent to support the realisation of improved outcomes for participants and the Scheme. This conclusion reflects case study evidence and economic theory, which shows that the introduction of performance incentives can be structured in a way that changes behaviour and delivers improvements in quality and value for money. Performance incentives for support coordinators are more likely to be material in size relative to base pay outcomes and more readily structured in a way that aligns to participant and scheme outcomes than provider incentives.

Having said that, performance incentives for providers could be explored for services with high scope for innovation and high returns to the community, but further analysis would be required to determine if this could be achieved through improved provider performance data and/or support coordinator incentives alone.

In the context of the NDIS, a performance framework would need to be developed that reflected evidence-based best practice for participants based on their specific needs and complexity. The performance framework should be developed in such a way to reward the achievement of participant capacity maintenance outcomes when a person is likely to be a long term NDIS participant and capacity building outcomes where appropriate for other participants, such as early childhood participants.

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Importantly, reforms to capital support procurement and thin markets should be implemented alongside any other major reform to the pricing and payments scheme to improve value for money and the sufficiency of supply of safe supports for all Australians.

NDIS stakeholders are made better off in the Blended Payment Model 1 compared to the current pricing and payments model; for example:

- *Participants* are better off because:
  - They are empowered to choose the best supports based on evidence and with active system and service navigation support
  - Providers are able to compete on quality with an incentive to innovate
  - Where coordination could be improved through bundling, these supports are better linked
- *Australian communities and governments* are better off because there would be incentives to realise value for money – both today and through time
- *Quality providers* better off because they can deliver quality supports and be rewarded through volume at a minimum (and price depending on the market segment and pricing approach) and pricing of complex and innovative services would be improved through price regulation reform
- *Support coordinators* are better off because they are rewarded for their efforts to achieve great outcomes for participants.

## *Other potential options*

A blended model with a capitation payment combined with performance incentives (as well as enablers and price regulation reform) could also work to better meet the NDIS objectives.

The Blended Payment Model 2 would more significantly alter the original aspirations for participants to have choice and control over specific providers for services; in practice, large providers would likely be the winners in such a model and there

would likely be considerable market consolidation (depending on the approach to enrolment). This may not be inherently negative but could see an overall reduction in diversity of providers. There would be likely cost efficiencies, with the extent to which this translates into overall scheme sustainability depending on the structure of the model (such as through a shared savings approach).

Critically, such an approach would also require the development of an enhanced quality performance framework that would need to be widened beyond the current regulatory scope. Where such models have been implemented overseas, for example, quality standards have been critical components either to sustain quality (if cost efficiencies are not shared) or to create conditions for the sharing of cost efficiencies when quality standards are met (through either one-sided or two-sided contracts).

## *Payment model reform alone can't deliver the change needed*

No pricing or payment model reform alone, however, would address participant incentives to maximise and sustain budgets, other government incentives to maximise federal funding for disability services, or issues of complexity and complacency in plan (fund) management. This would rely on investment in other enabling capabilities and policies.

## **Conclusions and next steps**

The NDIS is a world leading program focused on improving the independence and quality of life for people living with disability.

High demand for the NDIS shines a light on the significant support needs in Australian communities and underlines the importance of efforts to improve the Scheme's sustainability and impact.

This high-level scoping paper identifies preferred pathways for reform in response to the NDIS Review's Role of Pricing and Payments Discussion Paper. The analysis of the issues and incentives in the NDIS system today reveals that some of the most significant threats to the sustainability of the NDIS stem from challenges beyond the scope of pricing and payment models.

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The performance framework could incorporate absolute and relative metrics, bringing together:

- Intermediate performance metric data
  - To improve adherence to optimal support pathways, such as through plan utilisation rates or adherence to evidence based recommendations,
  - To achieve quality and safety standards, such as through rates of complaints
  - To improve goals realisation such as rates of goal achievement, defined by capacity maintenance metrics or capacity building metrics depending on participant disability and complexity
  - To improve value for money such as through cohort cost benchmarking.
- Participant Reported Outcome Measures – Participant assessments of the extent to which goals have been realised, such as quality of life or inclusiveness.
- Participant Reported Experience Measures – Participant assessments of experience with providers.

## *Key enablers are needed*

Unlocking the opportunities from such an approach would also depend on the introduction of performance data at a provider level to support decision making by participants in partnership with improved support coordinator functions.

Key provider data to facilitate a more active market would include:

- Operational data, such as the volume of supports delivered
- Participant experience data
- Intermediate outcome data (where appropriate).

Significant volumes of data and metrics are already defined and collected by the NDIA – government should leverage this work but report at a provider rather than a population or Scheme level to turn these data into useable information for the market, to support market activation.

Making these data more readily available through streamlined systems for service navigation and fund management will further assist in the realisation of NDIS goals.

## *Potential next steps*

To support decision making, further work would be needed to:

- Further define the preferred model, including the development of a performance framework and revised support stratification model
- Evaluate the costs and benefits of alternative preferred model design considerations.
- Estimate expected costs and economic returns of alternative preferred model design considerations.
- Develop an implementation plan and governance requirements.