Independent Pricing Committee

Final Pricing Report: 2025

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Purpose of this Report

The National Disability Insurance Agency (NDIA) has established the Independent Pricing Committee (IPC) to review the National Disability Insurance Scheme's (NDIS) pricing approaches and recommend changes to deliver a higher quality and more sustainable disability provider market.

In this final IPC Report (the Report) we assess how current pricing arrangements are working, with a particular focus on their implications for the market's structure.

NDIS price caps are based on a single regulated price limit per support category (or more accurately, schedule of price limits). In this Report, we consider whether alternative approaches to setting and regulating prices could deliver a more effective and efficient NDIS market. The intention of this work is not to recommend specific prices for specific supports but to identify an alternative way of thinking about how prices are set. To this end, we outline a pricing framework that applies a more differentiated approach to classifying the services supported by the Scheme. How that framework might be applied in practice, remains to be explored.

We also identify opportunities to support the smoother operation of the Scheme as a market. This includes opportunities to provide the tools and information that participants and providers need to more effectively engage in the market. These initiatives would enhance greater contestability on the supply-side of the market.

We recognise the structure and legislative underpinnings of the Scheme are important determinants of its operation. Matters such as access, planning, budget setting, provider registration or related institutional arrangements lie beyond the scope of this Report.

Executive summary

The National Disability Insurance Scheme (the Scheme) was established as a market more than 10 years ago. Given the immaturity of the market, price caps were put in place to manage price risk for participants. At that time, it was expected that over time, the market would come to set prices.

In September 2024, the Independent Pricing Committee (IPC) was established by the National Disability Insurance Agency (the Agency) to review its approach to the pricing of disability services. This Report looks back on more than 10 years of experience of the Scheme and considers how the current pricing approach is working in practice. We outline how the current approach is influencing the structure of the disability services market. In response, we develop a framework for rethinking the approach to price-setting that would efficiently support the Scheme's goals and sustainability. Our framework applies a more differentiated approach to classifying services and setting prices by classifying services according to their benefits, not just their costs.

At its core, our approach requires a much greater focus on identifying the different types of value-adding services supported by the Scheme. While our approach is initially described in quite conceptual (or theoretical) terms, we soon turn to a more 'hands on' discussion outlining how our framework could be implemented.

New pricing arrangements provide options for setting prices in different circumstances to meet different needs. This does not mean all pricing needs to change. We expect most services will continue to be specified and priced using similar methodologies to those already used by the Agency[1] That said, we expect the Scheme's effectiveness and efficiency can be improved if some services are specified and priced differently. The pricing arrangements described in this report have no bearing on eligibility for entry to the Scheme, participants' eligibility for or capacity to purchase different supports, or participants choice and control over the supports they require.

Beyond pricing reforms, we have identified a suite of other opportunities that would facilitate the smoother operation of the disability services market by supporting participants, providers and the Agency (in its role as 'market steward').

What's the problem we're trying to solve?

The setting of prices – or more accurately, price caps – plays an extremely important role in the functioning of the Scheme. Prices determine how much service providers

[1] The Agency currently uses a range of inputs when setting price caps. These include cost-based data, analysis of market dynamics, industry benchmarking and stakeholder consultation.

can be remunerated, and they inform how participants' budgets are set.[2] If services are mispriced it means providers might be under- or over-compensated for their services. It also means some participants' budgets may be lower or higher than they need to be, and that participants may be paying a price that does not accurately reflect the benefits they are receiving.

Note, in this Report, we use the term "mispricing" strictly in its economic sense, whereby an observed price does not reflect a balance between the benefit derived from a service and the cost of producing that service. We are not referring to the methodologies used to calculate particular prices.

Mispricing should not persist in a genuinely competitive market environment because supply, demand or both adjust to eliminate any misalignment between benefit and cost. We find these self-correcting mechanisms are weak or absent in the disability services market for numerous reasons, including:

- itemised participant plans using price caps are used to calculate participant budgets;
- factors other than price (such as: proximity, rapport and reliability) can be more important to participants when choosing providers;
- participants report finding it difficult to navigate the Scheme; and
- participants have more immediate priorities than shopping around for lower priced services.

In the absence of strong self-correcting mechanisms, the prices charged by providers of disability supports can be observed gravitating towards the Scheme's administered price caps. These administered price caps set a single maximum price for each support item. Applying a single administered price to a service relies on how that service is specified.

This Report suggests that a single price for each support may not reflect the full range of services required to address diverse participant needs. Our approach highlights the importance of attending to the benefits provided by a service, not just its costs. In other words, services should be specified with the regards to the benefits they deliver to participants; as well as the costs associated with delivering those services.

Our proposed approach recognises activities may be undertaken by some providers that are of central importance to participants and to the Scheme's success, but these activities are not specified (or priced) in their own right. Instead, remuneration for

[2] Price caps were also implemented in the Scheme's design to limit the prices providers could charge thereby protecting participants from overcharging in an emerging market and limit overall Scheme costs.

these unspecified activities are subsumed into the price of a single 'headline' disability supports which is then subject to the Scheme's price caps. In this sense, both the unspecified activity and the headline support can be said to be mis-specified (and therefore, "mispriced").

Under current arrangements all providers of a 'headline' support face the same price cap regardless of whether they also undertake the unpriced activity. This means providers who do not undertake the additional activity as part of their offering are being overcompensated, while providers who do undertake the activity services may be undercompensated.

Why is the specification of a service so important?

The market's efficiency and effectiveness in contributing to achieving the Scheme's objectives will be constrained when the single price of a support category does not reflect the breadth of services required by participants. Because the Scheme operates as a market, providers will reduce or stop providing underpriced services; and resources will shift to overpriced parts of the market. This helps explain, for example, the rapid growth we have observed in the number of small providers operating under the Scheme. It may also explain why some providers have told us they are finding it increasingly difficult to sustain their practices.

If services are specified in a way that does not closely reflect what is valued by participants and the Scheme's objectives, then the corresponding price caps can put at risk the availability of those valued services. The longer this misspecification persists, the greater the risk to participants' access to the mix and range of services they need.

A pricing framework will never be able to fully account for the broad range of services valued by participants. That said, a pricing framework that shifts to greater differentiation of services will provide clearer market signals for ensuring the markets' structure more closely aligns with participants' service needs. However, greater differentiation will come with greater cost and complexity of administration. The pricing framework needs to balance these competing objectives. On balance, the IPC considers the Scheme would benefit from a greater level of service and price differentiation.

Where to from here?

Our Report outlines aa framework for classifying services for pricing purposes. Our framework attends to both the costs and benefits associated with different service types. While we expect most services will continue to be specified and priced using a similar approach to the one used today, our approach offers the Scheme flexibility to effectively and efficiently support the range of services valued by participants.

This Report identifies a framework for distinguishing between different types of services supported by the Scheme using two criteria:

1) the nature of the benefits delivered to participants; and
2) the nature of the costs associated with delivering those services.

Applying this framework, we have identified four different types of services. Each type of service implies a different approach to pricing. This might include services where the benefit to an individual participant varies through time (often unpredictably), or where the benefit is shared across multiple participants; or where an upfront unit cost cannot be reliably estimated.

Our framework identifies four potential types of services. While we expect most services will fall within the first category (type 1 consisting of type 1.1 and type 1.2 services), the other categories would provide the Scheme with greater flexibility for ensuring the ongoing provision of valued services.

The identification and classification of services will be a matter of empirical analysis and careful consideration. As we note below, a pragmatic approach is warranted.

The different service types for pricing purposes include:

1) **Standard and higher values services (type 1)**
    a) **Standard price limits (type 1.1)** – These prices would cover all activities required to deliver a support that meets the needs of most participants. Prices would be typically set to reflect the cost of a low overhead service model for providing these supports. This suggests the price for some-or-many standard supports might be lower than current prices.
    b) **Higher prices for higher value services (type 1.2) –** These higher prices would reflect higher-value supports for participants whose needs are more specialist, less homogeneous or where there is greater delivery risk. We note, higher price limits already exist for some supports in the Scheme.[3] Addition of more price limits to reflect different service specialities or different levels of service is likely to better support the diversity of participant need.
2) **Alternative prices paid across a group of participants (type 2)** – This would be a new pricing category to enable payment for services where the benefits flow across a group of participants or where the benefits do not relate directly to the time spent delivering the service to an individual participant.[4] In these circumstances blended payment models may be more

[3] Examples include high intensity pricing for some DSW supports, or Remote and Very Remote loadings.

[4] Examples could include emergency response requiring standing capacity, some activities required to meet registration requirements, or some service models that deliver better outcomes across participants, but with variability across participants influenced by a range of other factors.

effective. These models would provide top-up payments in addition to, or instead of, the price cap to pre-qualified providers for the delivery supplementary services that are valuable across a group of participants.

3) **Services commissioned from providers (type 3)** – These would include activities or functions that may be valuable to the long-term success of the Scheme, but not are directly linked to the hours of in-person time with a practitioner.[5] There may be an opportunity for the Agency or the government to commission of these services directly from providers. It is beyond the Committee's scope to comment on the choice of commissioning arrangements. That is a matter for government policy.[6]

4) **Largely fixed cost services (type 4) –** These services will typically require a significant upfront investment by a provider, but low ongoing costs. type 4 services would typically be delivered in conjunction with the delivery other service types, mainly type 1 services. When the quantum of type 1 services is reasonably predictable, it may be more efficient to include the recovery of costs associated with type 4 services within Type 1 prices.

Type 1.1 and 1.2 pricing arrangements are already widely used in the Scheme and will remain the dominant pricing types. Our analysis suggests opportunities exist to expand type 1 pricing arrangements with introduction of more price limits to better reflect the variety of service models and levels needed by participants. The extent to which other service classification types could be used for pricing purposes should now be the subject of consultation with participants, providers and government.

As a first step, we are suggesting the Agency work closely with participants and providers to undertake an analysis of the activities supported by the Scheme. The aim of the analysis would be to identify whether there are any currently unspecified services that would benefit from being specified (and priced) on a standalone basis. In some cases, an innovative combination of pricing arrangements might be worthwhile. Once this classification is undertaken, the Agency could move to consulting on pricing methodologies for the efficient remuneration of any new service identified.

We acknowledge the need to balance the desire for greater specificity in the identification of services for pricing purposes with the additional cost and effort required to specify and price each service. We caution against the pursuit of false precision in the application of our proposed framework. A pragmatic approach is warranted to ensure services are not specified in such a way that places an onerous

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[5] Examples could include development of new delivery models, and direct commissioning of services or guarantees of supply in thin markets.

[6] Existing examples of these services are the Partners in the Community program, the work undertaken by the Agency and the NDIS Quality and Safeguards Commission (NDIS Commission), and the services provided by commissioned services in remote areas.

compliance burden on service providers or imposes unnecessarily costly administrative requirements on the Agency.

Does the proposed approach have other implications?

1) Pricing arrangements should not be used to favour (or target) any organisational or operating model(s). Pricing arrangements should focus on remunerating valued services, not individual service providers or classes of service providers. The Scheme is intended to operate as a market. It should be left to the market to determine how to organise itself in response to efficiently determined prices.
2) Higher price caps might provide some short-term relief for providers facing financial pressure, but they do not remove the forces that are driving the market to restructure (and risking the ongoing availability of some services).
3) It may be appropriate for service providers to 'pre-qualify' to be able to claim higher price limits. Pre-qualification would ensure a provider has the necessary capabilities to deliver those higher value-adding services. We would expect prequalification to typically require registration, with the Agency and NDIS Commission to work together to avoid burdensome compliance costs.
4) The use of standard pricing (for type 1.1 services) is not designed to chase operators out of the Scheme, nor is it a budget-cutting measure.
    - The use of standard prices recognises operators of low overhead service models may not deliver value-adding services and so should not be compensated as though they do. Low overhead service providers will continue to play a role in providing the services routinely required by Scheme participants.
    - Providers who offer higher value-adding services, and who incur higher costs when doing so, would be compensated through efficient prices reflecting those higher value-adding services.
5) Service providers are best placed to negotiate remuneration in line with a practitioner's skill level. The Agency and the NDIS Commission are responsible for holding service providers to account for delivering services with appropriate expertise.
6) We believe the Scheme should strive for pricing models that encourage delivery of outcomes for participants. However, experience shows outcomes-based pricing models are very challenging to implement effectively. That said, we acknowledge there is value in the reporting of performance-based metrics and outcomes, and these could be used in some circumstances as part of blended payment models to encourage focus on impact and not just volume.

Might other reforms be helpful?

The Scheme is conceived in terms of a market. We consider there are a range of opportunities to improve the operation of the market to better meet the needs of participants and providers. These are intended to further instil trust by providing the tools and information that participants and providers need to effectively engage in the market. In other words, they increase the likelihood of mutual and dynamic gains driven by enhanced participant choice; as well as economic incentives and contestability on the supply-side of the market. These opportunities include:

- a digital payment platform to enable participants, plan managers and providers to submit claims and receive approval in near real-time;
- a digital supermarket to enable participants to readily compare and find service providers who best match their needs;
- a price comparator site where participants, providers and the Agency can see the actual prices charged by providers; and
- scheduling solutions that would allow service providers to organise delivery of a bundle of services, for example, ahead of visiting remote towns or regions.

We note these opportunities are consistent with the recommendations of the NDIS Review.[7] We also note the work underway on an enhanced 'navigator' role to improve the function of existing intermediaries.

Other opportunities include:

- publishing regular information on Scheme spending projections by region and category, similar to the Market Position Statements that were published by the Agency during the transition to the full Scheme;
- working closely with the NDIS Commission to streamline and reduce compliance obligations – preferably through a single portal; and
- working across the care sector to coordinate effort in common areas of interest such as workforce development.

Beyond these operational opportunities, we consider there are significant opportunities for the Agency to enhance its role as the 'steward' of the national disability services market. These opportunities build on existing strategies and monitoring of the disability sector, including market analysis published each year in the APR. They include:

- tracking and reporting on the emerging relationship between pricing, market structure and the availability of services;

[7] NDIS Review (2023), Working together to deliver the NDIS.

- developing a better understanding of, and reporting on, participants' experience of the market – which takes on added importance because of participants' total (or very heavy) reliance on accessing services via the Scheme's market arrangements;
- improving data utilisation in pricing models;
- publishing an overarching pricing strategy that informs participants and providers how pricing decisions will be made in terms of clearly articulated pricing objectives, principles, methods, thresholds, and so on;
- encouraging innovative approaches to prices and service delivery driven by participant surveys and feedback as well as feedback from providers and other system stakeholders; and
- investing in clarifying expectations and requirements in all the contractual arrangements on which the Scheme relies – including all express, implied and deemed contracts.

All the above opportunities should be explored, developed and implemented in close consultation with participants and providers.

Implementation approach

We recognise there will be fundamental implementation challenges associated with the pricing (and other) reforms we have outlined in our Report. They will require significant work and engagement with participants, providers, the NDIS Commission and other relevant agencies and stakeholders. It will also require investment in new and expanded functional capabilities by the Agency.

In our Report, we have tentatively outlined a four-year implementation plan, with a review of progress and an exploration of new opportunities in the fifth year. The plan recognises that the new pricing framework will take time to mature and should therefore, be rolled-out in stages – allowing the Agency, participants and providers to 'learn by doing'.

Why are there no recommendations in the Report?

Reports of this nature usually contain a series of recommendations. We have chosen not to follow this convention because we are concerned it would understate, and potentially misrepresent, our central finding and the purpose of this Report.

At the heart of our findings lies the opportunity for a new way of thinking about whether some activities by providers could be specified (and priced) as standalone services. Promoting a new way of thinking does not readily lend itself to a checklist of 'to do' focussed recommendations. Although we do not provide any recommendations, we have provided practical guidance on how our new approach

might be implemented and some tentative timelines. Consultation with participants and providers will be the first step.

1. Context

The NDIS (the Scheme) was launched in 2013 as an insurance scheme to provide individual budgets to meet the reasonable and necessary support needs of people with a significant and permanent disability and people with disability who are likely to benefit from early intervention supports. Participants in the Scheme engage directly with their chosen provider(s) to procure supports within their plan budget, exercising choice and control over the supports provided. This market-based approach assumed suppliers would respond to signals from participants about the supports they value. Providers would compete and innovate to efficiently meet participants' needs and preferences.

The NDIA (the Agency) was established as an independent statutory agency to implement the Scheme, including oversight and 'stewardship' of the disability provider market. Separately, the NDIS Commission was established as the independent Australian Government regulator responsible for registering and regulating NDIS providers. The NDIS Commission monitors NDIS providers and responds to concerns, complaints and reportable incidents.

1.1 Scheme funding

The NDIS is jointly funded and governed by all Australian governments. State and Territory governments make annual fixed Scheme financial contributions reflecting their respective population sizes. Their contribution is adjusted each year by a set escalation rate of four per cent to reflect inflation and population changes.

The Australian Government also provides annual Scheme financial contributions. These include all administration costs and 100 per cent of the costs of those aged 65 and over, in line with broader aged care funding arrangements. The Australian Government also pays for all costs associated with participants aged under 65 that are over and above those costs covered by the contributions of the states and territories.[8] The Australian Government currently pays for about 66.9 per cent of the costs of participants aged under 65 and for 70.3 per cent of all participant costs.[9]

[8] Bilateral Agreements between the Commonwealth and the various states and territories on the National Disability Scheme. See: https://www.ndis.gov.au/about-us/governance/intergovernmental-agreements 2012.

[9] Authors estimates based on:

NDIA, (2024), *Annual Report 2023-24*.

NDIA, (2024), *Annual Financial Sustainability Report 2023-24*.

1.2 The role of price caps

In its role as one of the Scheme's market stewards, the NDIA recognised that a deregulated market may not deliver adequate supply or the right mix of disability supports in the less mature or new markets created by the Scheme. They also recognised that it might take some time for efficient market-based prices to eventuate. Price caps were put in place across most types of supports to:

- limit the price providers could charge;
- assist the development of the sufficient supply of services to meet participants' needs;
- assist participants to receive value for money for their supports; and
- assist in achieving the Scheme's financial sustainability.[10]

Price caps represent a maximum allowable price that can be charged by providers for a type of support.[11] They form a basis for participant plans to ensure they are sufficient to purchase reasonable and necessary supports.

1.3 Price caps are set by the NDIA

NDIS price caps[12] are set out in the *NDIS Pricing Arrangements and Price Limits (PAPL)* document. This document is updated multiple times each year, with significant changes typically informed by the Annual Pricing Review (APR). The APR considers each year the appropriateness of current prices and the potential for indexation of prices or other pricing changes. It includes substantial analysis of pricing and market dynamics, including assessment of disability market trends and growth, broader economic conditions, provider entry and exits, and market concentration. It also incorporates analysis of comparable sectors, including benchmarking of prices where relevant, and updating of relevant cost models. It also considers feedback from internal and external stakeholders and from peer review.

The Agency has continued to revise its approach to market and price analysis over time to better inform pricing decisions. For example, work is currently underway to

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[10] Two important foundational documents are:

Mckinsey and Co., (2018), *Independent Pricing Review of the NDIS*. https://www.ndis.gov.au/media/359/download?attachment

NDIA, (2019), *National Disability Insurance Scheme Pricing Strategy*. https://www.ndis.gov.au/media/1820/download?attachment

[11] Excluding prices charged to self-managed participants who are not subject to price caps.

[12] Excluding Specialist Disability Accommodation (SDA) where pricing arrangements which are set out in NDIS Pricing Arrangement for Specialist Disability Accommodation. *https://www.ndis.gov.au/providers/housing-and-living-supports-and-services/specialist-disability-accommodation/sda-pricing-and-payments*

expand the data used for benchmarking of therapy prices. At the time of the IPC Review, the most recent 2023-24 APR was released in June 2024, and informed price limits applicable from 1 July 2024.

The IPC recognises the breadth of inputs used by the NDIA through its current price setting methodologies, and its ongoing efforts to expand and improve data sources and analyses within the constraints of the existing pricing framework. However, there is a limit to what can be achieved through incremental improvements to pricing methodologies without consideration of the overall framework. The work of the IPC has been to consider the broader opportunities to improve the operation of disability provider markets through adoption of new pricing approaches.

1.4 Scheme participants have different exposure to price caps

Scheme participants have different exposure to price caps depending on how and by whom their plan is managed:[13]

- Participants whose funds are self-managed (11 per cent of total Scheme spend on supports[14]) are free to use registered or unregistered providers and negotiate prices directly with providers, so price caps do not apply.
- Participants whose funds are agency-managed (32 per cent of spend) must use registered providers who can charge anywhere up to the price caps.
- Participants whose funds are plan-managed (57 per cent of spend) may use both registered and unregistered providers, but providers can only charge up to the price caps.[15]

Spending by self-managing participants is not subject to the same requirements as other spending. Self-managed funds are reported at the support category level only, rather than at the support item level, so the Agency has less visibility of how these funds are spent.

[13] Data represents payment for the June 2024 quarter based on June 2024 NDIS Quarterly Report to disability ministers.

[14] Note that self-managing participants have on average, much smaller plans than the average participant, so constitute a much larger proportion of participants.

[15] Note, participants may manage different components of their plan differently. So, for example, a participant may have a plan manager for core supports but self-manage therapy supports. The figures provided represent the value of each component of a participant's plan subject to each type of plan management.

1.5 The application of price caps to different services

Price caps apply to:

- Supports provided by Disability Support Workers (covering most support items associated with 'Assistance with Daily Living' and 'Assistance with Social Economic and Community Participation').
- Therapy supports (including some Disability-Related Health Supports, and many Capacity Building supports including Improved Health and Wellbeing and Improved Daily Living).
- Disability-Related Health Supports provided by nurses.
- Plan Management.
- Support Coordination.

Excluding the 11 per cent of spend by self-managed participants, the NDIA has full visibility of 89 per cent of the Scheme's spend. According to data provided by the NDIA:[16]

- 83.3 per cent of Scheme spend falls under the categories above and is subject to some form of price limit set out in the PAPL[17]
- A further 0.9 per cent of Scheme spend is associated with Specialist Disability Accommodation (SDA) that is subject to its own pricing mechanism set out in the *NDIS Pricing Arrangements for Disability Accommodation*.
- Around 0.7 per cent of spend comprises quotable supports, where participants are expected to obtain quotations from suppliers to demonstrate that prices are fair and reasonable. Quotable items are typically highly specialised supports such as assistive technology.
- The remaining 4.2 per cent of spend occurs in more competitive markets – for example, transport and consumables – that are not subject to price controls.

The work of the IPC and the remainder of this Report is focused on those categories that are subject to price caps as set out in the PAPL.

[16] Based on the 12 months to September 2024.

[17] Around 70 per cent are subject to price limits for a set volume of supports delivered, usually an hour. Around 12 per cent are related to supported independent living (SIL) provided on a weekly basis that is subject to weekly limits on budget linked to the participant plan. Approximately one per cent are fixed monthly fees for plan management.

1.6 Some important recent developments to the Scheme

In December 2023, 10 years after the launch of the Scheme, the Independent Review into the NDIS released its final report *Working together to deliver the NDIS* (the NDIS Review). The NDIS Review reflected on how the Scheme is functioning and made 26 recommendations with 139 supporting actions to ensure the Scheme is effective and sustainable into the future, including in relation to market oversight and pricing.

Noteworthy was the NDIS Review's paper *The role of pricing and payment approaches in improving participant outcomes and scheme sustainability* (published in June 2023). In its Final Report, the NDIS Review noted 'the blunt and non-transparent way price caps are set is not helping providers respond to the needs of participants or encouraging market confidence or innovation.'[18] And recommended to 'reform pricing and payments frameworks to improve incentives for providers and deliver quality supports to participants.'[19]

In August 2024, the Federal Parliament passed the *National Disability Insurance Scheme Amendment (Getting the NDIS Back on Track No. 1) Bill 2024*, clarifying some aspects of how the Scheme operates and enabling future changes in response to the NDIS Review. The Government has also commenced a range of work in response to the NDIS Review, including establishment of the *NDIS Provider and Worker Registration Taskforce* to provide advice on a new regulatory model for providers and workers. The NDIA has also initiated numerous trials and pilots, as well as commenced reviews into some administrative arrangements. For example, the NDIA is examining the design of 'navigators' in facilitating the efficient operation of the Scheme, consistent with the recommendations of the NDIS Review.

In response to the NDIS Review and in the context of other changes that will impact the operation and regulation of the NDIS, it is a good time to reflect on the overall operation of the NDIS as a market (or series of markets), the role of pricing and the most effective approaches to pricing to support the Scheme's success into the future.

[18] NDIS Review (2023), *Working together to deliver the NDIS*, p166.

[19] Ibid., Recommendation 11, pps.171-172.

1.7 The Independent Pricing Committee (IPC)

The former Minister for NDIS, the Hon Bill Shorten MP, announced the establishment of the IPC on 26 September 2024, to review the NDIS pricing approaches and recommend changes to deliver a higher quality and more sustainable disability provider market.[20]

The IPC's terms of reference define its role as to:

- Provide expert advice on the pricing approach, market trends, and policy impacts that guide NDIA pricing decision making.
- Evaluate market conditions, identify challenges and recommend interventions.
- Drive continuous improvement in pricing practices to align with participant needs and market dynamics.
- Consult with stakeholders to foster collaboration and inform IPC recommendations and work with the NDIA and its codesign groups to ensure that the views of people with a disability are reflected in the recommendations.
- Report findings and recommendations to support the NDIA's strategic pricing objectives.[21]

Our work has focused on the overall functioning of pricing within the NDIS market, and potential changes to the pricing approach, rather than the setting of individual prices for supports. Our approach has been guided by first principles and evidence (wherever possible) including participant, provider and other stakeholder feedback.

The scope of this Review is limited to the role of pricing, and those elements of market oversight and design that underpin the effectiveness of pricing within the market. We acknowledge the ways in which the structure and legislative underpinnings of the Scheme impact the operations of the NDIS market and of pricing, but any comment on the Scheme's underpinning structure, including, access, planning, budget setting, provider registration, or related institutional arrangements are beyond the scope of our work and this Report.

[20] https://www.ndis.gov.au/news/10415-new-independent-pricing-committee-share-future-ndis-pricing

[21] Section 4, NDIS IPC Terms of Reference, pps.2-3.

2. Approach and methodology

2.1 Our principles

The IPC has undertaken a broad rethink of pricing approaches and supporting market orientated reforms. The IPC's approach has been guided by the principles outlined in **Box 1**.

Box 1: Principles underpinning the IPC's approach

Underpinning our analysis are some basic principles in support of our objective to deliver the best social policy outcomes. These principles helped us think through the relative merits of alternative approaches:

1. **Optimality** – starting with the end goal in mind, we looked for the best way of reaching it. Our end objective was to identify pricing arrangements that allow providers to be more responsive to participants' needs.
2. **Choice** – identifying meaningful price structures that provide participants with the best balance of control in decision-making, whilst making use of optional default options and nudges as appropriate.
3. **No disadvantage** - no participant will lose (or have reduced) access to services that are reasonable and necessary because of the restructuring of prices.
4. **Stewardship** – ambitiously, but realistically, using prices to enable and promote quality service provision and choice, while protecting vulnerable participants and fostering innovation in service delivery.
5. **Efficiency** – over time, putting in place arrangements that allow prices to better reflect participants' preferences and assessment of values, rather than solely focusing on the cost-of-service provision.
6. **Diversity** – prices should reflect the quality and complexity of services provided to different participants, cognisant of treating providers equally, regardless of size.
7. **Flexibility** – pricing arrangements should be able to adapt to changing market conditions – leaving room for alternative approaches and fresh thinking informed by experience and genuine engagement with stakeholders.
8. **Sustainability** – pricing arrangements must underpin the Scheme's objectives around balancing the needs of participants, providers and governments in ways that are mutually reinforcing.

2.2 Our approach

Our approach has been guided by first principles supported by evidence (wherever possible) including stakeholder feedback. As the NDIS has been conceived as a consumer market for disability services, and markets are economic constructs, we consider it necessary to describe and justify our proposed approach in economic

terms. In **Chapter 3** we describe some of the Scheme foundations and their impact on pricing and market operations. In **Chapter 4** we apply an economic framework to explain the current approach to price setting and its impact, providing the economic foundations for moving to a different approach and a framework for rethinking pricing. In **Chapters 5 and 6**, we then explore how this new approach might work in practice in general and across the main categories of NDIS supports. In the remaining **Chapters 7, 8 and 9**, we explore potential supporting market reforms, enabling market enhancements to support the new pricing approach and a high-level implementation pathway for all the initiatives proposed by the IPC.

2.3 Data sources and analysis

In developing this Report, the IPC drew on a range of data sources, especially data published through the recent APRs, Quarterly Reports to disability ministers and internal NDIS administrative data.

While we have sought to utilise data and evidence wherever we can, we recognise some gaps and challenges in this data that make some analysis difficult. Some gaps link to elements of the underlying Scheme design, as well as claims and payment systems. For example, the Agency has less visibility of the breakdown of spending that is self-managed compared to spending that is agency-managed and plan-managed, data may be more limited for unregistered providers and there can be gaps and quality issues associated with some payment data. Digital reforms underway may address some of these challenges, especially in relation to payment data. Other challenges relate to the complexity of the Scheme and its objectives. Measures of participant need, access to supports or outcomes, for example are often imperfect proxies.

The data issues considered together also create challenges for the ongoing market stewardship functions of the Scheme.

2.4 Stakeholder consultation

There has been extensive consultation with NDIS participants and providers in recent times including through the NDIS Review and the 2023-24 APR. Most recently, the Independent Health and Aged Care Pricing Authority (IHACPA) has been conducting consultations as part of its work to provide advice to government on opportunities for future reform in NDIS pricing. In addition, the NDIA has commenced several pricing pilots that will involve extensive engagement with and feedback from providers, especially providers of Supported Independent Living (SIL) Support Coordination, and of employment assistance.

For this Report, we have leveraged provider feedback from these sources to avoid duplication and additional burden on providers given the short time that was available to the IPC to consult. The IPC supplemented this existing feedback with

targeted consultation through the Agency's consultation groups. The IPC would like to thank all those individuals who spoke with us directly or took the time to write a formal submission.

3. Scheme foundations, participant budgets and pricing

The NDIS is conceived as a program to deliver individual packages of support to people with significant and permanent disability and to people who are likely to benefit from early intervention supports. The design and structure of the Scheme shapes the demand-side of the disability support market. It has implications for the functioning of the market and the role of pricing within that market. Some elements of the Scheme design are very different from other government funded health or social welfare services. This means the NDIS markets and prices may operate differently to, for example, allied health or aged care markets, and may not easily harmonise with those markets.

Key elements of the Scheme's design that shape the demand side of the market include:

- **Individual participant plans**: The Scheme provides individualised support to participants with goals and support needs laid out in the participant plan, tailored to the specific needs of each participant.
- **Reasonable and necessary supports**: Scheme participants are provided with all reasonable and necessary supports to meet their specific goals and needs, as laid out in their plans.
- **Total funding amount**: A participant's reasonable and necessary supports are translated into a budget to be used for the purchase of NDIS supports.
- **Choice and control:** Participants are expected to have choice and control over the implementation of their plan, including choice of providers.

Before we explore the role of pricing in more detail, we will briefly examine the foundations of the Scheme's design and their implications for pricing and the functioning of the market.

3.1 Individual participant plans

The NDIS was designed and structured to provide individualised support for people who meet the eligibility requirements for the Scheme. This recognises that people with disability are all unique and have differing goals and needs. Better outcomes can be achieved where support packages are tailored to the needs of the individual participant.

The structure for delivery of individualised support is via the participant plan. As described in the *National Disability Insurance Scheme Act 2013*, the plan must include a statement of the participant's goals and aspirations, and a statement of participant supports to assist the participant to pursue those goals and aspirations. These must be prepared with the participant and will vary across participants.

The individualised nature of participant plans reflects the diversity of participant needs driven by the nature and severity of impairment as well as differences across other factors such as location, cultural and social background, gender, family situation, and personal preference. It also recognises that people with disability have the same rights as other people to realise their potential and pursue their own best interest.

The implication of this individualised support model is that disability supports are highly heterogeneous. Perhaps more importantly, the individual outcomes to be achieved via the Scheme are heterogeneous, linked to individual goals and aspirations. The market for NDIS supports is not a commodity market but a complex market of heterogenous services intended to achieve a range of diverse individual outcomes.

3.2 Reasonable and necessary supports

The participant supports or budget to be included in a participant plan are required to be 'reasonable and necessary'.

The idea of 'reasonable and necessary' was present from the Scheme's conception. In its 2011 inquiry into Disability Care and Support, the Productivity Commission[22], recognised 'reasonable and necessary' as providing the required boundary condition to constrain the provision of support through the Scheme. It proposed a definition for 'reasonable and necessary' that drew from and built on the established definition in the NSW Lifetime Care and Support scheme.

The concept of 'reasonable and necessary' was embedded as an Object in the *National Disability Insurance Scheme Act 2013*, to: "provide reasonable and necessary supports, including early intervention supports, for participants in the National Disability Insurance Scheme" (Section 3, 1(d)). Under Section 34 of the Act, reasonable and necessary is described as needing to satisfy seven criteria (in summarised form):

- is necessary to address the needs arising from the participant's impairment;
- will support the participant to meet their goals, objectives and aspirations;
- will facilitate the participant's social and economic participation;
- represents value for money considering the benefits and costs of the alternative;
- is likely to be effective and beneficial to the participant;

[22] Productivity Commission, 2011, *Productivity Commission Inquiry Report, Disability Care and Support*, see specifically Recommendation 5.1 and Section 5.5.

- considers what is reasonable to expect from families, carers, informal networks and the community; and
- is a NDIS support.

The concept of reasonable and necessary is the primary mechanism within the Act to determine what supports are included in a participants' plans and the budget provided. Conversely, the expectation is that participants will be fully funded to access all supports that are considered 'reasonable and necessary'. This implies these supports will be available through the disability support market, without the need for waiting periods or other mechanisms to ration supply, or for participants to make trade-offs between different 'reasonable and necessary' supports. This is very different from, for example, aged care home care packages which are set at fixed daily subsidy rates across each of four pre-determined levels of need (alongside a limited number of additional supplements). While services provided under a home care package can be tailored to the individual's need, the funding is capped at the subsidy rate, including income tested contributions.[23]

For NDIS participants to have access to reasonable and necessary disability supports, these supports must be freely available, without scarcity. Where the relevant supports form a small component of a much larger market that sets the price, the expectation of free availability is likely to be met without there being a significant impact on the operation of the disability market. For example, consumables and equipment used widely across the health and allied health, aged care and disability care sectors, are priced as part of the broader market for those goods and do not need to be priced specifically for the NDIS. However, as we will see in **Chapter 4**, in most disability markets the supports required are distinct from those required in other care sectors and the NDIS comprises most of the market. In these markets, the focus on ensuring supply undermines the conditions needed to ignite competition.

3.3 Total funding amount

In practice, a participant's reasonable and necessary supports contained in their plan are translated into a budget to be used for the purchase of supports. It is the individual participant who purchases supports through their budget and the individual participant (not the Agency) who has an actual or implied contractual relationship with the providers who deliver the supports.

Currently (old framework plans), participant budgets are determined primarily based on the reasonable and necessary supports contained in the plan and the relevant funding for each support, applying price caps determined by the Agency

[23] A overview of home care packages can be found here: https://www.health.gov.au/our-work/hcp/about/how-it-works, with the explanation of individualised budgets here: https://www.health.gov.au/our-work/hcp/package-management/individualised-budgets

where applicable[24]. Greater participant needs are reflected in the participant's budget through allowance for more hours of support, and in some instances higher pricing for higher intensity supports.[25] This approach to setting budgets means funding should always be sufficient to pay for the full suite of supports considered reasonable and necessary, so long as they are not charged above the price limit.

Amendments to the *National Disability Insurance Scheme Act 2013* passed in 2024 introduce the concept of a new framework plan which will contain a reasonable and necessary budget, based on needs assessment in line with recommendations from the NDIS Review. New framework plans will contain a budget that is worked out by applying information in the needs assessment report using a method that will be specified in rules. These rules are yet to be developed.

Under old framework plans, reasonable and necessary supports contained in a participant plan are categorised into one or more groups of supports, with some flexibility on how budgets are spent within each group.[26] Under new framework plans, budgets will be typically provided as flexible funding, except where a specified portion or portions are provided as stated supports. Funding for stated supports is restricted to a specific support or class of supports.[27] New framework plans are intended to provide more flexibility for participants as to how budgets are spent.

Participant budgets are structured to cover the full costs of all supports deemed reasonable and necessary, without any co-payments or means testing, and without any specific mechanisms to prioritise or ration access to support. This reinforces expectations that all supports contained in the plan will be available in the market.

It is important to note that this is different from many other social services funded by government, including health and aged care, where co-payments, and service rationing are common. This necessarily impacts the disability market operations and the role of pricing. Full harmonisation of pricing across services is not possible where underlying service objectives, assumptions and funding models are not the same.

3.4 Participant choice and control

Once plans and budgets are approved, participants choose their providers and control how the money is spent. They may choose to manage the plan themselves, have the Agency manage their plan or to employ a plan manager to help them manage and pay providers. They may also choose to have different portions of their

[24] Funding for some supports, such as quotable supports, are not set via price caps.

[25] Or to allow for other non-standard costs such as rural, regional or remote delivery, or delivery in the evening or on weekends where it is needed.

[26] See section 33, *National Disability Insurance Scheme Act 2013*

[27] See section 32, *National Disability Insurance Scheme Act 2013*

plan managed in different ways. If a participant chooses to have some or all of their plan managed by a plan manager, then additional funding is added to the plan to cover those costs.[28] Participants may have support from a local area coordinator (LAC) to implement their plans. Some participants, especially those with larger plans, are funded for support coordinators to help them find providers and implement their plans.

The concept of participant choice and control is embedded as an Object in the *National Disability Insurance Scheme Act* 2013: "to support people with disability exercise choice and control in the pursuit of their goals and the planning and delivery of their supports" (Section 3 1(e)e). The Productivity Commission in its 2011 enquiry argued that people with disability know their needs better than others and described positive wellbeing outcomes for people with disability from self-directed funding.[29]

Participant choice and control reflects both:

- The right of people with disability to autonomy and control over their own lives. The United Nations Convention on the Rights of People with Disabilities (UNCRPD), signed in 2007, has as its first general principle: "Respect for inherent dignity, individual autonomy including the freedom to make one's own choices, and independence of persons."[30]
- The role of people with disabilities as consumers shaping the market for disability supports. The Productivity Commission in its 2011 inquiry stated: "There are strong rationales for a consumer choice approach, since people know their needs better than others, it can increase pressures on suppliers to perform, and people value choice in its own right."[31] It has commonly been assumed that as participants exercised choice, it would necessarily lead to competition between providers, driving greater efficiency and improved quality in disability supports.

Individual plans and the setting of individual goals are important mechanisms to support individual autonomy. Most significantly, the ability to choose providers, and to switch providers if a provider is not meeting expectations is a fundamental

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[28] The Agency may require a portion of a participant's plan to be managed by the Agency in some circumstances. Services purchased through Agency managed plans must be delivered by registered providers.

[29] Productivity Commission, 2011, *Productivity Commission Inquiry Report, Disability Care and Support*, see Section 8, especially p.343.

[30] The rights of people with disability are embedded in the *National Disability Insurance Scheme Act 2013* in several places, including the general principle that people with disability have the right "to be able to determine their own best interests, including the right to exercise choice and control, and to engage as equal partners in decisions that will affect their lives." Sections 4(8).

[31] Productivity Commission, 2011, *Productivity Commission Inquiry Report, Disability Care and Support, p343*.

element of the Scheme's design. For some participants, the option of using unregistered providers or hiring support workers directly is a highly valued way to exercise choice and control.[32]

At the same time, this approach can put a lot of responsibility on participants and their carers to find the right providers and supports. They must judge what constitutes a 'good provider' or a 'quality service', to negotiate service contracts and to raise and pursue any issues that may arise with their provider. The NDIS Review noted "The introduction of the NDIS brought greater choice of services but also increased the number and complexity of decisions required by people with disability and their families to access supports."[33]

Decisions over providers can require weighing up of a wide range of factors, including location, service offering, price, reputation, quality and performance measures, and rapport or fit with the relevant practitioner. There is often very limited information available with which to decide, and information may in any case be of only limited use for supports that need to be judged by experience. This complexity can require a lot of time and effort from participants to navigate. It can provide openings for some providers acting in bad faith to exploit participants. The availability of more options may not lead to effective 'choice and control' where the participant does not or cannot have the time, knowledge, information or support to assess options and make an informed choice, or where the barriers to changing providers are high. As we will explore further in **Chapter 4,** these factors also mean choice does not automatically lead participants to behave like the consumers found in economic textbooks. In turn, this acts as a constraint on the emergence of the market competition that was commonly expected following the establishment of the Scheme.

The NDIS Review recognised the challenges participants encounter in navigating the Scheme and recommended reform of navigation functions to provide proactive navigation support for all people with a disability.[34] It also recommended more accessible information and advice and tailored decision-making support for those who need it to exercise choice and control.

For some participants the lack of provider options is a practical constraint on choice and control. The Act recognises that participants "require access to a diverse and

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[32] See, for example, Dickinson, H., Yates, S., & West, R. (2022) *Exercising meaningful choice and control in the NDIS: Why participants use unregistered providers.* Canberra: University of New South Wales, Canberra.

[33] NDIS Review (2023), see p.107, Chapter 5: *Support to empower people with disability to make decisions about their lived experience*.

[34] Ibid., see Chapter 4: *Support for all people with disability to better navigate mainstream and disability support*.

sustainable market for disability support"[35] to exercise their right to choice and control. In markets for more specialised supports, or in regional, rural and remote areas, this is often not the case, and other interventions may be required to ensure availability of supports (discussed further in **Chapter 7**).[36]

Ensuring participants can make their own choices about the things that matter to them is fundamental to the intent and objectives of the Scheme. Any changes to market structures or pricing should aim to support and facilitate genuine choice for participants, noting that genuine choice may depend on factors such as local availability and mix of providers, access to information, and effective decision-making support, as well as aggregate provider numbers.

3.5 Discussion

The National Disability Insurance Scheme is typically described as a market, and the role of the Agency is often described in terms of 'market stewardship'. This Chapter describes underlying Scheme design and the implications for the demand-side of the disability services market.

The legislation conceives of the Scheme as a demand-driven market whereby the individual goals and needs of participants, in sum, determine the total demand for different disability services. Given the heterogeneous nature of participant needs, this aggregate demand encompasses a complex mix of heterogeneous services.

Participants' entitlements to support are not open-ended or unlimited. In defining participants' entitlement to support, the Act also imposes obligations on the Agency when approving participants' plans and budgets, most notably that the Agency is satisfied that supports are reasonable and necessary, including a consideration of value for money.

Once a support is considered reasonable and necessary and included in a participant plan, it should be fully funded in the participant budget. That is, sufficient funding should be included in the budget to ensure the participant can purchase the support, in line with price caps set by the Agency. This comes with an expectation that supply will be available within the market to meet participants' demand for supports.

In its market stewardship role, the Agency seeks to shape a disability market that responds to participants' demand. This includes encouraging availability of sufficient supply that responds to the varying needs of different participants and enables participants to exercise choice and control over their disability supports. A structural mismatch between supply and demand could put at risk the Scheme's overarching

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[35] *National Disability Insurance Scheme Act* 2013, Section 5, 4(15).

[36] This was noted as a practical constraint on participant choice and control by several providers in submissions to the IPC.

objective to "support the independence and social and economic participation of people with disability".[37]

Given this, the Scheme is more accurately described as an "administered market". While some of the Scheme's features appear to resemble those of other competitive consumer markets, there are also some very significant differences.

In the next Chapter, we turn to an examination of the underlying economics of the disability service market administered by the Agency. It is through its pricing powers (that is, the setting of price caps) that the Agency endeavours to ensure the disability services market delivers the supply of services required (on the demand-side) by participants.

[37] *National Disability Insurance Scheme Act* 2013, Section 3 1(c)

4. Rethinking the role of prices

4.1 Introduction

The NDIS has been conceived as a consumer market for disability supports, with the Agency playing a market stewardship role – including through its role in setting price caps on supports. Markets are economic constructs. This Chapter, therefore, applies an economic framework to explain:

- the Agency's role and objectives in setting price caps;
- the thinking behind its current approach to setting prices;
- the expected versus observed outcomes of the current approach;
- the economic foundations for moving to an alternative approach; and
- a framework for rethinking how services are identified and efficiently priced.

Some readers may find this Chapter overly abstract. We understand that. Nonetheless, because the Scheme is an economic construct, we consider it necessary to describe and justify our proposed approach in the same economic terms. While this Chapter may be a little 'dry' for some readers, **Chapters 5 & 6** describe how our proposed new approach to pricing would be operationalised.

Broadly speaking, the Scheme rests on four operational pillars, namely:

- **Access** – determination of eligibility to enter the Scheme as a participant.
- **Planning** – development of a personal plan setting out a participant's goals and reasonable and necessary supports, that in turn determine the participant's budget.
- **Pricing** – the price caps applied to different supports.
- **Integrity** – administrative systems and controls.

Our Review is limited to the third of these pillars only.[38] We note, in particular, that any changes to pricing arrangements have no direct bearing on eligibility for entry to

[38] We acknowledge that changes to pricing may impact on the size of a participant's budget, as developed through the planning process, to ensure purchasing power is maintained. In this context, we make some comments around ensuring alignment of budget setting with pricing. However, any commentary around the planning process itself, setting of participant goals or eligibility for supports is beyond the scope of this Report.

the Scheme or on participants' eligibility for supports (as articulated in our principles in **Chapter 1**).[39]

This Chapter provides a conceptual framework for rethinking the impact and role of pricing and, therefore, how price structures are designed.

The Committee notes that it is only natural that a Scheme with the level of ambition, scale and complexity of the NDIS will develop over time as lessons are learned, and knowledge is refined. We believe 10 years of experience has revealed market realities that were not self-evident at the time of the Scheme's establishment and have only come into sharper relief in recent years. The following advice responds to those revealed realities.

4.2 A brief history of the approach to pricing

The Scheme's original designers sought to set price caps at a level reflecting the efficient cost of service delivery. In 2018, a shift in focus led to a lift in price caps as a vehicle to attract service providers into the still nascent NDIS. The efforts to encourage providers to enter the market saw some price caps deliberately set at the high end of the range of prices observed across other care- and private service markets. This was most notably the approach taken to setting price caps for therapies.

The NDIS Pricing Strategy explicitly stated that:

> "Price controls need to take into account efficiency and the need to expand supply. Markets for disability supports are continuing to develop, with both increases in market supply and improvements in production efficiency required. While improvements in production efficiency imply cost reductions in the long run, expansion of market supply necessitates higher short to medium term prices. In order to maintain and expand production volumes of disability supports, higher short-term prices are thus needed. This serves as an incentive to redirect the allocation of resources to the NDIS from other sectors in the economy. Without price growth, supply side shortages will likely exist."[40]

In the years that followed, the expected role of price caps changed as it became evident that the simple supply-side objective had been satisfied. Pricing now shifted focus to identifying the efficient price at which the required supply of services would

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[39] We acknowledge price could have a second-order impact on whether a support is considered reasonable and necessary under the Scheme's value for money criterion.

[40] NDIA. (2019). *National Disability Insurance Scheme Pricing Strategy, p.8.* https://www.ndis.gov.au/media/3979/download?attachment

be sustained. Within the context of the Scheme, the efficient price refers to (i) the price that reflects the fair and reasonable cost of delivering a particular service, and (ii) the price that reflects the 'value for money' received in return for the price paid.

The concept of 'value for money' is irreducibly nebulous as it refers to the net benefits accruing to participants, their families and communities, as well as the Scheme's overarching insurance objective. Moreover, there is a paucity of data on the value – in monetary equivalent terms – that participants attach to the services they receive under the Scheme. This ambiguity and the unavailability of data create challenges for the Scheme's administrators in setting an efficient price.

The Agency has developed different methodologies for approximating the efficient cost of providing the many services funded under the Scheme. The different methodologies applied, and the costs they seek to capture, are explored in the Agency's APR report as discussed in **Chapter 1**.

This Chapter is primarily focussed on the approach to pricing supports delivered by, or in association with, the time a participant spends in person with a disability service worker, nurse or therapist (collectively referred to as "practitioners").[41] In the 12 months to 30 September 2024, $42.6 billion in support was provided to NDIS participants. $39.5 billion of this was for practitioner-based services, by support category, in this period.[42]

The Agency's shift in recent years from using price caps to expand supply to identifying the efficient, market-based cost of service delivery was motivated by the desire to impose greater competitive discipline on the disability services market. This approach views the NDIS as a market where suppliers of services compete for custom (that is, market share). In doing so, they would be expected to:

- put downward pressure on the prices charged to Scheme participants so that observed prices would be lower than the price caps set by the Agency;[43]

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[41] While "in-person" generally refers to the participant and provider being in the same physical space, we acknowledge there may be some exceptions where an in-person service is provided virtually (say, via telehealth).

[42] Data represents payment for relevant service-based support categories for the 12 months to 30 September 2024 based on the NDIS Quarterly Report to disability services Ministers Q1, 2024-25. Support categories excluded are Transport, Consumables, Assistive Technology, Home Modifications, and Capacity Building Choice and Control (Plan Management). Capacity building – Employment and Support coordination may include a small portion unrelated to practitioner based service.

[43] Elsewhere, this dynamic is described as a "revealed costs" model of price regulation. This sees a price regulator setting a price based on the information available to it (which is always less than the information available to suppliers in the regulated market due to an "information asymmetry"

- seek to offer higher quality services to participants;
- are motivated to differentiate themselves (to the extent permitted by the Scheme's rules) through making innovative new service offerings available to participants; and
- search for more cost-effective means for providing those innovative and higher quality services.

In other words, the Agency was seeking to deliver on the Scheme's market-oriented objectives by supporting, promoting and encouraging a competitive market in service delivery. When the Scheme was originally designed, it was expected that market competition would eventually supersede the need for (and relevance of) price caps. That is, while price caps would continue to be set, the prices faced by participants would be determined increasingly by the market for disability service.

The shift in the pricing objective from deliberate over-compensation to attract new providers, to compensation for efficient costs, has seen the price of many services either held constant or provided with only limited increases in recent years. This has been informed by market analysis that has demonstrated continued growth in provider numbers and service volume, and benchmarking analysis that has shown prices for many supports remain largely in line with prices in other systems and private markets.[44]

However, the restrained growth in capped prices may be beginning to put at risk the ongoing viability of some providers and potentially the provision of some services. Some providers claim they are finding it hard to remain financially viable and peak bodies report reduced profitability in their benchmarking surveys (see **Box 2)**. The Agency's own analysis, based on the Australian Charities and Not-for-profits Commission (ACNC) data, shows higher profitability than reported in provider benchmarking, but declining profitability over recent years.[45] The analysis found

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between the regulator and the suppliers). Over time, as suppliers seek out operating efficiencies as they pursue greater profits given the regulated price, they reveal more about their true costs to the regulator.

[44] The IPC notes the Agency has work underway to broaden its benchmarking analysis to incorporate additional data sources to address some of the limitations of existing approaches that rely on private billing data published on service provider websites.

[45] The Agency's internal analysis was based on analysis of the annual financial statements disclosed to the ACNC of 100 not-for-profit that have claimed a NDIS payment for at least six months in each of the last four fiscal years. Over 50 per cent of all revenue collected across the sampled organisations came from NDIS claims. The analysis covered the years 2020-21 to 2022-23, finding 65 per cent of the sample recorded a profit in 2022-23 compared to 88 per cent in 2022-21. It is noted the 2020-21 financial results are somewhat distorted, driven by COVID-1.9 subsidies.

growth in the balance sheet of many providers, but that some were drawing upon their stronger asset base to meet cash flow challenges.[46]

Box 2: What we've heard from service providers

> "Ability Roundtable data highlights a significant risk to the "middle of the market" – with a much higher proportion of organisations with revenue in the $50 million to $150 million range performing much worse than smaller providers."

Ability Roundtable, IHACPA Consultation - NDIS Pricing Reform Opportunities, 2024, p.7.

> "Finally, I want to stress that if change does not occur, I believe a large proportion of the for-purpose community sector will have exited the NDIS therapy services space within the next five years. It would be optimal if the NDIA brings a market stewardship lens to deciding whether this is a satisfactory outcome for the long-term health of the NDIS and Australians with disability."

The Benevolent Society, letter to the IPC, 2025, p.3.

> "However, we also believe that the current approach to pricing and price setting is creating market failure, particularly for people with complex support needs. Many of the established, quality providers who support the most vulnerable participants, including Endeavour Foundation, are suffering operational losses, and this situation is not sustainable."

Endeavour Foundation, submission to the IPC, 2025, p.1.

[46] This finding was also supported by additional internal analysis conducted by the Agency on a dataset of financial statements from 55 organisations provided by Ability Roundtable.

4.3 Economic orthodoxy

The Scheme's focus on setting price caps based on the efficient costs of delivering services can be explained within an orthodox economic understanding of how consumer markets operate. Although economic orthodoxy provides a very stylised model of markets and price discovery, the model offers helpful insights in thinking through the challenges associated with pricing disability services under the Scheme. The following discussion describes how prices emerge in consumer markets and the applicability of this process for the Scheme.

Across the economy, suppliers of goods and services combine an array of inputs in their production processes. The units in which inputs are purchased can vary enormously. Some inputs may be measured in the same units as the products being produced. Other inputs may be purchased in measurements unrelated, or only weakly proportional, to the unit (or volume) of the output produced. In competitive markets, none of this is evident to the consumers who purchase the goods or services. Consumers will typically just face a price per unit of the good or service they purchase – for example, $ per litre of milk, $ per hour of service or $ per movie ticket. Markets leave it to suppliers to determine the units in which they sell their goods or services; and suppliers are responsible for converting all their input costs into a single output price.

This orthodoxy underpins the Agency's approach to designing the disability services market and its setting of time-based price caps – in $ per hour for the different practitioner services supported by the Scheme. Because the Scheme is presumed to operate as a market, it is also presumed service providers can be efficiently recompensed with a single output price (which can be capped).

The orthodoxy also explains why the Agency's price caps appear to have acted as the default prices for disability services, with service providers generally not competing by lowering their prices below the cap. Indeed, in the 12 months to September 2024, only 22 per cent of payments for price-capped supports claimed through the Scheme were priced below the Agency's administered price caps.[47][48]

Box 3 explains how prices emerge in a dynamic, competitive market. In doing so, it also explains the seeming mystery of why service providers don't seem to be

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[47] Based on NDIA internal administrative data to 12 months to 30 September 2024. Exclusions to this analysis: Payments for supports have no price limit, self-managed plans, off-system payments, and providers who do not provide price controlled supports, providers with under 20 transactions and providers with total payments less than $1,000 in the 12-month period, providers who are unregistered are excluded from the calculations.

[48] The remaining 78% of payments are deemed to be "at price cap". i.e. payments are within 99%-101% of the price cap.

competing down the price at which they offer their services – that is, why most services are priced at the administered price cap.

Box 3: How a market determines the clearing price

Economic orthodoxy explains that the price of a good or service will be determined by the marginal costs of the marginal supplier. What does this mean in plain English? It means that the overall price of a service is determined by the price required to cover the costs of the final supplier to be attracted into the market in order to satisfy demand for that service. This means suppliers who can provide the service at lower cost will make a greater profit than the marginal supplier – that is, all suppliers face the same "market clearing" price – the price where supply just satisfies demand – but some suppliers have a lower cost structure than the marginal supplier. These lower-cost providers will be more profitable.

Over time, these lower cost providers will look to grow their market share, or additional low-cost providers will be attracted into the market to take advantage of the available profits. These lower cost providers eventually squeeze out higher cost suppliers. As the higher cost (marginal) producer gets squeezed out of the market, the market clearing price falls to reflect the marginal cost of the new marginal supplier.

The orthodoxy described In **Box 3** helps explain why so little deviation from the price caps is observed in the disability services market.

By aiming to set the price at the efficient level, the Agency has sought to identify the price needed to attract the marginal supplier into the market. Put simply, the Agency has been targeting the price that would ensure there are just enough suppliers to meet the reasonable and necessary needs (demands) of participants. Economically speaking, the Agency has been targeting the market clearing price in a market with a fixed (or inelastic) level of demand. It is therefore not surprising that there has been so little price competition below the price caps. A market clearing price *is* the market price. A price cap set at the market clearing price will not serve as an upper limit on prices. Instead, observed prices can be expected to converge on the price cap.

The orthodoxy described in **Box 3** also helps explain the pressures now being faced by some service providers, as recounted in **Box 2**.

All things being equal, the squeezing out of higher cost providers would be viewed as a resounding success if price was the only factor that mattered in the provision of disability services. Clearly, this is not the case. We explain why in the next section.

4.4 The observed disability services market

The NDIS disability services market which has emerged (or is in the process of emerging) has not, for the most part, met expectations of a competitive market outcome. As already noted, observed prices cluster around the administered price caps with no obvious downward pressure from competition between service providers.

It is worth exploring why competition has not emerged as expected and whether it is even a reasonable expectation for a Scheme of this nature.

The Committee considers there are several reasons why the disciplinary forces of competition might not have emerged as expected. Foremost among these reasons is the absence of the primary condition for competition. Put simply, competitive pressure on prices is ignited by an underlying mismatch between supply and demand. Downward pressure on prices emerges when supply outstrips the extant level of demand, forcing suppliers to compete to attract custom.

In the NDIS, this necessary condition is effectively ruled out by the Scheme's objective of ensuring participants have access to "reasonable and necessary" supports. In economic-speak, the Scheme's objective means that the price cap is set at a level that seeks to ensure there is a sufficient supply of services to meet participants' requirements (demand) – thereby avoiding the sorts of mismatches required to ignite competition. This is the consequence of setting a price cap at the market clearing price, as described in the previous section.

Box 3 explained how, over time, lower cost providers may have been expected to put downward pressure on observed prices – but this too has not been observed in the Scheme. The Committee considers there are a few reasons explaining why there is no medium-term competitive pressure on observed prices. These reasons rest on the demand-side of the disability services market where several necessary conditions for competition are not satisfied, including:

- Participant budgets are set by first identifying the mix and quantum of services required by a participant, and then providing the participant with a budget allowance based on the administered price caps for those services. This approach creates no motivation for participants to shop around for lower priced services because they have been fully funded to buy the required services at the administered price cap.[49]

[49] The move to "needs based budgeting" may address one of the missing conditions for competition if it diminishes the nexus between prices and budgets. See **Chapter 3** for further discussion.

- From what the Committee has garnered, participants are most likely to be motivated to shop around based on factors other than price. For example:
  - geographic proximity and availability of the practitioner;
  - rapport with the practitioner;
  - the practitioner's reliability and openness; and
  - reputation of a practitioner or service provider.
- There may also be other constraints that affect a participants' capacity to shop around, such as:
  - the complexities involved in navigating the Scheme;
  - the availability of useful information;
  - the NDIS Review's observation that over half of participants have a cognitive disability that might impact on their decision-making;[50] and
  - the more immediate priorities facing parents and carers supporting children, family members or friends with a disability.

To be clear, the Committee is in no way suggesting participants are not focussed on seeking the best 'value for money' out of the Scheme. We are only suggesting that other more immediate considerations may take priority over the hunt for lower priced services.

Since these observations about supply - and demand - side conditions not being satisfied within the Scheme, the Committee has reached the conclusion that there is a low likelihood of the disability services market evolving into the type of fully – or even modestly ("workably") – competitive market seen in other consumer service markets.

That is not to say there might not be opportunities for 'pockets' of competition but the overall Scheme can be expected to continue to display low levels of competitiveness for the foreseeable future. This has implications for the role the Scheme can expect pricing to play and therefore, the design of pricing arrangements. Before addressing the role of, and approach to, pricing it is necessary to consider the current impact of pricing within the Scheme.

[50] NDIS Review (2023), p.107

4.5 What are price caps doing if not driving competition?

Price caps are not driving the sorts of competitive outcomes the Scheme's designers had expected – such as lower prices, a range of service offerings, and innovation in service delivery. That is not to say price caps are not having an important impact on the Scheme. The evidence suggests that this impact in gradually manifesting in the *structure* of the supply-side of the disability service market.

Price caps are set on a singular basis, which is a service, once categorised, is given a singular time-based price. For example, the singular price cap in the NDIS Pricing Arrangements and Price Limits for:

- Assistance with Self-Care Activities – Standard – Weekday Daytime [01 011 0107 1 1] is set at $67.56 per hour.
- Assessment, Recommendation, Therapy or Training – Occupational Therapy [15 617 0128 1 3] is set at $193.99 per hour.
- Delivery of Health Supports by a Registered Nurse – Saturday [15 408 0114 1 3] is set at $171.00 per hour.

This approach promotes a market dynamic that, generally speaking, will see resources attracted to the service provider models that can generate the best returns for providers given the presence of the price caps. In practical terms, this means resources will generally shift to provider structures that:

- have the lowest start-up and ongoing overhead costs, capital and working capital requirements, and so on;
- involve low or readily manageable service delivery risks; and
- support the delivery of uncomplicated and reasonably homogeneous (or 'commoditisable') services.

We collectively refer to these structures as "low overhead service models". The profitability conferred by singular price on these organisational models will promote growth of these providers and put at risk the supply of services that are not as well compensated by time-based price caps. Specifically, this will tend to deliver a market with some-or-all of the following features:

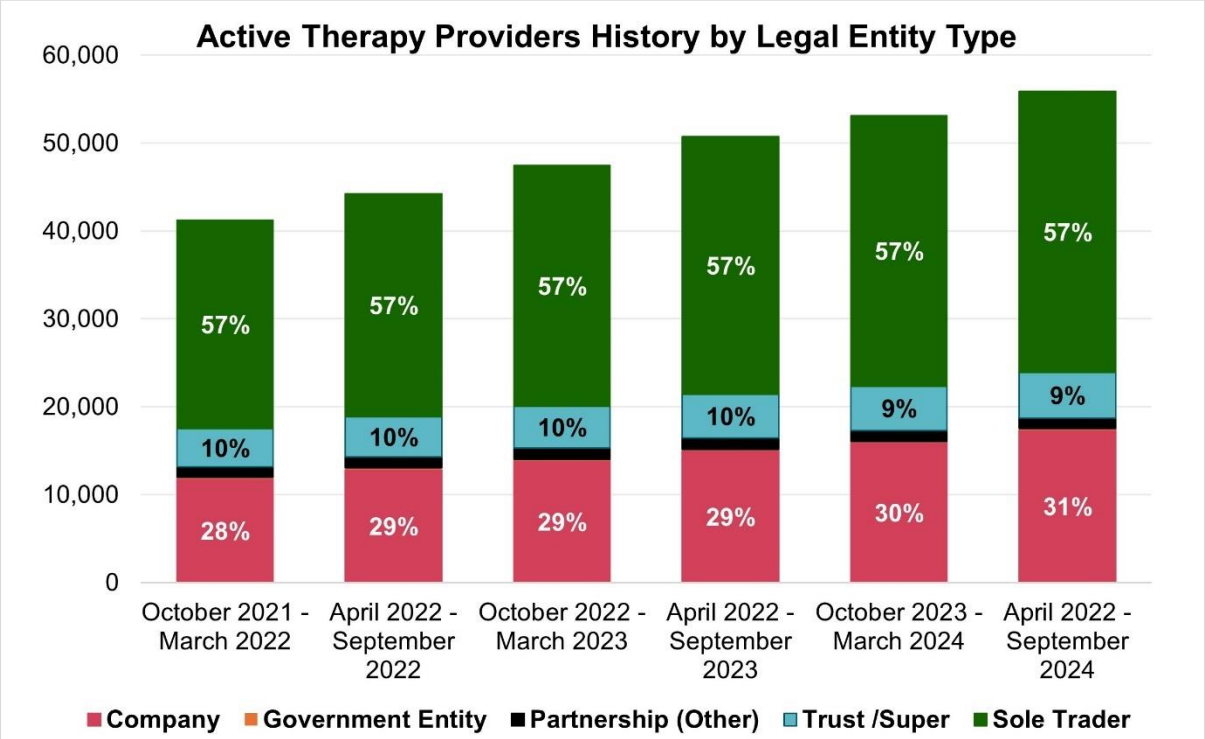
- More small, lean providers (e.g. sole traders), who can deliver base services with minimal overheads, and large providers able to operate efficiently at scale. These providers may be compensated above their operational costs.
- Fewer specialised or clinically oriented providers who bear a disproportionate share of market costs associated with servicing clients with more specialist needs, operate with more overheads associated with clinical governance, oversight and supervision, and undertake more training and development of more junior staff. The financial viability of these service providers may be put at risk under singular time-based price caps. These alternative organisational

delivery models can also be expected to struggle to attract resources (practitioners, administrative staff, investors) further challenging their ongoing viability.

- Growth in large service providers who can benefit from economies of scale – that is, able to spread their overhead and other costs across many units of service provided. These 'volume providers' will be able to attract practitioners with terms and conditions of work that smaller providers, or providers of more varied or complicated services, may find difficult to match.
- More homogenised services within each price category, with a provider market that is more focused on growing the volume of hours servicing participants who are the lowest cost to serve –potentially at the expense of delivering great outcomes for participants. Participants with more specialist needs may find it hard to find a provider who can support them.

When understood in this way, it is not surprising there has been strong growth in the Scheme's service provider market among small and sole traders who contract directly with participants or via matching platforms (for example, though Apps such as Mable). The **Figure 1** below shows the number of active sole-trader therapy providers increased by almost 50 per cent over the past 3 years. These standalone practitioners may also sub-contract to larger providers.)

Figure 1: Market composition of therapy providers by legal type over the short period



	October 2021 - March 2022	April 2022 - September 2022	October 2022 - March 2023	April 2022 - September 2023	October 2023 - March 2024	April 2022 - September 2024
Company	11,789	12,834	13,831	14,972	15,903	17,337
Government Entity	176	190	180	169	167	159
Partnership (Other)	1,175	1,250	1,273	1,276	1,241	1,231
Trust /Super	4,352	4,594	4,771	5,022	5,043	5,169
Sole Trader	23,748	25,357	27,374	29,266	30,756	31,992
Total	41,580	44,681	48,052	51,596	53,818	55,931

Note: percentages for Government Entity and Partnership (Other) do not appear on the charts.

In other words, while **the Scheme's reliance on singular time-based price caps has not promoted competitive market outcomes, it is driving a restructuring of the supply-side of the market**. Market structure is endogenous. It is the 'swing variable' which is responding to the time-based price caps imposed on the disability service market. Price caps are skewing the market toward low overhead service models.

This is the restructuring of the disability services market that appears to be unfolding under current arrangements. To some extent, it appears this restructuring has been forestalled by retained earnings on large and mid-tier providers' balance sheets. The time may be coming where those reserves are depleted, and these providers may need to shift to lower cost models or exit the market.

The Committee acknowledges reports of other service delivery outcomes such as providers cutting corners, under-servicing, over-charging or engaging in fraudulent conduct. These outcomes cannot be addressed through pricing and must be addressed through administrative controls and enforcement action and as such are beyond the scope of this inquiry.

4.6 Market structure matters more in the NDIS than in other markets

A shift in the structure of the disability services market toward the proliferation of low overhead service models may not meet the Scheme's objectives. The Committee considers this outcome may not align with the Scheme's objective of providing reasonable and necessary supports to participants.

All things being equal, the orthodoxy described in **Section 4.4** would welcome a market outcome driving increased services provision by the lowest, sustainable cost service providers. But not all things are equal in the Scheme.

The Scheme supports an extraordinary mix of participant needs. A market structure predicated on theories that support the delivery of homogeneous services at volume – albeit at lowest cost per unit of service – will not, and cannot, meet the wide array of reasonable and necessary supports needed by participants.

In this sense, the Scheme differs fundamentally from other consumer markets. In those other markets:

- the quantities transacted, and the prices at which they are transacted, are settled through the market only;
- consumers benefit from competition driving down costs and prices, even if it comes with increasingly homogenised goods and services; and
- where consumers do, in fact, value variety, suppliers will respond by delivering alternative varieties at prices that differ from the prices of the homogenised goods and services.

In the disability services market, the first outcome is heavily influenced by the Scheme's objectives, participant plans and its administered pricing arrangements rather than being determined solely by market forces. The second of these outcomes (homogeneity) is not desirable. And even if a loss of service variety was acceptable, it is very unlikely that the offsetting benefit of lower prices would even be realisable because of the actual market characteristic described **Section 4.5**. The third outcome is effectively foreclosed by the Scheme's use of singular time-based price caps.

In summary, the constraints identified in **Section 4.4** mean the orthodoxy underpinning the Scheme's approach to pricing (and setting price caps) rests on a premise that experience has proven to be unsustainable. Over the longer term, those constraints may be lessened by the types of reforms explored in **Chapter 7**. For now, however, the market for disability services cannot be administered as though it is, or will soon become, 'just another consumer market'.

If the Scheme's objective is to ensure the availability of a wide mix of reasonable and necessary supports – and the availability of those supports depends on the structure of the supply-side of the market – and the structure of the supply side of the market

depends on the structure of administered price caps – **then the approach to setting those prices must be guided by the objective of promoting a market structure that supports the availability of a wide mix of services. Current pricing arrangements are not working to support such an outcome.**

For the avoidance of doubt, the Committee is not suggesting the Agency should be targeting any one market structure with respect to the relative contributions of small versus large providers, for-profit versus not-for-profit providers, or registered versus unregistered providers. Pricing arrangements should allow the provider market to adapt in line with whatever market structure most effectively, efficiently and equitably meets the Scheme's objectives. We note, however, that a reasonable starting proposition is that the extraordinary mix of participant needs, for now, appears to be most effectively supported through a diversity of service provider models.

The next section describes a pathway for stepping away from the economic orthodoxy that has driven pricing arrangements to date.

4.7 Stepping away from the orthodoxy

The previous sections outline how setting prices according to orthodox principles neatly explains the dynamic leading to the emerging market structure for disability services now being observed. In doing so, the previous discussion highlights the misalignment between the application of these orthodox pricing principles and the pursuit of the Scheme objectives.

Put simply, the Scheme largely relies on time-based pricing units (e.g. $ per hour) where the unit of service is the time a practitioner spends in person with a participant.[51] **There are, however, needs by Scheme participants that are not readily expressed as, or efficiently converted into, these time-based pricing units.** These are the services at risk of diminishing supply because the value of these services to participants (and the success of the broader Scheme) are not efficiently reflected in current pricing arrangements. These services are at risk of diminishing supply because they are mispriced.

For the Scheme to avoid an unhelpful restructure of the disability services market and put at risk the achievement of its objectives, an alternative approach to pricing is required. The Scheme's pricing framework should have sufficient flexibility to remunerate services that deliver benefits that do not necessarily follow from the length of time a practitioner spends in- person with a participant. Such services will not be efficiently remunerated through time-based prices (e.g. $ per hour). Alternatively stated, the Committee considers the Scheme's current pricing approach

[51] Where the term "practitioner" refers to a therapist or disability support worker.

misprices some of the services that deliver benefits to participants. Overcoming the problems associated with mispriced services requires adopting a definition of "service" that more effectively reflects:

- the nature of the benefit being delivered;
- the mode for delivering that benefit; and
- the cost structure involved in delivering the service.

To be clear, the Committee is not suggesting pricing arrangements whereby each service provider is compensated according to its own underlying costs to serve. Doing so would contradict the rationale behind providing disability services through a market.

Moving the Scheme's pricing arrangements away from its current reliance on the orthodoxy, but noting the caution against moving too far away from the orthodoxy, invites the question of: which services should be priced separately – that is, not rolled into a time-based price for in person service delivery? The first step in answering this question is to define the relevant services.

The following section identifies some overarching principles for distinguishing between different types of services for pricing purposes. This is followed in **Section 4.9** by a framework that utilises these principles to identify how different types of services should be priced.

4.8 Principles for defining a service for pricing purposes

As explained in **Section 4.3**, there is no objectively correct way to price services in an administered market. Pricing always involves an irreducible element of subjectivity. This means the following principles are not immutable "laws" which must be obeyed in all instances by the Agency when setting price caps. Once adopted, however, principles would create an expectation that the Agency will explain how the principles have been applied, and to identify and explain any deviation from the principles where such divergence is deemed necessary.

While the Committee recommends the following principles for defining services for pricing purposes (and it has sought to apply these principles in the pricing arrangement in **Section 4.9** and **Chapter 5**), we would nonetheless urge the Agency to consult with Scheme participants and service providers on the application of these principles.

Before all else, however, it is necessary to develop a working definition of the "services" to be priced. We propose the following definition.

> For the purposes of the Scheme's pricing framework, a "service" refers to an action performed by a service provider that demonstrably contributes to achieving the Scheme's objectives.

In **Section 4.7** we identified three elements of a service that need to be considered when rethinking the Scheme's pricing arrangements. The relevant principles associated with each of these elements are described below. These principles provide the foundations of our taxonomy for identifying and classifying the services provided by the Scheme. That is, they help answer the question: What constitutes a "service" for pricing purposes? We then apply the principles in **Section 4.9** to build a framework for distinguishing between different types of services for pricing purposes.

The nature of a service and the benefits it delivers

Relevant principles:

1) A service is an activity or action that is:
    a. delivered by a practitioner in person with a participant to meet the needs of the participant; and/or
    b. provided by a service provider either in person or by some other means in support of:
        i. the practitioner or participant in 1(a); and/or
2) the Scheme's broader objectives. A service must produce a benefit that is directly attributable to the service.
3) The benefit produced by the provision of a service may:
    a. accrue entirely to an individual participant (either at the time the service is being delivered, and/or over the longer term); or
    b. be to the betterment of more than one participant (including over the longer term).

The mode for delivering the service (and its benefits)

Relevant principles:

1) A service must be delivered in units that are:
    a. measurable and verifiable; and
    b. distinguishable from other units of the same service or units of a different service.
2) It must be possible to identify the inputs used or required to efficiently provide a unit of the service.

The cost structure of delivering the service.

Relevant principles:

1) It must be possible to estimate the cost of delivering a unit of the service (subject to reasonable modelling and accounting assumptions).

2) Where the marginal cost of delivering a service is zero (or negligible), it must be possible to identify the fixed cost of providing the service.

The Committee acknowledges the need to balance the desire for greater specificity in the identification of services for pricing purposes with the additional cost and effort required to specify and price each service. We caution against the pursuit of false precision in the application of these principles. A pragmatic approach is warranted to ensure services are not specified in such a way that places an onerous compliance burden on service providers or imposes costly administrative requirements on the Agency.

4.9 Pricing classification framework

Once a service is identified in accordance with the above principles, the item can be translated via the sorting framework proposed below.

In a market setting, the price of a service should reflect a balance between the benefit derived from use of the service and the cost of producing the service. **Table 1** below uses two sorting criteria to distinguish between four different 'types' of services for pricing purposes. The first factor refers to whether the benefit from a service received by a participant is directly related to how much time a participant spends with a practitioner. The second factor refers to whether the cost of producing that service can be efficiently expressed in time-based units (such as $ per hour).

Note, the following discussion provides a description of the classification framework at a conceptual level only. **Chapter 5** outlines how the framework could be applied in practice.

The classification framework does not pre-empt the question of whether a service can, in fact, be identified within each of the four types in the table. **While we expect most services will fall into the top left corner of the table, the other classifications may assist where a more flexible and efficient approach to pricing is beneficial to participants and the Scheme as a whole**. Classifying services for pricing purposes is a matter of empirical realities and careful consideration. We again stress the need for a pragmatic approach.

Table 1: Pricing classification matrix

		Does the participant get a benefit that is directly proportional to how much time they spend in person with the practitioner?	
		Yes	**No**
Is the COST directly proportional to in person time?	**Yes**	**types 1.1 & 1.2**	**type 2**
	No	**type 4**	**type 3**

Note: this Chapter outlines our pricing typology. Subsequent chapters discuss how it might be applied (including examples).

Type 1. The benefits received from this service type is directly related to how much time a participant spends with a practitioner, while the cost of producing these services can be efficiently expressed in time-based units. This means these services can be readily remunerated through time-based pricing, for example, $ per hour of in-person practitioner time.

Type 1.1 prices would remunerate service providers for the delivery of a standard support. This refers to the activities required to meet service standards for most participants receiving the support in most circumstances.

Type 1.2 prices would remunerate service providers for the delivery of non-standard supports – that is, activities required to meet participants' complex needs over-and-above those provided by standard supports.

Type 2 services describe services where the associated benefits are not directly related to the time a practitioner spends in person with a participant, however, the costs of delivering the service are closely related to the time a practitioner spends with the participant.

This means type 2 services readily lend themselves to being remunerated through time-based pricing (e.g. $ per hour) of in person practitioner time.

Type 2 services could include services where the required quantum by any individual is uncertain or unpredictable upfront (that is, when personal budgets are being determined). This might include, for example, some sort of emergency service where a service provider needs to maintain a 'standing capacity' but it is not clear for whom or by when the need will be called up.

Type 2 services might also include services involving a positive externality. This could arise where providing the service to one participant results in benefits flowing to other participants (who may not be identifiable until after the service has been used by the first participant).

When type 2 services are closely related to the time a participant spends with a practitioner, they can be remunerated through time-based pricing (e.g. $ per hour). However, because the quantum of service any individual participants will require is not readily determinable at the time their budgets are set, alternative funding arrangements should be explored. These services may provide opportunities for new and innovative pricing models, including blended payment models that include elements of service level guarantees, performance or outcomes-based payment.

Type 3 services describe services where neither the associated benefits nor costs of delivering the service are directly related to the time a practitioner spends in person with a participant. This makes it difficult to efficiently remunerate type 3 services through a time-based price (e.g. $ per hour). For example, type 3 services might include services that relate to providers maintaining a standing capacity to deliver services. Such a requirement might be most efficiently priced through a capacity pricing arrangement.

There may be an opportunity for the Agency or the government to commission type 3 services directly from providers. It is beyond the Committee's scope to comment on the choice of commissioning arrangements. That is a matter for government policy.

Type 4 services deliver benefits to participants in line with the number of hours a practitioner spends in person with a participant, but the cost of delivering the service is not proportional to the number of hours an individual participant spends accessing the service.

Type 4 services would usually involve fixed costs. These costs would typically be incurred by providers in support of delivering other services – most notably, to support the delivery of type 1 services. When the quantum of type 1 services delivered by a provider is reasonably predictable, it may be more efficient to include the recovery of costs associated with type 4 services within type 1 prices.

4.10 Discussion

This Chapter provides a conceptual framework that explains the Scheme's current approach to pricing and the impact it is having; and in doing so, explains why an alternative approach is required. **Section 4.2 to 4.6** outlines the case for change, while **Section 4.7 to 4.9** responds by offering a different way forward for the pricing of services delivered by the Scheme. The Committee reiterates that a pragmatic approach should be taken, in consultation with participants and service providers, when implementing alternative pricing arrangements.

Before focusing on the implementation of new pricing arrangements in **Chapter 5**, the following discussion reflects on the implications of the proposed approach to pricing described in this Chapter.

The role of prices in meeting demand

In a market with administered pricing arrangements (such as the NDIS), the role of prices is to outline to service providers (on the 'supply side') how they will be remunerated in return for providing the services required by participants (on the 'demand side'). **In an administered market, prices should be treated as a supply-side construct only**. The role of prices is not to reflect the varying needs of participants.

This is a very important distinction. Why?

While it might sound counterintuitive, the structure of prices should not be driven by participants' varying needs. **Instead, the structure of prices should be designed to reflect the different services required to meet those varying needs.** The way an efficient administered pricing structure should acknowledge the highly varying needs of participants is by appropriately defining the *unit* of service being supplied by service providers (as outlined in **Section 4.8)**. Before all else, it is necessary to define the services and the units of service that support participants' varying needs. It is through the delivery of varying volumes of these units of service that participants' varying needs are met.

The Committee expects participants' differing needs can often be met by varying the time a practitioner spends in person with a participant. Where the costs and benefits of providing those services is either directly, or largely, proportional to the time they spend together, there is no need to deviate from the current approach to pricing. This is what the above framework calls type 1.1 and type 1.2 prices.

But this won't always be the case. When these straightforward relationships do not exist, the Scheme would benefit from alternative pricing arrangements to ensure sufficient supply of those services to participants. This is the rationale for acknowledging the possibility of type 2, 3 and 4 pricing in the framework described above. The extent to which services can be identified pragmatically within these types, is a matter of empirical realities and subjective judgement. **Chapter 5** turns to an exploration of those realities and judgements.

The easy solution is the wrong solution

Given the claims of financial pressure being faced by some service providers (**Box 1**), it may be tempting to consider a 'quick fix' whereby existing price caps are increased while leaving current pricing arrangements intact. We do not consider this to be a sustainable way forward. It would leave in place the current drivers of the restructuring of the market described in **Section 4.4 to 4.6**.

Indeed, even though higher price caps would provide some short-term financial relief to providers facing financial pressures, it would also increase the incentives for the low overhead service models described in **Section 4.5** to expand their presence in

the Scheme. Higher price caps would continue (or possibly accelerate) the drawing of resources (such as staff and investors) away from the providers already facing resource constraints. Moreover, simply increasing price caps would provide no guarantee of increased investment in the value-adding services required by participants.

Further implications of the proposed pricing framework

The proposed approach to pricing services would have the following important implications.

- The restructuring of the market described in this Chapter suggests the current approach to pricing – with its near-total reliance on time-based pricing reflecting the time a practitioner spends in person with a participant –is overcompensating for the efficient cost of providing standard services (**Section 4.8**). This indicates the price for standard supports (type 1.1 prices) should be lower than current prices.
- Pricing arrangements for **value-adding services** should carefully avoid favouring any organisational or operating model. It is for the market to determine how to best respond to the Scheme's administered pricing arrangements.
- Some of the value-adding services described in **Section 4.9** may not be deliverable by the low overhead service models described in **Section 4.5**. These low overhead service providers will continue to play an important role in providing the services more routinely required by Scheme participants.
- Service providers are best placed to match remuneration to a practitioner's skill level.[52] The Agency and the NDIS Commission are responsible for holding service providers to account for delivering services with appropriate expertise.

The Committee believes the Scheme should strive for pricing models that encourage delivery of outcomes for participants. However, outcomes-based pricing models are very challenging to implement effectively (see **Box 4**). That said, we acknowledge there is value in reporting of performance-based metrics and outcomes and these could be used in some circumstances as part of blended payment models to encourage focus on impact and not just volume. Trials of blended payment models, including outcomes-based components are underway (e.g. for employment services).

[52] Noting that minimum wages are determined by the Fair Work Commission for some practitioners.

5. Alternative pricing models

The discussion in **Chapter 4** implies new pricing arrangements are needed that better specify the services to be delivered and better align prices with the value of the services delivered. Under existing arrangements price limits set the maximum amount that a provider can be paid out of a participant plan for the delivery of a support. In this Chapter we will explore how new pricing models might work in practice.

New pricing arrangement provide options for setting prices in different circumstances to meet different needs. This does not mean all pricing needs to change. We expect most services will continue to be specified and priced in a similar way to today. That said, we expect the Scheme's effectiveness and efficiency can be improved if some services are specified and priced differently. Creating room for greater flexibility in pricing arrangements will support the ongoing availability of the services required and valued by participants.

5.1 Standard price limits

Under the new model described in **Chapter 4,** the price cap for delivery of a standard support item might be considered the **standard price limit (type 1.1).** The standard price limit would reflect the efficient cost for delivering a standard support consistent with a low-cost service model. It would include all activities required to deliver a standard support that is reasonably uncomplicated and homogenous with readily manageable service delivery risks. It would typically apply to a specified time-period, most often per hour, based on the time the participant spends with the relevant practitioner (i.e. a therapist or support worker).

Standard price limits would remain the primary mechanism for setting prices and continue to cover the majority of scheme spend, though prices may be different to current price limits. There may be opportunities for further specification of different standard support items, to better reflect the different services – and different efficient costs – required to meet different participant needs.

At the same time, the ability to price differently or above the single price limit in some circumstances could support more effective standard price limits and better address the breadth of participant need.

5.2 Higher price limits for higher value services

Some participants require services that are more specialist and less homogenous, or with greater service delivery risks (separate from the volume of support they might require). In these cases, higher price limits **(type 1.2)** might be appropriate. This could be in the form of different levels of support that reflect different participant needs that are over and above the requirements of a standard support and are higher

cost to deliver. Higher prices compensate providers for meeting higher cost participant needs.

Higher price limits already exist for some supports in the form of high intensity loadings for DSW supports, or Remote and Very Remote loadings. For example, the current high intensity loadings for certain DSW supports recognise that some participants require more costly support models due to particular medical needs or behaviours of concern. This need is identified through the planning process and allowed for in participants' budgets.[53] Registered providers must be registered in the appropriate registration group to deliver these services and receive the higher price.[54]

To effectively specify and set different, higher price levels for a support category it is necessary to:

- identify a need that is over and above a standard support level and sufficiently common across a subgroup of participants;
- specify the additional activities or different service model required to meet this need to set the higher support price;
- identify the participants who share this common need and would be eligible for the higher support model; and
- monitor providers receiving the higher price to ensure they deliver the higher support model.

Conceptually, it is possible to add many more price levels across different support categories. Every additional price level added will better reflect the needs of some participants. However, every additional price level will also require additional definition, price setting, provider eligibility requirements, participant assessment and provider monitoring. This adds cost, complexity and administrative burden for providers and the Agency. Every new category contributes to a more complicated pricing schedule and increases the risk of inconsistent treatment across participants. Without robust definition and monitoring, some providers may charge the higher price for participants, regardless of need.

A pragmatic approach needs to be taken to balance the desire for greater specificity of services with the additional cost and effort required to specify and price each new service, and the risks associated with a more complex pricing schedule. Decisions to

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[53] In the current planning process, the expectation is that the need for high intensity supports is identified through the planning process and allowed for within the participant budget. Providers have reported that in practice there can be inconsistencies with the NDIS Commission's definition of high intensity support needs and the funding provided in participant's budgets.

[54] Registration is currently only required for delivery of SDA, plan management, behaviour supports (behavioural assessment and behaviour support plans) and where there is likely to be an interim or ongoing need to use regulated restricted practices. In addition, participants whose plans are managed by the NDIA can only receive supports from a registered NDIS provider.

add additional price loadings should consider whether the effort required is consistent with the benefits delivered. More price levels will better reflect participant requirements but cannot fully reflect the full range of differential needs for every participant.

5.3 Other options for setting prices

A pricing approach that includes a wider range of price limits aims to support a broader mix of service models that reflect different levels of participant need. We expect price limits will remain the primary mechanism for setting prices.

However, there may be situations where alternate models may better reflect the nature of services delivered in line with the conceptual framework laid out in

Chapter 4.

There are some activities and functions that providers undertake that add value for participants, but where benefits are aggregated across participants rather than specific to an individual participant. That is, the benefits are difficult to fully or practically attribute to individual participants because the activities are delivered across a group of participants, but the benefits may vary across participants and/or through time in ways that are difficult to predict or identify in advance. Likewise, some service models may on average achieve higher performance standards or deliver better outcomes across participants, but with variability across participants influenced by a range of other factors.

Where the benefits from activities are difficult to attribute to individual participants or to predict in advance, the service may be better supported through **supplementary or alternative prices (type 2)**. These prices could be in the form of supplementary payments made to providers in addition to the standard (type 1.1) or higher price limits (type 1.2) as part of a blended payment model. These blended payment models could include elements such as minimum service levels, or performance- or outcomes-based components. Alternately, prices could be linked to service level guarantees rather that actual services delivered. In these models, the payments would be available to a set of pre-qualified providers who deliver specified additional activities or functions, and/or meet specified service or performance criteria, alongside the delivery of a support.

As an example, Support Coordination requirements can vary significantly with changes in participant circumstances, or changes to providers or support levels. These requirements can be difficult to predict in advance. As such, there may be an opportunity to consider alternative pricing approaches that better respond to participant need as part of any future reforms.

For these types of services, where benefits are difficult to attribute in advance to an individual participant, it can be more efficient for payments to sit outside of individual participant budgets. Instead, payments could be made from a shared fund that would shadow participant budgets. The Agency would oversee the pre-qualification process to determine which providers are eligible. Payments could follow the participant's choice of provider, providing a supplement to the standard or higher price limits.

Supplementary payment could be linked to reporting on or achievement of specific performance or outcomes metrics, e.g. reliability, timeliness, satisfaction, or achievement of specific outcomes. These would be reported across a population of participants to ensure that services are genuinely meeting participant needs, and to ensure incentives for achieving participant outcomes. Some blended payment models that are currently being trailed include these types of outcomes-based payments. Use of outcomes-based payments as part of blended payment models will only make sense for some services where it possible to define and measure clear outcomes and attribute those outcomes to the specific service being delivered (**Box 4**).

Box 4: Input, output and outcome pricing

As noted in the NDIS Review, the current NDIS pricing arrangements reflect a 'fee-for-service' model, where payments are made on the basis of supports (or 'inputs') provided. Provides benefit from supporting more participants and delivering more supports, whether or not the supports delivered improve participant outcomes.

Ideally, pricing would encourage and reward delivery of outcomes for participants rather than delivery of volume. Pricing pilots currently underway exploring mixed models of payments, include some with outcomes-based components.

While outcome-based payments are intuitively appealing, they are difficult to implement in practice. They require clearly defined, consistent and measurable indicators of outcomes, and an ability to attribute these outcomes to the services being delivered. This is difficult in most service systems and especially difficult for complex services such as disability supports where outcomes are varied, often highly specific to individual needs and goals, and typically influenced by a combination of different supports and other factors outside of providers' control. There is also a high risk of focusing on what is easiest to measure rather than what matters most, which can undermine rather than enhance the achievement of outcomes.

In addition, a focus on outcomes does not in itself ensure alignment of incentives but rather changes the nature of potential misalignment. While providers have incentives to support participants to achieve outcomes, they also have incentives to reduce participant ambition and focus their efforts on participants for whom achieving outcomes will be easiest, while underserving participants for whom achieving outcomes will be harder. It is possible to adjust payments across different categories of participant, but this relies on having a straightforward mechanism to categorise participants and can quickly add complexity and administrative cost.

Finally, outcomes-based payments are premised on the idea that providers are able to adapt their service delivery approaches – including volume and type of support provided – to better achieve the outcomes for which they will be paid. This can be in tension with participant choice and control unless the participant is involved in the definition of outcomes and deciding how best to achieve them.

These challenges mean outcomes-based pricing will remain a small component of the overall pricing approach, focused on those supports where there are clearly definable and measurable outcomes that are broadly understood and shared across participants. These would typically be through mixed payment models where supplementary payments are made if a specific participant outcome is achieved ('outcome' component), or where specific service standards are met ('output' component). Output- and outcomes-based payments are best made across a population, given the many factors outside of a provider's control that can impact the achievement of individual outcomes.

Some other services are not well addressed through unit prices because they are not closely linked to the volume of support delivered to a participant (type 3). These include services to address supply gaps in thin markets (including supply guarantees or provider of last resort arrangements) and development of new and innovative service models to improve participant outcomes. There may be a place for **commissioning of these services directly from providers** by Government or the Agency. Under these models, Government or the Agency would direct fund selected providers through a grant or contract for the delivery of a specific function or service that is valuable for the ongoing effectiveness of the Scheme. These mechanisms provide greater flexibility for Government to directly address specific challenges or gaps that might impact the ongoing availability of high-quality supports for participants. They would require different administrative processes to define and manage the payments, separate from pricing structures.

Commissioning models can be useful to address specific market challenges, but care should be taken to ensure the purpose is clear and the issue cannot be addressed through other means,

Existing examples of these types of services include Partners in the Community arrangements, Scheme administration, Scheme regulation, market stewardship and Scheme integrity. These services are funded via Agency and program appropriations for the NDIA, the NDIS Commission, the Department of Social Services and the Fraud Fusion Taskforce.

It is beyond the Committee's scope to comment on the choice of commissioning arrangements. That is a matter for government policy.

Some activities rightly sit outside of the scheme altogether. For example, training and workforce development activities are important for ensuring supply of disability services. But they are best addressed outside of the Scheme through specific training and workforce initiatives consistent with other service sectors. We discuss this further in **Chapter 7**.

6. Application of pricing approach

In **Chapter 4** we explored the economic foundations for moving to a different approach and framework for rethinking pricing. In **Chapter 5**, we considered in general terms how a new pricing approach could be applied. In this Chapter we consider each of the major support categories and the potential implications of a new pricing approach. In each category we consider how prices are currently set, the impact on market structure, how the market is emerging and potential opportunities for price reform.

6.1 Disability Support Worker (DSW) Related Supports

Introduction

Supports provided by disability support workers (DSW) represent the largest portion of the Scheme, accounting for at least 67 per cent of Scheme spend in the 12 months to 30 September 2024. In the same period, around 50 per cent of Scheme participants (excluding self-managed payments) received DSW supports, including most participants with large plans.[55]

DSW supports include both Assistance with Daily Living and Assistance with Social, Economic and Community Participation. They may be delivered across a range of settings from private homes to community-based programs, providing personalised support that enhances the independence of NDIS participants.

DSW supports funded by the NDIS are defined and priced differently to other types of social services. Some supports are unique to the disability sector. There is no public reporting on how many NDIS providers of DSW supports also provide services in other sectors.[56] At the same time, DSW providers compete for workers with other care-based services, such as aged care and childcare. In the NDS *State of the Disability Sector Report 2024*, many disability providers reported competition from other sectors, especially aged care, as a challenge to recruiting staff.[57]

From the 2024-25 APR report, registered providers (10,443 providers) claiming for DSW supports comprised around eight per cent of the provider market (136,864 total providers) but are typically much larger than unregistered providers and

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[55] Based on NDIA internal administrative data for all participants with a payment made during the 12 months to September 30, 2024, excluding self-managed payments for whom data is not available

[56] The Australian Institute of Health and Welfare in its 2023 Aged Care Provider Workforce Survey Report, report an estimated 22 per cent of services provided to the NDIS, and 11 per cent provided services to both the NDIS and the Department of Veterans Affairs (DVA). It is not clear what services are provided to the NDIS by these service providers. However, the largest proportion of workers covered are personal care workers (78 per cent), with only 5 per cent allied health workers.

[57] NDS (2024), *State of the Disability Sector Report*.

account for more than 70 per cent of DSW claims ($10.7 billion of $15 billion DSW payment claims for July to December 2024.

Current approach to setting pricing

The NDIA uses the DSW Cost Model to set price limits for supports that are delivered by DSWs. The DSW Cost Model attempts to estimate the cost that a reasonably efficient provider would incur in delivering a billable hour of support including base pay (linked to *Social, Community, Home Care and Disability Services Industry Award 2010* (SCHADS Award) wage levels 2.3, 2.4/3.1, 3.2 and 4.4); shift loadings; leave entitlements; salary on costs; employee allowances; operational overheads (including supervision costs, utilisation costs and workers' compensation costs); corporate overheads and margin.

The DSW Cost Model is driven primarily by the relevant SCHADS Award wage movements, with most other parameters determined as a percentage of the direct costs. The Model outputs are considered each year, alongside other factors such as market dynamics, award conditions, and regulatory requirements to inform an annual decision about indexation.

The DSW Cost Model produces a range of rates depending on the time of day and whether it is a weekend or public holiday. In addition, high intensity loadings are applied for participants with high intensity support needs or requiring complex behavioural support.[58] Geographic loadings are available if delivery is in a remote or very remote area.

Providers have reported, in submissions to the IPC and earlier submissions to the APR, that, assumptions in the DSW Cost Model are not consistent with the outcomes of their provider benchmarking.[59] These reported differences in costs may reflect variation in the operating and service models across providers. They may also reflect the many and varied requirements of different participants and support types offered.

Observations on market structure

The Agency undertakes regular analysis of the DSW provider market covering provider numbers and market share, market concentration, pricing and business dynamism. Analysis presented in the 2023-24 APR showed a market that was

[58] These are defined by the NDIS Commission through its *NDIS Practice Standards: skills descriptors*.

[59] See, Ability Roundtable, 2024, *IHACPA Consultation - NDIS Pricing Reform Opportunities*

growing strongly[60] with low and reducing levels of market concentration.[61] More recent data provided by the Agency shows continued growth, with the number of providers claiming DSW supports in the six-month period to December 2024 up 11 per cent from the same period in 2023 and payments for DSW-supports up 15 per cent.[62]

Understanding the evolving structure of the DSW market is more challenging. Data provided by the Agency shows growth in the numbers of unregistered DSW providers and their market share. The number of unregistered providers claiming DSW-payments grew more than 11 per cent from the half year of July to December 2022 to half year of July to December 2024. DSW payment to unregistered providers grew by 28 per cent over the same period and now accounts for 28 per cent of the market. Over the same period the number of registered providers fell, though payment continued to grow, albeit more slowly than for unregistered providers. Registered providers remain the largest portion of the market.

The continued growth and expansion in supply, indicates that the market remains attractive for many providers. At the same time sector benchmarking and analysis of ACNC financial data presented in the 2023-24 APR highlight financial challenges for some providers.[63] The Ability Roundtable, in its submission to the IPC, highlighted particular risks it saw in the middle of the market. Based on its financial benchmarking survey, providers with revenues between $100 and $150 million report the highest losses, whereas most providers with revenues under $50 million remained profitable.[64]

Some providers assert that financial pressure may be reducing service quality, variety and innovation.[65] Alliance20 and others have called out particular operating challenges for providers supporting complex clients and operating in regional areas, claiming "The current pricing approach inadvertently disadvantages participants

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[60] For the six-month period from July to December 2023, DSW provider numbers were up 21 per cent on the same period in the previous year and DSW payments were up 27 per cent.

[61] Market share of the top 10 providers was down from 10 per cent in the six-month period from July to December 2021 to 7.2 per cent in the same period in 2023, two years later. Market concentration as measured by the Herfindahl-Hirschman Index was also trending down.

[62] Agency administrative data for the six-month period to December 2024 from the 2024-25 APR.

[63] See data provided in Chapter 4.

[64] Ability Roundtable, 2024, *IHACPA Consultation - NDIS Pricing Reform Opportunities*; they note that the largest providers are also experiencing large losses but have larger balance sheets to draw on.

[65] In its submission to the IPC, Alliance20 states "*For example, [in] community participation and supported employment, the lack of clarity in planning decisions, and differing applications of pricing effectively reduce service variety, with price limits incentivising a focus on less intensive service delivery. This also limits innovation as there is no margin, and new and creative activities fall outside the established pricing framework*"

with complex needs." and "Current remote allowances do not adequately reflect the increased cost of delivery in regional locations that are not considered remote."[66] The NDIS Review reported on the unintended consequences of the current approach to price caps, including the risk of 'cream skimming' and challenges for participants with more complex needs in accessing services.[67]

Potential opportunities to improve pricing approaches

The continued growth in provider numbers, especially for unregistered providers, suggests that at current pricing levels, these services remain profitable for many providers. At the same time, some registered providers, supporting more complex clients, claim current prices are challenging. The Ability Roundtable, in comparing its own cost modelling with the DSW Cost Model, highlighted differences relating overheads and operating expenses; quality, safeguarding and compliance; and specific workforce and on-costs such as workers compensation. In particular, the 12 per cent overheads allowed for in the DSW Cost Model are claimed to be much lower than the 25-30 per cent overheads experienced by typical not-for-profit providers who support a wide range of participant needs.[68]

These observations could reflect prices that are overcompensating some providers with low overhead service models who support a narrower range of participant need, and under-compensating other providers who deliver additional value-added services and typically support a wider range of participants with more complex needs. This could be addressed through introducing more price levels to reflect different services. Providers with low overhead service models who deliver standardised supports would be subject to **'standard' price limits** reflective of the service they deliver. Providers delivering higher value supports that meet additional needs of some participants would be able to charge to **higher price limits** that reflect the greater value they deliver. Note, these higher price limits would apply for those participants who need a different type of support to meet specialist needs. Participants who need a greater volume of support already have that reflected through allowance for additional hours in their participant plan and budget.

Further work, and consultation with participants and providers, is required to determine where additional price limits would be most effective and how many price

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[66] Alliance20 Submission to IPC. From another regional provider of predominantly DSW supports: "*there is a limit to the cost efficiencies we can implement without undermining the quality-of-care clients are entitled to……If change is not effected we see a future where a diminution of quality and quantity of services in regional areas will occur.*"

[67] NDIS Review (2023), *The role of pricing and payment approaches in improving participant outcomes and Scheme sustainability*, pps.27-29.

[68] See for example, Ability Roundtable, 2024, IHACPA Consultation - NDIS Pricing Reform Opportunities.

levels are needed. There are some DSW supports where price limits are already set at two price levels, with a standard and a high intensity price limit. Some submissions to the IPC have called for reinstatement of a third level higher intensity support to better reflect the costs of supporting participants with very high needs.[69]

The recently commenced Quality Supports Program focused on SIL, may provide a starting point for identifying opportunities for re-setting price limits. This program will focus on working with participants and providers to identify the standalone features of quality service provision and good practice through the delivery of a diverse range of services, and evaluate the costs and outcomes associated with these features.

A pragmatic approach will be needed to balance the benefits of more price limits with the additional effort required to define and manage additional price levels and to avoid unnecessary complexity and administrative burden. There will be a limit on the number of new price levels that make sense. Consideration of the NDIS Commission practice standards and registration requirements when defining new price limits and eligibility requirements could support greater consistency and avoid unnecessary cost and administrative burden for the Agency and providers.

While additional price levels will better support different service models that address a wider range of participant need, there may be some valuable activities and functions of providers that are not well addressed by this model. For example, where benefits are aggregated across participants (potentially some activities that support registration requirements), rather than specific to an individual participant, or where the costs are not well aligned with unit-based pricing (including supply guarantees or provider of last resort). In these circumstances, other models could be considered such as blended payments that include supplements paid to providers based on the value-added activities delivered, or in some circumstances, direct commissioning.

6.2 Therapy supports

Therapy supports play a critical role in achieving the Scheme's objectives. They comprise the bulk of the Scheme's capacity building supports focused on building capacity and independence for participants. More than 60 per cent of Scheme participants utilise therapy supports, accounting for at least 11 per cent of Scheme

[69] For example, the NDS submission to the IPC stated: *"Reinstate the Level Three High Intensity Support category to allow providers to meet the duty of care and support needs of participants requiring higher-intensity services."*

spend.[70] This number is even higher for children with developmental delay where early therapeutic intervention is critical to improve long-term outcomes.[71]

Therapy services are provided by a diverse range of professionals and cover a range of specialities including occupational therapy, physiotherapy, psychology, speech pathology, social work and others. The NDIS therapy support market is part of a larger market for therapy services - including services funded by Medicare, private health insurance, various public insurance schemes and personal contributions. However, stakeholders also assert differences between NDIS and other therapy markets including clients that typically have more complex needs and different governance and oversight requirements.[72]

According to NDIS internal administrative data for the six months to 31 December 2024, 88 per cent of therapy providers were unregistered, accounting for approximately 38 per cent of therapy claims. Therapy providers are commonly allied health professionals and often subject to other professional registration and regulation separate from registration as a NDIS provider.

Current approach to setting pricing

Pricing for therapy services under the NDIS varies by service type, location, and whether the services are provided to individuals or groups. Price caps are the same across many specialities with higher price caps for psychology, and lower price caps for counselling and exercise physiology.

Price caps have historically been set with an expectation that these services operate within a broader market and actual prices charged to participants would be set by the market, below the price cap.

By June 2025, price caps for most types of therapy will have been frozen for six years, with increases in the 2023- 24 APR for Psychologists only.

Price caps are informed by benchmarking against other government schemes and the private market. Benchmarking undertaken by the Agency and reported in the most recent 2023-24 APR found NDIS price limits were broadly within the range of the effective hourly rates paid by other schemes for the most common therapy supports, after considering duration of service.

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[70] Based on NDIA internal administrative data for all participants with a payment made during the 12 months to September 30, 2024, excluding self-managed participants for whom data is not available.

[71] For children with developmental delays, more than 87 per cent of scheme expenditure is for capacity building supports (NDIA, *Developmental Delay Dashboard 30 June 2023*, latest available) compared to 19 per cent across the scheme (NDIA, Quarterly Report Q1 2024–25).

[72] Deloitte Access Economics for Ability First (2023) *NDIS Therapy Pricing Structures Options Analysis*.

However, the APR also recognised limitations with the benchmarking data. Comparison with the private market has been based on private billing rates published on service providers' websites, which is subject to significant data caveats, and is potentially unrepresentative and misleading. Benchmarking by therapy types also does not typically account for differences in client complexity, nor regional variation. Stakeholders have argued that markets such as MBS, Department of Veterans Affairs and private practice are not good comparators for NDIS therapy supports.[73] Many stakeholders have argued for the development of a bottom-up costing model, similar to the DSW model, to provide a better basis for pricing decisions that is aligned with NDIS specific therapy services.[74]

The IPC understands the Agency has commenced work to broaden its benchmarking analysis for therapy services to provide a clearer picture of therapy billing rates across different settings and regions. Future benchmarking will incorporate additional data sources, including MBS and private health insurance data, to better inform future pricing decisions.

Observations on market structure

As with DSW services, the Agency undertakes regular analysis of the therapy provider market through the APR. Analysis presented in the 2023-24 APR showed a dynamic market that was growing strongly[75] with low levels of market concentration.[76]

Understanding the evolving market structure is more difficult. NDIS Administrative data provided by the Agency shows rapid growth and increasing market share of unregistered providers. The number of unregistered providers grew 20 per cent from 38,206 in the six month period from 1 July 2022 to 31 December 2022 to 48,709 in the six month period from 1 July 2024 to 31 December 2024.[77] Over this period, claims by unregistered providers grew by 101 per cent. Payments to unregistered providers now account for 38 per cent of total NDIS payment to therapy, up from 28 per cent in the second half of 2022. The number of registered providers has fallen as some providers have ceased to provide services while others have chosen to cease

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[73] Deloitte Access Economics for Ability First (2023) *NDIS Therapy Pricing Structures Options Analysis*.

[74] See, for example, Ability Roundtable, (2024) *IHACPA Consultation - NDIS Pricing Reform Opportunities*.

[75] For the six-month period from July to December 2023, DSW provider numbers were up 14 per cent on the same period in the previous year and DSW payments were up 28 per cent.

[76] Market share of the top 10 providers has remained around 11 per cent across the period from 2021 to 2023.

[77] Based on NDIS internal administrative data to 31 December 2024, from the 2024-25 APR.

registration. Claims by registered providers have continued to grow, albeit more slowly than for unregistered providers. Smaller providers and sole traders, who are more likely to be unregistered, continue to maintain their share of the market.[78]

Provider submissions assert that larger, registered providers supporting more complex clients are struggling to remain profitable, with some choosing to exit the market, cease registration, or to shift focus to less complex clients. The Ability Roundtable has reported that registered providers of therapy supports captured in their benchmarking surveys (accounting for 18 per cent of NDIS therapy spend) reported a median loss of -14 per cent in the 2022-23 financial year, with forecasts of similar or higher losses in 2023-24.[79] These are typically larger providers, presumed to serve more complex participants. Many provider submissions to the IPC point to the impact of the long price freeze on profitability. Some assert that price freezes have led registered providers to reduce or cease services and, in some cases, exit the market.

The Ability Roundtable has acknowledged that the freezing of prices has driven efficiencies across the therapy sector[80] but claims these efficiencies are diminishing. They assert that "Specialised Providers and those delivering to participants with more complex needs are becoming less specialised and moving away from more complex clients" which risks losing an important part of the market.[81]

Providers also report challenges in attracting and retaining allied health workers, particularly in rural and regional areas.[82] Provider survey responses published in the *NDS State of the Disability Sector Report 2024* show providers have most difficulty recruiting occupational therapists, speech therapists, behavioural support practitioners and psychologists. This may largely reflect supply challenges across the broader allied health sector rather than challenges specific to the NDIS market. The Independent review of Australia's regulatory settings relating to overseas health practitioners reported that there are already shortages of allied health professionals[83] and many allied health professions are listed on the Job Skills Australia's Occupation

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[78] Based on NDIS internal administrative data to 31 December 2024, from the 2024-25 APR.

[79] Ability Roundtable, 2024, *IHACPA Consultation - NDIS Pricing Reform Opportunities*.

[80] The Ability Roundtable 2023-24 Annual Price Review Submission, Therapy Supports.

[81] Ability Roundtable, 2024, *IHACPA Consultation - NDIS Pricing Reform Opportunities*.

[82] For example, Alliance20 in their submission to IPC report: *Allied health supports are in high demand, and waiting lists can be lengthy, particularly in regional and remote locations.*

[83] Kruk R., 2023, *Independent review of Australia's regulatory settings relating to overseas health practitioners: Final Report, p.25.*

Shortage List 2024.[84] This may result in challenges for participants to access therapy supports in some specialties and regions.[85]

Potential opportunities to improve pricing approaches

The continued rapid growth of providers, especially smaller unregistered providers, suggests that at current pricing levels, these services remain profitable and attractive for these providers. At the same time, submissions from providers have asserted a range of areas where the current NDIS price settings do not adequately cover the costs they incur in delivering NDIS therapy supports, especially for participants with more complex needs. These additional costs reported by providers who support complex participants include preparation, coordination and safeguarding; investment in clinical governance; more specialist, evidence-based and multi-disciplinary care models; and training, supervision, and oversight of staff.[86]

It might also be the case that not all therapy specialties face the same cost bases even where the same price caps currently apply.

These observations could reflect prices that are overcompensating some providers of lower cost specialities or who support a narrower range of participant need, and under-compensating other providers who deliver additional value-added services and typically support a wider range of participants with more complex needs. This could be addressed through introducing more price levels to reflect different specialities and service levels within them.

Further work, and consultation with participants and providers, is required to determine where additional price limits would be most effective and how many price levels are needed. The Agency's current efforts to broaden its benchmarking analysis to incorporate additional data sources, might provide a starting point to consider if different price caps should apply across specialties that are currently subject to the same price cap. Additional pricing and costing analysis and consultation would be

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[84] Jobs Skills Australia. (2024). Occupation Shortage List. Art Therapist, Behavioural Therapist, Development Educator and Early Childhood do not have a direct equivalent from the Occupation Shortage list. These therapy types could be incorporated in the list under another classification.

[85] It is difficult to reliably measure participants' ability to access services. Lower utilisation rates may indicate difficulty accessing services, though may also be impacted by a range of other factors. The NDIS Quarterly Report to disability ministers Q1, 2024-25 outlined national utilisation rates of 61 per cent for capacity building daily activities supports, which include the largest proportion of therapy supports, compared to 84 per cent for core supports (Tables D.25 and D.26). This could be worse in regional and remote areas where utilisation rates are generally lower.

[86] See, in particular, Ability Roundtable, 2024, *IHACPA Consultation - NDIS Pricing Reform Opportunities*.

needed to support consideration of different price caps for different levels of therapy supports.

As described above, a pragmatic approach will be needed to balance the benefits of more price limits with the additional effort required to define and manage additional price levels and to avoid unnecessary complexity and administrative burden. There will be a limit on the number of new price levels that make sense. Consideration of the NDIS Commission practice standards and registration requirements when defining new price limits and eligibility requirements could support greater consistency and avoid unnecessary cost and administrative burden for the Agency and providers.

Many providers of therapy supports have proposed or endorsed pay per participant or pay for outcomes pricing models as an alternative to volume-based pricing. These models increase incentives for providers to focus on outcomes rather than hours of service delivery. As highlighted by Deloitte, in their paper on therapy pricing models,[87] and in many stakeholder submissions to the IPC, therapy supports are one of the few support areas where there are evidence-based practices linked to improved outcomes for people with disability. This makes them better suited to exploration of blended payment models than most other support areas, for example, through supplementary payments on top of hourly rates when defined outcomes are achieved. However, there are many challenges to implementing outcomes-based pricing, including the clear definition of outcomes, and managing risks of perverse incentives and client cherry-picking (see **Box 4**). While there is value in continuing to explore these models in selected areas, they will take many years to develop and effectively implement and are only likely to be relevant for a small number of support categories.

None of these pricing approaches are likely to address workforce shortages in specific in-demand specialties or in rural and regional areas. Attempts to use pricing approaches to address these challenges risks creating distortions between the disability market and other service systems and driving up costs across all systems. This is especially true for many allied health specialities where long training requirements make it difficult for supply to respond quickly to changes in demand. Alternative approaches are required to support ongoing workforce development. These are best coordinated across the allied health sector to avoid distortion between different funding and service systems (discussed further in **Chapter 7**).

6.3 Intermediaries

Support coordination and plan management are known as 'intermediary' supports in the Scheme. They are capacity building supports intended to help participants to

[87] Deloitte Access Economics for Ability First (2023) *NDIS Therapy Pricing Structures Options Analysis*.

manage their plans effectively so they can work towards their goals and to participate more fully in the community.

We recognise that several NDIS Review recommendations have specific implications for the functioning of intermediary supports. Work is now underway in response to these recommendations that may significantly alter the functions of intermediaries. In this context, we have made some observations around pricing of current arrangements only. Future pricing arrangements will need to align with the future design and function of these roles.

We consider the two categories of system intermediaries, plan managers and support coordinators in turn.

6.3.1 Plan managers

Plan managers support participants to manage their NDIS funds and pay their NDIS providers. Two-thirds of active participants in the NDIS are using a plan manager.[88] Plan management is growing. In the two years ending in the September 2024 quarter:

- The proportion of participants who use a plan manager had increased from 57 per cent to 64 per cent.
- Payments managed by a plan manager had increased from 49 per cent to 59 per cent of total payments.

Plan management providers are required to be registered NDIS providers and are assessed against the Verification Module of the NDIS Practice Standards, which applies to lower risk classes of supports. In the December 2024 quarter, 1,468 active plan managers were reported.[89]

The NDIS Review recommended that the Australian Government should "invest in digital infrastructure to enable accessible, reliable and timely information and streamlined processes".[90] As part of this recommendation, the NDIS Review also recommended the Government develop and implement a transition plan for plan managers that provides a pathway to adapt to these enhanced arrangements whilst

[88] This is based on September 24 Quarterly Report to disability ministers, at 30 September 2024, 433,980 out of 680,123 total active participants were using a plan manager.

[89] Quarterly Report to Disability Ministers Q2 2024-25 Full Report.pdf p.76.

[90] See Recommendation 10 NDIS Review (2023), *Working together to deliver the NDIS*.

providing better outcomes for participants and addressing any gaming by providers of the system including fraud.

Current approach to setting pricing

Plan management fees are set on a fixed monthly basis, and subject to a Remote loading where relevant. They do not vary based on participant type or complexity or based on the number of invoices processed each month.

Observations on market structure

Plan management appears to benefit from economies of scale, with the 10 largest Plan managers holding almost 40 per cent market share for plan management supports. While the number of participants using plan management has increased by more than 36 per cent over the two years to December 2024, the number of providers offering plan management services remained almost the same.[91]

Large providers appear to be profitable and picking up market share. It is unclear whether they are equally supporting all participants or focused on servicing participants who are less complex, with fewer monthly invoices and are thus lower cost to service. The current payment model appears to overcompensate providers who support participants with smaller and simpler plans who have fewer invoices to process compared to plans that are more complex to implement.

Potential opportunities to improve pricing approaches

Long term pricing approaches for plan managers need to consider the long-term role of plan management supports. Improved digital infrastructure is likely to significantly reduce participants' need for plan managers to support them pay providers and thus alter the value and role of plan managers (see **Chapter 7**).

In the short term, there may be opportunities for pricing to better reflect the differing costs of different levels of plan management services. This could mean, for example, payment per transaction, alongside annual plan set-up costs to better reflect the higher cost of serving more complex participants.

6.3.2 Support coordinators

The role of support coordinators is to support participants to implement their plans, access the right NDIS supports and to connect to mainstream and community

[91] Quarterly Report to disability ministers Q4 2023-24 Full Report.pdf p.56.

supports. Support coordination has a range of levels from 1-3 depending on complexity.

According to data provided by the NDIA, around 46 per cent of active participants in the NDIS have support coordination in their NDIS plans, that is, are funded for support coordination services. These participants have on average larger plans and account for around 81 per cent of total Scheme spend on participant plans.[92] More than 88 per cent of participants using support coordination are using level 2 support coordinators.[93]

Support coordinators are currently not required to be registered NDIS providers. In September 2024, the then Minister for Government Services and the NDIS, the Hon Bill Shorten MP, announced the registration of all providers of support coordination as one of three registration priorities. The NDIS Commission is currently consulting on the potential registration of support coordinators with no changes to be implemented before July 2025. While there are many more unregistered providers of support coordination, registered providers are typically larger and account for around 80 per cent of payments (by value) for support coordination in the six month period to December 2024.

The NDIS Review recommended significant changes to the navigation function for the NDIS which could impact support coordination over the longer term. Work is underway to develop models for the future navigation function.

Current approach to setting pricing

Prices for support coordination level 1 are set relative to the DSW Cost model, while levels 2 and 3 are linked to therapy supports. Prices for providers of level 2 and 3 support coordination services have been frozen for almost six years. Providers have asserted that this is causing financial strain, and challenges in delivering quality services.

Observations on market structure

There has been significant growth in both registered and unregistered providers of support coordination over recent years. The 2023-24 APR noted in particular the rapid growth of providers of level 2 support coordination whose numbers more than doubled from 3,445 in the six months to June 2021 to 7,799 in the six months to

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[92] About 311,150 active participants have support coordination in their plan, accounting for 46 per cent of the active participants at 30 September 2024. The annualised plan budget for these participants accounted for 81 per cent of the total annualised plan budget for all active participants.

[93] NDIS administrative data, for the six-months from July – December 2023, from, NDIA, 2024, *2023-24* Annual Pricing Review.

December 2023. The 2023-24 APR reported much faster growth in unregistered providers in the period from January 2021 to December 2023. However, more recent data provided by the Agency shows that the growth of unregistered providers number has slowed down since 2023. Similarly, the growth of registered providers number has slowed to less than 20% from the six-months to December 2023 to the six-months to December 2024. It is possible this has been impacted by announcements of potential future registration requirements.

According to the 2023-24 APR, registered providers are mostly companies and around a third reported payments over $1 million in the six months to December 2023. In contrast, the largest portion of unregistered providers are sole traders and around half report payments <$50,000 over the same six-month period. The average amount claimed per provider has reduced over time indicating faster growth in smaller providers.

Potential opportunities to improve pricing approaches

Support coordinators play a different role to many other supports. More so than other supports, the time spent with the support coordinator is a poor indicator of value delivered to the participant. Pricing structures encourage delivery of consistent volumes of service based on the participant's budget rather than ramping up and down in response to participant need. Payment by the hour incentivises over-servicing through unnecessary check-ins and follow-ups rather than investing in participant outcomes.

Support coordination needs can vary significantly across participants, according to complexity of need, but also by socio-economic situation, availability of informal support, location and availability of local services, cognitive capability, and changes in life circumstances. These factors can be variable and unpredictable and make pricing and budgeting for support coordination particularly difficult.

In its final report, the NDIS Review recognised "major challenges with individualised support coordination budgets that are fixed and do not change as circumstances change".[94] The NDIS Review recommended future navigator functions be funded outside of participant plans to ensure participants do not need to choose between a navigator and other supports and that they are able to flex support up and down as their needs change.

A long-term approach to pricing for support coordinators might involve shifting towards a direct payment model that provides a greater focus on outcomes than volume for each participant. Consideration would need to be given to ensuring

[94] NDIS Review (2023), Working together to deliver the NDIS, section 4, p101.

participants can still exercise choice over their provider, given the importance of trust and participant rapport in this role.

Any shift in the pricing model for support coordination should be considered alongside and as part of the design of any future navigation function, not pre-empt it. Significant pricing changes, including development of support coordination specific cost models do not make sense while the future role remains unclear.

The Quality Supports program currently underway will include the support coordination Pilot that aims to work with participants and providers to identify features of quality service provision and good practice. The program will evaluate the costs and outcomes associated with providing quality services, including to participants who are vulnerable and have complex support needs. This could provide a basis for short- to medium- term changes to support coordination pricing.

These should be considered alongside any changes to registration to ensure prices reflect and are consistent with any future registration requirements.

7. Market supports to enhance trust

As we have seen in **Chapter 4**, the NDIS markets are not operating as competitive markets, but rather as an administrative construct. Nonetheless they retain market like elements with participants making choices in the market and providers responding to those choices.

Where pricing models have limitations, complementary policy opportunities supporting market design, could be employed alongside new pricing approaches, to enhance market outcomes. In this chapter we explore the potential market enhancements available.

Market design and architecture elements include all those traditions, customs, practices, standards, codes of conduct, rules, procedures and existing statutes that exist to underpin trust in markets. They help instil confidence and provide the tools and information that participants and providers need to effectively engage in the market. In other words, they increase the likelihood of welfare enhancing trades that are driven first by participant choices and second by economic incentives and contestability on the supply-side of the market.

The IPC has identified three areas where structural enhancements could help to facilitate the role of pricing to engender a more balanced market structure and foster competition into NDIS market segments and regions. These three types of enhancements are intended to assist participants to exercise choice and control either:

(i) **directly** by allowing participants to navigate markets more easily (**Section 7.1**);

(ii) through **intermediaries** providing participants with support to more effectively navigate the market (**Section 7.2**); and

(iii) through enabling **providers** to more easily engage in the market to respond to participant needs (**Section 7.3**).

7.1 Assisting participants via market enhancements

As we have seen, markets for disability services are complex. This makes it difficult for participants to navigate and exercise choice and control. This Section explores possible options that would assist participants to exercise choice and control - whilst helping to foster a market structure that will deliver a better mix of appropriate services and diversity of service providers. Each policy option is discussed in turn below.

It is worth noting that many of these initiatives will also support the Agency to be a more effective market steward, especially through better access to administrative information about the Scheme's operation.

Automatic payments

Automatic payment platforms help participants to make payments and manage their plans more easily, reducing the burden on participants and their carers, and potentially streamlining the role played by plan managers.

- They allow participants, plan managers and providers to submit claims and receive approval in near real-time to the mutual benefit of participants and providers, leading to time and cost savings because of reduced manual processes, claim errors and delays.[95]
- They make participant lodgement easier, more automatic and safer.[96]
- They can be enhanced through time by emerging digital payments technologies.

The NDIS Review identified digital infrastructure and electronic payments as a priority recommending to "Invest in digital infrastructure for the NDIS to enable accessible, timely and reliable information and streamlined processes that strengthen the NDIS market functioning and Scheme integrity."[97] While the NDIS Review recognised the effort the Agency had made to improve processes and systems, it found that managing and monitoring of spending remained challenging and administratively burdensome for many participants.[98] It has coincided with more participants using plan managers to exercise choice and control.[99]

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[95] Until recent changes to the payment system (a new app is linked to the implementation of the claiming system) providers were required to put in a booking request before service delivery which held money aside for payment. But there are no booking requests in the new system, so there is a risk that providers just put in an invoice and there is no money left in the plan. Providers can no longer set money aside. Anecdotally providers often ask to see participants plans (i.e. it is not true in practice providers have no visibility), but this is not endorsed practice and can lead to unscrupulous suppliers structuring their supports to bill the maximum they can out of a plan rather than delivering what a participant needs.

[96] Lowering transaction and working capital costs could be an argument used in support of reducing type 1.1 payments.

[97] NDIS Review (2023), *Working together to deliver the NDIS*, Recommendation 10.

[98] NDIS Review (2023), *Working together to deliver the NDIS*, p.158.

[99] NDIS Review (2023), p.158. Increasingly participants are using plan managers because they allow more choice and control than agency-management and are administratively easier than self-management.

The NDIS Review also recognised that better digital infrastructure could improve information flows to the Agency to support it to exercise its role as market steward and improve Scheme integrity.[100]

Fundamentally, such a system would embed fraud protection to guard every Scheme participant by vetting every payment and every provider bank account they transact with.

- The Agency could better vet unregistered providers which delivers confidence to the whole market.
- Registered providers might be better placed to argue for reduced regulatory requirements if verification is no longer necessary to confirm their commercial bona fides.

The IPC recognises that significant digital reforms are underway or have been considered within the Agency, including the deployment of digital systems, participant and provider portals.[101]

The IPC supports ongoing digital reforms with the intent to move towards fully digital payments, potentially including a digital payments card/app. Digital payments provide an important opportunity for creating a high-functioning, competitive NDIS market and will benefit all reputable system stakeholders.

Digital supermarket

One of the priorities for the Scheme has been ensuring participants can quickly find and compare providers to better exercise choice and control.

Currently, the NDIA website contains a provider finder tool that enables participants to search by postcode for providers in their area. However, as acknowledged in the NDIS Review:

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[100] NDIS Review (2023), Recommendation 10. It was also thought to reduce the need for plan managers.

https://www.ndis.gov.au/news/8275-making-ndis-payments-faster-and-safer. And from CBA: https://www.commbank.com.au/articles/newsroom/2022/10/commbank-smart-health-ndis.html

Consultation process: https://www.ndis.gov.au/news/9165-claims-point-support-c-pos

Consultation outcomes discussed in December 2023: https://www.ndis.gov.au/news/9734-c-pos-consultation-news-item

> "the current Provider Finder tool only provides basic information on available, registered providers. This information can be unreliable and is often not enough for participants to find and choose suitable service providers". [102]

A digital 'supermarket' tool could enable a participant to search by support type for features of the provider, such as location, price-range, or quality rating, and could also allow participants and providers to book support services on the platform.

As the disability support market grows, a digital supermarket tool with price comparison functionality would potentially empower participants and increase price transparency and competition amongst providers. It might also help to address the issue of thin and undersupplied markets by facilitating transactions and commerce across regions for those services that can be provided online, or where it might be possible to bundle a critical mass of services for delivery by a provider from another region. Where under-served market segments can be identified it may encourage investment in on-the-ground service capacity.

Over time, the digital supermarket tool, would become a repository of a range of provider information that would help participants, carers, support coordinators and others to assess the performance of service providers by service types across market segments. At the same time, participant preferences provide information to providers around what participants value to help them respond to participant needs.

Establishment of some form of digital supermarket capability could be achieved relatively simply. The NDIS Review proposed that government develop a centralised online platform based on provider registration information, which would build on the existing provider finder tool. It also recommended enabling of better two-way information sharing to allow third-party platforms to better connect participants and share information collected on participants' experience with providers.[103] This would support more innovation and may lead to the development of third-party tools that better respond to participant need. More ambitious would be developing a full online digital marketplace from scratch. This may only be achievable by joining

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[102] NDIS Review (2023), *Working together to deliver the NDIS*, p.158. The current NDIA provider finder can be found: https://www.ndis.gov.au/participants/working-providers/find-registered-provider/provider-finder

[103] NDIS Review (2023), *Working together to deliver the NDIS*, Recommendations 10.1 and 10.2.

together with a trusted institution with established digital payments platform capabilities to smooth the rollout.[104]

It is worth noting that digital marketplaces are not a suitable solution for all participants, so a variety of mechanisms are required to help meet the diverse needs of participants. Alongside a digital marketplace, there is a role for an enhanced support coordination or navigation function to assist participants to make best use of any enhanced digital resources. There may be roles for physical market trade fairs where participants can meet providers and compare offerings. These might be hosted by NDIA regional offices.

Easier price comparison

While most Scheme prices are charged at the cap, not all are and there are some areas where better price visibility would help participants and the Agency. Greater visibility of prices for participants may also help to eventually break the link between caps and market prices for some supports over the medium term by enabling easier comparison.

With a view to supporting price discovery and market competition in the Scheme, the NDIA could issue formal price guides – details of actual prices being charged across service types and market segments – by level of intensity of the supports.

The intent is to provide granular, localised data to inform market participants through time as to what reasonable prices look like. The price guidance could be:

- easily aggregated from data collected from the digital payments platform and publicly updated every six months or so;
- linked to the nature of the business (sole trader, integrated service provider, etc.) to address the tendency of Scheme price caps to favour low overhead service provider players (who may drive efficiency through reduction in important activities that are not as visible to the participant); and
- indicative only (not mandated) but available to frame participants and providers expectations around appropriate market prices – especially as they relate to basic or standard service delivery, helping to alleviate existing information asymmetries.

[104] It may be problematic if the digital supermarket is perceived to be operated by the Agency to support Agency functions rather than to support participant choice and control. That issue could be addressed if the platform was 'NDIA endorsed' but operated through an independent statutory agency such as the Australian Competition and Consumer Commission or another trusted private custodian.

Just how effective any guide might prove to be would depend on the price sensitivity of participants. So long as most providers are charging close to the cap, price guides may be less useful to participants, although they become an important framing tool in markets over time. Certainly, the usefulness of price guides may be increased if linked with other performance information (i.e., service reliability, timeliness metrics etc.).

It is also worth remembering that information flows in two directions. Providing granular, localised data to participants also allows service providers to see how sensitive their customers (and competitors) are to that data. This information is valuable to service providers. It allows them to tailor their offerings to participants who are 'information inelastic' potentially allowing them to maintain higher prices than would otherwise be the case (price cap or no price caps).

Scheduling solutions to thin markets

In thin markets, participant choice and control are limited by the lack of available providers. At the same time, providers may be unwilling to operate in these markets where this requires commitment of resources with no guarantee of clients. Scheduling solutions may provide an opportunity to connect participants to providers with service offerings that enhance choice for participants where little or none exists now.

Implementation may be as simple as a digital scheduling tool which allows service providers to bundle scheduled visits in a given town or region over a couple of days. This could be done directly by a provider via their own digital platform. Or the Agency could run a process to commission and coordinate matching for a specific thin market. Participants would opt in to access new providers.

Allocation of services is not determined by price (i.e., who can pay the most) but by compatibility between participant choice and service provider. The mechanisms developed to facilitate these transactions are referred to as matching markets. They are defined by rules and processes designed to identify the "best" pairing of participant to provider based on the participant's known preferences.

These approaches have been successfully trialled by the Victorian Government in establishing public transport routes for school children.[105] They could be extended to facilitate the entry of multiple service providers.

[105] Plott, C., et al., Making markets work for disability services, 2021 & Centre for Market Design, 2023.

7.2 Assisting participants via intermediaries

Regardless of efforts to simplify NDIS markets and make them easier for participants to navigate, challenges will remain. Intermediaries can play an important role in supporting participants to better navigate the market and exercise choice and control.

In this Section we consider initiatives that could allow intermediaries to better support participants to navigate the NDIS service system and access other foundational and mainstream supports while exercising choice and control to meet their goals and needs.[106]

Achieving effective navigation

Further to the discussion of pricing models for support coordination in **Section 6.31**, the IPC recognises the important role support coordinators and other intermediaries play in helping participants to navigate the system and exercise choice and control. This is particularly important for participants with complex support needs, and those who have greater challenges navigating the system or who are otherwise vulnerable. These participants might need higher levels of navigation support. This could include, for example, participants with cognitive impairments, those who lack informal supports, who face other barriers to accessing supports (e.g. socio-economic, cultural or language barriers), or those with complex plans.

The NDIS Review identified significant challenges for participants in navigating the NDIS, and that the current approach to intermediary supports is not working well. Diffuse accountability, poor role definition and lack of capacity have limited the effectiveness of intermediary supports, impacting participant's ability to get the best outcomes from the Scheme.[107]

Partners in the Community were originally envisaged to support participants to implement their plans. But the NDIS Review found that they had been diverted from their intended role to focus on access and planning tasks. Support coordinators are funded out of participant plans for those who need additional support to understand their plans and make the best use of their budgets. However, the NDIS Review heard mixed experiences about their effectiveness. The structure and payment model for support coordinators, set at a fixed amount and based on volume, does not provide

[106] NDIS Review (2023), Working together to deliver the NDIS, Recommendations 4 and 5, pps. 104-106 & 113-115.

[107] NDIS Review (2023), *Working together to deliver the NDIS*, section 4, pps. 97-106.

the incentives to necessarily achieve the best outcomes for participants. In addition, there were strong concerns about conflict of interest and client capture.[108] [109]

It should be noted that, **while providers choose whether to participate in the NDIS market and can exit the market if it is not viable for them, participants do not have that choice**. They must engage in the market if they are to receive NDIS supports. This represents a substantial profit opportunity for providers in the absence of a public duty obligation. Elsewhere, this reciprocal obligation has been described as a 'duty of care' or 'best interests' obligation', requiring advisers to act in the best interests of a participant and have no conflicts in doing so. The NDIS Review stated navigators should "act on behalf of the person with disability, at their direction, and be incentivised to build capability, help the person meet their goals, facilitate choice and enable inclusion".

The NDIS Review proposes an enhanced 'navigator' role combining the LAC, support coordinators, plan managers and other intermediary functions in a reimagined activity. The intention is to genuinely support participants to navigate the system, implement their plans, exercise choice and meet their goals.[110] The new model would offer different levels of support, depending on participant need with flexibility to ramp up and down as needed.

The IPC agrees that participants who need assistance are entitled to help from a genuinely impartial and independent expert who is legally obliged to represent their best interests, including in dealings with service providers. We support the NDIS Review recommendations regarding transitioning to the enhanced navigator role.

Coordinating effective navigation

The work currently underway to reimagine the navigator role as envisaged by the NDIS Review, also provides a unique opportunity to consider options for better coordination across disability, health, education and other social service programs across Australian government jurisdictions.

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[108] NDIS Review (2023), *Working together to deliver the NDIS*, p.100.

[109] See NDIS Review (2023), *Working together to deliver the NDIS*, section 4, pp101-102 for a future vision of how navigators could work to address these issues. While the NDIS Review notes that the purpose of the navigator is to support participants, by amplifying the voice of participants and helping them choose and switch providers, they would also help make the market work more effectively. For example, by negotiating with providers on service offerings and prices to optimise supports and achieve maximum value for participants, increasing competitive pressure in the Scheme.

[110] The NDIS Review is silent on the issue of a participant's choice of navigator which is an issue for some participants.

- The navigator's role in supporting and coordinating interfaces with mainstream supports (i.e. health, education, training etc) may be as important as coordinating across disability supports for delivering good outcomes for the participant.

- For some people with specific needs, this might require a specialist coordinator with specific experience or expertise, for example, to better coordinate across the health system or to coordinate with the early childhood and education systems.

- There may be opportunities to make it easier to share information across social service systems where the participant chooses to do so (e.g. with medical professionals, schools and teachers), to make coordination easier.

- The most important principle is that the navigator act on behalf of the participant and supports the participant's exercise of choice and control to better achieve their aspirations and goals.

To play this role, navigators need to be embedded in the local community and well connected with the range of local services and supports.[111] There may be opportunities to co-locate services in local service hubs alongside services such as health, allied health, early childhood, education or training, to facilitate coordination, especially in regional and rural areas.

The IPC supports the notion that the Scheme, and social service delivery systems, might be better coordinated through a reimagined local navigator function.

Coordinating effective markets

It may be worth further consideration be given to whether the pricing framework outlined in **Chapters 4 to 6** might be facilitated by agents operating as broker-dealers. These agents would be responsive to new opportunities, informed by regular feedback from participants and providers - for example, by processing participant and provider feedback from the digital platforms and surveys (**Chapter 7**). They may also employ other actuarial and capital market pricing tools and incentives. The role of this new type of intermediary would be largely 'behind the scenes' to help the Agency implement the pricing models outlined in this Report.

This would be a new type of specialist intermediary role, possibly modelled on licenced brokers and dealers that are commonplace in money, capital and insurance markets. We note, however, that very careful thought would need to be given to how any new intermediary function is remunerated; the incentives structures this creates

[111] It is noted this is in-line with the original vision for the LAC services.

for all the relevant parties; and how this activity can be made to benefit participants. Unlike other Scheme intermediary roles, we would not expect these intermediaries to directly engage with participants. Instead, they would operate only on the supply side of the market. As such it would be necessary to monitor closely how any such intermediary activity was delivering value to participants through the creation of new services and innovative practices.

Rationalising plan management

Further to the discussion of pricing models in **Section 6.31**, the IPC believes it is possible over time to consolidate and even transition away from the role of plan managers in the context of ongoing improvements to digital claiming and payments systems.[112]

Over time this activity should be streamlined through application of digital payments technology. To the extent a role remains for plan managers it is likely to be a highly standardised service which could readily be outsourced to a limited number of providers through a tendering process and complemented by specialist navigators conducting niche or specific activities valued by participants, as envisaged by the NDIS Review.[113]

7.3 Assisting providers to serve participants

Each of the following initiatives relating to providers is intended to enhance price competition, market structure and/or reduce any supply bottlenecks. This in turn will support the market and providers to better respond to the needs of participants.

Statement of spending projections

It is worthwhile asking what guidance could be made available to NDIS providers to assist them to better frame their business strategies, including investment intentions.

One possibility is to issue a Scheme 'statement of market opportunities' signalling - but not committing – to providers an expectation of the projected total dollar spend for each category of supports and value adding services across various market

[112] See the NDIS Review, Recommendation 10: p.152: "over time, digital payment systems and the increased support of navigators in helping participants manage their budgets will reduce the demand for some function of plan managers."

[113] NDIS Review, Recommendation 4, p.102.

segments and regions.[114, 115] This signalling approach has been successfully applied in other administered markets including in defence via the *Integrated Investment Program* and in electricity via the *Integrated System Plan*.[116] Indeed, initially, the NDIA provided 'market position statements' for various sub-market-regions, which attempted to share information with and on that market. This is a similar approach to what we are proposing here.[117]

Plan projections would be sourced from the Scheme Actuary's bottom-up projections of participants plans which are used to estimate the total cost of the Scheme over the forward estimates and beyond. The more granular the market segments and regions and longer the time horizon, the better. These projections are actuarial and non-binding – they would be indicative only. Like other Budget projections (as opposed to audited financial reports) the Agency would not be committing to the precise figures.

Providers could use the industry plan to better understand the Scheme's spending profile through time and what it implies for aggregate demand, which is the set of market opportunities available across each segment including in 'thin' markets. This planning document would help to reduce hurdle rates for new investments and better target capital outlays by making the overall demand side impact of the Scheme easier to interpret for service providers and investors.

Reducing compliance costs

Implementation of the IPC's new pricing models, alongside reforms such as digital payments, should aim to simplify Scheme processes and reduce or minimise

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[114] This approach will be more complicated under new framework plans, where plans will not be specific to the supports to the level of detail of current plans. The solution will be to combine historical spend by support category with a future project of spend by participant type by region.

[115] The NDIA would use the industry plan to flag the opportunity set available over time to providers to further demonstrate proactive market stewardship. It would be helping to promote the best mix of services, in the right locations, provided by a diversity of service provider models, thus augmenting the pricing model discussed in Chapters 4-6.

[116] See Defence, 2024 https://www.defence.gov.au/about/strategic-planning/2024-national-defence-strategy-2024-integrated-investment-program

See Australian Energy Market Operator, 2024 https://aemo.com.au/-/media/files/major-publications/isp/2024/2024-integrated-system-plan-isp.pdf?la=en

2016.https://vtphna.org.au/wp-content/uploads/2019/05/PB-market-position-statement-VIC-PDF.pdf The reference above refers to the Victorian market positioning statement from 2016. These types of statements were issued for several state sub-markets before 2019. While imperfect, they provided valuable information that could have been of ongoing value to providers if they had been continued and refined over time.

administrative and regulatory burdens on providers without compromising safety or quality for participants. To achieve this the Agency must work with the NDIS Commission to ensure providers face consistent and uniform regulatory and administrative requirements.

For example, in terms of the proposed pricing model, this could involve a simple pre-qualification process for providers who wish to access additional loadings or payments. This process could be aligned with existing basic registration requirements preferably through a single portal. Some types of payments might require acceptance within a specific registration group as a pre-requisite. The Agency may also require providers to commit to service level agreements and performance reporting metrics.[118]

It will be important to keep these arrangements as simple and streamlined as possible to minimise administrative burden, and to ensure any costs borne by providers are clearly outweighed by the value they unlock through eligibility to additional forms of payment. Providers do report a high cost to regulation and that there are opportunities for streamlining. Certainly, pricing reforms should support consistency and simplification, not add to the compliance burden.[119]

Earlier guidance on pricing for providers

The NDIA conducts an APR to identify the need for any changes to NDIS pricing arrangements. Historically, the APR has generally been released in June to enable incorporation of the outcomes of the Fair Work Commission's (FWC) Annual Wage Review, including minimum wage decisions. The FWC's Annual Wage Review is typically published in early to mid-June. The most recent APR was released in June 2024 with price changes going into effect from 1 July 2024.

The late guidance has been an ongoing source of frustration for providers, allowing limited time for them to plan and adapt to new prices before they come into effect. Providing earlier advice, at least three months before the end of the financial year, would enable providers to better prepare for scheduled changes, reduce operational disruptions and unexpected financial impacts and ensure a smoother transition and service continuity.

[118] Enforceable through some form of contract (whether commercial, implied or deemed).

[119] Ability Roundtable estimates the operating costs associated with existing regulatory obligations at 1.3 per cent of operating costs (Ability Roundtable, 2024a, p.21). MedHealth, 2024, pps.20-22.

In the absence of certainty about the FWC's decisions, an earlier APR would need to provide guidance to the market about how FWC adjustments, including changes to the minimum wage, would be incorporated into future pricing.

Addressing supply bottlenecks across the care sector

Across the care sector there is an opportunity for greater monitoring of how social programs each compete for the same set of resources and so impact each other's cost structures and overall effectiveness.

Indeed, it has been lately argued that the whole social services sector and the non-market sector more broadly, are adversely impacting the national economy through productivity linkages.[120] Part of the problem, it seems, is the uncertainty engendered by and unintended consequences of – the limited coordination across public social spending programs some of which (including NDIS) are expanding rapidly.

In an aggregate sense, the NDIS is 'drawing' significant factor flows (labour, capital etc.) from other areas of social policy and the broader economy by design.

At the same time, the IPC has argued there is a significant risk that providers with service models that support a wider range of often more complex participant need are at risk of exiting complex market segments that are higher cost to serve or exiting the NDIS system entirely. These providers may find it more profitable to target services in other areas of social policy that are lower cost to deliver – reducing the resources available to the NDIS to deliver the full suite of services needed by participants.

- This proposition is supported by some providers who have told the IPC that significant private business investment is being reallocated by large operators away from the costly administrative burden associated with the NDIS to other business segment activities.

- The outcome is to reduce service capacity in the NDIS, reducing service availability and quality, whilst increasing program costs for the Australian Government.

The introduction of the NDIS has magnified the inherent resource frictions across the care sector. These frictions were already significant before the NDIS was introduced driven by factors such as population ageing and increased demand for aged care, increased demand for childcare services, as well as reforms in areas such as mental health and family violence. As noted in **Chapter 3**, the different underpinnings of the various government funded care sectors make harmonisation

[120] For example, Maltman, M., & Rankin E., 2024 and Thiris, J., 2024

challenging. Nonetheless, we note here several opportunities to work across sectors to minimise the friction.

Cross-sector workforce development

Many providers have noted the challenges in building and maintaining the workforce of carers and allied health workers needed to provide NDIS supports. Workforce challenges that sit across the care sector are best addressed across government, rather than by each sector alone. Cross-sector workforce development approaches aim to build the workforce and address shortages while avoiding different publicly funded programs competing for the same, limited, pool of resources.

The Productivity Commission has commenced a public enquiry, *Delivering quality care more efficiently*.[121] The inquiry is focusing on issues related to a sustainable and productive care and support sector. They intend to advise how to deliver better outcomes and high-quality services across areas such as health, aged care, community services, veteran's services, NDIS, and early education and care. It will report by December 2025.

Regional and sector specific skills shortages that are not well addressed by the price and market stewardship levers available to the Agency. This is especially true when the pool of required skills and resources is shared across multiple care sectors. In addition, for highly skilled sectors such as therapy, the lead time for training new workers is long. This means price changes typically have little short-term impact on labour supply decisions.

Better information is required to understand the extent and nature of regional supply shortages, wages and price pressures that relate to specific NDIS and other service market segments. There might also be opportunities to develop more formalised linkages between identified supply shortages, regional skill shortages and mechanisms to address these shortages. This could include, for example, developing and better connecting indicators of supply shortages in regional markets to priority lists for training places and courses at regional TAFES and universities, along with skilled migration places.

Most of the coordination challenges that we have discussed above are beyond the pricing and market stewardship functions of the NDIA.

[121] Productivity Commission, 2024. https://www.pc.gov.au/inquiries/current/quality-care

8. Taking the next steps in market stewardship

The following section discusses some key functional capabilities that would support effective implementation of the new pricing model outlined in this report.

The Agency plays a **market stewardship** role. Amongst other things, this role includes market oversight, price setting, aligning market outcomes with the needs of participants, and protecting the integrity of the Scheme. In doing so, the Agency has sought to encourage (or take advantage of) effective competition wherever feasible. The effectiveness of competition to promote efficient outcomes varies across different market segments and regions.

The central contribution of this Report has been to draw attention to how pricing ultimately bears on the structure of the disability services market, typically over the medium term. This has led the Committee to identify an alternative approach to pricing as described in **Chapters 4 to 6**, while **Chapters 7 and 8** draw attention to a range of opportunities for other market-supporting reforms. The bottom line behind everything we have described in this Report is our desire to ensure the structure of the disability services market does not develop in a way that is contrary to the interests of participants, and the Scheme's broader objectives.

Applying the pricing model approach identified in this Report will require some capacity enhancements in the stewardship of the disability services market. In turn, this will require additional investment in new and expanded functional capabilities – at least until the new pricing approach is embedded and becomes the new 'business as usual'. The following discussion reflects on those enhanced functional capabilities.

8.1 Market oversight

Given the relationship between pricing, market structure and the availability of services, tracking the market's structure – including the identification of thin markets and other supply gaps – must play a more central role in informing the price setting process. This information helps provide an understanding of whether a given market and pricing approaches are working well or whether there may be a need to restructure prices using the pricing framework and approaches described in **Chapters 4 to 6**. That is, as the Scheme continues to develop, it will be necessary to have an in-built feedback loop between the availability of services, changes in the markets structure, and the pricing strategies used to remunerate service providers.

The Agency already has in place processes to monitor the markets for disability supports, with significant analysis published each year in the APR. This includes provider numbers and market share, market concentration, pricing levels and business dynamism.

Additional investments in economic and data analytics, as well as modelling capability, would generate new insights into the market's underlying dynamics. Likewise, opportunities to use 'big data', machine learning, AI and digital platforms to analyse emerging market trends (on both the supply and demand sides of the market) could prove to be invaluable in safeguarding the Scheme's ongoing sustainability and support of participants. As we have emphasised in **Section 7.1**, the insights unlocked through improved analytical capabilities should be shared openly to assist service providers and investors in their planning for the future.

Box 5 provides some initial thoughts on the types of insights that investment in analytical capacity might unlock.

Box 5: Insights that might be unlocked via greater analytical capacity

Investing in greater monitoring and analytic capability will support:

- the development of direct measures of, or useful proxies for, participant needs (and complexity) on the demand side;
- better modelling of provider service offerings and their potential to deliver different services – particularly intensive services – on the supply-side;
- deeper understanding of the risk of service provision, particularly as it relates to:
  - the complexity of service; and
  - identifying and tracking thin, or thinning, markets.
- developing and connecting indicators of supply shortages in regional markets to priority lists for training places and courses at regional TAFES and universities along with skilled migration places.
- deeper insight into, and early warnings of, changes in market structure according to provider type and their service model, including through the collection of financial and other data from service providers. This might include:
  - annual financial reports;
  - workforce surveys;
  - capital investment intentions; and
  - reporting against a prescribed set of performance measures.

- identifying opportunities for spending substitution – for example, how spending on capacity building therapeutic supports might reduce reliance on more expensive Scheme supports.[122]

The type of analysis we envisage would require quantitative microeconomists (expertise in industrial organisation, health economics, regulatory policy) as well as data analysts skilled in working with many, varied and enormous data sets. Specialist skills are needed to look for ways to maximise the use of existing data, as well as how alternative data sources might be used to inform and influence the market stewardship function.

Investing in unlocking the insights that data can reveal will take the opportunities for market stewardship to 'the next level'. And in so doing, support the Scheme's ongoing sustainability and enduring capacity to meet the needs of participants.

8.2 Tracking participants' experience of the market

Markets only exist for the benefit of the people for whom they are delivering goods and services. The value of a market flows from its ability to create and deliver those benefits, effectively and efficiently. Any assessment of a market's value must be informed by the experience of its end users. In this regard, there is nothing different about the disability service market. Where the NDIS differs, however, lies in the irreducible reliance many of its participants have on the services they must access through the market. Alternatively stated, many participants do not have the choice of not purchasing services through the Scheme – no matter how satisfied, or otherwise, they may be – as discussed in **Section 7.2**. In this sense, many participants are captive to the Scheme.

This is a critical difference between the Scheme and other consumer markets.

Enhanced market stewardship must play a role in compensating for the 'captive' nature of the Scheme. It can do so by collecting, analysing and publishing data about participants' experiences in the market. Some of this data might be available from service providers (for example, telephone answering times), but greater insight can only come from participants sharing their personal experiences.[123]

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[122] This would require comparing treatment profiles before and after the intervention and projecting both forward to identify savings. This analysis could be undertaken for a set of individuals or for control groups – currently accessing similar supports.

[123] There is significant feedback already collected and published - the Quarterly report to disability ministers describes actual participant, family and carer outcomes. It is based on responses to outcome questionnaires. There is also an annual participant and families/carers outcomes report: https://www.ndis.gov.au/about-us/publications/participant-and-familiescarers-outcomes-reports

While few, if any, other sectors have the size and complexity of the NDIS, lessons may be learned from those sectors about how useful performance data (about individual providers, but also the market as whole) might be collected and shared. The IPC considers the opportunity to develop new metrics and approaches to directly track participants ability to access supports and satisfaction (with supports and providers) should be pursued with vigour. As an aid to innovation, it is also very important to ask participants what services could be added (or reconfigured) to improve their experience overall within the Scheme.

8.3 Price setting

Effective price setting requires ongoing investment in financial benchmarking and cost modelling capability – particularly while the new pricing approach we have recommended is being 'bedded down'. It will need to be supported by ongoing engagement with providers to build more reliable cost and financial benchmarking data (as discussed in **Chapter 6**). This might include establishing pricing reference groups, for various market segments to augment its existing evidence base.

Recent expansion of benchmarking of therapy supports, incorporating data from the Medical Benefits Scheme and private health insurance is a good example, though the IPC notes some challenges in the comparability of these data sources. Given the emphasis we have placed on market structure, we caution that the comparability of data sets must be informed by the similarity or otherwise of the underlying structures of the different markets (or market segments) from which that data is collected.

The digital payments system discussed in **Chapter 7** would enable direct and immediate measurements of transaction prices, quantities and values — allowing for the ready comparison of service pricing across markets.[124] This information would also enable assessment of the sensitivity of market structure (through the mix of services and diversity of service models) to disability service price changes and factor prices changes.

[124] Investment in digital payments frameworks on pricing grounds may be a medium-term benefit as noted in **Section 7.1**. It should help to frame participants pricing knowledge and behaviour over time. So, the pay-off to enhanced guidance may not be immediate in terms of adding competitive tension to the market. In the short term, digital payments data may just reveal which providers are pricing at the cap. However, around 11 per cent of Scheme spending is in respect of self-managed payments. So here there is a genuine opportunity inject competitive tension immediately.

8.4 Pricing strategy

Administration of the pricing model outlined in this Report will require a mix of technical skills (as outlined in **Sections 8.1 to 8.3**), but also a strong strategic oversight capacity– if all this data and technical analysis is to meaningfully inform better decision-making – at administrative, regulatory and policy levels. And, most notably for the purposes of this Report, pricing decisions.

While prices may need to continue to be set on a year-by-year basis, this should be informed by an overarching pricing strategy that signals to participants and providers how these decisions will be made – not just in terms of the processes that will be followed, but also in terms of clearly articulated pricing objectives, principles, methods, thresholds, and so on. This is not to take issue with past or existing pricing strategies. Instead, we are essentially arguing for a broadening to reset the strategy to guide pricing in the next few years.

The new overarching pricing strategy should outline how data will be used, and how decisions will be informed by any observed (or foreshadowed) changes in the availability of services, market structure, input costs, participants' experiences, as well as the impact of previous prices. That is, the pricing strategy should clearly outline the role of pricing in stewarding the disability services market. Providing this sort of clarity about how pricing decisions are made will be an important adjunct to the provision of market guidance discussed in **Section 7.1**.

The pricing strategy should be an enduring document, though one that might be updated from time to time as circumstances change. It should be developed (and updated) subject to broad consultation with participants and providers.

8.5 Pricing innovation

The pricing model outlined in **Chapters 4 to 6** needs to be flexible and responsive to new opportunities informed by regular feedback from participants and providers, and the outcomes observed in terms of market structure and participants' experience of the market.

The model should enable the trialling of innovative approaches to service delivery. Some trials may need to fund initially through a grant process.

One example of an innovative approach could involve exploring the opportunity for pricing arrangements that support and encourage service bundling. This would facilitate greater integration of tailored supports within an integrated package with a single price structure (as opposed to current arrangements whereby every component of a plan is priced and remunerated separately). Of course, it should be entirely at a participants' discretion as to whether they enter such arrangements

based on whether they are satisfied the bundled approach will better serve their needs and interests.

While there may be many and varied approaches to promote and support innovation in service delivery, it will be important that there are mechanisms for effective innovations to be identified and spread across the system. This will require an open approach to sharing of success, and mechanisms to embed new models into service definitions and pricing if they are shown to be effective.

For trials of innovative approaches some guiding principles might include:

- Applying a competitive process to elicit the most innovative proposals and having Scheme participants involved in the assessment framework.
- A willingness by the Agency to 'get out of the way' of the service provider (of course, subject to the service provider demonstrating it has the systems, processes and personnel to deliver its innovative offering).
- A preference for multi-year funding to ensure the efficacy of the innovative proposal can be adequately tested and assessed.
- Ensuring an 'open source' approach to the intellectual property created by the trials.

The pricing model outlined in this Report is designed to provide the Scheme with the opportunity to facilitate, support and encourage innovation in service delivery. Participants and providers should be given clear avenues to explore these opportunities.

8.6 Contract design

The Scheme consists of a complex array of contracts – whether express, implied or deemed – managing the relationships between all the individuals, entities and suppliers who are a party to the Scheme. This includes the Agency.

It is these contracts that outline the rights and obligations of all the parties.[125] Moreover, these contracts allocate risk among the parties and outline how those risks are expected to be managed and priced.

[125] In this sense, documents such as the Commission's Code of Conduct (https://www.ndiscommission.gov.au/rules-and-standards/ndis-code-conduct) and practice standards published by the Commission (https://www.ndiscommission.gov.au/rules-and-standards/ndis-practice-standards) serve as implied or deemed contracts as they impose responsibilities and obligations on providers.

In short, a multitude of express, implied or deemed contracts govern the Scheme's operation and therefore, its effectiveness and efficiency.

The IPC has not had the opportunity to examine the Scheme's multilayered matrix of contracts or how our pricing model might be most efficiently built into those contracts. We suspect, however, there are some significant opportunities to improve the integration of pricing arrangements within these contracts. This might include:

- terms and conditions of payment;
- service obligations associated with different payment types;
- additional incentive arrangements;
- clawback provisions;
- record keeping; and
- reporting requirements; etc.

One example mentioned in our Report requiring careful contract design is in relation to the suggestions that service providers pre-qualify for different payment types (see **Chapter 5**). How pre-qualification is enacted will need careful consideration. In some cases, bilateral contracting between the Agency and providers may be the most effective option. At other times, express contracting may prove to be a cumbersome exercise – in which case, it may be more efficient for service level agreements (or similar) to be deemed to apply to any provider offering certain services.

Economists have spent decades exploring optimal contract design. The courts have spent centuries interpreting contractual arrangements. These are huge bodies of knowledge that should be used to inform how the benefits of new pricing can be optimised.

9. Thinking about the implementation pathway

Up to this point in the Report we have focused on new pricing approaches as they might be implemented over the next few years. We recognise that there will be significant implementation challenges associated with these changes. They will require significant work and engagement with participants, providers, the NDIS Commission and other stakeholders, for example, to establish new service definitions, and to develop new pricing structures and methodologies.

Our object in this Chapter is to lay out at a high-level, a possible implementation pathway.

Effective transition requires that providers are given reasonable time to adapt to new pricing, which may include holding prices steady, or imposing changes gradually. The Agency may seek to work with providers and peak bodies, and leverage provider benchmarking, to better understand provider cost models and the potential impact of new pricing arrangements and to support ongoing transparency.

A high-level implementation pathway might include the following:

- **Year one.**
  - Start with engagement with participants and providers to test the high-level approach and design of new pricing structures, building on the pilots already underway. This would include the preparatory work required to establish new pricing methodologies and the pre-qualification systems for providers where they are needed.
- **Year two.**
  - Commence a rolling implementation of the new pricing arrangements and pre-qualification standards for providers. Start with a small number of new price limits for different specialist supports or to create new levels of support in areas where greatest challenge has been identified by participants and providers. Initial priorities might be informed by the findings from the current quality service pilots for SIL and support coordination. Eligibility requirements may be more restrictive in the first instance as new payment structures are tested. Over time, more price limits could be introduced, and eligibility requirements refined, based on the early implementation experience. Alongside these changes, the Agency would consider its overarching market stewardship approach to support them, including through updated pricing strategies and market monitoring approaches.
  - In parallel, the Agency could also progress other initiatives to support effective market functioning including ongoing implementation of

digital reforms,[126] and progressing work focused on redesigning the role of navigators.

- **Years three and four**.
  - Continue to refine and expand new pricing approaches based on lessons learned from the initial rollout. The process might involve the progressive implementing of additional payments, refining definitions and exploring stronger performance reporting. It might also include further implementation of initiatives to support effective market functioning. At this time, the Agency could consider where gaps or challenges remain that might be better addressed through the alternative pricing approaches identified.[127]
- **Year five.**
  - Within a five-year timeframe the NDIS should conduct another IPC style price review to evaluate the progress and lessons learned in implementing pricing and other reforms proposed in this Report. The review would consider whether new pricing structures are working effectively, how disability support markets have emerged and opportunities for further enhancement of – or required changes to - the pricing approach.

[126] The NDIA has just implemented a new payments system (PACE). We are not suggesting it be discarded. We are suggesting the continued development of the system towards the goal of automated payments.

[127] Noting specific market failures of gaps that are impacting on participants access to service should be considered and addressed as soon as they are identified.

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